The British Standards Institution
Annual Report and Financial Statements 2010

Delivering real benefits to millions of people everyday

Improving performance
Increasing revenue
Achieving cost savings
Improving customer satisfaction
Protecting reputations
Winning new customers
Increasing stakeholder confidence
Improving employee morale
Increasing speed of recovery
Enhancing disability access
Creating sustainable events
Improving web accessibility

raising standards worldwide™

Our Business

Standards make a positive contribution to the world we live in. They facilitate trade, spread knowledge, disseminate innovative advances in technology, and share good management practices.

BSI is an independent, private, non-profit-distributing international business which helps organisations improve their quality and performance, reduce their risk, manage and protect their reputations, and helps them be more sustainable.

Our main areas of activity are the development and publishing of standards; the assessment and certification of management systems and medical devices; testing and certification of products and services; provision of governance, risk and compliance solutions; and training services.

Our vision is to be a global business services organisation that inspires confidence and delivers assurance to all our customers with standards-based solutions.

The benefits for organisations of accredited certification are numerous and include: improved financial performance; higher customer satisfaction; protected and enhanced reputations; winning new and retaining existing customers; and increased stakeholder confidence.

Improving performance   Increasing revenue   Achieving cost savings   Improving customer satisfaction   Protecting reputations   Winning new customers   Increasing sta

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In this document the 'Company' refers to The British Standards Institution, a Royal Charter Company, which is the parent company for the purposes of the financial statements. 'BSI', 'BSI Group' or 'Group' means the Company and its subsidiaries, i.e. the group of companies covered by the consolidated financial statements. The BSI logo, 'Kitemark', the Kitemark device and 'Entropy' are registered trademarks of The British Standards Institution in the United Kingdom and are registered, or in the process of registration, in other jurisdictions.

akeholder confidence Improving employee morale Increasing speed of recovery Enhancing disability access Creating sustainable events Improving web accessibility

Highlights of the Year

Total Group revenue

£235.3m

2009: £222.8m
Up 5.6% (3.2% at constant exchange rates)

Operating profit before exceptional costs

£27.3m

2009: £26.2m
Up 4.2% (3.3% at constant exchange rates)

Operating profit

£20.3m

2009: £22.5m
Down 9.8% (10.8% at constant exchange rates)

Cash and cash equivalents

£41.4m

2009: £35.2m
Up 17.6%

Cash generated from operations before pension deficit payments

£35.1m

2009: £31.3m
Up 12.1%

Net assets

£39.7m

2009: £5.1m

BSI has again succeeded in maintaining real growth in the face of a global economic climate that has continued to be challenging. The benefits of sound financial management, whilst continuing targeted investment in our future, underpin everything that we do.

Tight cost control and strong cash management have led to growth in cash generation and strong cash conversion remains a key feature.

Revenue grew 5.6 per cent serving customers in 150 countries.

Headline operating profit of £20.3 million is stated after incurring £7.0 million of exceptional costs including £5.2 million of costs in relation to the UK site rationalisation strategy – the underlying operating profit (before exceptional costs) was up by 4.2 per cent continuing the long term trend of real growth.

Entropy® Software – our integrated risk and compliance software solution – is now used in over 14,000 locations worldwide.

Small but strategic acquisitions made in the UK and Indonesia.

New offices opened in Qatar and Saudi Arabia.

New Kitemark® schemes launched for Energy Reduction Verification and Microgeneration.

Healthcare scope extended to cover In Vitro Devices (IVD).

More than 2,500 new standards published.

The net asset improvement primarily reflects both trading gain and reduction in pension deficit to £58.0 million (2009: £102.7 million) driven by a stronger investment asset performance. BSI has injected a further £15 million in deficit funding in 2010 in accordance with its agreed schedule of contributions.

'One BSI': The platform for accelerated growth

The thinking that underpins this strategy is explained in the following pages…

'One BSI' is when organisations sequentially combine BSI's services to add more value to individual services and achieve greater success.

Using 'One BSI', organisations can move from buying a standard; to self-assessment and training on how to use the standard effectively; to gaining product or management system certification against a standard to demonstrate compliance. They can then very efficiently manage the information derived from using and implementing a standard through BSI's Entropy® Software tool for continuing compliance and continuous improvement.

BSI is a standards-based business services provider with a unique business model and an equally unique global reputation. The Group is successful and continues to grow, even in the last two years of recession.

To plan for additional growth, the Group commissioned further market research[1] in 2010 to find out:

- why customers come to BSI
- the benefits that customers derive from BSI's services and
- the value that BSI's people add.

As a result of the additional insight gained, the Group now has further evidence that 'One BSI' will provide the platform for accelerated growth in the next five years.

[1] Quantitative and qualitative research with > 20,000 customers in 10 countries; analysis of all customer records

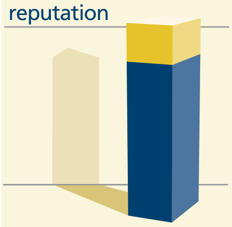
150
Countries served

70,000
Customers

53
Offices

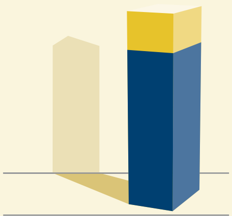
2,500
New standards

80%
of customers choose BSI because of its reputation



91%
is the average satisfaction rating of BSI client managers

80%
of customers see benefits in 'One BSI'



What our customers say about BSI

We have **excellent people**

They would **recommend** us more than most

We have **excellent products**

They buy BSI on **reputation** and **quality**

Our products deliver **tangible, measurable benefits**

Why customers come to BSI

NBPOL is a pioneer in sustainable palm oil production. To maintain its reputation it works with BSI on both RSPO and environmental management systems certification.

Building reputation – ours and our customers
BSI has nearly 70,000 customers worldwide, but why do they come to BSI? Our research shows that the key driver is BSI's reputation – 80 per cent of customers choose BSI on reputation because we are known worldwide for independent and objective guidance, and appraisals that people can trust. Our integrity is well recognised.

And when we ask our customers what the biggest benefit is from our sustainability solutions, they say it is that they have a protected or enhanced reputation after meeting regulatory requirements.

Quality matters – ours and our customers
We also find that our customers' second driver for choosing BSI is quality. They tell us our quality management products deliver improved customer satisfaction and loyalty; improved operational performance; cost savings; new customers; and help with the retention of existing ones.

Customers say they are assured of our quality in part because BSI is the source of standards. We originated many of the world's leading management systems standards – including quality, environmental, business continuity and information security. We know and understand standards which results in high quality implementations for the most effective results.

Customer perspective
Organisations in the global palm oil industry choose to work with BSI because our reputation gives weight to the work they do to become more sustainable. New Britain Palm Oil Limited (NBPOL) is the largest palm oil plantation and milling operator in Papua New Guinea and the Solomon Islands.

It strives to be a responsible and ethical producer of traceable and certified sustainable palm oil, and is recognised as a pioneer in sustainable agriculture. Maintaining its reputation is a top priority so it chooses BSI as both its environmental management system and its Roundtable on Sustainable Palm Oil (RSPO) certification provider.

Our findings confirm that our customers greatly value BSI's known independence and integrity along with our recognised ability to innovate towards new solutions. Moreover we aspire to deliver agile and uniformly excellent services to supply consistently what our customers need.

We will continue to invest in providing top quality services and to earn our reputation by remaining objective in everything we do; creating the bridges of trust that make 'One BSI' such a powerful brand for our customers.

Building reputations

The Formula One MERCEDES GP PETRONAS team (formerly Brawn GP) is driven by the need to succeed. It uses BSI and standards to help score points and win races. With continual access to standards' knowledge through using British Standards Online (BSOL), the team scored points from 91 per cent of starts in 2009, while its nearest rivals only managed to score from 65 per cent of starts. "We can guarantee that as soon as we use a standard we get a certain quality and that is vitally important," says Graeme Williams, Team Leader Gearbox Design at MERCEDES GP PETRONAS. "The introduction of standards helped us, as Brawn GP, to win the Formula One World Championship in 2009 and maintain reliability in 2010."

The benefits from BSI's services

LG Electronics India Ltd used BSI's training and energy management solutions to boost its 2010 energy use reduction target from 10 per cent to 22 per cent.

Our portfolio is successful, but how do we know that what we do creates real value for our customers? Over the last year we have invested more than ever in uncovering the real business impact of what we deliver.

Hitting the mark

We've found that we're already hitting the mark in many ways. Extensive survey work has shown that our customers find a range of benefits, with eight out of 10 customers achieving at least one benefit from our quality, sustainability and information security management solutions[2].

From our Health and Safety solutions, most customers achieved at least one benefit including a reduction in incidents, reduction in lost hours through illness and sickness, and cost savings.

Customer perspective

Training and an energy management certification from BSI has enabled **LG Electronics India Ltd** to boost its 2010 energy use reduction target from 10 per cent to 22 per cent, despite a 32 per cent increase in production. LG can also now talk authoritatively about energy saving in its marketplace and is well placed to absorb the impact of regulatory change.

8/10 customers achieved at least one benefit including:

- Improved performance
- Increased revenue
- Achieved cost savings
- Improved customer satisfaction
- Enhanced/protected reputation
- Won new/retained existing customers
- Increased stakeholder confidence
- Improved employee morale
- Increased speed of recovery

[2] Source: BSI eReport Survey 2010

We will continue to work on quantifying the benefits and value of our services so that our customers can see a clear business case for adopting multiple BSI services within 'One BSI'.

Delivering benefits

Camfil Farr is a world leader in air filtration and clean air solutions. Through the adoption of energy and environmental standards and certifications from BSI, it saved £200,000 over two years and will significantly reduce its liability under the UK's Carbon Reduction Commitment Energy Efficiency Scheme. Camfil Farr has also become the first organisation in the world to be awarded BSI's Kitemark® in Energy Reduction Verification. Since 82 per cent of the UK population trust BSI's Kitemark®, Camfil Farr believes that the Kitemark® will prove a significant market differentiator and boost its continuing success.

The value BSI's people add

Air China visits BSI headquarters in London to discuss future training and certification requirements.

Our research also confirmed that the value of what BSI delivers relies almost entirely on the expertise of our people: be they client managers, tutors, customer service representatives, or testing and healthcare professionals.

From talking to customers we found that BSI personnel are a key component in differentiating BSI from its competitors. BSI people are perceived as exceptional.

How customers rate BSI staff performance	
Client manager/auditor satisfaction rating[3]	91%
British Standards Online (BSOL) advisor satisfaction rating[4]	88%

Expertise that makes a difference

These high ratings are achieved by putting the right people with the right training in the right places. BSI's auditors around the world continually undertake ongoing professional training and online competency testing regimes to ensure excellence. Consequently, 96 per cent of BSI certification customers are either satisfied or very satisfied with the opportunities for improvement that our auditors give them[5].

In a sector where excellence has to be the only standard, BSI Healthcare hires the best technical skill set on the market to reduce risk for its customers. One single team of 15 product specialists has 38 university degrees between them. If an implanted heart valve fails, its owner has 20 seconds to live. This fact alone demonstrates how crucial truly expert knowledge is.

Customer perspective

In 2001 **Air China** committed to adopting quality as a route to transforming into a world-class international airline. BSI experts put an annual training programme in place to improve management skills and implemented a series of quality initiatives to help Air China establish and maintain consistently high product and service standards.

The success of the partnership is such that Air China now looks to work with BSI on disciplines beyond quality, including risk and information security management and emissions reduction. The airline is growing fast and, with help from BSI, aims to be one of the largest carriers in world aviation by 2017.

[3] BSI eReport Survey 2010
[4] BSI Standards' BSOL Customer Satisfaction Survey 2010
[5] BSI surveys every company after every audit. Surveys are conducted in 17 languages. We achieve an approximately 40% response rate so derive statistics from around 30,000 responses every year.

We will maintain the investment in our people so that customers continue to benefit from their exceptional expertise and can have confidence in the difference that working with 'One BSI' will make.

Providing expertise

When the Kingdom of Saudi Arabia needed expertise to provide market authorisation for medical devices, it turned to the experts at BSI Healthcare. We are one of a select few strategic partners able to conduct this vital work. BSI Healthcare personnel will help verify that medical devices for the Saudi market have valid prior market approval and meet local requirements. We will also help to ensure that some 38,500 categories of existing devices already on the Saudi market are approved. Through implementing this new scheme the Saudi Food and Drug Administration, with BSI's help, looks to remove all potentially dangerous uncertified medical devices from their healthcare system, protecting and potentially saving lives.

'One BSI'

Training from BSI is just the start of the 'One BSI' journey for **Minera Peñasquito**, who are also embracing certification and Entropy® Software from BSI.

Our research established that the fundamentals of BSI's business are in place: we have excellent products, we deliver excellent benefits using excellent people.

However we are now more effectively explaining to our customers the way in which our services, when combined, yield them even greater value. Our research showed that the majority of customers use only one BSI service and in only one country. Yet when prompted, 80 per cent of them see the benefits of 'One BSI'. They want BSI to make better provision to supply combined and integrated services, both between business streams, and along the standards value chain itself.

'One BSI'

With 'One BSI', organisations can move from buying a standard; to self-assessment and training on how to use the standard effectively; to gaining product or management system certification against a standard to demonstrate compliance. They can then very efficiently manage the information derived from using and implementing a standard through BSI's Entropy® Software tool for continuing compliance and continuous improvement. No other organisation does this on a global scale.

Customer perspective

'One BSI' yields significant synergies. For instance **Minera Peñasquito**, a mining concern in Mexico, found after environmental management training from BSI that it made commercial sense to adopt BSI's Entropy® Software information management platform at the same time as it begins work toward certification of its environmental, and health and safety management systems. This way Minera will not need to transfer data and from day one will have the power to analyse and refine its systems.

We have gained the knowledge that what we do already meets business need. Our success so far shows that the portfolio is a strong one and that our strategy of making 'One BSI' a reality is already working.

We now believe that fully realising 'One BSI' gives us the potential to grow rapidly while ensuring reputations continue to be upheld to the highest standards. Through 'One BSI' we aspire to even greater successes for customers and BSI alike.

Our 'One BSI' strategy gives us and our customers the opportunity to be even better than before, as we aspire to excellence. Together with our core values of integrity, independence and innovation, we will ensure that reputations are upheld to the highest standard.

Leveraging 'One BSI' delivers results

Reducing environmental impact

Photo: ESA

In line with its Sustainable Resource Management initiative, the **European Space Agency** (ESA) turned to BSI for help with measuring and reducing its environmental impacts. A pilot environmental management system designed and tailored for ESRIN, ESA's operation in Italy, will now serve as a reference for implementation across the rest of the Agency's European sites. Similarly, to ensure that health and safety are a recognised part of ESA's culture of professional excellence, ESA ESRIN has implemented a health and safety management system with BSI's help that will additionally serve as a model for application across ESA's sites. ESA ESRIN will also be using BSI audit and implementation training to ensure the benefits of its work on environmental and health and safety solutions with BSI are maximised.

Chairman's Statement

Meeting market need

For many organisations, 2010 was like being out at sea in a storm. Sustained uncertainty dogged an economic climate still reeling from the impact of recession. Physical and information assets were beset with a multitude of risks and security threats. Organisations had to contend with the realities of global interdependency at the same time as they were increasingly asked to confront the environmental and ethical impacts of their activity.

Notwithstanding, in this period of sustained and diverse challenge for many, BSI continued to grow, increasing profits before exceptional costs while retaining a strong cash position with no borrowings. I see this as compelling evidence that what we do is important to business and society. The breadth of our portfolio, its close fit to business and societal need and our international presence all conferred resilience. The strong links that we have with industry leaders and governments are testimony to our highly regarded reputation and integrity.

This robust performance also demonstrates that BSI continued to benefit from the efforts of excellent people. In 2010 our staff embraced the operational changes of 2009 and delivered another record year.

Organising to deliver

2010 was a second year of organisational and cultural development for BSI as we reconfigured to get closer to 'One BSI'. We know that what we have is a unique and compelling proposition for customers, and we have the reputation to deliver what they want and need.

We brought two new members onto the Board; both will make a significant contribution to the development of BSI's engagement with customers and at Board level. Sir David Brown chaired Motorola Ltd., and was Motorola's global governance advisor. He participated when Motorola pioneered the development of Six Sigma and was Chairman of the Quality Institute and President of the Institute of Electrical Engineers. He understands the benefits of our work and brings in necessary knowledge and understanding of the telecoms and electronics sectors.

Keith Clarke CBE is CEO of WS Atkins plc. A trained architect, Keith was previously CEO of Skanska UK before turning around the fortunes of Atkins which is now the largest multi-disciplinary consultancy in Europe. His 30 years of international experience in construction and engineering in the US, Europe and Asia will serve BSI well in a sector that is of central importance to us.

We also said farewell to two Board members: Michael French was an exemplary Chairman of the Board's Audit Committee where his expertise helped us to update and improve our financial systems; and Norman Price, whose knowledge and understanding of SMEs aided and improved our engagement with this vitally important market. I would like to thank them both for their valuable contributions.

The Board strengthened its risk management with an increased emphasis on the rigour with which we safeguard our reputation. We actively strengthened our engagement with governments around the world and with the European Commission, as well as the UK.

With 65 per cent of the global lithography systems market, **ASML** is the world's leading producer of technology critical to the production of microchips. Each of its systems sells for up to €35 million so it is essential that downtime is eliminated and quality is superlative.

ASML has 90 people worldwide who are dedicated to embedding reliability in its products and in addition chooses BSI because our high quality assessments can identify further opportunities for improvement. ASML's high quality is maintained because we deliver the added value that it requires.

We are continuing to develop and promote 'One BSI' so that our customers can more easily access and understand the value of what we offer. A successful future is ours to grasp.

The Board has also set up a Social Responsibility Committee which is tasked with adopting – across the Group – the guidance in ISO 26000, ISO's new social responsibility standard. This is a necessary step as we move towards embedding social responsibility into BSI's activities and operations.

In tandem and related, the Group is enacting a renewed commitment to our core values of innovation, independence and integrity. These values matter to BSI; we have nurtured our reputation for over a century and today are well-known and exceptionally highly regarded in every country I visit.

I am determined we continue to earn this trust from customers and stakeholders because our reputation is central to why people choose BSI. As individuals we will continue to lead by example and as an organisation we are increasing efforts to train and inform our people so that they understand clearly how our values are to be applied.

Looking forward

We are now working to accelerate business performance and increase the rate of real growth to that seen before the global recession hit. This will be achieved through a combination of focused organic growth and targeted acquisition. I am very confident that this is possible because of the considerable potential that exists within BSI.

We know that we give customers what they want and they derive real benefits; we know our people deliver. I believe the Board now has exactly the right blend of sector and geographic experience to take us through the next five years of growth. We are continuing to develop and promote 'One BSI' so that our customers can more easily access and understand the value of what we offer. A successful future is ours to grasp.

Sir David John KCMG
Chairman
17 March 2011

Chief Executive's Review

Howard Kerr
Chief Executive

Building on success

In the challenging trading conditions of 2010, BSI continued changing to meet the demands of the market and delivered encouraging results. Whether organisations looked to boost business performance, or manage reputation and reduce risk; whether they wanted to adopt sustainability practices or secure their supply chain and information assets, BSI's portfolio of services answered their needs.

As a result, BSI grew headline revenue by 5.6 per cent to £235.3 million (3.2 per cent at constant exchange rates, 2009: £222.8 million) and delivered operating profit before exceptional costs of £27.3 million (2009: £26.2 million). We have maintained tight cost control and margins while continuing to invest for the medium term development of our business. We grew in all three regions: Americas, Asia Pacific and EMEA; and in all business streams. Our portfolio proved to be resilient and our international breadth served to deepen that resilience further.

'One BSI' in 2010

If 2009 was about changing the internal structure of the organisation, in 2010 BSI's focus was to re-orientate to improve external customer engagement. We pushed to put 'One BSI' in place so that our customers can see the value as well as access our range of products more easily.

We focused more on who our customers are, their business drivers and how what we do maps onto their needs. We have refined our research to ensure that our customers are fully aware of the breadth of services that we supply and understand the powerful benefits to be gained by using all of our products.

In summary, customer engagement lies at the forefront of BSI's strategy and in 2010 we have taken substantial steps to both develop and promote how BSI's integrated portfolio of products can add value to businesses across all sectors and geographic markets.

BSI people

We recognise that BSI is all about expertise, and to a very significant degree that expertise resides within the people who work here. It is largely for their knowledge, skills, experience and integrity that BSI's customers come to us. We know this because customers, who spend time with our staff and know them, told us so.

So we have made internal career development planning a priority with a range of training and support tools that will help individuals develop meaningful careers within BSI. It will also help the Group retain and disseminate knowledge and help optimise the value that customers gain from our products.

The Group, following consultation with the Trustee Board, has taken further steps to reduce exposure to volatility in the UK defined benefit pension scheme. The scheme was closed to ongoing accrual in May 2010. With annual deficit contributions from the Group, improved asset performance and a reduction in actuarial liabilities this has seen a £44.7 million reduction in the liability.

Investment for growth

We maintained investment in IT systems to develop technologies that enable more joined-up solutions for customers; and we created more opportunities for businesses to access the value of standards directly with online benchmarking and self-assessment tools. We also sharpened the ways in which customers can purchase online and access information via the web. This investment will continue in 2011 and beyond to extend BSI's global online trading presence and to provide application solution tools that complement our services and meet our customers' needs.

