

BBC



FULL FINANCIAL STATEMENTS

2011/12

BBC FULL FINANCIAL STATEMENTS 2011/12

**Presented to Parliament by the Secretary of State
for Culture, Olympics, Media and Sport
by Command of Her Majesty**

July 2012

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CHIEF FINANCIAL OFFICER'S REVIEW

Careful financial management of the licence fee and our commercial businesses this year has put solid foundations in place for us to transform the way we work over the next five years and to enable us to afford our future obligations, as well as funding the landmark broadcast events of 2012.



Strong financial foundation

2011/12 has been a year in which we consolidated our financial position to prepare for future demands and challenges. It is a year when we have worked together across the BBC to develop the detailed plans for Delivering Quality First, not only to live within the means of our licence fee settlement, which cut funding by 16% in real terms, but also to go further and provide reinvestment into the key service developments our audiences will require of us.

Careful management of the BBC's finances has meant that as well as funding programmes and other content which have delivered record audience reach, we have taken early action to provide funding for future plans.

Our group surplus is inflated by two non-recurring items: the sale of BBC Worldwide's Magazines business (at a profit of £95million) and gains relating to our pension scheme (£45million). Therefore we have an underlying surplus of £249million. We need this to pay for increased programme spend in 2012 to cover the Olympics and the Diamond Jubilee, but also to cover the costs of implementing our efficiency plans, and of implementing the new ways of working through our digital media initiative and the move into New Broadcasting House. As well as the one-off profit on the disposal of the Magazines business, the group surplus includes £127million of profit generated by our commercial activities to be invested into programmes and to deliver future commercial revenues.

This result reflects an increase in licence fee income of £93million. £74million of which can be attributed to increased digital switchover activity. Underlying licence fee income collected rose by £19million due to an increase in household growth, albeit slower than the historical trends, but also reflecting our ability to hold evasion rates level despite difficult economic conditions and pressure on household budgets. This year we signed a new collection contract that reduces the cost of collection and looks at ways of lowering evasion rates in the future to offset the risk of slower rates of household growth.

Our overall cash balance was £262million, excluding £145million ring-fenced savings from our digital switchover activity (the Help Scheme

and Digital UK). The £145million is due for repayment to the Government and is on top of £214million we repaid this year from savings built up in earlier years of this programme. The public service cash balance will provide the necessary funding for the restructuring required to deliver the efficiencies and new ways of working needed for our Delivering Quality First plan. It will also fund our further pension deficit recovery payments and a planned increase in spend on content in this landmark year of the Olympics and the Diamond Jubilee at the level our audiences expect.

This year we have changed the presentation of our Annual Report and Accounts to make them simpler and to present the financial position of the BBC more logically.

Ready to deliver

We look forward to the financial challenges with a track record of success in delivering true efficiencies, not cuts. Our Continuous Improvement programme concluded its fourth and penultimate year by delivering £499million of continuing savings, bringing the cumulative total achieved to £1,498million. This translates to a projected out-turn equivalent to 3.6% average annual savings, exceeding the 3% target set by the Trust for this licence fee period. The National Audit Office (NAO) concluded positively on the programme this year when they examined it in detail.

In addition to the efficiency challenge, we cannot forget as we look forward that 2012/13 will be one of the biggest broadcasting years in the BBC's history, with audiences looking to us to cover the year's historic events with breadth, depth and quality.

Beyond 2012 there are significant challenges. We need sharp financial focus to manage the 16% reduction in our funding that is necessary to fund the additional financial obligations of BBC World Service, BBC Monitoring and S4C from the licence fee. I am confident that the BBC is in good financial shape to meet this challenge.

Zarin Patel
Chief Financial Officer
21 June 2012

SUMMARY FINANCIAL PERFORMANCE

UK PSB Group spend

- 71p in every £1 of licence fee was spent directly on programmes or the property and technology infrastructure to support their production ...
- ... and another 6p in every £1 is spent getting our services to audiences on analogue, Digital Terrestrial Television (DTT) and the internet
- The cost of collecting the licence fee is 3.4p per £1 collected

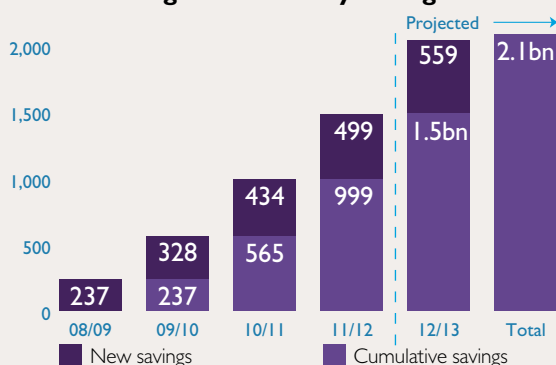
Breakdown of UK PSB Group expenditure 2011/12

	£m	%
Service licences – direct content spend	2,356	61
Other direct content spend	90	2
Distribution	208	6
Property and technology	315	8
Other infrastructure and support	304	8
Other items including licence fee collection and digital switchover	387	10
Restructuring costs	101	3
Pension deficit payment	89	2
Total	3,850	100

Efficiency savings

- £1.5billion of sustainable savings achieved since the start of the Continuous Improvement Programme without deterioration in quality of our content
- £559million of recurring annual efficiency savings
- We will exceed our 3% annual savings target
- Total gross savings are forecast to be £2.1billion (before implementation costs)

Cumulative gross efficiency savings £m



From 2012/13 we will deliver ongoing annual savings of £559million.

Commercial performance

- BBC Worldwide gross sales (excluding Magazines) up 5.4% on last year
- BBC World News advertising revenue holding steady in a tough market
- BBC S&PP continues to broaden its customer base
- BBC Worldwide returned a record £216million to Public Service Broadcasting during the year

	Commercial income		Headline profit	
	2011/12 £m	2010/11 £m	2011/12 £m	2010/11 £m
UK PSB Group including BBC World Service and BBC Monitoring*	230	213	n/a	n/a
BBC Worldwide**	1,085	1,030	155	144
BBC World News	70	72	4	9
Studios & Post Production (S&PP)	52	59	5	6

* Headline profit is not applicable to this Group.

** Commercial income excludes Magazines and includes joint venture revenue.

FINANCIAL OVERVIEW

With a licence fee fixed until 2017, the BBC might be regarded as being in a more stable position than other commercial businesses, but a fixed licence fee and new funding commitments (including BBC World Service) mean that the BBC licence fee funding is subject to 16% cuts in real terms.

As well as dealing with its own financial challenges, the BBC is not immune from the effects of the economic downturn:

- pressure on household budgets in the UK poses a continuing challenge for licence fee collection. We have held evasion at 5% for a number of years now through targeted collection and helping licence fee payers find their most suitable method of payment
- difficult trading conditions in some markets have put pressure on the BBC's commercial operations, mitigated to some extent by successes in new markets
- significant inflationary pressures have to be managed through the delivery of efficiency
- BBC World Service has seen reductions to its grant-in-aid funding in line with the rest of the public sector
- the low returns available on the world's financial markets place significant pressure on all pension schemes, including the BBC's

We have faced these challenges by bearing down on our costs and reviewing our business models. In addition to the efficiency plans we are putting in place, which are reviewed later in this section, a number of other initiatives have been implemented. A new contract has been signed for licence fee collection and we continue to offer a number of methods to pay the fee.

The BBC earns a return on its programmes through BBC Worldwide. BBC Worldwide reinvests part of its profit into ensuring that it is not left behind by the digital transformation we are seeing in commercial media markets.

We have restructured many of our strategic contracts to remove automatic indexation based on published inflation rates.

A pension deficit repayment plan continues to be followed to ensure that our pension scheme is brought back into equilibrium in a way that is fair both to our staff and to current and future licence fee payers and audiences.



The Choir: Military Wives scored BBC Two's highest AI score (93).

We are proud of the fact that the BBC's financial structures and plans will ensure that the BBC remains strong, despite these pressures. No services will close as a result of the plans, and the services which our audiences value the most will be largely protected. We continue to focus resources on the editorial priorities we know matter most to our audiences.

Our efficiency achievements this year

As well as planning our future efficiencies under Delivering Quality First, we have continued to deliver sustainable efficiency savings under our Continuous Improvement programme, which has now completed its fourth and penultimate year.

This year, we delivered another £499million worth of savings, bringing the cumulative total achieved since 2008/09 to £1,498million. Our full programme is on track to exceed the Trust's target of 3% average annual efficiencies, with a projected out-turn of 3.6%, and total predicted cumulative savings in excess of £2billion by the end of 2012/13. This has been delivered without compromising the quality of our output and whilst delivering record audience appreciation figures.

Our annual savings achievement is reviewed by our auditors, KPMG LLP. Additionally, and for the first time, the NAO examined Continuous Improvement this year. Their report, issued in November 2011, commended the programme and the way it was managed. It confirmed that we were on track to exceed our target, helped by clear incentives for management to deliver the savings targets set for their divisions. They also made useful recommendations on identifying cross-divisional initiatives and for further improvements to performance tracking. We are applying these findings to the design of Delivering Quality First.

Efficiency savings by category

Category	% of total savings
People Refocusing to get the right mix of people to continue to deliver distinctive output that audiences value. We are committed to a real-term reduction in talent spend.	13%
Production and process improvement Using innovative technology to improve how we do things and minimise costs across our operations, from scheduling to shooting.	29%
Procurement and contracts Releasing funds for programmes and content with savings from bulk buying, outsourcing and renegotiating contracts.	23%
Property and technology Transforming the way we work, for example using tapeless, digital production to make multiplatform content more efficiently than ever before.	7%
Optimising content quality Delivering Quality First builds on our existing efficiency programme, with a focus on more effective allocation of commissioning spend to deliver maximum audience impact.	28%

The successful delivery of Continuous Improvement shows that the BBC has embedded a culture of efficiency into its operations that we can build on to deliver the ever more challenging savings required in the future.

BBC World Service

2011/12 was the first year to reflect the outcome of the 2010 Comprehensive Spending Review for BBC World Service, and BBC World Service has been focused on delivering the first tranche of savings as announced in January 2011. Around 450 posts were closed in the year, although higher levels of redeployment than originally projected have provided significant savings on implementation costs.

FINANCIAL OVERVIEW CONTINUED

Summary Consolidated Income Statement

For the year ended 31 March 2012

	2012 £m	2011 £m	
Licence fee income	3,606	3,513	Income has risen because of increased digital switchover activity and limited growth in household numbers
Other income and revenue	1,480	1,480	Commercial income has held up in a challenging economic climate
Total income	5,086	4,993	
Operating costs (excluding restructuring costs and exceptional pension income)	(4,750)	(4,789)	Despite significant inflationary pressures and increased digital switchover activity, costs have remained broadly stable, reflecting the impact of our efficiency and savings programmes
Exceptional pension gain	45	250	Exceptional pension gain results from the finalisation of pension scheme members' decisions under the recent pension reform
Restructuring costs	(103)	(63)	Restructuring costs relate primarily to Delivering Quality First initiatives
Total operating costs	(4,808)	(4,602)	
Share of results of associates and joint ventures	21	27	
Gain on sale of operations and disposal of fixed assets	100	96	The gain this year results principally from the sale of BBC Worldwide's Magazines business
Tax and net financing income	(10)	(31)	
Group operating surplus	389	483	

Income Statement

Our results this year show how we have continued to manage successfully our financial challenges, and make sound preparations for the future. This is reflected in the Income Statement for the year.

Our group surplus was £389million. This included a £45million actuarial gain resulting from finalising the benefits of pension reform undertaken in the previous year, and a profit of £95million from the disposal of BBC Worldwide's Magazines business. This sale represents a further move in focusing commercial activities on BBC-branded channels and platforms.

After excluding these two items, the underlying surplus was £249million, or 4.9% of our gross income. Our licence fee funding is managed over the licence fee period, and costs will not match income in all years. The surplus this year reflects savings made to cover the future anticipated costs of increased broadcast expenditure in 2012 (Olympics, Diamond Jubilee, European football championships) but also restructuring provisions to enable the delivery of savings in future years and to fund major projects like the move to New Broadcasting House and the new digital ways of working. In our recently published Workplan for 2012/13, we are projecting a deficit of £137million for the year, which this year's surplus will fund.

Licence fee income

Licence fee income increased by £93million this year, despite the freeze in the licence fee. Included within the annual licence fee is a sum to fund the activities of the Digital Switchover Help Scheme as well as Digital UK. Underspend within this funding have to be repaid to the Government and are therefore netted from our income. Digital switchover activity was greater this year than last year, and accounted for £74million of the £93million increase in our income. The remainder was the result of modest household growth. We have also held licence fee evasion rates at their prior year level despite pressure on household budgets by targeting our collection activity and by highlighting easier ways to pay to licence fee payers.

Commercial operations

The licence fee is supplemented by income from the commercial exploitation of licence fee funded content and infrastructure through three commercial subsidiaries – BBC Worldwide, BBC World News and BBC Studios & Post Production (S&PP).

As a result of its activities in 2011/12, BBC Worldwide returned a record £216million of cash to the BBC (2010/11: £182million), equivalent to 6% of licence fee income. Despite unpredictability in some of its markets, the company has continued to grow. Underlying sales (excluding sales of Magazines) increased 5.4% to £1,085million and the headline profit (excluding exceptional items) increased to £155million.

During the year, BBC Worldwide wrote down the carrying value of its investment in Lonely Planet by £16million. This was caused by continued appreciation of the Australian dollar. At the date of the annual impairment review in January 2012, the Australian dollar was at a 28-year high against sterling. Lonely Planet management have taken steps to reduce the company's Australian cost base to mitigate the potential impact of further appreciation.

BBC World News continued to deliver high-quality journalism to an international audience. Although both revenue and profits fell slightly overall in the face of tough economic conditions, advertising revenue in particular came under pressure. Distribution revenue fared better and was able to show a small improvement. The company also benefited from the first full year of a significant cost saving plan.

In a difficult trading environment, S&PP recorded a headline profit of £5million this year. The company continued to broaden its customer base, compensating for the loss of income after BBC Sport and Children's activities relocated to Salford where S&PP has no operating base.



The BBC Proms were broadcast live on BBC Radio 3 with over 300,000 people attending the concerts.

