

The British Standards Institution

Annual Review & Summary Financial Statements 2006

inspiring
confidence

raising standards worldwide™



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These statements are aimed at providing a summary of the Group's position and performance for 2006. Please note that this Annual Review and Summary Financial Statement does not contain sufficient information to allow a full understanding of the results of the Group and the state of affairs of the Company or of the Group. For further information consult the Report and Accounts for 2006.

Members have the right to obtain a copy of the full Report and Accounts for 2006, free of charge, by writing to the Company Secretary at 389 Chiswick High Road, London, W4 4AL.

The Auditors' report on the full Report and Accounts for the year ended 31 December 2006 was unqualified.

Highlights of the Year

Operating Highlights

- 2,753 new standards were published in the year, included leading edge standards in business continuity (BS 25999), sustainability (BS 8900) and integrated management systems (PAS 99)
- Five acquisitions completed in the year, in the UK, Germany, Australia and Thailand
- BSI Management Systems revenue growth up 11.9 per cent
- Penetration in Asia has reached 700 staff servicing 13,000 customers
- Major strategic review of BSI Product Services to establish a framework for global growth
- International representation has increased with more than 50 per cent of staff based overseas

Financial Highlights

Total Group turnover
£163.9m
2005: £234.8m

Group turnover from
continuing operations
£163.9m
2005: £150.4m
Up 9 per cent

Profit before taxation (PBIT)
£12.6m
2005: £(3.6m)
Up £16.2m

Cash generated from operations
£11.6m
2005: £7.5m
Up 55 per cent

Net assets/(liabilities)
£8.1m
2005: £(7.2m)

Chairman's Statement



Sir David John KCMG
Chairman

“... a global business
which adds value to all our
stakeholders with the
delivery of effective and
efficient standards-based
solutions”

I am delighted to report that in 2006, the BSI Group again posted strong operational results, realising the ambitions we formulated four years ago to build a global business which adds value to all our stakeholders with the delivery of effective and efficient standards-based solutions. The cornerstones of our strategy are:

- to develop a premium product portfolio delivering higher value solutions to the boardroom;
- to focus on offering an integrated solution to our customers where standards are integral to such knowledge transfer;
- to deliver results through harnessing relevant web-based technologies and continually enhancing our human resources and skills; and
- to develop our global infrastructure, particularly in the emerging Asian, Central and East European and Latin American markets to meet the needs of our customers.

All our businesses delivered strong performances, culminating in a turnover on continuing activities of £163.9 million (2005: £150.4 million) representing sales growth of 9 per cent and profit before tax of £12.6 million (2005: loss of £3.6 million). The 2006 profit before tax of £12.6 million (2005: loss of £3.6 million) demonstrates the success of the Group following the disposal of Inspectorate. The underlying trading performance of the Group is demonstrated by the adjusted operating profit¹ figure of £18.7 million (2005: £17.0 million) representing year on year growth of 10 per cent.

We have continued on the key themes of inspiring confidence and delivery assurance to our customers across the world. We have ensured a strong focus on the key attributes of our brand, namely integrity, independence and innovation. We have seen significant developments in the latter, not only through the development of standards in such emerging technologies as regenerative medicine and biometrics, but also through the publication of leading edge standards on business continuity (BS 25999), sustainability (BS 8900) and integrated management systems (PAS 99).

The extension of Kitemark® into the service sector continues apace, with the delivery of the industry sponsored Thatcham BSI Kitemark® Scheme for Vehicle Body Repair, illustrating the benefits we deliver to both an industry and its consumers.

Our acquisitions of Entropy and the business of Greenhall Barnard Associates during the year underline our commitment to extend our portfolio into standards related business tools, be they based on software enterprise systems to assist our customers to deliver compliance and operational performance, or business improvement methodologies such as six sigma. Our global capability for delivery of management system assessment and certification was further strengthened with the acquisition in Germany of NIS ZERT and in Australia of Benchmark Certification.

Our standards output generated a record 2,753 (2005: 1,755) new standards for the year, delivering benefits to our members and customers through improved trade, reduced risk, improved efficiency and dissemination of information to stimulate innovation.

We continued to play a lead role as the UK National Standards Body in the international (ISO/IEC) and European (CEN/CENELEC) standards arena and participated in high profile events promoting the benefits of standardisation in China in information security, and India in sustainability and the service sector. Our focus on emerging countries in both the Americas and Asia was underlined by the Board meeting in India in November and my visit to Mexico in July. Both visits provided the opportunity to develop our relationships with the National Standards Bodies of those countries and to engage with customers and employees.

New business and new product sales across both our mature and emerging markets contributed to an excellent double digit growth for our BSI Management Systems division. We also implemented a major review of our BSI Product Services business which saw a significant investment to realise a strategy of global growth and added value for its product and services portfolio. Both divisions are now well placed to capitalise on the growth opportunities within international markets.

Our capability and reach is now extensive with 53 offices worldwide. In Asia alone we now employ 700 staff servicing some 13,000 customers. We have established a new regional office for South East Asia in Singapore, enabling enhanced focus on the significant opportunities within the ASEAN region.

¹ Adjusted operating profit is stated before interest, tax, operating exceptional items and certain other strategic costs introduced in 2006

Engagement with business, government and society

Activity in the UK National Standardization Strategic Framework (NSSF) saw a further step-change with an extensive programme of engagement with 300 Trade Associations and key senior UK Government officials through a series of events and meetings; and the creation of an extensive range of case studies and customer testimonials demonstrating the value of standards. Our proposition that standards not only stimulate innovation and reduce the regulatory burden, but also promote more effective procurement, is beginning to be heard beyond the business community into the offices of Government.

The Board

Judith Hanratty and Roy Mort resigned from the Board on 30th June 2006. I would like to take this opportunity of thanking them both for their contribution. Charles McCole replaced Roy Mort in July 2006 and resigned for personal reasons on 5th February 2007. We also welcome John Regazzi to the Board, who will bring invaluable knowledge and experience to our business information publishing markets and the development of our e-commerce capability.

BSI Pension Fund

As I stated last year, the BSI Group has fully adopted FRS17 'Post Retirement Benefits' in its financial statements. This continues to have a marked effect on the Group's balance sheet which is explained in the Financial Review on page 21 of the Annual Report. The Board is committed to addressing the Fund's significant deficit and in 2006 the Company contributed £10.1 million (2005:£10.0 million) towards the deficit on the Fund. This figure, which is greater than the Minimum Funding Requirement contribution set out on page 53 of the Annual Report, demonstrates our commitment towards reducing the deficit.

Staff

Our principal asset is our staff and, in a knowledge-based business such as ours, we recognise the need to maintain the high calibre of our people and to continually invest in new skills and capabilities at all levels within the organisation. We also mitigate our exposure to loss of key staff through the implementation of a succession planning programme.

We acknowledge the continued contribution made by the management and coordinators of the Health, Safety and Environment (HS&E) team in achieving further improvements in HS&E performance across the Group. This is illustrated by the certification of the Management Systems UK operation to the OHSAS 18001 management system standard in August.

I would also wish to take this opportunity to congratulate Tom Harland, Director of Strategic Development, Asia Pacific, BSI Management Systems, who was awarded the MBE in the New Year Honours for services in promoting standards and certification overseas for the benefit of UK industry.

Outlook

We have now established a clear strategic roadmap for the business and will focus our effort toward extending our global footprint and developing new and innovative products that provide solutions to the key issues confronting any business, be it local or global. BSI is an international business operating in over 110 countries and conducting business in many currencies. These operations are subject to the risks associated with any international operation, including slowdown or recession in global, regional or national economic growth, regulatory changes and social and political volatility. We manage our risks through maintaining a responsive and flexible organisational structure which is able to quickly adapt to the dynamics of such external events.

We will also continue to ensure a systematic best practice approach to managing our Health, Safety and Environment obligations for staff and customers alike; and are committed to striving to maintain sustainable practices in all our businesses for the benefit of all our business partners and local communities.

Our aim is to develop further into a professional services organisation that exceeds the expectations of its customers and stakeholders through the harnessing of our intellectual capability with technology and an unrivalled commitment to service.

Sir David John KCMG
Chairman
21 March 2007

Chief Executive's Report



Stevan Breeze
Chief Executive

“We continue to be innovative in meeting the needs of business and address the key challenges of our existing and new customers.”

Review of the Year

2006 saw the continued refocusing of the Group which began 4 years ago, culminating in a strong revenue performance from continuing operations at £163.9 million, up 9 per cent on last year (2005: £150.4 million). This excellent result saw the business grow and exceed market growth, at a time when we continued to invest substantially in both people and systems. The 2006 profit before tax of £12.6 million (2005: loss of £3.6 million) demonstrates the success of the Group following the disposal of Inspectorate. The underlying trading performance of the Group is demonstrated by the adjusted operating profit¹ figure of £18.7 million (2005: £17.0 million) representing year on year growth of 10 per cent.