In the UK, BSI made progress towards consolidating the Milton Keynes and Hemel Hempstead offices. This move to one location in 2011 is a significant undertaking and will benefit our customers by facilitating a more integrated organisation and easier communication. We also are evaluating investment in new laboratory infrastructure in the Hemel Hempstead area and we have taken out a long-term lease at our Group head office in London which will help ensure employee continuity.

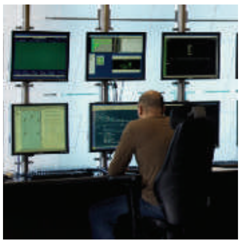
Finally, the Group also needs to grow, both organically and through acquisition, in order to meet the needs of multinational and local customers globally and consistently. In 2010 we made strategic acquisitions and new market entries in the UK, Saudi Arabia, Qatar and Indonesia. These are covered in more detail below.

BSI Standards

In 2010 BSI Standards' revenue globally remained stable at £46.2 million. We published more than 2,500 standards and helped develop new standards to support the finance sector, the UK's National Health Service, and sectors engaged in ensuring sustainability and managing carbon detriments. Internationally, we worked with China on implementing low-carbon standards and in Turkey on strengthening the quality infrastructure.

We invested in technology and communication channels to develop new ways to engage with the market and to encourage input into, and visibility of, standards development. For the first time details of the entire formal work programme of standards have been made available to the public on the web. As a result, stakeholders – in particular SMEs, consumers and societal interest groups – are now able to provide comments on draft standards and to suggest new opportunities for standardisation. This is helping to drive an improved level and quality of interaction between our standards and their users.

BSI Standards continued to strongly influence the strategies and policies of the international standards bodies – ISO and IEC – to ensure they remain committed to their customers and to producing timely, market relevant standards. At the same time, BSI Standards has taken a leading role in the discussions with governments around the world, and with the European Parliament and European Commission over new legislation, due in 2011, that will shape the future of standardisation. (A full BSI Standards review is given on pages 21 to 24).



The expertise of BSI auditors makes a tangible difference to certification customers. **Equens** is one of Europe's largest payment processors, responsible for one of every ten transactions in the Eurozone.

Working with BSI experts on information security and business continuity certifications Equens has both maintained crucial security and resilience, and saved around 35 per cent of the operational cost of these systems.

Customer engagement is at the forefront of BSI's strategy.

Europe, Middle East & Africa (EMEA)

In spite of weaker GDP performance in all its major territories, EMEA delivered a strong trading performance with revenue of £84.8 million (2009: £79.2 million), equating to a growth of 5 per cent excluding acquisitions (6 per cent at constant exchange rates).

We focused on adding more value to existing customers, with an increased portfolio of new value-add services. We also completed further process integration which yielded increased efficiencies. We especially improved the responsiveness and service to customers of Kitemark® and CE testing, and certification services. We made tangible investments in people to ensure our team aligns strongly to customer need.

At the same time we gained market share by winning many new customers. New business sales were strong across the region, particularly in the UK, Netherlands, Poland, Turkey and the UAE. We also strengthened the commitment to the Middle East region, establishing a presence in Qatar where BSI is servicing the needs of the fast growing oil and gas sector, and in Saudi Arabia (see *Healthcare* below). In early January 2011 BSI acquired its agent in Italy to build stronger direct relationships with our Certification and Training customers. Additionally we acquired a gas appliances testing business in the UK to extend our Testing Services portfolio (see *Testing Services* below).

EMEA will further align to the needs of the market, underpinned by ongoing refinement of the operating model to improve efficiency, cost effectiveness and customer loyalty. We will also focus resources at growing new markets in Southern and Central Europe and increasing market share in the more mature territories. Despite the continued economic uncertainty, the trading outlook for 2011 in EMEA looks encouraging.

Americas

Despite a persistently tough economic climate across the region and escalating unrest in Mexico, the Americas achieved real growth of 2 per cent (revenue of £52.5 million, 2009: £49.7 million, headline growth of 6 per cent). BSI USA continued to deliver strong year on year revenue growth across the entire mix of BSI's products. We reorganised our business in Brazil and we remain committed to growing a successful market presence there. Meanwhile, BSI Mexico was recognised as 'One of the Best Companies to work for' by Mexico's leading business title, *Expansión* magazine.

Both Certification and Healthcare held up well and the continuous improvements in service delivery and customer care drove solid returns. Our new supply chain security offering has met customer need for more integrated solutions and bedded-in well. The Entropy® Software business had another successful year and in 2010 expanded its footprint into Canada and Mexico.

The organisation continues to evolve and improve at all levels and on the back of a successful 2010, with an expanded product portfolio and high quality staff, the outlook for 2011 is positive despite our expectation that economic conditions will remain largely unchanged.

Asia Pacific

In 2010 growth overall was disappointing with just 1 per cent growth at constant exchange rates (revenue £52.4 million, 2009: £47.9 million, headline growth of 9 per cent); however some country businesses within the region did grow strongly including India, Australia and South Korea. In China we have focused on extending the scope of BSI's activities in compliance with regulations and we now have formal approvals which will allow us to offer Testing services and a wider range of Training programmes. BSI China performed very well in 2010 and BSI Japan restructured under difficult economic conditions.

Our sustainability portfolio continued to grow and outperform other products in the region with increased demand for Greenhouse Gas Verification, and Carbon Footprint and Carbon Neutrality assessment and training services. Our Sustainable Palm Oil team has also achieved notable success, with a number of high profile customer engagements. We are widely recognised as a market leader in this area and our expertise is highly valued.

We made a number of investments in Testing, Healthcare, sustainability, and Governance, Risk and

Compliance (GRC) that will underpin our growth strategy over the coming years. The acquisition of our agent in Indonesia means that BSI is now able to offer customers direct service across the ASEAN region in a market with considerable growth opportunity.

The outlook for 2011 is positive and, subject to stable economic and political conditions, should deliver continued growth and success.

BSI delivers its full portfolio of services across its geographical businesses as follows:

Certification

Overall, our global certification revenues grew steadily and showed considerable resilience in tough economic times. Customer attrition has been adequately balanced with new business sales activity and underlying growth, once all non-comparable items are removed, is 1 per cent (revenues of £137.3 million, 2009: £133.7 million, headline growth of 3 per cent).

The most recent independent market data shows that the certification markets for quality and environmental management systems continue to grow worldwide. ISO 9001 – the world's most popular management systems standard, originally developed by BSI – now has over one million registered organisations. ISO 14001 for environmental management systems now has over 200,000 registered organisations. With continued growth expected, BSI's Certification business has focused on enhancing its offering with the development of a free to access Return on Investment Tool that shows the likely costs and benefits of investing in ISO 9001 implementation. A similar tool is being developed for ISO 14001 and is expected to be delivered in 2011.

A number of new certification products were launched in the year, notably BS 11000 for collaborative business relationships, following a successful pilot of PAS 11000. Meanwhile the number of registrations for the business continuity standard (BS 25999), launched in 2008, doubled during the year. Growth rates were lower for the more established products: quality management, environmental management and information security management (ISO/IEC 27001), but remain positive nonetheless. We also exited some unprofitable, low growth certification schemes in order to sharpen-up the portfolio.

In line with our strategy for the year we enhanced the customer survey that seeks feedback from every customer after each assessment. Customers are now asked about the benefits that management systems certification brings to their organisation. As the introductory section of this Annual Report reflects, customers continued to say that BSI's people contribute significantly to their success, with the quality of BSI's assessment staff consistently ranked at the highest level in the customer survey.

Certification operations were undertaken in 150 countries during 2010, more than ever before. BSI's global accreditation for all its major products, in all relevant scopes, for all national offices, in all countries was maintained satisfactorily in 2010. BSI also maintained all its local accreditations. Our advanced approach to competency testing of auditors was favourably received by the accreditation bodies and is likely to prove a source of competitive advantage for the future.

Given our continuing focus on understanding customer drivers better through continued market research and some upcoming new product development, BSI is well placed to take advantage of the sustained global demand for assessment and certification services. In addition, as governments increasingly understand the value of accredited standards-based certification as an alternative to, or supplement for regulation, we are also well positioned to take advantage of this trend.

McQuay International – part of the Daikin Group – aims to be the number one heating, ventilation, air conditioning, and refrigeration solutions supplier in North America. Daikin is already market leader in Europe and Asia and the second largest HVAC solutions provider in the world.

To help reach its goal, McQuay chose BSI's Entropy® Software system. It has helped the company gain real-time visibility of performance, cost savings from automated checks and balances, and increased efficiency through fewer internal inspections and better resource allocation. Using Entropy® also contributed to a 3 per cent reduction in CO_2 emissions in 2010.

Certification operations were undertaken in 150 countries.

Training in the **Middle East** where BSI tutors achieve a rating of 95 per cent for their content knowledge and delivery.

Governance, Risk and Compliance

2010 was a year of growth for Entropy® Software, BSI's integrated risk and compliance information management solution that sits at the core of BSI's Governance, Risk and Compliance (GRC) offering. We continued to invest in expanding the size and geographic reach of the Entropy® Software sales force as well as improving the software to enhance its efficiency, analysis, compliance and knowledge management capabilities.

As a result of this strategic investment, total sales grew by 20 per cent during the year with a commensurate growth in the sales pipeline and we have now extended our Entropy® Software into the Asia Pacific and Middle East regions with local sales support.

For many of BSI's customers, the supply chain is crucial to their business, and it can hold millions of dollars worth of inventory at any one time. 2010 marked the first full operating year for BSI's Supply Chain Solutions portfolio, which we acquired in 2009 to strengthen our competence in an increasingly important area for customers.

In 2010, we continued to extend our market leadership in risk-based global supplier screening through the Supplier Compliance Manager® (SCM) assessment platform – a web-based software tool that both enables compliance and assesses supplier risk worldwide. SCM itself was awarded a top innovation award from *Supply and Demand Chain Executive* magazine. SCM is now used in more than 20 countries and represents some of the top importers and manufacturers in North America.

Training

Market conditions improved in 2010 and the Training business performed strongly with a 13 per cent growth at constant exchange rates (revenues of £17.8 million, 2009: £14.6 million, headline growth of 22 per cent). This success was led by the reorganisation of the regional training businesses and the recruitment of dedicated local sales and marketing teams. Those countries seeing the strongest growth included the UK, Italy, Spain, Brazil and the ASEAN region.

The need for businesses to manage risk more effectively, as a result of market volatility, led to increased demand for information security and business continuity training. The healthcare sector was active with growth in medical device regulatory training in the USA and Europe. Meanwhile demand for training in the core products of quality and environmental management, together with health and safety management, continued to increase, demonstrating an on-going market need for these business essentials.

Through enhanced people capabilities and working closely with the business streams we developed new products to accelerate growth in Training revenues. We launched specialised courses for healthcare, including Drug Device Combinations; IVD; Post-Market Surveillance and Vigilance; and Process Validation. In addition, the business also trialed a new 'Implementation' course on delivering certification in organisations.

The business also started the roll-out of its new internal business training management tool, which enables training and marketing managers to drive improved performance, automate administrative functions and build customer databases. Significant work was done to improve the customer experience on the website with new training landing pages and an enhanced booking process. This will continue to be rolled-out across country websites in 2011 and is expected to have a significant positive impact on the business.

To deliver market-leading training, we further evaluated and acted on customer feedback and our customer satisfaction rating reached an outstanding 95 per cent for content and delivery. To ensure that we continue to deliver high quality training our courses are constantly updated with the latest information and our tutors are monitored and trained to the same high standards.

The Training business continued to increase its engagement and build long-term relationships with customers by providing them with on-site business improvement solutions through the complete product portfolio.

We did significant work to improve the customer experience.

Through investment in people, systems and product development, and a strong focus on commercial KPIs, the Training business grew strongly in 2010 and is well positioned for sustained growth.

Testing Services and Healthcare

Combined revenue for Testing Services and Healthcare in 2010 grew by 7 per cent on a comparable basis over the prior year (revenues of £34.0 million, 2009: £28.3 million, headline growth of 20 per cent) excluding the impact of acquisitions made part-way through 2009 or 2010 and excluding exchange impacts.

Testing Services

In 2010 we developed the Testing Services business in our target sectors of Built Environment, Safety and Security, and Transport and Communications. We underpinned this with an emphasis on schemes and enhancements that address demand for sustainability solutions. As a result, the Testing Services business delivered enhanced revenue growth during the year of 6 per cent excluding the impact of acquisitions made part-way through 2009 or 2010 and excluding exchange impacts.

We launched two new Kitemark® schemes early in the year: the Kitemark® Energy Reduction Verification scheme demonstrates carbon reductions for those companies required to participate in the UK Government's Carbon Reduction Commitment Energy Efficiency Scheme; and the Kitemark® scheme for Microgeneration provides customers with both the required MCS certification (UK government approval) and the reassurance that the Kitemark® offers.

We also completed a detailed strategic review of the Kitemark® brand including extensive market research. As a result we plan to develop our Kitemark® offering into new areas in 2011.

In March we acquired the gas appliance testing business GLCS, previously part of the Advantica and more recently Germanischer Lloyd groups. This business is renowned in its sector for its technical expertise and has a strong customer-base in the UK and Europe, and a good international reputation in Asia Pacific; it adds competence to our safety portfolio and extends the reach of Testing. In 2011 we will be focused on integrating this business further and leveraging the benefits of BSI's global network and the Kitemark® brand.

With a significant number of Testing Services customers in China and the broader Asia Pacific region, we started the process of establishing an improved presence in Shanghai. In parallel with our Chinese trade licence extension we have been putting in place sales and delivery capabilities that will allow us to improve the service to our existing customers in 2011 while at the same time adding new customers.

The Testing Services business delivered encouraging revenue growth in 2010 which we expect to continue in 2011, underpinned by a customer and sector-based approach, an enhanced Kitemark® offering and the development of our Asia Pacific business.

Healthcare

The Healthcare business performed strongly in 2010 delivering growth of 7 per cent excluding the impact of acquisitions made part-way through 2009 or 2010 and excluding exchange impacts, aided by the consolidation of our market leading position in the vital US market. This is where 44 of the top 100 US medical devices companies choose BSI as their Notified Body to provide CE certification and ISO 13485 assessment to access the EU market.

A number of key initiatives have also helped the medical device certification business to deliver growth as well as to extend its geographical footprint.

Following the acquisition in 2009 of EUROCAT in Germany, work continued to integrate this activity into BSI. This has added expertise and capability from both a technical and geographic perspective in the world's second largest medical devices export market where more than 25 per cent of global production takes place. We now have a full scope German Notified Body capability with local accreditation under the German competent authorities, backed by the global footprint and depth of BSI's expertise. The acquisition has the potential to be an enhancement to our European Healthcare activity, providing our existing and prospective customers in central Europe with an expert global partner in this sector.

In the year we announced our new service as a

Conformity Assessment Body (CAB) for the Kingdom of Saudi Arabia under the auspices of the Saudi Food and Drug Authority (SFDA). BSI is one of five CABs appointed by the SFDA to provide market authorisation for medical devices wishing to access the Saudi Arabian market. BSI will verify that devices have a valid prior approval under an existing recognised scheme, and that they also meet local requirements. BSI is proud to be part of this innovative and significant investment by the SFDA in a scheme that provides a robust regulatory framework and adds greatly to patient safety within Saudi Arabia.

We met our objective of closing the service-gap on providing customers with CE certification to the IVD Directive. Not only did we meet our goal of full scope IVD accreditation by the UK competent authority but we also achieved IVD accreditation in Germany for BSI EUROCAT under the German competent authority. This was made possible through the recruitment of an in-house team of IVD experts who have held senior positions in both industry and within CABs. With such strong people capabilities, BSI is now in a position to set the benchmark as the IVD Notified Body of choice.

In the coming year we will roll out a full prospectus of specialist Medical Device Regulation training courses. This represents a significant investment and reflects our commitment to improving the understanding and the implementation of medical device regulations.

As a market leading provider of medical device certification we have established an excellent reputation based on our expertise. BSI is seen as a key stakeholder and influencer, working with governments and competent authorities around the world to define and shape practical medical device regulations. The outlook is positive and we are committed to furthering our efforts and expanding this key area for BSI.

Outlook

In 2010 our journey was to continue evolving to meet customer need and to realise the opportunities presented and we have achieved this. We've also consciously extended the way we measure success to include non-financial parameters. As a result we found that sustainable success will be built on a customer orientation that ensures our people and products remain excellent.

The outlook for BSI in 2011 and beyond is an exciting one as we continue to expand and develop our global business. We expect to deliver increased growth in 2011 despite the continuing economic uncertainty. We have continuously extended our geographical footprint and range of business solutions and have become a truly international organisation. We now intend to accelerate our growth trajectory as we climb out of the global recession. It's an ambitious target, but we know it is eminently achievable.

In 2010 we received a very strong message from customers: that BSI has a great deal more to offer them. They want to work with us to acquire the benefits we can provide and they want a share in our extremely strong and global reputation. This gives us a high level of confidence that in the coming year the Group can seize the opportunities available and continue its successful growth record.

Howard Kerr
Chief Executive
17 March 2011

BSI Standards

Focusing on market requirements

In 2010 BSI Standards continued to focus on market requirements. We provided timely and effective responses to the needs of UK businesses and associated UK Government (HMG) priorities across each sector. This work is largely funded by BSI, with incremental annual funded support from HMG in key areas of public policy interest and innovation. We continued to extend and deepen our contribution to international standardisation with active engagement in Europe, in Asia and in the international standardisation arena.

Engaging with our communities and users: Standards development portal

We improved the awareness of, and our influence on, standards development through investment in new technology and new communication channels. For the first time, significant details of the entire formal work programme are available for easy public access via the web. This has increased our reach and provides more ways for people to keep up to date and become involved in the standards process. In the first nine months there have been over 62,000 unique visitors from 175 countries/territories.

Improving our customers' experience

Within 'One BSI' our strategy is to offer best-in-class customer relationship management and 2010 saw the successful implementation of a more integrated programme of customer management.

British Standards Online (BSOL), our flagship subscription service, became directly managed by BSI. A new Customer Training team was deployed offering specialist product training; it completed 122 sessions in the year. We also extended our Knowledge Centre services and investment in technical help-desk services. This led to improved customer management and increasingly differentiates ours as a quality service. As a result the first wave of customers agreed we 'offer the best customer service'.

Improving access, speed, and service using the web

Since the launch of the online shop in 2007, BSI Standards has continued to develop e-commerce. In 2010 over 2.75 million visits to the shop generated an increase in online revenue of 18 per cent, with single copy standards now sold across the whole range of 55,000 available standards documents, indicating the importance of our 'long-tail'. Our focus on understanding and responding to the market shows that 23 per cent of all visitors to the shop were new to BSI in 2010 and that 59 per cent of customers returned to make multiple purchases. BSI Standards continues to develop its web capability to make it an easy experience for customers to find and access business-critical information. Purchasing one standard can be the beginning of an ongoing relationship with BSI: nearly 100 single copy customers in 2010 went on to become subscribers to BSOL.

New standards

Too many consumers are worried about the validity of organisations' claims to be carbon neutral. Therefore, building on existing standards and recognised offset schemes, and using our expertise in carbon footprinting, BSI published PAS 2060, the world's first specification to help organisations demonstrate carbon neutral status. Since publication the PAS has generated much interest in the UK and overseas.

The work done in 2009 on bespoke business continuity standards and a related self-assessment tool for the UK's National Health Service led to more activity in 2010. BSI met with over 300 business continuity management practitioners within the NHS and gained valuable feedback on individual resilience plans. A common framework allows individual Trusts to have a common language and interoperable business continuity plans ensuring patient services are minimally affected by any disruptive event.

BSI has also worked with Danone, Kraft, Nestlé and Unilever to develop PAS 220, a pre-requisite programme specification for food manufacturers to assist with the implementation of ISO 22000, the global food safety standard. Over 1,200 copies of PAS 220 have been distributed since its launch in 2008.

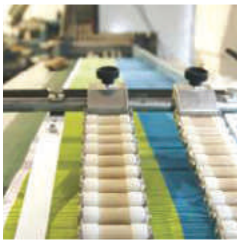
The success of this PAS has now resulted in a series of new standards to help the food industry develop and manage pre-requisite programmes in a consistent and risk-averse manner across the entire supply chain. In 2010 BSI started working on projects with food retailers, animal food companies, and food

When the **Weymouth and Portland National Sailing Academy** (WPNSA) needed to prove its adherence to the 2012 Olympics' Sustainable Sourcing Code, it turned to BSI's sustainable event management standard, BS 8901.

As a result of implementing BS 8901 in 2010, WPNSA estimates it will see cost savings of approximately 15 per cent through better waste management and optimised use of electricity. The venue has also enhanced its reputation as a sustainable conference facility and most importantly has become fully compliant with London 2012's requirements. It is now ready to host the sailing events at the 2012 Olympic Games.

and drink packaging companies. In 2011 we expect continued strong growth in food safety standardisation and for BSI's leading position to be further confirmed.

Another BSI specification with global reach is PAS 2050 on the quantification of greenhouse gas emissions from goods and services. In 2010 this formed the basis of China's approach to measuring its emissions and was widely adopted by organisations wanting to demonstrate their commitment to a low-carbon economy.



Working with BSI to develop its own standard and certification scheme meant the **Direct Marketing Association** (DMA) was able to increase the volume of UK direct marketing industry recycling to 79 per cent in 2010, against a UK Government target of 55 per cent and a 2002 result of 13 per cent.

The standard – PAS 2020 – has also protected the UK's direct marketers from new legislation and provides the DMA's members with a means to save money – Sun Life Direct is saving £150k a year using PAS 2020.

Board-level engagement

BSI also continued to develop new standards that will feature on the board agenda – work that serves to underline the important role that standards can play in business strategy at the enterprise-level.

