

# Full Financial and Governance Statements 2008/09

B

B

C

F01 / **FINANCIAL OVERVIEW/**  
F07 / **FINANCIAL HIGHLIGHTS/**  
F09 / **INDEPENDENT AUDITOR'S REPORT/**  
F10 / **FULL FINANCIAL STATEMENTS AND NOTES/**  
F72 / **GOVERNANCE/**

# FINANCIAL OVERVIEW/



“LICENCE FEE PAYERS RIGHTLY EXPECT TO RECEIVE EXCELLENT VALUE FOR MONEY ACROSS ALL OUR SERVICES. TO SUCCEED IN DELIVERING MORE FOR LESS WE CONTINUE TO SIMPLIFY AND INNOVATE IN EVERY ASPECT OF OUR BUSINESS.”

ZARIN PATEL, CHIEF FINANCIAL OFFICER

The BBC offers a uniquely diverse and distinctive range of services; it is also funded in a distinctive way. We have commercial operations, including BBC Worldwide, but most of our funding comes from the licence fee, paid for by households across the UK. We also receive funding from the Foreign & Commonwealth Office to support the World Service.

Our funding gives us exceptional privileges and we have a responsibility to spend this money well. The first part of this financial review focuses on how we do this, especially in the face of the current economic downturn.

**OUR BOTTOM LINE IS VALUE – FOR ALL OUR STAKEHOLDERS**

Another consequence of our unique status is that we do not have a 'bottom line' in the way that profit-making organisations do, but show a surplus or deficit each year.

Our group accounts show a surplus before interest and tax this year of £178.1 million (2008: deficit (£4.7million)), arising principally as a result of the way we have been funded. We have higher settlements in the early years which will help to fund our significant Charter commitments through to 2012/13, including the digital build and Help Scheme, the move to Salford and our network supply strategy.

Rather than a bottom line, what we do have is a very clear understanding of the value we can and should be creating for our stakeholders, and this translates into five key financial objectives:

**Maximising our income by collecting the licence fee as efficiently as we can**

There are two aspects to this: developing more cost-effective ways to collect and pay the licence fee, which also meet our customers' needs, and keeping evasion as low as possible.

We saw a 12% increase in the number of people paying through the cash plans last year, which enables people to pay in smaller instalments over a longer period, and we've also provided more outlets where people can pay at their convenience. We have continued to promote online payments, which are cheaper to process, and more convenient for many of our licence fee payers. More licences were sold both this way and through the self-service phone line in 2008/09. Self-serve now represents 35% of total transactions, up from 26% in the previous year.

The number of people paying through direct debit increased again this year from 66% to 67%. We are, as expected, reaching the maximum potential for this particular scheme, so we are now focusing on investing in other flexible payment methods. Our total collection costs (net of interest) went down again this year, to £119million or 3.4% of income.

Evasion rose slightly, from 5.1% to 5.3%, reflecting current economic conditions, but as this was offset by more efficient collection, the combined cost of both collection and evasion remained stable at 8.7% of our licence fee income. However, we expect to face

Chart 1/ Licence fee collection/evasion %

06/07	9.2
07/08	8.7
08/09	8.7

further challenges in the next 12 months as lower levels of consumer confidence slow the growth in new households.

The BBC Trust recently carried out an independent review of our Licence Fee Collection, which consulted with licence fee payers before making a number of specific recommendations on how our approach should change. We have taken these on board, and will particularly be looking at how we communicate with licence fee payers, simplifying how people pay for their licence fee, and ways to target our enforcement measures more effectively.

**Making the BBC as efficient as possible, and providing good value for money**

The success of our efficiency programme is more important now than it has ever been. Under our new Continuous Improvement programme, which started in April 2008, we have been set a stretching target to achieve 3% cumulative efficiency savings each year or 15% of our cost base to 2012/13, which equates to about £1.9billion. Over this time we also plan to reduce headcount by 10% (1,800 posts), on top of the 10% achieved between 2005 and 2008 (1,900 posts).

We estimate that the Continuous Improvement programme will cost about £160million to implement over six years, and we have saved £237million since the programme started (£192million net of costs).

This is not a one-off programme of savings. From 2000-2005 we delivered over £2billion through efficiencies and other initiatives, and then achieved a further £347million of recurring annual savings, through the Value for Money programme, which ran from 2005 to 2008. These efficiency programmes principally targeted our fixed cost base; this means that the savings in our latest programme, as a proportion of our variable costs, are actually even higher.

The savings come from a number of initiatives, including changing the way we commission and make in-house programmes, centralising news production and introducing end-to-end digital tapeless production.

Chart 2/ Gross efficiency savings £m

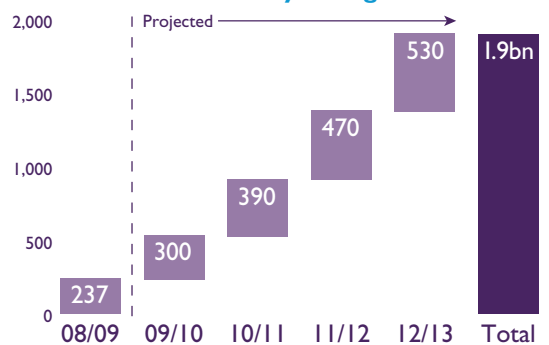


Chart 3/ BBC Worldwide statutory profit before interest and tax £m

06/07	111
07/08	118
08/09	86

So far, as a result of the changes made to the way we make our programmes, we have been able to invest more in technology, improving the capabilities of iPlayer and enhancing our on-demand capabilities, to make our Sport, News and Radio content available wherever and whenever our audience wants it. We have also invested in multiplatform programming and new services such as HD – this has already been a great success both for the 2008 Olympics, and for landmark programmes like *Nature's Great Events*.

The final points to mention here are the Value for Money reviews. The National Audit Office completed two reviews in 2008/09, one on radio production, and the other on our management of strategic contracts. The first recognised that the aim of achieving nearly £70million of cumulative cash releasing savings in radio by 2012/13 is a challenging one. The report made a number of recommendations, which we were either already implementing, or will address now. Most of these relate to sharing good practice and insight, both inside and outside the BBC. The second review analysed 17 different contracts with a combined annual value of around £715million. The report recognised that the BBC has an above-average track record in managing major contracts and the savings we have secured have exceeded original expectations. Again, we are addressing the report's recommendations, and focusing in particular on how we manage our supply chain more effectively.

#### A more efficient BBC: streamlining scripts

Drama development and production is an expensive business, and we are constantly looking for ways to achieve the same high-quality result at a lower cost – to make *Little Dorrit* for as little as *Doctors*. One way we are doing this is by bringing together our financial and creative teams more often and in new ways, to improve their understanding of each others' priorities and constraints. Giving better programme budgeting training to script editors is a good example of this working well in practice. In this case we have been able to avoid unnecessary costs and streamline decision-making in the crucial early stages of a production schedule. We have seen knock-on benefits for the whole production team and process.

#### Maximising the returns we make on programmes paid for by the licence fee

This is, in essence, what the main commercial arm of the BBC exists to do. BBC Worldwide sells the programmes we make across the world, so that licence fee payers get the highest possible return on the money they pay.

We are always looking for new opportunities to sell our output, formats and other merchandise in the UK and overseas. In 2008/09 BBC Worldwide's total revenues were just over £1 billion, including intra-group income and its share of joint venture income, up 9.5% on the previous year and the first

time that revenues have passed this milestone. This is partly down to new investment this year, in channels, online and production, and partly the result of growth from our existing business. Particular highlights from our Global Brands business include *Top Gear*, and *Doctor Who*. We have also launched 18 new channels worldwide this year, which brings our total to 44, contributing to growth in Channels revenue of 23%.

The magazines division has had a more difficult year, with both advertising and circulation suffering from the general decline in marketing spend that is now affecting the whole magazine market. Lonely Planet has delivered its first full year of revenues, but is also being impacted by the current economic downturn, which is slowing the travel and holiday market; however we are encouraged that the business still managed to grow its market share in the USA.

#### A more efficient BBC: multimedia news

We now have a multimedia newsroom which brings together journalists and production teams from television, radio, and online. This saves money, speeds up decision-making, and allows us to make the most of the content we create, by re-using and repackaging it for more channels and platforms. It has also given new skills to our own news teams, as well as the freelancers who work for us, who can then take what they have learned out into the wider marketplace.

We had been hoping to build on the huge success of iPlayer with our proposal to develop a new video-on-demand service in partnership with ITV and Channel 4. Unfortunately the Competition Commission has ruled that this would be too much of a threat to other competitors in the emerging video-on-demand market. As a result we have had to write-down £9million of costs incurred, but we are still hopeful that we can find another way to generate the same returns for licence fee payers over the long-term.

Our partner in the joint venture 2entertain, Woolworths Group plc, entered administration at the end of 2008, so we have had to write-off both costs and unrecoverable debt, although 2entertain itself continues to trade well. Since then we have been exploring how best to resolve this issue in a way that protects the interests of licence fee payers.

BBC Worldwide's statutory profits fell from £118million in 2007/08 to £86million this year. This is principally due to charges in relation to Woolworths (estimated at £15million including our share of the pension liability of 2entertain), Kangaroo (£9million), and our ongoing strategy of investment.

Our global news business, BBC World News, has been impacted by the downturn in advertising activity in the year. Despite an increase in revenues of 12%, it has incurred a statutory loss of £3million this year.

### A more efficient BBC: longer-term production deals

In a business like ours commissions and schedules will always change year on year, as audience preferences and priorities change. This makes achieving significant budget savings even more challenging, but there are some long-term decisions we can still make that can help to keep our costs down. For example, we can negotiate longer-term deals with independent producers on those formats that we feel are likely to remain popular, or could adapt to different audience tastes. *Masterchef* and *Eggheads* are both good examples of this. The benefits are two-fold – it gives the independent production company more certainty about their cashflow, while allowing us to plan more efficiently, which has an immediate impact on our cost per hour.

We announced the sale of the Outside Broadcasts division of BBC Resources Limited, another commercial venture, at the start of 2008/09. We retained the Studios and Post Production operations, and restructured them into a new business called BBC Studios and Post Production Limited. It has been a challenging year throughout the broadcast facilities market, with widespread reductions in turnover and revenues, as productions cut costs and looked for savings. At year end, the business made a statutory loss before interest and tax of £1.8million, mainly due to our restructure.

For more information see its service review, or see [www.bbcstudiosandpostproduction.com](http://www.bbcstudiosandpostproduction.com)

Whilst the statutory results of the individual commercial businesses show a profit of £86million in BBC Worldwide, losses of £19million in Studios and Post Production and £3million in BBC World News, when consolidated into the group accounts, the group profit before interest and tax is reduced to £31million. This reflects the recognition of non-cash losses on foreign exchange financial instruments; these adjustments were not significant in 2007/08.

In general, our commercial operations are in good shape at the start of the new financial year. We await the outcome of the Digital Britain review, which may have longer-term implications for BBC Worldwide. The priority now is to make real improvements in some under-performing areas, while remaining agile enough to move quickly to seize new opportunities.

### Spreading the benefit of the licence fee across the whole of the UK

The BBC is for the whole of the UK, from Belfast to Truro, Aberdeen to Brighton, Swansea to Middlesbrough. We are all passionately committed to nurturing the very best creative and production talent, right across the country. One way we are doing this is by aiming to have 50% of our Network Television production made outside London by 2016. The move to Salford is central to this strategy. We will also

### Managing risk in a recession

We recognise that the certainty of licence fee income does shield the BBC from the worst of the economic downturn; however we are not entirely immune from the impact of the recession. Unlike many of our competitors, we do not rely directly on advertising revenues, but we face similar challenges to the majority of UK businesses as a result of the economic uncertainty and subsequent volatility in financial markets. There is pressure on both our commercial and licence fee revenues, particularly as reduced household growth takes effect. Our commercial businesses have suffered with reduced retail and advertising activity and increased competition in our Studios business; that said, BBC Worldwide has shown resilience so far, due to the diversified nature of its business.

When there is more uncertainty over future income streams, it is important that we live within our means. We have put a number of measures in place this year as a result, including no discretionary public service bonuses for 2008/09, and no pay increases for senior management. We are also looking carefully at what we pay our talent, in light of both the economic environment and the Trust's review of talent in 2008.

In addition, although we continue to invest in areas such as online, with a commitment to source at least 25% of our qualifying online spend externally, we will be slowing the rate of our new investment this year. It is crucial that we continue to deliver distinctive content at the best possible value for money, whilst also keeping pace with the level of investment in the market as a whole.

We have a particular risk where the financial stability of key suppliers is affected, and where we depend on any single supplier for a critical broadcast service. We have put contingency plans in place both to deal with any further deterioration in the economy or the failure of a supplier, while recognising that we have a responsibility towards our suppliers as well as to the wider creative industry.

With the crisis in liquidity across the financial economy, we have also had to keep a careful eye on our borrowing limits. We are focusing even more rigorously on conserving our cash in the short-term, and managing our longer-term funding arrangements. Notwithstanding the fact that the BBC's borrowing facilities of £200million for public services and £350million for commercial businesses may appear relatively low in comparison to our total annual cash outflow, we are able to re-phase significant items of expenditure at relatively short notice. The facilities we put in place in 2007/08 to make sure we are fully funded to 2012/13 for both the public service and commercial businesses are with a select group of counterparties with strong credit ratings.

We are also thinking ahead to identify risks and trends, and to take actions to pre-empt them. This is particularly important in relation to our pension scheme, which has inevitably been impacted by the volatility in the equity markets. Where possible we have tried to diversify risk in the portfolio, whilst looking for new ways to invest. There is further detail on this later in the review.

In line with normal practice, we have reviewed the carrying value of our assets including investments and goodwill. We have assessed future cash flows from business plans, using an appropriate discount rate and believe this supports the carrying values of our assets. In particular for Lonely Planet we used business plans consistent with the strategy to transform Lonely Planet from a travel book publisher to a diversified travel information provider. This strategy is expected to generate significant growth particularly for the digital business following the successful re-launch of the Lonely Planet website. These value in use calculations support the carrying value of the business.

This recession is likely to be more far-reaching than we could have predicted a year ago. We believe we have responded quickly and decisively to the issues we face and are confident that we have the resources we need to continue our operations for the foreseeable future.

Chart 4/ Licence fee spend in nations/regions £m

06/07	884
07/08	984
08/09	948

allocate 12% of our Network Television investment to the Nations by 2012, rising to 17% by 2016.

We are reviewing what targets should be in place for our radio output in the coming year.

In 2008, total spend outside of London, expressed as a percentage of eligible spend (as defined by Ofcom) increased from 33% to 35%. In absolute terms, total spend including online, decreased from £984million in 2007/08, to £948million this year, reflecting the level of efficiencies made this year across all spend. We expect this number to increase as production moves out of London in line with our long-term network supply strategy.

### Ensuring the licence fee supports the wider creative economy

Research has proved that the creative economy can be a significant engine for growth for the UK as a whole. According to the National Endowment for Science, Technology and the Arts (NESTA), industries like television, film, music and entertainment have grown twice as fast as the economy as a whole in recent years, and are a vital source of innovation and new ideas. The sector also contributes £60billion a year to UK plc.

The BBC is – and should be – a vital part of this. In calendar year 2008 we commissioned 37% of our television content from external production companies. Our total investment in the creative industries during the year was £1.1 billion, or 33% of our annual licence fee income, which includes payments to artists and contributors. We are already exceeding the targets set for us by Ofcom on spend in the independent sector, and we are actively redefining the relationship between the BBC and the rest of UK media, and shifting the balance away from competition towards improved collaboration, by developing new and sustainable partnerships.

You can see evidence of this already, whether it's in our new memorandum of understanding with ITV to share regional news infrastructure and resources to support provision beyond the BBC, or our proposal to share digital production technology and expertise which could help small independent producers make the transition to a fully digital future. The latter is particularly important. As NESTA point out, the UK creative economy is characterised by many small firms, few of which ever reach a significant size, and none that could hope to rival the big global players. Working with the BBC can make all the difference here, and we want to make our expertise and know-how go much further. This is especially important in the current downturn, when we can provide a more stable programme of investment than many of our commercial competitors.

## CURRENT AND FUTURE CHALLENGES

### Service licences

We are operating under the umbrella of a relatively new regulatory regime. In the last year both BBC ALBA and BBC HD have spent less than forecast, due to timing differences against their original budgets, and as a result both service licences were technically breached. Some other licences are operating close to their thresholds, and these are under ongoing review. The control framework that oversees all our service licences is operating effectively, and we have improved our early warning reporting so that we can take action quickly if any are at risk of breaching their limits.

A new service licence budget was approved during the year for BBC Online, and the new BBC ALBA service was licensed for the first time. From 2009/10, we will be making changes to the terms of the Children's service licence, which will see spend transferring to CBBC and CBeebies from BBC One and BBC Two. The changes are being made to strengthen controls over editorial decision-making.

### Digital switchover

One of our responsibilities under the BBC Charter is to help deliver digital switchover across the UK, and ensure that those most in need of support are aware of what this means, and get the assistance they need. Funds are set aside in the licence fee to allow the BBC to fulfil these obligations.

By the end of 2008/09, the Whitehaven and Selkirk transmitters in the ITV Border region had switched over, which covered 73,000 households, and 25,000 individuals eligible for the Switchover Help Scheme. The Help Scheme also supported a further half a million people in the Border and West Country ITV regions last year, in preparation for their switchover in 2009. Four more of the 14 ITV regions are also due to switch this year, which represents 5.4 million more households, or 20% of the UK population. Around two million older and disabled people in those regions will be eligible for the Switchover Help Scheme.

£603million of the current licence fee settlement has been ring-fenced to cover the Switchover Help Scheme for the period to 2012/13, and spend last year amounted to £24million. So far, only 1% of the population has fully switched to digital; although take up of the scheme has been lower than expected so far, there is a real increase in activity from now until 2011. We will not be able to fully assess how much it will take to convert everyone until we have rolled out the scheme across a larger, urban region.

Digital UK is responsible for raising public awareness of digital switchover and has a total budget set aside from the licence fee of £201million to 2012/13. This body is administered jointly by the BBC and other broadcasters, and in 2008/09 it spent £26million.

### Pensions

The BBC operates a defined benefit scheme for all staff, with a mix of final salary and career average benefits. The scheme is administered by a group of trustees who manage the pension scheme

06/07	1.1
07/08	1.1
08/09	1.1

investment strategy, supported by a number of independent advisors.

During the past two years, we have looked for ways to secure the long-term affordability of the scheme, such as introducing career average benefits and increasing employee contributions.

This year, we have also introduced a 'salary sacrifice' scheme, which delivers savings to both employees and to the BBC; as you can see from Note 8, it changes the way we account for pension contributions, increasing the proportion of employer contributions disclosed. The effective BBC and employee contribution rates for 2008/09 were 19.35% and 6.0% respectively, making a total contribution rate of 25.35%. As of April 2009, employees have been asked to increase their contributions to 6.75%, and there will be a further increase to 7.5% from April 2010.

The FRS 17 valuation shows a scheme deficit this year of £139million compared to a surplus last year of £528million. It has been a difficult year for those managing pension schemes, as equities, real estate, corporate bonds and alternative assets have all fallen in value. We look at our scheme performance over both short and long-term, where the outlook remains uncertain as the equity markets struggle to recover. The liability in this year's accounts reflects the year's market turbulence, though we hope to see signs of recovery in the medium-term. Full details of our pension costs and liabilities are included in Note 8 of the full financial statements, which can be found online at [www.bbc.co.uk/annualreport](http://www.bbc.co.uk/annualreport)

The last formal actuarial valuation of the scheme was as at April 2007, and this reported a surplus of £275million. An interim actuarial report in April 2008 indicated that the scheme had moved into a deficit of £470million, largely as the result of lower assumptions about the level of future investment returns. We expect the next formal actuarial valuation to be undertaken as at April 2010.

We remain committed to the defined benefit scheme and constantly review our approach to pension provision to effectively manage both cost and risk; however we also recognise that it must remain affordable to the licence fee in the long-term.

## KEY FINANCIAL POLICIES AND STANDARDS

### Treasury policies

Our treasury department manages and monitors all our financial risks, making sure that we have sufficient liquid funds to meet our obligations as they fall due, and that we comply with our borrowing limits, particularly those set out in our Charter and external loan covenants. It also manages our foreign exchange and interest rate risk exposures. All the department's activities are governed by policies and procedures approved by the BBC's Finance Committee, and overseen on a day-to-day basis by the Group Treasurer, with monthly reporting to senior management. Note 23 includes more information on this.

### Critical accounting policies

The areas which require the greatest degree of judgement are as follows:

- our valuation of the pension scheme for FRS 17 accounting purposes includes assumptions on life expectancy, future investment returns, inflation, and salary growth, as stated in Note 8. We consult with the scheme actuaries to ensure that they fall within an acceptable range based on market practice, but different assumptions would result in a change to the level of surplus or deficit.
- provisions represent our best estimate of future liabilities and may involve assumptions to calculate redundancy costs, for example number of people and their level of remuneration.
- we operate a significant number of property and technology leases. As you can see from Notes 23 and 24, the decision to treat such contracts as finance or operating leases has a significant impact on our balance sheet.
- as we operate across a number of different countries and a number of different currencies, we are exposed to exchange rate fluctuations. The translation of foreign currency transactions, exchange rates used and treatment of foreign operations all impact on our financial statements.
- a number of indicators are assessed in deciding whether to impair or write-down an asset. These include reduced market value or a deterioration in economic performance. In many cases when conducting impairment reviews, we need to assess the future cashflows of an operation to decide whether it may be impaired, which involves making a number of assumptions about future performance.

### International Financial Reporting Standards

We will be adopting IFRS from the year ending 31 March 2010. This is in line with the HM Treasury decision to do the same from 2009/10 onwards. In the meantime, the accounts continue to be prepared under UK Generally Accepted Accounting Principles (UK GAAP), although a reconciliation to IFRS is provided for information.

The main impact on preparing our accounts under IFRS will be in relation to leases, goodwill and employee benefits.



**Zarin Patel**  
Chief Financial Officer  
18 June 2009

# FINANCIAL HIGHLIGHTS/

THE BBC'S INCOME CONTINUES TO GROW, DRIVEN BY THE LICENCE FEE. THE LEVEL OF THE LICENCE FEE IS SET BY THE GOVERNMENT, BUT THE GROWTH IN THE BBC'S INCOME IS ALSO AFFECTED BY HOUSEHOLD GROWTH AND THE BBC'S ABILITY TO EFFECTIVELY COLLECT LICENCE FEE INCOME.

## INCOME

The BBC's income continues to grow, driven by the licence fee. The level of the licence fee is set by the Government, but the growth in the BBC's income is also affected by household growth and the BBC's ability to effectively collect licence fee income.

Although growth in commercial income may appear modest, this headline figure does not fully reflect the success of the BBC's commercial strategy over recent years, in particular the expansion through BBC Worldwide's involvement in ventures with other parties; the BBC's share of the income in these joint ventures is not reflected above. The cash return from BBC Worldwide to the BBC was up to £171 million.

## OPERATING EXPENDITURE

As the BBC must break even over a Charter period, total expenditure broadly follows the same trend as income. Note 2 gives more details of expenditure, particularly on the BBC's public services. However, this year the BBC's Continuous Improvement Programme has started to deliver efficiency savings that contribute to reduced expenditure on public service broadcasting when compared to 2007/08; expenditure reduced by 3.4%.

## INTEREST COST

Net interest payable has increased from £4.6 million to £17.2 million reflecting changes in borrowings, particularly in the Commercial Businesses, to finance investment. However, the Group has not been able to take full advantage of the current low interest rates as a result of its cash management strategy to use interest rate swaps, collars and caps to reduce its exposure to variable interest rates. The recognition of the swaps, caps and collars at fair value has increased the interest payable expense for the year by £5.1 million, but as these swaps mature they will be replaced by ones based on current market conditions, which should reduce the cost of capital in future years.

Chart 6/ Income £m

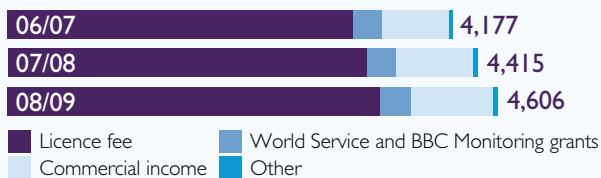
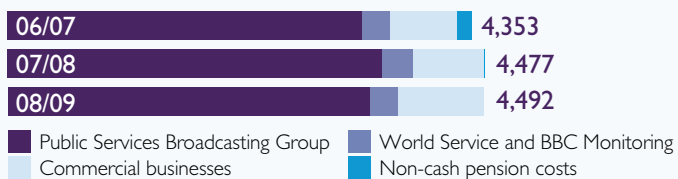


Chart 7/ Operating expenditure £m





## TAX

The BBC's public service activities are not generally liable to corporation tax, but tax is payable on capital gains and other income. The BBC's commercial subsidiaries are liable to corporation tax on taxable profits for the year. As a result the effective tax rate, which this year is 8.6% (2008: 26.7%), is different from the standard rate of Corporation tax of 28%. A significant factor in the variability of the effective rate year-on-year is the extent to which licence fee income exceeds public service expenditure in the year.

## FOREIGN CURRENCIES

During the course of any year the BBC enters into a number of transactions in currencies other than sterling, which must be recorded in the BBC's financial statements in sterling. If exchange rates change significantly during the period between a transaction being agreed and the cash payment or receipt occurring this can have an impact on the BBC's results.

The BBC, however, generally enters into forward currency contracts to manage, or hedge, this currency risk, which allows it to settle transactions at known exchange rates, reducing uncertainty relating to cash flow. However, there is still an accounting impact.

During the year foreign exchange rates have been subject to more volatility and devaluation/appreciation than often seen. Therefore the fair value changes in open foreign currency forwards taken out by the BBC have been much more significant this year than they have been in the past, as have gains and losses on settled transactions. This year the BBC recognised a net gain of £10.3million on settled transactions, a net loss of £18.4million on open foreign currency forwards and foreign currency embedded derivatives, and a gain of £22.9million on the translation of the results and assets of overseas subsidiaries.

## NET ASSETS

As at 31 March 2009 the net assets of the BBC Group were £990.1million (2008: £1,519.2million), which is a decrease of £529.1million during the year. The overall net assets of the BBC are significantly influenced by the accounting valuation of the BBC Pension Schemes (the pension scheme is discussed in more detail in the Financial Review), which this year shows a net loss for the year of £666.6million. Otherwise the underlying net assets remain relatively constant; however as noted above there has been an increase in borrowing to finance capital spend and investment for the future, including our transformational projects in London and Salford, as well as investment in digital production technology to enhance our content and services.