FINANCIAL OVERVIEW CONTINUED

UK Public Service Broadcasting (UK PSB) Group Expenditure

Service	Content £m	Distribution £m	Infrastructure/ support £m	2012 Total £m	2011 Total £m
BBC One	1,041.1	54.8	241.7	1,337.6	1,400.8
BBC Two	416.6	19.3	101.2	537.1	527.4
BBC Three	83.8	4.4	24.7	112.9	110.0
BBC Four	49.2	3.5	15.1	67.8	67.0
CBBC	81.9	3.6	21.8	107.3	99.2
CBeebies	29.2	3.9	9.3	42.4	39.7
BBC HD	1.2	15.0	1.6	17.8	11.8
BBC ALBA	5.0	1.7	1.3	8.0	7.6
BBC News Channel	42.4	6.9	8.2	57.5	61.0
BBC Parliament	2.1	5.8	1.4	9.3	8.0
BBC Red Button	13.5	18.3	5.4	37.2	39.5
Television	1,766.0	137.2	431.7	2,334.9	2,372.0
BBC Radio 1	38.4	4.6	7.6	50.6	48.1
BBC Radio 2	47.2	4.6	8.7	60.5	59.1
BBC Radio 3	37.8	4.7	10.0	52.5	50.7
BBC Radio 4	88.1	8.6	19.2	115.9	119.7
BBC Radio 5 Live	51.1	5.8	12.4	69.3	72.8
BBC Radio 5 Live Sports Extra	2.6	1.2	1.5	5.3	4.9
BBC iXtra	7.2	1.3	2.6	11.1	11.0
BBC 6Music	7.8	1.3	2.6	11.7	10.7
BBC Radio 4 Extra	5.0	1.3	1.9	8.2	8.2
BBC Asian Network	8.5	1.5	3.0	13.0	12.6
BBC Local Radio	112.7	8.1	25.7	146.5	147.3
BBC Radio Scotland	23.2	3.0	5.9	32.1	32.3
BBC Radio nan Gàidhail	3.6	1.4	1.0	6.0	6.1
BBC Radio Wales	13.0	1.5	3.2	17.7	17.0
BBC Radio Cymru	11.4	1.6	2.9	15.9	16.0
BBC Radio Ulster/BBC Radio Foyle	17.3	2.0	4.5	23.8	21.6
Radio	474.9	52.5	112.7	640.1	638.1
BBC Online	115.3	18.7	52.8	186.8	193.9
Online	115.3	18.7	52.8	186.8	193.9
Spend regulated by service licence	2,356.2	208.4	597.2	3,161.8	3,204.0

The largest element of the BBC's expenditure is the cost of programmes and other content supplied to audiences and users under the 28 service licences the Trust uses to hold BBC management to account.

Total content spend by service shows that our spending reduced to £2,356million (2010/11: £2,475million). This reflects the ongoing impact of our efficiency programme, and the normal biennial cycle of broadcasting costs with the previous year including the football World Cup and no equivalent event in 2011/12.

No service licences spent above the permitted baseline budget threshold during 2011/12. Five services underspent by more than 10%:

- the BBC HD channel benefited from falling costs of high-definition productions
- BBC iXtra, BBC Radio 5 Live and BBC Radio 4 Extra secured early Delivering Quality First savings
- BBC Red Button spent less than budgeted because of a decision to defer some transmissions until 2012/13, coupled with efficiencies from relocation to Salford

In all cases the delivery of savings did not compromise the editorial performance of the relevant services.

During the year, the continuing delivery of efficiencies led headcount to reduce in both licence fee funded operations of the BBC and in commercial subsidiaries. Staff numbers in the BBC Group reduced by 4.2% to 21,940 from 22,899 in the year and salaries and wages paid to staff reduced by 2.1%. In the UK PSB Group, staff numbers reduced by 2.2% to 16,858 from 17,242, and there was a 0.8% fall in the pay-bill (excluding restructuring costs and pension deficit recovery payments).

Total Public Service Broadcasting Group expenditure

	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	2012 Total £m	2011 Total £m
Spend regulated by service licence	2,356.2	208.4	597.2	–	3,161.8	3,204.0
Licence fee collection costs	–	–	–	126.1	126.1	123.6
Orchestras and performing groups	23.6	–	5.4	–	29.0	24.0
S4C	23.2	–	6.0	–	29.2	32.2
Research and development spend	42.7	–	9.8	–	52.5	32.8
UK PSB Group pension deficit reduction payment	–	–	–	89.1	89.1	–
Costs incurred to generate intra-group income	–	–	–	156.8	156.8	152.6
Costs incurred to generate third-party income	–	–	–	55.9	55.9	64.6
Other content-related spend	89.5	–	21.2	427.9	538.6	429.8
Restructuring costs	–	–	–	100.6	100.6	29.6
Total UK public services content expenditure	2,445.7	208.4	618.4	528.5	3,801.0	3,663.4
Digital switchover (Digital UK Limited)	–	–	–	40.8	40.8	25.0
Digital switchover (DSHS Limited)	–	–	–	89.7	89.7	55.3
Total UK PSB Group expenditure	2,445.7	208.4	618.4	659.0	3,931.5	3,743.7
Lease reclassification	–	–	–	(81.7)	(81.7)	(58.2)
UK PSB Group expenditure	2,445.7	208.4	618.4	577.3	3,849.8	3,685.5

Infrastructure and support costs are made up of:

	2012 £m	2011 £m
Property	186.9	150.0
HR and training	46.2	48.8
Policy and strategy	9.6	10.8
Finance and business	56.8	61.3
Marketing, audiences and communication	72.0	70.5
Executive Unit	2.7	4.4
Total central costs	374.2	345.8
Technology	128.0	85.8
Libraries, learning support and community events	36.1	38.6
Divisional running costs	63.7	63.3
BBC Trust Unit (excluding restructuring)	11.9	13.3
Other	4.5	(5.4)
Total infrastructure/support costs	618.4	541.4

Central department costs have all reduced this year in real terms.

The two exceptions are Property and of Technology, which reflect directly the significant investment the BBC has been making in both its technology and its operating infrastructure in recent years (e.g. MediaCityUK, Broadcasting House in London W1, Digital Media Initiative). As a direct consequence of this investment, annual depreciation and running costs in property and technology have increased this year.

This investment is essential to support the new ways of working and to provide the technological capacity, to enable the BBC to produce the dynamic content our audiences and users require in a digital economy where the platforms used to consume content have, and will continue to, develop rapidly. As we implement plans to reduce our property footprint we have to bear the costs of vacant production sites, both as we ready them for use and up to the point of disposal. These surplus property expenses are included in infrastructure and support. The disposal of sites (Television Centre (TVC), White City) in the coming years will deliver significant savings against current cost levels.

FINANCIAL OVERVIEW

CONTINUED

Summary Consolidated Balance Sheet

For the year ended 31 March 2012

	2012 £m	2011 £m
Non-current assets	1,920	1,947
Current assets	2,069	2,052
Current liabilities	(1,259)	(1,314)
Non-current liabilities (excluding pension liabilities)	(1,206)	(1,357)
Net assets (excluding pension liabilities)	1,524	1,328
Net pension liabilities	(1,179)	(927)
Net assets	345	401
Represented by		
BBC reserves	338	394
Non-controlling interests	7	7
	345	401

Many of our building and technology projects of recent years are now operational which has increased depreciation. This has led the value of non-current assets to reduce. TVC has been reclassified as a current asset 'held for sale'

The estimate of the pension scheme's net liabilities reflects changes to scheme benefits, the deficit reduction payments and changes in the market valuation of assets

Balance sheet

Plant property and equipment (PP&E)

This has been a year of significant further progress in developing our operating estate and technology to deliver ongoing savings through new technology and collaborative working, as well as enhancing programme output. The year saw the opening of MediaCityUK in Salford and our new Drama Village at Roath Lock in Cardiff. Additionally, BBC World Service has commenced operation from New Broadcasting House in London W1. The Fabric project (our new digital production system) has led development of our technology infrastructure. In total £175million was invested this year, with W1 (£44million), North (£37million) and Fabric (£38million) as the key constituents.

As these new properties and technology infrastructure become operational, we start to incur depreciation and the additional cost, combined with the transfer to current assets of TVC, as an asset held for sale, means there is a net reduction in the book value of our PP&E this year. Our depreciation charge increased by £20million this year as a direct consequence of our investment in our property and technology infrastructure.

The significant operating facilities we now have in Salford, Glasgow and Cardiff mean the BBC is in a strong position to meet our target of spending 50% of the network TV budget outside of London by 2016.

Pensions liabilities

Financial markets experienced a volatile year in 2011/12 as investors worried about the possibility of a double-dip recession in the developed world, a 'hard landing' in China, and the future of the Eurozone. Bond markets performed particularly strongly, and conventional fixed-coupon Gilt yields fell to what was reported to be their lowest level in 300 years.

Gilt yields are used to calculate the discount rate for future liabilities of our pension scheme, and their fall from last year has caused the current value of these liabilities to increase. This is an issue that all other defined benefit schemes face in the current economic environment. This increase in the value of the scheme's liabilities was the primary driver behind a rise in the accounting valuation of the pension scheme deficit to £1,179million at the year end, from £927million 12 months earlier. The next formal actuarial valuation of the scheme is due in April 2013, and we continue to fulfil our obligations under the agreed deficit reduction plan with the pension scheme trustees, making annual payments of between £60million and £100million through to 2021/22.

Twelve months ago, the BBC was in the middle of significant pension reforms to reduce the burden of future pensions on the licence fee. Consequently, we had to make assumptions on the choices that staff would be making between the different options. We now know what the final choices staff made are, and this has resulted in a higher saving than we initially projected so we have recognised a further curtailment gain of £45million in this year's accounts.

Restructuring provision

The Group has provided £103million of restructuring costs this year, primarily relating to those of our Delivering Quality First plans which are sufficiently advanced to have been communicated to staff and other key stakeholders. This is essential enabling expenditure for the delivery of our long-term target of £700million of annual savings. Further provisions are expected in 2012/13 as other divisions develop their implementation plans to the point of communication.

Summary Consolidated Cashflow Statement

For the year ended 31 March 2012

	2012 £m	2011 £m
Net cash inflow from operating activities	266	475
Net cash outflow from investing activities	(203)	(146)
Net cash outflow from financing activities	(136)	(113)
Net (decrease)/increase in cash and cash equivalents	(73)	216
Cash and cash equivalents at the beginning of the year	513	264
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	(1)
Movement in cash held as restricted funds	(32)	34
Cash and cash equivalents at the end of the year	407	513

The Group's operating cash surplus before depreciation and amortisation. The reduction reflects the lower operating surplus, plus increased programme inventory

This increase primarily relates to the purchase of additional intangible assets of £53million from the prior year

This is primarily interest paid on property leases

2012 figure represents:
£145million digital underspend;
£33million commercial companies;
£229million UK PSB Group, BBC
World Service and BBC Monitoring

Programmes for future transmission

The balance sheet also reflects a 11.7% increase in the value of completed programmes, programmes in production, and advance payments for sports rights. This increase reflects a build-up of our stock of special programmes and contracted sports rights for a year that will bring the London Olympics and the celebration of the Queen's Diamond Jubilee to BBC audiences.

Summary Consolidated Cashflow statement

Our overall cash balance was £262million at the end of the year, excluding £145million ring-fenced savings from our digital switchover activity (both Digital Switchover Help Scheme and Digital UK). Of this, £33million is held by our commercial operations for investment in their development. The remaining £229million cash balance will provide:

- the accumulated funding for £107million of restructuring cost provisions to deliver efficiencies and new ways of working, primarily as part of the Delivering Quality First plan (£82million provided to date for Delivering Quality First, but will increase as plans develop further)
- further annual pension deficit recovery payments (next payment due is £60million)
- a planned increase in spend on content in this landmark year of the Olympics and the Diamond Jubilee
- the costs of moving into and occupying New Broadcasting House in W1 and completion of our digital production system for television (Fabric)

Digital Switchover Help Scheme

The Help Scheme is run by the BBC to support older and disabled people through digital TV switchover. Designing and implementing a nationwide social care programme has been a new undertaking for the BBC. More than 1.2 million people have taken up this practical assistance as switchover has rolled out region

by region through the UK with just Tyne Tees and Northern Ireland remaining. Both value for money and customer services targets have been exceeded.

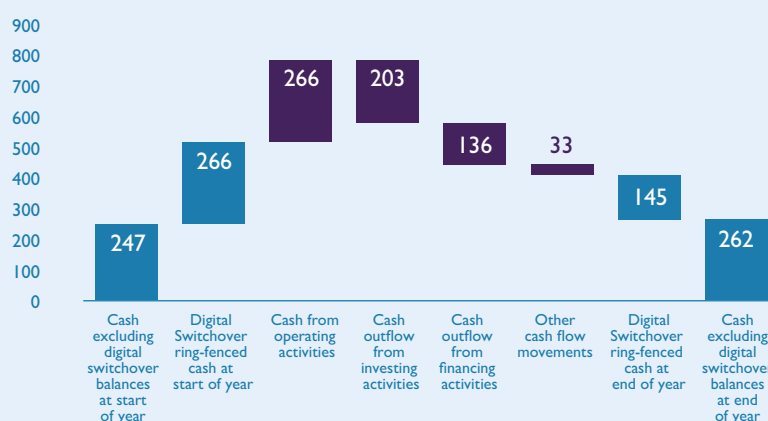
Many of the people eligible for help with converting their television for digital switchover had already switched before the Help Scheme reached their area. As a result, spending on support for digital switchover has been lower than expected, and we will return the part of the licence fee cash that was ring-fenced for this purpose by the Department for Culture, Media and Sport (DCMS).

At the end of 2010/11, the amount due to the DCMS was £266million, and reflecting the repayment plan agreed, we returned £214million during 2011/12. We made further savings of £93million on the scheme during 2011/12, leaving a projected £145million due for repayment overall, £92million of which will be repaid in the coming year.

Delivering Quality First

As already described, our Delivering Quality First savings plans will require upfront restructuring costs to deliver the savings. This will involve payment of redundancy costs, as well as some further investment in new technology. To fund these exceptional items of expenditure, we need to set aside the cash now.

Movements in cash £m



COLLECTING THE LICENCE FEE

The unique relationship between the BBC and its audiences has at its core the way in which the BBC is funded. The BBC needs to maintain the trust of licence fee payers in the way that we look after their money. As well as spending the licence fee as efficiently as possible on programmes and services that our audiences value, we also need to make sure that we make it easy to pay for everyone who is required to have a television licence.

Our new collection contract with Capita starts in July 2012, and contains incentives to reduce evasion while maintaining perceptions of fairness. We believe that targeting lower evasion rates, together with making savings on the contract, will more than compensate for slower household growth going forward than historically experienced. The eight-year contract will also deliver savings in our collection costs of £220million (based on existing collection rates), meaning that more money will be available to spend on programmes and services.

The savings have been made possible by the success of our campaigns to encourage the use of web-based self-service options for licence fee payers managing their account, and by the high proportion of licence fee payers now paying by Direct Debit.

Capita will carry out further improvements to the TV Licensing website, making it even easier for licence fee payers to interact with TV Licensing in a way which suits them.

At the same time, we will continue to offer the cash payment schemes valued by many of our customers.

For the second year, we have prepared a licence fee revenue statement. This account sets out the amounts we collected during the year, and paid over to the DCMS. The NAO audits the statement. Alongside its audit work, the NAO examines an aspect of our collection arrangements and reports on it to Parliament. This year, the NAO looked at licence expiry and renewal processes including cancellations, refunds, and licence fee concessions.



BBC Radio 4's *The Reith Lectures*, in 2011 entitled *Securing Freedom*, featured the Burmese pro-democracy leader Aung San Suu Kyi.