In November BSI published the new international standard on social responsibility (ISO 26000). Developed with the direct input of over 400 experts around the world, the standard will help organisations to have a common understanding of what social responsibility means and how to achieve it.

In the year we also published BS 11000 on collaborative business relationships and BS EN 31010 on risk assessment techniques. We consulted publicly on a new standard for the financial sector, focused on improving governance within the sector. Publication is expected in early 2011.

New standards are also in development to address the sustainability agenda, including for sustainable procurement and the sustainable use of materials; and to provide further guidance on business continuity management, including on business recovery and supply chain continuity.

Production

Given customers' requirements for rapid access to new standards work and requirements for adoption of European standards, BSI has focused this year on speed to market. During 2010, we significantly improved our 2009 position and this will continue to be a core area of activity for the coming year.

International strategy

BSI has actively participated in strategic planning for European and international standardisation. We want to move to a more market-facing approach, focused on key technologies to support UK business internationally.

In 2010 ISO published its strategy for 2011-2015. This is customer focused and was heavily influenced by the UK view which was informed by comments from more than 2,000 of our stakeholders.

With BSI taking the lead, the Technical Management Board of ISO did a thorough review of how ISO's national members reach consensus and engage with stakeholders. Once implemented by all ISO members, any changes that result will significantly enhance the credibility of ISO's global standardisation system.

Europe

The European Parliament passed an important report on the future of the European standardisation system in October endorsing the strengths of the current system of 31 National Standards Bodies. This structure ensures that common European standards are adopted in all countries and any conflicting national standards are withdrawn. This report was in line with the findings of the expert panel established in 2009 by the European Commission in which I participated.

We strongly support the Parliament's findings and hope they will be fully reflected in the legislation currently being drafted by the European Commission.

In 2011 I will be combining my existing role with a two-year appointment as CEN's Vice-President Policy, leading the development of overall policy and strategy in the CEN system and working closely with all CEN's national members.

We have focused this year on speed to market.

SME access in Europe

I was pleased to lead work in Europe to promote access to standardisation for small and medium-sized enterprises. The findings of a year-long study are now being assessed, with the project due to finish in 2011. This will deliver tangible benefits across Europe, helping SMEs to understand standards, participate in their development and provide feedback on their implementation. The benefits of this project will be extended to other stakeholders including consumers, non-governmental organisations and trade unions.

Relations with Government

BSI has been in discussion with the new UK coalition Government to consider lighter touch regulation and to show how standards can support and deliver government policies. The pressure on the public sector to do 'more for less' has emphasised BSI's role in identifying and supporting policy delivery through standards, from voluntary situations to high-risk areas where assurance is necessary.

BSI continued to take an active role in monitoring consultations and calls for evidence from government departments and Select Committees. We submitted responses to 19 formal enquiries, focusing on the benefits of standards to tackle issues including zero-carbon new homes, renewable heat incentives, and financial regulation, as well as how standards might be considered in light of proposals for simplification of regulation.

The launch of PAS 91, a specification for prequalification criteria in the construction industry, was announced in October 2010. The National Specialist Contractors Council put the cost to the construction industry and its clients of wasteful prequalification processes at £250 million annually. It is this waste that the PAS is designed to eliminate with the establishment of a single set of criteria.

We were pleased that in 2010 the UK Government's Department for Business, Innovation and Skills carried out a study which confirmed the beneficial impacts that standards can deliver on growth, productivity, innovation and trade. This was further to their study conducted in 2005 which quantified standards as contributing £2.5 billion annually to the UK economy.

Finally, BSI's standardisation work in nanotechnology was highlighted in the Nanotechnologies Strategy: *Small Technologies, Great Opportunities* launched by the UK Government Office of Science in March 2010.

Consumer and public interest

BSI's Consumer and Public Interest Network continued to ensure that the consumer voice is heard in all our standards. Its activities in 2010 included new consumer-facing leaflets protecting personal information; a consumers' guide to the British Standard for web accessibility; a summary of British Standards for inclusive service provision and a parents' guide to adventurous activities abroad.

Coinciding with the theme of World Standards Day 2010, BSI produced a short film highlighting the impact of its standards to promote accessible buildings and to help improve web accessibility.

The network has a new Chair: broadcast journalist Lynn Faulds Wood, best known for her campaigning work on programmes such as BBC TV's Watchdog. In 2011 BSI will commemorate 60 years of its consumer-related activities. To mark the occasion BSI will play host to the annual plenary of ISO's policy development committee on consumer matters – COPOLCO – in London in May 2011.

Education

BSI launched its new strategy to promote standards in higher education. A new lecture on standardisation was developed and BSI is participating in the CEN–CENELEC–ETSI Joint Working Group 'Education about standardisation'.

Outlook

Our customer and market engagement progressed well in 2010 and will help us move to a new level of service provision in 2011 and beyond. Alongside this engagement, our investment in platforms that give us the ability to combine standardisation with other 'must-have' information for business will change us into an information solutions business with standards at its core.

We also enacted important innovations in our standards development work and have a full programme outlined for 2011. Among the key standards for 2011 are risk management, assessing and managing flood risk, a major standard for the financial services sector to provide a compliance framework, and a revision of PAS 2050 on carbon footprint measurement. 2011 will see new international standards on information technology service management and on the phased implementation of an environmental management system. We will also be looking at developing our publishing activities globally, building upon our industry-leading methodologies and products.

In conclusion, I must pay tribute to those who give up their time to contribute to the standards development process, particularly in these challenging economic times, ensuring that our standards continue to be important tools for business and society.

Mike Low
Director, BSI Standards
17 March 2011

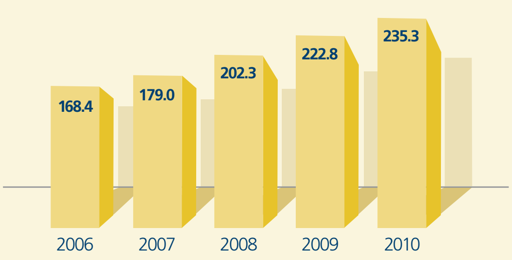
Financial Review

Financial KPIs

The results for the year show further year-on-year improvement:

- Revenue of £235.3 million (2009: £222.8 million) – growth of 5.6 per cent (3.2 per cent at constant exchange rates)
- Operating profit before exceptional costs of £27.3 million (2009: £26.2 million) – growth of 4.2 per cent (3.3 per cent at constant exchange rates)
- Operating profit after exceptional costs of £20.3 million (2009: £22.5 million) – down 9.8 per cent (10.8 per cent at constant exchange rates) due to one off costs of £7.0 million (2009: £3.7 million)
- Gross margin unchanged at 49.5 per cent (2009: 49.5 per cent)
- Operating profit margin before exceptional costs of 11.6 per cent (2009: 11.8 per cent)
- An underlying Group effective tax rate of 32.6 per cent (2009: 32.8 per cent) after adjusting for the tax impact of non-operating items
- Cash generated from operations before pension deficit payments of £35.1 million (2009: £31.3 million) – growth of 12.1 per cent
- Healthy cash conversion of 123 per cent (2009: 113 per cent)
- The UK final salary pension scheme liability has reduced to £58.0 million (2009: £102.7 million) driven by a combination of deficit funding from BSI, asset growth and a decrease in actuarial liabilities
- Debtor days strengthening at 51.7 (2009: 54.2)
- Cash and cash equivalents of £41.4 million (2009: £35.2 million) – growth of 17.6 per cent
- Capital expenditure including acquisitions of £9.3 million (2009: £8.6 million)
- An improving quotation to order ratio of 66.3 per cent (65.4 per cent)

Revenue by year £m



Introduction

The financial health of BSI has been further enhanced in 2010, and operating profit before exceptional costs of £27.3 million (2009: £26.2 million) represents a record performance – there has been no dilution in the quality of earnings. This has been achieved in the midst of continuing global economic difficulty despite which BSI has maintained its historic profile of delivering year-on-year real growth – headline Revenue CAGR since 2006 now stands at 8.6 per cent. While maintaining net margins before exceptional costs at approximately 12 per cent, BSI has continued to invest for its future health. 2010 has seen reinforcement of front line sales resource and BSI has continued to invest in its people with a £0.8 million spend on staff training and development. BSI has also made a £1.2 million revenue expenditure investment in Global IT resilience and continuity via the outsourced hosting of all core global IT platform infrastructure and applications. During 2010 BSI also incurred start-up costs to establish a presence in Saudi Arabia initially to perform Healthcare Review work.

Cash generation of £35.1 million (2009: £31.3 million – see cash from operations before pension deficit contributions on page 28) has also enabled BSI to meet all of its pension funding obligations and to continue its programme of capital investment into new and enhanced online sales channels and application tools to enhance its product portfolio. This investment is in excess of £4 million.

BSI Group's net asset position has strengthened to £39.7 million (2009: £5.1 million) primarily due to the improvement in the net pension deficit described overleaf.

This strong financial performance and health of the Group directly reflects BSI's commitment to, and focus on, sound financial management that continues to underpin its growth and evolution. Our Global SAP based ERP (Enterprise Resource Planning) platform and the high level of system integration we have achieved is a core strength of BSI. It facilitates both the stable operation of the Group and supports its ability to evolve and expand in a controlled manner. As a result of a structured implementation roll-out plan, 96 per cent of all BSI's transactions in 17 countries are now transacted by this centrally controlled and managed system. Not only does this give full transactional transparency it directly manages all of BSI Group's operating applications. A major rationalisation of BSI's operational banking arrangements around the world over the past two years now presents the Group with the opportunity to further integrate its banking and ERP platforms in 2011 and to centrally co-ordinate and administer all worldwide activity. This leaves BSI very well placed to grow and expand its range of businesses from a position of strength.

Assessment Certification revenues at £137.3 million (2009: £133.7 million) have remained stable with strong performance in our traditional product areas of quality management and environment supplemented by increased turnover derived from BSI's newer market offerings in areas such as information security, sustainability and continuity management. New business sales have sustained the Assessment activity while customer attrition rates have remained higher than normal, particularly in the USA. Attrition rates rose in the first half of the year and encouragingly began to fall in the second half, an improving trend that has continued in 2011. All operational KPIs reflect that BSI has also made further efficiency gains in 2010 and the outlook for 2011 is positive with a strong entry order book position. In 2010 BSI has focused on growing its GRC product offerings and its Entropy® audit compliance tool has grown 20 per cent with a particularly strong performance in the USA.

Training revenue at £17.8 million (2009: £14.6 million) has recovered to 2008 pre-recession levels with strong performance in most of BSI's geographic markets most notably in the UK, USA and China.

BSI's Healthcare file review and certification activity has delivered the fourth consecutive year of growth, with growth in the year of 7 per cent, excluding the impact of acquisitions made part-way through 2009 or 2010 and excluding exchange impacts, and this growth is accelerating. Overall Healthcare sector activity has also grown with BSI deploying its full range of services to increasingly global Healthcare customers. BSI has also continued to build its accredited Healthcare presence in Germany with 2010 representing the first full year of operation of its EUROCAT acquisition. Work continues to migrate and integrate operating processes and as a consequence of this EUROCAT has recorded a marginal loss in 2010.

BSI's Standards activity has also continued to perform well in 2010 with revenue of £46.2 million (2009: £46.2 million) delivering a 30 per cent operating profit of £14.0 million (2009: £13.3 million). Royalty revenues have been balanced with growth in direct sales channels particularly via its online shop and its BSOL subscription offering. In 2010 BSI has again invested in content creation and enhanced online publishing platforms and functionality (£0.6 million) which are due to launch in Q2 2011.

BSI's gross margin at 49.5 per cent has also held up well despite competitive price pressure across its markets, particularly in Asia Pacific. This is largely due to delivering utilisation efficiency gains, a mix favourable to the higher margin product areas and countries, and some limited volume growth.

The EMEA region continues to account for the largest part of the Group by revenue with 36 per cent with the Americas at 22 per cent, Asia Pacific at 22 per cent and Standards at 20 per cent. BSI China and BSI Japan struggled for growth in 2010 although both businesses recorded a combined operating profit contribution of £5.5 million. BSI India had another year of strong growth of 28 per cent and BSI Australia also performed strongly. BSI Mexico grew its operating profit contribution by 66 per cent but BSI Brazil continued to struggle and is the only BSI entity to record a marginal negative operating profit contribution. BSI remains committed to its Brazilian business and has taken steps to reinforce its management team in Brazil.

During 2010 BSI embarked on a substantial rationalisation of its UK property portfolio leading to exceptional one-off write-downs which are explained below. BSI has succeeded in renegotiating and extending the lease on its London global headquarters removing the ongoing risk of vacant and sublet space. In addition BSI received an upfront cash contribution of £3.1 million in exchange for agreeing to extend the lease to 15 years with a progressive but capped rental increase over the period.

BSI has also decided to partially consolidate its UK operating sites at Hemel Hempstead and Milton Keynes onto a larger and upgraded site in the Milton Keynes area. This is a £5 million investment, of which the spend in 2010 is £0.5 million with the balance being incurred in the first half of 2011.

This has led to property write-downs of £4.0 million primarily due to moving the site valuation of Hemel Hempstead from value-in-use to an externally valued market realisable value. However, it must be stressed that BSI's Testing laboratories currently remain on the Hemel Hempstead site and no final decision has been taken on the site's future although options for relocating the laboratories within the same locality are being assessed for both practicality and viability of investment.

Exceptional costs

Operating exceptional costs amounted to £7.0 million (2009: £3.7 million).

- £5.2 million in relation to the rationalisation of BSI's UK operating sites outside of the London global headquarters. These costs can be broken down as follows:

  a. £4.0 million due to the changing of basis of valuation of the existing Hemel Hempstead site from a value-in-use basis to open market value reflecting BSI's decision to partially vacate the site;

  b. £0.4 million related to associated redundancies; and

  c. £0.8 million in associated asset write-downs and exit costs.

- £0.3 million in relation to restructuring and reorganisation including £0.1 million in respect of the closure of the UK final salary pension scheme to future accrual and £0.2 million in relation to 2010 costs in finalising the move of BSI from its historical divisional structure to a regional and business stream structure started in 2009.

- £1.5 million in respect of legal and related costs associated with High Court proceedings brought by a distributor of motor vehicle parts in 2009 which were settled without admission of liability by either party.

Full details are disclosed under Note 7 to the Group financial statements on page 80.

Cash flow and investment in the business

Operating cashflow before pension deficit funding contributions has increased by £3.8 million in 2010 again reflecting tight working capital management. BSI's cash conversion was 123 per cent (2009: 113 per cent) before pension deficit contributions – being the ratio of EBITA to cash from operations after adjusting for distorting items such as the pension deficit contribution and a receipt of a lease incentive. The Group continues with a strong cashflow with cash generated from operations of £20.1 million (2009: £21.3 million). Active Group Treasury cash management seeks to repatriate cash to the UK and to ensure that all cash around BSI is both visible and under Treasury control. In 2010 BSI repatriated £14.9 million (2009: £10.6 million) to the UK and has begun the process of Euro pooling and progressive sweeps where possible. Cash generated from operating activities has again been impacted by an additional payment of £15.0 million (2009: £10.0 million) above the pension service costs in accordance with the agreed schedule of contributions.

BSI's net cash closed the year at £41.4 million (2009: £35.2 million) and BSI remains debt free. We are confident of our ability to secure appropriate and significant debt facility if we choose to do so. BSI maintains excellent relationships with its key banks.

The financial health of BSI has been further enhanced in 2010.

As illustrated below, cash from operations before pension deficit contributions grew 12 per cent to £35.1 million from £31.3 million.

	2010 Total £m	2009 Total £m
Cash from operations before pension deficit contributions	35.1	31.3
Pension deficit funding contributions	(15.0)	(10.0)
Cash generated from operations	20.1	21.3

The table below shows the ageing of BSI's trade debtor profile. Credit control and collection is given high focus throughout the Group and debts are specifically reviewed at least quarterly. BSI maintains an appropriate bad debt provision of £1.0 million (2009: £0.9 million) and the risk of material erosion in BSI's trade debtor position is kept under constant review. BSI maintains a 30-day benchmark credit for control purposes although the 30-60 day profile reflects that longer terms have been given when appropriate in accordance with Note 19. In 2010 the only material bad debt write off related to an EC funded project in Russia (£0.1 million write off fully provided for in 2009). In summary 86 per cent of BSI trade debtors are within 60 days (2009: 88 per cent).

	2010	2009
In terms	62%	68%
1- 30 days overdue	24%	20%
30+ days overdue	14%	12%
Total	100%	100%

Taxation

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 41.6 per cent (2009: 28.3 per cent). The ETR at 41.6 per cent comprises a current year tax charge of 37.6 per cent and a prior year tax charge of 4.0 per cent arising from time-expired tax relief of 2.1 per cent (in USA and Canada) and prior year tax under-provided of 1.9 per cent.

The ETR for the Group's underlying business operations for the current year is 32.6 per cent (2009: 32.8 per cent), after removing the tax impact on the exceptional costs relating to the Hemel Hempstead business restructure of 3.4 per cent, withholding tax irrecoverable of 1.6 per cent (USA and UK) and the prior years' tax charge of 4.0 per cent.

The ETR at 41.6 per cent is further reconciled from the UK statutory tax rate of 28 per cent, by additional higher overseas Group taxes of 4.5 per cent (e.g. USA 39 per cent, Japan 41 per cent), the prior years' tax charge of 4.0 per cent and the net ETR increase of 5.1 per cent for Group tax permanent and temporary differences.

The Group's underlying current period ETR is targeted to continue to reduce with long-term management to the prevailing UK statutory rate of 28 per cent for 2010 reducing to 26 per cent with effect from 1 April 2011.

Pensions

The Group's UK final salary pension fund deficit has decreased to £58.0 million (2009: £102.7 million). This is a significant improvement and the principal drivers are:

- A further payment of £15.0 million into the pension scheme above the ongoing service costs of the scheme.
- A growth in scheme assets of £13.6 million primarily related to market performance.
- A £16.1 million decrease in scheme liabilities.

During 2010 the Group made a total contribution of £16.1 million being £15.0 million of deficit contribution and £1.1 million ongoing service cost. The Directors remain committed to reducing the deficit and are working with the Trustees to do so. Over the past six years BSI has paid a total of £70.1 million in deficit funding into the scheme. During the year the scheme was closed to future accrual and the main technical assumption change reflects the use of CPI rather than RPI as the key measure. This reduces the deficit by £5.7 million. BSI always seeks to be at the mid-point in the range of possible assumptions and confirms this with its external advisors each year.

The triennial valuation is nearing completion and it is anticipated that this will show a substantial improvement over the position in 2007. BSI does not expect to significantly alter its agreed schedule of deficit contribution but this remains an ongoing discussion with the Pension Trustee Board.

A full breakdown of the movements is shown in Note 24 to the Group financial statements.

Treasury Review

The Board has maintained and updated treasury policies for the Group. A Banking Committee ensures that all treasury activities are conducted in accordance with these policies. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and audits, both internal and external.

The principal aim of the Group's treasury policies is to manage and monitor the Group's external and internal funding requirements, optimise net interest cost after tax and manage financial risk arising from the international business of the Group, principally interest rate and currency risk. The Group does not hold or issue derivative financial instruments for trading purposes and Group Treasury policy specifically prohibits such activity.

Cash and cash equivalents by territory

	2010 £m	2009 £m
UK	31.1	23.5
Continental Europe	2.2	1.7
Americas	2.1	2.8
Asia Pacific	6.0	7.2
Total	**41.4**	**35.2**

Liquidity Risk Management

BSI Group is debt free and the Group's treasury policy recognises the need to occasionally use short-term external funding for operational reasons.

Consequently BSI Group keeps a flexible cost-effective structure of banking facilities. At 31 December 2010, the Group had overdraft bank facilities (excluding loans) of £5.2 million (utilised £nil), and loan facilities of £nil. All loans and overdraft facilities are on an unsecured basis. The Group maintains regular contact with its main banking relationships and is confident of being able to secure substantial appropriate debt facilities should it choose to do so.

Currency Exposure Risk Management

The Group has significant operations outside of the UK and consequently has a material exposure to currency fluctuations. The analysis at Note 3 shows the exposure that the Group would suffer should any of the major currencies that the Group trades in move against British pound sterling by 10 per cent. A movement of 10 per cent in the value of British pound sterling with respect to all of the foreign currencies that the Group is exposed to would result in an operating profit impact of around £1.6 million.

Credit Risk

The Group has very limited exposure to credit related losses on financial instruments and is subject to normal trading counterparty risks which it considers to be minimal. BSI's most material credit risk on an ongoing basis is counterparty risk with its banking suppliers which the Group considers to be minimal.

Accounting policies

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

By Order of the Board
Martin Hannah
Group Finance Director
17 March 2011

BSI has maintained year-on-year growth.

Principal Risks and Uncertainties

The Board understands that risk has to be weighed against return as an inherent part of the business process. Identifying the risks facing the business, and evaluating their potential impact, enables management to take mitigating action and helps it determine effective strategies to achieve the business's objectives.

BSI Group has in place a comprehensive and dynamic risk management process which seeks to identify and then record on risk registers the key business risks it faces. These registers are compiled and reviewed on a continuous basis at country, regional and corporate level and across all business streams and corporate functions.

Management are accountable for managing risks that arise within their areas of responsibility. Risk management is a standing item on all management meetings, including the Executive Committee, and all risk mitigation action plans have allocated management responsibility.

The Board receives and reviews a risk management report at every Board meeting. The Board reviews the risk management process twice a year with the Group Risk and Compliance function.