## CASH FLOWS

The BBC manages cash and borrowings carefully and remains within its borrowing ceilings. The extent to which cash flows and net debt move in tandem depends on the Charter cycle, with the BBC aiming to break even over a Charter period this can result in significant cash inflows in some years offset by future anticipated outflows, for example in relation to digital switchover. This year there was a net cash inflow of £43.8million.

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE BRITISH BROADCASTING CORPORATION (BBC)

We have audited the group and UK Public Service Broadcasting financial statements (the 'financial statements') of the BBC for the year ended 31 March 2009, which comprise the Consolidated Statement of Income and Expenditure, the Consolidated and UK Public Service Broadcasting Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliations of Movements in BBC Reserves and the related notes as set out in this report. These financial statements have been prepared under the accounting policies set out therein.

In addition to our audit of the financial statements, the Trustees have engaged us to audit the information in the Trustees' and Executive Board Remuneration Reports (together 'the Remuneration Reports') that are described as having been audited, which have been prepared as if the BBC were a quoted company and hence required to comply with part 3 of Schedule 7A to the Companies Act 1985.

This report is made solely to the BBC's Trustees, as a body, in accordance with the Royal Charter for the continuance of the BBC which came into force on 1 January 2007 ('the Charter') and in respect of the separate opinion in relation to the Remuneration Reports and reporting on Corporate Governance on terms that have been agreed. Our audit work has been undertaken so that we might state to the BBC's Trustees those matters we are required to state to them in an auditor's report and, in respect of the separate opinion in relation to the Remuneration Reports and reporting on Corporate Governance, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BBC and the BBC's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Trustees and Executive Board and Auditors

The Trustees' and Executive Board's responsibilities for preparing the Annual Report, the Remuneration Reports and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in their respective statements of responsibilities.

Our responsibility, in accordance with the terms of our appointment and the Charter, is to audit the financial statements and the parts of the Remuneration Reports to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the parts of the Remuneration Reports to be audited have been properly prepared in accordance with the Companies Act 1985 as if that Act had been applied to these financial statements and the Remuneration Reports. We also report to you if, in our opinion, the BBC has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Trustees and Executive Board remuneration and other transactions is not disclosed.

In addition to our audit of the financial statements, the Trustees have engaged us to review the Corporate Governance statement as if the BBC were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the Corporate Governance statement reflects the BBC's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the BBC's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Accounts, and consider whether it is consistent with the audited financial statements. This information includes the Chairman's Foreword and the Trustees' performance review in Part One of the Annual Report and Accounts, the Director-General's Foreword, the Executive Board's performance review and financial overview and highlights, the Corporate Governance Statement and the unaudited parts of the Remuneration Reports. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the parts of the Remuneration Reports to be audited. It also includes an assessment of the significant estimates and judgements made by the Executive Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and UK Public Service Broadcasting's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the parts of the Remuneration Reports to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the parts of the Remuneration Reports to be audited.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and UK Public Service Broadcasting's affairs as at 31 March 2009 and of the Group's surplus for the year then ended
- the financial statements have been properly prepared in accordance with the provisions of the Charter and the Companies Act 1985 as if that Act had applied to these financial statements
- the parts of the Remuneration Reports which we were engaged to audit have been properly prepared in accordance with part 3 of Schedule 7A to the Companies Act 1985, as if those requirements were to apply to the BBC

## KPMG LLP

Chartered Accountants  
Registered Auditor, London

18 June 2009

## CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 £m	2008 £m
<b>Income</b> (including share of joint ventures)		<b>4,906.2</b>	4,689.4
Less: share of joint ventures	13b	<b>(300.5)</b>	(274.6)
<b>Group income</b>	1a	<b>4,605.7</b>	4,414.8
Operating expenditure excluding exceptional costs		<b>(4,461.8)</b>	(4,359.3)
Exceptional restructuring costs	4c	<b>(29.9)</b>	(117.7)
<b>Total operating expenditure</b>	2a	<b>(4,491.7)</b>	(4,477.0)
<b>Group operating surplus/(deficit)</b>		<b>114.0</b>	(62.2)
Share of operating surplus of associates and joint ventures before exceptional items	13b	<b>56.8</b>	60.3
Share of joint ventures' operating exceptional items	13b	<b>(7.5)</b>	–
<b>Share of operating surplus of associates and joint ventures</b>	13b	<b>49.3</b>	60.3
<b>Operating surplus/(deficit): group and share of associates and joint ventures</b>	3a	<b>163.3</b>	(1.9)
Loss on sale and termination of operations	5	<b>(1.1)</b>	(4.8)
Profit on disposal of fixed assets	6	<b>15.9</b>	2.0
<b>Surplus/(deficit) before interest and taxation</b>		<b>178.1</b>	(4.7)
Interest receivable and similar items	7a	<b>9.1</b>	13.7
Interest payable and similar items	7b	<b>(26.3)</b>	(18.3)
Other net finance income (from defined benefit pension scheme)	8bii	<b>117.3</b>	148.8
<b>Surplus before taxation and minority interest</b>	1a	<b>278.2</b>	139.5
Taxation	9a	<b>(24.0)</b>	(37.3)
<b>Surplus after taxation and before minority interest</b>		<b>254.2</b>	102.2
Minority interest		<b>(0.5)</b>	(0.5)
<b>Surplus for the financial year</b>	18	<b>253.7</b>	101.7

All results arise from continuing operations.

There is no significant difference between the results as disclosed above and the results on an historical cost basis.

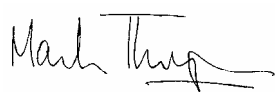
The surplus/(deficit) for the financial year is the amount found by deducting all items of expenditure recognised in the year from all income receivable for the year. For the BBC group, as a public benefit entity, any surplus arising does not represent a 'profit' that can be returned to an entity's funders, but a timing difference relating to past or future expenditure.

## BALANCE SHEETS

### AT 31 MARCH 2009

	Note	Group 2009 £m	Group 2008 £m	UK Public Service Broadcasting 2009 £m	UK Public Service Broadcasting 2008 £m
<b>Fixed assets</b>					
Intangible assets	10	95.7	87.3	–	–
Tangible assets	11	728.0	747.9	510.1	523.4
Investment in programmes for future sale	12	99.7	85.1	–	–
Interests in trade investments	13a	–	2.7	–	–
Investment in subsidiaries	13f	–	–	296.4	296.0
Interests in joint ventures					
– share of gross assets and goodwill		187.0	217.4	–	–
– share of gross liabilities		(118.2)	(151.8)	–	–
	13b	68.8	65.6	–	–
Interests in associates	13b	11.2	3.8	–	–
		<b>1,003.4</b>	992.4	<b>806.5</b>	819.4
<b>Current assets</b>					
Stocks	14	491.0	500.1	450.5	470.2
Debtors due after more than one year	15	122.2	50.1	77.4	21.1
Debtors due within one year	15	831.3	794.9	681.2	655.3
<b>Total debtors</b>		<b>953.5</b>	845.0	<b>758.6</b>	676.4
Cash at bank and in hand	21b	124.3	78.0	32.5	6.7
		<b>1,568.8</b>	1,423.1	<b>1,241.6</b>	1,153.3
<b>Creditors – amounts falling due within one year</b>	16b	<b>(952.4)</b>	(1,064.7)	<b>(661.8)</b>	(761.6)
<b>Net current assets</b>		<b>616.4</b>	358.4	<b>579.8</b>	391.7
<b>Total assets less current liabilities</b>		<b>1,619.8</b>	1,350.8	<b>1,386.3</b>	1,211.1
<b>Creditors – amounts falling due after more than one year</b>	16c	<b>(314.6)</b>	(172.6)	<b>(16.6)</b>	(21.9)
<b>Provisions for liabilities</b>	17	<b>(171.8)</b>	(182.3)	<b>(121.5)</b>	(160.0)
<b>Net assets excluding pension (liability)/asset</b>		<b>1,133.4</b>	995.9	<b>1,248.2</b>	1,029.2
Pension asset	8bi	–	528.4	–	–
Pension liability	8bi	(143.3)	(5.1)	–	–
<b>Net assets</b>		<b>990.1</b>	1,519.2	<b>1,248.2</b>	1,029.2
<b>Represented by</b>					
Operating reserve excluding pension reserve	18	356.5	206.3	444.9	215.3
Pension reserve	18	(143.3)	523.3	–	–
Total operating reserve	18	213.2	729.6	444.9	215.3
Capital reserve	18	802.5	812.3	802.5	812.3
Other reserve	18	(32.3)	(31.0)	–	–
Revaluation reserve	18	0.8	1.6	0.8	1.6
BBC reserves		984.2	1,512.5	1,248.2	1,029.2
Minority interest		5.9	6.7	–	–
		<b>990.1</b>	1,519.2	<b>1,248.2</b>	1,029.2

The financial statements were approved by the Executive Board on 18 June 2009 and signed on its behalf by:



**Mark Thompson**, Director-General



**Zarin Patel**, Chief Financial Officer

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 £m	2008 £m
Group surplus for the financial year		<b>253.7</b>	101.7
Exchange differences on translation of net investment in subsidiaries	18	<b>22.9</b>	(1.0)
Recognition of share of joint venture liabilities	18	<b>(19.4)</b>	–
Actuarial (loss)/gain on defined benefit pension schemes	8b iii	<b>(784.2)</b>	52.3
<b>Total recognised gains and losses relating to the year</b>		<b>(527.0)</b>	153.0

## RECONCILIATIONS OF MOVEMENTS IN BBC RESERVES

FOR THE YEAR ENDED 31 MARCH 2009

	Note	Group 2009 £m	Group 2008 £m	UK Public Service Broadcasting 2009 £m	UK Public Service Broadcasting 2008 £m
Surplus/(deficit) for the financial year		<b>253.7</b>	101.7	<b>219.0</b>	(34.4)
Other recognised gains and losses relating to the year (net)		<b>(780.7)</b>	51.3	–	–
Other reserve		–	(28.8)	–	–
Adjustment for acquisition of UK.TV	19a	<b>(1.3)</b>	–	–	–
(Decrease)/increase in reserves during the year		<b>(528.3)</b>	124.2	<b>219.0</b>	(34.4)
Opening BBC reserves		<b>1,512.5</b>	1,388.3	<b>1,029.2</b>	1,063.6
<b>Closing BBC reserves</b>		<b>984.2</b>	1,512.5	<b>1,248.2</b>	1,029.2

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 £m	2008 £m
<b>Net cash inflow from operating activities</b>	20	<b>215.2</b>	158.7
<b>Dividends received from joint ventures and associates</b>	13a	<b>37.0</b>	45.7
<b>Return on investments and servicing of finance</b>			
Interest received		7.7	11.3
Interest paid		(15.3)	(12.3)
Interest paid on finance leases		(0.4)	(0.7)
Dividends paid to minority interests		(0.8)	–
<b>Net cash outflow from return on investments and servicing of finance</b>		<b>(8.8)</b>	(1.7)
<b>Taxation</b>			
Taxation paid		(23.1)	(23.5)
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		(147.5)	(158.0)
Investment in programmes for future sale	12	(100.8)	(88.2)
Drawdown of loan to joint venture		(0.4)	(0.7)
Proceeds from the sale of tangible fixed assets		20.5	15.1
<b>Net cash outflow from capital expenditure and financial investments</b>		<b>(228.2)</b>	(231.8)
<b>Acquisitions and disposals</b>			
Purchase of a subsidiary	19	(15.1)	(90.3)
Cash acquired with subsidiary	19	1.9	5.9
Purchase of interests in joint ventures and associates		(15.8)	(6.3)
Paid on termination of operations		(0.9)	(16.4)
Proceeds from sale of operations		15.1	–
<b>Net cash outflow from acquisitions and disposals</b>		<b>(14.8)</b>	(107.1)
<b>Net cash outflow before use of liquid resources and financing</b>	21a	<b>(22.7)</b>	(159.7)
<b>Management of liquid resources</b>			
Sale of liquid resources		526.3	28.7
Purchase of liquid resources		(526.3)	(28.7)
<b>Net cash inflow from management of liquid resources</b>		<b>–</b>	–
<b>Financing</b>			
Increase in loans		218.0	178.9
Repayment of loans		(144.4)	(72.1)
Capital element of finance lease payments		(9.7)	(9.7)
Increase in loan notes		2.6	–
Repayment of loan notes		–	(4.1)
<b>Net cash inflow from financing</b>		<b>66.5</b>	93.0
<b>Increase/(decrease) in cash in the year</b>	21	<b>43.8</b>	(66.7)

# STATEMENT OF ACCOUNTING POLICIES

This section explains the BBC's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter, which requires them to be prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

Although not mandatory, until 2005 the BBC chose to follow the accounting and disclosure provisions of the Companies Act 1985 and the Financial Services Authority Listing Rules to ensure that its financial statements were prepared on a basis consistent with those of UK companies quoted on an EU regulated market. Following changes in company law, if it had continued to report in this way, the BBC would have prepared its consolidated financial statements in accordance with EU-adopted International Financial Reporting Standards (IFRS) from 1 April 2005. However, reporting under IFRS would be inconsistent with the BBC's Charter and with Government reporting. Instead, the financial statements continue to be prepared in full accordance with UK GAAP and applicable elements of the Listing Rules.

## BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost accounting convention, as modified by the revaluation of certain plant, machinery, furniture and fittings, financial instruments, derivatives and the investment in BBC World Service and BBC Monitoring.

## BASIS OF CONSOLIDATION

The group acquired a subsidiary during the year UK TV Pty Limited (the group previously held a 20% interest), for which the acquisition method of accounting has been adopted – see Note 19. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

The group accounts include the results of all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has influence but not control (associates) and those which the BBC jointly controls (joint ventures). See Note 29 for more information.

## UK PUBLIC SERVICE BROADCASTING INCOME AND EXPENDITURE ACCOUNT

A separate statement of income and expenditure reflecting the results of UK Public Service Broadcasting has not been presented, which is consistent with the option available to companies under Section 230 of the Companies Act 1985.

## SERVICE LICENCE REPORTING

Service licences are used by the BBC Trust to regulate the BBC's services and ensure that each aims to provide public value and contribute to delivering the BBC's public purposes. Note 28 provides more detail on how costs are allocated to individual services.

## INVESTMENTS IN GROUP UNDERTAKINGS

The funding of UK Public Service Broadcasting, BBC World Service and BBC Monitoring is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing UK Public Service Broadcasting's balance sheet, the individual assets and liabilities attributable to BBC World Service and BBC Monitoring must be excluded, and UK Public Service Broadcasting is considered to have investments in BBC World Service and BBC Monitoring equal to the net assets of these entities.

## OTHER INVESTMENTS

Other investments, being neither loans nor necessarily held for maturity, are recorded on the balance sheet at cost less provision for any impairment in value.

An **associate** is an undertaking in which the group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A **joint venture** is an undertaking in which the group has a long-term interest and over which it exercises joint control.

# STATEMENT OF ACCOUNTING POLICIES CONTINUED

### INCOME

Income, which excludes value added tax, trade discounts and sales between group companies, is comprised of the following key classes of revenue, which are recognised as follows:

- **Television licences**  
The main income for the BBC is derived from television licences. Licence fee income is recognised in full when a licence is issued, subject to deductions for actual and expected refunds and cancellations.
- **Grants from Government departments**  
Grants are recognised when receivable from the relevant Government department. The BBC World Service receives Grant-in-Aid from the Foreign and Commonwealth Office and BBC Monitoring receives a grant from the Cabinet Office. These grants are intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.
- **Provision of equipment, facilities and services (including programme-making facilities and services)**  
With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

For long-term contracts, the amount of profit attributable to the stage of completion is recognised when the outcome of the contract can be foreseen with reasonable certainty. Income for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any future losses as they are foreseen.

- **Distribution and advertising income, licence fees from international television programme sales and sale of promotional merchandise and income from publishing**  
This income is recognised on provision of services, the start of the licence period or delivery of merchandise respectively. Where programme rights have not been delivered by the start of the licence period, revenue is recognised on delivery of the rights.

Sales of merchandise are stated after deduction of the sales value of actual and estimated returned goods.

### FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 31 March. Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from trading, are included in the statement of income and expenditure.

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for each month, which is a good approximation for the actual rate. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries (including the goodwill arising on consolidation) and any related long-term foreign currency borrowings together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end, are taken to the operating reserve through the statement of total recognised gains and losses.

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service Broadcasting or Grant-in-Aid and grant funded activities. More information on the BBC's fair trading requirements and policies can be found in the Responsibility section in Part Two of the BBC Annual Report and Accounts 2008/09.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling.



## STATEMENT OF ACCOUNTING POLICIES CONTINUED

### PENSION COSTS

The BBC operates both defined benefit and defined contribution pension schemes for the benefit of employees.

The amounts charged as expenditure for the defined contribution schemes represent the contributions payable by the BBC for the accounting periods in respect of these schemes.

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final, or career average, pensionable pay. The assets of the BBC's main pension scheme are held separately from those of the group.

Pension scheme assets are measured using current market bid values. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The difference between the value of the pension scheme assets and pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses. Generally, amounts are charged to operating expenditure on the basis of the current service cost of the present employees that are members of the BBC Pension Scheme.

The BBC Pension Scheme is a group-wide scheme and UK Public Service Broadcasting and its subsidiary undertakings are unable to identify their shares of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. Therefore as required by FRS 17 'Retirement Benefits', UK Public Service Broadcasting accounts for the scheme as if it were a defined contribution scheme. As a result the expenditure charged for UK Public Service Broadcasting represents the contributions payable in the year.

### RESEARCH AND DEVELOPMENT

Website and software development costs are capitalised as tangible fixed assets to the extent that the website or software is expected to generate revenues at least as great as the costs of development. All other research and development expenditure is written off as incurred.

### INTANGIBLE FIXED ASSETS

#### Goodwill

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired) arising on acquisition of a subsidiary or business, is capitalised and amortised on a straight-line basis over its useful economic life (usually 20 years), subject to reviews for impairment. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. As is permitted by FRS 10 'Goodwill and Intangible Assets', goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the statement of income and expenditure for the year.

On retirement, members of the BBC's main pension scheme are paid their pensions from a fund which is kept separate from the group. The BBC makes cash contributions to that fund in advance of members' retirement.

**Goodwill** arises when the BBC pays more for a business than the sum of net assets of the business acquired, representing the fact that the group places more value on the business entity as a whole (usually due to expected synergies or earning potential of that business). This premium is treated as an asset in its own right and held on the group's balance sheet, with an economic life of up to 20 years. As with any other asset, the profit or loss on sale or disposal (in this case sale/disposal of the business) is calculated after writing off the amount still held on the group's balance sheet.

## STATEMENT OF ACCOUNTING POLICIES CONTINUED

### TANGIBLE FIXED ASSETS

Expenditure on tangible fixed assets is capitalised together with incremental internal direct labour costs incurred on capital projects. Other than the following exception, tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation and any provision for impairment.

BBC World Service and BBC Monitoring revalued their plant and machinery and furniture and fittings as at 1 April 1996 on the basis of their estimated current replacement cost at that time. In accordance with the transitional rules of FRS 15 'Tangible Fixed Assets', although the BBC did not adopt a general policy of revaluation, the book values of these assets (based on their revalued amounts) were retained. The revaluation has not been updated since, although appropriate depreciation continues to be charged. There is no significant difference between the net book value of these tangible fixed assets and their value as determined on an historical cost basis and as a result no statement of historical cost surpluses and deficits is presented.

Depreciation is calculated so as to write off the cost or valuation, less estimated residual value, of fixed assets on a straight-line basis over their expected useful lives. Depreciation commences from the date an asset is brought into service. The useful lives for the principal categories of assets are:

- Land and buildings
  - Freehold land – not depreciated
  - Freehold and long-leasehold buildings – 50 years
  - Short-leasehold land and buildings – unexpired lease term
- Plant and machinery
  - Computer equipment – 3 to 5 years
  - Electrical and mechanical infrastructure – 10 to 25 years
  - Other – 3 to 10 years
- Furniture and fittings – 3 to 10 years

### INVESTMENT IN PROGRAMMES FOR FUTURE SALE

The BBC's commercial subsidiaries make investments in programmes for future sale including BBC originated programmes. These investments represent the right to future income from the sale, licensing or other exploitation of those programmes, and are stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation of investment in programmes for future sale is charged to the statement of income and expenditure over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

### IMPAIRMENT OF FIXED ASSETS

The group reviews the carrying amounts of its fixed assets when there is an indication that those assets may have suffered an impairment loss.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the resulting impairment loss is recognised in the statement of income and expenditure immediately.

In accordance with accounting standards applicable at the time, parts of the BBC revalued certain classes of assets once (in 1996), but have chosen not to revalue them on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. The majority of assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

The cost of programmes for sale is charged to the statement of income and expenditure to match the expected timing of income from future sales.

An **impairment** occurs when an asset would otherwise be recorded in the financial statements at an amount greater than is recoverable from its use or sale.

# STATEMENT OF ACCOUNTING POLICIES CONTINUED

## STOCKS

### Originated programme stocks and work in progress

Originated programme stocks and work in progress, including those commissioned from independent producers, are stated at the lower of cost and net realisable value. With the exception of the costs of prepaid repeats of independent programmes, the full stock value is written off on first transmission.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads.

Programme development costs are expensed to the statement of income and expenditure until such time as there is a strong indication that they will result in a commissioned programme, when any further costs are capitalised as work in progress.

Net realisable value is based upon arm's length contract prices negotiated between the channel controllers and programme makers, both external and internal.

### Acquired programmes and film stocks

Acquired programmes are those not initially commissioned by the BBC, usually foreign imports. The costs of acquired programmes and film stocks are written off on first transmission except to the extent that further showings are scheduled, in which case they are written off according to their expected transmission profile. Assets and liabilities relating to acquired programmes are recognised at the point of payment or commencement of the licence period, whichever is earlier. Agreements for the future purchase of programmes whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

### Other stocks

Raw materials and other physical stocks are stated at the lower of cost and net realisable value.

## PROVISIONS

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation arising from past events and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions, other than deferred tax, that are payable over a number of years are discounted to net present value at the balance sheet date using a discount rate appropriate to the particular provision concerned.

## TAXATION

The tax charge represents the sum of the current tax payable and deferred tax.

In respect of the current tax payable:

- The BBC (UK Public Service Broadcasting, BBC World Service and BBC Monitoring) is not liable to corporation tax on any surplus licence fee income or grants received from Government departments. However, it is fully liable for corporation tax on capital gains and on all its other income. Expenditure on capital assets is not eligible for capital allowances.
- The BBC's commercial subsidiaries are liable for corporation tax based on taxable profit for the year.

Taxable profit differs from net profit as reported in the statement of income and expenditure because it excludes items of income and expenditure that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is computed under the liability method. Full provision, without discounting, is made in respect of timing differences between certain items in the financial statements and their treatment for taxation purposes at the balance sheet date except as otherwise required by FRS 19 'Deferred tax'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

**Deferred tax** is corporation tax which is not payable at a specific time but which is expected to become payable in the future.

## STATEMENT OF ACCOUNTING POLICIES CONTINUED

### LEASES

#### Operating leases

Operating lease rentals payable are recognised on a straight-line basis over the term of the lease.

#### Finance leases

Assets acquired under finance leases are included within fixed assets at the total of the lease payments due over the life of the lease discounted at the rate of interest inherent in the lease. The same amount is included in creditors. Rental payments are apportioned between the finance element, which is charged in the statement of income and expenditure, and the capital element, which reduces the lease creditor. The leased assets are subject to depreciation on the same basis as owned assets.

### RESERVES

**Capital reserve:** Each year an amount equivalent to the costs expended by UK Public Service Broadcasting, BBC World Service and BBC Monitoring on capital assets over and above depreciation, adjusted for disposals, is transferred to/from the capital reserve so that, at the balance sheet date, the amount of the capital reserve is equivalent to the historical cost net book value of UK Public Service Broadcasting, BBC World Service and BBC Monitoring fixed assets.

**Revaluation reserve:** The revaluation reserve reflects the difference between the net book value of the fixed assets of BBC World Service and BBC Monitoring at historical cost compared with their revalued amount.

**Operating reserve:** The operating reserve is the accumulated surplus of income and expenditure account to date.

**Pension reserve:** The pension reserve represents the net surplus or liability of the group's defined benefit pension schemes.

**Other reserve:** This represents the value of a put option exercisable by minority shareholders after adjusting for any movements in foreign exchange rates. Changes to the fair value of the put option other than in relation to changes in foreign exchange rates, are recorded in the income and expenditure account within interest. The associated liability is included in other creditors.

### CASH AND LIQUID RESOURCES

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values. They comprise money market deposits and liquidity funds with a notice period in excess of one working day.

An **operating lease** is a lease in which the lessee has not taken on the risks and rewards of owning the asset, but is hiring the item, so the hire charge is included in the BBC's costs.

A **finance lease** is a lease that transfers substantially all the risks and rewards of owning an asset to the lessee. Effectively the lessee owns the asset and has financed it by borrowing, so the asset and borrowing are included separately in the balance sheet.

## STATEMENT OF ACCOUNTING POLICIES CONTINUED

### FINANCIAL INSTRUMENTS

The group's loans are stated at amortised cost using the effective interest rate.

#### Derivative financial instruments

The group does not enter into speculative derivative contracts. However some derivative financial instruments are used with a view to managing the BBC's exposure to fluctuations in interest rates (interest rate swaps, caps and collars) and foreign currency exchange rates (foreign currency forward contracts).

Derivative financial instruments are initially recognised at cost and are subsequently remeasured to fair value at the balance sheet date with movements recorded in the statement of income and expenditure.

The fair value of interest rate swaps, caps and collars is the estimated amount that the group would receive or pay to terminate the swap, cap or collar at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap, cap or collar counterparties.

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

#### Hedge accounting

In general the group does not apply hedge accounting but instead allows movements in fair values of hedging contracts to flow to the statement of income and expenditure as they arise. However, where a financial instrument is designated and effective as a net investment hedge of a foreign operation any exchange differences arising on the retranslation of the financial instrument will be recognised directly in the statement of total recognised gains and losses. Any ineffective portion is recognised immediately in the income and expenditure account.

#### Financial instruments

include all contractual arrangements to deliver or receive cash. Therefore they include trade debtors and creditors and loans as well as more complex instruments such as derivatives.