LOOKING FORWARD WITH CONFIDENCE

In the face of many challenges, 2011/12 can be seen to have been a strong one for the BBC financially, and it has put the organisation in excellent shape to deliver on its future challenges, specifically:

- to make 2012 a year of truly exceptional output in this 'once in a generation' year
- to complete the delivery of the moves to London W1 and Salford, making them far more than relocations, but projects which drive new ways of working to make sure the BBC can deliver against the further challenges to come
- to deliver £700million of savings to enable the BBC to live within its means following the licence fee settlement in 2010
- to be in stable financial shape for the Charter renewal discussions in 2017

We have committed through Delivering Quality First to deliver £700million per annum of sustainable savings by the end of 2016/17, equivalent to 20% of what we currently spend. This will enable us to take over funding through the licence fee of BBC World Service, BBC Monitoring and S4C and to support local TV channel development as well as the roll-out of broadband in the UK. In total these new commitments are equivalent to 16% of our 2011/12 costs. An additional 4% of savings will provide a reinvestment fund to enable us to keep pace with the latest technology and meet ever more demanding audience expectations. All this will have to be achieved with a licence fee frozen until 2016/17 and in an uncertain economic climate with inflation remaining high.

Putting together a plan to deliver these savings, whilst minimising the impact on our audiences, will demand some difficult choices. That is why we are focusing spend on our five editorial priority areas:

- the best journalism in the world
- inspiring knowledge, culture and music
- ambitious UK drama and comedy
- outstanding children's content
- content that brings together the nation and communities.

In line with this, we have chosen to broadly maintain current levels of spending on BBC One, BBC Radio 4, CBBC and CBeebies. We will reduce spending on the BBC Two daytime schedule, and focus the remit of BBC Four on science and the arts.

A key feature of the programme is that support areas of the BBC will make disproportionately higher savings of 25% by 2016/17, in order to protect our programme-making divisions as far as possible. We will also seek to further reduce our property footprint by a third and ultimately vacate West London entirely. This process will begin in 2013 with our exits from TVC and the original White City building. By moving our London-based journalists into New Broadcasting House we will also provide new opportunities to share facilities and material between domestic and international teams, increasing the efficiency of both.



Celebrating the stars: *Stargazing Live* presenters Prof Brian Cox and Dara O'Briain. The programme formed part of the BBC Outreach activity.

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

We have audited the group financial statements of the BBC for the year ended 31 March 2012 set out on pages F15 to F90. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. 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 that is described as having been audited, which the Executive Board have decided to prepare as if the BBC were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

This report is made solely to the Trustees 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 opinions 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 directors and auditor

As explained more fully in the Trustees' and Executive Board responsibilities Statements set out on page F91, the Executive Board are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view.

Our responsibility, in accordance with the terms of our engagement letter, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the BBC's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent

material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2012 and of its surplus for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU;

Opinion on other matters prescribed by the terms of our engagement

In our opinion:

- the information given in 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 Report is consistent with the group financial statements; and
- the parts of the Remuneration Reports which we were engaged to audit have been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the BBC.

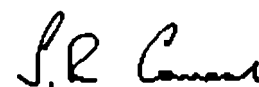
Matters on which we are required to report by exception by the terms of our engagement

We have nothing to report in respect of the following:

Under the terms of our engagement we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

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. Under the terms of our engagement we are required to review:

- the Executive Board statement, set out on page F91, in relation to going concern; and
- the part of the Corporate Governance Statement included in Part Two of the Annual Report and Accounts relating to the BBC's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.



Scott Cormack
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
21 June 2012

INTRODUCTION

THE BBC'S CONSOLIDATED FINANCIAL STATEMENTS

We have made a change in the way the accounts are presented from the past to make it clearer to the licence fee payer and other stakeholders how we have maintained stewardship of the assets and monies of the BBC.

With the aim of improving comprehension, but within accounting guidelines, we have used plain English to support and explain the numerical disclosures required to clarify the picture which the financial statements portray.

These financial statements comprise both the primary statements and additional supporting disclosure notes. The primary statements are:

- **Consolidated income statement** The income the BBC earns and expenditure incurred in running the Group's operations during the year.
- **Consolidated statement of comprehensive (loss)/income** Items of income and expense, including reclassification adjustments that are not directly recognised in the income statement and hence go straight to reserves.
- **Consolidated balance sheet** The financial position of the BBC at a specific point in time, the financial year end. The statement sets out the assets and liabilities of the Group.
- **Consolidated statement of changes in equity** Components that make up the capital and reserves of the Group and sets out the movement of each component during the financial year.
- **Consolidated cash flow statement** Cash generated by the BBC from its operations and how those cash flows have been used by the group.

We have regrouped the disclosures required by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the EU (IFRS) and under the Royal Charter (the "Charter") into the key themes of the BBC's activities during the financial year.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

CONSOLIDATED INCOME STATEMENT

	Note	2012 £m	2011 £m
Licence fee income	1a	3,606.3	3,513.4
Other income	1a	1,480.2	1,479.6
Total income	1a	5,086.5	4,993.0
Operating costs excluding restructuring costs and exceptional pension income		(4,750.0)	(4,789.4)
Exceptional pension income	3gii	45.0	250.4
Restructuring costs	3c	(103.4)	(63.3)
Total operating costs	1a	(4,808.4)	(4,602.3)
Group operating surplus		278.1	390.7
Gain on sale and termination of operations	5c	95.0	96.4
Gain on disposal of fixed assets	4d	4.8	–
Share of results of associates and joint ventures	5d	21.3	26.6
Financing income	6i	655.8	613.6
Financing costs	6i	(631.4)	(606.8)
Net financing income	6i	24.4	6.8
Surplus before taxation		423.6	520.5
Taxation	7b i	(34.5)	(37.6)
Surplus for the year		389.1	482.9
Attributable to:			
BBC		383.9	477.6
Non-controlling interests		5.2	5.3
Surplus for the year		389.1	482.9

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 future expenditure.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

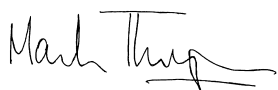
	Note	2012 £m	2011 £m
Group surplus for the year		389.1	482.9
Other comprehensive (loss)/income:			
Exchange differences on translation of foreign operations		1.7	(5.8)
Cash flow hedges		0.5	(0.2)
Recycling of cumulative currency translation reserve on disposal		(0.7)	–
Actuarial (loss)/gain on defined benefit pension schemes	3gii	(460.7)	303.6
Fair value gain on asset available for trading	4b	18.3	76.9
Other		–	0.9
Other comprehensive (loss)/income net of tax		(440.9)	375.4
Total comprehensive (loss)/income for the year		(51.8)	858.3
Attributable to:			
BBC		(57.0)	853.0
Non-controlling interests		5.2	5.3
Total comprehensive (loss)/income for the year		(51.8)	858.3

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

CONSOLIDATED BALANCE SHEET

	Note	2012 £m	2011 £m
Non-current assets			
Intangible assets (including goodwill)	5a	289.4	265.6
Property, plant and equipment	4a	1,451.8	1,513.9
Interests in associates and joint ventures	5d	31.3	36.5
Other receivables	6f i	30.6	25.9
Assets available for trading	4b	100.9	76.9
Derivative financial instruments	7d ii	2.3	1.9
Deferred tax assets	7b iv	13.4	25.9
		1,919.7	1,946.6
Current assets			
Programme-related assets and other inventories	2e	691.7	619.2
Trade and other receivables	6f ii	875.2	861.5
Assets classified as held for sale	7a	90.9	50.3
Derivative financial instruments	7d ii	3.4	8.0
Cash and cash equivalents	6a	407.3	513.4
		2,068.5	2,052.4
Current liabilities			
Trade and other payables	6g i	(1,118.3)	(1,130.6)
Borrowings	6c i	(36.8)	(23.2)
Provisions	6h	(86.1)	(103.7)
Liabilities classified as held for sale	7a	–	(36.5)
Derivative financial instruments	7d ii	(4.2)	(5.8)
Current tax liabilities		(13.1)	(14.6)
		(1,258.5)	(1,314.4)
Non-current liabilities			
Other payables	6g ii	(73.6)	(197.2)
Borrowings	6c ii	(1,052.9)	(1,089.4)
Provisions	6h	(68.0)	(45.7)
Derivative financial instruments	7d ii	(5.9)	(7.6)
Deferred tax liabilities	7b iv	(6.0)	(16.9)
Pension liabilities	3g i	(1,178.6)	(926.8)
		(2,385.0)	(2,283.6)
Net assets			
		344.7	401.0
Attributable to the BBC:			
Operating reserve		209.2	286.0
Other reserve		–	–
Available-for-sale reserve		95.2	76.9
Hedging reserve		1.0	0.5
Translation reserve		32.1	31.1
		337.5	394.5
Non-controlling interests		7.2	6.5
Total capital and reserves			
		344.7	401.0

The financial statements were approved by the Executive Board on 21 June 2012 and signed on its behalf by:



Mark Thompson Director-General



Zarin Patel Chief Financial Officer

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Operating reserve £m	Other reserve £m	Available-for- sale reserve £m	Hedging reserve £m	Translation reserve £m	Total £m	Non- controlling interests £m	Total equity £m
At 31 March 2010	(469.7)	(36.3)	–	0.5	35.6	(469.9)	15.6	(454.3)
Profit for the year	477.6	–	–	–	–	477.6	5.3	482.9
Exchange differences on translation of foreign operations	–	–	–	(0.1)	(5.7)	(5.8)	–	(5.8)
Cash flow hedges	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Actuarial gain on defined benefit pension scheme	303.6	–	–	–	–	303.6	–	303.6
Fair value gain on available for sale asset	–	–	76.9	–	–	76.9	–	76.9
Other	0.9	–	–	–	–	0.9	–	0.9
Total comprehensive income/(loss) for the year	782.1	–	76.9	(0.3)	(5.7)	853.0	5.3	858.3
Dividends paid	–	–	–	–	–	–	(3.0)	(3.0)
Exercise of put option over non-controlling interests	(26.4)	37.5	–	0.3	–	11.4	(11.4)	–
Transfer of foreign exchange movement on put option	–	(1.2)	–	–	1.2	–	–	–
At 31 March 2011	286.0	–	76.9	0.5	31.1	394.5	6.5	401.0
Profit for the year	383.9	–	–	–	–	383.9	5.2	389.1
Exchange differences on translation of foreign operations	–	–	–	–	1.7	1.7	–	1.7
Cash flow hedges	–	–	–	0.5	–	0.5	–	0.5
Recycling of cumulative currency translation reserve on disposal	–	–	–	–	(0.7)	(0.7)	–	(0.7)
Actuarial loss on defined benefit pension scheme	(460.7)	–	–	–	–	(460.7)	–	(460.7)
Fair value gain on available for sale asset	–	–	18.3	–	–	18.3	–	18.3
Total comprehensive (loss)/income for the year	(76.8)	–	18.3	0.5	1.0	(57.0)	5.2	(51.8)
Dividends paid	–	–	–	–	–	–	(4.5)	(4.5)
At 31 March 2012	209.2	–	95.2	1.0	32.1	337.5	7.2	344.7
Represented by:								
General Group reserves	54.6	–	95.2	1.0	32.1	182.9	7.2	190.1
BBC World Service and BBC Monitoring reserves	154.6	–	–	–	–	154.6	–	154.6
	209.2	–	95.2	1.0	32.1	337.5	7.2	344.7

UK Public Service Broadcasting (UK PSB) Group, 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 and BBC Monitoring activities.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

CONSOLIDATED CASH FLOW STATEMENT

	Note	2012 £m	2011 £m
Operating activities			
Cash generated from operating activities	6e	299.8	506.4
Tax paid		(33.5)	(31.5)
Net cash from operating activities		266.3	474.9
Investing activities			
Interest received		5.8	9.0
Dividends received from associates and joint ventures		18.8	43.8
Proceeds from sale of operations		111.1	109.5
Proceeds from disposal of property, plant and equipment		10.3	–
Acquisition of non-controlling interests		–	(41.7)
Acquisition of assets held for sale		(4.6)	–
Acquisition of investments		(0.6)	–
Acquisition of interests in associates and joint ventures		(1.8)	(3.7)
Drawdown of loan by joint venture		–	2.2
Purchases of other intangible assets		(168.1)	(115.1)
Purchases of property, plant and equipment		(174.3)	(149.6)
Net cash used in investing activities		(203.4)	(145.6)
Financing activities			
Interest paid		(15.5)	(13.9)
Proceeds from increase in borrowings		75.8	100.0
Repayments of borrowings		(90.4)	(102.3)
Payments of obligations under finance leases		(101.2)	(94.0)
Dividends paid to non-controlling interests		(4.5)	(3.0)
Net cash used in financing activities		(135.8)	(113.2)
Net (decrease)/increase in cash and cash equivalents		(72.9)	216.1
Cash and cash equivalents at beginning of the year	6a	513.4	263.9
Effect of foreign exchange rate changes on cash and cash equivalents		(0.9)	(0.6)
Repayment of overdraft		(0.3)	–
Movement in cash held as restricted funds		(32.0)	34.0
Cash and cash equivalents at the end of the year	6a	407.3	513.4

KEY THEMES FOR THE BBC

	Page
1. Where the BBC's funding comes from	F21
<ul style="list-style-type: none">• Income and operating results• Licence fee income• Contribution of commercial operations	
2. How the BBC spends the funds	F25
<ul style="list-style-type: none">• Total operating costs• Auditor remuneration• UK PSB Group expenditure by service• Analysis of total operating costs by activity• Programme-related assets and other inventories• UK PSB ring-fenced expenditure	
3. What the BBC spends on its people	F31
<ul style="list-style-type: none">• Persons employed• Employee remuneration• Restructuring costs• Key management personnel compensation• Related party transactions with key management personnel• Group pension plans	
4. The property, technology and equipment used by the BBC to make its programmes	F39
<ul style="list-style-type: none">• Property, plant and equipment• Assets available for trading• Property assets classified as held for sale• Gain on disposal of fixed assets• Obligations under finance leases• Operating leases• Property provisions	
5. Investments in the BBC's commercial activities	F43
<ul style="list-style-type: none">• Intangible assets• Goodwill• Gain on sale and termination of operations• Interests in associates and joint ventures	
6. Managing funding (including future costs)	F48
<ul style="list-style-type: none">• Analysis of net funds• Borrowings and borrowing facilities• Cash generated from operations• Trade and other receivables• Trade and other payables• Provisions and contingent liabilities• Net financing income/(costs)• Long term commitments not reflected in the balance sheet	

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

I. WHERE THE BBC'S FUNDING COMES FROM

The Group generates its income from a number of key sources, each source funding different parts of the BBC's activity. The notes in this section provide information on the performance in the year for each segment of the BBC Group.

The distinction between the various income sources is important as the BBC may not cross-subsidise its commercial activities through its UK PSB Group or Grant-in-Aid and grant funded activities. However, the performance of the Group's commercial activities generates profits which are distributed back to the BBC and contribute towards the funding of UK PSB Group activities.