Concentrating our resources on our core activities of British Standards, Management Systems and Product Services saw the Group close the year with a healthy cash position at the year end of £19.4 million (2005: £25.8 million) after funding a number of acquisitions and providing funding for the pension fund.

In common with many other organisations we face a significant pension deficit. We continue to take steps to address this and during the year made a significant contribution of £10.1 million (2005: £10.0 million) to reduce the deficit on the fund. This payment exceeds the Minimum Funding Requirement contribution laid out on page 53 of the Annual Report. We will take the necessary steps to continue to address this shortfall, whilst we will also endeavour to make the investment necessary to develop the Group in the face of increasing competition both in the UK and across the world.

In the delivery of our strategy we have focused on:

- leveraging our standards-making capability by developing a range of standards-based solutions that are robust and measurable;
- increasing customer loyalty and retention by providing an extended range of integrated services;
- improving our margins through the enhancement of new added value services; and
- investing in e-commerce to deliver efficient and cost effective services to our customers globally: specifically in the areas of publishing, training and certification.

We continue to be innovative in meeting the needs of business and address the key challenges of our existing and new customers, in such crucial areas such as operational improvement, risk control and sustainability. Our ability to service global corporations and their supply chains was further strengthened through the acquisitions of NIS ZERT in Germany, Benchmark Certification in Australia and securing of full ownership of our operations in Thailand.

The acquisition of Entropy in June enhanced our ability to provide higher added value services to the boardroom in multinationals through the delivery of enterprise software solutions for governance and risk control; whilst at the end of the year, the acquisition of the business of Greenhall Barnard Associates reflected our drive to elevate our training capabilities with an extended range of business improvement tools.

Our commitment to better understand the challenges and key issues confronting our customer base has been demonstrated by the roll-out of a regular customer satisfaction survey of BSI Management Systems' customers globally. We also undertook detailed surveys of both our BSI British Standards' committees and Subscribing Members during 2006 which provided the platform upon which we can build our product offering particularly in terms of online services. Lastly, the research instigated by BSI Product Services to gauge consumers' perception of Kitemark® continues to underline the importance of this brand in assisting our customers to provide assurance to their UK consumers in both product and service applications. All these initiatives reflect our desire to better understand our customers' and stakeholders' requirements in order to deliver solutions more efficiently and effectively.

BSI British Standards again delivered excellent results in terms of output and operational efficiency. The publication of a record number of 2,753 new standards during the year proved our ability to reduce development lead times in the UK, European and international arenas. The launch of innovative standards in Business Continuity (BS 25999), Sustainability (BS 8900), Customer Relationships (PAS 11000), Integrated Management Systems (PAS 99) and Vehicle Body Repairs (PAS 125) reflects our ability to develop innovative standards applications which deliver improvements in organisations large and small.

¹ Adjusted operating profit is stated before interest, tax, operating exceptional items and certain other strategic costs introduced in 2006.

In addition to consensus standards we continued to grow our commissioned standards and project work for an increasingly international customer base. From a wide diversity of standards' applications in helping the National Grid, the Disability Rights Commission, Network Rail, and Brewing Research International, to providing technical assistance in the Asian region and Kosovo, Russia and Tajikistan, our ability to develop creative standards-based solutions to our customers founded on our core competencies continues to grow.

In terms of supporting the UK Government Technology and Innovation agenda, we have developed standards in such areas of topical interest as cell-based therapeutics, security barriers, biodiversity and Internet security. We continue to assist the UK Department of Trade and Industry and the UK Technology Strategy Board in ensuring that standards continue to play a pivotal part in the successful transition of innovation and new technologies from research and development to launch of new products and services.

Internationally we have strengthened our close relationships with other National Standards Bodies, with secondments and visits to and from Brazil, Mexico, Russia, China and Japan. The signing of a Memorandum of Understanding with the Beijing Olympic Science and Technology Committee bodes well for the use of standards in both the 2008 and 2012 Olympics.

BSI Management Systems generated impressive revenue growth of 11.9 per cent through a combination of new business sales and improved operational efficiency in all its key countries.

All regions delivered market share growth, with significant improvements in new business realised in the UK, mainland Europe and the Americas. Asia continued to be very dynamic, with new business constituting more than half of the total revenue. Our ability to deliver training to support new products and extend our capability with remote learning courses has significantly enhanced the 'learning' service offering to both existing and prospective customers.

New products have made a significant contribution in new business sales growth, with the advent of schemes in Greenhouse Gas Verification, Integrated Management Registration and the "STEMS" modular approach to environmental certification. We have also consolidated our capability within the ISO food safety management system standards as well as the British Retail Consortium's Food Safety, Packaging and Consumer Products standards and the International Food Safety Standard.

Penetration of service sector requirements for certification was exemplified with the introduction of a new product, BSI BenchMark Finance, developed for banking customers to assist them to derive more value from their assessment of the risk control and operational performance of key departments.

In addition to launching exciting new products, BSI Management Systems saw considerable improvement in operational efficiency with improved assessor utilisation and local delivery capacity. Our ability to service global organisations and their supply chains was further improved through our enhanced global infrastructure and the provision of both third and second party audit schemes.

BSI Product Services made substantial investments in strengthening its management team as well as implementing significant process improvements to enhance its customer proposition both in the UK and in the global market place, following a major strategic review.

With a strong commitment to provide market access through testing and certification of global requirements, BSI Product Services has consolidated its expertise into key areas of added value growth. A major development has been the creation of the 'Healthcare' division to meet the demands of this important sector for specialist knowledge of market requirements and regulations; particularly in the USA and Japan with customers seeking a gateway to the European market.

2006 also saw a step change in the creation of Kitemark® Service Schemes, particularly in the Garage Service and Vehicle Body Repair automotive aftermarket sectors. Through the effective application of new standards (PAS 80 for Garages and PAS 125 for Body Repairs), new schemes, including the Thatcham BSI Kitemark®, were developed to deliver customer reassurance in these market sectors.

Internationally, China saw substantial growth for BSI Product Services in sectors such as Engineering and Electrical & Electronic through the establishment of partnerships with local organisations for testing and verification. The Middle East region saw the realisation of significant opportunities for the construction division with its fire related testing and certification services.

With an unrivalled position as a leading UK Notified Body for CE marking under 17 EU Directives, BSI Product Services is well placed to market its service capability as one of the most comprehensive gateways to Europe.

Through our continued investment in technical skills and management expertise at a local level, we are now strongly positioned to extend our customer proposition to higher value added testing and certification.

BSI Entropy acquired in June 2006 has enabled BSI to grow into a leading provider of web-based integrated management system software solutions.

Providing both compliance and operational benefits to its global client base, the BSI Entropy System™ provides scalable web-based integrated solutions for multi-site multinational organisations to reduce cost and improve profitability, of not only their own operations, but also those of their supply chains.

Providing benefits to customers at both pre-certification and beyond registration, the BSI Entropy System™ can provide customers with flexible, enhanced compliance and operational controls beyond quality, environmental and health and safety management systems.

Outlook

The continued development of our product and service portfolio – as always based on our core values of independence, innovation and integrity – has created a business and brand that truly inspires confidence for all our stakeholders across the world.

The Group is now servicing its clients in over 110 countries, many of them being emerging markets. We actively mitigate the inherent risks of operating in potentially volatile markets through vigilant and robust management controls and maintaining the ability to respond flexibly.

Through expanding our global reach and our ability to address key business issues with innovative new products and a cost effective e-commerce based delivery capability, we are well placed to sustain our position as the leading standards-based solution provider to customers across the world.

I take this opportunity in extending my thanks to all my colleagues for their effort and support in the delivery of an excellent result for the year.

Stevan Breeze
Chief Executive Officer
21 March 2007

Operational Review 2006



Mike Low
Director, BSI British Standards

“We published a record number of 2,753 standards, including several world firsts.”

BSI British Standards

In 2006 BSI British Standards achieved further year-on-year improvements, both in revenue, efficiency and in the range and reach of our product portfolio, as well as well-deserved recognition for the work of our committee membership and staff in the form of a number of prestigious awards.

Setting the standard in the UK

Further investments were made in the year to support the formal, consensus standards making process both in traditional areas and emerging technologies. Six new management clusters were formed to more closely match market need, each led by a new Head of Market Development. In the first nine months of implementation this has already allowed us to better prioritise our standards development programme, maximise synergies across sectors, and ensure closer alignment with our customers and committee members.

We continued to organise an extensive engagement programme that included the fourth Standard Makers' Forum bringing together over 200 technical committee chairmen and staff to discuss our approach to meeting customers' needs. We also convened six workshops to re-think standards in construction and a series of meetings for UK experts both inside and outside the BSI committee structure on nanotechnology, energy and the London 2012 Olympic Games.

Three important new technical and subcommittees were established this year. One was in the area of Societal Security Management, to increase capabilities in and improve interoperability between organisations at national and international levels. The others were in identity management and software asset management, with involvement from high profile partners such as Microsoft, Oracle, Ernst and Young, Deloitte and membership bodies such as FAST (Federation Against Software Theft) and Investors in Software.