## NOTES TO THE FINANCIAL STATEMENTS

## I ANALYSIS OF INCOME, SURPLUS/(DEFICIT) AND NET ASSETS

## Ia Analysis of income, surplus/(deficit) and net assets by activity

	Note	UK Public Service Broadcasting Group £m	BBC World Service and BBC Monitoring £m	Commercial Businesses £m	Total £m
<b>2009</b>					
Total income		3,707.5	297.2	1,132.9	<b>5,137.6</b>
Less: intra-group income		(172.7)	(0.7)	(58.0)	<b>(231.4)</b>
Total external income		3,534.8	296.5	1,074.9	<b>4,906.2</b>
Less: share of joint ventures		(1.5)	–	(299.0)	<b>(300.5)</b>
Group income		<b>3,533.3</b>	<b>296.5</b>	<b>775.9</b>	<b>4,605.7</b>
Of which:					
Licence fee income	1b	3,493.8	–	–	<b>3,493.8</b>
Government grants		5.0	289.6	–	<b>294.6</b>
Commercial	1c	–	–	775.9	<b>775.9</b>
Other		34.5	6.9	–	<b>41.4</b>
Surplus/(deficit) before interest, taxation and non-cash pension costs		147.3	(0.6)	31.1	<b>177.8</b>
Net interest receivable/(payable)		1.2	0.9	(19.3)	<b>(17.2)</b>
Surplus before taxation and non-cash pension costs		148.5	0.3	11.8	<b>160.6</b>
Defined benefit pension scheme					
– additional operating income* <sup>^</sup>	4b				<b>0.3</b>
– other net finance income*	8bii				<b>117.3</b>
Surplus before taxation and minority interest					<b>278.2</b>
Of which, group share of operating (deficit)/surplus of associates and joint ventures		<b>(6.6)</b>	–	<b>55.9</b>	<b>49.3</b>
Net assets/(liabilities) (excluding pension liability)					
– UK		949.8	71.5	(49.5)	<b>971.8</b>
– Rest of world		17.6	99.4	44.6	<b>161.6</b>
					<b>1,133.4</b>
Net pension liability*	8bi				<b>(143.3)</b>
Net assets					<b>990.1</b>
Of which, group share of net assets of associates and joint ventures		<b>1.9</b>	–	<b>57.8</b>	<b>59.7</b>

Note 1 provides analysis of the **different business areas** within the BBC. The business areas have been chosen on the basis of the services provided and the separation of activities financed by different income sources.

UK Public Service Broadcasting Group comprises the UK Public Services (as defined in the Agreement) and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service and BBC Monitoring comprise broadcasting and media monitoring activities.

Commercial Businesses comprise businesses which generate external income from exploitation of the BBC's programmes, other assets and skill base.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### I ANALYSIS OF INCOME, SURPLUS/(DEFICIT) AND NET ASSETS continued

#### Ia Analysis of income, surplus/(deficit) and net assets by activity continued

	Note	UK Public Service Broadcasting Group £m	BBC World Service and BBC Monitoring £m	Commercial Businesses £m	Total £m
<b>2008</b>					
Total income		3,628.2	286.2	1,089.1	5,003.5
Less: intra-group income		(217.9)	(1.3)	(94.9)	(314.1)
Total external income		3,410.3	284.9	994.2	4,689.4
Less: share of joint ventures		–	–	(274.6)	(274.6)
Group income		3,410.3	284.9	719.6	4,414.8
Of which:					
Licence fee income	1b	3,368.8	–	–	3,368.8
Government grants		4.0	279.6	–	283.6
Commercial	1c	–	–	719.6	719.6
Other		37.5	5.3	–	42.8
(Deficit)/surplus before interest, taxation and non-cash pension costs		(108.0)	0.5	104.7	(2.8)
Net interest receivable/(payable)		1.7	0.7	(7.0)	(4.6)
(Deficit)/surplus before taxation and non- cash pension costs		(106.3)	1.2	97.7	(7.4)
Defined benefit pension scheme					
– additional operating costs* <sup>^</sup>	4b				(1.9)
– other net finance income*	8bii				148.8
Surplus before taxation and minority interest					139.5
Of which, group share of operating surplus of associates and joint ventures		–	–	60.3	60.3
Net assets (excluding pension asset)					
– UK		734.2	72.0	22.0	828.2
– Rest of world		5.9	98.7	63.1	167.7
					995.9
Net pension asset*	8bi				523.3
Net assets					1,519.2
Of which, group share of net assets of associates and joint ventures		2.1	–	67.3	69.4

\* In accordance with FRS 17 these items are not split between business classes because they are managed centrally across the group and it is not possible to allocate them on a reasonable and consistent basis.

<sup>^</sup> The actual employer cash contribution to the defined benefit pension scheme is included in the surplus/(deficit) before interest, taxation and non-cash pension costs of each entity. The additional operating cost is the cost to the group over and above these cash contributions.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### I b Licence fee income

	Licence fee 2009 £	Licences in force 2009 Number '000	Total income 2009 £m	Licence fee 2008 £	Licences in force 2008 Number '000	Total income 2008 £m
Colour	<b>139.50</b>	<b>21,154</b>	<b>2,940.5</b>	135.50	21,081	2,840.1
Monochrome	<b>47.00</b>	<b>24</b>	<b>1.4</b>	45.50	28	1.4
Concessionary	<b>7.50</b>	<b>186</b>	<b>1.4</b>	7.50	186	1.4
Over 75s	–	<b>4,000</b>	<b>532.9</b>	–	3,953	508.4
		<b>25,364</b>	<b>3,476.2</b>		25,248	3,351.3
Quarterly payment scheme premium			<b>17.6</b>			17.5
<b>Total licence fee income</b>			<b>3,493.8</b>			3,368.8
Other income*			<b>39.5</b>			41.5
<b>Total external income</b>			<b>3,533.3</b>			3,410.3

\* Included within other income is £1.7million (2008: £2.3million) contributed by other broadcasters towards the costs of Digital UK Limited (see Note 2a).

During the year 3.5million (2008: 3.5million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2008: £5). Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The BBC is reimbursed for these free licences by the relevant Government department.

### I c Analysis of Commercial Businesses' income

From 1 April 2008 a new division, Global Brands, was established in BBC Worldwide Limited from which key brands are managed, including Lonely Planet. The Live Events business, previously managed within Children's, has been transferred to Content and Production and the prior year comparatives have also been restated to reflect this change.

By Activity:	Income excluding joint ventures 2009 £m	Income excluding joint ventures 2008 £m	Joint venture income 2009 £m	Joint venture income 2008 £m
Television (channels, sales, content and production)	<b>442.4</b>	410.3	<b>120.1</b>	112.0
Magazines and Children's, Home Entertainment	<b>238.3</b>	238.0	<b>178.9</b>	162.6
Global Brands including Lonely Planet	<b>43.0</b>	23.1	–	–
Digital Media	<b>34.3</b>	21.9	–	–
Provision of programme-making facilities and services	<b>75.9</b>	121.2	–	–
Less: intra-group income	<b>(58.0)</b>	(94.9)	–	–
<b>Total income</b>	<b>775.9</b>	719.6	<b>299.0</b>	274.6

#### By Company:

BBC Worldwide Limited	<b>697.1</b>	641.6	<b>299.0</b>	274.6
BBC World News Limited*	<b>60.9</b>	51.6	–	–
BBC Studios and Post Production Limited**	<b>17.9</b>	26.4	–	–
<b>Total income</b>	<b>775.9</b>	719.6	<b>299.0</b>	274.6

\* BBC World Limited changes its name to BBC World News Limited on 1 August 2008.

\*\* BBC Resources Limited changed its name to BBC Studios and Post Production Limited on 1 April 2009.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### Id Geographical analysis of Commercial Businesses' income by destination

	2009 £m	2008 £m
United Kingdom	<b>303.9</b>	310.4
Americas	<b>212.2</b>	187.2
Rest of the World	<b>259.8</b>	222.0
Total income	<b>775.9</b>	719.6

### Ie Commercial businesses surplus before interest and taxation

	Individual statutory financial statements	Group adjustments			2009	2008
	Surplus/ (deficit) before group adjustments interest and taxation £m	Recognition of derivative financial instruments £m	Other group adjustments £m	<b>Surplus/ (deficit) before interest and taxation £m</b>	Surplus/ (deficit) before interest and taxation £m	
BBC Worldwide Limited	85.7	(20.8)	1.3	<b>66.2</b>	116.1	
BBC World News Limited	(3.2)	(13.2)	–	<b>(16.4)</b>	(7.8)	
BBC Studios and Post Production Limited	(18.3)	–	–	<b>(18.3)</b>	(3.2)	
Holding companies	(0.6)	–	0.2	<b>(0.4)</b>	(0.4)	
Total	63.6	(34.0)	1.5	<b>31.1</b>	104.7	

The group's subsidiaries have not adopted FRS 26 (IAS 39) 'Financial Instruments Recognition and Measurement' in their own financial statements as they are not within its scope. As a result the recognition of derivative financial instruments in the group financial statements impacts on the surplus/(deficit) before interest and taxation reported for the Commercial Businesses segment.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 2 OPERATING EXPENDITURE

#### 2a Analysis of operating expenditure by activity

UK Public Service Broadcasting Group's activities are funded by the licence fee. The Charter and Agreement between the BBC and Department for Culture, Media and Sport (DCMS) describes the BBC's UK public services (including television, radio and online services) and also sets certain obligations on the BBC in relation to digital switchover; both activities are funded by the licence fee. However, part of the licence fee income has been specified as being for the purpose of digital switchover and as a result the total UK Public Service Broadcasting Group expenditure is shown below allocated between these categories.

	Note	2009 £m	2008 £m
Expenditure on licence fee funded activities			
UK public services	2b	<b>3,345.6</b>	3,487.1
Digital switchover (Digital UK Limited)*		<b>26.0</b>	21.2
Digital switchover (DSHS Limited)**	2d	<b>24.4</b>	5.9
Total UK Public Service Broadcasting Group		<b>3,396.0</b>	3,514.2
BBC World Service and BBC Monitoring***		<b>296.9</b>	285.3
Commercial Businesses	2c	<b>799.1</b>	675.6
Non-cash pension scheme operating income****		<b>(0.3)</b>	1.9
		<b>4,491.7</b>	4,477.0

\* As set out in Note 29c the BBC controls 56% of the voting rights of the company Digital UK Limited, and therefore consolidates its results with those of the BBC. As a result, these costs represent the full expenditure by Digital UK Limited, which is financed by contributions from the BBC and other broadcasters. The BBC contributed £24.3million (2008: £18.9million) being 100% of the communication expenditure (which is ring-fenced, see Note 2d) and 56% of all other costs incurred by Digital UK Limited. £1.7million (2008: £2.3million) was contributed by other broadcasters.

\*\* The BBC contributed £23.6million (2008: £5.9million) with £0.8m (2008: £nil) being contributed by third parties.

\*\*\* BBC World Service and BBC Monitoring expenditure of £296.9million (2008: £285.3million) excludes £0.4million (2008: £0.5million) of expenditure on the provision of services to other BBC group companies.

\*\*\*\* In accordance with FRS 17 the non-cash operating costs are not split between the business activities as it is not possible to do this on a reasonable and consistent basis.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 2b UK Public Service Broadcasting Group expenditure

The table below sets out the total expenditure for each group of service licences within the framework set by the BBC Trust. Details of expenditure on each individual service can be found in Note 28.

#### 2009

Services	Note	Content £m	Distribution £m	Infrastructure/ support £m	Other £m	Total £m
Television	28	1,856.1	123.6	356.1	–	<b>2,335.8</b>
Radio	28	462.9	40.5	84.5	–	<b>587.9</b>
Online	28	112.2	18.5	46.5	–	<b>177.2</b>
<b>Regulated spend</b>		2,431.2	182.6	487.1	–	<b>3,100.9</b>
Other*	28	80.0	17.2	13.7	122.8	<b>233.7</b>
Exceptional restructuring costs	28	–	–	–	11.0	<b>11.0</b>
<b>UK Public Services spend</b>		2,511.2	199.8	500.8	133.8	<b>3,345.6</b>
Digital UK Limited	2a	–	–	–	26.0	<b>26.0</b>
Digital switchover ring-fenced expenditure	2d	–	–	–	24.4	<b>24.4</b>
Total UK Public Service Broadcasting Group spend		2,511.2	199.8	500.8	184.2	<b>3,396.0</b>

\* Other spend is that not specifically regulated by the individual service licences and includes costs for licence fee collection, orchestras and performing groups and business development.

#### 2008

Services	Note	Content £m	Distribution £m	Infrastructure/ support £m	Other £m	Total £m
Television	28	1,834.3	104.8	416.2	–	2,355.3
Radio	28	459.9	47.2	91.3	–	598.4
Online	28	113.9	15.4	52.7	–	182.0
<b>Regulated spend</b>		2,408.1	167.4	560.2	–	3,135.7
Other	28	77.5	18.3	14.8	123.2	233.8
Exceptional restructuring costs	28	–	–	–	117.6	117.6
<b>UK Public Services spend</b>		2,485.6	185.7	575.0	240.8	3,487.1
Digital UK Limited	2a	–	–	–	21.2	21.2
Digital switchover ring-fenced expenditure	2d	–	–	–	5.9	5.9
Total UK Public Service Broadcasting Group spend		2,485.6	185.7	575.0	267.9	3,514.2

### 2c Commercial Businesses' expenditure

	Note	2009 £m	2008 £m
Cost of sales		<b>373.7</b>	351.0
Distribution costs		<b>221.0</b>	179.1
Administrative and other costs		<b>96.2</b>	40.2
Amortisation of programme investment	12	<b>87.0</b>	101.8
Restructuring costs	4c	<b>21.2</b>	3.5
Total		<b>799.1</b>	675.6

The BBC **online service** was [bbc.co.uk](http://bbc.co.uk) (including iPlayer).

The **expenditure** shown for Commercial Businesses relates only to external income and excludes expenditure relating to sales within the BBC.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 2d UK Public Services ring-fenced expenditure

DCMS has ring-fenced the following amounts within the new Charter and six-year licence fee settlement (2008 to 2013):

	Amount spent prior to 2008 £m	Amount spent in 2008 £m	Amount spend in 2009 £m	<b>Cumulative total £m</b>	six-year ring- fenced funding £m
<b>Digital switchover</b>					
Help for the elderly and disabled*	–	5.9	23.6	<b>29.5</b>	603.0
Digital UK Limited**	10.1	17.5	20.4	<b>48.0</b>	201.0

\* The Secretary of State has agreed with the BBC that the £603million estimated cost of the Digital Switchover Help Scheme (operated by DSHS Limited) will be ring-fenced and set aside from the licence fee for the purpose of funding the Scheme over the six-year life of the licence fee settlement. This agreement specifies that in the event that the costs of the project exceed this limit due to higher than anticipated demand, this will not be at the expense of the BBC's programmes, services or other resources.

\*\* The Framework Agreement states that the BBC is committed to leading certain aspects of the digital switchover programme, through Digital UK, and the licence fee settlement includes a ring-fenced amount of up to £201million from the inception of Digital UK until the end of the six-year life of the licence fee settlement for communication activities. The ring-fenced amount is only part of the BBC's annual contribution to Digital UK (see Note 2a).

As at 31 March 2009, the BBC is on target to remain within the ring-fenced amounts at the end of the six-year period.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3 GROUP OPERATING SURPLUS/(DEFICIT)

#### 3a Group operating surplus/(deficit) excluding auditors' remuneration

The operating surplus/(deficit) before interest and taxation is stated after charging/(crediting) the following items:

	2009 £m	2008 £m
Payments under operating leases		
– land and buildings	<b>83.7</b>	72.8
– plant and machinery	<b>13.6</b>	13.1
– other	<b>16.4</b>	12.3
Depreciation		
– owned assets	<b>122.4</b>	107.6
– leased assets	<b>6.3</b>	2.8
Impairment on tangible fixed assets	<b>10.9</b>	–
Profit on sale of tangible fixed assets*	<b>(0.5)</b>	–
Loss on disposal of tangible fixed assets*	<b>10.4</b>	–
Amortisation of goodwill in subsidiaries	<b>5.1</b>	2.5
Amortisation of goodwill in joint ventures and associates	<b>2.3</b>	2.0
Impairment of goodwill in joint ventures and associates	<b>2.0</b>	–
Amortisation of investment in programmes for future sale	<b>87.0</b>	101.8
Impairment of trade investments	<b>2.7</b>	1.5
Programme development	<b>32.1</b>	22.1
Research and development	<b>47.8</b>	16.1
Fair trading auditors' remuneration (Deloitte LLP)	<b>0.2</b>	–
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	<b>–</b>	0.5
Net exchange differences on settled transactions	<b>(10.3)</b>	(2.8)
Impairment of trade debtors	<b>5.7</b>	3.9
Fair value losses on embedded derivatives	<b>8.1</b>	0.2
Fair value losses/(gains) on open forward foreign currency contracts	<b>10.3</b>	(6.2)

\* The (profit)/loss on disposal of tangible fixed assets represents adjustments to depreciation on disposals in the ordinary course of business. Exceptional profit on disposals is disclosed separately in Notes 5 and 6.

As a result of a number of factors, including restructuring activities, market conditions and bedding down of new acquisitions, during the course of the year the group has reviewed its assets, particularly property, equipment and investments to ensure that none are stated at more than their recoverable amount. For individual assets, this generally involved a comparison to estimated recoverable amount, based on market prices. For business divisions this included an assessment of the cash flows expected to be generated by the division. As a result impairments have been recognised in relation to certain property, equipment and goodwill and investments, totalling £15.6million.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3b Auditors' remuneration

The BBC has reported its auditors' remuneration in accordance with The Companies (Disclosure of Auditor Remuneration) Regulations 2005.

	<b>2009</b> <b>£m</b>	2008 £m
Fees payable for the audit of the BBC's annual accounts	<b>0.5</b>	0.6
Fees payable to the BBC's auditor and its associates for other services		
– The audit of the BBC's subsidiaries pursuant to legislation	<b>0.7</b>	0.6
– Other services relating to taxation	<b>0.2</b>	0.3
– Services relating to corporate finance transactions	<b>0.1</b>	–
– All other services	<b>1.1</b>	0.5
	<b>2.6</b>	2.0

## 4 EMPLOYEES AND REMUNERATION

### 4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	<b>2009</b> <b>Number</b>	2008 Number
UK Public Service Broadcasting Group	<b>17,078</b>	17,677
BBC World Service and BBC Monitoring	<b>2,379</b>	2,219
Commercial Businesses	<b>3,417</b>	3,205
Group total	<b>22,874</b>	23,101

The decrease in UK Public Service Broadcasting Group headcount during 2009 is mainly due to the Continuous Improvement Programme leavers.

The increase in Commercial Businesses headcount during 2009 is mainly due to the acquisition of UK TV into BBC Worldwide Limited and the inclusion of Lonely Planet for a full year. This is partially offset by a reduction in BBC Studios and Post Production Limited following the sale of Outside Broadcast business.

Within the averages above, 2,806 (2008: 2,845) part-time employees have been included at their full-time equivalent of 1,584 (2008: 1,595).

In addition to the above, the group employed an average full-time equivalent of 789 (2008: 851) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 375 (2008: 379) full-time equivalents.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 4b Staff costs

	Note	2009 £m	2008 £m
Salaries and wages*		<b>1,005.4</b>	1,006.0
Social security costs		<b>86.9</b>	89.5
Pension costs*			
– main scheme (defined benefit)	8b ii	<b>158.9</b>	173.2
– other schemes	8b ii	<b>2.7</b>	1.2
Redundancy costs	4c	<b>40.3</b>	111.7
		<b>1,294.2</b>	1,381.6
Comprising:			
UK Public Service Broadcasting Group		<b>975.3</b>	1,097.8
BBC World Service and BBC Monitoring		<b>99.2</b>	93.7
Commercial Businesses		<b>220.0</b>	188.2
Main pension scheme additional operating (income)/cost (defined benefit)**	1a	<b>(0.3)</b>	1.9
		<b>1,294.2</b>	1,381.6

\* A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefit pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions, and a corresponding reduction in salary. The total salary sacrificed in accordance with this arrangement was £38.3million.

\*\* The actual employer cash contributions to the defined benefit pension scheme are borne by each business. The additional operating cost is the cost to the group over and above these contributions. It is not possible to allocate this to each business on a reasonable and consistent basis.

### 4c Restructuring costs

	Staff costs 2009 £m	Other 2009 £m	Total 2009 £m	Staff costs 2008 £m	Other 2008 £m	Total 2008 £m
Exceptional restructuring costs:*						
– UK Public Service Broadcasting Group	<b>11.0</b>	–	<b>11.0</b>	99.7	17.9	117.6
– BBC World Service and BBC Monitoring	–	–	–	0.1	–	0.1
– Commercial Businesses	<b>18.9</b>	–	<b>18.9</b>	–	–	–
	<b>29.9</b>	–	<b>29.9</b>	99.8	17.9	117.7
Non-exceptional restructuring costs:**						
– UK Public Service Broadcasting Group	<b>3.3</b>	–	<b>3.3</b>	2.9	–	2.9
– BBC World Service and BBC Monitoring	<b>4.8</b>	–	<b>4.8</b>	5.5	–	5.5
– Commercial Businesses	<b>2.3</b>	–	<b>2.3</b>	3.5	–	3.5
	<b>10.4</b>	–	<b>10.4</b>	11.9	–	11.9
	<b>40.3</b>	–	<b>40.3</b>	111.7	17.9	129.6

\* Exceptional restructuring costs relate to the Continuous Improvement Programme occurring within UK Public Service Broadcasting Group and a process review in order to achieve more efficient operations within Commercial Businesses. The scale of these initiatives will have a material effect on the operations of the group.

\*\* Non-exceptional restructuring costs are outside these initiatives and are not expected to have a material effect on the overall business of the group.

£54.2million (2008: £57million) of exceptional restructuring costs were paid in the year.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 4d Remuneration of the BBC Trust members and the Executive Board

The total emoluments of the members of the Executive Board and the BBC Trust are disclosed in the Executive Board Remuneration Report. The details of emoluments of the members of the BBC Trust are disclosed in Part One of the Annual Report and Accounts.

### 5 PROFIT/(LOSS) ON SALE OR TERMINATION OF OPERATIONS

	<b>2009</b> <b>£m</b>	2008 £m
Sale of Outside Broadcast division	<b>7.7</b>	(1.3)
Project Kangaroo closure	<b>(9.1)</b>	–
BBC jam closure	<b>0.3</b>	(3.5)
Loss on sale or termination of operations	<b>(1.1)</b>	(4.8)

On the 1 April 2008, BBC Studios and Post Production Limited sold its Outside Broadcast business for £19.3million consideration to SIS Outside Broadcast Limited, part of the Satellite Information Services Group. Outside Broadcast provides a range of mobile production units, communications and special camera solutions, based in Langley, Berkshire. A profit on sale has arisen in respect of the sale of the Outside Broadcasts business. All provisions relating to the closure have been recognised in the financial statements.

In the year ended 31 March 2008, an independent joint venture was created by BBC Worldwide, ITV and Channel 4 to develop a new UK on-demand service known to the industry as Project Kangaroo. On 4 February 2009, the Competition Commission reported that it believed the proposed venture would create a lessening of competition in the emerging video on demand industry in the UK, and blocked the joint venture from continuing. As a result the group has terminated its investment and during the year ended 31 March 2009 exceptional costs totalling £9.1million have been charged to the income and expenditure account. The exceptional costs comprise the write down of the group's investment in the Kangaroo venture, termination costs incurred to 31 March 2009, the write-down of capitalised development expenditure relating to software and provision for the group's remaining obligations after this date.

On 20 March 2007 the Executive Board, following a decision by the BBC Trust, suspended BBC jam, the BBC's online interactive learning service for 5–16 year olds. The Trust's decision followed extensive discussions with Government and the European Commission about how to address allegations from some in the industry that BBC jam was damaging their interests. A provision of £0.3million (2008: £1.5million) for the costs of redundancy and terminating contracts with content suppliers remains at the end of the current year.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 6 PROFIT ON DISPOSAL OF FIXED ASSETS

	2009 £m	2008 £m
Disposal of properties	<b>15.9</b>	2.0

The profit of £15.9million in 2009 relates to the disposal of Queen Margaret Drive in Glasgow.

Profits or losses on the disposal of tangible fixed assets in the ordinary course of business, that represent an adjustment to depreciation, are recognised within operating surplus/(deficit) and disclosed in aggregate in Note 3a.

### 7 INTEREST

#### 7a Interest receivable and similar items

	2009 £m	2008 £m
Interest receivable	<b>7.9</b>	11.6
Share of joint venture and associate interest receivable	<b>1.2</b>	2.0
Fair value gains on interest rate swaps, caps and collars	–	0.1
Interest receivable and similar items	<b>9.1</b>	13.7

#### 7b Interest payable and similar items

	2009 £m	2008 £m
Interest payable on bank and other loans	<b>(15.7)</b>	(12.4)
Share of joint venture and associate interest payable	<b>(2.4)</b>	(1.6)
Interest payable on finance leases	<b>(0.4)</b>	(0.7)
Fair value losses on interest rate swaps, caps and collars	<b>(5.1)</b>	(3.6)
Unwinding of discounts in provisions	17 <b>(2.7)</b>	–
Interest payable and similar items	<b>(26.3)</b>	(18.3)

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8 PENSIONS

#### 8a Group pension schemes

The group operates several pension schemes. The BBC Pension Scheme, to which most employees belong, and a small unfunded scheme (which is closed to new members) are defined benefit schemes. Additionally the Group Personal Pension Scheme and several small schemes are defined contribution schemes.

Note 8b sets out the assets and liabilities and charges for each scheme. Note 8c provides further details on the BBC Pension Scheme.

#### 8b Pension charges and balances within the financial statements

##### 8b i Pension (liability)/asset included in the balance sheet

	BBC Pension Scheme 2009 £m	Unfunded scheme 2009 £m	Total 2009 £m	BBC Pension Scheme 2008 £m	Unfunded scheme 2008 £m	Total 2008 £m
Fair value of scheme assets	6,454.0	–	6,454.0	8,042.0	–	8,042.0
Actuarial value of scheme liabilities	(6,592.6)	(4.7)	(6,597.3)	(7,513.6)	(5.1)	(7,518.7)
Closing net pension (liability)/asset	(138.6)	(4.7)	(143.3)	528.4	(5.1)	523.3

##### 8b ii Pension (charges)/income in statement of income and expenditure

	Defined benefit schemes			All schemes £m
	BBC Pension Scheme £m	Unfunded scheme £m	Defined contribution scheme £m	
<b>2009</b>				
<b>Current service cost</b>	(161.8)	–	(2.7)	(164.5)
<b>Past service cost</b>	(24.2)	–	–	(24.2)
<b>Gain on curtailment</b>	10.0	–	–	10.0
<b>Total operating charge*</b>	(176.0)	–	(2.7)	(178.7)
<b>Expected return on pension scheme assets</b>	626.0	–	–	626.0
<b>Interest on pension scheme liabilities</b>	(508.4)	(0.3)	–	(508.7)
<b>Net finance income/(cost)</b>	117.6	(0.3)	–	117.3
<b>Net cost in statement of income and expenditure</b>	(58.4)	(0.3)	(2.7)	(61.4)
<b>2008</b>				
Current service cost	(164.8)	–	(1.2)	(166.0)
Past service cost	(21.5)	–	–	(21.5)
Total operating charge	(186.3)	–	(1.2)	(187.5)
Expected return on pension scheme assets	562.7	–	–	562.7
Interest on pension scheme liabilities	(413.6)	(0.3)	–	(413.9)
Net finance income/(cost)	149.1	(0.3)	–	148.8
Net cost in statement of income and expenditure	(37.2)	(0.3)	(1.2)	(38.7)

\* Of the total operating charge of £176.0million for 2008/09 (2008: £186.3million), £17.1million was recognised as an expense in 2007/08 (2008: £13.1million recognised as an expense in 2006/07) as part of exceptional redundancy costs in accordance with FRS 12. The remaining £158.9million (2008: £173.2million) was recognised in the current year.