Principal Business Risks

Risk and Potential Impact	Mitigation	Commentary
Strategic Risk		
Achievement of the strategic plan and revenue growth targets. Failure to achieve revenue or profit growth targets.	There is a clear linkage of the strategic plan to local tactical plans. BSI continues to develop new initiatives and tools to bring to market. BSI is also taking steps to enhance sales performance. BSI's focus is on delivering solutions to retain, grow and win customers.	BSI's strategy is set out in the Chief Executive's Review on pages 14 to 20.
Macro economic climate. Failure to achieve growth targets or maintain market position.	BSI seeks to grow in countries with expanding economies and to enhance market share in other areas.	BSI's strategy is set out in the Chief Executive's Review on pages 14 to 20.
Regulatory Risk		
Regulatory changes. Retention of business streams' scope through changes to EU or other regulation.	BSI keeps up to date with proposed regulatory changes across all global markets and lobbies where possible to ensure any proposed changes best serve its customers and its business.	The Corporate Governance Report sets out on page 39 BSI's risk review process which addresses this risk.
Regulatory and accreditation compliance. Loss of accreditation resulting in loss of revenue from that business stream.	BSI has a governance framework and business management system in place to ensure continued compliance. There is a programme of ongoing global compliance audits.	The Corporate Governance Report sets out on page 39 BSI's risk review process which addresses this risk
Reputational Risk		
Business ethics and reputation. Unauthorised unethical behaviour by employees leading to reputational damage and loss of business.	BSI has a clear set of Group Rules and Code of Business Ethics which are communicated to all employees and audited for compliance. A 'whistleblowing' line is available.	The Corporate Governance Report sets out on page 39 details of BSI's internal controls which address this risk.

Principal Business Risks Continued

Risk and Potential Impact	Mitigation	Commentary
Financial Risk		
Financial Control Risk. Financial mismanagement or fraud could create financial or reputational damage.	BSI has a best-practice approach to financial control and a clear tone and rule framework from the Board and Audit Committee. Financial governance is actively managed throughout the Group and supplemented by Internal Audit monitoring oversight. BSI's Group Finance Policy Framework is rigorously monitored for compliance and the BSI Board receives comprehensive financial reporting on all issues that arise. BSI Group Finance manages all tax compliance and treasury management is also centrally controlled.	The Report of the Audit Committee is set out on page 48.
Operational Risk		
Political risk. Political instability in countries in which BSI operates leading to security threats and loss of revenue.	BSI continues to manage a balanced country risk profile and maintains vigilance in the development of potential threats. A process is in place to assess the risk in all potentially hostile territories before undertaking travel or doing business.	The Corporate Governance Report sets out on page 39 details of BSI's risk review process which addresses this risk.
Change management. Failure to engage with employees during times of change leading to loss of key personnel. Failure to plan change effectively causing unnecessary costs and disruption.	BSI has a programme of employee engagement in place through local employee/management Committees and online tools. Succession planning is in place and detailed planning is undertaken for all major projects.	The Social Responsibility report sets out in the 'BSI's People' section on pages 46 and 47 how BSI engages with its employees.

Insurance

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

By Order of the Board
Howard Kerr
Chief Executive
17 March 2011

The Board

1. Sir David John KCMG
Chairman
Chairman of the Nominations Committee, Member of the Audit, Remuneration and Social Responsibility Committees

Sir David John KCMG was elected Chairman in July 2002 after joining the Board in May 2002 as a Non-executive Director. He was Chairman of the BOC Group until 2002, Chairman of Balfour Beatty until 2008 and is the immediate past Chairman of Premier Oil stepping down from that role in 2009. He is Chairman of the Royal Society for Asian Affairs, a member of the Advisory Council of the Institute of Business Ethics, a member of the International Advisory Council of Asia House and, from 2002 to 2010, was a member of the CBI International Advisory Board.

2. Howard Kerr
Chief Executive
Chairman of the Executive and the Banking and General Purposes Committees and Member of the Nominations, Standards Policy and Strategy and Social Responsibility Committees

Howard Kerr was appointed to the Board in November 2008 and assumed the position of Chief Executive in January 2009. He previously held key positions at SHV Holdings N.V. and Inchcape Plc. These included CEO, Calor Group Ltd, UK, as well as senior commercial and general management positions in Europe, Asia and the Middle East.

3. Martin Hannah FCCA
Group Finance Director
Member of the Executive and the Banking and General Purposes Committees

Martin Hannah joined the Company as Group Finance Director in September 2007. A Chartered Certified Accountant, he has extensive international financial and commercial experience across a wide variety of sectors including consumer products, power utilities, engineering, manufacturing and services. Originally trained in Unilever, he has held senior Finance Director positions with Powergen International, ESAB, El Paso and was a Divisional Finance Director of Trafalgar House.

4. Mike Low
Director, BSI Standards
Member of the Executive and the Standards Policy and Strategy Committees

Mike Low joined the Company as Director of BSI Standards in November 2003. Prior to this he was the Director of Group Strategy and Performance for Amey plc and MD of Amey Rail. Until 2000, he was Managing Director of British Energy plc's UK generation division and also a main board Director. He has also previously served as Director of Health, Safety and Environment for Nuclear Electric and subsequently Technical and Business Development Director. He is a Fellow of the Royal Academy of Engineering and of the Chartered Quality Institute (CQI) and is the Chairman of the Board of Trustees of CQI. In January 2011, he was appointed Vice President Policy for CEN. Mike Low has published widely on power generation, safety and risk management.

5. Sir David Brown
Non-executive Director
Member of the Nominations, Social Responsibility and the Standards Policy and Strategy Committees

Sir David Brown joined the Board as a Non-executive Director on 27 May 2010. He was Chairman of Motorola UK from 1997 to 2008 and was also Motorola's Global Governance Advisor. A Chartered Engineer by training and a Fellow of the Royal Society of Engineering, Sir David Brown was, from 2003 to 2004, President of the Institution of Electrical Engineers and, from 1999 to 2000, President of the Federation of the Electronics Industry. He was the founding President of the Chartered Quality Institute, during which time he secured the Institute's Royal Charter status. He is the Chairman of the Finance Committee of OFCOM.

6. Keith Clarke
Non-executive Director
Chairman of the Remuneration Committee and member of the Audit Committee

Keith Clarke joined the Board as a Non-executive Director on 8 December 2010. He is Chief Executive Officer of WS Atkins plc. A qualified architect, he has more than 30 years' experience in construction and engineering. He previously held positions as CEO of Skanska UK and Chief Executive, Construction at Kvaerner Construction Group and, prior to that, various management positions at Trafalgar House and Olympia & York. Keith Clarke chaired the CIC Health & Safety Committee and subsequently the CIC Constructing Excellence National Platform High Level Steering Group. He is a patron of the Environmental Industries Commission, an advisory board member of Imperial College and Vice President for International Affairs for the RIBA.

7. Tom Gorrie PhD
Non-executive Director
Chairman of the Social Responsibility Committee

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

8. Anthony Lea
Non-executive Director and Senior Independent Director
Chairman of the Audit Committee and Member of the Remuneration Committee

Anthony Lea joined the Board as a Non-executive Director in July 2007. He is Chairman of Blackrock World Mining Trust plc and the Emerging Africa Infrastructure Fund. He also took up the position of Non-executive Director at the Office of Fair Trading (OFT) in 2008 and is a Trustee of The Royal Air Force Benevolent Fund. Previously he served as a board member of the Anglo American Group and as Finance Director of Anglo American plc until 2005. He has extensive international operational experience in the UK, South Africa and North America.

9. John Regazzi PhD
Non-executive Director
Member of the Remuneration and the Social Responsibility Committees

John Regazzi joined the Board as a Non-executive Director in July 2006. He is a US citizen and resident, former Managing Director of Market Development at Elsevier, CEO of Elsevier Inc, and Global Managing Director of Elsevier Electronic Publishing. John Regazzi was President and CEO of Engineering Information Inc and is Professor and Dean Emeritus of the College of Information and Computer Science of Long Island University. He also is the Chairman of the Board of Directors of the Elsevier Foundation in the USA, Vice President of the Engineering Information Foundation and Chairman of the National Technology Information Service (U.S. Department of Commerce) Board.

COMPANY SECRETARY
10. Tony Wales
Director of Legal Affairs and Company Secretary
Member of the Executive Committee

Tony Wales joined BSI as Director of Legal Affairs and Company Secretary on 21 January 2010. A qualified solicitor with significant international experience, he has held various senior legal positions, including Group General Counsel & Company Secretary at The Economist Group and General Counsel at AOL International.

The Executive

Tony Wales
Director of
Legal Affairs
and Company
Secretary

Ann Francke
Managing Director,
Global Customer
and Product Strategy

Jim Newell
Group HR
Director

Todd VanderVen
President,
BSI Americas

Howard Kerr
Chief Executive

David Brown
Director,
Corporate
Development

Mike Low
Director,
BSI Standards

Martin Hannah
FCCA
Group Finance
Director

Rob Wallis
Managing Director,
BSI EMEA

Mark Basham
Managing Director,
BSI Asia Pacific

David Ford
Managing Director,
Healthcare &
Testing Services

In 2010 our journey was to continue evolving to meet customer need and to consistently deliver benefits. We have realised the opportunities presented and achieved success.

Corporate 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 business's success. The Company is incorporated by Royal Charter and, as such, is not required to apply FRC Codes of Governance. Nevertheless, the Board has complied throughout the accounting period with Section 1 of the FRC Combined Code 2008 on Corporate Governance ('the Code') wherever relevant and practical. The Company has not complied, in particular, with the alignment of remuneration with share performance (B.1.1 of the Code) and relations with institutional shareholders (E.1 of the Code).

The Board

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

In 2010 the Board comprised the Chairman, Sir David John KCMG; the Chief Executive, Howard Kerr; two further Executive Directors and five independent Non-executive Directors (two stepping down and two joining during 2010). The current members of the Board, and the roles of each Director, are given in the biographical details of the Directors on pages 32 to 33.

There is a clear division of responsibilities at the head of the organisation. The Chairman is responsible for the leadership of the Board, that the Directors receive the information they require for their roles and facilitating the contribution of the Non-executive Directors as a key part of the Board. The Chief Executive is responsible for the day to day running of the business and the leadership of an effective Executive team to deliver the organisation's business objectives.

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

Board balance and independence

The Board continues to maintain an appropriate balance of skills, knowledge and experience. During 2010 Norman Price and Michael French stepped down from the Board on 26 May 2010 and 31 December 2010, respectively, each having served approximately six years as a Non-executive Director. On 26 May 2010 Sir David Brown joined the Board and on 8 December 2010 Keith Clarke joined the Board; both joining as Non-executive Directors.

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

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

Rotation of Directors

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

Board meetings

There were eight meetings of the Board during the year ended 31 December 2010; six scheduled and two especially arranged to consider particular transactions and events. The Directors' attendance at Board as well as Audit, Remuneration and Nominations Committee meetings is indicated in the table below.

Attendance	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings:	8	3	5	3
Sir David John KCMG	8/8	3/3	5/5	3/3
Howard Kerr	8/8	3*	5*	3/3
Martin Hannah	7/8	3*		
Michael French (to 31.12.10)	8/8	3/3		3/3
Mike Low	6/8			1*
Sir David Brown (from 27.5.10)	3/4	1*		
Keith Clarke (from 8.12.10)	1/1			
Tom Gorrie	6/8		2*	1*
Anthony Lea	7/8	1† 2/2	4/5	2*
Norman Price (to 26.5.10)	3/4	1/1	1*	1*
John Regazzi	6/8		5/5	2*

* Attended by invitation

† Prior to joining the Audit Committee on 26 May 2010, Anthony Lea attended one meeting by invitation. He then attended two further meetings in 2010 as a member of the Committee.

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

Evaluation, training and support

An informal Board evaluation process was carried out during the year and will be developed to ensure that the Board's performance continues to improve. During 2011 the Board evaluation process will be led by an external facilitator. Training in matters relevant to their role on the Board is available to all Directors. The new Directors were provided with a full and tailored induction in order to introduce them to the business and management of the Company. The Board is supported by the Company Secretary who is available to give ongoing advice to all Directors on Board procedures and corporate governance. There is a procedure for Directors to have access, if required, to independent professional advice, paid for by the Company.

Board Committees

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

The Committees are:

Audit Committee

The 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 BSI Group. A report by the Audit Committee, including details of its membership, is set out on page 48.

Remuneration Committee

The Committee is responsible for reviewing the terms and conditions of employment of Executive Directors including the provision of incentives and performance related benefits. The Remuneration Report, which includes details of the Remuneration Committee's membership, is set out on pages 41 to 44.

Nominations Committee

The Committee is responsible for the selection and recommending the appointment of all Directors to the Board. A report by the Nominations Committee, including details of its membership, is set out on page 45.

Executive Committee

The Committee is responsible for the implementation of agreed strategy and the day to day operation of BSI. The Committee is chaired by Howard Kerr and its members are shown on pages 34 and 35.

Standards Policy and Strategy Committee

The principal objective of the Committee is to bring together the views of those interested in British Standards' formal consensus standards activities in order to develop BSI's strategic policy in the national, European and international standards areas. The Committee is chaired by Mike Nichols, who took over from Tony Stroud on 1 April 2010, and its members include Sir David Brown, Howard Kerr and Mike Low, Director, BSI Standards, who details standards activities in his report on pages 21 to 24.

Banking and General Purposes Committee

The Committee has oversight of the Group's banking relationships and general treasury management. The Committee comprises Howard Kerr, who is its Chairman, and Martin Hannah and its meetings are attended by key members of the Group's treasury and finance functions. The Financial Review is on pages 25 to 29.

Social Responsibility Committee

The Committee held its first meeting in 2010. Its responsibility is to enhance BSI Group's attention to social responsibility and drive an implementation programme following the guidelines of ISO 26000. The Social Responsibility Report, which includes details of the Social Responsibility Committee's membership, and describes BSI's activities in this area, is set out on pages 46 and 47.

Internal control

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

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

The Group's internal control framework is laid down in the Group Rules which is a comprehensive set of policies and procedures regarding the practical governance of the businesses, to which all BSI employees have access on the organisation's intranet. The Group Rules are regularly considered by the Board and are updated when appropriate. The Group Rules are designed to provide a level of assurance that adequate controls are applied.

BSI has established a Risk and Compliance function which monitors compliance with the Group Rules 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 organisation's system of internal control. This review involves the identification of actual or potential risks to BSI Group which may impact on its objectives, together with the actions, controls and reporting procedures designed to address and mitigate those risks. These controls are reviewed, applied and updated whenever appropriate throughout the year. The report on Principal Risks and Uncertainties is set out on pages 30 and 31.

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

As part of the internal control environment there is a comprehensive financial management, financial control and governance framework and effective structures are in place to ensure and maintain continual compliance. Quarterly financial and operational reviews are undertaken throughout BSI Group by the Chief Executive and Group Finance Director, and the Board reviews a full financial report and commentary every month.

BSI's internal audit function is responsible for auditing and monitoring the application of financial procedures and practices throughout BSI Group. The Head of Internal Audit reports to the Group Finance Director with full and open access to BSI's Audit Committee.

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

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

By Order of the Board
Sir David John KCMG
Chairman
17 March 2011

Statement of Directors' Responsibilities

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

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

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

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

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

Disclosure of information to auditors

Each Director in office at the date of the Directors' Report confirms that:

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

b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board
Tony Wales
Company Secretary
17 March 2011

Report of the Remuneration Committee

The Remuneration Committee (the 'Committee') is established by the Board under terms of reference which were most recently updated in December 2010.

Membership

During the year ended 31 December 2010 the Committee comprised:

Chairman: Anthony Lea
Members: Sir David John KCMG, John Regazzi

Anthony Lea stood down as Chairman on 16 February 2011 and remained a member of the Committee. Keith Clarke was appointed as a member of the Committee with effect from 1 January 2011 and as its Chairman with effect from 16 February 2011.

Meetings and advice

The Committee met five times in 2010. The Committee has access to specialist executive reward consultants to ensure it receives independent advice. Advisers are appointed by the Committee for specific work. In 2010, independent advice was provided by Deloitte LLP on remuneration matters.

Executive remuneration policy

The Committee's objective is to ensure that the levels of remuneration for Executive Directors, the Chairman and other senior executives are sufficient to attract, retain and motivate individuals of the quality required to best further the interests of the organisation. The Committee aims to align rewards and incentives with the performance of BSI and the achievement of its strategic aims as well as ensuring that the Directors' total compensation is competitive with that of comparable organisations.

Base salaries and benefits

Base salaries are determined by the Committee based on the responsibility and performance of each Executive Director. Due consideration is given to the rewards payable by comparable organisations. Benefits in kind principally include, where appropriate, the provision of a company car and fuel as well as medical and life insurance.

Annual incentive payments

The Committee also approves, as appropriate, Executive Directors' annual incentive payments. These are only awarded subject to the fulfilment of specific short-term criteria, determined with reference to BSI's objectives. These targets are established annually and amended if necessary.

Long term incentives

In 2006 BSI introduced a Long Term Incentive Plan (LTIP) for Directors, Executive and senior managers of BSI Group, based upon demanding growth criteria linked to BSI Group's strategic plan. Participation is solely at the invitation of the Remuneration Committee, based upon the recommendation of the Chief Executive.

Directors' remuneration

	Salaries & fees		Bonus		Other benefits		LTIPs		Total		Pensions[1]	
	Year ended 31 Dec 2010 £'000	Year ended 31 Dec 2009 £'000	**Year ended 31 Dec 2010 £'000**	Year ended 31 Dec 2009 £'000	**Year ended 31 Dec 2010 £'000**	Year ended 31 Dec 2009 £'000	**Year ended 31 Dec 2010 £'000**	Year ended 31 Dec 2009 £'000	**Year ended 31 Dec 2010 £'000**	Year ended 31 Dec 2009 £'000	**Year ended 31 Dec 2010 £'000**	Year ended 31 Dec 2009 £'000
Executive Directors												
Howard Kerr	**313.1**	315.8	**313.7**	200.7	**22.8**	231.3[2]	-	-	**649.6**	747.8	**56.4**	49.9
Martin Hannah	**260.9**	256.7	**193.4**	124.5	**2.1**	2.0	**122.5**	-	**578.9**	387.9	**29.7**	29.2
Mike Low[3]	**277.4**	270.2	**182.2**	159.4	**9.1**	6.7	**128.3**	120.8	**597.0**	557.1	-	-
	851.4	842.7	**689.3**	484.6	**34.0**	240.0	**250.8**	120.8	**1,825.5**	1,692.8	**86.1**	79.1
Non-executive Directors												
Sir David John KCMG	**145.0**	145.0	-	-	-	-	-	-	**145.0**	145.0	-	-
Sir David Brown[4]	**14.9**	-	-	-	-	-	-	-	**14.9**	-	-	-
Keith Clarke[5]	**1.7**	-	-	-	-	-	-	-	**1.7**	-	-	-
Michael French[6]	**30.0**	30.0	-	-	-	-	-	-	**30.0**	30.0	-	-
Tom Gorrie[7]	**25.0**	8.3	-	-	-	-	-	-	**25.0**	8.3	-	-
Anthony Lea	**30.0**	30.0	-	-	-	-	-	-	**30.0**	30.0	-	-
Norman Price[8]	**6.3**	25.0	-	-	-	-	-	-	**6.3**	25.0	-	-
John Regazzi	**25.0**	25.0	-	-	-	-	-	-	**25.0**	25.0	-	-
	277.9	263.3	-	-	-	-	-	-	**277.9**	263.3	-	-

Notes

[1] Contributions made by the Company outside of salary sacrifice arrangements

[2] A relocation contribution of £215,000 was made by the Company in 2009

[3] Includes £34,438 (2009: £33,900) supplement in lieu of pension contribution

[4] Appointed as a Director on 27 May 2010

[5] Appointed as a Director on 8 December 2010

[6] Retired as a Director on 31 December 2010

[7] Appointed as a Director on 1 September 2009

[8] Retired as a Director on 26 May 2010

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 2010 (2009: £nil).

Long Term Incentive Plan

Participants in the Long Term Incentive Plan (LTIP) are awarded Profit Participation Units (PPUs). The Remuneration Committee has approved awards in each year since the inception of the LTIP in 2006, including in 2010. The interests of Directors in the LTIP and amounts awarded to the Directors under the LTIP are shown below.

Executive Directors	Notional Award b/fwd at 1 January 2010 (PPUs)	Granted in year (PPUs)	Vested in year (PPUs)	Notional Award c/fwd at 31 December 2010 (PPUs)	Earliest vesting date of PPUs	Value of PPUs vesting during 2010
Howard Kerr	201,000	207,000	-	408,000	1/1/2012	-
Martin Hannah	304,167	122,500	(81,667)	345,000	1/1/2011	£122,500
Mike Low	290,500	113,750	(85,500)	318,750	1/1/2011	£128,250

In order for a PPU to vest, a threshold level of profit growth must be achieved for the LTIP period. The threshold has been set with reference to BSI Group's strategic plan and external benchmarks. The LTIP also provides for a 'cap' on any potential payout. As a Royal Charter Company, the use of share related performance measures is not possible.

Pension and retirement benefits of Directors

Howard Kerr has a personal pension arrangement into which the Company has also made contributions. Martin Hannah is eligible to participate in the BSI Stakeholder Plus Pension Plan, into which the Company makes contributions. Mike Low receives a salary supplement in lieu of pension equivalent to 15 per cent of basic salary.