We published a record number of 2,753 standards, including several world firsts. The sustainable development standard, BS 8900, helps organisations to develop an approach that will continue to evolve and adapt to meet new and continuing challenges and demands. The business continuity management standard, BS 25999, met with high acclaim and excitement from a wide spectrum of potential users and specifiers.

Two new awards schemes were established to showcase and celebrate achievement in the application of standards. For the 10th anniversary of ISO 14001 we organised an awards ceremony attended by Ian Pearson MP, Minister for Climate Change. To conclude a year long programme of promotions, a BSI prize was presented to Home Office Minister Joan Ryan MP for the Identity and Passport Agency's use of biometrics standards in the new UK ePassport.

We undertook a comprehensive survey of our Subscribing Members early in the year, to identify what additional services they wanted. As a result we have developed a number of online services and introduced an advisory help line. This has already yielded levels of membership retention significantly ahead of recent years, reflecting an increasing level of customer satisfaction.

BSI British Standards, as the National Standards Body, was again pre-eminent in international standards development with the hosting of major meetings and development of new standards. In particular, the successful plenary meeting of the ISO/IEC biometrics committee hosted by BSI in London and the successful submission of a major new work programme in nanotechnology, as well as a series of information security management initiatives illustrate our leadership.

On the 'information' side of our business we published 99 new business-related books and CD-ROMs on key themes such as climate change, risk management and network security that are increasingly reinforcing our high reputation in these important areas for business. *A Guide to Corporate Social Responsibility* received extensive praise from the Head of the United Nations Global Compact and *Managing Food Safety* was listed by *Management Today* as one of the top five books on integrated management systems.

In addition we organised a number of commercial conferences and seminars on topics such as business continuity, website accessibility, emergency lighting, intelligent building and medical devices. A medical electrical equipment two-day conference attracted speakers from all over the world and generated interest considerably beyond what was anticipated.

At the same time our Professional Standards Services business continued to grow. We completed several key projects such as with National Grid plc to convert 65 internal technical product standards into gas industry standards and the world's first specification for collaborative business relationships. Our work with the Disability Rights Commission on a website accessibility Publicly Available Specification (PAS) won a coveted IVCA Clarion Award for its contribution to social inclusion.

New PASs in areas of topical interest such as cell-based therapeutics, security barriers, biodiversity and motor vehicle repairs were published and work progressed on a significant suite of new standards that will be published next year, such as PAS 74 on Internet security for children.

In other new areas Network Rail turned to BSI British Standards for help in developing a standards strategy, together with frameworks for standards development and standards governance while Brewing Research International asked us to develop and update a database of compliance requirements for their members.

Of particular significance we also developed PAS 99, a standard that provides the framework for integration of management systems standards, reflecting a clear market need that has been developed recently both in the UK and globally.

“...we also developed PAS 99, a standard that provides the framework for integration of management systems standards, reflecting a clear market need that has been developed recently both in the UK and globally.”

Partners in promotion

The UK National Standardization Strategic Framework entered its final year in April 2006 and focussed its efforts on engagement to both business and government.

We recruited a new team to help develop relationships with decision makers in business and government, promoting the value and contribution of standards in enabling innovation, lightening the regulatory burden and empowering efficient procurement. Thought leadership 'white papers' were published and used in a series of events and meetings which between them engaged hundreds of Trade Associations and Government officials.

Our suite of marketing and business tools was extended to include advertising, print and online resources, including a bank of case studies demonstrating the real value of standards to individual organisations in the business, government and societal communities.

Our education website launched in 2005 went from strength to strength with a year-on-year increase in usage of 44 per cent. In a major online initiative we developed e-learning programmes to support the standards development process within BSI and its committee membership and promote the take up of Eurocodes (European construction standards) at home and abroad.

Work also progressed in building standards into the DTI's technology and innovation strategies. We have established a close working relationship with the UK Technology Strategy Board and are now closely involved in ensuring standards are an important component for the enabling of new technology and innovation.

Maximising opportunities overseas

BSI British Standards' commitment to international standards activity increased further during 2006. As well as holding secretariats in 231 international committees, we continued to encourage the international and European standards organisations to focus on market relevant standards produced more efficiently. The result was record output from CEN and reduced development lead times.

We increased our contacts overseas, particularly in emerging economies. We signed an MOU with the Beijing Olympic Science & Technology Committee, held an Information Security Management Systems seminar in China, delivered training courses on standards for UKTI to UK High Commission staff in branches around India, and had secondments and visits to and from Brazil, Mexico, Russia, China and Japan.

BSI British Standards took on leadership of an ISO project to produce standards in innovative new fields and of a new ISO strategic group on management systems standards.

International projects for technical assistance commenced with the Malta Standards Authority and ASEAN region and new contracts were won which will start next year in Kosovo, Russia and Tajikistan.

Our campaign to promote Eurocodes received Royal endorsement. HRH Prince Andrew, the Duke of York, attended a seminar in Chennai, India, hosted by BSI British Standards and the Indian Concrete Institute where he encouraged local construction and infrastructure companies to adopt the "global benchmark" of Eurocodes.

Future prospects

With the recruitment of a new ePublishing Director at the end of 2006 we are well placed to bring to market new products and enhancements in 2007. Our efforts will increasingly focus on the delivery of standards and additional information. We remain alert and responsive to the potential for standards to be delivered in new formats using new technology and we will continue to enrich our customers' experience in formats that deliver added value.

As always we are grateful to our committee members for their continuing contribution and commitment to delivering opportunities that provide added value to UK industry as we look forward to build on the reputation for which BSI British Standards is internationally renowned.

Mike Low
Director, BSI British Standards
21st March 2007

Operational Review 2006



Flemming Norklit
Managing Director,
BSI Management Systems

“... a significant improvement in profitability through innovative new premium product offerings and improved resource utilisation;”

BSI Management Systems

BSI Management Systems delivered excellent double digit revenue growth in 2006 through substantial progress with new business sales combined with continued emphasis on improved operational efficiency in all its key territories.

Highlights for 2006 include: a significant improvement in profitability through innovative new premium product offerings and improved resource utilisation; a continued expansion through acquisitions in Asia and Europe coupled with strong organic growth in both mature and emerging markets; the roll-out of a global customer satisfaction survey focused on improving what matters to the customer; and a continued emphasis on retaining and recruiting the right people to deliver results.

UK

The UK business achieved growth in both revenues and new business despite a further decline in the market due to the continuing contraction of the manufacturing industry.

Growth came from the service sector, construction and from new products including greenhouse gas verification and integrated management registration. The training business achieved strong growth in 2006 with launches in distance learning courses for both environmental and health and safety management. At the end of 2006 the business of Greenhall Barnard Associates was acquired adding to our abilities in six sigma and other business improvement tools. This business has now been integrated allowing a much enhanced offering to clients.

The operations of the UK business, which had been split across many UK cities, were consolidated in a new Milton Keynes office. This new facility is already providing an improved level of customer service and has proved popular with staff and clients alike.

Continental Europe, Middle East and Africa (CEMEA)

CEMEA had a very successful year improving efficiencies by consolidating support activities, continuing to invest in local sales and marketing and delivering an even greater proportion of its assessments locally. This all resulted in a 30 per cent increase in revenue and a four fold improvement in profit.

CEMEA also implemented a successful training business strategy offering a variety of in-house and open for public training courses across the region.

In 2006 the improvements in assessor utilisation continued and local delivery capacity increased substantially providing increased opportunities to deliver the work more efficiently.

The acquisition of NIS ZERT in Germany has provided the platform for development of the market in the exciting Central European region and brought a range of new products which can be offered to all our customers globally.

CEMEA also invested in measures to improve customer satisfaction in a process of decentralisation allowing more activities to be undertaken locally, closer to customers with a clearer understanding of local needs.

Asia

Asia remains a very dynamic region with new business constituting over half of the total revenue. Apart from the momentum in organic growth, in 2006 expansion took place into Thailand and Australia through acquisitions. BSI Management Systems now operates through 30 offices in Asia with over 700 people servicing 13,000 customers.

Toward the end of the year a new Asia Pacific regional hub was established in Singapore with the objective of delivering substantial growth in South East Asia, India and Australia.

Investment continued in people, management capability, processes and systems. These strategic investments brought rewards as we gained key accounts through cross-selling multiple lines of services and market extension of high value products like BSI BenchMark. The internal operational effectiveness and efficiency, which are very critical for profitability in the price sensitive segments, are also enhanced as a result of these investments.

Americas

The primary points of focus for the Americas remained accelerated growth and market presence outside of the USA and the drive to increase operational efficiency.

Americas was very successful in increasing its business in Brazil, Canada and Mexico. 2006 sales in these three territories reflected an increase of 70 per cent growth over 2005. This market share growth was fuelled by our local businesses focusing on large national and multi-national accounts.

Growth in the Americas territories significantly outpaced general market growth due to an increasing interest in using BSI Management Systems for the provision of second party audit schemes, expansion of the training business and the creation of industry specific services that strengthen the partnership between BSI and its clients.