The **current service cost** is the underlying cost to the BBC of pension rights earned by employees during the year.

The **past service cost arises** from members of the scheme becoming entitled to improved defined retirement benefits, resulting in a charge for years of service before the award of the improvement.

The **expected return on pension scheme assets** comprises estimates based on predictions of future performance and economic conditions.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8b iii Movement in (deficit)/surplus during the year

	BBC Pension Scheme 2009 £m	Unfunded scheme 2009 £m	Total 2009 £m	BBC Pension Scheme 2008 £m	Unfunded scheme 2008 £m	Total 2008 £m
Surplus/(deficit) in scheme at the start of the year	528.4	(5.1)	523.3	329.3	(5.2)	324.1
Movement in the year:						
Current service cost	(161.8)	–	(161.8)	(164.8)	–	(164.8)
Contributions (from employer)*	176.0	0.3	176.3	184.0	0.4	184.4
Past service costs	(24.2)	–	(24.2)	(21.5)	–	(21.5)
Gain on settlements and curtailments	10.0	–	10.0	–	–	–
Net finance income/(cost)	117.6	(0.3)	117.3	149.1	(0.3)	148.8
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(784.6)	0.4	(784.2)	52.3	–	52.3
(Deficit)/surplus in scheme at the end of the year	(138.6)	(4.7)	(143.3)	528.4	(5.1)	523.3

\* The contribution shown for the unfunded scheme represents the pensions paid to members during the year.

The assumptions for pension scheme liabilities of the unfunded scheme are the same as the main scheme. As the scheme is unfunded there are no assets and hence no expected return on assets.

### 8c BBC Pension Scheme

The BBC Pension Scheme is the main pension scheme of the group and covers the majority of employees. This scheme provides salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

The pension scheme trustees manage the scheme in the short, medium and long term. They make funding decisions based on valuations which take a longer-term view of the assets required to fund the scheme's liabilities.

Valuations of the scheme are performed by Watson Wyatt, consulting actuaries. Formal valuations are undertaken at least every three years.

### 8c i Scheme financial position

FRS 17 valuation	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Scheme assets*	6,454.0	8,042.0	8,117.9	7,843.4	6,341.7
Scheme liabilities	(6,592.6)	(7,513.6)	(7,788.6)	(7,675.9)	(6,763.8)
(Deficit)/surplus	(138.6)	528.4	329.3	167.5	(422.1)
Percentage by which scheme assets cover liabilities	98%	107%	104%	102%	94%

\* Quoted equities included within the scheme assets have been valued using the current bid price except for 2005 which has not been restated and is valued using the mid-market price, as allowed under the Amendment to FRS 17. The impact of the restatement was to reduce scheme assets by £2.7million and £10.4million at 31 March 2006 and 2007 respectively.

Key movements in the year are shown in Note 8b iii.

A deferred tax asset or liability will not arise for the group because most of the group's public service activity is not subject to taxation.

The **defined contribution schemes** do not give rise to balance sheet pension assets/ (liabilities) as there is no ongoing liability for the employer from these schemes once the contributions due for the year have been settled.

The **FRS 17 valuation** takes assets at their market value and discounts the accrued liabilities by reference to the discount rate of an AA rated corporate bond.

## NOTES TO THE FINANCIAL STATEMENTS

### CONTINUED

#### 8c ii Changes in present value of scheme liabilities

The table below illustrates the movement on the scheme liabilities during the year. The key things which affect this are the additional year of pension benefits earned (and employee contributions made), interest charged on existing liabilities, any gains or losses relating to participants leaving the pension scheme, changes in assumptions made and benefits paid out during the year.

	2009 £m	2008 £m
Opening present value of scheme liabilities	<b>7,513.6</b>	7,788.6
Current service cost	<b>161.8</b>	164.8
Past service cost	<b>24.2</b>	21.5
Gains on curtailments	<b>(10.0)</b>	–
Interest on pension scheme liabilities	<b>508.4</b>	413.6
Experience (gains)/losses arising on scheme liabilities	<b>(171.3)</b>	149.1
Changes in assumptions underlying scheme liabilities	<b>(1,138.1)</b>	(786.0)
Contributions by scheme participants	<b>14.2</b>	53.1
Benefits paid	<b>(310.2)</b>	(291.1)
Closing present value of scheme liabilities	<b>6,592.6</b>	7,513.6

#### 8c iii Changes in the fair value of scheme assets

The table below illustrates the movement on the scheme assets during the year. The key things which affect this are the additional year of contributions made, changes in the value of the pension scheme assets (including the investment return) and benefits paid during the year.

A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefit members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions.

	2009 £m	2008 £m
Opening fair value of scheme assets	<b>8,042.0</b>	8,117.9
Expected rate of return on scheme assets	<b>626.0</b>	562.7
Actuarial losses on scheme assets	<b>(2,094.0)</b>	(584.6)
Contributions by employer	<b>176.0</b>	184.0
Contributions by scheme participants	<b>14.2</b>	53.1
Benefits paid	<b>(310.2)</b>	(291.1)
Closing fair value of scheme assets	<b>6,454.0</b>	8,042.0

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8c iv Scheme assets

The allocation of assets by the Trustees is governed by a need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the Trustees expect will produce higher returns in the long term. The target allocation, based on market values, for equities is 50% (UK equities 25% and overseas equities 25%), bonds 30%, property 10% and alternatives 10%.

Type of asset	2009		2008***	
	£m	%	£m	%
Equities	<b>3,313</b>	<b>51</b>	4,624	58
Bonds	<b>1,598</b>	<b>25</b>	1,693	21
Property	<b>796</b>	<b>12</b>	1,001	12
Alternatives*	<b>508</b>	<b>8</b>	455	6
Cash	<b>239</b>	<b>4</b>	269	3
Total assets	<b>6,454</b>		8,042	
Actual return on pension scheme assets**	<b>(1,468)</b>		(22)	

\* Alternatives include private equity, debt and currency.

\*\* This constitutes realised gains from the receipt of investment income (eg dividends and rent), transactions where assets are sold and unrealised fair value changes.

\*\*\* The new Pensions SORP requires that futures are now accounted for on a market value basis, as opposed to an economic exposure basis. The comparatives for Equities, Bonds and Cash have been amended to reflect this change.

### 8c v Pension (losses)/gains in statement of total recognised gains and losses

	2009 £m	2008 £m
Actual return less expected return on pension scheme assets	<b>(2,094.0)</b>	(584.6)
Experience gains/(losses) arising on scheme liabilities	<b>171.3</b>	(149.1)
Changes in assumptions underlying the present value of scheme liabilities	<b>1,138.1</b>	786.0
Net (loss)/gain recognised in statement of total recognised gains and losses	<b>(784.6)</b>	52.3
Cumulative loss recognised in statement of total recognised gains and losses	<b>(2,525.4)</b>	(1,740.8)

These **gains and losses** arise from actual performance being different from that predicted – for example, changes in economic conditions or the demographic profile of BBC employees. Only defined benefit schemes give rise to gains and losses in the statement of recognised gains and losses.

## NOTES TO THE FINANCIAL STATEMENTS

### CONTINUED

#### 8c vi History of experience gains and losses

	2009	2008	2007	2006	2005
Experience adjustments on scheme assets:					
Amount (£million)	<b>(2,094.0)</b>	(584.6)	(121.0)	1,246.5	198.7
Percentage of scheme assets	<b>32.4%</b>	7.3%	1.5%	15.9%	3.1%
Experience adjustments on scheme liabilities:					
Amount (£million)	<b>171.3</b>	(149.1)	(164.6)	208.6	(1.4)
Percentage of scheme liabilities	<b>2.6%</b>	2.0%	2.1%	2.7%	0.0%
Total actuarial (loss)/gain recognised in statement of recognised gains and losses:					
Amount (£million)	<b>(784.6)</b>	52.3	136.1	658.4	80.9
Percentage of scheme liabilities	<b>11.9%</b>	0.7%	1.7%	8.6%	1.2%

#### 8c vii Funding the scheme

As a result of the 2007 actuarial valuation by Watson Wyatt, it was agreed between the BBC and the pension scheme trustees that the employer contributions would increase to 19.35% from 1 July 2008. Employee contributions rose from 6% to 6.75% from 1 April 2009 and will rise to 7.5% from 1 April 2010 and employer contributions decreased from 19.35% to 18.6% from 1 April 2009 and will decrease to 17.85% from 1 April 2010.

A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefit members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions.

The next formal actuarial valuation is expected to be performed as at 1 April 2010.

Contribution rates	Projections		2009 %	2008 %	2007 %
	2011 %	2010 %			
Employer	17.85	18.6	18.8/19.35	18.8	7.5
Employee (Old and New Benefit)	7.5	6.75	6.0	6.0	5.5/6.0
Employee (Career Average Benefit)	4.0	4.0	4.0	4.0	4.0**
Underlying cost of scheme to BBC as % of pensionable salaries*	17.85	18.6	18.8/19.35	18.8	19.3/18.8

\* Excludes the cost effectively paid for by the employee and the salary sacrifice element.

\*\* The Career Average Benefit scheme started on 1 November 2006.

Contributions totalling £182.5million are expected to be paid in 2010.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8c viii Principal actuarial assumptions

The calculation of the scheme assets and liabilities, for FRS 17 purposes, requires a number of assumptions, both financial and demographic, to be made. The principal assumptions made by the actuaries at the balance sheet date were:

<b>Principal financial assumptions</b>	<b>2009</b> %	2008 %	2007 %
FRS 17 valuation			
Rate of increase in salaries	<b>4.4**</b>	5.6*	5.0
Rate of increase in pension payments:			
Old Benefits	<b>3.0</b>	3.6	3.1
New Benefits	<b>2.7</b>	3.4	2.9
Career Average Benefits	<b>2.4</b>	2.5	2.4
Inflation assumption	<b>2.9</b>	3.6	3.1
Discount rate	<b>7.2</b>	6.9	5.4

The **discount rate** for the FRS 17 valuation is taken as the rate for an AA rated corporate bond.

\* This is the assumption from 1 April 2010. The assumption to 31 March 2010 is 4.6% per annum.

\*\* This is the assumption from 1 April 2011. The assumption to 31 March 2011 is 3.9% per annum.

The average life expectancy assumptions, for members after retirement at 60 years of age, are as follows:

<b>Principal demographic assumptions</b>	<b>2009</b> Number of years	2008 Number of years	2007 Number of years
Retiring today			
Male	<b>26.9</b>	26.6	23.5
Female	<b>29.6</b>	29.1	25.7
Retiring in 20 years			
Male	<b>28.9</b>	28.1	24.5
Female	<b>31.7</b>	30.7	26.8

The longevity assumptions have been selected to reflect the characteristics and experience of the membership of the scheme. This has been done by adjusting standard mortality tables (PMAC07MC+0.5 and PFAC07MC+1) which reflect recent research into mortality experience in the UK.

The demographic assumptions have been updated from those used for the actuarial valuation of the scheme as at 1 April 2007 to reflect the likely assumptions which will be used for the actuarial valuation of the scheme as at 1 April 2010.

<b>Expected long-term rate of return (per annum)*</b>	<b>2009</b> %	2008 %
Equities	<b>8.6</b>	9.3
Bonds and gilts	<b>3.7</b>	4.5
Property	<b>6.2</b>	6.9
Alternatives	<b>8.6</b>	9.3
Cash	<b>4.4</b>	5.1
Total expected rate of return	<b>6.9</b>	7.9

\* As at the beginning of each financial year.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 8c ix Scheme membership analysis and maturity profile

	2009 Number	2008 Number	2007 Number
Contributors	<b>17,774</b>	18,736	19,974
Pensioners	<b>17,970</b>	17,569	17,372
Dependents	<b>3,863</b>	3,798	3,744
Deferred pensioners	<b>19,137</b>	18,286	17,723

The scheme is becoming more mature with the number of contributors decreasing along with the number of pensioners increasing. This is also reflected in the reduction in cash inflows shown in Note 8cx.

The **maturity** of a scheme provides an indication of the cash requirements of the scheme and the likely attitude of the Trustees to risk within their investment policy. The more mature a scheme, the more likely that Trustees will favour low risk investments.

### 8c x Scheme cash flows (day-to-day liquidity)

In 2009 cash inflows of the pension scheme exceeded its cash outflows, but to a lesser degree than in 2008. The employer's contribution rate increased from 18.8% to 19.35% from 1 July 2008 but this has been offset by a significant reduction in member contributions. In addition, there has been an increase in pensions paid and lump sums on retirement which have combined to reduce the cash inflow compared to 2008.

In 2008 cash inflows of the pension scheme exceeded its cash outflows, largely as a result of the increase in the employer's contribution rate from 7.5% to 18.8% from 1 April 2007.

In 2007 cash inflows of the pension scheme exceeded its cash outflows, largely as a result of the increase in the employer's contribution rate from 6.0% to 7.5% from 1 April 2006 and the employee's contribution rate from 5.5% to 6.0% from 1 September 2006. Offset against this, was a £16.8million transfer to the Red Bee Media Pension Plan on 30 June 2006.

	2009 £m	2008 £m	2007 £m
Contributions (employer and employee)	<b>196.3</b>	242.9	163.6
Investment income	<b>225.2</b>	225.1	206.4
Cash inflows	<b>421.5</b>	468.0	370.0
Payments of pensions and transfers out	<b>(313.1)</b>	(286.5)	(303.6)
Expenses	<b>(36.9)</b>	(42.0)	(33.5)
Net cash inflow	<b>71.5</b>	139.5	32.9

### 8d UK Public Service Broadcasting pension charge

UK Public Service Broadcasting, in accordance with the group pension provision in FRS 17, accounts for the BBC Pension Scheme as if it were a defined contribution scheme. This is because it is not possible to identify the UK Public Service Broadcasting's share of the underlying assets and liabilities of the Scheme on a reasonable and consistent basis.

The expenditure for UK Public Service Broadcasting of £161.0million (2008: £165.0million) therefore represents the contributions payable in the year. A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefit members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions.

No contributions were prepaid or accrued as at 31 March 2009 (2008: nil). The contributions are set based on the funding needs identified from the actuarial valuation and they may therefore vary from the underlying cost after taking into account factors such as the actuarial surplus.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 9 TAXATION

#### 9a Analysis of charges for the year

The charge for the year, based on the rate of corporation tax of 28% (2008: 30%) comprised:

	Note	2009 £m	2008 £m
<b>Current tax</b>			
UK corporation tax		22.5	16.8
Deduct: double tax relief		(11.1)	(5.3)
		11.4	11.5
Adjustments in respect of prior years		3.4	–
		14.8	11.5
Foreign tax		10.1	8.4
Share of associates' and joint ventures' tax		16.0	14.3
Total current tax	9b	40.9	34.2
<b>Deferred tax</b>			
Origination and reversal of timing differences		(12.0)	6.4
Adjustments in respect of prior years		(4.9)	(3.3)
Total deferred tax (credit)/charge	9d	(16.9)	3.1
<b>Total charge for the year</b>		<b>24.0</b>	<b>37.3</b>

#### 9b Factors affecting the tax charge

The group is only liable to taxation on those activities carried out with a view to making a profit and on rent, royalties and interest receivable. The BBC does not therefore receive relief for all its expenditure, and the tax assessed for the year consequently differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Note	2009 £m	2008 £m
Surplus before tax		278.2	139.5
Surplus before tax multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)		77.9	41.9
<b>Effects of</b>			
Public services taxable external income		6.6	4.5
(Non-Taxable Licence Income)/Disallowable costs of Public Services		(37.3)	30.7
Non-cash element of net group pension charge		(32.9)	(44.1)
<i>Commercial activities</i>			
Non-taxable income		–	(2.9)
Disallowed expenditure		6.9	6.7
UK taxation on intra-group overseas dividends		–	1.0
Depreciation in excess of (less than) capital allowances		6.5	(1.4)
Tax differential regarding overseas earnings		3.0	2.8
Other timing differences		5.0	(5.0)
Other – Associates		1.8	–
Adjustments in respect of prior years		3.4	–
Current tax charge for the year	9a	40.9	34.2

The tax impact of loss on sale and termination (Note 5) of operations and profit on disposal of fixed assets (Note 6) is £nil (2008: £nil).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 9c Factors that may affect future tax charges

The group anticipates that the future tax charge will not alter significantly since all licence fee income is free of tax.

### 9d Deferred tax analysis

In accordance with FRS 19 'Deferred Tax', the group provides for all deferred tax liabilities in full less available deferred tax assets at 28% (2008: 28%).

<b>Movement in deferred tax asset in the year</b>	Note	<b>2009 £m</b>	2008 £m
Net asset at start of year		<b>(6.1)</b>	(9.6)
Exchange adjustment		<b>(5.6)</b>	1.8
Deferred tax (credit)/charge	9a	<b>(16.9)</b>	3.1
Acquired on investment acquisition		<b>1.3</b>	(1.4)
Current year overseas tax losses reclassified as current tax		<b>0.7</b>	–
<b>Net asset at end of year</b>		<b>(26.6)</b>	(6.1)

### **Analysis of deferred tax (asset)/provision**

(Decelerated)/accelerated capital allowances		<b>(5.6)</b>	8.8
Other timing differences		<b>(2.7)</b>	(0.1)
Deferred tax provision	17	–	8.7
Deferred tax asset		<b>(8.3)</b>	–
Overseas timing differences		<b>(18.3)</b>	(14.8)
<b>Net deferred tax asset at end of year</b>	15	<b>(26.6)</b>	(6.1)

## 10 INTANGIBLE FIXED ASSETS

	Note	<b>Goodwill £m</b>
<b>Cost</b>		
At 1 April 2008		<b>94.5</b>
Additions	19	<b>10.6</b>
Exchange adjustment		<b>2.9</b>
<b>At 31 March 2009</b>		<b>108.0</b>
<b>Amortisation</b>		
At 1 April 2008		<b>7.2</b>
Charge for the year		<b>5.1</b>
<b>At 31 March 2009</b>		<b>12.3</b>
<b>Net book value</b>		
<b>At 31 March 2009</b>		<b>95.7</b>
At 31 March 2008		<b>87.3</b>

**Goodwill** is the difference between the value paid for a business and the fair value of its net assets. It represents the premium the purchaser is prepared to pay for the business.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 11 TANGIBLE FIXED ASSETS

#### 11a Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	<b>Total £m</b>
<b>Cost or valuation</b>					
At 1 April 2008	439.3	1,086.7	162.5	71.2	<b>1,759.7</b>
Additions	9.8	64.3	9.1	64.4	<b>147.6</b>
Brought into service	1.1	27.1	3.0	(31.2)	<b>–</b>
Disposals	(9.3)	(110.2)	(9.2)	(2.1)	<b>(130.8)</b>
Transfers	–	8.2	(8.2)	–	<b>–</b>
Exchange adjustments	0.9	2.9	0.5	–	<b>4.3</b>
<b>At 31 March 2009</b>	<b>441.8</b>	<b>1,079.0</b>	<b>157.7</b>	<b>102.3</b>	<b>1,780.8</b>
<b>Depreciation</b>					
At 1 April 2008	260.8	674.6	76.4	–	<b>1,011.8</b>
Charge for the year	12.1	100.8	15.8	–	<b>128.7</b>
Disposals	(3.1)	(96.9)	(5.2)	–	<b>(105.2)</b>
Transfers	–	3.2	(3.2)	–	<b>–</b>
Impairment	3.7	9.8	0.8	–	<b>14.3</b>
Exchange adjustments	0.7	2.1	0.4	–	<b>3.2</b>
<b>At 31 March 2009</b>	<b>274.2</b>	<b>693.6</b>	<b>85.0</b>	<b>–</b>	<b>1,052.8</b>
<b>Net book value</b>					
<b>At 31 March 2009</b>	<b>167.6</b>	<b>385.4</b>	<b>72.7</b>	<b>102.3</b>	<b>728.0</b>
At 31 March 2008	178.5	412.1	86.1	71.2	<b>747.9</b>

BBC World Service's and BBC Monitoring's plant and machinery and furniture and fittings are stated at the estimated current replacement cost of the assets, as at 1 April 1996, as adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

There is no significant difference (2008: no significant difference) between the net book value of these tangible fixed assets and their value as determined on an historical cost basis. The assets revalued in 1996 have a useful life remaining of one year.

The impairment charge for the year is comprised of the write down of assets in BBC Studios and Post Production Limited £6.4million, £4.9million in BBC Worldwide Limited of which £3.4million relates to Project Kangaroo (Note 5), and £3.0million in Public Service Broadcasting for the impairment of Woodlands land and buildings.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	<b>Total £m</b>
<b>Cost</b>					
At 1 April 2008	365.8	647.5	132.1	46.4	<b>1,191.8</b>
Additions	1.9	24.6	4.9	49.7	<b>81.1</b>
Brought into service	1.0	13.7	2.0	(16.7)	<b>–</b>
Disposals	(7.3)	(46.3)	(8.1)	–	<b>(61.7)</b>
Transfers	–	8.2	(8.2)	–	<b>–</b>
<b>At 31 March 2009</b>	<b>361.4</b>	<b>647.7</b>	<b>122.7</b>	<b>79.4</b>	<b>1,211.2</b>
<b>Depreciation</b>					
At 1 April 2008	213.1	393.2	62.1	–	<b>668.4</b>
Charge for the year	8.2	58.1	11.8	–	<b>78.1</b>
Disposals	(2.5)	(41.4)	(4.5)	–	<b>(48.4)</b>
Impairment	3.0	–	–	–	<b>3.0</b>
Transfers	–	3.2	(3.2)	–	<b>–</b>
<b>At 31 March 2009</b>	<b>221.8</b>	<b>413.1</b>	<b>66.2</b>	<b>–</b>	<b>701.1</b>
<b>Net book value</b>					
<b>At 31 March 2009</b>	<b>139.6</b>	<b>234.6</b>	<b>56.5</b>	<b>79.4</b>	<b>510.1</b>
At 31 March 2008	152.7	254.3	70.0	46.4	523.4

### 11c Land and buildings at net book value

	<b>Group 2009 £m</b>	Group 2008 £m	<b>UK Public Service Broadcasting 2009 £m</b>	UK Public Service Broadcasting 2008 £m
Undepreciated land	<b>17.1</b>	16.5	<b>16.8</b>	16.5
Freehold buildings	<b>87.5</b>	98.5	<b>80.2</b>	88.7
Total freeholds	<b>104.6</b>	115.0	<b>97.0</b>	105.2
Long leaseholds	<b>21.0</b>	27.3	<b>21.0</b>	24.6
Short leaseholds	<b>42.0</b>	36.2	<b>21.6</b>	22.9
<b>Total</b>	<b>167.6</b>	178.5	<b>139.6</b>	152.7

### 11d Finance leases

Assets held under finance leases, capitalised and included in tangible fixed assets:

	<b>Group 2009 £m</b>	Group 2008 £m	<b>UK Public Service Broadcasting 2009 £m</b>	UK Public Service Broadcasting 2008 £m
Cost	<b>21.5</b>	24.4	<b>16.4</b>	19.9
Accumulated depreciation	<b>(15.2)</b>	(15.0)	<b>(12.2)</b>	(13.1)
<b>Net book value</b>	<b>6.3</b>	9.4	<b>4.2</b>	6.8

The finance leases primarily relate to IT equipment.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 12 INVESTMENT IN PROGRAMMES FOR FUTURE SALE

	Group £m
<b>Cost</b>	
At 1 April 2008	173.9
Exchange adjustment	18.5
Additions	100.8
Elimination in respect of programmes fully amortised	(60.2)
<b>At 31 March 2009</b>	<b>233.0</b>
<b>Amortisation</b>	
At 1 April 2008	88.8
Exchange adjustment	17.7
Charge for the year	87.0
Elimination in respect of programmes fully amortised	(60.2)
<b>At 31 March 2009</b>	<b>133.3</b>
<b>Net book value</b>	
<b>At 31 March 2009</b>	<b>99.7</b>
At 31 March 2008	85.1

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. Additions include £84.2million direct investment in BBC programmes (2008: £75.1million).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 13 INVESTMENTS AND OTHER INTERESTS

Details of significant joint ventures and associates along with principal subsidiary undertakings, including their activities, are provided in Note 29.