The BBC Group's operating segments are reported in a manner consistent with the internal reports provided to the BBC Executive Board. Following a review of the segmental presentation during this financial year, the notes in this section have been amended to present all intra-group eliminations, which were previously eliminated within the entity results. Consequently the prior year presentations have been adjusted to be consistent. The BBC Executive Board is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments.

Segmental information provided to the BBC Executive Board is aligned to the BBC Group's income sources. The reportable segments are:

- **UK PSB Group** – This primarily receives licence fee income and is responsible for the Group's public sector activities. This includes delivery of its obligations under the Service Licence Operating Framework issued by the BBC Trust.
- **BBC World Service and BBC Monitoring** – These are funded by Grant-in-aid from the Foreign and Commonwealth Office and the Cabinet Office respectively.
- **BBC Worldwide** – These generate revenue from exploiting the various assets of the BBC, for example licencing formats, selling international rights, merchandising and production facilities.

The BBC's other commercial activities have been aggregated for reporting purposes as they meet the conditions set out in IFRS 8, *Operating Segments*.

The prices charged for services provided by one segment of the BBC Group to another are determined on an arm's length basis in accordance with the BBC's Fair Trading policy. More information on the BBC's fair trading requirements and policies can be found in the 'Managing the Business' section in Part Two of the 'BBC Annual Report and Accounts 2012'.

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F79).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
NOTES TO THE ACCOUNTS
WHERE THE BBC'S FUNDING COMES FROM CONTINUED

1a Income and operating results

2012	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments* £m	Group £m
Licence fee income	1b	3,606.3	–	–	–	–	3,606.3
Other revenue		88.4	7.0	946.2	86.3	–	1,127.9
Intra-group trading		157.2	0.5	11.9	36.5	(206.1)	–
Grant-in-aid and other grant income		2.3	277.1	–	–	–	279.4
Royalties		13.5	–	48.1	0.4	–	62.0
Rental income		10.5	0.1	0.3	–	–	10.9
Other income		271.9	284.7	1,006.5	123.2	(206.1)	1,480.2
Total income		3,878.2	284.7	1,006.5	123.2	(206.1)	5,086.5
Restructuring costs	3c	(100.6)	3.3	(5.4)	(0.7)	–	(103.4)
Depreciation and amortisation		(136.4)	(23.2)	(109.1)	(3.8)	–	(272.5)
Pension deficit reduction payment		(89.1)	(13.9)	(4.3)	(2.7)	110.0	–
Other operating costs		(3,523.7)	(243.9)	(785.4)	(114.8)	235.3	(4,432.5)
Total operating costs	2c, 2d	(3,849.8)	(277.7)	(904.2)	(122.0)	345.3	(4,808.4)
Group operating surplus		28.4	7.0	102.3	1.2	139.2	278.1
Gain on sale and termination of operations	5c	–	–	95.0	–	–	95.0
Gain on disposal of fixed assets	4d	4.8	–	–	–	–	4.8
Share of results of associates and joint ventures	5d	(2.1)	–	23.4	–	–	21.3
Operating segment result		31.1	7.0	220.7	1.2	139.2	399.2
Financing income	6i						655.8
Financing costs	6i						(631.4)
Net financing income	6i						24.4
Surplus before taxation							423.6
Taxation	7b i						(34.5)
Surplus for the year							389.1

Additional information on total operating costs for UK PSB can be found in note 2c and note 2d for the Commercial and Grant in aid funded activities. Total operating costs for the Group are also analysed further in note 2a.

* Group adjustments include costs of £138.7million for the defined benefit pension scheme, of this balance £45.0million relates to a gain on settlements and curtailments. The remaining adjustments relate to intra-group trading.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
NOTES TO THE ACCOUNTS
WHERE THE BBC'S FUNDING COMES FROM CONTINUED

1a Income and operating results continued

2011	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments* £m	Group £m
Licence fee income	1b	3,513.4	–	–	–	–	3,513.4
Other revenue		86.0	6.3	942.3	83.0	–	1,117.6
Intra-group trading		151.5	0.7	11.6	49.0	(212.8)	–
Grant-in-aid and other grant income		5.1	289.8	–	–	–	294.9
Royalties		2.9	–	52.9	0.3	–	56.1
Rental income		10.7	–	0.3	–	–	11.0
Other income		256.2	296.8	1,007.1	132.3	(212.8)	1,479.6
Total income		3,769.6	296.8	1,007.1	132.3	(212.8)	4,993.0
Restructuring costs	3c	(29.6)	(23.7)	(1.8)	(8.2)	–	(63.3)
Depreciation and amortisation		(109.8)	(28.0)	(95.2)	(3.2)	–	(236.2)
Other operating costs		(3,546.1)	(262.1)	(820.4)	(113.2)	439.0	(4,302.8)
Total operating costs	2c, 2d	(3,685.5)	(313.8)	(917.4)	(124.6)	439.0	(4,602.3)
Group operating surplus/(deficit)		84.1	(17.0)	89.7	7.7	226.2	390.7
Gain on sale and termination of operations	5c	–	–	96.4	–	–	96.4
Share of results of associates and joint ventures	5d	(1.0)	–	27.6	–	–	26.6
Operating segment result		83.1	(17.0)	213.7	7.7	226.2	513.7
Financing income	6i						613.6
Financing costs	6i						(606.8)
Net financing income	6i						6.8
Surplus before taxation							520.5
Taxation	7b i						(37.6)
Surplus for the year							482.9

Additional information on total operating costs for UK PSB can be found in note 2c and note 2d for the Commercial and Grant in aid funded activities. Total operating costs for the Group are also analysed further in note 2a.

* Group adjustments include income of £306.7million for the defined benefit pension scheme, of this balance £250.4million relates to a gain on settlements and curtailments. The remaining adjustments relate to intra-group trading.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHERE THE BBC'S FUNDING COMES FROM CONTINUED

Ib Licence fee income

	Licence fee 2012 £	Licences in force 2012 Number '000	Total income 2012 £m	Licence fee 2011 £	Licences in force 2011 Number '000	Total income 2011 £m
Colour	145.50	21,306	3,090.9	145.50	21,235	3,080.2
Monochrome	49.00	12	0.6	49.00	15	1.0
Concessionary	7.50	182	1.4	7.50	188	1.4
Over 75s	–	4,206	588.4	–	4,156	579.4
		25,706	3,681.3		25,594	3,662.0
Quarterly payment scheme premium			16.9			17.1
Digital switchover help scheme under-spend (note 2f)			(91.9)			(165.7)
Total licence fee income			3,606.3			3,513.4

During the year 3.4 million (2011: 3.4 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2011: £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.

Ic Contribution of commercial operations

In the year ended 31 March 2012, a dividend of £145.2million (2011: £113.9million) was primarily generated by BBC Worldwide and paid/proposed to UK PSB Group. The dividends paid by BBC Worldwide are not identifiable in the consolidated primary statements as the amounts paid by BBC Worldwide and received by UK PSB Group are eliminated during the consolidation process.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

2. HOW THE BBC SPENDS THE FUNDS

This section analyses the total operating costs incurred by the BBC Group. It also analyses the UK PSB Group's expenditure by service licence as required to be reported to the BBC Trust.

In accordance with the Charter, service licences are used by the BBC Trust to regulate the BBC's licence fee-funded services and ensure that each service provides public value and contributes to delivering the BBC's public purposes.

The Trust's annual assessment of performance against service licences compares actual costs for content against an agreed and authorised baseline budget. Actual costs may vary by up to 10% of the baseline budget to permit management flexibility in its commissioning decisions. When a service licence budget is breached by more than the threshold, the matter is referred to the BBC Trust.

BBC 1 Xtra, BBC 4 Extra, Radio 5 Live and HD TV costs were under the baseline budget by more than the 10% tolerance due to early delivery of efficiency savings under the BBC's Delivering Quality First strategy. The decision to defer the transmission of some commissions for editorial reasons to 2012/13, combined with efficiencies from the relocation to Salford resulted in the BBC Red Button service also ending the year under the baseline budget by more than 10%.

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. The table presented in note 2c sets out the UK PSB Group content expenditure by service.

Where a programme is broadcast on more than one channel, the full cost of the programme is recognised as a cost of the channel where the programme is first broadcast. Where a programme is commissioned by two channels however, the cost of the programme is recognised as a cost of the primary channel irrespective of the channel holding the first transmission.

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.

This means the costs reported against individual service licences are not necessarily equivalent to the costs which would be incurred by such a service on a stand-alone basis.

The Group has also been granted specific funds to cover the costs of the Digital Switchover. These funds are ring-fenced from the licence fee with underspend against the budgeted cost being repayable to the Department of Culture, Media and Sport (DCMS). Included within this note are disclosures on the costs incurred to date against these ring-fenced amounts.

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F80).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

HOW THE BBC SPENDS THE FUNDS CONTINUED

2a Total operating costs

Total operating costs have been arrived at after charging the following items:

	Note	2012 £m	2011 £m
Intangible fixed assets, property, plant and equipment and other investments			
Depreciation			
– owned assets	4a	115.5	103.2
– leased assets	4a	35.0	27.4
Impairment/write off of property, plant and equipment	4a	3.7	4.0
Amortisation of intangible fixed assets	5a	122.0	105.6
Impairment of goodwill	5a	16.1	33.8
Inventories			
Write-downs of programme-related assets recognised as an expense		9.2	10.0
Other operating costs			
Payments under operating leases			
– land and buildings		59.7	61.6
– plant and machinery		38.9	42.9
– other		19.0	17.0
Profit on disposal of tangible fixed assets*		(5.1)	(0.7)
Loss on disposal of tangible fixed assets*		2.1	4.0
Research costs		73.3	69.2
Audit and non-audit fees paid to KPMG (see below)		8.0	7.1
Fair trading auditor's remuneration (Deloitte LLP)		0.2	0.2
Net exchange differences on settled transactions		0.4	(5.1)
Impairment of trade debtors		2.0	2.4
Fair value loss/(gains) on embedded derivatives		0.7	(1.3)
Fair value losses on open forward foreign currency contracts		2.3	2.3
Staff costs	3b	1,324.6	1,332.1
Exceptional pension income (defined benefit)	3b	(45.0)	(250.4)

* The (profit)/loss on disposal of tangible fixed assets represent adjustments to depreciation on disposals in the ordinary course of business. Exceptional profit on disposals is disclosed separately in note 4d.

2b Auditor remuneration

	2012 £m	2011 £m
Fees payable for the audit of the BBC's annual accounts	0.6	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	1.0	0.9
– other services relating to taxation	0.2	0.4
– services relating to corporate finance transactions	1.0	0.6
– services relating to information technology	0.2	–
– valuation and actuarial advice*	4.2	3.5
– all other services	0.8	1.0
	8.0	7.0
Other services provided to the BBC Pension Scheme	–	0.1
Total	8.0	7.1

* The actuarial services provided relate primarily to advice regarding the changes to the BBC Pension Scheme announced during 2011.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

HOW THE BBC SPENDS THE FUNDS CONTINUED

2c UK PSB Group expenditure

2c i UK PSB Group expenditure by service

2012 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One	1,041.1	54.8	241.7	–	1,337.6
BBC Two	416.6	19.3	101.2	–	537.1
BBC Three	83.8	4.4	24.7	–	112.9
BBC Four	49.2	3.5	15.1	–	67.8
CBBC	81.9	3.6	21.8	–	107.3
CBeebies	29.2	3.9	9.3	–	42.4
BBC HD	1.2	15.0	1.6	–	17.8
BBC ALBA	5.0	1.7	1.3	–	8.0
BBC News Channel*	42.4	6.9	8.2	–	57.5
BBC Parliament	2.1	5.8	1.4	–	9.3
BBC Red Button	13.5	18.3	5.4	–	37.2
Television	1,766.0	137.2	431.7	–	2,334.9
BBC Radio 1	38.4	4.6	7.6	–	50.6
BBC Radio 2	47.2	4.6	8.7	–	60.5
BBC Radio 3	37.8	4.7	10.0	–	52.5
BBC Radio 4	88.1	8.6	19.2	–	115.9
BBC Radio 5 Live	51.1	5.8	12.4	–	69.3
BBC Radio 5 Live Sports Extra	2.6	1.2	1.5	–	5.3
BBC 1Xtra	7.2	1.3	2.6	–	11.1
BBC 6Music	7.8	1.3	2.6	–	11.7
BBC 4 Extra	5.0	1.3	1.9	–	8.2
BBC Asian Network	8.5	1.5	3.0	–	13.0
BBC Local Radio	112.7	8.1	25.7	–	146.5
BBC Radio Scotland	23.2	3.0	5.9	–	32.1
BBC Radio nan Gàidhéal	3.6	1.4	1.0	–	6.0
BBC Radio Wales	13.0	1.5	3.2	–	17.7
BBC Radio Cymru	11.4	1.6	2.9	–	15.9
BBC Radio Ulster/BBC Radio Foyle	17.3	2.0	4.5	–	23.8
Radio	474.9	52.5	112.7	–	640.1
BBC Online**	115.3	18.7	52.8	–	186.8
Online	115.3	18.7	52.8	–	186.8
Spend regulated by service licence	2,356.2	208.4	597.2	–	3,161.8
Licence fee collection costs	–	–	–	126.1	126.1
Orchestras and performing groups	23.6	–	5.4	–	29.0
S4C	23.2	–	6.0	–	29.2
Research and development spend	42.7	–	9.8	–	52.5
UK PSB Group pension deficit reduction payment	–	–	–	89.1	89.1
Costs incurred to generate intra-group income	–	–	–	156.8	156.8
Costs incurred to generate third party income	–	–	–	55.9	55.9
Other content related spent	89.5	–	21.2	427.9	538.6
Restructuring costs	–	–	–	100.6	100.6
Total UK public services content expenditure	2,445.7	208.4	618.4	528.5	3,801.0
Digital switchover (Digital UK Limited)	–	–	–	40.8	40.8
Digital switchover (DSHS Limited)	–	–	–	89.7	89.7
Total UK PSB Group expenditure	2,445.7	208.4	618.4	659.0	3,931.5
Lease reclassification***	–	–	–	(81.7)	(81.7)
UK PSB Group expenditure	2,445.7	208.4	618.4	577.3	3,849.8