Continued investment in internal e-training combined with enhanced scheduling and administrative systems has allowed BSI Management Systems to have its best ever year in terms of growth and profitability, while maintaining a high level of customer satisfaction.

Products

BSI Management Systems provides client organisations with the tools to:

- create competitive advantage through improving business performance with traditional and premium services focusing on Quality and Integrated Management;
- create value through demonstrating that they follow sustainable business practices that focus on the Environment and Social Accountability;
- minimise disruption through effective risk management with services that focus on health and safety, information security and food safety.

A number of innovative new products were introduced in 2006 namely:

- PAS 99 - Integrated Management Systems Registration – commissioned by BSI Management Systems from BSI British Standards, it provides organisations with more than one management system the ability to create a single holistic management system bringing savings in management time and reduced administrative burden.
- Food Safety portfolio – BSI was one of the first certification companies to be accredited to the new ISO 22000 food safety standard and, in addition, the British Retail Consortium Food Safety, Packaging and Consumer Products standards were added to the portfolio as well as the IFS (International Food Safety Standard) favoured by the major European retailers.
- Information Security (ISO/IEC 27001) and IT Service Management (ISO/IEC 20000) – both new services following their transition to an international standard. We continue to maintain our global market leadership with these services.
- BSI BenchMark Finance - developed for the banking sector to provide more value from an assessment and to assist in identifying the risks and performance in their departments.

BSI Entropy

Recognising the considerable synergies between Entropy's product and global client base and those of the BSI Group; in June 2006, BSI acquired Entropy International Ltd.

To capitalise on the synergies between BSI and Entropy International and recognising the inevitable future consolidation in the enterprise software marketplace, BSI Entropy as part of the BSI Group is now in an enviable position to continue to provide world-class management system software solutions to its growing global and blue-chip client list.

As a result, BSI Entropy continued its record of success in the provision of management systems based enterprise solutions in 2006 with gains both in new customers and extensive customer roll-outs.

The Entropy System™

The Entropy System™ is a turnkey solution that provides the framework and informational content for fully functional, integrated and auditable environmental (ISO 14001), quality (ISO 9001) and health & safety (OHSAS 18001) management systems.

The Entropy System™ is a scalable web-based integrated solution that assists multi-site and/or multi-national organisations to reduce their operational risk, ensure compliance across their businesses and improve overall performance. The system exists to help customers in reducing cost, improving profitability and increasing shareholder value.

In 2006, BSI Entropy and its Entropy System™ were once again recognised respectively as a leading software solutions provider and a world class software product. This is amply illustrated by our relationship with Diageo, the world's leading premium drinks business and one of our largest clients and users of the Entropy System™. Diageo was awarded the Strategic Risk magazine 2006 European Risk Management Award for the "Most Effective Use of Technology" through the use of the Entropy System™ to manage their global License to Operate risk management initiative.

The Entropy System™ was also highly commended as the Risk Management Product of the Year. Earlier in 2006, BSI Entropy International won the Environment Business Journal's Bronze Award in the Small Business Category at their annual Business Achievement Awards.

The Entropy System™ and wider risk and compliance management

Recognising that improved corporate governance relies on an enterprise-wide approach to managing all material risks within an organisation, the Entropy System™ has been designed to allow organisations to expand and extend their use of the Entropy System™ and to assist them to manage material risks within their businesses beyond the immediate scope of environmental, quality and health and safety risks.

Some of the more significant risk and compliance management expansion projects include:

- a major US retailer is using the Entropy System™ to manage social and ethical compliance in its global supply chain;
- one of the world's largest insurance companies is using the Entropy System™ to assess the risks and premium levels of its North American client base; and,
- a leading global airport authority is using the Entropy System™ to assess, manage and mitigate physical security risks at some of the largest and busiest airports in the world.

The product development programme for the year ahead will capitalise on the synergies with both existing BSI products and services and new offerings such as Business Continuity Management (BS 25999) and Information Security (ISO/IEC 27001).

Overall outlook

With our increasing global capability we will concentrate on larger new business accounts with an international dimension in 2007. We intend to continue our investment in our global reach, especially in the fast growing economies of South East Asia and to accelerate growth in the established businesses of India, Brazil, Mexico, Russia and China. We will continue to proactively solicit feedback from our customers, both in assessment and training services and modify our offerings, changing the customer experience to respond to what customers expect today. We intend to work as partners with our clients, using the full and unique breadth and depth of our expertise to create practical and tangible business benefits.

Business priorities

Our key priorities for 2007 are to vigilantly maintain our global suite of accreditations, optimise operational effectiveness, develop a consistent and proactive approach to new product launches and target investment to increase our geographical coverage.

Flemming Norklit
Managing Director, BSI Management Systems
21st March 2007

Operational Review 2006



Alastair Trivett
*Managing Director, Global,
BSI Product Services*

BSI Product Services

In 2006 BSI Product Services embarked on a major strategic review of its business to establish a framework for global growth with a range of products and services that deliver added value and confidence to customers. Substantial investment was made in strengthening the management team, simplifying processes and promoting the brand.

The main objective has been to streamline the business and define the services that we offer our clients both in the UK and overseas. Better understanding of our customer requirements and their testimonials have emphasised that it is the expertise and professionalism of our staff that attracts and retains clients and gives BSI Product Services the strong platform on which we can build our business.

Our services

BSI Product Services consists of five business units namely Healthcare, Kitemark® Services, Electrical and Electronic, Construction and Engineering providing testing and certification services to 4,000 customers across the world. Each unit provides extensive technical expertise and through our Notified Body status in no less than 17 European Directives we are well positioned to act as a gateway to the European market for companies in Asia and the Americas.

Independent research commissioned in 2006 has confirmed that Kitemark® is recognised by over 82 per cent of the UK adult population, with 93 per cent of those saying a product or service which carries the mark would be much safer and 91 per cent believing it to be of higher quality. This underlines the inherent strength of the Kitemark® brand and the potential for the development of an extended range of products and services that provide our clients' UK consumers with both assurance and confidence in a complex multi-choice market.

Healthcare

Formerly known as Medical Devices and a rapidly growing business unit, the name was changed to reflect more accurately its activities. During the year we built strong teams in the USA, Asia and further developed our European healthcare activities.

We are now recognised as a global leader in orthopaedic and cardiovascular non-active devices. This has been accomplished by more than doubling the size of the team of experts that review our clients' design dossier files. Building on a solid base of integrity, technical expertise and knowledge, we moved closer to our customers helping them find their way through the increasingly complex global maze of regulations and assisting them to secure market access for their products in a simple and timely manner.

As the level of expertise required to become and remain an EU Notified Body increases, regulatory agencies, such as the UK MHRA, have identified that Notified Bodies are facing both tougher commercial challenges from their clients, and stricter requirements and scrutiny from their regulators. This is a challenge welcomed by BSI Product Services as it will ensure that those providers that deliver flexible responsive services to the highest standards and regulatory requirements will prevail.

Kitemark® Services

Kitemark® Services was created as a separate business unit in 2005 to bring the Kitemark® scheme benefits to the ever increasingly important UK service sector.

Building on the core attributes of the brand, Kitemark® Services has created schemes that assist our clients to provide assurance and confidence for both consumers and businesses. A good example is the recent joint development between Thatcham Motor Insurance Research Centre and BSI Product Services to develop the Thatcham BSI Kitemark® Scheme, based on BSI British Standards' PAS 125.

This scheme illustrates the ability of BSI to develop an industry commissioned standard and Kitemark® scheme and helps the vehicle body repair industry prepare for the future by designing a process that addresses working with the increasingly complex and varied materials used in manufacturing motor vehicles. The consumer can now be assured that if they go to a Thatcham BSI Kitemark® garage they should receive a higher quality of service.

“Independent research...
has confirmed that the
Kitemark® is recognised
by over 82 per cent of the
UK adult population.”

“...adjusted group
operating profit has
increased 10 per cent to
£18.7million”

Market access

In 2006 the Electrical and Electronic business unit expanded its operations internationally, most notably in Asia, where the supply chain of many UK and international retailers was assessed by BSI Product Services for compliance with the European RoHS directive (the Restriction of Hazard Substances). This Directive is important in checking for and eliminating any potential hazardous substances in electrical goods, either while they are being used or being disposed of. With the vast quantity of electrical products coming from Asia into the European market, BSI Product Services' reach and expertise in this area has again benefited UK businesses and consumers.

Our extensive testing expertise in other areas such as engineering is now increasingly being provided to customers beyond the UK. Through the establishment of a network of testing partners in Asia and the Middle East that deliver such services close to the customer, we are able to ensure that products marketed to the UK and Europe, such as fire extinguishers, are checked to the required standards before they are shipped.

Regulatory

With extensive resources provided to both external and internal auditing in 2006, our customers can have confidence in our integrity and the thoroughness of our processes and procedures. We work with governments all over the world looking at their regulatory systems and we have recently appointed a specialist regulatory manager to ensure that we are up to date with the constantly changing regulatory environment, especially in the developing ASEAN countries.