#### 13a Movements in the year for the Group

	Note	Interests in joint ventures £m	Interests in associates £m	Trade investments £m	Group Total £m
<b>Cost</b>					
At 1 April 2008		29.5	(2.7)	2.7	<b>29.5</b>
Additions	13d	6.8	0.4	–	<b>7.2</b>
Provision		–	–	(2.7)	<b>(2.7)</b>
<b>At 31 March 2009</b>		<b>36.3</b>	<b>(2.3)</b>	<b>–</b>	<b>34.0</b>
<b>Goodwill</b>					
At 1 April 2008		19.6	4.0	–	<b>23.6</b>
Additions	13d, 19b	0.1	9.9	–	<b>10.0</b>
Amortisation and impairment		(3.4)	(0.9)	–	<b>(4.3)</b>
<b>At 31 March 2009</b>		<b>16.3</b>	<b>13.0</b>	<b>–</b>	<b>29.3</b>
<b>Share of post acquisition reserves</b>					
At 1 April 2008		16.5	2.5	–	<b>19.0</b>
Exchange adjustment		2.0	(0.3)	–	<b>1.7</b>
Share of profits/(losses) after taxation		36.3	(6.3)	–	<b>30.0</b>
Provision for unrealised profit		(3.5)	(0.5)	–	<b>(4.0)</b>
UK.TV Elimination of pre-acquisition reserves		–	(1.3)	–	<b>(1.3)</b>
Asset impairment		(4.2)	–	–	<b>(4.2)</b>
UK Gold Holding Limited reserves adjustment	13e	(19.4)	–	–	<b>(19.4)</b>
Dividends received		(33.4)	(3.6)	–	<b>(37.0)</b>
Adjustment to reflect effective obligation*		1.6	10.0	–	<b>11.6</b>
<b>At 31 March 2009</b>		<b>(4.1)</b>	<b>0.5</b>	<b>–</b>	<b>(3.6)</b>
<b>Loans receivable from joint ventures and associates</b>					
At 1 April 2008		–	–	–	<b>–</b>
Additions		5.7	–	–	<b>5.7</b>
Provision		(5.7)	–	–	<b>(5.7)</b>
<b>At 31 March 2009</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net book value</b>					
<b>At 31 March 2009</b>		<b>48.5</b>	<b>11.2</b>	<b>–</b>	<b>59.7</b>
At 31 March 2008		65.6	3.8	2.7	<b>72.1</b>
<b>The net book value at 31 March 2009 is presented within:</b>					
Interests in joint ventures and associates		68.8	11.2	–	<b>80.0</b>
Provisions		(20.3)	–	–	<b>(20.3)</b>
		<b>48.5</b>	<b>11.2</b>	<b>–</b>	<b>59.7</b>

\* Under the terms of the agreements with the other investors in certain of the group's joint ventures and associates, the group has no obligation to fund losses incurred by those joint ventures and associates or to make good their net liabilities. As a result the group does not share in the losses of the relevant entities. The share of net liabilities not recognised comprised:  
– Joint ventures: £22.8million (2008: £42.2million – updated to reflect the final statutory position of UKGH see Note 13e)  
– Associates: £191.4million (2008: £107.9million).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 13b Group share of joint ventures' and associates' assets and surplus

	Group share of joint ventures		Group share of associates		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Current assets	<b>165.1</b>	178.1	<b>39.0</b>	46.7	<b>204.1</b>	224.8
Non-current assets	<b>44.3</b>	39.3	<b>31.8</b>	12.9	<b>76.1</b>	52.2
<b>Total assets</b>	<b>209.4</b>	217.4	<b>70.8</b>	59.6	<b>280.2</b>	277.0
Current liabilities	<b>(96.1)</b>	(110.0)	<b>(38.5)</b>	(41.5)	<b>(134.6)</b>	(151.5)
Non-current liabilities	<b>(87.6)</b>	(84.0)	<b>(212.5)</b>	(122.2)	<b>(300.1)</b>	(206.2)
<b>Total liabilities</b>	<b>(183.7)</b>	(194.0)	<b>(251.0)</b>	(163.7)	<b>(434.7)</b>	(357.7)
<b>Adjustment to reflect effective obligation</b>	<b>22.8</b>	42.2	<b>191.4</b>	107.9	<b>214.2</b>	150.1
<b>Total net book value</b>	<b>48.5</b>	65.6	<b>11.2</b>	3.8	<b>59.7</b>	69.4
<b>The net book value is presented within:</b>						
Interests in joint ventures and associates	<b>68.8</b>	65.6	<b>11.2</b>	3.8	<b>80.0</b>	69.4
Provisions	<b>(20.3)</b>	–	<b>–</b>	–	<b>(20.3)</b>	–
	<b>48.5</b>	65.6	<b>11.2</b>	3.8	<b>59.7</b>	69.4
<b>Income</b>	<b>300.5</b>	274.6	<b>57.8</b>	48.8	<b>358.3</b>	323.4
<b>Operating surplus for the year</b>	<b>44.5</b>	58.8	<b>4.8</b>	1.5	<b>49.3</b>	60.3

Prior year comparatives were updated to reflect the final statutory position of UKGH (see Note 13e).

Certain 2entertain employees participate in the Woolworths Group Pension Scheme which is managed by the Woolworths Group Pension Trust Limited. Following the administration of Woolworths Group plc, a liability crystallised in 2entertain in respect of this pension scheme. The group's share of joint venture results includes a £7.5million charge in respect of this pension liability, being 60% of the operating exceptional expense recorded by 2entertain. The group's share of the corresponding tax credit was also equity accounted for, resulting in a net £5.5million impact on the group's after taxation results.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### I 3c Disclosure in respect of group share of significant joint venture

In accordance with FRS 9 'Associates and Joint Ventures' 2entertain Limited meets the criteria for additional disclosures:

Group share of:	2entertain Limited	
	2009 £m	2008 £m
<b>Turnover</b>	<b>155.6</b>	146.8
Surplus before taxation	<b>25.6</b>	44.0
Taxation	<b>(7.7)</b>	(12.1)
Surplus after taxation	<b>17.9</b>	31.9
Goodwill amortisation	<b>(1.5)</b>	(1.5)
<b>Share of joint venture surplus after taxation</b>	<b>16.4</b>	30.4
Fixed assets	<b>9.5</b>	8.8
Current assets	<b>69.6</b>	74.2
Gross assets	<b>79.1</b>	83.0
Liabilities less than one year	<b>(59.7)</b>	(72.5)
Liabilities more than one year	<b>—</b>	—
Gross liabilities	<b>(59.7)</b>	(72.5)
Goodwill	<b>12.6</b>	14.1
<b>Net book value</b>	<b>32.0</b>	24.6

Group share of 2entertain Limited's results includes a £7.5million charge and a corresponding tax credit, resulting in a net £5.5million charge in relation to a pension liability following the administration of Woolworths Group plc.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### I3d Additions to joint ventures and associates

The additions in joint ventures during the year relate to the investment in UK VoD LLP and the Park Publishing Partnership.

The additions in associates during the year relate to the acquisition of minority shareholdings in Clerkenwell Films Limited, Hardy Pictures Limited, Plain Vanilla Productions LLP, Big Talk Productions Limited, Baby Cow Productions Limited, Sprout Pictures (TV) Limited and Temple Street Productions Inc. During the year, the group acquired the remaining 80% of the issued share capital of UK TV Pty Limited ('UK.TV'). The group previously held a 20% interest in UK.TV (note I9a).

### I3e UK Gold Holdings Limited (UKGH)

The group headed by UK Gold Holdings Limited (UKGH) has been cumulatively profitable since formation in 1997 but has net liabilities which arose from acquisition goodwill written off to reserves in 1997. In prior years, the group has not recognised a share of these net liabilities but instead recorded dividends received, as the group has no obligation to fund losses incurred by the entity or to make good its net liabilities. These dividends approximated to the group's share of operating profits. In the current year, the group has commenced equity accounting because dividends received in the current year are no longer considered to present a fair reflection of the group's share of operating profits. This is due to UKGH's distributions in the year ended 31 March 2009 being materially lower than its operating profit. The recognition of the group's share of net liabilities (which do not represent operating losses) as at 1 April 2008 has been recorded in the Consolidated Statement of Total Recognised Gains and Losses, resulting in a reserves adjustment of £19.4million. A share of operating profit of £15.0million has been recognised in the profit and loss account (2008: £6.2million dividends credited to operating profit).

### I3f Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service and BBC Monitoring net assets £m	Interests in subsidiaries £m	<b>Total £m</b>
At 1 April 2008	170.7	125.3	<b>296.0</b>
Surplus for the year	0.4	–	<b>0.4</b>
<b>At 31 March 2009</b>	<b>171.1</b>	<b>125.3</b>	<b>296.4</b>

### I4 STOCKS

	<b>Group 2009 £m</b>	Group 2008 £m	<b>UK Public Service Broadcasting 2009 £m</b>	UK Public Service Broadcasting 2008 £m
Raw materials	<b>2.9</b>	2.0	<b>0.1</b>	0.2
Work in progress				
– originated programmes	<b>269.8</b>	281.5	<b>269.8</b>	281.5
– books, audiobooks and DVDs	<b>6.1</b>	5.9	<b>–</b>	–
Finished goods				
– acquired programmes and films	<b>127.4</b>	118.7	<b>106.5</b>	108.7
– originated programmes	<b>74.1</b>	79.8	<b>74.1</b>	79.8
– books, audiobooks and DVDs	<b>10.7</b>	12.2	<b>–</b>	–
<b>Total</b>	<b>491.0</b>	500.1	<b>450.5</b>	470.2

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 15 DEBTORS

	Note	Group 2009 £m	Group 2008 £m	UK Public Service Broadcasting 2009 £m	UK Public Service Broadcasting 2008 £m
<b>Receivable within one year</b>					
Trade debtors		<b>143.8</b>	138.7	<b>17.2</b>	17.2
Department for Culture, Media and Sport – licence fee debtors		<b>384.6</b>	368.4	<b>384.6</b>	368.4
Amounts owed by subsidiaries		–	–	<b>91.1</b>	71.7
Amounts owed by associates and joint ventures		<b>41.4</b>	33.1	<b>0.7</b>	0.2
VAT recoverable		<b>30.8</b>	26.2	<b>28.9</b>	23.6
Deferred tax asset	9d	<b>4.0</b>	3.0	–	–
Other debtors		<b>19.7</b>	13.1	<b>7.6</b>	10.2
Prepayments		<b>196.1</b>	209.8	<b>151.1</b>	164.0
Derivative financial assets	23c	<b>10.9</b>	2.6	–	–
Total debtors due within one year		<b>831.3</b>	794.9	<b>681.2</b>	655.3
<b>Receivable after more than one year</b>					
Deferred tax asset	9d	<b>22.6</b>	11.8	–	–
Other debtors		<b>6.6</b>	6.2	<b>0.2</b>	0.2
Amounts owed to joint ventures and associates		<b>2.8</b>	–	–	–
Prepayments		<b>78.0</b>	29.5	<b>77.2</b>	20.9
		<b>110.0</b>	47.5	<b>77.4</b>	21.1
Derivative financial assets	23c	<b>12.2</b>	2.6	–	–
Total debtors due after more than one year		<b>122.2</b>	50.1	<b>77.4</b>	21.1
<b>Total</b>		<b>953.5</b>	845.0	<b>758.6</b>	676.4

#### Licence fee debtors

are amounts due from the Department for Culture, Media and Sport. Although licence fee income represents the value of licences issued (recognised when a licence is issued to the licence fee payer), the cash in relation to these licences is paid to the BBC by the Department for Culture, Media and Sport, rather than being received directly from the licence fee payer. As a result the debtor at the year end represents licences issued for which cash has not yet been paid in full to the BBC.

### 16 CREDITORS

#### 16a Prompt payment policy

It is the BBC's policy to comply with the Better Payment Practice Code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The group's number of creditor days outstanding in respect of trade creditors at 31 March 2009 was 32 days (2008: 39 days).

Residual creditors and associated costs have been excluded for the purpose of this calculation, as they relate to payments to artists and contributors other than trade creditors.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### I 6b Amounts falling due within one year

	Note	Group 2009 £m	Group 2008 £m	UK Public Service Broadcasting 2009 £m	UK Public Service Broadcasting 2008 £m
<b>Bank and other loans</b>					
Bank loan and overdrafts	21, 23	2.5	58.6	–	–
Unsecured loan notes	21, 23	3.3	0.7	–	–
		<b>5.8</b>	59.3	<b>–</b>	–
<b>Trade creditors</b>					
Programme creditors		60.7	68.4	60.7	68.0
Programme acquisitions		49.8	47.3	49.7	47.1
Salaries and wages		59.6	68.9	30.8	42.3
Residual copyright payments		38.5	35.1	–	–
Other trade creditors		170.8	211.3	104.6	135.7
		<b>379.4</b>	431.0	<b>245.8</b>	293.1
<b>Other creditors</b>					
Amounts owed to subsidiaries		–	–	34.9	37.2
Amounts owed to joint ventures and associates		7.1	–	–	–
Corporation tax		15.4	12.7	3.1	4.3
Other taxation and social security		27.4	28.1	24.9	25.8
Obligations under finance leases	23b	4.7	5.8	2.9	4.3
Other*		46.2	46.4	6.9	12.1
		<b>100.8</b>	93.0	<b>72.7</b>	83.7
<b>Accruals and deferred income</b>					
Accruals and deferred income		372.4	405.6	271.8	311.3
Licence savings stamps deposits and direct debit instalments		71.5	73.5	71.5	73.5
		<b>443.9</b>	479.1	<b>343.3</b>	384.8
Derivative financial liabilities	23c	22.5	2.3	–	–
<b>Total</b>		<b>952.4</b>	1,064.7	<b>661.8</b>	761.6

\* Other creditors include a £32.3million (2008: £31.0million) liability in relation to a put option exercisable by minority shareholders. The increase in the liability since the previous year-end date is due to exchange rate movements, as the liability is denominated in Australian dollars.

### I 6c Amounts falling due after more than one year

	Note	Group 2009 £m	Group 2008 £m	UK Public Service Broadcasting 2009 £m	UK Public Service Broadcasting 2008 £m
<b>Bank and other loans</b>					
	21, 23	268.0	140.1	–	–
<b>Other creditors</b>					
Amounts owed to subsidiaries		–	–	7.3	9.5
Obligations under finance leases	23b	16.9	22.3	1.3	2.7
Other		7.9	9.6	8.0	9.7
		<b>24.8</b>	31.9	<b>16.6</b>	21.9
Derivative financial liabilities	23c	21.8	0.6	–	–
<b>Total</b>		<b>314.6</b>	172.6	<b>16.6</b>	21.9

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 17 PROVISIONS FOR LIABILITIES

Group	Note	At 1 April 2008 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Unwinding of discount £m	At 31 March 2009 £m
Licence fee		20.6	21.2	(20.5)	(0.1)	–	<b>21.2</b>
Restructuring		120.0	44.1	(67.4)	(3.8)	2.7	<b>95.6</b>
Litigation and insurance		13.8	2.9	(1.7)	(2.4)	–	<b>12.6</b>
Property		16.4	4.1	(0.9)	–	–	<b>19.6</b>
BBC jam suspension	5	1.5	0.1	(0.9)	(0.4)	–	<b>0.3</b>
Share of joint ventures net liabilities		–	20.3	–	–	–	<b>20.3</b>
Other		1.3	1.4	(0.2)	(0.3)	–	<b>2.2</b>
		173.6	94.1	(91.6)	(7.0)	2.7	<b>171.8</b>
Deferred tax	9d	8.7	–	(0.1)	(8.6)	–	<b>–</b>
<b>Total</b>		<b>182.3</b>	<b>94.1</b>	<b>(91.7)</b>	<b>(15.6)</b>	<b>2.7</b>	<b>171.8</b>

Licence fee provisions are made for the expected level of refunds (money repayable on the unexpired portion of a licence where the licence is no longer required) and revocations (where no money is received in relation to a licence sold). Licence fee provisions are expected to be utilised or released within one year in line with the annual nature of the licence fee and are based on historical average refunds and revocations adjusted for volume and sales price growth.

The restructuring provision includes a net charge for the year of £29.9million (2008: £99.8million) for exceptional redundancy costs relating to change programmes occurring within the BBC and non-exceptional redundancy costs of £10.4million (2008: £11.9million) as per Note 4c. The Continuous Improvement programme is a five-year programme to secure annual efficiencies ending in 2012/13.

Litigation and insurance provisions relate to self-insurance and production related insurance based on previous experience as well as potential legal claims. Insurance provisions are expected to be utilised in 2009/10 and 2010/11.

Property provisions relate to the cost of returning leasehold properties to their original condition at the end of the lease. The longest lease has 122 years remaining with the average lease life remaining being eight years.

On 20 March 2007 the Executive Board, following a decision by the BBC Trust, suspended BBC jam, the BBC's online interactive learning service for 5–16 year olds. The Trust's decision followed extensive discussions with Government and the European Commission about how to address allegations from some in the industry that BBC jam was damaging their interests. A provision of £0.3million (2008: £1.5million) for the costs of redundancy and terminating contracts with content suppliers remains at the end of the current year.

Other provisions consist of a number of balances arising across the BBC in the normal course of business.

Share of joint ventures net liabilities represents the amount held in provisions relating to the group share of joint ventures with net liabilities (see Note 13a).

Deferred tax is now an asset and is no longer shown in provisions.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 17 PROVISIONS FOR LIABILITIES continued

<b>UK Public Service Broadcasting</b>	Note	At 1 April 2008 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Unwinding of discount £m	<b>At 31 March 2009 £m</b>
Licence fee		20.6	21.2	(20.5)	(0.1)	–	<b>21.2</b>
Restructuring		112.7	17.4	(57.7)	(3.1)	2.7	<b>72.0</b>
Litigation and insurance		12.2	1.6	(1.5)	(1.0)	–	<b>11.3</b>
Property		12.0	2.8	(0.1)	–	–	<b>14.7</b>
BBC jam suspension	5	1.5	0.1	(0.9)	(0.4)	–	<b>0.3</b>
Other		1.0	1.4	(0.1)	(0.3)	–	<b>2.0</b>
<b>Total</b>		<b>160.0</b>	<b>44.5</b>	<b>(80.8)</b>	<b>(4.9)</b>	<b>2.7</b>	<b>121.5</b>

### 18 RESERVES

<b>Group</b>	Note	Operating reserve excluding pension reserve £m	Pension reserve £m	<b>Total operating reserve £m</b>	Capital reserve £m	Other reserve* £m	Revaluation reserve £m	<b>Total £m</b>
At 1 April 2008		206.3	523.3	<b>729.6</b>	812.3	(31.0)	1.6	<b>1,512.5</b>
Exchange differences		22.9		<b>22.9</b>	–	–	–	<b>22.9</b>
Surplus for the financial year		253.7	–	<b>253.7</b>	–	–	–	<b>253.7</b>
Actuarial loss on defined benefit pension schemes		–	(784.2)	<b>(784.2)</b>	–	–	–	<b>(784.2)</b>
Revaluation reserve transfer		0.8	–	<b>0.8</b>	–	–	(0.8)	<b>–</b>
Pension reserve transfer		(117.6)	117.6	<b>–</b>	–	–	–	<b>–</b>
Recognised on acquisition of UK.TV**		(1.3)	–	<b>(1.3)</b>	–	–	–	<b>(1.3)</b>
Recognised share of joint venture liabilities	13e	(19.4)	–	<b>(19.4)</b>	–	–	–	<b>(19.4)</b>
Foreign exchange movement		1.3	–	<b>1.3</b>	–	(1.3)	–	<b>–</b>
Capital reserve transfer		9.8	–	<b>9.8</b>	(9.8)	–	–	<b>–</b>
<b>At 31 March 2009</b>		<b>356.5</b>	<b>(143.3)</b>	<b>213.2</b>	<b>802.5</b>	<b>(32.3)</b>	<b>0.8</b>	<b>984.2</b>
<b>Represented by:</b>								
General group reserves		350.8	(143.3)	<b>207.5</b>	638.1	(32.3)	–	<b>813.3</b>
BBC World Service and BBC Monitoring reserves		5.7	–	<b>5.7</b>	164.4	–	0.8	<b>170.9</b>
<b>Total</b>		<b>356.5</b>	<b>(143.3)</b>	<b>213.2</b>	<b>802.5</b>	<b>(32.3)</b>	<b>0.8</b>	<b>984.2</b>

\* Other reserve comprises a put option of up to 25% of the issued share capital of Lonely Planet, which is exercisable by the minority shareholders for a period of up to 25 months from the acquisition date of 1 October 2007.

\*\* An adjustment of £1.3million was recognised in the Reconciliations of movements in BBC reserves, being the cumulative profits recognised by the group in relation to UK.TV for the period during which it was an associate. This adjustment is required to properly reflect the increase in stake in accordance with UK GAAP.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 18 RESERVES continued

	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
<b>UK Public Service Broadcasting</b>				
At 1 April 2008	215.3	812.3	1.6	<b>1,029.2</b>
Surplus for the financial year	219.0	–	–	<b>219.0</b>
Revaluation reserve transfer	0.8	–	(0.8)	<b>–</b>
Capital reserve transfer	9.8	(9.8)	–	<b>–</b>
<b>At 31 March 2009</b>	<b>444.9</b>	<b>802.5</b>	<b>0.8</b>	<b>1,248.2</b>
<b>Represented by:</b>				
UK Public Service Broadcasting reserves	439.2	638.1	–	<b>1,077.3</b>
BBC World Service and BBC Monitoring reserves	5.7	164.4	0.8	<b>170.9</b>
<b>Total</b>	<b>444.9</b>	<b>802.5</b>	<b>0.8</b>	<b>1,248.2</b>

UK Public Service Broadcasting, BBC World Service and BBC Monitoring are **funded from different sources**. As such, the reserves relating to BBC World Service and BBC Monitoring are maintained separately from the rest of the group and are restricted for use solely on BBC World Service or BBC Monitoring activities.

Under FRS 10 'Goodwill and Intangible Assets' any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2008: £6.8million) remains offset against the operating reserve.

The cumulative exchange differences at 31 March 2009 were a loss of £21.1million (2008: gain of £1.8million), of which a gain of £22.9million arose during the year (2008: gain of £1.0million). In accordance with FRS 23 'The Effects of Changes in Foreign Exchange Rates', any differences relating to years prior to 2006 have not been separated out and remain within the operating reserve.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 19 ACQUISITION OF BUSINESSES

#### 19a Acquisition of UK.TV

On 1 July 2008 the group acquired the remaining 80% of the issued share capital of UK.TV, registered in Australia for a total cash consideration of AU\$31.2million (£15.1million). The group previously held a 20% interest in UK.TV.

The total adjustments required to the book values of the assets and liabilities of UK.TV in order to present the net assets of those companies at fair value and under the UK GAAP accounting policies of the group were £0.6million. These are set out below:

	Book value* £m	Fair value and accounting policy alignments** £m	Fair value £m
<b>Fixed assets</b>			
Tangible fixed assets	0.1	–	<b>0.1</b>
<b>Current assets</b>			
Stock	5.6	–	<b>5.6</b>
Debtors	1.9	–	<b>1.9</b>
Cash	1.9	–	<b>1.9</b>
Other current assets	0.1	–	<b>0.1</b>
<b>Total assets</b>	<b>9.6</b>	<b>–</b>	<b>9.6</b>
<b>Liabilities</b>			
Taxation			
– Current	(0.1)	–	<b>(0.1)</b>
– Deferred	(1.3)	–	<b>(1.3)</b>
Creditors	(3.1)	(0.6)	<b>(3.7)</b>
<b>Total Liabilities</b>	<b>(4.5)</b>	<b>(0.6)</b>	<b>(5.1)</b>
<b>Net assets acquired</b>	<b>5.1</b>	<b>(0.6)</b>	<b>4.5</b>
Goodwill			<b>10.6</b>
<b>Purchase consideration and costs of acquisition</b>			<b>15.1</b>

\* The book values of the assets and liabilities have been taken from the management accounts of UK.TV at 1 July 2008 (the date of acquisition) at the actual exchange rates used to settle the consideration on that date.

\*\* The adjustments between book value and fair value reflect the restatement of assets and liabilities from UK.TV's accounting policies to the group's accounting policies.

Goodwill is amortised over its estimated useful economic life of 20 years.

In its last financial year to 30 June 2008, UK.TV made a profit after tax of AU\$6.6million. An adjustment of £1.3million was recorded in the reconciliation of movements in BBC reserves, being the cumulative profits recorded by the group in relation to UK.TV for the period during which it was an associate. This adjustment is required to properly reflect the increase in stake in accordance with UK GAAP.

#### 19b Other acquisitions

During the year ended 31 March 2009, the group also acquired minority shareholdings in several production companies, accounted for as associates or joint ventures, whose aggregate net assets amounted to £0.4million. Total purchase consideration and costs of acquisition were £10.4million of which £0.9million is payable in future years. Goodwill of £10.0million was recognised, £9.9million relating to associates and £0.1million relating to joint ventures.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 20 RECONCILIATION OF GROUP OPERATING DEFICIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2009 £m	2008 £m
Group operating surplus/(deficit)	<b>114.0</b>	(62.2)
Depreciation, amortisation and impairment	<b>238.7</b>	216.7
Difference between pension charge and cash contribution	<b>(0.3)</b>	1.9
Profit on disposal of tangible fixed assets	<b>(0.5)</b>	–
Loss on disposal of tangible fixed assets	<b>10.4</b>	–
Decrease/(increase) in stocks	<b>13.8</b>	(8.7)
Increase in debtors	<b>(103.0)</b>	(72.7)
(Decrease)/increase in creditors	<b>(34.2)</b>	26.4
(Decrease)/increase in provisions	<b>(23.7)</b>	57.3
<b>Net cash inflow from operating activities</b>	<b>215.2</b>	158.7

### 21 MOVEMENT IN NET DEBT

#### 21a Reconciliation of net cash flow to movement in net debt

	2009 £m	2008 £m
Increase/(decrease) in cash in year	<b>43.8</b>	(66.7)
Net cash inflow from financing	<b>(66.5)</b>	(93.0)
Change in net debt resulting from cash flows	<b>(22.7)</b>	(159.7)
Exchange differences	<b>4.3</b>	(6.7)
Non-cash increase in derivatives associated with loans	<b>(4.9)</b>	–
Non-cash increase in loan notes	<b>–</b>	(4.3)
Non-cash increase in finance leases	<b>(3.2)</b>	(6.9)
<b>Change in net debt</b>	<b>(26.5)</b>	(177.6)
Net (debt)/funds at the beginning of the year	<b>(149.5)</b>	28.1
<b>Net debt at the end of the year</b>	<b>(176.0)</b>	(149.5)

#### 21b Analysis of changes in net debt

	At 1 April 2008 £m	Cash flows £m	Non-cash changes £m	Exchange £m	At 31 March 2009 £m
<b>Net cash</b>					
Bank overdrafts	–	(2.5)	–	–	<b>(2.5)</b>
Cash at bank and in hand	78.0	42.0	–	4.3	<b>124.3</b>
<b>Gross funds</b>	78.0	39.5	–	4.3	<b>121.8</b>
<b>Debt</b>					
Loans from third parties	(198.7)	(73.6)	–	4.3	<b>(268.0)</b>
Derivatives associated with loans	–	–	(4.9)	–	<b>(4.9)</b>
Unsecured loan notes	(0.7)	(2.6)	–	–	<b>(3.3)</b>
Finance leases	(28.1)	9.7	(3.2)	–	<b>(21.6)</b>
<b>Net (debt)/funds</b>	(149.5)	(27.0)	(8.1)	8.6	<b>(176.0)</b>
<b>Made up of:</b>					
Public Service (including BBC World Service and BBC Monitoring)	16.7	32.9	(3.2)	–	<b>46.4</b>
Commercial Businesses	(149.9)	(62.6)	(4.9)	8.6	<b>(208.8)</b>
Centre House Productions Limited	(16.3)	2.7	–	–	<b>(13.6)</b>
<b>Net (debt)/funds</b>	(149.5)	(27.0)	(8.1)	8.6	<b>(176.0)</b>

The debt and repayments on finance leases held by Centre House Productions Limited are offset directly by cash held on matching deposits, and the income from them, such that there is no long-term cash effect.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 22 RECONCILIATION OF NET DEBT TO THE DEPARTMENT FOR CULTURE, MEDIA AND SPORT (DCMS) BORROWING CEILINGS

	Note	Public Services		Commercial Businesses
		Capital or current expenditure £m	Digital switchover Current expenditure on Digital Switchover Help Scheme* £m	£m
<b>2009</b>				
Net funds/(debt)	21b	46.4	–	(208.8)
<b>Borrowing ceiling</b>		(200.0)	(25.0)	(350.0)
<b>2008</b>				
Net funds/(debt)	21b	16.7	–	(149.9)
<b>Borrowing ceiling</b>		(200.0)	(25.0)	(350.0)

\* £25million may only be used in respect of borrowing to fund current expenditure on meeting the responsibilities placed on the BBC by any scheme agreed under clause 39 of the Framework Agreement (targeted help schemes), including costs incurred by the BBC for the scheme's overheads and financing costs.