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

HOW THE BBC SPENDS THE FUNDS CONTINUED

2c i UK PSB Group expenditure by service continued

2011 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One	1,130.9	50.8	219.1	–	1,400.8
BBC Two	421.0	21.0	85.4	–	527.4
BBC Three	84.7	3.9	21.4	–	110.0
BBC Four	50.8	2.9	13.3	–	67.0
CBBC	78.3	3.2	17.7	–	99.2
CBeebies	28.5	3.3	7.9	–	39.7
BBC HD	2.1	8.2	1.5	–	11.8
BBC ALBA	5.0	1.5	1.1	–	7.6
BBC News Channel	47.1	6.2	7.7	–	61.0
BBC Parliament	2.0	4.7	1.3	–	8.0
BBC Red Button	14.9	19.5	5.1	–	39.5
Television	1,865.3	125.2	381.5	–	2,372.0
BBC Radio 1	36.7	4.8	6.6	–	48.1
BBC Radio 2	46.7	4.9	7.5	–	59.1
BBC Radio 3	37.3	4.9	8.5	–	50.7
BBC Radio 4	92.8	9.9	17.0	–	119.7
BBC Radio 5 Live	55.4	6.2	11.2	–	72.8
BBC Radio 5 Live Sports Extra	2.5	1.1	1.3	–	4.9
BBC 1Xtra	7.4	1.2	2.4	–	11.0
BBC 6Music	7.3	1.2	2.2	–	10.7
BBC 4 Extra	5.3	1.1	1.8	–	8.2
BBC Asian Network	8.6	1.4	2.6	–	12.6
BBC Local Radio	114.8	10.1	22.4	–	147.3
BBC Radio Scotland	23.8	3.3	5.2	–	32.3
BBC Radio nan Gàidhael	3.8	1.4	0.9	–	6.1
BBC Radio Wales	13.0	1.2	2.8	–	17.0
BBC Radio Cymru	11.8	1.6	2.6	–	16.0
BBC Radio Ulster/BBC Radio Foyle	16.2	1.8	3.6	–	21.6
Radio	483.4	56.1	98.6	–	638.1
BBC Online	125.8	21.1	47.0	–	193.9
Online	125.8	21.1	47.0	–	193.9
Spend regulated by service licence	2,474.5	202.4	527.1	–	3,204.0
Licence fee collection costs	–	–	–	123.6	123.6
Orchestras and performing groups	20.2	–	3.8	–	24.0
S4C	26.9	–	5.3	–	32.2
Research and development spend	27.6	–	5.2	–	32.8
Costs incurred to generate intra-group income	–	–	–	152.6	152.6
Costs incurred to generate third party income	–	–	–	64.6	64.6
Other content related spend	74.7	–	14.3	340.8	429.8
Restructuring costs	–	–	–	29.6	29.6
Total UK public services content expenditure	2,549.2	202.4	541.4	370.4	3,663.4
Digital switchover (Digital UK Limited)	–	–	–	25.0	25.0
Digital switchover (DSHS Limited)	–	–	–	55.3	55.3
Total UK PSB Group expenditure	2,549.2	202.4	541.4	450.7	3,743.7
Lease reclassification***	–	–	–	(58.2)	(58.2)
UK PSB Group expenditure	2,549.2	202.4	541.4	392.5	3,685.5

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

HOW THE BBC SPENDS THE FUNDS CONTINUED

2c i UK PSB Group expenditure by service continued

* Included within BBC News channel are production costs of £26.1million, newsgathering costs of £16.1million and other costs of £0.2million (2011: production costs of £29.8million, newsgathering costs of £17.1million and other costs of £0.2million).

** BBC Online spend is monitored by annexe (relating to editorial areas of the service). Non-annexe spend covers costs relating to central editorial activities such as the BBC Homepage, technologies which operate across the service, and overheads. The spend for each was: News, Sport & Weather £47.7million (2011: £49.2million), Childrens £9.5million (2011: £10.5million), Knowledge & Learning £21.5million (2011: £24.9million), TV & iPlayer £15.3million (2011: £16.1million), Audio & Music £15.3million (2011: £15.5million), giving a total annexe spend of £109.3million (2011: £116.2million). Non-annexe spend was £6.0million (2011: £9.6million). Prior year balances have been amended to reflect the change how the BBC Online service is managed.

*** In order to reflect the full cost of UK PSB Group expenditure by service, finance lease interest is included, although it is not included in the Group operating expenditure.

2c ii UK PSB Group infrastructure/support costs

Infrastructure/support costs include the following:

	2012 £m	2011 £m
Property	186.9	150.0
HR and training	46.2	48.8
Policy and strategy	9.6	10.8
Finance and business	56.8	61.3
Marketing, audiences and communication	72.0	70.5
Executive Unit	2.7	4.4
Total central costs	374.2	345.8
Technology	128.0	85.8
Libraries, learning support and community events	36.1	38.6
Divisional running costs	63.7	63.3
BBC Trust Unit (excluding restructuring)	11.9	13.3
Other	4.5	(5.4)
Total infrastructure/support costs	618.4	541.4

2d Analysis of total operating costs by activity

2d i Commercial activities

	Note	BBC Worldwide 2012 £m	BBC Worldwide 2011 £m	Other Commercials 2012 £m	Other Commercials 2011 £m	Total Commercials 2012 £m	Total Commercials 2011 £m
Cost of sales		588.8	571.5	110.3	112.7	699.1	684.2
Distribution costs		142.4	136.5	-	-	142.4	136.5
Administrative expenses		173.0	209.4	11.7	11.9	184.7	221.3
Total operating costs	1a	904.2	917.4	122.0	124.6	1,026.2	1,042.0

2d ii Grant in Aid funded activities

	Note	2012 £m	2011 £m
BBC World Service and BBC Monitoring			
Cost of sales		1.3	1.3
Distribution costs		35.8	37.2
Administrative expenses		240.6	275.3
Total operating costs	1a	277.7	313.8

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

HOW THE BBC SPENDS THE FUNDS CONTINUED

2e Programme-related assets and other inventories

The main output of the BBC Group is the production of programmes for broadcast and the sale of rights for others to broadcast. This note discloses the amounts for those programmes that are in production, completed programmes that are ready for broadcast, but not yet aired, and rights secured to broadcast programmes produced independently of the BBC Group. Other inventory, such as books and magazines for our Commercial activities, are also contained in this note.

Originated programmes are stated at the lower of cost and net realisable value, and the full value is written off on first transmission. The costs of acquired programmes and films are also written off on first transmission except to the extent that the numbers of further showings are contractually agreed, when it is written off according to its expected transmission profile.

	2012 £m	2011 £m
Programme-related assets		
– Rights to broadcast acquired programmes and films	125.3	118.0
– Prepayments to acquire future programme-related rights	293.8	241.1
– Completed originated programmes	72.8	67.8
– Programmes in production	165.5	153.3
Total programme-related assets	657.4	580.2
Other inventories	34.3	39.0
Total programme-related assets and other inventories	691.7	619.2

Within other inventories is £3.1 million (2011: £4.1 million), relating to Lonely Planet, which is expected to be sold more than 12 months after the balance sheet date in accordance with the entity's normal operating cycle.

2f UK PSB ring-fenced expenditure

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

	Cumulative spend to 2012 £m	Outstanding amount repayable £m	Cumulative amount repaid to date £m	Total to date £m	Six-year ring-fenced funding £m	Remaining funding available
Digital Switchover						
Help for the elderly and disabled (DSHS Limited)	201.1	83.1	245.0	529.2	603.0	73.8
Digital UK Limited	136.6	61.4	–	198.0	201.0	3.0
Total	337.7	144.5	245.0	727.2	804.0	76.8

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.

The Framework Agreement between the BBC and DCMS 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.

	Note	2012
Digital underspend		
At 1 April 2011		266.1
Underspend in the year	1b	91.9
Repayment of underspend to DCMS		(213.5)
At 31 March 2012		144.5

The underspend which has yet to be repaid to DCMS will be repaid in the following amounts over the following periods:

	Note	£m
Anticipated Digital underspend repayment profile		
2012/13	6g i	91.9
2013/14	6g ii	52.6
Total		144.5

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

3. WHAT THE BBC SPENDS ON ITS PEOPLE

The BBC Group is an employer to a significant number of people and it also provides pension benefits to both current and past employees. This section is broken into two main sections; the first details employee numbers (excluding freelancers and agency staff), costs and transactions with BBC Trust members and the BBC Executive Board. The second presents the key information relating to the BBC Group's pension plans.

The movement in the IAS 19 *Employee Benefits* estimate of the defined benefit scheme liability during the year, specifically the BBC Pension Scheme, is the item which singularly most impacts the balance sheet position of the Group. The pension note in this section explains in further detail the reasons behind the movements in the defined benefit pension liability in the year and its degree of sensitivity to changes in the underlying assumptions used.

Further information on the analysis of the BBC Pension Scheme assets and the assumptions underlying the liabilities are set out in note 7c.

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F81).

3a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2012 Number	2011 Number
UK PSB Group	16,858	17,242
BBC World Service and BBC Monitoring	2,196	2,525
BBC Worldwide	2,565	2,689
Other commercial businesses	321	443
Group total	21,940	22,899

Within the averages above 2,800 (2011: 2,993) part-time employees have been included at their full-time equivalent of 1,616 (2011: 1,726).

In addition to the above, the Group employed an average full-time equivalent of 640 (2011: 724) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 367 (2011: 377) full-time equivalents.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3b Employee remuneration

	Note	2012 £m	2011 £m
Salaries and wages		999.9	1,021.7
Social security costs		91.6	84.9
Pension costs			
– Main scheme excl. exceptional pension income (defined benefit)		117.9	157.9
– Gain on settlements and curtailments (defined benefit)	3gii	(45.0)	(250.4)
– Other schemes	3giii	11.8	4.3
Restructuring costs	3c	103.4	63.3
		1,279.6	1,081.7
Comprising:			
UK PSB Group		1,024.4	961.2
BBC World Service and BBC Monitoring		71.6	119.0
BBC Worldwide		196.0	196.8
Other commercial businesses		20.7	37.9
Group adjustments*		(33.1)	(233.2)
		1,279.6	1,081.7

* Includes group adjustments for the BBC Pension Scheme.

The actual employer cash contributions to the defined benefit pension scheme are borne by each business.

3c Restructuring costs

	2012 £m	2011 £m
UK PSB Group	100.6	29.6
BBC World Service and BBC Monitoring*	(3.3)	23.7
BBC Worldwide	5.4	1.8
Other commercial businesses	0.7	8.2
	103.4	63.3

* Relates to the release of a provision created in prior years.

UK PSB Group restructuring costs include the Delivering Quality First Programme, Continuous Improvement Programme and costs resulting from our commitment to relocate and increase investment out of London.

3d Remuneration of the BBC Trust members and the BBC Executive Board

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

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3e Key management personnel compensation

Key management personnel are those people that have authority and responsibility for planning, directing and controlling the activities of the BBC. This includes all members of the BBC Executive Board, including the Non-Executive Directors (see BBC Executive remuneration report), the Trustees and the Director of the Trust Unit (see Trustees' remuneration report) and the Chief Executive Officer of BBC Worldwide Limited (see BBC Worldwide Annual Report and Accounts).

Information about the BBC's structure, senior staff salaries and expenses are published on the BBC's website. This unaudited information can be found at <http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure>.

Key management personnel compensation is as follows:

	2012 £m	2011 £m
Short term employee benefits	4.7	7.0
Post-employment benefits	0.4	0.6
Other long term benefits	0.3	0.2
Loss of office	–	1.4
	5.4	9.2

3f Related party transactions with key management personnel

Trustees:

Diane Coyle has a close family member employed by the BBC on standard terms and conditions.

Key management personnel

are the BBC Trustees, members of the Executive Board, the Chief Executive Officer of BBC Worldwide and the Director of the Trust Unit.

Related parties

include key management personnel, their immediate families and external entities controlled by them.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3g Group pension plans

The following section includes the key notes relating to BBC Group pension plans and more specifically the BBC Pension Scheme. Further supplementary notes relating to assumptions underpinning the value of the BBC Pension Scheme asset and liability are disclosed in note 7c.

As the BBC Group has two defined benefit pension schemes, the BBC Pension Scheme and the unfunded scheme, the information in this section first analyses the liability and income statement charge between the two schemes (note 3g). Separate analysis then follows in respect of the BBC Pension Scheme to highlight the points outlined below (note 3h).

The defined benefit pension schemes give rise to liabilities which are included on the BBC Group balance sheet as the BBC bears the risk on investment returns, life expectancy (mortality) and inflation related to meeting future pension payments. The net liability consists of two component parts:

- Scheme liabilities: These are the present value of the future pension payments the BBC is required to pay in respect of employees service performed up to the balance sheet date.
- Scheme assets: These are the assets held by the pension fund, into which the BBC pays annual contributions. The assets are used to fund the payments to retired members and to generate returns to fund future pension payments.

The analysis provided in the following notes is based on the IAS 19 estimate of the Scheme's assets and liabilities as at 31 March 2012. This is different to the actuarial valuation completed every 3 years (next update 1 April 2013) that determines the contributions payable to the Scheme by the BBC.

The deficit of the BBC Pension Scheme can change significantly. In this section we provide information to explain the following:

- why the pension liabilities on the balance sheet have changed from one year to another
- what makes up the charge in the income statement in the year
- the amount of the scheme assets and liabilities making the net defined benefit pension liability on balance sheet
- how sensitive the liabilities are to changes in key assumptions
- the steps being undertaken by the BBC to fund the defined benefit pension liability

The BBC Group's defined contribution plans do not give rise to balance sheet pension assets/liabilities as there is no ongoing liability for the employer from these plans once the contributions due for the year have been settled. The expenditure on the defined contribution scheme shown in these accounts represents the BBC contributions payable in this financial year.

3g i Pension liabilities included in the balance sheet

The pension liabilities included in the BBC Group balance sheet comprises both the BBC Pension Scheme and the Unfunded Scheme are analysed below:

	Pension liabilities	
	2012 £m	2011 £m
BBC Pension Scheme	(1,172.0)	(920.5)
Unfunded Scheme	(6.6)	(6.3)
Total	(1,178.6)	(926.8)

On retirement, members of the BBC's defined benefit pension scheme are paid their pensions from a fund which is kept separate from the Group to which the BBC makes cash contributions.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3g ii Movement in deficit during the year

	BBC Pension Scheme 2012 £m	Unfunded scheme 2012 £m	Total 2012 £m	BBC Pension Scheme 2011 £m	Unfunded scheme 2011 £m	Total 2011 £m
Deficit in scheme at the start of the year	(920.5)	(6.3)	(926.8)	(1,640.9)	(6.2)	(1,647.1)
Movement in the year:						
Current service cost	(160.0)	–	(160.0)	(192.8)	–	(192.8)
Contributions (from employer)*	212.6	0.3	212.9	304.6	0.3	304.9
Past service costs	(4.8)	–	(4.8)	(19.3)	–	(19.3)
Gain on curtailments	45.0	–	45.0	250.4	–	250.4
Net finance income/(cost)	116.1	(0.3)	115.8	73.8	(0.3)	73.5
Actuarial (loss)/gain recognised in the consolidated statement of comprehensive (loss)/income	(460.4)	(0.3)	(460.7)	303.7	(0.1)	303.6
Deficit in scheme at the end of the year	(1,172.0)	(6.6)	(1,178.6)	(920.5)	(6.3)	(926.8)

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

The assumptions for pension plan liabilities of the unfunded scheme are the same as the BBC Pension scheme. As the scheme is unfunded it holds no assets and hence no expected return on assets.