Non-executive remuneration

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

	Letter of appointment dated	Appointment commenced	
Sir David John KCMG	26 March 2002	01 May 2002	as Non-executive Director
		24 July 2002	as Chairman
Sir David Brown	27 May 2010	27 May 2010	
Keith Clarke	8 December 2010	8 December 2010	
Michael French	30 November 2004	1 January 2005	reappointed
	23 January 2008	1 January 2008	retired 31 December 2010
Tom Gorrie	22 July 2009	1 September 2009	
Anthony Lea	13 June 2007	1 July 2007	reappointed
	8 June 2010	1 July 2010	
Norman Price	31 March 2004	1 June 2004	reappointed
	23 May 2007	1 June 2007	retired 26 May 2010
John Regazzi	24 May 2006	1 June 2006	reappointed
	29 May 2009	1 June 2009	

Non-executive Directors receive a fee for their services to the Company in connection with Board and Board Committee meetings. Their appointment is for three years and is subject to a notice period of one month. The Non-executive Directors do not receive any pension or other benefits from BSI.

Service contracts, contracts of significance and notice periods

Executive Directors have formal service contracts with the Company as set out below:

	Service contract dated	Appointment commenced	Notice period provided for
Howard Kerr	21 October 2008	1 December 2008	12 months by either party
Martin Hannah	11 May 2007	3 September 2007	6 months by either party
Mike Low	30 July 2003	1 November 2003	6 months by either party

No Director has contractual rights for compensation on early termination beyond payment of the contractual notice period. Other than set out above, there were no other persons who served as an Executive Director of the Company during the year ended 31 December 2010. Apart from service contracts or Non-executive Directors' letters of appointment, no contract subsisted during or at the end of the financial year in which a Director is or was materially interested and which is or was significant in relation to BSI Group's business during the period under review.

Audited information

The Remuneration Report consists of unaudited information with the exception of the sections entitled Directors' remuneration and the details of LTIPs held by Directors set out in the tables and accompanying notes on pages 42 to 44.

By Order of the Board
Keith Clarke
Chairman of the Remuneration Committee
17 March 2011

Report of the Nominations Committee

The Nominations Committee (the 'Committee') is established by the Board under terms of reference which were most recently updated in December 2010.

Membership

During the year ended 31 December 2010 the Committee comprised:

Chairman: Sir David John KCMG
Members: Michael French, Howard Kerr

Michael French stepped down from the Committee when he left the Board on 31 December 2010 and Sir David Brown was appointed a member of the Committee with effect from 1 January 2011.

Meetings

The Committee met three times in the year ended 31 December 2010.

Main activities of the Committee

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

There is a formal, rigorous and transparent procedure for the appointment of new Directors. During 2010, following a thorough recruitment process involving an external search agency, Sir David Brown and Keith Clarke were appointed as Non-executive Directors.

By Order of the Board
Sir David John KCMG
Chairman of the Nominations Committee
17 March 2011

Social Responsibility

Social responsibility is central to the way BSI runs its business; it is a component of BSI's values of integrity, independence and innovation and key to maintaining the high reputation BSI has gained from customers, governments and the communities in which BSI works.

Social Responsibility Committee

During 2010, the Board established a Social Responsibility Committee (the 'Committee') with Tom Gorrie as Chairman and Sir David Brown, Sir David John KCMG, Howard Kerr and John Regazzi as members. The role of the Committee is to provide oversight of social responsibility for the Board. Following the publication of ISO 26000 *Guidance on social responsibility*, the Committee agreed that BSI would follow the principles and guidance of this standard to build on the current social responsibility activities. To support the Committee, a social responsibility project team has been established to assist with stakeholder engagement, to highlight current social responsibility activities and to implement future projects.

BSI's business

BSI continues to publish standards helping businesses, government and the wider community to embrace sustainability in recognition that this can influence social responsibility in the wider community. For example, during 2010 BSI led the development of BS 8903 *Principles and framework for procuring sustainably*, BS 8904 *Guidance for community sustainable development* and BS 8905 *Framework for the assessment of the sustainable use of materials*. These standards are due to be published in the course of 2011. PAS 8910 *Guide to sustainable design* is also under development.

Continuing its leading work in carbon management, BSI has been working with DEFRA (the UK Government's Department for the Environment, Food and Rural Affairs) on a revision of PAS 2050 *Assessing the life cycle greenhouse gas emissions of goods and services* and accompanying guidance. PAS 2060 *Specification for the demonstration of carbon neutrality* was published in 2010. BSI mounted a successful and well attended conference to publicise the standard. All of this work is contributing to adding credibility to the UK's leading position in carbon management and reduction.

BSI launched a product to help UK organisations that are liable under the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES). The Kitemark® for Energy Reduction Verification (ERV) will independently verify and certify organisations that reduce carbon through lower energy use. The Kitemark® scheme was written specifically for CRCEES liable organisations, and is based on BS EN 16001 which enables organisations continually to reduce energy through the ongoing identification of energy reduction opportunities.

ISO 26000 *Guidance on social responsibility* was published in 2010. BSI produced two open communication events to support the UK launch. The standard is the first to draw on existing global schemes and publishes a consensus view on how to manage social responsibility within an organisation.

BSI's people

BSI recognises that the most important asset in BSI's business is its people. Through BSI's biennial global employee engagement survey, BSI identifies the business activities BSI's people would most like to see developed.

During 2010 BSI continued to implement and improve its 'Mycareer' service. This enables BSI's employees to identify learning needs, as well as undertake online training to improve their skills. BSI also launched its Leadership Challenge programme to develop current and future leaders for BSI's business.

Significant progress continues to be made across BSI Group in the development and implementation of Health and Safety management systems, including a programme run throughout 2010 to raise awareness globally of the importance of accident reporting. BSI has continued to focus on its online Display Screen Equipment programme which allows BSI to effectively cover all of its remote and home workers.

In the UK, BSI ran a number of wellbeing days featuring workshops on healthy living, cholesterol testing and other activities. In India, BSI circulates monthly health and welfare advice and tips to all employees. In China, the office organises regular sports activities for employees. In the USA, the Reston office has set up a wellness Committee that looks at lifestyle and wellbeing issues that their employees encounter and arrange specialists to come in to give advice on issues such as nutrition, stress management and work-life balance.

BSI's environment

BSI Group has an objective to comply with ISO 14001 in all of its operations worldwide and, while accreditation rules prevent us from being certified, BSI operates a compliance audit programme undertaken by a trained lead assessor.

At its Milton Keynes office, BSI continued with its carbon neutral programme. Over the last five years BSI has reduced its carbon emissions by 15 per cent through a number of initiatives, particularly reducing mileage by more efficient planning and the capping of the fleet's CO_2 emissions to a maximum of 160g CO_2/km. In 2010 BSI continued to strive to minimise its impact on the environment and for a further consecutive year has significantly decreased the overall carbon footprint.

Across the whole of BSI Group there have been many local initiatives ranging from energy saving, through waste minimisation and recycling, to using recycled paper. In BSI's China business only recycled paper is used, including for business cards. At BSI Group's Chiswick headquarters, its electricity consumption during 2010 decreased by 2.4 per cent from the previous year and its general waste to landfill dropped 13 per cent as the recycling initiatives introduced in 2009 gained momentum. BSI also installed an electric vehicle charging point and set up a Golden Mile Transport Group pool bicycle scheme.

BSI's community

Community involvement is undertaken at a local level by local managers. In the UK volunteer members of BSI's Standards team took part in tree planting and gardening as part of a local help in the community scheme. Where employees undertake fund raising for charities, BSI's local businesses will often support them by matching sponsorship and making donations. For example, BSI's China business supported the Yushu earthquake and Zhouqu mudslide appeals and the US business undertook events to support local charities. BSI continues to donate used computer equipment to those in need. The proceeds from recycled mobile phones are sent to a charity specialising in the provision of recycled computer equipment to African schools.

BSI's operating practices

BSI prides itself on its highly ethical approach to all its undertakings and has set out the core values it brings to its business in BSI's Code of Business Ethics (formerly known as BSI's Statement of Business Values). The Code of Business Ethics is a fundamental part of the employee induction programme and is actively promoted to employees throughout the Group. BSI Group operates an effective compliance framework which enables the principles set out in the Code of Business Ethics to be effectively communicated throughout BSI, using means such as training, the Group's intranet and regular staff notifications. During 2010, for example, BSI rolled out Competition Law training to all key staff as part of its ongoing programme to ensure fair business practices. The Group Risk and Compliance function undertakes audits for compliance across all offices globally, following a risk-based audit programme.

Complementing its review and reporting processes, BSI Group also has a confidential 'whistleblowing' telephone service which is independently maintained by an external provider and which allows employees to report anonymously any practices they consider to be improper or in breach of BSI's Code of Business Ethics or Group Rules.

By Order of the Board
Tom Gorrie
Chairman of the Social Responsibility Committee
17 March 2011

Report of the Audit Committee

The Audit Committee (the 'Committee') is established by the Board under terms of reference which were most recently updated in December 2010.

Membership

During the year ended 31 December 2010 the Committee comprised:
Chairman: Michael French (to 31 December 2010)
Members: Sir David John KCMG, Norman Price (to 26 May 2010), Anthony Lea (from 26 May 2010)

Michael French stepped down from the Committee when he left the Board on 31 December 2010 and Anthony Lea took on the role of Chairman of the Committee from 1 January 2011. Keith Clarke was appointed a member of the Committee on 20 January 2011.

Michael French is a Chartered Accountant and was a partner at PricewaterhouseCoopers LLP. Anthony Lea was previously Finance Director at Anglo American plc, is a Trustee of the RAF Benevolent Fund and is also Chairman of the Audit Committee at the Office of Fair Trading (OFT); both are considered to have recent and relevant financial experience.

Meetings

The Committee met three times in the year ended 31 December 2010. When appropriate, the Chief Executive, Group Finance Director, Group Financial Controller and Head of Internal Audit along with the external auditors are invited by the Committee to attend its meetings. The Committee is able to consider items of business without other parties being present.

Main activities of the Committee

The role of the Committee includes:

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

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

Auditors

The Committee safeguards the auditors' objectivity by reviewing the measures they take to maintain their independence and manage any conflicts of interest. PricewaterhouseCoopers LLP have been BSI Group's auditors for more than 10 years.

There are no contractual obligations restricting BSI's choice of auditor. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require the firm to tender for the audit work. The Committee has recommended to the Board that the auditors be reappointed.

By Order of the Board
Anthony Lea
Chairman of the Audit Committee
17 March 2011

Statutory Report

The Directors submit their report and audited financial statements for The British Standards Institution and its subsidiaries for the year ended 31 December 2010.

Principal activities and review of business

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

The Chairman's Statement, Chief Executive's Review and Financial Review form part of this report and incorporate the Board's Operating and Financial Review.

The Board

The members of the Board at the current time are listed on pages 32 and 33. The Directors who served during the year were as follows:

Sir David John KCMG	
Howard Kerr	
Martin Hannah	
Mike Low	
Sir David Brown	appointed 27 May 2010
Keith Clarke	appointed 8 December 2010
Michael French	retired 31 December 2010
Tom Gorrie	
Anthony Lea	
Norman Price	retired 26 May 2010
John Regazzi	

Tony Wales was appointed as Company Secretary on 21 January 2010.

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 new Directors Sir David Brown and Keith Clarke will be offering themselves for re-election at the forthcoming AGM, as will Anthony Lea and John Regazzi, who had been re-appointed by the Board. In addition, under Bye-law 9, one third rounded down, of the Directors not standing under Bye-law 8 are required to retire by rotation and stand for re-election and, accordingly, Howard Kerr will also be standing for re-election at the AGM.

Directors' and officers' liability

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

Directors' emoluments

Information on emoluments of the Directors is given in the Remuneration Report on pages 41 to 44.

Annual General Meeting

The 2011 Annual General Meeting will be held at 4.00pm on 19 May 2011 at 389 Chiswick High Road, London, W4 4AL. Business to be considered at the meeting is set out in the separate Notice of Meeting.

Independent auditors

BSI Group's auditors are PricewaterhouseCoopers LLP. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Charitable and political donations

BSI Group made total charitable donations of £4,090 during 2010 (2009: £3,761) to various charities. No donations were made during the year for political purposes (2009: £nil).

Employees

BSI Group had an average of 2,591 (2009: 2,496) employees worldwide during the year of which 56 per cent (2009: 52 per cent) were based outside the UK.

BSI Group communicates and consults with its employees on a wide range of subjects, including those which directly affect them using email, websites, intranet (Connect), in-house publications and meetings at business locations. The employees of BSI Group are key to its success, and the organisation works hard to maintain good relationships with its employees around the world through continuous communications and employee forums. Periodically the Group conducts an employee engagement survey with the results used to identify and then action opportunities to improve engagement; the last survey was undertaken in 2009.

Further details of BSI Group's engagement with its employees is set out in the BSI's People section of the Social Responsibility Report on pages 46 and 47.

Equality and diversity

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

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

Health and safety

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

Principal risks and uncertainties

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

Corporate Social Responsibility

A review of the Group's social responsibility activities during the year is set out on pages 46 and 47.

Suppliers

BSI Group aims to pay its suppliers promptly and in accordance with its contractual and other legal obligations. The organisation's policy is to agree payment terms with its suppliers at the start of any business with them and to endeavour to ensure that they are aware of the terms of payment. At 31 December 2010 the organisation had 13 days' purchases outstanding (2009: 22) based on the average daily amount invoiced by suppliers during the year.

Going concern

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

By Order of the Board
Tony Wales
Company Secretary
17 March 2011

Independent Auditors' Report to the Board of Directors of The British Standards Institution

We have audited the Group and parent company financial statements (the "financial statements") of The British Standards Institution for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements in accordance with The British Standards Institution's Royal Charter and Bye-laws and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with paragraph 22 of The British Standards Institution's Royal Charter and Bye-laws and applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view of the state of the parent company's affairs as at 31 December 2010;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with The British Standards Institution's Royal Charter and Bye-laws and with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Alistair Rose (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2011

Financial Statements

BSI Group Consolidated Income Statement
for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Revenue	5, 6	235.3	222.8
Cost of sales		(118.9)	(112.6)
Gross profit		116.4	110.2
Selling and distribution expenses		(30.6)	(29.2)
Administrative expenses		(58.5)	(54.8)
Operating profit before exceptional costs		27.3	26.2
Exceptional operating costs	7	(7.0)	(3.7)
Operating profit	7	20.3	22.5
Finance income	11	0.1	0.1
Finance costs	11	(5.6)	(5.4)
Profit before income tax		14.8	17.2
Income tax expense	12	(6.2)	(5.0)
Profit for the year	25	8.6	12.2

All amounts in the Consolidated Income Statement relate to continuing operations.

The accompanying notes on pages 58 to 103 form an integral part of the consolidated financial statements.

BSI Group Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit for the year		8.6	12.2
Other comprehensive income:			
Actuarial profit/(loss) relating to retirement benefit obligations	*24*	35.5	(30.9)
Movement on deferred tax relating to retirement benefit obligations	*16*	(10.9)	8.7
Cashflow hedges	*20*	0.1	(0.2)
Currency translation differences	*25*	1.3	(1.1)
Other comprehensive income/(loss) for the year		26.0	(23.5)
Total comprehensive income/(loss) for the year		34.6	(11.3)

No separate Statement of Changes in Equity has been presented in these financial statements as there are no changes in equity other than those disclosed in the Consolidated Statement of Comprehensive Income above.

The accompanying notes on pages 58 to 103 form an integral part of the consolidated financial statements.

BSI Group Consolidated Balance Sheet
as at 31 December 2010

	Note	2010 £m	2009 £m
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	**7.7**	12.2
Goodwill	*14*	**26.2**	23.9
Intangible assets	*14*	**12.3**	11.0
Investments	*15*	**-**	0.1
Deferred tax assets	*16*	**20.9**	32.7
Total non-current assets		**67.1**	79.9
Current assets			
Inventories	*18*	**0.2**	0.1
Trade and other receivables	*19*	**46.6**	45.5
Current tax assets		**1.4**	0.3
Derivative financial instruments	*20*	**0.1**	-
Cash and cash equivalents	*21*	**41.4**	35.2
Total current assets		**89.7**	81.1
Total assets		**156.8**	**161.0**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	*16*	**(2.2)**	(1.8)
Retirement benefit obligations	*24*	**(58.0)**	(102.7)
Provisions for liabilities and charges	*23*	**(2.4)**	(3.4)
Trade and other payables	*22*	**(0.2)**	(0.5)
Total non-current liabilities		**(62.8)**	(108.4)
Current liabilities			
Trade and other payables	*22*	**(51.7)**	(45.2)
Current tax payables		**(1.5)**	(2.0)
Provisions for liabilities and charges	*23*	**(1.1)**	(0.3)
Total current liabilities		**(54.3)**	(47.5)
Total liabilities		**(117.1)**	(155.9)
Net assets		**39.7**	5.1
RESERVES			
Retained earnings	*25*	**34.7**	1.4
Translation reserve	*25*	**5.0**	3.7
Total reserves		**39.7**	5.1

The accompanying notes on pages 58 to 103 form an integral part of the consolidated financial statements. The consolidated financial statements on pages 54 to 103 were approved by the Board of Directors on 17 March 2011 and were signed on its behalf by:

Martin Hannah
Group Finance Director
17 March 2011

BSI Group Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Profit before income tax		14.8	17.2
Adjustments for:			
- Depreciation of property, plant and equipment	*7*	2.5	2.7
- Amortisation of intangible assets	*7*	3.0	2.5
- Retirement benefit charges	*8*	1.3	4.0
- Loss on disposal of property, plant and equipment	*7*	0.1	0.1
- Impairment of property, plant and equipment	*7*	4.4	-
- Loss on disposal of investment	*7*	0.1	-
- Provision for impairment of trade receivables	*7*	0.6	1.0
- Bad debts written off	*7*	0.2	0.1
- Impairment of goodwill	*7*	-	0.3
- Impairment of intangible assets	*7*	-	0.3
- Interest income	*11*	(0.1)	(0.1)
- Interest expense	*11*	5.6	5.4
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):			
- Increase in inventories		-	(0.1)
- (Increase)/decrease in trade and other receivables		(1.3)	2.2
- Increase/(decrease) in trade and other payables		5.2	(1.0)
- (Decrease)/increase in provisions and other liabilities		(0.2)	0.1
- Retirement benefit payments	*24*	(16.1)	(13.4)
Cash generated from operations		20.1	21.3
Interest received		0.1	0.1
Income tax paid		(5.6)	(3.4)
Net cash generated from operating activities		14.6	18.0
Cash flows from investing activities			
Acquisition of subsidiary and businesses, net of cash acquired	*14*	(3.3)	(1.7)
Proceeds from disposal of property, plant and equipment		-	0.2
Purchases of property, plant and equipment	*13*	(2.1)	(2.4)
Purchases of intangible assets	*14*	(3.9)	(4.7)
Net cash used in investing activities		(9.3)	(8.6)
Net increase in cash and cash equivalents		5.3	9.4
Opening cash and cash equivalents	*21*	35.2	28.9
Exchange gains/(losses) on cash and cash equivalents		0.9	(3.1)
Closing cash and cash equivalents	*21*	41.4	35.2

The accompanying notes on pages 58 to 103 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. Corporate information

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

The principal activities of The British Standards Institution ("the Company") and its subsidiaries (together "the Group") are the development and publishing of standards; the assessment and certification of management systems and medical devices; testing and certification of products and services; software solutions; and training services.

During the year Group acquisitions included:

a. the assets and business of certification of gas, solid, liquid-fuelled and electrical equipment carried on by GL Industrial Services UK Limited ("GLCS").

b. the business of an ex-agent in Indonesia, PT Sistem Manajemen Indonesia ("SMI") relating to management systems certification.

The Group consolidated financial statements were authorised for issue by the Board of Directors on 17 March 2011.

2. Principal accounting policies

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

a. Basis of preparation

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

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

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

2. Principal accounting policies (continued)

i. New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised), 'Business Combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interest in joint ventures' are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2010.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Statement of Comprehensive Income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  The revised standard was applied to the acquisitions that occurred in 2010 as disclosed in Note 14 of these financial statements.

  IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit and loss. IAS 27 (revised) has had no impact on the current period, as the Group has no non-controlling interests; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

ii. New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

The following amended standards are mandatory for accounting periods beginning on or after 1 January 2010 but they are not relevant to the Group's operations:

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods and services (or to do both).

2. Principal accounting policies (continued)

ii. New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (continued)

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial Instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

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2. Principal accounting policies (continued)

iii. New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

- IFRS 9, 'Financial Instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been adopted by the EU. It is not expected to have any impact on the Group's financial statements.

- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the Government and other government-related entities. The Group will apply the revised standard from 1 January 2011 and it is not expected to have a material impact on the Group's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011 and they are not expected to have a material impact on the Group's financial statements.

iv. Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

2. Principal accounting policies (continued)

b. Basis of consolidation

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. 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 uses the acquisition method of accounting 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 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statement of Comprehensive Income (Note 2f).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Segment reporting

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

d. Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

2. Principal accounting policies (continued)

iii. Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- any exchange differences which have arisen from an entity's investment in a foreign subsidiary are recognised as a separate component of equity and are taken to translation reserves.

When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the Income Statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

e. Property, plant and equipment

All items of property, plant and equipment are stated at historical cost less depreciation. 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 recognised 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 derecognised. 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	5 %
Leasehold improvements	Over the unexpired term of the lease
Plant, machinery and office equipment	10 % - 33 %
Computer equipment	20 % - 33 %

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the Income Statement.