The Public Service borrowing limit of £200million is set by the Secretary of State in accordance with the Framework Agreement between the BBC and DCMS. As at 31 March 2009, 31 March 2008, and throughout both financial years, the BBC was in compliance with the borrowing ceilings.

When the DCMS granted a £350million borrowing limit for BBC Commercial Holdings Limited in July 2002, three financial covenants were defined which are required to be met at 31 March each year. As at 31 March 2009 and 31 March 2008 BBC Commercial Holdings Limited was in compliance with each of these covenants.

## 23 FINANCIAL INSTRUMENTS

### 23a Financial risk management

The group's financial risk management operations are carried out by a Group Treasury function, within parameters defined formally within the policies and procedures manual agreed by the Executive Board. Group Treasury's activity is routinely reported and is subject to review by internal and external auditors.

Group Treasury uses financial instruments to raise finance and to manage financial risk arising from the BBC's operations in accordance with its objectives which are:

- to ensure the business of the BBC, both Public Services and Commercial, is funded in the most efficient manner and remains compliant with borrowing ceilings
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements

The group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The group finances its operations from these financial instruments.

The group does not undertake speculative treasury transactions.

**Public Services** in this context represent the UK Public Service Broadcasting Group (excluding Centre House Productions Limited – see Note 23b), BBC World Service and BBC Monitoring.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23a Financial risk management continued

#### Market risk

**Currency risk:** The group is principally a domestic organisation with the majority of transactions, assets and liabilities arising in the UK and sterling based. However, the group has operations all over the world whose income, expenditure, assets and liabilities may be denominated in currencies other than sterling. Due to movements in exchange rates over time, the amount the group expects to receive or pay when it enters into a transaction in a currency other than sterling may differ from the amount that it actually receives or pays when it settles the transaction.

Some contracts may also contain clauses whereby changes in currency rates outside an agreed range impact on the contract price; in the majority of cases the value of the individual contracts and other features within the contract limit the currency risk exposure to a level that is not significant to the group. The fair value of such an embedded derivative has been recognised as at 31 March 2009 for one contract agreed during the year.

The most significant currency exposure by total value of transactions is US dollars, however due to the relative size of this exposure in comparison to the group's sterling-denominated business; the BBC does not consider this to be significant for the group. The group does, however, generally enter into forward currency contracts to manage, or hedge, this currency risk, which allows the group to settle transactions at known exchange rates, reducing further any uncertainty.

The overall income or expenditure to be recognised in relation to contracts denominated in foreign currency (and the related hedges) is therefore fixed, however where these contracts span financial years, the recognition of the fair value of the forward currency contracts results in timing gains/losses in each financial year. These timing gains/losses are therefore a result of market conditions as opposed to variances in underlying contract value. As a result of this certainty of cash flows the group has mitigated its underlying sensitivity to currency fluctuations such that no sensitivity analysis need be presented.

**Interest rate risk:** The group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the group has been borrowing at floating rates of interest and then using interest rate swaps, caps and collars to manage the group's exposure to interest rate fluctuations and provide greater certainty of cash flows. Interest rate swaps, caps and collars are taken out based on projected borrowing requirements, therefore differences will occur between the notional amount of the swaps, caps and collars and the actual borrowing requirements. As a result of the volatile market seen throughout the financial year, the changes in the fair value measurement of the interest rate swaps, caps and collars have been greater than in previous years. However, the effect of taking out the interest rate swaps, caps and collars is that in the longer term the group has no significant underlying sensitivity to interest rate fluctuations and hence no sensitivity analysis has been presented.

**Other price risk of financial assets:** The group invests surplus cash in money market funds and money market deposits, therefore it is not subject to other price risks, such as market price risk.

**Market risk** comprises currency risk, interest rate risk and other price risks.

A **forward currency contract** is a contract to buy or sell foreign currency in exchange for sterling at a specific rate on a specific date. By locking into a particular exchange rate, the currency risk that may be associated with a future purchase or sale is eliminated.

An **interest rate swap** is a contract between two parties to change the basis of their interest rate payment or receipt either from fixed to floating rates or vice versa. By fixing a floating interest rate certainty about the level of future interest payments can be achieved.

**Other price risk** is any price change other than those arising from changes in currency or interest rates.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23a Financial risk management continued

#### Credit risk

**Trade receivables:** The majority of the group's financial assets are trade receivables, £526.1 million (2008: £507.1 million). The largest element is the licence fee debtor, £384.6 million (2008: £368.4 million) which is received directly from DCMS (not directly from the licence fee payer). The amount of income that the BBC receives from DCMS is directly related to the amount of licence fee collected from households in the UK.

Of the remaining £141.5 million (2008: £138.7 million) trade receivables, £40.8 million (2008: £34.1 million) is past due and not impaired. £9.2 million (2008: £5.2 million) has been provided for during the year against the £10.3 million (2008: £7.8 million) trade receivables which are considered impaired.

**Investments:** The group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a minimum credit rating of A-, with a higher minimum rating up to AA- required depending upon the duration and amount.

**Guarantees:** In order to assist employees relocating as part of an enforced move within the UK, the BBC operates a 'Homeowners Guaranteed Support Scheme'. After professional valuations, the beneficial interest of the employees' property is transferred to a third party to sell, allowing the employee to find a new property chain-free within their relocation area. The BBC offers a guarantee to the third party for part of the market value of the property and is therefore exposed to fluctuations in the property market between the time the property is valued and sold. Only one employee entered this scheme during 2008/09 (2007/08 none) and therefore the fair value of this guarantee is not significant.

Other than this scheme, the group enters into financial guarantees for intra-group purposes only.

#### Liquidity risk

The BBC is subject to ceilings on its borrowings set by the Secretary of State in accordance with the Agreement between the BBC and DCMS (see Note 22). In order to comply with these ceilings together with the terms of any individual debt instruments the BBC's Group Treasury manages the group's borrowings by continuously monitoring group cash flow forecasts. The BBC holds its surplus liquidity in readily convertible financial instruments with highly rated financial institutions.

**Credit risk** is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

**Liquidity risk** is the risk that the group will not be able to meet its financial obligations as they fall due.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23b Fair values of financial instruments

The following table shows the fair value and carrying value of the group's financial instruments, in categories according to how the financial instrument is measured. It also shows the maturity profile for each category of financial asset and liability.

	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after more than five years £m	Total £m
<b>2009 – Carrying value and fair value</b>				
<b>Financial assets at fair value through income and expenditure</b>				
Derivative financial instruments	10.9	12.2	–	<b>23.1</b>
<b>Loans and receivables</b>				
Trade debtors	526.1	–	–	<b>526.1</b>
Other debtors	0.1	–	–	<b>0.1</b>
<b>Cash at bank and in hand</b>	<b>124.3</b>	<b>–</b>	<b>–</b>	<b>124.3</b>
<b>Available-for-sale financial assets</b>				
Other investments (non-current)	–	–	–	<b>–</b>
<b>Financial liabilities at fair value through income and expenditure</b>				
Derivative financial instruments	(22.5)	(21.8)	–	<b>(44.3)</b>
<b>Financial liabilities measured at amortised cost</b>				
Loans and overdrafts	(5.8)	(268.0)	–	<b>(273.8)</b>
Trade creditors	(327.4)	–	–	<b>(327.4)</b>
Other creditors	(32.3)	–	–	<b>(32.3)</b>
Programme acquisitions	(49.8)	–	–	<b>(49.8)</b>
Obligations under finance leases	(4.7)	(1.9)	(15.0)	<b>(21.6)</b>
<b>2008 – Carrying value and fair value</b>				
<b>Financial assets at fair value through income and expenditure</b>				
Derivative financial instruments	2.6	2.6	–	<b>5.2</b>
<b>Loans and receivables</b>				
Trade debtors	504.6	–	–	<b>504.6</b>
Other debtors	0.3	–	–	<b>0.3</b>
<b>Cash at bank and in hand</b>	<b>78.0</b>	<b>–</b>	<b>–</b>	<b>78.0</b>
<b>Available-for-sale financial assets</b>				
Other investments (non-current)	–	–	2.7	<b>2.7</b>
<b>Financial liabilities at fair value through income and expenditure</b>				
Derivative financial instruments	(2.3)	(0.5)	(0.1)	<b>(2.9)</b>
<b>Financial liabilities measured at amortised cost</b>				
Loans	(59.3)	(140.1)	–	<b>(199.4)</b>
Trade creditors	(327.6)	–	–	<b>(327.6)</b>
Other creditors	(31.0)	–	–	<b>(31.0)</b>
Programme acquisitions	(47.3)	–	–	<b>(47.3)</b>
Obligations under finance leases	(5.8)	(3.0)	(19.3)	<b>(28.1)</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23b Fair values of financial instruments continued

As at 31 March 2009 there are no differences (2008: no differences) between the fair value and carrying value of any of the group's financial instruments. The fair value of forward currency contracts, interest rate swaps, caps and collars and embedded derivatives are based on market prices and exchange rates at the balance sheet date. These are recorded in the statement of income and expenditure (see Notes 3 and 7). The remaining financial instruments are carried at cost or amortised cost in accordance with FRS 26 'Financial Instruments: Recognition and Measurement', which approximates to fair value.

The finance leases include £15.0million (2008: £18.0million) relating to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £199.8million at 31 March 2009 (2008: £219.0million), are structured such that the principal on deposit and interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing ceilings.

BBC Worldwide Limited has guaranteed bank loans in respect of their joint venture, Worldwide Media Limited, which were rupees 155million (£2.1million) on 31 March 2009 (2008: rupees 155million, £2.0million). The fair value has been assessed as not significant.

**Defeasance deposits** are amounts deposited with banks which earn the exact amount of interest needed to cover the capital repayment and interest element of each of the finance leases. The defeasance deposits are 'ring-fenced' and therefore cannot be used for any transactions apart from the agreed capital and interest payments.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23c Derivative financial instruments

	Assets £m	Liabilities £m
<b>2009</b>		
<b>Greater than one year</b>		
Forward foreign currency contracts	11.8	(10.4)
Interest rate swaps, caps and collars	0.3	(5.1)
Embedded derivatives	0.1	(6.3)
<b>Total</b>	<b>12.2</b>	<b>(21.8)</b>
<b>Less than one year</b>		
Forward foreign currency contracts	10.9	(20.3)
Embedded derivatives	–	(2.2)
<b>Total</b>	<b>10.9</b>	<b>(22.5)</b>
<b>2008</b>		
<b>Greater than one year</b>		
Forward foreign currency contracts	2.2	(0.2)
Interest rate swaps, caps and collars	0.3	(0.1)
Embedded derivatives	0.1	(0.3)
<b>Total</b>	<b>2.6</b>	<b>(0.6)</b>
<b>Less than one year</b>		
Forward foreign currency contracts	2.6	(2.2)
Embedded derivatives	–	(0.1)
<b>Total</b>	<b>2.6</b>	<b>(2.3)</b>

At 31 March 2009 the group had entered into a net commitment to purchase foreign currencies amounting to £135.6million (2008: £17.9million) that mature in the period through to 2013 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). After taking into account the effects of these forward foreign exchange contracts, the group had no significant currency exposure.

Interest rate risk is managed by the use of interest rate swaps, caps and collars. Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature by April 2014. The impact of a change in interest rates can also be limited by entering into interest rate cap and collar transactions; all outstanding caps and collars mature by April 2013. In total, £213.4million (2008: £80.0million) of swaps and £209.6million (2008: £128.2million) of caps and collars were entered. Of these only £108.4million (2008: £80.0million) of swaps and £129.6million (2008: £128.2million) of caps were effective at 31 March 2009 as new agreements are arranged to ensure borrowings are suitably covered for the foreseeable future. This is £29.9million lower (2008: £8.8million higher) than the current level of borrowings of £267.9million (2008: £199.4million).

In accordance with FRS 26, the group has reviewed contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. Any such embedded derivatives have been recognised at fair value.

### 23d Hedges of net investments in foreign operations

The group has Australian dollar (AUS\$) denominated borrowings which it has designated as a hedge of a net investment in foreign operations (Lonely Planet), in order to hedge against the risks associated with exchange rate movements between sterling and the AUS\$. The fair value of the AUS\$ borrowings at 31 March 2008 was £90.3million and the fair value of the investment at 31 March 2008 was £93.7million. The net investment hedge was discontinued from September 2008 following the settlement of the associated foreign currency borrowings.

Depending on how exchange rates and interest rates move between the time the group enters into the transaction and the year-end, these derivatives can either be profitable ('in the money') or loss-making in their own right. However, the rationale in entering into these derivatives is not to profit from currency markets or interest rate fluctuations, but to provide stability to the BBC's cash flows. The movements relating to these derivatives (ie where they are either in profit or loss-making) are taken to the group's statement of income and expenditure for the year.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23e Borrowing facilities

Facility	Interest rate	Total facility 31 March 2009 £m	Amount drawn down at 31 March 2009 £m	Total facility 31 March 2008 £m	Amount drawn down at 31 March 2008 £m	Expiry or review date
<b>UK Public Service Broadcasting</b>						
LIBOR-based loan or overdraft	Loan – margin of 0.175% Overdraft – bank base rates plus 1%	–	–	50	–	Expired June 2008
Sterling revolving credit facility agreement	Loan – margin of 0.45%	<b>200</b>	–	–	–	June 2013
Uncommitted money market lines (short- term borrowings)	Margin of between 0.125% and 0.3% over LIBOR	<b>25</b>	–	24	–	
<b>BBC Commercial Holdings Limited</b>						
Multicurrency, revolving credit facility agreement for loans and letters of credit	LIBOR* plus 0.275% rising to LIBOR* plus 0.325% when the facility is more than 50% utilised.  Letter of credit fee is the same as the bank lending margin, but does not include LIBOR.	<b>350**</b>	<b>218</b>	350**	145	June 2012
Overdraft or money market lines	Money market line – margin of 0.45%  Overdraft – bank base rates plus 1%	<b>20</b>	–	20	4	January 2010
<b>BBC Worldwide Limited</b>						
Loan with European Investment Bank (50% secured by letters of credit)**	European Investment Bank's own funding cost plus a margin of 0.09% on unsecured loans	<b>50</b>	<b>50</b>	50	50	£20m December 2011 and £30m May 2012

\* The base rate used will vary according to the currency drawn. At 31 March 2009 £47.8million (2008 £90.3million) was drawn down in AUS\$ and consequently linked to BBSW rather than LIBOR. All other amounts drawn are in sterling and consequently linked to LIBOR.

\*\* Of this amount, up to £100million is available to issue letters of credit in favour of the European Investment Bank to support its lending under facilities to the group. At 31 March 2009, total drawn on this facility was £243.5million which consisted of cash drawings of £217.8million (2008: £145million) and £25.6million (2008: £25.6million) utilised by way of letters of credit.

There have been no defaults or breaches of covenants on the facilities above during the year (2008: none).

In addition to the facilities above, the group has other smaller facilities with total amounts drawn of £3.3million in aggregate (2008: £0.7million), used to manage working capital.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 24 COMMITMENTS

#### 24a Contracts placed for future expenditure

	<b>Group 2009 £m</b>	Group 2008 £m	<b>UK Public Service Broadcasting 2009 £m</b>	UK Public Service Broadcasting 2008 £m
Fixed asset additions	<b>51.8</b>	65.2	<b>45.4</b>	44.0
Programme acquisitions and sports rights	<b>1,302.3</b>	1,333.7	<b>1,260.4</b>	1,272.8
Independent programmes	<b>112.1</b>	112.3	<b>98.0</b>	97.8
	<b>1,466.2</b>	1,511.2	<b>1,403.8</b>	1,414.6

#### 24b Operating leases

Operating lease commitments payable in the following year, analysed according to the period in which the lease expires:

	<b>Land and buildings 2009 £m</b>	Land and buildings 2008 £m	<b>Other 2009 £m</b>	Other 2008 £m
<b>Group</b>				
Within one year	<b>2.8</b>	2.1	<b>2.8</b>	1.2
In two to five years	<b>19.3</b>	21.4	<b>15.0</b>	9.0
After five years	<b>86.2</b>	92.2	<b>1.4</b>	7.8
	<b>108.3</b>	115.7	<b>19.2</b>	18.0
<b>UK Public Service Broadcasting</b>				
Within one year	<b>1.2</b>	1.6	<b>0.4</b>	0.4
In two to five years	<b>14.9</b>	11.9	<b>9.9</b>	3.3
After five years	<b>85.7</b>	91.3	<b>1.4</b>	7.8
	<b>101.8</b>	104.8	<b>11.7</b>	11.5

An **operating lease** is a lease where the lessee has not taken on the risks and rewards of owning the asset. The lessee (the BBC) is hiring rather than buying an asset.

#### 24c Other financial commitments

In the ordinary course of business the BBC enters into a large number of contracts with artists and writers and with providers of other services including licence fee collection, IT maintenance and support and channel distribution.

### 25 CONTINGENT ASSETS AND LIABILITIES

At 31 March 2009 the group had contingent liabilities estimated to be £1.0million (2008: £1.3million) in respect of guarantees and indemnities.

The group has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 17) for its best estimate of any damages and costs which may be awarded. Provision is only made to the extent that the group consider it probable that there will be an outflow of economic benefits and the amount can be reliably estimated.

### 26 POST BALANCE SHEET EVENTS

There are no material events after the balance sheet date to disclose.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 27 RELATED PARTY TRANSACTIONS

The related party transactions of the group have been presented in accordance with FRS 8 'Related party disclosures', which does not require disclosure of transactions between group entities that have been eliminated on consolidation.

In all transactions, the terms of trade were negotiated on an arm's length basis.

#### 27a Transactions with joint ventures and associated undertakings

<b>Income from joint ventures and associated undertakings</b>	<b>Nature of services provided</b>	<b>2009 £m</b>	2008 £m
UK Channel Management Limited	Sale of programmes	<b>12.5</b>	12.8
UK Gold Holdings Limited	Sale of programmes and management fees	<b>30.1</b>	25.7
JV Programmes LLC	Sale of programmes	<b>29.0</b>	31.9
2entertain Limited	Licensing of programmes and other commissions	<b>27.6</b>	17.9
Daunus Limited	Reimbursement of Broadcasting House development costs	<b>2.0</b>	5.1
Other	Various	<b>9.0</b>	9.0

<b>Dividends from joint ventures and associated undertakings</b>	<b>2009 £m</b>	2008 £m
UK Channel Management Limited	<b>16.7</b>	0.5
UK Gold Holdings Limited	<b>7.6</b>	6.2
2entertain Limited	<b>9.0</b>	42.3
Other	<b>3.7</b>	0.2

<b>Charges payable to joint ventures and associated undertakings</b>	<b>Nature of services received</b>	<b>2009 £m</b>	2008 £m
Daunus Limited	Rent	<b>33.1</b>	17.3
Frontline Limited	Distribution of BBC Worldwide's magazines	<b>2.1</b>	2.2
JV Programmes LLC	Marketing services	<b>0.7</b>	1.4
2entertain Limited	Commissions on distribution of Children's DVDs	<b>2.2</b>	1.1
DTV Services Limited	Marketing services	<b>1.2</b>	1.4
Freesat UK Limited	Written off in respect of funding contribution	<b>3.3</b>	3.4
Other	Various	<b>15.8</b>	4.7

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 15 and 16.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 27b Other transactions

The BBC's related parties, as defined by FRS 8, the nature of the relationship and the extent of the transactions with them are summarised below. In the normal course of business the BBC transacts with other parties which are related to it by virtue of its senior employees being married or closely related to employees of the BBC or individuals who own or are employed at other media, production and broadcasting companies. The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Trustee or employee is not a party to the approval process.

#### 27b i Trustees

During the year, Diane Coyle and Richard Tait had close family members who were employed by the BBC. Their remuneration was based on the BBC's standard terms and conditions applicable to other staff employed in similar capacities.

#### 27b ii Members of the Executive Board and other senior management

Menna Richards is Controller of BBC Wales. Her sister has a controlling interest in Torpedo Limited. The BBC made payments on contracts to the value of £147,372 (2008: £320,774) with Torpedo Limited for the provision of independent radio and television programmes in the year. These amounts had been paid in full by 31 March 2009 (2008: paid in full). Also the BBC entered into artists' contracts worth £49,143 (2008: £53,263) with her husband Patrick Hannan, which had been paid in full by 31 March 2009 (2008: £1,032 outstanding at 31 March 2008).

Peter Salmon is Director, BBC North. The BBC entered into artists' contracts worth £185,000 (2008: not significant) with his wife Sarah Lancashire, which had been paid in full by 31 March 2009 (2008: not significant).

Juniper Communications Limited is co-owned by BBC non-executive Director Samir Shah (70%), his wife Belkis Shah (20%) and the husband of Jana Bennett (Director, BBC Vision), Richard Clemmow (10%). During the year the BBC received services from Juniper Communications Limited to the value of £715,261 (2008: £946,693). These amounts had been paid in full by 31 March 2009 (2008: paid in full). In addition, Juniper Communications Limited received services from the BBC to the value of £108,520 (2008: nil), with £10,684 outstanding at 31 March 2009 (2008: nil).

Andy Parfitt is Controller, Radio 1, iXtra, Asian Network and Switch. His wife owns White Pebble Media who produce independent programmes for BBC radio. During the year, the BBC received services from White Pebble Media to the value of £72,924 (2008: not significant) with £3,551 outstanding at 31 March 2009 (2008: not significant),

During the year, Jenny Abramsky (Director, Audio & Music until September 2008), David Moody (Worldwide Managing Director, Digital), Samir Shah (non-executive Director) and Janice Hadlow (Controller BBC 4 until November 2008 and then Controller BBC 2) had close family members who were employed by the BBC. Their remuneration was based on the BBC's standard terms and conditions applicable to other staff employed in similar capacities.

**Related parties** include Trustees, the Executive Board members and other senior managers, their immediate families and external entities controlled by them.

Transactions between the BBC and those related parties are explained in this note.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 28 UK PUBLIC SERVICE BROADCASTING GROUP EXPENDITURE BY SERVICE

Service licences are used by the BBC Trust to regulate the BBC's services and ensure that each service provides public value and contributes to the delivery of the BBC's public purposes. The annual assessment of performance compares actual costs for content against an agreed and authorised baseline budget. These costs may vary by up to 10% of the baseline budget to permit management flexibility in its commissioning decisions. During the year there were 28 service licences in operation, including the BBC ALBA licence which launched in September 2008.

Service licences show the cost to the licence fee payer of providing the relevant service and therefore exclude any costs funded by a third party co-producer. A number of television programmes are broadcast on more than one channel and in general the full cost of the programme is recognised as a cost of the channel when the programme is first broadcast. Where a programme is commissioned by two channels the cost of the programme is recognised as a cost of the primary channel irrespective of which transmits the programme first. Accordingly, the costs of individual service licences are not necessarily equivalent to the costs which would be incurred by such service on a stand-alone basis.