This means that our customers can also be kept up to date on the international regulatory environment, enabling them to take advantage of the global marketplace in which we deliver our services.

Outlook

2006 was a year of great change for BSI Product Services as we extended ourselves internationally and implemented our new strategy to become a global service provider for companies worldwide to assist them to ensure that their products and services meet the relevant requirements of the global markets in which they are sold.

Product certification and testing is an expanding market as consumers in both the developing and mature countries increasingly demand higher quality and consistency. BSI Product Services, by independently verifying and testing customer products and or services to meet the ever exacting standards demanded, performs a crucial role in ensuring market access and providing confidence to customer and consumer alike.

Alastair Trivett
Managing Director, Global, BSI Product Services
21st March 2007

Summary Financial Review

Introduction

2006 was the first full year of operations following the disposal of the Inspectorate business in 2005. This has enabled us to focus more fully on our ongoing operations and the success of the year is demonstrated in the operating results reported.

The results for the year show a significant improvement in a number of areas:

- The profit on ordinary activities before tax has risen to £12.6 million (2005: loss £3.6 million)
- The adjusted group operating profit (see below) has increased 10 per cent to £18.7 million (2005: £17.0 million)
- Turnover on continuing activities for the group has increased 9 per cent to £163.9 million (2005: £150.4 million)

Net assets of the Group, which include a net liability of £44.4 million (2006: £57.2 million) in respect of the UK final salary pension fund, have improved from a net deficit in 2005 of £7.2 million to a net asset in 2006 of £8.1 million.

The headline profit on ordinary activities of £12.6 million (2005: loss £3.6 million) includes discontinued activities, exceptional items and a number of strategic costs introduced in 2006. In order to reasonably compare the trading performance of 2006 against 2005 we have prepared the table below and make reference to the "adjusted operating performance".

	2006 £m	2005 £m
Continuing operations		
Turnover per Financial Statements	163.9	150.4
Adjustment to constant exchange rates	0.5	-
Adjusted Group turnover	164.4	150.4
Profit on ordinary activities before interest and tax and exceptional items	17.1	17.0
Add back:		
Adjustment to constant exchange rates	0.2	-
Initiatives in implementing strategy to drive future growth in BSI Product Services	0.8	-
New long term incentive plan costs	0.6	-
Adjusted Group operating profit	18.7	17.0

Three adjustments need to be considered in comparing the year-on-year results:

- 2006 was a year during which we saw considerable volatility in the foreign exchange markets. The impact of this volatility was to reduce our operating profit by £0.2 million year-on-year.
- In 2006, BSI Product Services invested significantly in the business, reflecting the implementation of the strategy to refocus the business and drive future revenue and profit growth. Of this expenditure £0.8m reflects a step-change in the cost base of the business.
- We have also established a long term incentive plan (LTIP) for senior managers to drive the growth objectives inherent within our strategic plan. Such investment is seen as pivotal in ensuring that we motivate and retain key management to deliver our sales and profit growth plans during each strategic cycle. Costs of this scheme have been accrued in 2006 and the rewards under it will only vest on the achievement of significant growth plans.

Exceptional items and goodwill amortisation

Three significant items of restructuring have taken place during the year. The first exercise has focused on revitalising the BSI Product Services division and is part of the strategy described in more detail on page 15. Part of the cost of this exercise comprised one-off costs of £0.6 million and is classed as an exceptional charge, while the balance of £0.8 million relating to new costs that will recur such as re-basing salaries for key individuals, creating new management roles and costs of revitalising the BSI and Kitemark brands is left as normal operating costs but is separately addressed in defining adjusted operating profit referred to in these financial statements. The second restructuring exercise, resulting in a charge of £0.8 million, has allowed the BSI Management Systems division to reshape their Asian hub structure and position them for 2007. In addition to these two initiatives a high level strategic

review of the constraints and opportunities facing the Group was implemented to ensure its long term sustainability. This resulted in a charge of £1.4 million.

Cash flow and investment in the business

The Group's responsibilities in respect of the UK final salary pension scheme continue to be a major cash commitment. The net cashflow from operations of £11.6 million (2005: £7.5 million) has been depressed in both years by an additional payment of £10.1 million (2005: £10.0 million) above the ongoing service costs. In total we made payments of £11.9 million (2005: £12.2 million) into the fund. This included ongoing service costs of £1.7 million (2005: £2.2 million), the Minimum Funding Requirement payments of £8.7 million (2005: £8.7 million) and additional voluntary contributions of £1.5 million (2005: £1.3 million).

We have furthermore invested £11.6 million (2005: £2.5 million) in acquisitions of new business and £4.7 million (2005: £7.4 million) in tangible fixed assets during the year. This represents a very material investment in the future of the business.

Treasury review

The Board has maintained and updated treasury policies for the Group. A Finance Forum 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.

Liquidity risk management

Treasury policy is to minimise external debt while recognising the need to occasionally use short-term external funding for operational reasons. Consequently BSI keeps a flexible cost-effective structure of banking facilities. At 31 December 2006, the Group had overdraft bank facilities (excluding loans) of £3.5 million (utilised £nil), and loan facilities of £0.9 million (utilised £0.9 million). All loans and overdraft facilities, which total £4.4 million, are on an unsecured basis.

Interest rate risk management

Treasury policy is to continually review the market for interest rate protection instruments. Examples of this are the matching of sterling deposits against sterling and other currency loans. Management of interest rate risk is achieved by using corresponding fixed interest rate periods for both loans and sterling deposits where appropriate. At 31 December 2006 the Group had a loan of £0.9 million.

Currency exposure risk management

The Group operates internationally giving rise to exposure from changes in foreign exchange rates, particularly the US Dollar. Treasury policy is to hedge, using forward contracts, 75 per cent of profit and loss account translation exposure for key currencies (USD, EURO and JPY).

Foreign currency transaction exposure is specifically hedged in respect of major contracts, committed receipts and payments and intra-group funding where the exposure is of a significant value. For example, US Dollar funds that are received in the UK are sold forward for sterling once there is certainty of receipt.

Treasury policy is to ensure that as far as practicable net monetary assets in currencies other than the functional currency of each subsidiary are matched with borrowing and financial instruments in similar currencies. Matching is arranged on a Group basis so that movements in exchange rates have little overall impact on Group profit and loss on exchange. At 31 December 2006, as detailed in note 28 of the Annual Report, the overall net foreign currency monetary assets that would give rise to a profit or loss on exchange were £8.1 million (2005: £3.4 million). The hedged balance of £7.3 million (2005: £9.0 million) is due to the use of US\$8.5 million, Can\$5.9 million and Euro 0.5 million forward contracts in place at 31 December 2006.

Credit risk

The Group is exposed to credit related losses on financial instruments in the event of non-performance by counterparties, but it does not expect any counterparties to fail to meet their obligations given the Group's policy of selecting only counterparties with high credit ratings.

Taxation

The effective Group tax rate (ETR) on profit before tax (excluding goodwill and dividends) for underlying business operations for the year is 32.0 per cent (2005: 31.9 per cent). The ETR at 32.0 per cent comprises the UK Group taxed at a 30 per cent statutory rate, higher overseas taxes (USA 40 per cent, Japan 42 per cent, China 33 per cent) combining to increase the ETR by 1.2 per cent and tax disallowable costs, prior year adjustments and unrelieved overseas tax losses (France £120k) increasing the ETR by a further 0.8 per cent.

The Group's underlying ETR is targeted to continue at less than 35 per cent, with long-term management towards the 30 per cent UK statutory rate.

Pensions

The net liability at the end of 2006 stands at £44.4 million (2005: £57.2 million). This decrease has arisen predominantly as a result of changes in bond yields and payments into the fund of £11.9 million over 2006. The Directors remain committed to reducing this deficit and are working with the Trustee to do so.

A full actuarial valuation was last carried out at 31 March 2004 by a qualified independent actuary. A further set of calculations was prepared by the actuary using updated data available from undertaking a valuation for Pension Protection Fund Section 179 purposes as at 30 September 2005. Approximate FRS17 calculations were then prepared at 30 September 2005 and rolled forward using actuarial techniques of approximation to 31 December 2006.

A valuation of the final salary scheme carried out under the Government's Minimum Funding Requirement (MFR) as at 31 December 2005 showed an MFR funding level in the region of 95 per cent.

The next triennial valuation of the fund as at 31 March 2007 is in hand and the results are expected to be available in Quarter 4, 2007.