2. Principal accounting policies (continued)

f. Intangible assets

i. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is held in the functional currency of the acquired entity and is translated at the period end and any gain or loss is taken to equity.

ii. Computer software

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

Costs associated with developing or maintaining software programmes are recognised as an expense as incurred. Costs that are directly associated with developments of identifiable software products controlled by the Group are recognised as intangible assets when the following criteria are met:

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

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

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

iii. Acquired intangible assets

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

Acquired intangibles include customer relationships and intellectual property. These are capitalised based on valuations using discounted cash-flow analysis and amortised on a straight line basis over their estimated useful economic lives. The estimated useful life of these intangible assets is 3 - 10 years.

2. Principal accounting policies (continued)

g. Impairment of non-financial assets

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

h. Financial assets

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

i. Financial assets at fair value through profit or loss

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

ii. Loans and receivables

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

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised 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 recognised at fair value, and transaction costs are expensed in the Income Statement. Financial assets are derecognised 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 amortised cost using the effective interest method.

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

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

i. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Principal accounting policies (continued)

j. Impairment of financial assets

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

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

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

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

Impairment testing of trade receivables is described in Note 19.

k. Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Where the Group does not apply hedge accounting to derivatives they are classified as 'at fair value through the profit and loss' and changes in the fair value of such derivatives at the end of the financial year are recognised immediately in the Income Statement.

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

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

2. Principal accounting policies (continued)

l. Trade receivables

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

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

m. Cash and cash equivalents

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

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

n. Trade payables

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

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

o. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised 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 Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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 recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

2. Principal accounting policies (continued)

p. Provisions

A provision is recognised 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 recognised 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 recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

q. Employee benefits

i. Termination benefits

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

ii. Bonus plans

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

r. Retirement benefit obligations

i. Defined benefit pension schemes

The Group operates a funded defined benefit scheme in the UK, administered by independent trustees. The scheme is closed to new entrants and closed to future accrual of pension from 30 April 2010.

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 to 30 April 2010. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The valuation is performed by an independent qualified actuary as determined by the trustees at intervals of not more than three years, to determine the rates of contribution payable. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. In any intervening years, the actuaries review the continuing appropriateness of the contributions.

The Income Statement charge is split between an operating charge and a net finance charge. The operating charge reflects the service costs which are spread systematically over the working lives of the employees. The net finance charge relates to the unwinding of the discount applied to the liabilities of the scheme offset by the expected return on the assets of the scheme, based on conditions prevailing at the start of the year.

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

ii Defined contribution pension schemes

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

2. Principal accounting policies (continued)

s. Revenue

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

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

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

i. Sales of goods

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

ii. Rendering of services

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

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

iii. Copyright and royalty income

The Group recognises copyright and royalty income when it is advised by the customer, generally on a monthly basis. Where there are licensing arrangements, fees are spread over the life of each license agreement.

iv. Interest income

Interest income is recognised 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.

v. Rental income

The Group sublets a number of leased properties in the UK. Rental income is recognised on an accrual basis in accordance with the relevant agreements.

2. Principal accounting policies (continued)

t. Exceptional items

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

u. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

v. Leases

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

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

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

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

w. Long Term Incentive Plan

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

x. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective inventory.

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. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group buys or sells currencies forward so as to hedge exchange risk on relevant transactional activities.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. 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, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

a. Market risk

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

The Group Treasury's risk management policy is to hedge known key foreign currency transactions and to hedge material balance sheet items that are held in currencies other than the functional currency of the entity concerned.

The Group 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 recognises that an element of balance sheet volatility is inherent in managing foreign operations.

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

Currency	Year-end exchange rate	Exchange movement modelled	Adverse impact on operating profit
US dollar	1.54	+ 10%	(£0.7m)
Euro	1.17	+ 10%	(£0.1m)
Chinese renminbi	10.22	+ 10%	(£0.1m)
Japanese yen	126.58	+ 10%	(£0.4m)

A similar movement of 10 per cent in British pound sterling against all of the currencies in which the Group has exposure would result in an adverse operating profit impact of £1.6 million.

b. Credit risk

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

The Group's credit risk from banking institutions is considered to be low. The majority of funds are held in the UK with HSBC and RBS. Furthermore we have a global banking arrangement with HSBC resulting in most overseas funds being held with them.

Group credit risk from accounts receivable is believed to be minimal and, where appropriate, is provided against.

3. Financial risk management (continued)

c. Liquidity risk

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

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

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

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

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2010	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	33.0	0.2	-	-

At 31 December 2009	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	30.5	0.2	0.3	-

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:

i. Impairment of goodwill

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

ii. Income taxes

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

iii. Deferred tax assets

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

iv. Retirement benefit obligations

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

The liability using a discount rate of 5.40 per cent is £289.4 million (2009: discount rate of 5.75 per cent, £305.5 million). For an increase in the discount rate of 0.5 per cent the liabilities reduce to approximately £266.2 million (2009: £278.7 million). For a decrease in the discount rate of 0.5 per cent the liabilities will increase to approximately £314.8 million (2009: £332.5 million). The expected average age of death for a male pensioner presently aged 65 is age 88.3 (2009: 87.3). For an increase of one year in longevity the liability increases from £289.4 million to £297.6 million (2009: £305.5 million to £312.9 million).

Life expectancy at age 65 for a member currently aged 45 is 24.8 years (men) or 26.0 years (women). Life expectancy for a member currently aged 65 is 23.3 years (men) or 24.4 years (women).

The liabilities have been calculated by and the assumptions set on the recommendations of an independent qualified actuary. The other demographic assumptions used are consistent with the latest funding actuarial valuation being carried out by the Trustees of the Scheme.

The liabilities allow for indexation in line with the Consumer Prices Index. The Directors' view is that the change to pension increases before retirement from the Retail Prices Index to the Consumer Prices Index is an assumption change and is recognised in Other Comprehensive Income.

4. Critical accounting estimates and judgements (continued)

v. Business disposals

In relation to the disposal of businesses, BSI has given warranties and indemnities to the purchasers. In respect of these, the Group has made provisions in respect of the costs of exit from certain operations. In each of these cases the Group has sought appropriate expert advice and has calculated its provisions accordingly. These provisions are shown under "Other provisions" in Note 23.

vi. Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by BSI.

5. Segment information

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

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

- Assessment and certification being the assessment and certification of management systems and specialised schemes worldwide including the GRC business.

- Healthcare and testing being the provision of testing and certification of healthcare and other products.

- Training being the provision of training services on standards, regulatory approval and business improvement.

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

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

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

IFRS 8 has been amended so that a measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision maker. The amendment is effective for periods beginning on or after 1 January 2010.

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

5. Segment information (continued)

The segment information provided to the Board for the reportable segments for the year ended 31 December 2010 is as follows:

	EMEA £m	Americas £m	Asia Pacific £m	UK Standards £m	Group Governance £m	Group £m
Total segment revenue	87.8	52.7	53.2	46.2	-	239.9
Inter & intra-segment revenue	(3.0)	(0.2)	(0.8)	(0.6)	-	(4.6)
Revenue from external customers	84.8	52.5	52.4	45.6	-	235.3
Adjusted operating profit	**10.1**	**6.7**	**4.2**	**14.0**	**(4.9)**	**30.1**
Depreciation and amortisation	(2.5)	(0.8)	(1.2)	(1.0)	-	(5.5)
Impairment of property, plant and equipment	(4.4)	-	-	-	-	(4.4)
Interest income	-	-	-	-	0.1	0.1
Interest expense	-	-	-	-	(5.6)	(5.6)
Income tax expense	(1.2)	(1.6)	(0.1)	(3.3)	-	(6.2)
Total assets[3]	**39.4**	**21.8**	**30.9**	**19.9**	**43.6**	**155.6**
Total assets includes: Additions to non-current assets (other than financial instruments and deferred tax assets)	5.3	1.2	1.8	1.2	-	9.5
Total liabilities[1 3]	**(20.8)**	**(6.4)**	**(13.2)**	**(17.2)**	**(58.3)[2]**	**(115.9)**

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

[2] Included here is an amount of £58.0 million relating to pension liabilities for the Group which have not been allocated to the segments disclosed above.

[3] The reconciliation of Total assets and liabilities to those shown on the Balance Sheet is shown on pages 77 and 78.

5. Segment information (continued)

The segment information provided to the Board for the reportable segments for the year ended 31 December 2009 is as follows:

	EMEA £m	Americas £m	Asia Pacific £m	UK Standards £m	Group Governance £m	Group £m
Total segment revenue	82.6	49.9	48.9	46.4	-	227.8
Inter & intra-segment revenue	(3.4)	(0.2)	(1.0)	(0.4)	-	(5.0)
Revenue from external customers	79.2	49.7	47.9	46.0	-	222.8
Adjusted operating profit	**9.0**	**5.9**	**4.0**	**13.3**	**(4.5)**	**27.7**
Depreciation and amortisation	(2.2)	(0.8)	(1.2)	(1.0)	-	(5.2)
Impairment of goodwill	-	-	(0.3)	-	-	(0.3)
Impairment of intangible assets	-	-	(0.3)	-	-	(0.3)
Interest income	-	-	-	-	0.1	0.1
Interest expense	-	-	-	-	(5.4)	(5.4)
Income tax expense	(1.1)	(1.0)	(0.2)	(2.7)	-	(5.0)
Total assets[3]	**43.4**	**19.7**	**30.3**	**22.4**	**43.4**	**159.2**
Total assets includes: Additions to non-current assets (other than financial instruments and deferred tax assets)	4.5	2.1	1.7	1.3	-	9.6
Total liabilities[1 3]	**(19.1)**	**(4.2)**	**(11.0)**	**(16.5)**	**(103.3)[2]**	**(154.1)**

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

[2] Included here is an amount of £102.7 million relating to pension liabilities for the Group which have not been allocated to the segments disclosed above.

[3] The reconciliation of Total assets and liabilities to those shown on the Balance Sheet is shown on pages 77 and 78.

5. Segment information (continued)

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

	2010 £m	2009 £m
Adjusted operating profit for reportable segments	35.0	32.2
Group Governance costs – adjusted operating loss	(4.9)	(4.5)
Total segments	30.1	27.7
Amortisation of customer relationships and intellectual properties	(0.7)	(0.8)
Impairment of goodwill and intangible assets	-	(0.6)
Restructuring costs	(0.3)	(2.4)
Rationalisation of UK operating sites	(5.2)	-
One-off expenses for Group projects	-	(0.1)
Exceptional legal and related fees	(1.5)	(0.6)
LTIP costs	(1.6)	(0.2)
Actuarial adjustments to the defined benefit pension scheme	(0.2)	(0.7)
interest expense	(5.6)	(5.4)
Interest income	0.1	0.1
Other	(0.3)	0.2
Profit before tax	14.8	17.2

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

Reportable segment assets are reconciled to total assets as follows:

	2010 £m	2009 £m
Segment assets for reportable segments	112.0	115.8
Group Governance assets	43.6	43.4
Reclassifications:		
Deferred tax	-	0.7
Current tax	1.4	0.3
Trade and other receivables	(0.2)	0.8
Total assets per the Balance Sheet	156.8	161.0

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

5. Segment information (continued)

Reportable segment liabilities are reconciled to total liabilities as follows:

	2010 £m	2009 £m
Segment liabilities for reportable segments	57.6	50.8
Group Governance liabilities	58.3	103.3
Reclassifications:		
Deferred tax	-	0.7
Current tax	1.4	0.3
Trade and other payables	(0.2)	0.8
Total liabilities per the Balance Sheet	117.1	155.9

As mentioned above, revenues from external customers are derived from a few primary business streams. The breakdown of this revenue is as follows:

	2010 £m	2009 £m
Standards (worldwide)	46.2	46.2
Assessment and Certification	137.3	133.7
Healthcare and Testing	34.0	28.3
Training	17.8	14.6
Revenue from external customers	235.3	222.8

During 2009, Standards reflected the UK-based business stream only. However, with added focus on Standards worldwide in 2010, Standards now reports the global business stream results. The comparatives are therefore consistent in this regard.

Revenue from external customers is allocated based on the country in which the customer is located. The result of revenue from external customers in the UK is £89.3 million (2009: £88.9 million), and the total of revenue from external customers from other countries is £146.0 million (2009: £133.9 million). The major components of the total of revenue from external customers from other countries are £41.5 million (2009: £41.7 million) for United States of America and £23.1 million (2009: £21.4 million) for Japan.

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the UK is £22.3 million (2009: £24.1 million), and the total of these non-current assets located in other countries is £24.0 million (2009: £23.1 million).

As the Group transacts with a large number of diversified customers, there are no cumulative revenue transactions amounting to 10 per cent or more of total external revenue derived from any single external customer (2009: Nil).

6. Revenue

Revenue recognised in the Income Statement is analysed as follows:

	2010 £m	2009 £m
Sale of goods	9.8	10.0
Rendering of services	213.1	201.3
Copyright and royalty income	12.4	11.5
Total	235.3	222.8

7. Operating profit

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

	Note	2010 £m	2009 £m
Employee benefit expense	*8*	108.4	104.5
Depreciation	*13*	2.5	2.7
Impairment of property, plant and equipment	*13*	4.4	-
Amortisation	*14*	3.0	2.5
Provision for impairment of trade receivables	*19*	0.6	0.9
Operating lease payments for plant and machinery	*10*	0.4	0.1
Operating lease payments for land and buildings	*10*	6.7	4.8
Loss on disposal of property, plant and equipment		0.1	0.1
Loss on disposal of investment	*15*	0.1	-
Rental income from sub-lease of properties	*10*	(1.1)	(1.2)
Bad debts written off		0.2	0.1
Impairment of goodwill	*14*	-	0.3
Impairment of intangible assets	*14*	-	0.3
Loss on forward foreign currency contracts		-	(0.1)
Other exchange losses		0.2	0.3
Auditors' remuneration:			
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements		0.2	0.2
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
- Other advisory services		0.1	0.1

7. Operating profit (continued)

Operating exceptional costs

	2010 £m	2009 £m
Rationalisation of UK operating sites	**5.2**	-
Restructuring and reorganisation costs	**0.3**	2.5
Exceptional legal costs	**1.5**	0.6
Goodwill impairment (*Note 14*)	-	0.3
Intangible assets impairment (*Note 14*)	-	0.3
	7.0	3.7

Operating exceptional items amounted to £7.0 million (2009: £3.7 million), comprising the following:

- £5.2 million in relation to the rationalisation of BSI's UK operating sites outside of the London global headquarters. Exceptional costs of £4.0 million arise due to the changing of basis of valuation of the existing Hemel Hempstead site from a value-in-use basis to open market value reflecting the Group's decision to partially vacate the site. Local options are being reviewed for relocating the Group's Product Testing laboratories, which would lead to full site disposal, although no final decision has been taken. The exceptional cost includes £0.4 million related to associated redundancies and £0.8 million in associated asset write-downs and exit costs;

- £0.3 million in relation to restructuring and reorganisation including £0.1 million in respect of the closure of the UK final salary pension scheme to future accrual and £0.2 million in relation to 2010 costs in finalising the move of the Group from its historical divisional structure to a regional and business stream structure started in 2009; and

- £1.5 million in respect of legal and related costs associated with High Court proceedings brought by a distributor of motor vehicle parts in 2009 which were settled without admission of liability by either party (see Note 26).

In 2009, operating exceptional costs comprised:

- £2.4 million which relates to the move of the Group from its historical divisional structure to a regional and business stream structure and to final payments in respect of the 2008 restructuring;

- £0.1 million on work undertaken for the UK final salary pension fund where the Trustee Board executed a substantial buy-in arrangement and preparation work for a consultation on a proposal to close the scheme to future accrual in 2010. The pension buy-in executed by the Trustee Board has significantly reduced the risk profile of the scheme;

- £0.6 million in respect of legal costs incurred on a legal action that BSI Group is defending. Further details of this are discussed in Note 26; and

- £0.6 million impairment charge in respect of the Group's business in Thailand. This business has not developed in line with expectations following investment in 2006.

The corporation tax credit on operating exceptional items amounts to £1.4 million (2009: £1.0 million).

8. Employee benefit expense

	Note	2010 £m	2009 £m
Wages and salaries (including termination benefits of £1.2 million, 2009: £2.3 million)		**91.2**	87.2
Social security costs		**10.1**	9.1
Pension costs – defined benefit plans	*24bii*	**1.3**	4.0
Pension costs – defined contribution plans	*24a*	**5.8**	4.2
Employee benefit expense charged in arriving at operating profit	*7*	**108.4**	104.5
Pension costs finance expense	*11, 24bii*	**5.6**	5.4
Total employee benefit expense charged in arriving at profit before income tax		**114.0**	109.9

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

	2010 Number	2009 Number
Production, assessment, training and laboratory	**1,290**	1,193
Sales and distribution	**444**	420
Administration	**857**	883
	2,591	2,496

9. Directors' emoluments

The emoluments of the Executive and Non-executive Board members during the year are disclosed on pages 41 to 44.

10. Operating leases

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

The Group leases office properties around the world. Overseas leases are typically for 5 years or less. Significant leases in the UK are no longer than 15 years. Other UK leases are up to 25 years and have less than 10 years to expiry. The Group Headquarters office in London is leased for a term of 15 years from November 2010, with regular rent reviews based on the Retail Price Index (RPI) with an appropriate cap and collar. The Income Statement lease rental charge will not equate to lease payments for those leases having the benefit of lease incentives. In these cases the incentives are released to the Income Statement over the period of the lease in accordance with IAS 17.

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

			2010			2009
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
No later than 1 year	**5.4**	**1.4**	**6.8**	5.2	1.2	6.4
Later than 1 year and no later than 5 years	**14.5**	**2.4**	**16.9**	16.4	1.6	18.0
Later than 5 years	**30.1**	**-**	**30.1**	3.2	-	3.2
	50.0	**3.8**	**53.8**	24.8	2.8	27.6

A number of leased properties in the UK have been sublet by the Group. Annual income from subleases in the period was £1.1 million (2009: £1.2 million). The Group has recognised a provision in respect of any surplus of sub-let properties (see Note 23). The future aggregate minimum sublease payments expected to be received under non-cancellable operating subleases at the balance sheet date are as follows:

Land and buildings

	2010 £m	2009 £m
No later than 1 year	**0.5**	0.9
Later than 1 year and no later than 5 years	**1.9**	2.3
Later than 5 years	**0.2**	0.7
	2.6	3.9

11. Finance income and costs

	2010 £m	2009 £m
Bank interest receivable on cash and short term deposits	**0.1**	0.1
Finance income	**0.1**	0.1
Net pension scheme interest cost less return on pension scheme assets (see *Note 8* and *Note 24bii*)	**(5.6)**	(5.4)
Finance expense	**(5.6)**	(5.4)

12. Income tax expense

	2010 **£m**	2009 £m
Current tax		
- UK tax current year	**1.3**	0.7
- UK tax prior years	**(0.1)**	(0.8)
- Foreign tax current year	**2.8**	4.4
- Foreign tax prior years	**0.6**	(0.1)
Deferred tax (*Note 16*)		
- Origination and reversal of temporary differences	**1.5**	0.8
- Prior year deferred tax adjustments	**0.4**	-
- Impact of change in UK tax rate	**(0.3)**	-
Total income tax expense	**6.2**	5.0

The tax on the Group's profit before tax is higher than the theoretical amount that would arise using the weighted average UK statutory tax rate of 28 per cent (2009: 28 per cent) applicable to profits of the consolidated entities as follows:

	2010 **£m**	2009 £m
Profit before tax	**14.8**	17.2
Tax calculated at the weighted average UK statutory tax rate of 28 per cent (2009: 28 per cent)	**4.1**	4.8
Effects of:		
- Items not deductible for tax purposes	**0.5**	0.1
- Higher tax rates on overseas earnings	**0.7**	1.0
Adjustments to tax charge in respect of previous periods:		
- UK	**0.3**	(0.8)
- Foreign	**0.6**	(0.1)
Total income tax expense	**6.2**	5.0

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 41.6 per cent (2009: 28.3 per cent). The ETR at 41.6 per cent comprises a current year tax charge of 37.6 per cent and a prior year tax charge of 4.0 per cent arising from time expired tax reliefs of 2.1 per cent (in USA and Canada) and prior year tax under-provided of 1.9 per cent.

The ETR for the Group's underlying business operations for the current year is 32.6 per cent (2009: 32.8 per cent), after removing the tax impact on the exceptional costs relating to the Hemel Hempstead business restructure of 3.4 per cent, withholding tax irrecoverable of 1.6 per cent (USA and UK) and the prior year tax charge of 4.0 per cent.

The ETR at 41.6 per cent is further reconciled from the UK statutory tax rate of 28 per cent, by additional higher overseas Group taxes of 4.5 per cent (e.g. USA 39 per cent, Japan 41 per cent), the prior years' tax charge of 4.0 per cent and the net ETR increase of 5.1 per cent for Group tax permanent and temporary differences.

The Group's underlying current period ETR is targeted to continue to reduce with long-term management to the UK statutory rate of 28 per cent.

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. The changes had been substantively enacted at the balance sheet date and, therefore, are included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1 per cent per year to 24 per cent by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27 per cent to 24 per cent, if these applied to the deferred tax balance at 31 December 2010, would be to reduce the net Group deferred tax asset by approximately £1.5 million (being £0.1 million recognised in 2012, £0.1 million recognised in 2013, £0.1 million recognised in 2014 and £1.2 million recognised in 2015 forwards).