For BBC HD, BBC Online and BBC Red Button, the licence reflects only the incremental costs of getting content to air unless the content is specifically commissioned for one of these three services. The cost of the original content is allocated to the service on which it is first transmitted.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 28 UK PUBLIC SERVICE BROADCASTING GROUP EXPENDITURE BY SERVICE continued

2009 Service	Note	Content (i) £m	Distribution (ii) £m	Infrastructure /support £m	Other items £m	Total £m
BBC One		1,142.0	47.9	202.9	–	<b>1,392.8</b>
BBC Two		450.6	34.1	85.0	–	<b>569.7</b>
BBC Three		87.3	4.2	23.1	–	<b>114.6</b>
BBC Four		54.8	3.0	13.6	–	<b>71.4</b>
CBBC		35.8	3.4	10.8	–	<b>50.0</b>
CBeebies		16.3	3.5	5.7	–	<b>25.5</b>
BBC HD	iv	2.1	2.7	1.9	–	<b>6.7</b>
BBC ALBA	v	3.0	0.8	0.6	–	<b>4.4</b>
BBC News channel	vi	47.9	6.6	6.5	–	<b>61.0</b>
BBC Parliament		2.8	5.1	1.7	–	<b>9.6</b>
BBC Red Button		13.5	12.3	4.3	–	<b>30.1</b>
<b>Television</b>		<b>1,856.1</b>	<b>123.6</b>	<b>356.1</b>	<b>–</b>	<b>2,335.8</b>
BBC Radio 1		33.1	3.5	6.4	–	<b>43.0</b>
BBC Radio 2		40.1	3.8	6.8	–	<b>50.7</b>
BBC Radio 3		40.0	4.1	7.0	–	<b>51.1</b>
BBC Radio 4		85.9	8.3	14.4	–	<b>108.6</b>
BBC Radio Five Live		56.5	5.7	10.0	–	<b>72.2</b>
BBC Radio Five Live						
Sports Extra		2.6	0.3	0.8	–	<b>3.7</b>
BBC 1Xtra		6.8	0.5	2.3	–	<b>9.6</b>
BBC 6 Music		6.5	0.4	2.1	–	<b>9.0</b>
BBC 7		5.2	0.4	1.3	–	<b>6.9</b>
BBC Asian Network		9.2	0.5	2.4	–	<b>12.1</b>
BBC Local Radio	vii	108.6	6.3	18.1	–	<b>133.0</b>
BBC Radio Scotland		25.0	2.4	4.9	–	<b>32.3</b>
BBC Radio nan Gàidhail		4.0	0.9	0.8	–	<b>5.7</b>
BBC Radio Wales		12.9	1.0	2.3	–	<b>16.2</b>
BBC Radio Cymru		12.0	1.3	2.1	–	<b>15.4</b>
BBC Radio Ulster/BBC Radio Foyle		14.5	1.1	2.8	–	<b>18.4</b>
<b>Radio</b>		<b>462.9</b>	<b>40.5</b>	<b>84.5</b>	<b>–</b>	<b>587.9</b>
BBC Online		112.2	18.5	46.5	–	<b>177.2</b>
<b>Online</b>		<b>112.2</b>	<b>18.5</b>	<b>46.5</b>	<b>–</b>	<b>177.2</b>
<b>Spend regulated by service</b>		<b>2,431.2</b>	<b>182.6</b>	<b>487.1</b>	<b>–</b>	<b>3,100.9</b>
Licence fee collection costs		–	–	–	122.8	<b>122.8</b>
Orchestras and performing groups		21.5	–	3.6	–	<b>25.1</b>
S4C	viii	27.6	–	4.9	–	<b>32.5</b>
Development spend	ix	30.9	–	5.2	–	<b>36.1</b>
DAB digital radio		–	10.3	–	–	<b>10.3</b>
Digital text		–	6.9	–	–	<b>6.9</b>
<b>Other</b>		<b>80.0</b>	<b>17.2</b>	<b>13.7</b>	<b>122.8</b>	<b>233.7</b>
Exceptional restructuring costs	x	–	–	–	11.0	<b>11.0</b>
<b>Total UK public services expenditure</b>		<b>2,511.2</b>	<b>199.8</b>	<b>500.8</b>	<b>133.8</b>	<b>3,345.6</b>
Digital UK Limited ring-fenced expenditure	xi	–	–	–	26.0	<b>26.0</b>
Digital switchover ring-fenced expenditure	xi	–	–	–	24.4	<b>24.4</b>
<b>Total UK Public Service Broadcasting Group expenditure</b>		<b>2,511.2</b>	<b>199.8</b>	<b>500.8</b>	<b>184.2</b>	<b>3,396.0</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 28 UK PUBLIC SERVICE BROADCASTING GROUP EXPENDITURE BY SERVICE continued

2008 Service	Content £m	Distribution £m	Infrastructure /support £m	Other items £m	Total £m
BBC One	1,126.2	45.4	246.6	–	1,418.2
BBC Two	439.7	29.5	98.7	–	567.9
BBC Three	96.5	3.1	25.6	–	125.2
BBC Four	47.7	2.0	15.1	–	64.8
CBBC	36.0	2.4	10.3	–	48.7
CBeebies	16.3	2.3	4.7	–	23.3
BBC HD	3.4	2.6	0.7	–	6.7
BBC News channel	45.7	4.4	7.9	–	58.0
BBC Parliament	2.4	2.9	0.5	–	5.8
BBC Red Button	20.4	10.2	6.1	–	36.7
<b>Television</b>	<b>1,834.3</b>	<b>104.8</b>	<b>416.2</b>	<b>–</b>	<b>2,355.3</b>
BBC Radio 1	31.5	4.2	7.4	–	43.1
BBC Radio 2	39.5	4.5	7.3	–	51.3
BBC Radio 3	37.4	4.7	7.3	–	49.4
BBC Radio 4	81.2	10.0	14.3	–	105.5
BBC Radio Five Live	55.2	6.6	10.5	–	72.3
BBC Radio Five Live Sports Extra	2.5	0.3	0.5	–	3.3
BBC 1Xtra	6.7	0.6	2.0	–	9.3
BBC 6 Music	5.6	0.5	1.4	–	7.5
BBC 7	5.5	0.4	1.4	–	7.3
BBC Asian Network	10.1	0.8	2.1	–	13.0
BBC Local Radio	109.0	6.0	21.5	–	136.5
BBC Radio Scotland	29.5	2.9	6.1	–	38.5
BBC Radio nan Gàidheal	4.7	1.2	1.0	–	6.9
BBC Radio Wales	13.6	1.3	2.6	–	17.5
BBC Radio Cymru	12.7	1.7	2.4	–	16.8
BBC Radio Ulster/BBC Radio Foyle	15.2	1.5	3.5	–	20.2
<b>Radio</b>	<b>459.9</b>	<b>47.2</b>	<b>91.3</b>	<b>–</b>	<b>598.4</b>
BBC Online	113.9	15.4	52.7	–	182.0
<b>Online</b>	<b>113.9</b>	<b>15.4</b>	<b>52.7</b>	<b>–</b>	<b>182.0</b>
<b>Spend regulated by service licence</b>	<b>2,408.1</b>	<b>167.4</b>	<b>560.2</b>	<b>–</b>	<b>3,135.7</b>
Licence fee collection costs	–	–	–	123.2	123.2
Orchestras and performing groups	16.2	–	3.1	–	19.3
S4C	27.5	–	5.2	–	32.7
BBC jam	2.5	–	0.5	–	3.0
Development spend	31.3	–	6.0	–	37.3
DAB digital radio	–	9.6	–	–	9.6
Digital text	–	8.7	–	–	8.7
<b>Other</b>	<b>77.5</b>	<b>18.3</b>	<b>14.8</b>	<b>123.2</b>	<b>233.8</b>
Exceptional restructuring costs	–	–	–	117.6	117.6
<b>Total UK public services expenditure</b>	<b>2,485.6</b>	<b>185.7</b>	<b>575.0</b>	<b>240.8</b>	<b>3,487.1</b>
Digital UK Limited expenditure	–	–	–	21.2	21.2
Digital switchover ring-fenced expenditure	–	–	–	5.9	5.9
<b>Total UK Public Service Broadcasting Group expenditure</b>	<b>2,485.6</b>	<b>185.7</b>	<b>575.0</b>	<b>267.9</b>	<b>3,514.2</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 28 UK PUBLIC SERVICE BROADCASTING GROUP EXPENDITURE BY SERVICE continued

Infrastructure/support costs	Note	2009 £m	2008 £m
Marketing, press and publicity		<b>42.9</b>	41.6
On-air trails		<b>22.9</b>	22.1
Market research and consumer services		<b>16.1</b>	14.6
Libraries, learning support and community events		<b>49.9</b>	55.5
(Reduction)/additional pension payment	xii	<b>(19.5)</b>	20.0
Overheads (excluding restructuring)	iii	<b>388.5</b>	421.2
	iii	<b>500.8</b>	575.0

- (i) Content costs are made up of the direct programme/service specific costs of production and an apportionment of other production related costs that are managed centrally including, for example, newsgathering and copyright costs. Of the total content costs of £2,431.2million (2008: £2,408.1million) direct costs were £2,259.0million (2008 £2,229.5million) and the centrally allocated were £172.2million (2008: £178.6million).
- (ii) The cost of distribution represents the transmission and carriage of the BBC's UK public services (television, radio and interactive) on digital and analogue broadcast platforms – this includes analogue television, Digital Terrestrial Television (DTT), satellite, cable, broadband, analogue radio and DAB digital radio. Of the distribution costs, £77.0million relates to analogue services (2008: £81.8million) and £122.8million to digital services (2008: £103.9million).
- (iii) Overheads represent expenditure on the BBC's central functions, for example the Director-General's office, BBC People, BBC Finance, Policy and Legal departments. Spend incorporates accommodation and staff costs relating to those functions. The proportion of these costs which are directly attributable to programme-making are included within total content spend, whilst costs of services provided across the BBC as a whole or managed at a corporate level (for example marketing, press and policy) are shown as infrastructure and support spend.
- (iv) BBC HD's content costs were under the baseline budget by more than the 10% tolerance due to significant savings in contractual costs.
- (v) BBC ALBA's content costs were under baseline budget by more than the 10% tolerance level as the service was only operational for six months of the year whereas the baseline budget was set on annual basis.
- (vi) Included within BBC News channel content costs are production costs of £29.8million, newsgathering costs of £17.6million and other costs of £0.5million (2008: production costs of £25.7million, newsgathering costs of £19.5million and other costs of £0.5million).
- (vii) The service licence for BBC Local Radio covers all of the individual stations in England.
- (viii) The BBC is required to provide Welsh language programming to S4C (the Welsh language channel) as part of the Strategic Partnership Agreement between the BBC Governors and the S4C Authority.
- (ix) Development spend is not regulated by service licence and, as such, is separately identified. The 2009 figure includes costs on the development of new on-demand technology applications and investment in digital media technology.
- (x) Exceptional restructuring costs relate to the Value for Money and Continuous Improvement programmes occurring within UK Public Service Broadcasting (see Note 4c).
- (xi) Under the terms of the current licence fee settlement, a proportion of licence fee income is set aside to help pay for wider industry costs of relating to digital switchover. This includes a marketing and awareness campaign run by Digital UK Limited and the Digital Switchover Help Scheme administered by DSHS Limited. See Notes 2b and 2d for details of this expenditure.
- (xii) See Note 8 for a full explanation of pension costs.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 29 INTERESTS IN JOINT VENTURES, ASSOCIATES AND SUBSIDIARIES

The group holds (directly and indirectly) interests in the following significant joint ventures, associates and subsidiaries listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of joint ventures, associates and subsidiaries is available on request from the General Counsel and Secretary, BBC, Media Centre, 201 Wood Lane, London W12 7TQ.

#### 29a Significant joint ventures and their activities

The group has a 50% equity interest in the following joint ventures which are all incorporated in Great Britain and registered in England and Wales, unless otherwise stated:

Name of entity	Activity	Accounting date	Joint ventures are businesses the BBC jointly controls with other parties.
<b>Commercial joint ventures:</b>			
Zentertain Limited*	Home entertainment	31 March 2009	
UK Gold Holdings Limited	Channels	31 March 2009	
UK Channel Management Limited	Channels	31 March 2009	
UK VoD LLP**	Development	31 December 2008	
JV Programmes LLC (incorporated in the USA)	Sales and distribution	31 March 2009	
Ragdoll Worldwide Holdings Limited	Magazines and children's	31 March 2009	
<b>Joint ventures of UK Public Service Broadcasting</b>			
DTV Services Limited***	Marketing	31 August 2008	
Freesat (UK) Limited	Provision of free to air satellite television service	31 March 2009	

\* 60% equity interest.

\*\* 33% equity interest. UK VoD LLP has a December year-end, since it was set up in February 2008, results were equity accounted for the year to 31 December 2008.

\*\*\* 20% equity holding.

#### 29b Significant associates and their activities

	Holding of issued ordinary shares %	Activity	Associates are businesses over which the BBC exerts significant influence but does not have overall control.
<b>Commercial associates:</b>			
Frontline Limited	23	Magazines and children's	
OPL Holdings Limited	39	Magazines and children's	
3sixtymedia Limited	10	Production	
The Animal Planet (Europe) Partnership	50	Channels	
<b>Associates of UK Public Service Broadcasting</b>			
Parliamentary Broadcasting Unit Limited	44	Content provider	
Broadcasters Audience Research Board Limited (BARB)	*	Audience research	
The Commonwealth Broadcasting Association	*	Broadcasting forum	
Radio Joint Audience Research Limited (RAJAR)	50	Audience research	

\* Broadcasters Audience Research Board Limited and The Commonwealth Broadcasting Association are companies limited by guarantee, of which the BBC is a joint member with other broadcasters.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 29c Subsidiary undertakings

Name of entity		Activity
<b>Commercial Subsidiaries:</b>		
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC World News Limited	^ **	Channels
BBC Ventures Group Limited	**	Holding company
BBC Studios and Post Production Limited	^^ **	Programme making facilities and services
Lonely Planet Pty Limited (incorporated in Australia)	**	Travel Guides Publisher
BBC Worldwide Australia Pty Limited (incorporated in Australia)	**	Investment company
BBC Magazines Limited	**	Investment company
BBC Magazines Rights Limited	**	Investment company
BBC Worldwide Americas Inc. (incorporated in the USA)	**	Investment company
BBC World Distribution Limited	**	Programme distribution
<b>Subsidiaries incorporated to act on behalf of UK Public Service</b>		
<b>Broadcasting:</b>		
BBC Property Limited	*	Property
Centre House Productions Limited	*	Production financing
Digital UK Limited***	*	Digital switchover
DSHS Limited	*	Digital switchover

\* Directly owned.

\*\* Indirectly owned.

\*\*\* The BBC controls 56% of the voting rights of Digital UK Limited. Its results have been consolidated into the group accounts. Digital UK Limited is a company limited by guarantee of which the BBC is a joint member. The other members and their voting rights in Digital UK Limited are: ITV plc 11%, Channel Four Television Corporation 11%, Channel Five Broadcasting Limited 8.75%, National Grid Wireless 6.25%, SON Limited 3.5%, S4C 2.25% and Teletext Limited 1.25%.

^ BBC World Limited changed its name to BBC World News Limited on 1 August 2008.

^^ BBC Resources Limited changed its name to BBC Studios and Post Production Limited on 1 April 2009.

**Subsidiary undertakings** are businesses the BBC controls.



# BBC CORPORATE GOVERNANCE FRAMEWORK/

THE EXECUTIVE BOARD HAS COMPLIED WITH THE REQUIREMENTS OF THE CHARTER, CREATING APPROPRIATE AND EFFECTIVE GOVERNANCE ARRANGEMENTS FOR THE BBC.

The BBC's corporate governance framework is defined in the Royal Charter (the Charter).

The BBC Trust assesses the performance of the BBC's management and its services. Its review and assessment for 2008/09 can be found in Part One of this Annual Report and Accounts, and online at [www.bbc.co.uk/annualreport](http://www.bbc.co.uk/annualreport)

The Charter also requires the Executive Board to have regard to generally accepted principles of good corporate governance.

So, although the BBC is not a listed company, it has opted to follow the relevant provisions of the Financial Services Authority's Listing Rules and the 2006 Financial Reporting Council Combined Code

on Corporate Governance (the 2006 FRC Code), in order to be consistent with companies quoted on an EU regulated market.

The Executive Board has complied with the requirements of the Charter, creating appropriate and effective governance arrangements for the BBC. This has also secured substantial compliance with the 2006 FRC Code although in a number of areas the 2006 FRC Code is not appropriate to the circumstances of the BBC. Compliance with the Charter has resulted in a small number of areas where compliance with the 2006 FRC Code has not been achieved, although the Board believes that this does not compromise the quality of the governance arrangements in place, as shown here:

Table 1/ BBC governance framework

Principle of the 2006 FRC Code	BBC position	Explanation
A.2 – There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsible for the running of the company's business. No one individual should have unfettered powers of decision.	The Chairman of the Board is the Director-General, the chief executive officer of the BBC.	The Charter specifies that the Director-General may be the Executive Chairman of the Board.  In addition, the strategic oversight by the BBC Trust ensures that no single individual has unfettered powers.
A.3 – The Board should include a balance of executive and non-executive Directors (and in particular independent non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking.	The Board comprises 16 directors, of which ten are executive directors and six are non-executive Directors. As a result, the Board does not comply with the provision (A.3.2) that at least half the Board, excluding the Chairman, should be independent.  All non-executive Directors are considered independent for the purposes of the 2006 FRC Code, after recognising the need for insight from the media sector in the UK.	The Charter specifies that non-executive Directors must not be less than one-third and not equal to or more than one half of the members of the Board.  The Board includes a balance of executive and non-executive Directors and no individual or small group of individuals can dominate decision taking.

Some provisions of the 2006 FRC Code are not appropriate to the BBC's circumstances as a public body that is not profit-oriented and does not have shareholders. In particular provisions relating to interaction with shareholders clearly do not apply to

the BBC, although in some circumstances it is possible to consider, by analogy, the way in which the Trust engages with licence fee payers. This is set out in Part One of the Annual Report and Accounts.

Another 2006 FRC Code provision that is linked to shareholders relates to aligning executive remuneration with enhancing shareholder value and therefore making performance-related elements of remuneration a significant proportion of total remuneration (provision B.1.1). The BBC's strategy for the remuneration of executive directors, set by the Trust and the Executive Remuneration Committee, complies with the 2006 FRC Code principle B.1 that levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the BBC successfully. However, taking into account the BBC's public purposes, the amount of variable (or performance-related) remuneration that may be earned is limited. During 2008/09 the Board decided to suspend the discretionary bonus arrangements for all staff (other than staff employed in certain commercial businesses); any bonuses that were contractual commitments were honoured.

## EXECUTIVE BOARD

### Role of the Executive Board

The Board is responsible for managing all the BBC's operations, with the sole exception of the BBC Trust Unit. This includes the following:

- delivering the BBC's services in line with the purpose remits, service licences and other business strategies.
- directing editorial and creative output.
- ensuring compliance with all relevant legal and regulatory requirements (including initial handling of complaints about the BBC), except where these areas specifically relate to the BBC Trust or the BBC Trust Unit.

- appointing the management teams for the BBC and its subsidiaries and holding them to account.
- conducting the BBC's financial affairs to ensure value for money.
- accounting to the BBC Trust for its own performance, as well as the performance of the BBC and its subsidiaries, and complying with any decisions from the BBC Trust.

The Board meets monthly (except for August); summary minutes of meetings are available online at [www.bbc.co.uk/info/running/executive/minutes.shtml](http://www.bbc.co.uk/info/running/executive/minutes.shtml)

In practice, the Board delegates some of its responsibility to other managerial groups. Any delegation from the Board is stated in the relevant standing orders for each group and a framework for reporting and review is established.

An evaluation of the effectiveness of the Board and its Committees began this year. The evaluation is being facilitated by external consultants and includes a series of interviews and questionnaires. The results will be considered by the Director-General, and discussed by the Board as a whole.

In accordance with the requirements and provisions of the Charter the following Committees continued to operate last year:

- Audit Committee
- Fair Trading Committee
- Nominations Committee
- Remuneration Committee

**Table 2/ Executive Board and Committee attendance**

	Executive Board		Audit Committee		Fair Trading Committee	Nominations Committee <sup>1</sup>		Remuneration Committee	
	Ordinary	Extraordinary	Member	Attendee		Member	Attendee	Member	Attendee
<b>Number of meetings for the period</b>	11	4	4		4		1		7
Mark Thompson	11	4		4			1		7
Mark Byford	9	3					1		
Jenny Abramsky <sup>2</sup>	4/4	2/2							
Jana Bennett	10	4							
Tim Davie <sup>3</sup>	11	4							
Ashley Highfield <sup>4</sup>	3/3	0/2							
Erik Huggers <sup>4</sup>	7/7	2/2							
Stephen Kelly <sup>5</sup>	7/10	2/4					1		6/7
Zarin Patel <sup>6</sup>	8/9	2/3		3/3	3/4				
John Smith	11	4							
Caroline Thomson	11	4			4				
Marcus Agius Senior Independent Director; Chairman of the Remuneration Committee	9	3			2	1		6	
Val Gooding	9	3							
Dr Mike Lynch	10	4	4		1			7	
David Robbie Chairman of the Audit Committee	11	3	4						
Dr Samir Shah	8	4	4						1
Robert Webb Chairman of the Fair Trading Committee	10	4			4			6	

For those directors serving for only part of the year the total number of meetings they could have attended is presented alongside the number attended (number attended/total possible).

<sup>1</sup> Membership of the Committee differs depending on the appointment (non-executive or executive) being made. Marcus Agius, Mark Thompson and Dr Mike Lynch are members for all appointments. Mark Byford is a member for executive appointments and a regular attendee for non-executive appointments. Mark Thompson is the Chairman for executive appointments and Marcus Agius is the chairman for non-executive appointments.

<sup>2</sup> Jenny Abramsky stepped down as Director, Audio & Music in September 2008.

<sup>3</sup> Tim Davie stepped down as Director, Marketing, Communications & Audiences in August 2008 and was appointed Director, Audio & Music in September 2008.

<sup>4</sup> Ashley Highfield stepped down as Director, Future Media & Technology in June 2008 and Erik Huggers was appointed as Director, Future Media & Technology in August 2008.

<sup>5</sup> Stephen Kelly stepped down as Director, BBC People in February 2009. The Acting Director, BBC People attended one meeting of the Executive Board.

<sup>6</sup> Zarin Patel had three months study leave at Harvard during August to October 2008, during which time the Acting Chief Financial Officer attended three meetings of the Executive Board and one meeting of the Audit Committee.

## INDUCTION, PERFORMANCE AND DEVELOPMENT

All new directors receive an induction programme and a wide range of information about the BBC on joining. The content of the induction programme will vary depending on whether the appointment is to an executive or non-executive position and whether the new director was an external candidate or not. The information always includes details of Board procedures and directors' responsibilities. All directors have access to external independent advice if they wish.

The Trust assesses the performance of the Board in delivering the BBC's services and activities, in accordance with the Charter. This includes an on-going review of progress and an annual performance day, which is attended by both the Board and the BBC Trust. The Chairman of the BBC Trust also has a separate meeting with the non-executive Directors every year.

The performance review processes for the Board's Committees continues to evolve and each reviews its own performance and effectiveness. No significant issues were identified.

All the executive directors have their own personal and divisional objectives, and their performance against them is reviewed by the Director-General each year, and by the Remuneration Committee.

## NOMINATIONS COMMITTEE

The Nominations Committee oversees the process of proposing, appointing and – if necessary – dismissing members of the Board. The only exception is the Chairman, who is appointed by the BBC Trust. Membership of the Nominations Committee is dependent on whether it is dealing with executive or non-executive appointments.

### Executive appointments

Four executive appointments were made this year. Two of these directors took up their appointment prior to the year end – Erik Huggers, Director, Future Media & Technology, and Tim Davie, Director, Audio & Music – and two after the year end – Sharon Baylay, Director, Marketing, Communications & Audiences, and Lucy Adams, Director, BBC People. As always the Nominations Committee was advised by BBC People in making all these appointments; each was made on merit and against objective criteria.

Our new Director, BBC North was also appointed this year, joining the Board in April 2010.

### Non-executive appointments

Four non-executive Directors were due to step down on 31 December 2008. After a thorough review of the composition and needs of the Board, as well as the skills, experience and knowledge of the individual directors, the Nominations Committee recommended to the Executive Board and the Trust that Dr Mike Lynch, David Robbie, Dr Samir Shah and Robert Webb all be re-appointed for further two-year terms.

## Report of the Senior Independent Director

The 2008/09 financial year is the second year during which the Board has operated with non-executive Directors and, as anticipated in my Report in last year's Annual Report and Accounts, effective working relationships have been established around the Board table based on a strong collaborative ethos. There has been a full agenda of regular as well as incidental business, and much to test the deliberative ability of the directors.

The Board operates on the basis that the executive directors recognise and understand that the non-executive Directors have a right – indeed a duty – to challenge them by enquiry and interrogation and that this applies both to matters on the agenda and to matters of topical interest. At the same time, the non-executive Directors recognise in their turn that their obligation is to help the executive directors to reach optimum decisions after analysis and debate, then to provide them with collegiate support in the prosecution of executive actions.

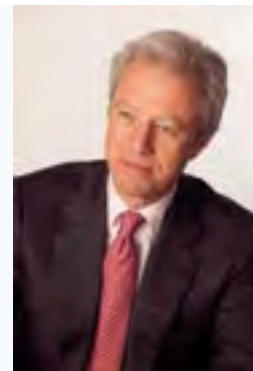
Of the many matters discussed around the Board table, most of which are described elsewhere in this Annual Report and Accounts, I would single out the following (in no particular order) as representing topics where the benefit of having access to a wide range of views and experience was perhaps felt most keenly:

- Ofcom's review of Public Service Broadcasting
- ongoing development of BBC iPlayer
- suspension of the discretionary bonus scheme for executive directors
- review of options for BBC Worldwide
- coping with the impact of the recession on the BBC's finances

In each case, the issues involved were complex and sensitive and the reputational consequences were far reaching. I can confirm that these items – as with others – were discussed openly and transparently and that the debate was conducted with the underlying objective of serving the public purposes of the BBC.

### Marcus Agius

Senior Independent Director  
18 June 2009



## ACCOUNTABILITY AND INTERNAL CONTROL

The Board is responsible for ensuring there is a process for managing significant risks to the BBC, and for maintaining an adequate system of internal control and reviewing its effectiveness.

### Risk identification, management and ownership

We consider the overall management of risk within the BBC, which is integral to the delivery of business objectives, to be most effectively achieved through the engagement of the entire Board and so risk management is not delegated to a sub-committee. An ongoing process for identifying, evaluating, managing, monitoring and reporting significant risks

to the BBC, which accords with the Turnbull guidance (Internal Control: Revised Guidance for Directors on the Combined Code), has been in place for the year ended 31 March 2009 and up to the date of approval of this BBC Annual Report and Accounts. Key elements of the process include:

- the director of each business group is responsible for identifying and managing the risks facing their business, and maintaining a register of identified key business risks which may have an impact on meeting its strategic objectives or core business purposes, together with mitigations. Risk registers are subject to regular review and assessment throughout the year and feed into consideration of risk exposure at both local and Board level.
- the Board receives regular reports and updates on the BBC's risk exposure, focusing on those we consider critical to the success of the BBC including how these risks are managed.
- an annual report on the overall risk management process is submitted to the Audit Committee.
- specialist functions oversee the management of certain major areas of risk ensuring appropriate frameworks and arrangements are in place to manage them consistently across the business, and ensuring effective ownership at senior level.
- the responsibility to minimise the risk of fraud is taken very seriously. Our fraud policy establishes a clear framework of controls designed to minimise the risk of fraudulent activity, and assigns responsibility for managing them. All suspected incidents of fraud are investigated.

#### Internal control

The Board, supported by senior management teams, is responsible for establishing, maintaining and reviewing the effectiveness of the BBC's system of internal control and for ensuring necessary actions are taken to remedy significant failings or weaknesses identified. Our system of control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Although no system of internal control can provide absolute assurance against material misstatement or loss, the BBC's controls are designed to provide reasonable assurance that assets are safeguarded, transactions are appropriately authorised and material errors or irregularities are either prevented or detected on a timely basis. Key elements of our system of internal control include:

- comprehensive monthly, quarterly and annual financial and other reporting processes, both within business groups and up to the Board.
- formal authorisation processes covering all financial transactions. There are clearly defined criteria for when Board approval is required.
- processes to ensure compliance with all applicable laws and regulations, including Ofcom requirements.
- processes to manage the risks associated with the outsourcing of key business services (such as licence fee collection and technology systems and support)

and to ensure the day-to-day continuity of our business operations.

- formal policies and procedures concerning all material business processes, to ensure that timely, relevant and reliable information is available across the business.
- processes to ensure that our staff are professional and competent, such as recruitment policies, performance appraisals and training programmes.

The Board, in reliance upon the detailed work of the Audit Committee and by review and discussion of quarterly reports on both risk and compliance, confirms that it has considered the effectiveness of the system of internal controls in operation throughout the financial year and up to the date of approval of the Annual Report and Accounts.