Following the changes to the defined benefit plan terms made in 2010/11, a curtailment gain of £250.4million was recognised for the expected reduction in the value of benefits for current employees qualifying for reduced benefits. During 2011/12 the actual decisions made by employees were made available and the curtailment calculation was recalculated. The actual curtailment gain was £295.4million, therefore an additional gain of £45.0million has been recognised in 2011/12.

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

The **past service charges** arise from changes to the terms and conditions relating to members defined retirement benefits, resulting in a credit for years of service already given.

Net finance income/(cost) is the difference between the expected return on assets and the interest on the liabilities.

Actuarial gains and losses which arise from actual performance being different from that predicted give rise to gains and losses in the statement of comprehensive income.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3g iii Pension (charges)/income in consolidated income statement

	Defined benefit schemes			All schemes £m
	BBC Pension Scheme £m	Unfunded Scheme £m	Defined contribution scheme £m	
2012				
Current service cost	(160.0)	–	(11.8)	(171.8)
Past service costs	(4.8)	–	–	(4.8)
Gain on curtailments	45.0	–	–	45.0
Total operating charge*	(119.8)	–	(11.8)	(131.6)
Expected return on pension plan assets	643.3	–	–	643.3
Interest on pension plan liabilities	(527.2)	(0.3)	–	(527.5)
Net finance income/(cost) (see note 6i)	116.1	(0.3)	–	115.8
Net cost in consolidated loss statement	(3.7)	(0.3)	(11.8)	(15.8)
2011				
Current service cost	(192.8)	–	(4.3)	(197.1)
Past service costs	(19.3)	–	–	(19.3)
Gain on curtailments	250.4	–	–	250.4
Total operating income/(charge)*	38.3	–	(4.3)	34.0
Expected return on pension plan assets	603.4	–	–	603.4
Interest on pension plan liabilities	(529.6)	(0.3)	–	(529.9)
Net finance income/(cost) (see note 6i)	73.8	(0.3)	–	73.5
Net income/(cost) in consolidated loss statement	112.1	(0.3)	(4.3)	107.5

The estimate of **expected return on pension plan assets** is based on predictions of future performance and economic conditions.

* Of the total net operating charge of £119.8million for 2012 (2011 net income £38.3million), £46.9million (2011 £54.2million expense) was recognised as an expense in earlier years as part of redundancy costs in accordance with IAS 37. The remaining loss of £72.9million (2011: income £92.5million) was recognised in the current year.

3h BBC Pension Scheme

The BBC Pension Scheme, a defined benefit scheme, is now closed to new entrants. This plan provides pensionable salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

The pension scheme trustees manage the plan 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 Towers Watson, consulting actuaries. Formal valuations are undertaken at least every three years.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3h i Scheme financial position

IAS 19 valuation	Note	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Scheme assets*	7c ii	9,198.5	8,835.8	8,154.8	6,454.0	8,042.0
Scheme liabilities	7c i	(10,370.5)	(9,756.3)	(9,795.7)	(6,592.6)	(7,513.6)
(Deficit)/Surplus		(1,172.0)	(920.5)	(1,640.9)	(138.6)	528.4
Percentage by which scheme assets cover liabilities		89%	91%	83%	98%	107%

The **IAS 19 valuation** takes assets at their market value and discounts the accrued liabilities by reference to the discount rate of an AA rated corporate bond.

* Excluding Additional Voluntary Contribution (AVC) funds.

Key movements in the year are shown above in note 3g ii.

A deferred tax asset or liability in relation to the scheme does not arise for the BBC Group because most of the BBC Group's public service activity is not subject to taxation.

The sensitivities of the scheme's liabilities to changes in the principal assumptions are set out below:

Assumption used	Movement	Impact on Scheme liabilities %	Impact on Scheme liabilities £m
Discount rate	5.2%	Decrease 0.1%	2.0 (205)
Discount rate	5.2%	Increase 0.1%	1.6 166
Retail price inflation rate	3.5%	Increase/(decrease) 0.1%	1.8 187/(186)
Mortality rate	See note 7c vi	Increase/(decrease) 1 year	3.0 315/(316)

3h ii Funding the Scheme

The 2010 actuarial valuation by Towers Watson of the pension scheme showed a funding shortfall of £1,131million. Consequently a recovery plan was agreed between the BBC and the pension scheme Trustees where additional contributions totalling £905million will be paid by the BBC over an 11 year period commencing in 2011. It was also agreed that employer contributions would decrease from 18.15% to 15.5% on 1 April 2011 and then to 14.5% from 1 January 2012. Employee contributions for Old and New Benefit members are 7.5%, employee contributions for the Career Average Benefit 2006 members are 4% and for the Career Average Benefit 2011 members are 6%.

The contributions to the scheme by members are mainly paid via a salary sacrifice arrangement. These have been treated as employer contributions.

The next formal actuarial valuation is expected to be performed as at 1 April 2013.

Contribution rates	Projections		2011*	2010*	2009*
	2013 %	2012 %			
Employer**	14.5	14.5/15.5	18.15	18.9	19.1/19.65
Employee (Old and New Benefits)	7.5	7.5	7.5	6.75	6.0
Employee (Career Average Benefits 2006)	4.0	4.0	4.0	4.0	4.0
Employee (Career Average Benefits 2011)	6.0	6.0	—	—	—

* Restated to include BBC AVC plus contributions.

** Includes an allowance for BBC AVC matching contributions of 0.1%/0.3% (2011: 0.3%) but excludes the cost effectively paid for by the employee via the salary sacrifice arrangement.

On the basis of pension assumptions made above, contributions totalling £136.8million are expected to be paid in 2012/13.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

WHAT THE BBC SPENDS ON ITS PEOPLE CONTINUED

3h iii Scheme cash flows (day-to-day liquidity)

Below are the cash flows of the BBC Pension Scheme (not included in the Group results). The second additional contribution of £60million was paid in March 2012 (2011: £110million) to address the funding shortfall identified in the 2010 actuarial valuation by Towers Watson. Allowing for the reduction in this payment from the prior year, the net cash inflow saw a decrease of £44million compared to 2011. This fall is generated by the reduction in the employer's contribution percentage during the year and the closing of the scheme to new entrants (as members retire, there are no new entrants to replace the reduction in employee and employer contributions).

	2012 £m	2011 £m
Contributions including additional voluntary (employer and employee)	218.6	317.4
Investment income	216.7	214.8
Cash inflows	435.3	532.2
Payments of pensions and transfers out	(334.6)	(326.1)
Expenses	(41.7)	(53.0)
Net cash inflow	59.0	153.1

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

4. THE PROPERTY, TECHNOLOGY AND EQUIPMENT USED BY THE BBC TO MAKE ITS PROGRAMMES

The BBC Group uses a significant amount of assets in its operations. This section sets out those assets which includes those the BBC Group intends to continue to use, those which it is in the course of disposing and any disposals which have been completed in the year.

Certain assets which are held on balance sheet are not legally owned by the BBC Group, but instead are leased under finance leases. Under such arrangements, the BBC Group obtains substantially all the risks and benefits of ownership and therefore records such assets as if they were legally owned. This section also deals with the financing costs and obligations associated with such assets.

The BBC Group has certain obligations to restore leased properties to their original condition at the end of the lease term. The BBC Group makes certain provisions for the cost of such restoration works. The amounts provided are included within this section of the notes.

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F82).

4a Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2010	858.3	1,004.9	167.5	76.3	2,107.0
Additions	387.7	10.3	4.8	128.8	531.6
Brought into service	9.1	38.0	2.1	(49.2)	–
Disposals	(5.7)	(15.5)	(4.1)	(1.5)	(26.8)
Written off	–	–	–	(4.0)	(4.0)
Assets held for sale	(11.2)	(4.4)	(0.4)	–	(16.0)
Exchange movements	(0.1)	0.4	0.4	–	0.7
At 31 March 2011	1,238.1	1,033.7	170.3	150.4	2,592.5
Additions	1.5	19.4	2.1	151.7	174.7
Brought into service	17.1	115.7	28.9	(161.7)	–
Disposals	(8.0)	(35.5)	(2.3)	(2.0)	(47.8)
Assets held for sale	(92.3)	(69.3)	(31.4)	–	(193.0)
Exchange movements	–	(0.2)	(0.4)	–	(0.6)
At 31 March 2012	1,156.4	1,063.8	167.2	138.4	2,525.8
Depreciation					
At 1 April 2010	229.4	650.9	95.4	–	975.7
Charge for the year	33.1	81.2	16.3	–	130.6
Disposals	(2.3)	(14.1)	(2.5)	–	(18.9)
Assets held for sale	(5.6)	(3.2)	(0.4)	–	(9.2)
Exchange adjustments	(0.1)	0.2	0.3	–	0.4
At 31 March 2011	254.5	715.0	109.1	–	1,078.6
Charge for the year	41.0	93.7	15.8	–	150.5
Disposals	(8.0)	(34.1)	(1.6)	–	(43.7)
Impairment	–	3.7	–	–	3.7
Assets held for sale	(42.5)	(47.3)	(25.0)	–	(114.8)
Exchange adjustments	–	(0.1)	(0.2)	–	(0.3)
At 31 March 2012	245.0	730.9	98.1	–	1,074.0
Net book value					
At 31 March 2012	911.4	332.9	69.1	138.4	1,451.8
At 31 March 2011	983.6	318.7	61.2	150.4	1,513.9

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

THE PROPERTY, TECHNOLOGY AND EQUIPMENT USED BY THE BBC TO MAKE ITS PROGRAMMES CONTINUED

4b Assets available for trading

	2012 £m	2011 £m	
Cost or valuation			Assets available for trading are interests in entities in which the BBC has neither control nor a significant interest.
At 1 April	80.9	4.0	
Additions*	0.6	—	
Interest income on assets available for trading	5.1	—	
Fair value gains transferred to equity	18.3	76.9	
At 31 March	104.9	80.9	
Provision			
At 1 April and 31 March	4.0	4.0	
Net Book Value	100.9	76.9	

* Relates to other investments acquired by BBC Worldwide.

The BBC Group holds an asset available for trading of £100.3million (£2011: £76.9million) relating to Daunus Limited that is carried at fair value. The principle activity of Daunus Limited is property development, see note 7d iii for further information.

4c Property assets classified as held for sale

	2012 £m	2011 £m
Non-current assets:		
Property, plant and equipment	79.0	7.1

In June 2011, the BBC announced that BBC Television Centre was being marketed for sale. Negotiations with interested parties are ongoing and the BBC Group was in dialogue with a range of bidders at the date of approval of the financial statements. The property is expected to be sold within 12 months and the historical cost has been classified as held for sale and presented separately in the balance sheet. No impairment losses have been recognised on the classification of this property as held for sale.

4d Gain on disposal of fixed assets

	2012 £m	2011 £m
Disposal of properties	4.8	—

The Group disposed of its Oxford Road, Manchester property during the year.

Gains or losses on the disposal of property, plant and equipment in the ordinary course of business, that represent an adjustment to depreciation, are recognised within operating surplus and disclosed in aggregate in note 2a.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

THE PROPERTY, TECHNOLOGY AND EQUIPMENT USED BY THE BBC TO MAKE ITS PROGRAMMES CONTINUED

4e Obligations under finance leases

	2012 £m	2011 £m
Due within one year	6.0	2.5
Due after more than one year	883.0	894.9
	889.0	897.4

See note 6c for full analysis of borrowing, including obligations under finance leases.

Finance lease liabilities are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
2012			
Not later than one year	89.0	83.0	6.0
Later than one year but not later than five years	351.6	316.3	35.3
Later than five years	1,778.0	930.3	847.7
	2,218.6	1,329.6	889.0
2011			
Not later than one year	84.9	82.4	2.5
Later than one year but not later than five years	351.7	322.4	29.3
Later than five years	1,890.4	1,024.8	865.6
	2,327.0	1,429.6	897.4

A **finance lease** is a lease where the lessee has substantially taken on the risks and rewards of ownership and operating the asset. As such, both the asset and future liability are recognised on the balance sheet.

Under the terms of the leasing agreements, the BBC has the right to share in the residual value of its key finance lease properties (Broadcasting House, Pacific Quay and White City). This share will be passed to the BBC as either a cash flow at the end of the lease arrangement, or a reduction in rentals if the lease agreement is extended for a further term. In addition, the BBC has the right to repurchase each property at the end of the respective lease agreement.

The recognition of finance lease assets and liabilities requires certain judgements to be made. A key judgement relates to the treatment of any uplifts in annual rental payments due to the number used for RPI. Where this has a material impact on the amounts recognised, the BBC has included an estimate of RPI in determining the minimum lease payments.

Interest rates are fixed at the contract date. Leases with a carrying value of £852.4million (2011: £851.6million) have contingent elements included within their contracts and result in contingent rents of £5.6million (2011: £13.2million) being reflected in operating costs.

Included within the carrying amounts of assets in note 4a are amounts held under finance leases. In the case of a property lease, the BBC considers that leased assets and liabilities should be recognised in accordance with its occupancy of the site unless there is significant evidence to suggest that the right to use the asset has passed at an earlier date. Set out below is the analysis of the carrying amount of assets held under finance leases by asset category:

	Land and buildings £m	Plant and machinery £m	Total £m
Net book value			
At 31 March 2012	782.6	22.4	805.0
At 31 March 2011	809.3	24.3	833.6

4f Financing costs of leasing arrangements

Interest costs relating to the finance lease obligation are recognised in the income statement at a constant rate over the term of the lease.

	2012 £m	2011 £m
Net financing costs of leasing arrangements	(81.7)	(58.5)

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

THE PROPERTY, TECHNOLOGY AND EQUIPMENT USED BY THE BBC TO MAKE ITS PROGRAMMES CONTINUED

4g Operating leases

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

	2012 £m	2011 £m
Not later than one year	107.3	114.4
Later than one year and not later than five years	251.2	300.8
Later than five years	541.8	613.7
	900.3	1,028.9

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

The BBC Group's operating lease agreements primarily relate to office space, land, computers and other IT equipment. Certain contracts include renewal options, stepped rents or annual RPI uplifts (which are accounted for on a straight line basis) or periodic rent reviews. All leases have been entered into on commercial terms.

The BBC Group has entered into a number of sublease arrangements. The total future minimum sublease income expected to be received under non-cancellable subleases at 31 March 2012 are:

	2012 £m	2011 £m
Due within one year	9.1	9.4
Due after one year and not later than five years	24.9	32.0
Due after more than five years	6.5	10.5
	40.5	51.9

4h Property provisions

Property provisions relate to the cost of returning leasehold properties (accounted for as operating leases) to their original condition at the end of the lease. The average life of these leases is 12 years, and the actual amount payable will depend on the extent of leasehold improvements made over the remainder of the lease. For full analysis of provisions and contingent liabilities see note 6h.