13. Property, plant and equipment

	Land and buildings: Freehold £m	Land and buildings: Short leasehold improvements £m	Assets under construction £m	Plant, machinery and office equipment £m	Total £m
Cost					
At 1 January 2009	7.9	3.5	0.5	15.7	**27.6**
Additions	0.1	0.2	0.1	2.0	**2.4**
Acquisition of subsidiary and businesses *(Note 14)*	-	-	-	0.1	0.1
Disposals	-	(0.1)	-	(1.8)	**(1.9)**
Reclassifications	-	0.2	(0.2)	-	-
Reclassifications from computer software (*Note 14*)	-	-	-	0.9	**0.9**
Exchange differences	-	-	-	(0.2)	**(0.2)**
At 31 December 2009	8.0	3.8	0.4	16.7	**28.9**
Additions	-	-	0.9	1.2	**2.1**
Acquisition of subsidiary and businesses (*Note 14*)	-	-	-	0.9	**0.9**
Disposals	-	-	-	(1.7)	**(1.7)**
Reclassifications	0.1	(0.1)	(0.4)	0.4	-
Reclassifications to computer software (*Note 14*)	-	-	-	(2.2)	**(2.2)**
Exchange differences	-	-	-	0.4	**0.4**
At 31 December 2010	8.1	3.7	0.9	15.7	**28.4**

	Land and buildings: Freehold £m	Land and buildings: Short leasehold improvements £m	Assets under construction £m	Plant, machinery and office equipment £m	Total £m
Accumulated depreciation and impairment					
At 1 January 2009	(2.0)	(1.3)	-	(12.1)	**(15.4)**
Charge for the year (*Note 7*)	(0.3)	(0.5)	-	(1.9)	**(2.7)**
Disposals	-	0.1	-	1.5	**1.6**
Reclassifications from computer software *(Note 14)*	-	-	-	(0.4)	**(0.4)**
Exchange differences	-	-	-	0.2	**0.2**
At 31 December 2009	(2.3)	(1.7)	-	(12.7)	**(16.7)**
Charge for the year (*Note 7*)	(0.2)	(0.4)	-	(1.9)	**(2.5)**
Impairment loss (*Note 7*)	(4.0)	(0.2)	-	(0.2)	**(4.4)**
Disposals	-	-	-	1.6	**1.6**
Reclassifications to computer software (*Note 14*)	-	-	-	1.6	**1.6**
Exchange differences	-	-	-	(0.3)	**(0.3)**
At 31 December 2010	(6.5)	(2.3)	-	(11.9)	**(20.7)**
Net book value at 31 December 2010	**1.6**	**1.4**	**0.9**	**3.8**	7.7
Net book value at 31 December 2009	5.7	2.1	0.4	4.0	12.2

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 £2.5 million (2009: £0.3 million) has been contracted for but not provided in the financial statements. The 2010 figure relates to a building fit-out contract entered into in relation to the rationalisation of BSI's UK operating sites.

14. Intangible assets

	Goodwill £m	Computer software: Externally acquired £m	Computer software: Internally generated £m	Customer relationships & intellectual property £m	Internally generated software development costs £m	Total £m
Cost						
At 1 January 2009	28.6	13.3	2.8	4.7	-	**49.4**
Additions	-	2.2	2.2	0.3	-	**4.7**
Acquisition of subsidiary and businesses	0.9	-	-	1.6	-	**2.5**
Write off	-	(0.4)	-	-	-	**(0.4)**
Reclassifications to property, plant and equipment (*Note 13*)	-	(0.6)	(0.3)	-	-	**(0.9)**
Exchange differences	0.3	-	-	-	-	**0.3**
At 31 December 2009	29.8	14.5	4.7	6.6	-	**55.6**
Additions	-	1.0	2.7	-	0.2	**3.9**
Acquisition of subsidiary and businesses	2.2	-	-	0.1	-	**2.3**
Disposal	-	(0.1)	-	-	-	**(0.1)**
Reduction in earnout payable	-	-	-	(0.2)	-	**(0.2)**
Reclassifications	-	-	-	(0.8)	0.8	-
Reclassifications from property, plant and equipment (*Note 13*)	-	1.8	0.4	-	-	**2.2**
Exchange differences	0.6	-	-	0.3	-	**0.9**
At 31 December 2010	32.6	17.2	7.8	6.0	1.0	64.6

14. Intangible assets (continued)

	Goodwill £m	Computer software: Externally acquired £m	Computer software: Internally generated £m	Customer relationships & intellectual property £m	Internally generated software development costs £m	Total £m
Accumulated amortisation and impairment						
At 1 January 2009	(5.3)	(10.2)	(0.8)	(1.7)	-	**(18.0)**
Charge for the year (*Note 7*)	-	(1.1)	(0.6)	(0.8)	-	**(2.5)**
Impairment loss (*Note 7*)	(0.3)	-	-	(0.3)	-	**(0.6)**
Write back	-	0.4	-	-	-	**0.4**
Reclassifications to property, plant and equipment (*Note 13*)	-	0.3	0.1	-	-	**0.4**
Exchange differences	(0.3)	-	-	(0.1)	-	**(0.4)**
At 31 December 2009	(5.9)	(10.6)	(1.3)	(2.9)	-	**(20.7)**
Charge for the year (*Note 7*)	-	(1.3)	(0.8)	(0.8)	(0.1)	**(3.0)**
Disposals	-	0.1	-	-	-	**0.1**
Reclassifications	-	-	-	0.6	(0.6)	-
Reclassifications from property, plant and equipment (*Note 13*)	-	(1.4)	(0.2)	-	-	**(1.6)**
Exchange differences	(0.5)	(0.1)	-	(0.3)	-	**(0.9)**
At 31 December 2010	(6.4)	(13.3)	(2.3)	(3.4)	(0.7)	**(26.1)**
Carrying amount at 31 December 2010	**26.2**	**3.9**	**5.5**	**2.6**	**0.3**	**38.5**
Carrying amount at 31 December 2009	23.9	3.9	3.4	3.7	-	34.9

Customer relationships and intellectual property consist of intangible assets acquired through business combinations. Capitalised training course development costs are captured under internally generated software development costs.

Amortisation charges are included within administrative expenses in the Income Statement. Impairment losses of intangible assets are included in the exceptional operating costs in the Income Statement.

Capital commitments in respect of computer software

Capital expenditure of £0.2 million (2009: £0.1 million) has been contracted for but not provided in the financial statements.

14. Intangible assets (continued)

Impairment tests for goodwill

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

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

	EMEA £m	Americas £m	Asia Pacific £m	Standards £m	**Total £m**
2010	**7.6**	**4.6**	**8.7**	**5.3**	**26.2**
2009	5.7	4.6	8.3	5.3	23.9

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections covering 5 years, based on financial budgets and strategic plans approved by the Board unless more specific and recent projections exist. Cash flows beyond the 5 year period are extrapolated using average growth rates of the past 10 years for the countries in which the CGUs operate. These range between 0.5 per cent and 9.9 per cent (2009: 1.4 per cent and 9.3 per cent). Applying a zero growth rate on the cash flows beyond the 5 year period would not result in any impairment on the Group's CGUs.

Discount rates applied to the cash flow forecasts are pre-tax and derived using the capital asset pricing model and vary from 9.6 per cent to 17.6 per cent (2009: 11.1 per cent to 18.5 per cent) across the CGUs. The pre-tax discount rate would need to increase by 6.5 per cent before any of the Group's CGUs suffer any impairment.

Business combinations

The Group made the following acquisitions in the year ended 31 December 2010:

a) On 22 March 2010, the Company acquired the assets and business of certification of gas, solid, liquid-fuelled and electrical equipment carried on by GL Industrial Services UK Limited (GLCS).

b) On 30 December 2010, the Group acquired the business of an ex agent in Indonesia, PT Sistem Manajemen Indonesia (SMI) dealing with management systems certification.

In addition there were also the following movements to intangible assets and goodwill during the year:

a) Earn out payment on the 2009 acquisition of the Supply Chain Security Division ("SCSD") of £33,000.

b) Buy out of 25 per cent of minority interest in BSI Management Systems Certification (Beijing) Ltd for £196,000.

The results of the acquired business of GLCS have been fully integrated into the existing businesses of The British Standards Institution therefore their results cannot be separated in the post acquisition period. Group revenue would have increased by £0.5 million and profit by an immaterial amount if the acquisition had occurred on the 1 January 2010.

The results of PT Sistem Manajemen Indonesia ("SMI") in the post acquisition period and in the period from 1 January 2010 were immaterial in the context of the Group's revenue and profit.

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14. Intangible assets (continued)

Details of the net assets acquired and goodwill are as follows:

	Total £m
Total cash paid for acquisitions	3.3
Deferred cash consideration	-
Total purchase consideration	3.3

The assets and liabilities of the acquired businesses at the acquisition dates are as follows:

	Total £m	Total £m
	Fair value of acquired net assets	Acquiree's carrying amount
Property, plant and equipment (*Note 13*)	0.9	-
Work in progress	0.1	0.1
Buy out of agent relationship[1]	0.1	
Fair value of net assets acquired	1.1	
Goodwill	2.2	

Included in the goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. The goodwill acquired is attributable to market penetration and expected future profits and sales synergies from integration with BSI Group activities.

[1] Represents the fair value of the benefit of buying out PT Sistem Manajemen Indonesia ("SMI"), BSI's agent in Indonesia, under a licence to market, sell and deliver BSI's Certification and Training business. This intangible asset acquired has been expensed in the year. Further earn out payments up to a maximum of £114,000 could become payable in 2011 subject to earn out criteria being met. These amounts will be expensed as incurred.

15. Investments

	2010 £m	2009 £m
Cost at 1 January	0.1	0.1
Disposal	(0.1)	-
Cost at 31 December	-	0.1

The Group disposed of its investment in Globe S.r.l., a certification company incorporated in Italy, in September 2010 for a loss of £0.1m.

16. Deferred tax

	2010 £m	2009 £m
Deferred tax assets:		
- to be recovered after more than 12 months	17.2	28.3
- to be recovered within 12 months	3.7	4.4
	20.9	32.7
Deferred tax liabilities:		
- to be incurred after more than 12 months	(2.0)	(1.7)
- to be incurred within 12 months	(0.2)	(0.1)
	(2.2)	(1.8)
Net deferred tax assets	18.7	30.9

Gross movement on the deferred tax account

	2010 £m	2009 £m
At 1 January	30.9	22.8
Income Statement tax charged (*Note 12*)	(1.6)	(0.8)
Tax (charged) / credited to equity relating to Retirement Benefit Obligations	(10.9)	8.7
Exchange differences	0.3	0.2
At 31 December	18.7	30.9

16. Deferred tax (continued)

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

Deferred tax liabilities

	Temporary differences £m	**Total £m**
At 1 January 2009	(2.7)	**(2.7)**
Credited to the Income Statement	0.9	**0.9**
At 31 December 2009	(1.8)	**(1.8)**
Charged to the Income Statement	(0.2)	(0.2)
Exchange differences	(0.2)	(0.2)
At 31 December 2010	**(2.2)**	**(2.2)**

Deferred tax assets

	Accelerated capital allowances £m	Pension £m	Losses £m	Other temporary differences £m	**Total £m**
At 1 January 2009	0.5	21.3	1.0	2.7	**25.5**
(Charged) / credited to the Income Statement	-	(1.2)	0.5	(1.0)	**(1.7)**
Credited directly to equity	-	8.7	-	-	**8.7**
Exchange differences	-	-	0.4	(0.2)	**0.2**
At 31 December 2009	0.5	28.8	1.9	1.5	**32.7**
Charged to the Income Statement	-	(2.2)	(0.2)	1.0	**(1.4)**
Charged directly to equity	-	(10.9)	-	-	**(10.9)**
Exchange differences	-	-	0.2	0.3	**0.5**
At 31 December 2010	**0.5**	**15.7**	**1.9**	**2.8**	**20.9**

The deferred tax credited directly to equity during the period was £10.9 million (2009: £8.7 million), which related to the retirement benefit obligation.

Deferred tax assets are recognised for tax carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

17. Financial instruments

a. Financial instruments by category

At 31 December 2010

	Cash and receivables £m	Total £m
Assets as per Balance Sheet		
Trade and other receivables	42.4	**42.4**
Cash and cash equivalents	41.4	**41.4**
Total	**83.8**	**83.8**

	Other financial liabilities £m	Total £m
Liabilities as per Balance Sheet		
Trade and other payables	33.2	**33.2**
Total	**33.2**	33.2

At 31 December 2009

	Cash and receivables £m	Total £m
Assets as per Balance Sheet		
Trade and other receivables	40.4	**40.4**
Cash and cash equivalents	35.2	**35.2**
Total	75.6	**75.6**

	Other financial liabilities £m	Total £m
Liabilities as per Balance Sheet		
Trade and other payables	31.0	**31.0**
Total	31.0	**31.0**

b. Credit quality of financial assets

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

18. Inventories

	2010 £m	2009 £m
Work-in-progress	**0.1**	-
Consumables	**0.1**	0.1
	0.2	0.1

19. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	**33.3**	33.1
Less: Provision for impairment of trade receivables	**(1.0)**	(0.9)
Trade receivables – net	**32.3**	32.2
Other receivables	**3.9**	3.1
Prepayments	**4.2**	5.1
Accrued income	**6.2**	5.1
	46.6	45.5

Trade receivables are non-interest bearing and are generally on 30 - 60 days' (2009: 30 - 60 days') terms. Other receivables are non-interest bearing and are generally on 30 - 60 days' (2009: 30 - 60 days') terms.

All receivables are due within one year from the balance sheet date. The carrying value of all receivables approximates to fair value.

The provision for impairment is against all receivables overdue by 1 year, and specific items over 3 months overdue. As of 31 December 2010, trade receivables of £11.8 million (2009: £10.1 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these overdue trade receivables is as follows:

	2010 £m	2009 £m
< 1 month	**7.9**	6.7
1 – 3 months	**2.9**	2.8
3 – 5 months	**0.6**	0.5
> 5 months	**0.4**	0.1
	11.8	10.1

19. Trade and other receivables (continued)

As of 31 December 2010, trade receivables of £1.0 million (2009: £0.9 million) were impaired and fully provided for. The individually impaired receivables mainly relate to customers in unexpectedly difficult economic situations. The ageing analysis of these receivables is as follows:

	2010 £m	2009 £m
< 1 month	-	0.1
1 – 3 months	0.1	0.1
3 – 5 months	0.2	0.2
> 5 months	0.7	0.5
	1.0	0.9

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

	2010 £m	2009 £m
British pounds sterling	19.0	20.3
US dollars	7.1	6.2
Euros	6.8	6.0
Japanese yen	3.1	3.3
Chinese renminbi	1.0	1.0
Other currencies	9.6	8.7
	46.6	45.5

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

	2010 £m	2009 £m
At 1 January	0.9	0.6
Provision for impaired receivables	0.7	1.1
Receivables written off during the year as uncollectible	(0.5)	(0.7)
Unused amounts reversed	(0.1)	(0.1)
At 31 December	1.0	0.9

19. Trade and other receivables (continued)

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

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

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

20. Derivative financial instruments

	2010 £m	2009 £m
Current assets		
Forward foreign exchange contracts – cash flow hedges	0.1	-

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were £1.5 million (2009: £1.4 million).

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

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

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Balance Sheet.

21. Cash and short term deposits

	2010 £m	2009 £m
Cash at bank and in hand	41.4	24.1
Short term bank deposits	-	11.1
Cash and cash equivalents	41.4	35.2

No bank overdraft facilities were in use at 31 December 2010 (2009: none). The balance above corresponds to cash and cash equivalents for the purposes of the cash flow statement.

The fair value of cash and short term deposits is £41.4 million (2009: £35.2 million). The maximum exposure to credit risk at the reporting date is the fair value of cash and short term deposits mentioned above.

21. Cash and short term deposits (continued)

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

	2010				2009			
	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	4.0	20.3	5.0	29.3	12.9	4.9	4.2	22.0
US dollars	-	0.2	1.8	2.0	-	1.2	1.9	3.1
Euros	1.4	0.2	1.2	2.8	0.2	0.9	0.8	1.9
Japanese yen	0.2	-	0.8	1.0	0.4	-	1.8	2.2
Chinese renminbi	-	2.4	-	2.4	-	3.4	-	3.4
Other currencies	0.5	0.8	2.6	3.9	0.5	0.1	2.0	2.6
Total	6.1	23.9	11.4	41.4	14.0	10.5	10.7	35.2

22. Trade and other payables

	2010 £m	2009 £m
Trade payables	4.1	5.3
VAT and sales taxes	2.3	1.8
Other taxes and social security	2.9	2.3
Other payables	3.0	2.9
Accruals	20.9	18.7
Deferred income	18.7	14.7
	51.9	45.7
Less non-current portion: Deferred consideration payable for acquisitions	(0.2)	(0.5)
Current portion	51.7	45.2

22. Trade and other payables (continued)

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

	2010 £m	2009 £m
British pounds sterling	**31.6**	29.2
US dollars	**3.3**	2.5
Euros	**4.9**	3.4
Japanese yen	**3.9**	3.6
Chinese renminbi	**2.0**	1.7
Other currencies	**6.2**	5.3
	51.9	45.7

Trade payables are non-interest bearing and are generally on 30 - 60 days' (2009: 30 - 60 days') terms. Other payables are non-interest bearing and are generally on 30 - 90 days' (2009: 30 - 90 days') terms.

The fair values of trade and other payables approximate their carrying value as the impact of discounting is not significant due to the short-term nature of the payables.

23. Provisions for liabilities and charges

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2009	0.7	2.9	**3.6**
Charge to income statement	0.3	0.1	**0.4**
Released	(0.1)	(0.2)	**(0.3)**
At 31 December 2009	0.9	2.8	**3.7**
Charge to income statement	-	0.7	**0.7**
Utilisation	-	(0.3)	**(0.3)**
Released	(0.6)	-	**(0.6)**
At 31 December 2010	**0.3**	**3.2**	**3.5**

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

23. Provisions for liabilities and charges (continued)

Other provisions relate to anticipated costs relating to the Group's liability for discontinued operations and a provision has been made for the Directors' best estimate of associated legal and settlement costs.

Provisions for legal claims, onerous lease and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Analysis of total provisions:

	2010 £m	2009 £m
Non-current	2.4	3.4
Current	1.1	0.3
	3.5	3.7

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

24. Retirement benefit obligations

The Group operates the following retirement benefit schemes:

a. Defined contribution scheme

Following the closure of the defined benefit final salary scheme to new entrants, the Group offers a Group Personal Pension plan to all new UK employees. The costs for the period were £3.9 million (2009: £2.7 million).

In addition, a number of other money purchase schemes are operated in overseas companies, with costs for the period totalling £1.9 million (2009: £1.5 million).

b. Defined benefit scheme

The Group operates a UK contracted-out pension scheme providing benefits based on final pensionable salary and service up to 30 April 2010. The assets of the scheme are held in a separate trustee administered fund. The scheme is closed to new entrants and closed to future accrual of pension from 30 April 2010.

A valuation of the final salary scheme was carried out under the Statutory Funding Objective as at 31 March 2007. This revealed an ongoing funding level of 66 per cent. The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2007. It required contributions of 15.5 per cent of salary less members' contributions until 31 December 2008 and 27.9 per cent of annual salary less members' contributions thereafter. In addition, in order to improve the funding level of the scheme and to cover the expenses of running the scheme, the Group agreed to pay additional contributions of £137.4 million over the period to December 2018. Contributions in respect of future service benefits ceased on 30 April 2010.

The schedule of contributions allows for the Salary Exchange arrangements.

A new valuation of the final salary scheme under the Statutory Funding Objective is in progress and the Company is close to reaching agreement with the Board of Pension Trustees on a future schedule of contributions. The Company does not expect a significant change to the schedule of contributions referred to above.

The Group paid a total of £16.1 million in contributions to the fund during 2010 (2009: £13.4 million).

24. Retirement benefit obligations (continued)

i.Balance Sheet

The amounts recognised in the Balance Sheet are determined as follows:

	2010 £m	2009 £m
Present value of defined benefit obligations	**(289.4)**	(305.5)
Fair value of plan assets	**231.4**	202.8
Net liability in the Balance Sheet	**(58.0)**	(102.7)

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

	2010 £m	2009 £m
Opening defined benefit obligation	**305.5**	257.7
Current service cost	**1.3**	4.0
Interest cost	**17.3**	15.2
Contributions by plan participants	**0.1**	0.1
Actuarial (gains)/losses	**(23.8)**	37.7
Benefits paid	**(11.0)**	(9.2)
Closing defined benefit obligation	**289.4**	305.5

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

	2010 £m	2009 £m
Opening fair value of plan assets	**202.8**	181.9
Expected return on plan assets	**11.7**	9.8
Actuarial gains	**11.7**	6.8
Contributions by employer	**16.1**	13.4
Contributions by plan participants	**0.1**	0.1
Benefits paid	**(11.0)**	(9.2)
Closing fair value of plan assets	**231.4**	202.8

The actual return on plan assets was £23.4 million (2009: £16.6 million).

24. Retirement benefit obligations (continued)

ii.Income Statement

The amounts recognised in the Income Statement are as follows:

	2010 £m	2009 £m
Amounts in net operating costs (*Note 8*)		
Current service cost	1.3	4.0
Past service cost	-	-
	1.3	4.0
Amounts in net finance costs (*Note 11*)		
Interest cost	17.3	15.2
Expected return on plan assets	(11.7)	(9.8)
	5.6	5.4
Total amounts charged to the Income Statement	6.9	9.4

iii.Statement of Comprehensive Income

	2010 £m	2009 £m
Net actuarial gains/(losses) recognised in the year	35.5	(30.9)

iv. Assumptions

The principal actuarial assumptions used are as follows:

	2010 %pa	2009 %pa
Rate of increase in salaries	4.40	5.05
Rate of increase of pensions in payment:		
- Pre April 1997 and post April 2005 excess over GMP pensions	3.00	3.00
- Post April 1997 and pre April 2005 excess over GMP pensions	3.75	3.80
Rate of revaluation of deferred pensions in excess of the GMP	2.65	3.00
Discount rate	5.40	5.75
Inflation assumption – RPI	3.40	3.55
Inflation assumption – CPI	2.65	N/A

Life expectancy at age 65 for a member currently aged 45 is 23.8 years (men) or 26.8 years (women). Life expectancy for a member currently aged 65 is 22.3 years (men) or 25.2 years (women).