Summary Financial Statements

Summary Consolidated Profit and Loss Account for the year ended 31 December 2006

	2006			2005			
	Before goodwill amortisation and exceptional items		Total	Before goodwill amortisation and exceptional items			Total
	Continuing	Exceptional items & goodwill amortisation		Continuing	Discontinued	Exceptional items & goodwill amortisation	
	£m	£m	£m	£m	£m	£m	£m
Turnover	163.9	-	163.9	150.4	84.4	-	234.8
Cost of sales	(81.4)	-	(81.4)	(75.9)	(58.5)	-	(134.4)
Gross profit	82.5	-	82.5	74.5	25.9	-	100.4
Net operating costs	(65.4)	(4.4)	(69.8)	(57.5)	(28.2)	(4.4)	(90.1)
Operating profit/(loss)							
-continuing operations	17.1	(4.4)	12.7	17.0	-	(2.9)	14.1
-discontinued operations	-	-	-	-	(2.3)	(1.5)	(3.8)
Operating profit/(loss)	17.1	(4.4)	12.7	17.0	(2.3)	(4.4)	10.3
Loss on termination of an operation	-	-	-	-	-	(3.7)	(3.7)
Loss on disposal of businesses	-	-	-	-	-	(7.6)	(7.6)
Profit/(loss) on ordinary activities before interest and tax	17.1	(4.4)	12.7	17.0	(2.3)	(15.7)	(1.0)
Interest receivable	0.7	-	0.7	1.9	(1.0)	-	0.9
Interest payable and similar charges	(0.8)	-	(0.8)	(2.9)	(0.6)	-	(3.5)
Profit/(loss) on ordinary activities before taxation	17.0	(4.4)	12.6	16.0	(3.9)	(15.7)	(3.6)
Tax on profit/(loss) on ordinary activities	(5.4)	0.9	(4.5)	(5.1)	(1.8)	(7.0)	(13.9)
Profit/(loss) on ordinary activities after taxation	11.6	(3.5)	8.1	10.9	(5.7)	(22.7)	(17.5)
Equity minority interests	(0.2)	-	(0.2)	(0.1)	(0.3)	-	(0.4)
Retained profit/(loss) for the year	11.4	(3.5)	7.9	10.8	(6.0)	(22.7)	(17.9)

Summary Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 December 2006

	2006	2005
	£m	£m
Retained profit/(loss) for the year	7.9	(17.9)
Actual return less expected return on pension scheme assets	(0.9)	18.4
Experience losses arising on pension scheme assets	(1.1)	(7.6)
Changes in assumptions underlying the present value of the scheme liabilities	13.3	(20.9)
Deferred tax on pension scheme movements taken through the statement of total recognised gains and losses	(3.4)	3.0
Exchange movements offset in reserves	(0.5)	-
Total recognised gains/(losses) for the year	15.3	(25.0)

Summary Consolidated Balance Sheets at 31 December 2006

	2006	2005
	Group	Group
	£m	£m
Fixed assets	38.2	28.5
Current assets	59.7	69.0
Creditors:		
Amounts falling due within one year	(39.9)	(40.7)
Net current assets	19.8	28.3
Total assets less current liabilities	58.0	56.8
Creditors :		
Amounts falling due after more than one year	(0.3)	-
Provisions for liabilities and charges	(5.2)	(6.5)
Equity minority interests	-	(0.3)
Net assets excluding defined benefit pension scheme liabilities	52.5	50.0
Pension liability, net of tax	(44.4)	(57.2)
Net assets/(liabilities)	8.1	(7.2)
General Fund – reserves	8.1	(7.2)

Approved by the Board
on 21 March 2007
Sir David John, Chairman

Summary Consolidated Cash Flow Statement for the year ended 31 December 2006

	2006	2005
	£m	£m
Net cash inflow from operating activities	11.6	7.5
Returns on investments and servicing of finance		
Interest received	0.7	0.9
Interest paid	(0.2)	(3.4)
Dividend paid to minority	(0.2)	(0.2)
	0.3	(2.7)
Taxation		
UK tax paid	(0.4)	(4.6)
Overseas tax paid	(3.8)	(10.0)
	(4.2)	(14.6)
Capital expenditure		
Purchase of tangible fixed assets	(4.7)	(7.4)
Sale of tangible fixed assets	-	0.5
	(4.7)	(6.9)
Cash inflow/(outflow) before acquisitions and disposals, management of liquid resources and financing.	3.0	(16.7)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(11.6)	(2.5)
Net cash acquired with purchase of subsidiary undertakings	0.3	-
Disposal of subsidiary undertakings	2.2	52.1
Net cash sold with subsidiary undertakings	-	(4.4)
	(9.1)	45.2
Cash (outflow)/inflow before management of liquid resources and financing	(6.1)	28.5
Management of liquid resources		
Cash withdrawn/(due) from short term deposit	7.1	(2.7)
Financing		
Decrease in borrowings	(0.6)	(16.3)
Repayment of principal under finance leases	-	(0.1)
Cash outflow from financing	(0.6)	(16.4)
Increase in cash	0.4	9.4

Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt) for the year ended 31 December 2006

	2006	2005
	£m	£m
Increase in cash in the year	0.4	9.4
Movement in short term investments	(7.1)	2.7
Movement in loans	0.6	16.3
Reduction in lease financing	-	0.1
Change in funds resulting from cash flow	(6.1)	28.5
Exchange differences	(0.3)	0.1
Movement in net (debt)/funds in the year	(6.4)	28.6
Net funds/(debt) at beginning of the year	25.8	(2.8)
Net funds/(debt) at end of the year	19.4	25.8

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

We have examined the Summary Financial Statements which comprise the Summary Consolidated Profit and Loss Account, Summary Consolidated Balance Sheet, Summary Consolidated Statement of Total Recognised Gains and Losses, Summary Consolidated Cash Flow Statement and the Summary Directors' Remuneration Report.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Review & Summary Financial Statements. This responsibility includes ensuring that the Summary Financial Statements are consistent with the full Annual Financial Statements.

Our responsibility is to report to the Board of Directors of The British Standards Institution our opinion on the consistency of the Summary Financial Statements within the Annual Review & Summary Financial Statements with the full Annual Financial Statements, the Directors' Report and the Directors' Remuneration Report.

We also read the other information contained in the Annual Review & Summary Financial Statements and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements. This statement, including the opinion, has been prepared for and only for the Board of Directors as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the company's full annual financial statements describes the basis of our audit opinion on those financial statements and the Directors' Remuneration Report.

Opinion

In our opinion the Summary Financial Statements are consistent with the full Annual Financial Statements and the Directors' Report and the Directors' Remuneration Report of The British Standards Institution for the year ended 31 December 2006.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 March 2007

Notes:

The auditors accept no responsibility for any changes that may have occurred to the Summary Financial Statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Social Responsibility Statement

BSI Group's approach to corporate social responsibility (CSR) exemplifies and underlines our commitment to our core values of independence, innovation and integrity.

We strive to maintain sustainable practices and exceed expectations and we believe it is important to share a common understanding of CSR matters with our stakeholders and business partners. There are numerous examples of CSR work undertaken by BSI across the globe; the following is a brief overview of some of the key areas of activity in 2006.

Our work

BSI has taken an international lead in promoting the benefits that CSR can bring to business.

In 2006 BSI British Standards made a strong contribution to the continuing development of ISO 26000, the international standard on Social Responsibility, and published a range of titles contributing to supporting the sustainability agenda, including: *Business Ethics in the 21st Century Organization* and a series of environmental management reports focusing on core environmental issues, including: *Focus on Climate Change*; *Focus on Waste Management*; *Focus on Environmental and Corporate Responsibility Communications*; and *Focus on Sustainability and its Implications for CSR*.

BSI British Standards also published PAS 78, a publicly available specification which outlines good practice in commissioning websites which are accessible and usable by disabled people. The communications around the launch of this PAS won a Clarion Award from the International Visual Communication Association, a leading European body promoting excellence in ethical and effective business communications.

BSI Management Systems also retained its accreditation status under SA8000:2001, as one of only 14 certification bodies worldwide which is accredited to offer assessments to the most widely recognised global standard for social accountability.

Our environment

Taking a leadership position, BSI Management Systems UK, which had committed to becoming carbon neutral in 2005, achieved carbon neutral status in 2006. This was realised through a combination of reducing Client Manager travel (by more than 200,000 miles plus reducing hotel stays) and buying carbon credits to offset our unavoidable carbon footprint. Offset projects which we invested in included tree planting projects in the UK and funding a micro-hydroelectric power plant in Bulgaria. Becoming carbon neutral did not compromise business performance, and at the same time significantly benefited our staff's health and safety. We hope the measures taken will encourage our clients to act on climate change and provide support to the environmental management systems we offer.

Our communities

BSI Management Systems America Inc. joined the UN's Global Compact program in August 2005 and BSI Management Systems Mexico followed in June 2006. The Compact works to advance ten universal principles in the areas of human rights, labour standards, environment, and anti-corruption. BSI remains committed to the programme and we will be making our first required "Communication on Progress" this summer.

2006 saw the 12th anniversary of the BSI Sustainability Design Awards Scheme. The Award has evolved from one for standards in design, into a sustainability award, echoing BSI's concern for sustainability issues.

In 2006 prizes were awarded to a project supporting ecologically and socially sustainable textile production in India; an innovative new cooking method which uses 33 per cent less energy than conventional hobs and a project which uses innovative design to rejuvenate unwanted ceramics and textiles into objects of desire, "rescuing" the estimated 1 million tonnes of textiles thrown away each year in the UK.

Our involvement in the increasingly important field of CSR will continue in 2007 as we do our best to make a real difference to the environment and communities across the globe.