	At 1 April £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Transferred to accruals £m	At 31 March £m
2012	20.4	5.4	(0.8)	(0.6)	(4.1)	20.3
2011	21.4	1.3	(2.2)	(0.1)	—	20.4

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

5. INVESTMENTS IN THE BBC'S COMMERCIAL ACTIVITIES

The following section is primarily driven by the commercial activities of the BBC Group and includes information on what assets are used to generate economic benefits for the BBC Group. The section includes intangible assets such as goodwill and programme acquisitions, balances held to represent the BBC's interests in joint ventures and associates and the results of any sale of operations that have occurred. Intangible assets do not have a physical substance (e.g. software licences).

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F84).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

INVESTMENTS IN THE BBC'S COMMERCIAL ACTIVITIES CONTINUED

5a Intangible assets

	Goodwill £m	Programme rights £m	Residual programme rights £m	Other intangibles £m	Total £m
Cost					
At 1 April 2010	120.3	60.2	172.2	180.1	532.8
Additions	0.1	21.6	64.5	29.0	115.2
Elimination of fully amortised programme rights	–	(2.2)	(55.1)	–	(57.3)
Disposals	–	–	–	(2.8)	(2.8)
Classified as held for sale	(5.1)	–	(1.5)	(2.2)	(8.8)
Exchange differences	4.6	(0.2)	(3.2)	4.1	5.3
At 31 March 2011	119.9	79.4	176.9	208.2	584.4
Additions	–	14.8	97.6	55.7	168.1
Elimination of fully amortised programme rights	–	–	(41.1)	–	(41.1)
Disposals	–	–	(0.8)	(1.5)	(2.3)
Programme rights reclassified*	–	–	(8.1)	–	(8.1)
Classified as held for sale	–	–	(5.3)	–	(5.3)
Exchange differences	6.4	0.1	(3.6)	(0.4)	2.5
At 31 March 2012	126.3	94.3	215.6	262.0	698.2
Amortisation and impairment					
At 1 April 2010	17.5	48.4	92.2	84.7	242.8
Charge for the year	–	13.1	60.9	31.6	105.6
Elimination of fully amortised programme rights	–	(2.2)	(55.1)	–	(57.3)
Disposals	–	–	–	(2.1)	(2.1)
Impairment	33.8	–	–	–	33.8
Classified as held for sale	–	–	(0.6)	(0.7)	(1.3)
Exchange differences	(1.1)	–	(3.2)	1.6	(2.7)
At 1 April 2011	50.2	59.3	94.2	115.1	318.8
Charge for the year	–	9.1	78.5	34.4	122.0
Elimination of fully amortised programme rights	–	–	(41.1)	–	(41.1)
Disposals	–	–	(0.4)	(1.4)	(1.8)
Impairment	16.1	–	–	–	16.1
Classified as held for sale	–	–	(3.3)	–	(3.3)
Exchange differences	1.8	(0.1)	(3.5)	(0.1)	(1.9)
At 31 March 2012	68.1	68.3	124.4	148.0	408.8
Net book value					
At 31 March 2012	58.2	26.0	91.2	114.0	289.4
At 31 March 2011	69.7	20.1	82.7	93.1	265.6

* Where content in the course of production is funded by a commissioning broadcaster or co-production partner, this is separately presented within programmes in production within current assets.

Other intangibles include:

Net book value	2012 £m	2011 £m
Software	79.4	54.7
Acquired masthead	25.6	27.0
Acquired carrier agreements	8.5	9.3
Other	0.5	2.1
	114.0	93.1

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

INVESTMENTS IN THE BBC'S COMMERCIAL ACTIVITIES CONTINUED

5b Goodwill

All goodwill is recognised in BBC Worldwide.

Goodwill, allocated by cash generating unit (CGU), is analysed as follows:

Goodwill by cash generating unit	2012 £m	2011 £m
Lonely Planet	22.6	34.5
DVD Distribution business	25.4	25.3
Other CGUs	10.2	9.9
	58.2	69.7

Cash generating units are the smallest group of assets that can independently generate cash flows.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions used for these calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each CGU.

BBC Worldwide tests goodwill for impairment in the accounting period in which a business combination takes place, thereafter annually or more frequently, if there are indications that goodwill might be impaired.

Lonely Planet

The goodwill in this CGU arose as a result of the acquisition of Lonely Planet on 1 October 2007. Following the impairment review performed during the year to 31 March 2012, the carrying value of this CGU has been written down to its recoverable amount, resulting in a charge to the income statement of £16.1 million.

Despite solid underlying performance, the strength of the Australian dollar continues to prove challenging for the Lonely Planet business, which incurs the majority of its costs in its home country of Australia, but earns the majority of its revenue streams in sterling, Euros and US dollars. Had foreign exchange rates at the date of the BBC Group's impairment tests remained unchanged since the prior year, no impairment would have been recorded in respect of the Lonely Planet business.

During the year, the BBC Group began to implement changes to the Lonely Planet business which management believes will help to secure its long-term viability and reduce the impact of further currency appreciation. This includes reducing the Australian cost base, relocation of its digital business from Australia to the UK and exploitation of the Lonely Planet brand through online travel booking services.

Key assumptions for the value in use calculations are those regarding growth rates, foreign exchange rates and discount rates.

The future cash flows used by management in determining the value in use are based on the most recent financial budgets approved by management and cover a period of 10 years from the balance sheet date. This period reflects the transition of the business away from its more mature print activities towards mobile and online content, including travel booking services, where growth assumptions are linked to web traffic and conversion rates. Beyond this period, forecast cash flows have been extrapolated based on an estimated growth rate of 3% (2011: 3%). This growth rate does not exceed the average long-term growth rate for the markets in which the Lonely Planet business operates.

Forecast foreign exchange rates have been based on spot rates at the date of impairment testing. Any appreciation or devaluation of the Australian dollar during the forecast period would result in a corresponding reduction or increase in the value in use, respectively.

The rate used to discount forecast cash flows is 13.0% (2011: 13.4%).

DVD distribution business

The goodwill in this CGU arose as a result of the acquisition of 2 entertain on 6 August 2009. The cash flow projections used in determining value in use are based on the current business plan approved by management, which covers a five year period after which cash flows have been extrapolated using an expected growth rate of 2% (2011: 2%).

A discount rate of 11.4% (2011: 12.4%) has been applied to the cash flows.

Management are of the view that any reasonably possible change in key assumptions would not cause the carrying amount to exceed its recoverable amount.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

INVESTMENTS IN THE BBC'S COMMERCIAL ACTIVITIES CONTINUED

5c Gain on sale and termination of operations

As part of the normal course of business, the commercial entities may decide to sell or terminate a particular part of their operations. This note shows the impact of such a decision on the income statement. A gain is recognised when the fair value of consideration received/receivable is greater than the carrying value of the assets of that operation, at the point of sale.

	2012 £m	2011 £m
Magazines business	95.0	–
Animal Planet Europe and People & Arts	–	96.4
Gain on sale and termination of operations	95.0	96.4

On 31 October 2011, BBC Worldwide disposed of a number of subsidiaries and investments which comprised its Magazines business. The BBC Group had classified these investments as assets held for sale as at 31 March 2011 and has not therefore equity accounted for joint ventures and associates included within the disposal group during the year to 31 March 2012.

The BBC Group disposed of its 50% interests in Animal Planet Europe and People & Arts on 12 November 2010 to its joint venture partner, Discovery Communications. Cash consideration of £97.9million was received, giving rise to a gain on disposal of £96.4million.

5d Interests in associates and joint ventures

This note details the BBC Group's share of net assets in joint ventures and associates, along with the impact that they have on the income statement. Details of significant joint ventures and associates along with principal subsidiary undertakings, including their activities, are provided in note 7e.

	2012 £m	2011 £m
Interest in joint ventures	14.2	21.7
Interest in associates	17.1	14.8
Total interest in joint ventures and associates	31.3	36.5
Share of results of joint ventures	19.9	24.6
Share of results of associates	1.4	2.0
Total share of results of joint ventures and associates	21.3	26.6

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

INVESTMENTS IN THE BBC'S COMMERCIAL ACTIVITIES CONTINUED

5d Interests in associates and joint ventures continued

The following table represents the BBC Group's aggregate share of joint ventures:

	2012 £m	2011 £m
Current assets	109.3	100.0
Non-current assets	8.5	21.6
Total assets	117.8	121.6
Current liabilities	(82.1)	(73.2)
Non-current liabilities	(55.2)	(60.1)
Total liabilities	(137.3)	(133.3)
Adjustment to reflect effective obligation	28.1	20.9
Provision for unrealised profit	(5.7)	–
Goodwill	0.2	–
Total net book value	3.1	9.2
The net book value is presented within:		
Interest in associates and joint ventures	14.2	21.7
Provisions	(11.1)	(12.5)
	3.1	9.2
Income	154.4	161.2
Profit after tax	21.7	24.6
Adjustment to reflect effective obligation	(1.8)	–
	19.9	24.6

A **joint venture** is where the BBC Group has joint control over an entity with another partner(s).

Where the BBC has an obligation to settle an individual net liability of a joint venture, this is reflected within **provisions**.

The following table presents summarised financial information for associates, including the BBC Group's share of the results:

	2012 £m	2011 £m
Total assets	85.2	129.3
Total liabilities	(72.3)	(133.5)
Net assets/(liabilities)	12.9	(4.2)
Group share of net assets	4.9	3.9
Provision for unrealised profit	(0.9)	–
Goodwill	13.1	10.9
Total net book value	17.1	14.8
Income	150.0	20.1
Profit after tax	6.4	1.5
Adjustment to reflect effective obligation	–	0.5
Group share of results	1.4	2.0

An **associate** is an entity that the BBC Group has significant influence over, but that does not meet the definition of a joint venture or subsidiary.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

6. MANAGING FUNDING (INCLUDING FUTURE COSTS)

This section contains the notes to the balance sheet that detail the funding of the BBC Group as well as the assets and liabilities that are primarily used in the day-to-day trading transactions of the BBC Group.

It also sets out the external borrowings of the BBC Group. The BBC Group is subject to three specific constraints on its borrowing levels as set out below:

- 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.
- Digital Switchover Help Scheme – £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).
- Under a direction granted by the Secretary of State for the DCMS a borrowing limit of £350million has been set for the BBC commercial group.

Included within this section are certain disclosures required to be provided to DCMS in respect of the above borrowing thresholds.

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F86).

6a Analysis of net funds for DCMS borrowing ceilings

	At 1 April 2011 £m	Cash flows £m	Non-cash changes £m	Exchange £m	At 31 March 2012 £m
Total cash and cash equivalents	513.4	(105.2)	–	(0.9)	407.3
Less restricted cash*	(34.0)	32.0	–	–	(2.0)
Bank overdrafts	(0.3)	0.3	–	–	–
	479.1	(72.9)	–	(0.9)	405.3
Loans and loan notes	(214.9)	14.9	(0.3)	(0.4)	(200.7)
Derivatives associated with loans	(7.2)	–	1.6	–	(5.6)
Finance leases	(897.4)	(101.2)	109.6	–	(889.0)
	(640.4)	(159.2)	110.9	(1.3)	(690.0)
Leases not included in DCMS borrowing limits	853.6				849.9
Net funds	213.2				159.9
Made up of:					
UK PSB Group	375.0				338.9
Centre House Productions	(8.3)				(5.9)
BBC Worldwide	(56.3)				(2.7)
Other commercial businesses	(97.2)				(170.4)
Net funds	213.2				159.9

The DCMS definition of 'borrowings' excludes leases which would be classified as operating under UK GAAP, but which are classified as finance leases under IFRS at the date of transition to IFRS. These leases are therefore excluded when comparing net debt/funds to DCMS borrowing ceilings.

* Restricted cash represents licence fee funds collected on behalf of HM Treasury.

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.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
 NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6b Reconciliation of net funds to the DCMS borrowing ceilings

	Public Services		Commercial Businesses
	Capital or current expenditure £m	Current expenditure on Digital Switchover Help Scheme* £m	** £m
2012			
Net funds/(debt)	338.9	–	(173.1)
Borrowing ceiling	(200.0)	(25.0)	(350.0)
Headroom	538.9	25.0	176.9
2011			
Net funds/(debt)	375.0	–	(153.5)
Borrowing ceiling	(200.0)	(25.0)	(350.0)
Headroom	575.0	25.0	196.5

Public Services in this context represent the UK PSB Group (excluding Centre House Productions Limited – see note 7dii), BBC World Service and BBC Monitoring.

* £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).

** Under the terms of the DCMS agreement, BBC Commercial Holdings Limited must satisfy two financial covenants. These covenants are required to be met at 31 March each year. As at 31 March 2012 and 31 March 2011, BBC Commercial Holdings Limited was in compliance with both of these covenants.

As at 31 March 2012, 31 March 2011, and throughout both financial years, the BBC Group did not breach the borrowing ceilings.

6c Borrowings

6c i Borrowings due within one year

	2012 £m	2011 £m
Bank loan	30.8	20.4
Overdraft	–	0.3
Obligations under finance leases	6.0	2.5
Total	36.8	23.2

6c ii Borrowings due after more than one year

	2012 £m	2011 £m
Bank loan	169.9	194.5
Obligations under finance leases	883.0	894.9
Total	1,052.9	1,089.4

Analysis of the BBC Group's borrowing facilities is set out in note 6d.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6d Borrowing facilities

Facility	Interest rate	Total available 31 March 2012 £m	Drawn down at 31 March 2012 £m	Total available 31 March 2011 £m	Drawn down at 31 March 2011 £m	Expiry or review date
UK PSB Group						
Sterling revolving credit facility agreement	Loan – margin of 0.45%	200	–	200	–	June 2013
Uncommitted money market lines (short-term borrowings)	Margin of between 0.125% and 0.5% over LIBOR	5	–	25	–	Reviewed annually
GBP overdraft	Bank base rates plus 1.5%	5	–	5	–	Reviewed annually
Multicurrency overdraft	Banks short term offered rates for the relevant currency plus 1%	5	–	5	–	Reviewed annually
BBC Commercial Holdings Limited						
Multicurrency, revolving credit facility agreement for loans and letters of credit	LIBOR* plus 0.8% rising to LIBOR* plus 0.2% on utilisations over 1/3 and a further 0.2% on utilisations over 2/3. Letter of credit fee is the same as the bank lending margin, but does not include LIBOR.	380**	185	–	–	July 2016
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.	–	–	350**	190	Expired
Overdraft or money market lines	Money market line – margin of 1.0% (2011: 0.45%) Overdraft – bank base rates plus 1.5% (2011: 1%)	20	–	20	–	Reviewed annually
BBC Worldwide						
Loan with European Investment Bank (50% secured by letters of credit)	European Investment Bank's own funding cost plus a margin of 0.032% (2011: 0.09%) on unsecured loans	30	30	50	50	May 2012***

* The base rate used varies according to the currency drawn. At 31 March 2012 £64.9million (2011: £64.5million) was drawn down in AU\$ 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 £26.6million (2011: £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 2012, the total drawn on this facility was £185.3million which consisted of cash drawings of £169.9million (2011: £164.5million) and £15.4million (2011: £25.6million) utilised by way of letters of credit.

*** Balance repaid in May 2012.

There have been no defaults or breaches of covenants on the facilities above during the year (2011: none).