24. Retirement benefit obligations (continued)

Plan assets are comprised as follows:

	Long term rate of return expected at 31 Dec 2010	Value at 31 Dec 2010 £m		Long term rate of return expected at 31 Dec 2009	Value at 31 Dec 2009 £m	
Equity	n/a	n/a		n/a	n/a	
Diversified Growth Fund	6.40%	108.0	47%	6.85%	96.3	48%
Bonds	4.95%	34.4	15%	5.15%	25.4	13%
Other	0.90%	4.0	2%	0.95%	1.3	0%
Metlife policy	5.40%	85.0	36%	5.75%	79.8	39%
Weighted average return	5.72%			6.20%		
Total fair value of plan assets		231.4	100%		202.8	100%

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
As at 31 December					
Present value of defined benefit obligation	289.4	305.5	257.7	275.3	245.4
Fair value of plan assets	231.4	202.8	181.9	196.3	181.7
Deficit	58.0	102.7	75.8	79.0	63.7
Experience adjustments on plan liabilities	31.4	(2.8)	0.3	(10.0)	(1.1)
Experience adjustments on plan assets	11.7	6.8	(35.0)	(1.8)	(1.3)

Expected contributions to retirement benefit plans for the year ending 31 December 2011 are £10.0 million (2010: £16.1 million).

25. Reconciliation of movements in reserves

	Retained earnings £m	Translation reserve £m	**Total £m**
At 1 January 2009	11.6	4.8	**16.4**
Retained profit for the year	12.2	-	**12.2**
Actuarial losses related to retirement benefit obligations	(22.2)	-	**(22.2)**
Cash flow hedges	(0.2)	-	**(0.2)**
Translation of overseas entities	-	(1.1)	**(1.1)**
At 31 December 2009	**1.4**	**3.7**	**5.1**
Retained profit for the year	8.6	-	**8.6**
Actuarial gains related to retirement benefit obligations	24.6	-	**24.6**
Cash flow hedges	0.1	-	**0.1**
Translation of overseas entities	-	1.3	**1.3**
At 31 December 2010	**34.7**	**5.0**	**39.7**

Retained earnings

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

Translation reserve

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

26. Contingent liabilities

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

The High Court action filed against BSI by a distributor of motor vehicle parts in 2009 was settled without any admission of liability by either party. Costs in relation to this are included in Note 7.

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

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

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

27. Related party transactions

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

a. Pension scheme trustee

Transactions with the pension scheme trustee are disclosed in Note 24 Retirement Benefit Obligations.

b. Key management

The key management of the Group are the Executive and Non-executive Directors. Directors' emoluments are disclosed on pages 42 and 43.

The Group has no other transactions with related parties.

28. Interests in Group undertakings

Name	Country of incorporation or registration	Proportion held*	Activity
British Standards Institution Group Iberia SAU	Spain	100%	Business Services
British Standards (Publishing) Limited	England & Wales	100%	Business Services
BSI Advisory Services BV	Netherlands	100%	Business Services
BSI America Professional Services Inc	USA	100%	Business Services
BSI Brasil	Brazil	100%	Business Services
BSI Brasil Sistemas de Gestao Ltda	Brazil	100%	Business Services
BSI British Standards Ltd Beijing Representative Office	China	100%	Business Services
BSI Certification Services Thailand	Thailand	49%	Business Services
BSI Group (Australia and New Zealand) Pty Ltd	Australia	100%	Business Services
BSI Group America Inc	USA	100%	Business Services
BSI Group Australia Holdings Pty Ltd	Australia	100%	Business Services
BSI Group Canada Inc	Canada	100%	Business Services
BSI Group Czech Republic s.r.o	Czech Republic	100%	Business Services
BSI Group Eurasia Certification Services Co. Ltd	Turkey	100%	Business Services
BSI Group France Sarl	France	98%	Business Services
BSI Group Holdings The Netherlands BV	Netherlands	100%	Business Services
BSI Group India Private Ltd	India	100%	Business Services
BSI Group Italia SRL	Italy	100%	Business Services
BSI Group Japan KK	Japan	100%	Business Services
BSI Group Korea Ltd	Korea	100%	Business Services
BSI Group Learning Beijing Limited	China	100%	Business Services
BSI Group Mexico S dr RL de CV	Mexico	100%	Business Services
BSI Group Polska Spolka z.o.o.	Poland	100%	Business Services
BSI Group Singapore Pte Ltd	Singapore	100%	Business Services
BSI Group The Netherlands BV	Netherlands	100%	Business Services
BSI Healthcare Saudi Arabia (incorporated 5 February 2011)	Saudi Arabia	100%	Business Services
BSI Ltd	England & Wales	100%	Holding Company
BSI Management Systems (Vietnam) Company Limited	Vietnam	100%	Business Services
BSI Management Systems Belgium BVBA	Belgium	100%	Business Services
BSI Management Systems Certification (Beijing) Co., Ltd	China	75%	Business Services
BSI Management Systems CIS LLC	Russia	100%	Business Services
BSI Management Systems Holdings Ltd	England & Wales	100%	Holding Company
BSI Management Systems Ltd	England & Wales	100%	Business Services
BSI Management Systems Thailand Co. Limited	Thailand	49%	Business Services
BSI Management Systems und Umweltgutachter Deutschland GmbH	Germany	100%	Business Services
BSI Pacific Ltd	Hong Kong	100%	Business Services
BSI Professional Services Holdings Limited	England & Wales	100%	Holding Company
BSI Services Malaysia Sdn. Bhd.	Malaysia	100%	Business Services
Entropy International Canada Inc	Canada	100%	Business Services
Entropy International Limited	England & Wales	100%	Business Services
EUROCAT Institute for Certification and Testing GmbH	Germany	100%	Business Services
PT BSI Group Indonesia	Indonesia	100%	Business Services

All the above subsidiaries are controlled by the Group and are accounted for through acquisition accounting.
* Percentage of ordinary share capital

Parent Company Financial Statements Balance Sheet

as at 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Intangible assets	*2*	**2.4**	0.4
Tangible assets	*3*	**13.6**	13.1
Investment in subsidiaries	*4*	**40.3**	40.3
		56.3	53.8
Current assets			
Stock	*5*	**0.2**	0.1
Debtors	*6*	**21.9**	22.4
Short term investments		**-**	12.0
Cash at bank and in hand		**30.5**	11.1
		52.6	45.6
Creditors:			
Amounts falling due within one year	*7*	**(43.3)**	(33.3)
Net current assets		**9.3**	12.3
Total assets less current liabilities		**65.6**	66.1
Provisions for liabilities	*8*	**(1.2)**	(1.1)
Net assets excluding defined benefit pension scheme liability		**64.4**	65.0
Pension liability, net of tax	*9, 11*	**(42.3)**	(73.9)
Net assets/(liabilities)		**22.1**	(8.9)
Profit and loss account, representing Reserves	*12*	**22.1**	(8.9)

The accompanying notes on pages 105 to 116 form an integral part of the parent company financial statements.
The financial statements on pages 104 to 116 were approved by the Board of Directors on 17 March 2011 and were signed on its behalf by:

Martin Hannah
Group Finance Director
17 March 2011

Notes to the Parent Company Financial Statements

for the year ended 31 December 2010

1. Principal accounting policies

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

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

a. Basis of preparation

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

The Company's financial statements are presented in British pounds sterling (£) and all values are rounded to the nearest £100k except when otherwise indicated.

Profit and loss account

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account of The British Standards Institution has not been separately presented in these financial statements. The retained profit for the year is shown in Note 12.

Cash flow statement

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

b. Turnover and cost of sales

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

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

c. Interest income

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

d. Dividend income

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

e. Foreign currencies

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

1. Principal accounting policies (continued)

f. Financial instruments

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

Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the gain or loss is recognised immediately. If the hedge transaction is terminated and the underlying derivative remains in place, the profit or loss is held in the balance sheet and amortised over the life of the original underlying transaction.

Foreign currency borrowings are valued at the lower of closing rates of exchange or market value at the balance sheet date. Gains or losses in respect of the hedging of overseas subsidiaries are taken to reserves. Gains or losses arising from foreign exchange contracts are taken to the profit and loss account in line with the transactions which they are hedging.

g. Finance and operating leases

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

h. 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.

i. Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated on a straight line basis so as to write off the cost of tangible fixed assets less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	5%
Leasehold improvements	Over the unexpired term of the lease
Plant, machinery and office equipment	10% - 33%
Computer equipment	20% - 33%

Freehold and leasehold improvements are depreciated over periods of 5 to 50 years. Freehold land is not depreciated. Short leasehold assets are depreciated over the period of the lease.

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

j. Goodwill

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

1. Principal accounting policies (continued)

k. Provisions

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

l. Contingent liabilities

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

m. Retirement benefits

i. Defined benefit pension schemes

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

ii. Defined contribution pension schemes

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

n. Deferred taxation

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

o. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

2. Intangible assets

	Goodwill £m
Cost	
At 1 January 2010	0.5
Additions	2.1
At 31 December 2010	**2.6**
Accumulated amortisation	
At 1 January 2010	0.1
Charge for the year	0.1
At 31 December 2010	**0.2**
Net book value at 31 December 2010	**2.4**
Net book value at 31 December 2009	0.4

Goodwill on acquisitions is being amortised on a straight-line basis over 20 years.

On 22 March 2010, the Company acquired the assets and business of certification of gas, solid, liquid-fuelled and electrical equipment carried on by GL Industrial Services UK Limited.

There were no impairments of intangible assets during the year (2009: £0.1 million).

Details of the net assets acquired and goodwill are as follows:

	Total £m
Total cash paid for acquisitions	**3.0**
Acquisition costs	**0.1**
Total purchase consideration	**3.1**

The assets and liabilities of the acquired businesses at the acquisition dates are as follows:

	Total £m	Total £m
	Fair value of acquired net assets	Acquiree's carrying amount
Property, plant and equipment	**0.9**	-
Work in progress	**0.1**	**0.1**
Fair value of net assets acquired	**1.0**	
Goodwill	2.1	

Included in the goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. The goodwill acquired is attributable to market penetration and expected future profits and sales synergies from integration with the Company's activities.

3. Tangible assets

	Land and buildings			
	Freehold £m	Short leasehold improvements £m	Plant, machinery and office equipment £m	Total £m
Cost:				
At 1 January 2010	3.8	3.4	29.5	**36.7**
Additions	-	-	5.9	**5.9**
Disposals	-	(0.1)	(0.3)	**(0.4)**
At 31 December 2010	**3.8**	**3.3**	**35.1**	**42.2**
Accumulated depreciation and impairment:				
At 1 January 2010	(2.2)	(1.5)	(19.9)	**(23.6)**
Charge in the year	(0.2)	(0.4)	(3.0)	**(3.6)**
Impairment during the year	(1.3)	(0.2)	(0.2)	**(1.7)**
Disposals	-	-	0.3	**0.3**
At 31 December 2010	**(3.7)**	**(2.1)**	**(22.8)**	**(28.6)**
Net book value at 31 December 2010	**0.1**	**1.2**	**12.3**	**13.6**
Net book value at 31 December 2009	1.6	1.9	9.6	13.1

The net book value of freehold land not depreciated is £0.1 million (2009: £0.1 million).

4. Investment in subsidiaries

	£m
Cost at 1 January 2010 and 31 December 2010	**40.3**

The Directors consider that the fair value of investments is not less than their carrying value.
A list of subsidiaries is provided in Note 28 to the Group financial statements.

5. Stock

	2010 £m	2009 £m
Work in progress	**0.1**	-
Consumables	**0.1**	0.1
	0.2	0.1

6. Debtors

	2010 £m	2009 £m
Trade debtors	**14.8**	15.9
Other debtors	**1.3**	0.9
Prepayments and accrued income	**4.9**	4.8
*Deferred taxation (Note 10)	**0.9**	0.8
	21.9	22.4

* excludes deferred tax asset on the pension liability (Note 10).

7. Creditors: Amounts falling due within one year

	2010 £m	2009 £m
Trade creditors	**1.8**	2.9
Corporation tax payable	**0.4**	0.2
VAT	**1.4**	1.0
Social security and PAYE	**1.8**	1.3
Other creditors	**1.0**	1.3
Amounts due to subsidiary undertakings	**9.2**	4.0
Accruals	**11.9**	10.3
Deferred income	**15.8**	12.3
	43.3	33.3

Amounts owed to subsidiary undertakings include trade and finance amounts. Trade creditors are non-interest bearing and are generally on 30 - 60 days' terms. Loans from subsidiary undertakings are interest bearing and the rates range between 3% - 9%.

8. Provisions for liabilities

	Property provision £m	Other provisions £m	Total £m
At 1 January 2010	**0.9**	**0.2**	**1.1**
Charged to profit and loss account	-	0.7	0.7
Released	(0.6)	-	(0.6)
At 31 December 2010	**0.3**	**0.9**	**1.2**

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

Details of the pension provisions are set out in Notes 9, 10 and 11 below.

Other provisions include the outstanding commercial claims and a provision has been made for the Directors' best estimate of legal and settlement costs associated with these claims.

9. Defined benefit scheme pensions liability (net of deferred tax)

	Pension provision £m	Deferred taxation £m	Total £m
At 1 January 2010	**102.7**	**(28.8)**	**73.9**
Charge / (release) to profit and loss account	6.9	(1.9)	5.0
(Release) / charge to current year reserves	(35.5)	10.9	(24.6)
Contributions	(16.1)	4.1	(12.0)
At 31 December 2010	**58.0**	**(15.7)**	**42.3**

10. Deferred taxation

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

	2010 £m	2009 £m
Provision for deferred tax comprises:		
Accelerated capital allowances	**0.4**	0.5
Short term timing differences	**0.5**	0.3
Deferred tax asset on pension provision	**15.7**	28.8
Net deferred tax asset	**16.6**	29.6

11. Pension obligations

The Company operates the following retirement benefit schemes:

a. Defined contribution scheme

Following the closure of the defined benefit final salary scheme to new entrants, the Company offers a Group Personal Pension plan to all new UK employees. The costs for the period were £3.9 million (2009: £2.7 million). This includes salary sacrificed contributions.

b. Defined benefit scheme

The Company operates a UK contracted-out pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held in a separate trustee administered fund. The scheme is closed to new entrants and closed to future accrual of pension from 30 April 2010.

A valuation of the final salary scheme was carried out under the Statutory Funding Objective as at 31 March 2007. This revealed an ongoing funding level of 66 per cent. The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2007. It required contributions of 15.5 per cent of salary less members' contributions until 31 December 2008 and 27.9 per cent of annual salary less members' contributions thereafter. In addition, in order to improve the funding level of the scheme and to cover the expenses of running the scheme, the Group agreed to pay additional contributions of £137.4 million over the period to December 2018. Contributions in respect of future service benefits ceased on 30 April 2010.

The schedule of contributions allows for the Salary Exchange arrangements.

A new valuation of the final salary scheme under the Statutory Funding Objective is in progress and the Company is close to reaching agreement with the Board of Pension Trustees on a future schedule of contributions. The Company does not expect a significant change to the schedule of contributions referred to above.

The liabilities have been calculated by and the assumptions set on the recommendations of an independent qualified actuary. The other demographic assumptions used are consistent with the latest funding actuarial valuation.

The liabilities at the disclosure date allow for indexation in line with the Consumer Prices Index. The Directors' view is that the change to pension increases before retirement from the Retail Prices Index to Consumer Prices Index is an assumption change and is recognised in reserves.

The Company paid a total of £16.1 million in contributions to the fund during 2010 (2009: £13.4 million).

FRS 17 Retirement benefits

The major assumptions used for the updated actuarial valuation were:

	2010 %pa	2009 %pa	2008 %pa
Rate of general increase in salaries	**4.40**	5.05	4.50
Rate of increase in pensions in payment			
Pension earned before 6 April 1997	**3.00**	3.00	3.00
Pension earned from 6 April 1997	**3.75**	3.80	3.55
Discount rate	**5.40**	5.75	6.00
Inflation assumption – RPI	**3.40**	3.55	3.00
Inflation assumption – CPI	**2.65**	N/A	N/A

11. Pension obligations (continued)

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

	Long term rate of return expected at 31 Dec 2010 %	**Value at 31 Dec 2010 £m**	Long term rate of return expected at 31 Dec 2009 %	Value at 31 Dec 2009 £m	Long term rate of return expected at 31 Dec 2008 %	Value at 31 Dec 2008 £m
Equities	-	-	-	-	7.30	96.9
Diversified Growth Fund	**6.40**	**108.0**	6.85	96.3	-	-
Bonds	**4.95**	**34.4**	5.15	25.4	4.70	80.7
Cash	**0.90**	**4.0**	0.95	1.3	2.00	4.3
Metlife policy	**5.40**	**85.0**	5.75	79.8	-	-
Total fair value of assets		**231.4**		202.8		181.9
Present value of scheme liabilities		**(289.4)**		(305.5)		(257.7)
Deficit in the scheme		**(58.0)**		(102.7)		(75.8)
Related deferred tax asset		**15.7**		28.8		21.2
Net pension liability		**(42.3)**		(73.9)		(54.6)

Analysis of the charge to operating profit

	2010 £m	2009 £m
Current service cost	**2.2**	5.3
Past service cost	-	-
Total operating charge	**2.2**	5.3

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

	2010 £m	2009 £m
Interest on pension scheme liabilities	**(17.3)**	(15.4)
Expected return on pension scheme assets	**12.6**	10.8
Net Charge	**(4.7)**	(4.6)

11. Pension obligations (continued)

Analysis of amount recognised in reserves

	2010 £m	2009 £m
Actual return less expected return on pension scheme assets	11.7	7.5
Experience gains and losses arising on the scheme liabilities	31.4	(3.0)
Changes in assumptions underlying the present value of the scheme liabilities	(7.6)	(34.9)
Actuarial gain/(loss) recognised in reserves	35.5	(30.4)

Movement in deficit during the year

	2010 £m	2009 £m
Deficit in the scheme at beginning of the period	(102.7)	(75.8)
Movement in period		
Current service cost	(2.2)	(5.3)
Employer contributions	16.1	13.4
Past service costs	-	-
Other finance costs	(4.7)	(4.6)
Actuarial gain/(loss) recognised in reserves	35.5	(30.4)
Deficit in scheme at end of year	(58.0)	(102.7)

History of Experience Gains and Losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Difference between expected and actual return on scheme assets:					
Amount	11.7	7.5	(35.0)	(1.9)	(0.9)
Percentage of scheme assets at year end	5.0%	3.7%	(19.2%)	(1.0%)	(0.5%)
Experience gains and losses on scheme liabilities:					
Amount	31.4	(3.0)	(0.3)	(10.1)	(1.1)
Percentage of scheme liabilities at year end	10.9%	(1.0%)	(0.1%)	(3.6%)	0.4%
Total amount recognised in reserves					
Amount	35.5	(30.4)	(6.7)	(22.7)	11.3
Percentage of scheme liabilities at year end	12.2%	(10.0%)	(2.6%)	(8.2%)	(4.6%)

12. Reconciliation of movements in profit and loss account

	2010 £m	2009 £m
At 1 January	(8.9)	9.2
Profit for the financial year	6.4	3.7
Movement in actuarial valuation of defined benefit pension scheme (net of deferred tax)	24.6	(21.8)
At 31 December	22.1	(8.9)

13. Employees

	2010 £m	2009 £m
Wages and salaries	46.8	45.5
Social security costs	5.1	4.7
Pension costs	6.1	8.0
	58.0	58.2

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

	2010 Number	2009 Number
Production, inspection and laboratory	548	477
Sales and distribution	164	157
Administration	421	465
	1,133	1,099

Disclosures in respect of Directors' emoluments can be found in the Report of the Remuneration Committee on pages 42 and 43 in the Group financial statements.

14. Auditors' remuneration

The amount of remuneration receivable by the Company's auditors in respect of the audit of the parent company financial statements is £0.2 million (2009: £0.2 million).

15. Capital commitments

	2010 £m	2009 £m
Capital expenditure that has been contracted for but not provided for in the financial statements	2.5	0.3

16. Financial commitments

At 31 December 2010, annual commitments under non-cancellable operating leases were as follows:

	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Expiring within one year	0.1	0.1	-	0.3
Expiring within two and five years	0.2	1.2	0.2	0.7
Expiring in over five years	2.6	-	3.3	-
	2.9	1.3	3.5	1.0

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 2010, the Company held foreign exchange contracts to the value of £1.5 million (2009: £1.4 million) all expiring within one year.

17. Related party transactions

The Directors of The British Standards Institution had no material transactions with the Company during the year. Details of the Directors' remuneration are disclosed in the Report of the Remuneration Committee on pages 41 to 44 in the Group financial statements. The Company has taken advantage of the exemption available under FRS 8 (Related Party Transactions) not to provide details of transactions with other Group companies.

18. 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.

The High Court action filed against BSI by a distributor of motor vehicle parts in 2009 was settled without any admission of liability by either party.

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

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

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

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The British Standards Institution
Annual Report and Financial Statements 2010

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