Summary Corporate Governance Statement

Governance framework

BSI is incorporated by Royal Charter and, as such, is not subject to the Companies Acts, nor is it required to comply with the Combined Code. However, the Board of Directors is committed to embedding within BSI the highest standards of corporate governance and therefore BSI seeks to comply with the Combined Code where this is relevant and practical.

BSI's governance framework consists of three elements:

- its organisational structure;
- its internal control framework, and
- its review and assurance process, details of which are provided below.

BSI Organisational Structure and Board Composition

The Board

The Board is the governing body of BSI and has the sole management of its income and funds. It is responsible for setting Group strategy and providing leadership within a governance framework.

The Board in 2006 comprised seven Directors, under the Chairmanship of a part-time Non-executive Chairman, three Non-executive Directors and three Executive Directors. The Chairman cannot be a member of the staff of BSI. The total number of Executive Directors may not exceed the total number of Non-executive Directors.

The roles of the Chairman and the Chief Executive are distinct. Each of the Non-executive Directors was considered by the Board to be independent during the year.

BSI's Royal Charter requires the Chairman to be elected by the Board annually from the Non-executive Directors. The current membership of the Board and its principal Committees is set out below. The Board meets as a minimum six times a year and, additionally, ad hoc meetings are held as necessary. In 2006 eight meetings were held and all eight meetings were attended by: Sir David John, Stevan Breeze, Mike Low, Michael French and Norman Price, whilst Judith Hanratty, Roy Mort, Charles McCole and John Regazzi each attended four.

Role of the Board

The Board maintains a detailed Schedule of Matters Reserved to it and this includes ensuring that BSI's Royal Charter and Bye-Laws are complied with. The Board is the governing body of the Company. It approves the Group's strategy; Operating Budget; capital expenditure; acquisitions and disposals (in excess of £1.5 million); increases in BSI's or any of its subsidiaries loan, share capital and borrowing facilities (in excess of £2.5 million); contracts and tenders (in excess of £2 million); amendments to BSI British Standards' Subscribing Member subscriptions and benefits; material personnel policy or pension arrangement changes; major staff pay and benefit changes; the appointment or removal of Executive Directors and determining the remuneration of Non-executive Directors; and policies and procedures for identifying and managing risk.

Board Committees

In line with best practice, the Board of BSI has established a number of committees to which it has delegated a number of the Board's functions; namely:

Audit Committee

Chairman: Michael French FCA

Members: Sir David John, Norman Price

The Committee currently comprises the Chairman and two independent Non-executive Directors. The Chief Executive, the Finance Director, the Head of Risk and Compliance and the External Auditors are normally invited to attend the Committee Meetings. The Committee meets as a minimum of two times a year and additionally ad hoc meetings are held as necessary. In 2006 three Committee meetings were held which were attended by all the members.

The key responsibilities of the Audit Committee are to monitor the integrity of the financial statements of the Company. The Committee is also responsible for reviewing the summary financial statements and significant financial returns to regulators.

Remuneration Committee

Chairman: Michael French FCA

Members: Sir David John, John Regazzi

The Committee currently comprises The Chairman and two independent Non-executive Directors. The Chief Executive is normally invited to attend the Committee's meetings. The Committee meets as a minimum of once a year and, additionally, ad hoc meetings are held as necessary. In 2006 three meetings were held and all three meetings were attended by Sir David John and Michael French. Judith Hanratty OBE was a member of the Committee until she stepped down from the Board and attended 2 meetings; John Regazzi was appointed to the Committee during the year.

The Remuneration Committee is responsible for determining and agreeing with the Board the policy on remuneration of the Chief Executive, Chairman, the Executive Directors and the Company Secretary. The Committee also reviews the design of all long term incentive plans for approval by the Board; determines the policy and scope of the pension arrangements for each Executive Director and senior executives; and reviews the selection criteria, selection, appointments and terms of reference for any remuneration consultants who advise the Committee. No Director or executive is involved in any decisions concerning their own remuneration.

Nominations Committee

Chairman: Sir David John KCMG

Members: Michael French and Stevan Breeze

The Committee currently comprises The Chairman, one independent Non-executive Director and the Chief Executive. The Committee meets as and when necessary. In 2006 one Committee meeting was held which was attended by all the members.

The Committee is responsible for the succession planning for the Directors and other senior executives and recommending to the Board candidates for appointment to the Board as Non-executive Directors.

In addition the Board has established the following Committees:

- Executive Committee
The Executive Committee is charged with the implementation of agreed strategy and the day to day operation of the BSI Group.
- Group Compliance and Risk Committee
The Committee is responsible for monitoring compliance with the Group's Statement of Business Values, Group Rules and related documents; for the investigation of incidences of non-compliance and to monitor the Group's risk and compliance programmes.

NSB Governance Committee

The principal objectives of the Committee are to monitor the Company's delivery of its obligations regarding its UK National Standards Body (NSB) activities on behalf of the UK Government and compliance with its Code of Conduct.

Standards Policy and Strategy Committee

The principal objective of the Committee is to bring together the views of those interested in BSI British Standards' formal consensus standards activities in order to develop the BSI's strategic policy in the national, European and international standards areas.

BSI Control Framework

BSI's internal control framework is laid down in various framework documents, namely:

- The BSI Group Rules – a comprehensive set of rules with associated policy and procedures regarding the practical governance of the Group's businesses;
- The BSI Statement of Business Values – a statement of BSI's ethical values.

BSI Review and Assurance Processes

Internal controls

BSI is committed to the highest standards of corporate governance and has adopted, where considered relevant and practical, the Combined Code requirements specified by the Financial Reporting Council.

For the year ended 31 December 2006, the Company has complied with Principle C.2 of the applicable Combined Code by maintaining a sound system of internal control to safeguard investments and Company assets.

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Company's system of internal control and in compliance with Provision C.2 1 of the applicable Combined Code, has undertaken the reviews of financial, operational and compliance internal controls throughout the reporting year.

BSI has established and regularly updates its Group Rules which are designed to provide a level of assurance that adequate financial and other controls exist.

The Board operates an internal audit function responsible for auditing and monitoring the application of financial procedures and practices throughout the Group.

Risk management

There is a continuous process for identifying, evaluating and managing the significant business risks faced by the Group. This process was in place throughout 2006. The process is based on the US recognised control framework COSO Enterprise Risk Management.

The business risk management process adopted has promoted both a bottom-up and a top-down assessment of key risks. The top-down assessment involves the Group Risk and Compliance Committee, which operates under written terms of reference, in identifying key Group risks which are communicated to the divisions.

The bottom-up assessment is undertaken by divisional and departmental risk committees. This results in detailed analysis of risks which are incorporated into risk registers, the mitigation plans for which are updated continuously by managers throughout the Group and reviewed quarterly.

The Board regards risk management to be essential to good business practice. The identification, evaluation and management of risk is integrated into the key business processes including strategic planning; investment appraisal; performance management; and health, safety and environmental management.

The Group Risk and Compliance Committee also monitors compliance with the Group's Statement of Business Values, Group Rules and oversees the handling of any incidents reported via the Group's confidential incident reporting lines. Compliance incidents are reviewed and further action taken as appropriate. All aspects of the Group's insurance risk programmes and policies are monitored and new initiatives are introduced as required. The Group maintains a programme of insurance covering all major insurable risks to the Group's business assets and operations.

Health and safety

The Board recognises that the protection of the health and safety of staff, contractors, visitors and others and of the environment is a vital and integral part of business performance and corporate governance and a prime responsibility of management at every level.

Significant progress continues to be made across the Group in the development and implementation of OHSAS 18001 management systems, training materials and programmes and the improvement of preventative and precautionary measures to meet its strategic objectives.

There was a reduction in the total number of Lost Time Accidents (9 accidents in 2006 against 14 accidents in 2005). However, the average number of days lost per accident rose (10.6 days lost per accident in 2006 against 3.6 days lost per accident in 2005) mainly as a result of a single road traffic accident in the Asia region. The number of minor accidents reduced from 49 in 2005 to 46 in 2006.

Key Business Risks

The most significant risk and uncertainty factors we have identified relate to:

- strategic risk;
- reputational damage from breaches of brand integrity;
- changes in laws or regulation;
- maintenance of regulatory compliance;
- foreign exchange fluctuations;
- pension scheme funding requirements;
- political instability in emerging economies;
- retention of key staff;
- sustainability of the current standards model; and
- changes in tax rates and accounting standards.

Summary Remuneration Report

The Board has a Remuneration Committee which consists entirely of Non-executive Directors. Details of the current composition of the Committee can be found in the Summary Corporate Governance Statement.

Advisers to the Committee

The Committee has access to specialist executive reward consultants to ensure it receives independent advice. In 2006, this advice was provided by Monks Partnership Limited and Towers Perrin.

Executive remuneration policy

The Committee's objective is to ensure that the levels of emoluments for Executive Directors are set to attract, retain and motivate individuals of the quality required to best further the interests of the Group and its members. Due consideration is given to the rewards payable by comparable organisations and their relative performance.