A number of editorial standards issues arose across the year. The most prominent involved comments made on *The Russell Brand Show*. The programme raised important issues of editorial standards and the effectiveness of programme compliance. A series of measures have been taken to ensure that programme compliance processes are strictly adhered to and that pre-recorded programmes that have not completed the compliance process will not be transmitted. At the same time the BBC Trust has asked management to re-examine the boundaries of tastes and standards and to feed any relevant conclusions in to the revision of the BBC's Editorial Guidelines.

#### Internal audit

Internal Audit, Risk Management and Investigation Services combine to form our Business Assurance function, which is led by the Director of Risk and Assurance. Internal Audit's authority and independence is assured by the Director of Risk and Assurance's independent and direct access to the Director-General and to the Audit Committee. Internal Audit regularly tests our control systems and core business processes, evaluating their adequacy and effectiveness and ensuring their consistent application across the BBC. The work plan, which is based on a continuing assessment of key risks, is agreed annually with the Audit Committee and covers financial, operational and compliance controls, including the exercise of the BBC's right of audit over external parties, such as independent production companies and suppliers of key outsourced business services. Any significant control failings or weaknesses identified are reported to appropriate levels of management. The status of corrective actions taken to address them are reported to the Audit Committee.

#### Executive Audit Committee

The members of the Audit Committee, all appointed in January 2007, are non-executive Directors David Robbie (Chairman), Dr Mike Lynch and Dr Samir Shah. The Board is satisfied that David Robbie has significant, recent and relevant financial experience. The committee augments the broad range of skills of its three members, gained from considerable experience in senior roles with other organisations,

with advice as necessary from internal and external professionals, on relevant matters including developments in financial reporting and company law.

During the year, the Audit Committee has reviewed its Terms of Reference and has approved their continued application, deeming them appropriate to ensure the committee's continued effectiveness.

The Audit Committee met four times during the financial year. The meetings were attended by the Director-General, the Chief Financial Officer (for three meetings, with one meeting being attended by the Acting Chief Financial Officer) and from June 2008 onwards the new Director of Risk and Assurance. Representatives from Internal Audit, Risk Management and the external auditors were also present. The committee meets at least annually with the external auditors without any member of management present. The Chairman of the Audit Committee meets with the Director of Risk and Assurance, alone or with the external auditors, but without management, and also meets privately with the external audit lead partner.

Minutes of each Audit Committee meeting, once approved, are available to the Executive Board and to the BBC Trust. Recommendations of the committee on any area within its remit where action or improvement is needed are reported back to the Board by whatever route is deemed most appropriate to the nature and circumstances of the issue. The committee Chairman formally reports to the Board at least once a year on all matters within the committee's duties and responsibilities.

The Audit Committee has fulfilled its responsibilities for the year; it has:

- reviewed the effectiveness of the system of internal controls. In doing so it has considered the findings of the internal and external auditors and sought assurance from management that any control issues highlighted are being addressed. It has also considered reports from management on processes for managing significant risks.
- reviewed the BBC's group financial statements, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external auditors.
- overseen the BBC's relationship with the external auditors, including their engagement, the scope of and approach to their work, their fees, their performance and their independence, including the approval and compliance with the policy on non-audit work.
- approved the work plan of Internal Audit.
- reviewed the fraud detection processes and whistle-blowing arrangements.

#### Independence of external auditors

We comply with the 2006 FRC Code guidance on maintaining an appropriate relationship with external auditors. The external auditors appointed by the BBC are KPMG LLP, who have safeguards in place to avoid the possibility of their audit objectivity

#### Report of the Chairman of the Executive Audit Committee

The Audit Committee's main focus is to review and oversee corporate governance at the BBC, in particular financial reporting, internal control and risk management. At our meetings, we regularly review issues raised by Internal Audit and management's progress with actions that address these. We challenge management to make the needed changes with the minimum of delay, drawing upon our combined knowledge and diverse experience with other organisations. We also receive regular updates from our external auditors; these outline their audit approach and any issues they wish to bring to our attention for discussion.

To gain a deeper understanding of the most significant risks facing the BBC and a fuller appreciation of the existing and proposed mitigation of those risks, we also request papers and presentations from management on major risk concerns high on the BBC agenda and on risk profiles from across the BBC selected on a rotational basis. Our interest is in the appropriateness and adequacy of actions taken to manage risk and we challenge management where we feel there are improvements to be made. This year in particular we have considered failures in editorial controls and the detailed plans to prevent recurrence, the global recession and its impacts on the BBC and its numerous stakeholders, and issues around data protection in light of general public concern.

The scope of this committee covers the whole BBC group; therefore we also receive and discuss updates from the other Audit Committees which oversee our commercial businesses.

#### David Robbie

Chairman of the Audit Committee  
18 June 2009



and independence being compromised. The Audit Committee also reviews the audit objectivity and independence of its external auditors, and recruitment from KPMG LLP into any senior management position in the BBC requires its prior approval.

The Audit Committee has set a clear policy which defines the threshold above which proposed non-audit work to be carried out by KPMG LLP must be approved in advance by the committee, and also defines when it must be submitted to competitive tender. In all cases, KPMG LLP are not considered for work which might compromise their ability to independently opine on the BBC's financial statements.

#### Whistle-blowing

We have a 'whistle-blowing' (protected disclosure) policy, to facilitate the confidential communication via a number of routes of any incident in which there is a suspicion that the BBC's codes have been breached. The BBC fosters an environment where all staff should feel free to report concerns and suspicions to line management. However, as there could be

sensitivities regarding actual or suspected incidents, we also provide the alternative of a 'whistle-blowing' hotline, administered by an independent external company to ensure anonymity. Each incident or suspicion reported via any route is investigated in a confidential manner; a response is communicated and action is taken as appropriate. The Audit Committee ensures that there are appropriate arrangements in place for the proportionate and independent investigation of matters reported and for appropriate follow-up action.

## EXECUTIVE BOARD REMUNERATION REPORT

This report sets out the BBC's remuneration policy and details the remuneration received by members of the Board. It has been prepared on the basis that the requirements of the Directors' Remuneration Report Regulations 2002 and those of the Financial Services Authority apply to the BBC wherever these disclosure provisions are relevant. The sections on pensions and remuneration received by the Board members are audited by KPMG LLP.

### Remuneration Committees: constitution and operation

The Remuneration and Appointments Committee (RAC) of the BBC Trust is responsible for setting the remuneration strategy for the Board and is responsible for all aspects of the remuneration of the Director-General and the non-executive Directors. For more information on the RAC please see the Trust's review and assessment in Part One of the Annual Report and Accounts 2008/09.

The Executive Remuneration Committee (ERC) is responsible for implementing the agreed strategy for all executive members of the Board, with the exception of the Director-General. The members of the ERC are non-executive Directors, namely Marcus Agius (Chairman), Dr Mike Lynch and Robert Webb. Meetings of the ERC are also attended, on invitation, by the Director-General and the Director; BBC People, who advise on matters relating to other members of the Board and the overall performance of the BBC. When matters concerning the remuneration of the Director; BBC People are considered, he/she is not present. The ERC has access to internal expertise through the BBC's Reward Director who also attends the meetings.

Complying with the 2006 FRC Combined Code on Corporate Governance, the ERC takes specialist advice from external professional advisers. During the year, independent advice was received from Hewitts until September 2008 and thereafter from PricewaterhouseCoopers.

### Remuneration of non-executive Directors

The fees of non-executive Directors are determined by the Trust. For information on how the fee level is set, see the Trust's review in Part One.

### Remuneration of executive directors

The strategy, set by the Trust, is to provide remuneration that attracts, motivates and retains the key people required to lead the corporation, whilst also recognising the BBC's status as a publicly funded corporation which must deliver value to the licence fee payer. This is achieved by aligning base pay with the market median of the commercial organisations with which the BBC competes for talent, whilst not seeking to match the levels of variable pay offered by those organisations. Each year the ERC reviews independently provided market pay data to support it in its decision making on remuneration, and ensure that levels of pay are consistent with the agreed strategy. Data obtained for the 2008 annual pay review showed that base pay was broadly aligned with the median of the market but that total direct compensation (base salary plus variable pay) ranged between 40% and 66% of the level paid by our competitors in the commercial sector. This differential arises because of the substantial additional amounts of variable pay (including share based awards) that are provided in the commercial sector.

Further details on each component of the remuneration of executive directors are provided in the following paragraphs.

#### Base pay

In determining base pay the ERC takes into account the base pay of the BBC's principal competitors and the other organisations with which it competes for talent; the affordability of the BBC to reward its executives; and the performance of the executive. Base pay is aligned at around the median of the market ensuring that the BBC does not lead the market on executive pay in the media sector.

#### Variable pay

A limited element of variable pay, linked to the achievement of key objectives and overall contribution to BBC performance, is provided. Executive directors (with the exception of the Chief Executive Officer (CEO) of BBC Worldwide) are eligible for a discretionary annual bonus of up to a maximum of 10% of base pay, of which up to 6% is for the achievement of divisional value-for-money targets, and up to 4% is for the achievement of divisional transformational objectives. No discretionary bonuses will be paid in 2009.

With regard to the CEO of BBC Worldwide, the BBC's remuneration strategy recognises that as a commercially funded business, it is appropriate that its CEO participates in the annual bonus and the long term incentive plans of BBC Worldwide. The design of the annual bonus and long term incentive plans are approved by the Trust. Details of the plans are provided under BBC Commercial Businesses section.

**Report of the Chairman of the Executive Remuneration Committee**

Managing executive reward at the BBC poses challenges that are unique in the UK. The BBC has to balance its value-for-money responsibilities as a public sector corporation with its need to recruit, retain and motivate the talent required to deliver outstanding public service broadcasting in competition with private sector media and technology companies.

The BBC operates a remuneration strategy for the Board, approved by the Trust, designed to enable the recruitment and retention of staff in the markets in which it operates as both a public service broadcaster and a commercial business. This strategy aligns base pay at the BBC with the median levels of the commercial sector but, it does not seek to match the levels of variable pay that are paid by our commercial competitors. Our strategy takes account of the opportunity that working for the BBC provides, along with the greater than typical level of job security available due to our revenue being more predictable. The remuneration strategy for the Board flows down throughout the rest of the organisation where a similar approach is taken. Each year we review market pay data and this shows that, although base pay is broadly aligned with median levels in the commercial sector, the level of total remuneration received by each of the executive directors is significantly behind the levels paid by our commercial competitors. This includes the Chief Executive Officer (CEO) of BBC Worldwide who participates in the annual bonus and long term incentive plans of BBC Worldwide, our commercial business.

A significant factor in differentiating executive salaries at the BBC is the need to recognise the different market dynamics between creative staff and professional support staff and we acknowledge that the professional support staff are in the main likely to remain at the BBC for a shorter period of time and are likely to be able to achieve greater levels of reward in the commercial sector.

During the year we have responded to the change in economic circumstances, recognising that the gap in pay between the BBC and its commercial competitors is likely to diminish as levels of variable pay reduce in the media and technology sectors. We therefore restricted base salary increases for the majority of executive directors to 2% in August 2008 and have decided that there will be no base salary increases for any executive director in August 2009. In addition the Board decided to suspend discretionary bonus arrangements for all staff and as a result no discretionary bonuses will be paid until August 2010 at the earliest (except that in the Commercial Businesses, contractual bonuses will be paid, including to the CEO of BBC Worldwide). We have also recognised the need to ensure that remuneration at the BBC continues to be appropriate and relevant in the future and we are undertaking a formal review of our remuneration strategy. This review will examine whether the alignment of base pay with the commercial sector continues to be appropriate and will conclude on the best approach to variable pay for the BBC going forward. We plan to complete the review and to agree any changes in remuneration strategy with the Trust by October 2009. This will provide an even stronger framework than at present and ensure that the policy remains resilient in the face of the challenges facing the BBC now and in the longer term.

Although we face some complex and challenging issues, my colleagues and I believe that we have continued to apply a remuneration strategy that is in the interests of our licence fee payers, that is sensitive to the current economic circumstances, and which has enabled us to recruit, retain and motivate the executive talent that the BBC requires.

**Marcus Agius**  
**Chairman**  
**Remuneration Committee**  
 18 June 2009



**Benefits**

In addition to pensions, the other main contractual benefits are a car and fuel allowance, private health insurance, and life assurance. The Director-General and Deputy Director-General are entitled to a chauffeur-driven car under earlier arrangements. The Director-General has no entitlement to a personal car or fuel allowance.

**Pension**

Executive members of the Board are eligible to participate in the BBC Pension Scheme, which provides for pension benefits on a defined benefit basis.

For an employee joining the Pension Scheme before 1 November 2006, the accrual rate is 1/60th of the final pensionable salary for each year of service with pensionable salary being base pay, including London Weighting, but not including any bonuses or other payments. For this group, the normal pensionable

age is 60. For an employee who joined on or after 1 November 2006 the accrual rate is 1.67% of their pensionable salary for each year of service, adjusted in line with inflation up to retirement. For employees in this group, the normal pensionable age is 65.

All current executive directors (except Erik Huggers) have a normal pensionable age of 60 but may continue in employment to age 65. The normal retirement date for Erik Huggers is 65 as he joined the Pension Scheme after 1 November 2006. For those who joined the Pension Scheme after 31 May 1989 earnings are subject to the maximum annual limit (£117,600 per annum for 2008/09). No maximum annual limit is applied to those who joined on or before 31 May 1989. The Pension Scheme provides for early retirement on medical grounds and life assurance of four times pensionable salary up to a prescribed limit.

A variety of arrangements were put in place, for members of the Board who joined after 31 May 1989, and whose pensionable salary exceeds the maximum annual limit, including funded and unfunded arrangements outside of the Pension Scheme. Since 1 April 2006 these arrangements have been replaced by a cash supplement paid to each director on a pensionable salary above the maximum annual limit. Any participating employee who reaches or exceeds the Lifetime Allowance (£1.65million for 2008/09) may opt out of the Pension Scheme and instead receive a cash supplement.

### The BBC's commercial businesses

The CEO of BBC Worldwide participates in the annual bonus plan and long term incentive plan (LTIP) of BBC Worldwide which were established by the Board of BBC Commercial Holdings and approved by the Trust. These plans are not funded by the licence fee and the full costs of base pay, annual bonus and the LTIP are self-funded by the commercial revenues of BBC Worldwide.

The CEO of BBC Worldwide is eligible for a maximum annual award of 50% of base pay under the annual bonus plan; 75% of the bonus is determined by the performance of BBC Worldwide against profit targets

and 25% is discretionary and determined by the Director-General based on the achievement of key objectives relating to the overall success of the BBC. In line with decision regarding other executive directors, this latter 25% discretionary bonus will not be paid in 2009. The CEO is entitled to defer up to 75% of the previous year's annual bonus into the LTIP.

The LTIP is a cash incentive plan designed to align the CEO's remuneration with the strategy of the business. The maximum payout under the LTIP is 20% of base pay, plus a potential 100% match of deferred annual bonus. Both elements are subject to two performance measures: Profit Growth (75% weighting) and Return on Sales growth (25% weighting), measured over a three year period and relative to a comparator group of at least 15 other international media companies. The companies are ranked according to their performance. These measures were chosen as they most directly support the objectives of BBC Worldwide and are the key drivers of success.

BBC Worldwide must be ranked at least at the median of the comparator group for any of the award to vest. Maximum vesting is achieved for a ranking at the upper quartile or above. There is a straight-line vesting scale between these two points.

**Table 3/ Remuneration received**

The remuneration of the Board members and the Trustees during the year is shown below:

	Fee/ base pay <sup>6</sup> £000	Annual bonus £000	Taxable benefits £000	Other remuneration <sup>7</sup> £000	Total remuneration 2008/09 £000	Total remuneration 2007/08 £000
<b>Executive directors</b>						
Jenny Abramsky <sup>1</sup>	212	–	5	31	248	419
Jana Bennett	412	–	15	88	515	536
Mark Byford	471	–	14	–	485	513
Tim Davie	325	–	16	62	403	413
Ashley Highfield <sup>2</sup>	104	–	3	17	124	466
Erik Huggers <sup>3</sup>	223	–	9	42	274	–
Stephen Kelly <sup>4</sup>	327	–	11	58	396	431
Zarin Patel	346	–	14	69	429	440
John Smith <sup>5</sup>	397	69	14	–	480	486
Mark Thompson	664	–	6	164	834	816
Caroline Thomson	333	–	15	65	413	440
<b>Total executive directors</b>	<b>3,814</b>	<b>69</b>	<b>122</b>	<b>596</b>	<b>4,601</b>	<b>4,960</b>
<b>Non-executive Directors</b>						
Marcus Agius	50	–	–	–	50	50
Val Gooding	35	–	–	–	35	9
Mike Lynch	35	–	–	–	35	35
David Robbie	40	–	–	–	40	40
Samir Shah	35	–	–	–	35	35
Robert Webb	40	–	–	–	40	40
<b>Total non-executive Directors</b>	<b>235</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>235</b>	<b>209</b>
<b>Total Executive Board</b>	<b>4,049</b>	<b>69</b>	<b>122</b>	<b>596</b>	<b>4,836</b>	<b>5,169</b>
<b>Total Trustees</b>					<b>677</b>	<b>642</b>
<b>Total</b>					<b>5,513</b>	<b>5,811</b>

<sup>1</sup> Jenny Abramsky retired 30/09/08, base pay includes a payment for contractual leave of £46,414.

<sup>2</sup> Ashley Highfield left 30/06/08, base pay includes a payment for contractual leave of £16,515.

<sup>3</sup> Erik Huggers appointed as a Director 01/08/08.

<sup>4</sup> Stephen Kelly left 28/02/09, base pay includes a payment for contractual leave of £25,143.

<sup>5</sup> John Smith's base pay, bonus and benefits have been fully funded by BBC Commercial Businesses since 1 September 2006. In addition to the annual bonus, an equal amount has been invested in the Long Term Incentive Plan for BBC Worldwide which may vest in March 2012.

<sup>6</sup> The BBC introduced a salary sacrifice arrangement on 1 June 2008 for members who joined the Pension Scheme before 1 November 2006, and those Directors as indicated in the table above participated in the arrangement. From that date on, the terms and conditions of employment were changed for those employees opting for the salary sacrifice arrangement and as a result employee pension contributions made via the salary sacrifice arrangement have been treated as employer contributions, with a corresponding reduction in salary. Base salaries for executive directors have not been adjusted to reflect the impact of salary sacrifice to enable like for like comparison with prior years. The total salary sacrifice by executive directors was £84,704.

<sup>7</sup> Other remuneration relates to pension arrangements and comprises the following:

a. cash pensions supplements which replaced FURBS arrangements.

b. a cash supplement for Jenny Abramsky as she no longer accrued benefits under the Pension Scheme.



**Table 4/ Defined benefit schemes**

Details of defined benefit entitlements are shown below:

	Age as at 31 March 2009	Increase in accrued pension over year £000	Total accrued pension at 31 March 2009 £000	Transfer value of accrued pension at 31 March 2009 <sup>4</sup> £000	Transfer value of accrued pension at 31 March 2008 <sup>4</sup> £000	Director's contributions (excluding contributions paid via the salary sacrifice arrangement) £000	Increase in transfer value less director's contributions £000
<b>Executive directors</b>							
Jana Bennett	53	2	14	212	164	1	47
Mark Byford	50	13	206	3,406	2,763	5	638
Tim Davie	41	2	8	57	37	1	19
Ashley Highfield <sup>1</sup>	43	1	15	116	99	1	16
Erik Huggers <sup>2</sup>	36	2	2	7	–	–	7
Stephen Kelly <sup>3</sup>	43	2	5	37	20	1	16
Zarin Patel	48	3	21	220	170	1	49
John Smith	51	15	209	3,673	3,167	4	502
Mark Thompson	51	2	9	130	91	1	38
Caroline Thomson	54	5	67	1,475	1,308	1	166

<sup>1</sup> Ashley Highfield both resigned as a director and left the Pension Scheme on 30 June 2008. The accrued pension on leaving the Pension Scheme has been valued as at 31 March 2009.

<sup>2</sup> Erik Huggers was appointed as a director on 1 August 2008, although he joined the Pension Scheme on 1 April 2008. The figures shown include the period before he was appointed as a director. He is a member with less than 2 years' service, and so he is not entitled to a deferred pension at 31 March 2009. However, for consistency his accrued deferred pension has been calculated and valued.

<sup>3</sup> Stephen Kelly both resigned as a director and left the Pension Scheme on 28 February 2009. The accrued pension on leaving the Pension Scheme has been valued as at 31 March 2009.

<sup>4</sup> The transfer value of accrued benefits represents the estimated cost to the Pension Scheme of providing the benefits accrued to date. The value is affected by many factors, including age, pensionable salary, pensionable service, section of the Pension Scheme and investment market conditions at the date of calculation. It is not a sum paid to or due to the individual and therefore cannot be meaningfully added to remuneration.

No payments in respect of termination or compensation for loss of office were paid to or receivable by Board members during the year.

**Table 5/ LTIP vesting schedule for BBC Worldwide**

Performance ranking for BBC Worldwide

LTIP payment

Upper quartile or above	20% of base salary, and 100% match of deferred bonus
Median	10% of base salary, and 50% match of deferred bonus
Below median	Nothing vests

Notes:

1. Straight line pro-rata applies between median and upper quartile.

2. 50% of the amount of any deferred annual bonus is also forfeited if performance is below the lower quartile.

**Table 6/ LTIP vesting for CEO of BBC Worldwide**

LTIP Award	Bonus deferred £000	End of performance Period	LTIP award vested £000	Deferred bonus matching award vested £000	Total vested £000
	a		b	c	a+b+c
LTIP 2006 to 2009	–	March 2009	80	–	80

**Table 7/ LTIP potential vesting in 2010 and 2011 for CEO of BBC Worldwide**

LTIP Award	Bonus deferred £000	End of performance Period	Potential LTIP vesting (at target) £000	Potential LTIP vesting (at maximum) £000	Potential deferred bonus matching award (at target) £000	Potential deferred bonus matching (at maximum) £000	Total potential (at target) £000	Total potential (at maximum) £000
	a		b	c	d	e	a+b+d	a+c+e
LTIP 2007 to 2010	80	March 2010	40	80	40	80	160	240
LTIP 2008 to 2011	88	March 2011	40	80	44	88	172	256

Notes:

1. LTIP 2007-2010 for performance below lower quartile 100% of deferred bonus is forfeited.

2. Potential LTIP vesting is based on current earnings and rounded to nearest 1,000

The comparator group is selected for their mix of business, industry and geographical representation and comprises Aegis Group, British Sky Broadcasting Group, Emap, Informa, ITV, Pearson, Reuters Group, Taylor Nelson Sofres, WPP, Yell Group, Cablevision Systems Corp, Comcast A, Disney (Walt) Company, Eastman Kodak, Interpublic Group Cos, News Corp A, SBS Broadcasting, Time Warner, Pro Sieben Sat1, Axel Springer (R), Havas Advertising, JC Decaux, M6-Metropole Television, Publicis Groupe, TFI, Vivendi Universal, Arnoldo Mondadori, Mediaset, RCS Mediagroup, Jetix Europe, Dentsu Inc, Fuji Television Network, Nippon Television Network Corp, SKY Perfect Communications.

## Employment contracts

Employment contracts of executive directors have a notice period of a maximum of 12 months, and are subject to earlier termination for cause. As at 31 March 2009 the unexpired term of each executive director was a maximum of 12 months. There is no contractual entitlement to any additional remuneration in the event of early termination other than for reason of redundancy.

## Outside interests

Where there is no potential for conflict of interest, and with the prior agreement of the Director-General and the Nominations Committee, executive members of the Board may hold one remunerated external directorship with up to 15 days per year permitted to fulfil these duties. Remuneration which arises from directorships may be retained by the executive member. The policy encourages the take up of external non-executive appointments to support professional development and bringing broader business skills to the BBC. Executive directors may also hold non-remunerated external posts. During the year the Chief Operating Officer served as non-executive director of The Pensions Regulator until 28 February 2009 and retained the fees for this directorship as set out in table 8 below. The Board's register of interests can be obtained at [www.bbc.co.uk/info/running/executive/register.shtml](http://www.bbc.co.uk/info/running/executive/register.shtml) It is recognised that non-executive Directors are likely to have other directorships and the restrictions applying to executive directors do not apply to them.

Table 8/ External directorship fees

	Organisation	Payment received £000
COO	The Pensions Regulator	9

## EXECUTIVE BOARD RESPONSIBILITY STATEMENT

### Statement of Executive Board responsibilities in respect of the Annual Report and Accounts

The Charter requires that an annual report and statement of accounts is prepared in accordance with UK Generally Accepted Accounting Principles and audited. The Trustees' responsibilities are detailed in Part One of the Annual Report and Accounts. The Board is responsible for the preparation of an operating and financial review (this comprises the Executive Board's performance review and the financial overview), statements of compliance with applicable codes and regulations and the statement of accounts. As a result the Board is required to prepare a statement of accounts (or 'financial statements') for each year that gives a true and fair view of the state of affairs of the BBC and of the income and expenditure for that period.

In preparing those financial statements the Board is responsible for:

- selecting suitable accounting policies and then applying them consistently.
- making judgements and estimates that are reasonable and prudent.
- stating whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the BBC will continue in business, in which

case there should be supporting assumptions or qualifications as necessary.

In addition, the Board has elected to comply with the accounting and disclosure provisions of the Companies Act 1985 and, where applicable, the Financial Services Authority Listing Rules which apply to a company quoted on an EU regulated market except that International Financial Reporting Standards have not been adopted.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the BBC and enable them to ensure that the financial statements comply with the Charter and the applicable disclosure provisions of the Companies Act 1985. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the BBC and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the BBC's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board members who held office at the date of approval of the Annual Report and Accounts confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with UK Generally Accepted Accounting Principles, give a true and fair view of the assets, liabilities, financial position and surplus of the BBC and the undertakings including in the consolidation taken as a whole.
- the operating and financial review includes a fair review of the development and performance of the business and the position of the BBC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

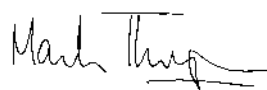
### Statement of disclosure of information to auditors

The Board members who held office at the date of approval of the Annual Report and Accounts confirm that, so far as they are each aware, there is no relevant audit information of which the BBC's auditors are unaware; and each member has taken all the steps that they ought to have taken as an Board member to make themselves aware of any relevant audit information and to establish that the BBC's auditors are aware of that information.

### Going concern

Although the BBC is not immune from the effects of the current economic environment, the Board believes the BBC is well placed to manage the risks effectively, and has adequate resources to continue in operation for the foreseeable future. As a result the going concern basis has been adopted in the preparation of the financial statements.

This statement was approved by the Board.



**Mark Thompson**  
Director-General  
18 June 2009