The Remuneration 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.

A major project for the Committee during the year was the introduction of a Long Term Incentive Plan (LTIP) for directors and senior executives of the Group, based upon demanding growth criteria linked to the Group Strategic Plan. The granting of Awards under the LTIP is restricted to Executives and Senior Managers. Participation is solely at the invitation of the Remuneration Committee, based upon the recommendation of the Chief Executive.

In order for a Profit Participation Unit (PPU) to vest, a threshold level at profit growth must be achieved for the Plan period. The threshold has been set with reference to the Group Strategic Plan and external benchmarks. The Plan also provides for a 'cap' on any potential payout. As a Royal Charter company the use of 'TSR' or 'EPS' related performance measures is not possible.

Executive Directors' service contracts

Executive Directors have service contracts with the Company with notice periods of no more than twelve months.

Non-executive Directors

Non-executive Directors are appointed for an initial term of 3 years.

Summary Directors' Report

Directors

The following served as Directors during the year:

Sir David John KCMG

Stevan Breeze

Michael French FCA

Judith Hanratty (resigned 30 June 2006)

Mike Low

Charles McCole (appointed 6 July 2006, resigned 5 February 2007)

Roy Mort (resigned 30 June 2006)

Norman Price OBE

John Regazzi PhD (appointed 1 July 2006)

Biographical details of the Directors currently serving on the board can be found on page 32.

BSI's Bye-laws require one third of all serving Directors to retire by rotation each year at the Company's Annual General Meeting, accordingly Sir David John and Stevan Breeze will retire from the Board under Bye-law 10 and will be offering themselves for re-election at the Annual General Meeting. John Regazzi will also be offering himself for re-election at the Annual General Meeting in accordance with Bye-law 8(c).

Principal activities

The Group's principal activities are the development and sale of private, national and international standards and supporting information; 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 Group operates in some 110 countries worldwide.

Review of business

BSI Group is a leading independent professional services organisation which operates globally across all business sectors. It comprises three business units: BSI British Standards (which is the UK's National Standards Body), BSI Management Systems and BSI Product Services.

The Boards' Operating and Financial Review is set out within the Chairman's statement, Chief Executive's report, the BSI British Standards Review, the BSI Management Systems Review, the BSI Product Services Review and within the Corporate Governance Statement.

Results

Turnover on continuing operations rose in 2006 to £163.9 million (2005: £150.4 million), a rise of 9 per cent over 2005. The 2006 profit before tax is £12.6 million (2005: loss of £3.6 million). The underlying trading performance of the Group is demonstrated by the adjusted operating profit¹ figure of £18.7 million (2005: £17.0 million) representing year on year growth of 10 per cent. The retained profit for the year amounted to £7.9 million (2005: retained loss £17.9 million). Further details are set out in the Financial Review on pages 21 to 23 in the Annual Report for 2006.

Charitable and political donations

The Group made a £2,000 charitable donation to Save the Children Fund during 2006 (2005: £13,368). No donations were made during the year for political purposes (2005: £nil).

Employees

The Group had 2,274 employees worldwide at 31 December 2006 of which 50.5 per cent were based outside the UK.

The Group communicates and consults with its employees on a wide range of subjects, including those which directly affect them using email, websites, intranet, in-house publications and meetings at business locations.

¹ Adjusted operating profit is stated before interest, tax, operating exceptional items and certain other strategic costs introduced in 2006

The staff of BSI are our key asset, and we work hard to ensure we maintain good relationships with our people through ongoing two way communication and a variety of employee forums around the world.

Equality And diversity

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

The Group is committed to providing a work environment free from harassment and discrimination. The Group 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 whilst employed, every effort is made to enable them to continue working either in their original job or some suitable alternative.

The Group operates a graduate management training scheme through which it selects a small cadre of graduates from those countries in which it operates and provides them with a two-year on the job training and work experience programme.

Health and safety

The 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 also recognises that in addition to its employees it has responsibilities to all persons on its premises, such as contractors, customers, visitors and members.

Suppliers

The Company aims to pay its suppliers promptly and in accordance with its contractual and other legal obligations. The Company'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 2006 the Company had 37 days' purchases outstanding (2005: 41) 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 has 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 Company's financial statements.

Richard Catt
Director of Legal Affairs
and Company Secretary
21 March 2007

The Board



Sir David John KCMG

Chairman

Sir David John was first elected Chairman in July 2002 after joining the Board in May 2002 as a Non-executive Director. Sir David was Chairman of the BOC Group until January 2002. He is currently Chairman of Balfour Beatty and Premier Oil. Age 68.



Stevan Breeze

Chief Executive

Stevan Breeze joined BSI as Chief Executive in February 2002. He was previously a Director of Jarvis Infrastructure Services and a Divisional Managing Director of BTR. Mr Breeze has extensive general management and commercial experience in manufacturing, consumer product marketing and support services across a wide range of international industries. He has held Board positions in quoted groups in the UK and India. Age 55.



Mike Low

Director, BSI British Standards

Mike Low joined BSI as Director of BSI British Standards in 2003. Prior to this he was the Director of Group Strategy and Performance for Amey plc. Until 2000, Mr Low was Managing Director of British Energy plc's UK Generation Division and also a main board Director. Previously, he was 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 Institute of Quality Assurance. He has published widely on power generation, safety and risk management. Age 58.



Norman Price OBE

With extensive industrial experience, particularly, latterly in SMEs, Norman Price joined the Board as a Non-executive Director in June 2004. He is currently Chairman of Ecologic, Non-executive Director of Bede Plc and Mercia Fund Management and a Vice President of the EEF. He is also Chairman of the Enterprise Board and the regional finance forum in the West Midlands and a senior industrialist in the Department of Trade and Industry. Age 62.



Michael French FCA

Michael French joined the Board as a Non-executive Director in January 2005. An Asian specialist who worked for several years in Japan, Mr French is an engineer by training and a Fellow of the Institute of Chartered Accountants. He worked principally with PricewaterhouseCoopers LLP, of whom he became a Partner in 1981. Age 59.



John Regazzi PhD

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. He was President and CEO of Engineering Information Inc and is also Dean of the College of Information and Computer Science of Long Island University. Age 58.

Company Secretary



Richard Catt

Director of Legal Affairs

Richard Catt was appointed Director of Legal Affairs and Company Secretary in May 2005. A barrister, he has held a number of senior legal positions in UK listed and private companies, most recently Legal Director and Company Secretary of Securiguard Group and Simon Group. Age 52.

Principal Subsidiaries

Interests in principal and other functional subsidiaries

Name	Country of incorporation or registration	Activity
British Standards Institution Espana SA	Spain	Management Systems
British Standards Institution Mexico S dr RL de CV	Mexico	Management Systems
BSI (Asia Pacific) Ltd	Hong Kong	Management Systems
BSI Advisory Services BV	Netherlands	Management Systems
BSI Australia Holdings Pty	Australia	Management Systems
BSI Brasil	Brazil	Management Systems
BSI Brasil Sistemas de Gestao Ltda	Brazil	Management Systems
BSI Eurasia Management Systems Certification Ltd Co	Turkey	Management Systems
BSI France Sarl	France	Management Systems
BSI Hungary Certification Company Ltd	Hungary	Product Services
BSI Management Systems India Pvt Ltd	India	Management Systems
BSI Management Systems Japan KK	Japan	Management Systems
BSI Ltd	England & Wales	Holding company
BSI Management Systems America Inc	USA	Management Systems
BSI Management Systems Singapore Pte Ltd	Singapore	Management Systems
BSI Management Systems BV	Netherlands	Management Systems
BSI Management Systems Canada Inc	Canada	Management Systems
BSI Management Systems Certification (Beijing) Ltd	China	Management Systems
BSI Management Systems CIS LLC	Russia	Management Systems
BSI Management Systems Holdings Ltd	England & Wales	Holding company
BSI Management Systems Italia S.R.L.	Italy	Management Systems
BSI Management Systems Korea Ltd	Korea	Management Systems
BSI Management Systems Thailand Co. Limited	Thailand	Management Systems
BSI Management Systems Ltd	England & Wales	Management Systems
BSI Pacific Ltd	Hong Kong	Management Systems
Entropy International Limited	England & Wales	Professional Services
Nis Zertifizierungs-und Umweltgutachter GmbH	Germany	Management Systems

Facts and Figures (as at 31 December 2006)

	2006	2005
Subscribing Members	14,807	14,841
Committee Members	7,300	6,361
UK Technical Committees and subcommittees	1,294	1,292
Number of New Standards Published during the year	2,753	1,755
Current British Standards	25,729	25,793
UK secretariats of ISO technical/subcommittees	89	98
UK secretariats of IEC technical/subcommittees	26	26
UK secretariats of CEN technical committees	77	78
UK secretariats of CENELEC committees	26	29
Business locations registered by BSI	54,833	48,513
Notified Body status (under European Directives)	17	17
Number of BSI staff worldwide	2,274	2,109
Number of operating countries	110	86