In addition to the facilities above the BBC Group has other smaller facilities of which nothing was drawn at the year end (2011: £nil), used to manage working capital.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6e Cash generated from operations

	2012 £m	2011 £m
Group surplus before taxation	423.6	520.5
Depreciation, amortisation and impairment	293.6	276.1
Difference between pension charge and cash contribution	(93.1)	(343.2)
Fair value impact of derivatives associated with loans	(1.6)	(1.1)
Fair value impact of other derivatives	3.0	1.5
Profit on disposal of tangible fixed assets	(4.8)	–
Loss on disposal of tangible fixed assets	3.1	8.6
Gain on sale and termination of operations	(95.0)	(96.4)
Share of results of associates and joint ventures	(21.3)	(26.6)
Financing income	(655.8)	(613.6)
Financing costs	631.4	606.8
(Increase)/decrease in stocks	(64.5)	61.6
Increase in debtors	(11.6)	(16.0)
(Decrease)/increase in creditors	(111.2)	111.7
Increase in provisions	4.0	16.5
Cash generated from operations	299.8	506.4

6f Trade and other receivables

This note discloses the balances that are owed to the BBC Group by third parties and balances that have been pre-paid by the BBC Group.

6f i Other receivables due after more than one year

	2012 £m	2011 £m
Other prepayments and receivables	27.8	23.4
Amounts owed by associates and joint ventures	2.8	2.5
Total	30.6	25.9

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
 NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6f ii Trade and other receivables due within one year

	2012 £m	2011 £m
Trade receivables	217.9	228.9
Licence fee debtors	410.4	413.0
Amounts owed by associates and joint ventures	37.9	47.4
VAT recoverable	33.2	29.7
Other receivables	30.1	27.3
Prepayments and other assets	145.7	115.2
Total	875.2	861.5

Included in the BBC Group's trade and other receivables at 31 March 2012, are balances of £44.5million (2011: £34.9million) which are past due at the reporting date but not impaired. The aged analysis of these balances is as follows:

Trade receivables past due but not impaired	2012 £m	2011 £m
Up to 3 months	31.8	26.1
3 to 6 months	7.2	5.0
Over 6 months	5.5	3.8
	44.5	34.9

In determining the recoverability (likelihood of receiving payment) of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Trade receivables are provided for based on estimated irrecoverable amounts, determined by reference to past default experience of the counterparty and an analysis of the counterparty's financial situation.

There are no significant impairment provisions relating to balance of any individual debtor. Amounts charged to the impairment provision are written off when there is no expectation of recovery. Subsequent recoveries of amounts previously written off are credited to the Income Statement. The impairment provision stands at £5.5million at 31 March 2012 (2011: £5.6million).

The movement in the allowance for doubtful debts is set out below:

	2012 £m	2011 £m
Balance at the beginning of the year	5.6	9.1
Impairment losses recognised	2.0	2.4
Amounts written off as uncollectible	(1.1)	(4.0)
Amounts recovered during the year	(1.0)	(1.8)
Exchange differences on revaluation	-	(0.1)
Balance at the year of the year	5.5	5.6

No significant amount has been provided for items that are not yet due for payment.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
 NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6g Trade and other payables

This note details the amounts payable to third parties within working capital by the BBC Group.

6g i Trade and other payables due within one year

	Note	2012 £m	2011 £m
Trade and employment related payables		449.8	420.7
Amounts owed to associates and joint ventures		16.4	17.3
Other taxation and social security		27.2	26.1
Other payables		133.5	124.5
Accruals and deferred income (including licence fee payables)		331.9	175.6
Cash balance payable to DCMS	2f	91.9	266.1
Cash balance payable to the Consolidated Fund		2.0	34.0
Licence savings stamp deposits and direct debit instalments		65.6	66.3
Total		1,118.3	1,130.6

6g ii Other payables due after more than one year

	Note	2012 £m	2011 £m
Other payables		21.0	197.2
Amounts repayable to DCMS	2f	52.6	—
Total		73.6	197.2

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 days outstanding in respect of other trade payables at 31 March 2012 was 29 days (2011: 28 days).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6h Provisions and contingent liabilities

	Note	At 1 April 2011 £m	Charge for the year* £m	Utilised during the year £m	Released during the year £m	Transferred to accruals £m	At 31 March 2012 £m
Restructuring		97.0	111.7	(87.8)	(13.5)	–	107.4
Litigation and insurance		17.4	3.1	(5.4)	(3.3)	–	11.8
Property	4h	20.4	5.4	(0.8)	(0.6)	(4.1)	20.3
Share of joint ventures net liabilities	5d	12.5	0.1	–	(1.5)	–	11.1
Other		2.1	2.3	(0.9)	–	–	3.5
Total		149.4	122.6	(94.9)	(18.9)	(4.1)	154.1
Included in current liabilities		103.7					86.1
Included in non-current liabilities		45.7					68.0
Total		149.4					154.1
		At 1 April 2010 £m	Charge for the year* £m	Utilised during the year £m	Released during the year £m	Transferred to accruals £m	At 31 March 2011 £m
Restructuring		81.1	67.1	(47.9)	(3.3)	–	97.0
Litigation and insurance		13.1	10.9	(4.3)	(2.3)	–	17.4
Property	4h	21.4	1.3	(2.2)	(0.1)	–	20.4
Share of joint ventures net liabilities	5d	14.2	2.0	(3.7)	–	–	12.5
Other		4.6	2.0	(1.3)	(3.2)	–	2.1
Total		134.4	83.3	(59.4)	(8.9)	–	149.4
Included in current liabilities		59.3					103.7
Included in non-current liabilities		75.1					45.7
Total		134.4					149.4

* The charge for the year includes £0.2million charge (2011: £0.5million) interest cost relating to the unwind of the discount rate in amounts provided.

The restructuring charge for the year mainly relates to the restructuring programmes within UK PSB Group, BBC World Service and Studios and Post Production. The balance at 31 March 2012 predominantly relates to the Delivering Quality First strategy which is due to complete in 2016/17.

Litigation and insurance provisions relate to on-going legal and insurance claims. The BBC Group has a number of contingent liabilities arising from litigation. The BBC makes specific provision for its best estimate of any damages and costs which may be awarded. A provision is only made to the extent that the BBC Group consider it probable that there will be an outflow of economic benefits and the amount can be reliably estimated. There are currently no known individually material outstanding litigations.

Other provisions consist of a number of items arising across the BBC Group in the normal course of business, none material in themselves.

BBC World Service has assets in various locations overseas which are used in short wave transmission of our output. If these sites are taken out of use because of the reduction in short wave radio listening for instance, the BBC Group will be liable for the cost of decommissioning these sites if no other user takes them over. World Service continues to revise its estimate of the decommissioning liability each year, reflecting the impact of any decision to close the sites.

There were no significant contingent liabilities known at the year end (2011: no significant).

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
 NOTES TO THE ACCOUNTS
MANAGING FUNDING (INCLUDING FUTURE COSTS)
CONTINUED

6i Net financing income/(costs)

Set out below is analysis of the finance income and expenses incurred in the year. These amounts include interest relating to finance lease liabilities (see note 4f) and defined benefit pension schemes (see note 3g).

	Note	2012 £m	2011 £m
Financing income			
Interest income		5.8	9.1
Expected return on pension plan assets	3g iii	643.3	603.4
Investment income on assets available for trading	4b	5.1	–
Fair value gains on interest rate swaps and caps		1.6	1.1
		655.8	613.6
Financing costs			
Interest expense		(15.5)	(13.9)
Interest on obligations under finance leases	4f	(81.7)	(58.5)
Fair value movement on financial liabilities		(6.5)	(4.0)
		(103.7)	(76.4)
Unwinding of discount on provisions	6h	(0.2)	(0.5)
Interest cost on pension plan liabilities	3g iii	(527.5)	(529.9)
		(631.4)	(606.8)
Net financing income		24.4	6.8

The **expected return on pension plan assets** is a prediction of the return for the year.

The **interest cost on pension plan liabilities** represents the increase during the year in the value of the plan liabilities because the benefits are one year closer to settlement.

The net impact of financing can be analysed as follows:

	2012 £m	2011 £m
Net financing costs of leasing arrangements	(81.7)	(58.5)
Net financing income related to pension obligations	115.8	73.5
Net financing costs related to loans and financial instruments	(9.7)	(8.2)
	24.4	6.8

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

MANAGING FUNDING (INCLUDING FUTURE COSTS) CONTINUED

6j Long term commitments not reflected in the balance sheet – contracts placed for future expenditure

This note shows amounts to which the BBC Group is contractually committed, but which do not meet the criteria for inclusion in the balance sheet. We have chosen to include fixed (but not variable) payments due under outsourcing contracts for the life of those contracts, as this matches our interpretation of the requirements of s.410A of the Companies Act 2006. To better reflect the interpretation of the Companies Act requirement the comparatives have been amended.

Functions covered by these long term outsourcing contracts include IT support, content distribution and transmission, facilities management, and elements of finance support.

	2012 £m	2011 £m
Fixed asset additions	32.3	72.8
Programme acquisitions and sports rights	948.0	866.6
Independent programmes	201.2	195.4
Other fixed payments on long term outsourcing arrangements	2,454.6	3,010.4
	3,636.1	4,145.2

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

7. OTHER

For additional information on the relevant accounting policies applied in this section please see section 8 *Basis of preparation of the financial statements and other accounting policies* (page F87).

7a Assets and liabilities held for sale

Non-current assets (and assets and liabilities of a group earmarked for disposal) are classified as held for sale if their carrying amount (amount held on the balance sheet) will be recovered principally through sale rather than continuing use, they are available for immediate sale and the sale is highly probable, normally within the next 12 months.

When non-current assets or disposal groups are re-categorised to this note, they are stated at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale.

	Note	2012 £m	2011 £m
Non-current assets:			
Intangible assets	5a	2.0	7.5
Property, plant and equipment	4c	79.0	7.1
Interests in associates and joint ventures		9.9	6.1
Current assets:			
Programme-related assets and other inventories		–	1.4
Trade and other receivables due within one year		–	28.2
Total assets classified as held for sale		90.9	50.3
Liabilities:			
Trade and other payables		–	(36.5)
Total liabilities classified as held for sale		–	(36.5)

The major classes of assets and liabilities comprising the operations classified as held for sale in the current year relate to the property, plant and equipment as per note 4c and the BBC Group's investment in the Ragdoll joint venture.

The prior year amount primarily comprised of the assets and liabilities relating to Magazines operations (disposed in November 2011) and the Oxford Road, Manchester property (sale completed June 2012).

7b Taxation

7b i Recognised in the income statement

The charge for the year, based on the rate of corporation tax of 26% (2011: 28%) comprised:

	Note	2012 £m	2011 £m
Current tax			
UK corporation tax		21.8	30.2
Adjustments in respect of prior years		(5.1)	(4.9)
		16.7	25.3
Foreign tax		15.9	12.2
Total current tax		32.6	37.5
Deferred tax			
Origination and reversal of timing differences		0.8	–
Tax rate increase		1.0	0.3
Adjustments in respect of prior years		0.1	(0.2)
Total deferred tax	7b iv	1.9	0.1
Total taxation expense in the consolidated income statement	7b ii	34.5	37.6

Deferred tax is corporation tax which is expected to be payable (or receivable) in the future as a result of differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the corresponding tax bases used to calculate the corporation tax currently payable.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

OTHER CONTINUED

7b ii Reconciliation of taxation expense

The BBC 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	2012 £m	2011 £m
Surplus before tax		423.6	520.5
Share of joint venture and associates		8.2	9.2
		431.8	529.7
Surplus before tax multiplied by standard rate of corporation tax in the UK of 26% (2011: 28%)		112.3	148.3
Effects of			
Public Services activities			
Public services taxable external income		6.2	7.2
Non-taxable public service activities		(57.5)	(90.0)
Commercial activities			
Disallowed expenditure (including goodwill impairment)		5.6	13.5
Tax exempt investment sale		(24.7)	(27.7)
Tax differential on overseas earnings		3.9	0.5
Tax differential in joint ventures and associates		0.9	(0.2)
Tax rate increase		1.0	0.3
Adjustments in respect of prior years		(5.0)	(5.1)
Total tax charge for the year		42.7	46.8
Share of tax of joint venture and associate		(8.2)	(9.2)
	7b i	34.5	37.6

There is no capital gains tax arising on the sale of property referred to in note 4d due to the availability of indexation allowance.

The increase in tax differential on wholly owned overseas earnings is primarily due to the higher rates of tax in overseas jurisdictions. The lower effective tax rate (total tax charge for the year as a percentage of Group profit excluding tax) arises from the sale of investments that are exempt from capital gains tax.

7b iii Factors that may affect future tax charges

For this year, the rate is 26% and further annual reductions of 1% will follow, reducing the rate finally to 22% with effect from 1 April 2014. The impact of the future rate reductions will be accounted for in future periods, to the extent that they are enacted at the balance sheet date; however it is estimated that this will not have a material effect on the BBC Group.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

OTHER CONTINUED

7b iv Deferred tax assets/(liabilities)

	Fixed asset temporary differences £m	Provisions £m	Financial instruments £m	Other £m	Net deferred tax asset/ (liability) £m
At 1 April 2011	(3.6)	5.6	(0.7)	7.7	9.0
Net charge to income statement	1.1	1.0	(0.5)	(3.5)	(1.9)
Exchange differences	(0.1)	(0.1)	–	0.3	0.1
Other	0.5	(0.3)	–	–	0.2
At 31 March 2012	(2.1)	6.2	(1.2)	4.5	7.4

Deferred tax asset/(liability) presented within:	2012 £m	2011 £m
Non-current assets	13.4	25.9
Non-current liabilities	(6.0)	(16.9)
	7.4	9.0

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profit is probable. The BBC Group has unrecognised deferred tax assets arising on capital losses totalling £20.4million (2011: £22.9million). These assets are not recognised on the basis that there is insufficient certainty that capital or operating gains will arise against which the BBC Group can utilise these losses.

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7c Pension plans

Note 7c sets out the additional detailed disclosures related to the BBC Pension Scheme which were not included in note 3g or 3h.

7c i Changes in the fair value of plan liabilities

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

	2012 £m	2011 £m
Opening present value of plan liabilities	9,756.3	9,795.7
Current service cost	160.0	192.8
Past service cost	4.8	19.3
Gains on curtailments	(45.0)	(250.4)
Interest on pension plan liabilities	527.2	529.6
Experience losses/(gains) arising on plan liabilities	113.3	(71.7)
Changes in assumptions underlying plan liabilities	189.3	(138.9)
Contributions by plan participants	1.8	7.1
Benefits paid and expenses	(337.2)	(327.2)
Closing present value of plan liabilities	10,370.5	9,756.3

The **plan liability** represents the expected amount of money that will be needed in the future to pay employees for their current and future service to the company

Changes in assumptions underlying plan liabilities represent the changes in estimates used to value the future liability. Key assumptions include the discount rate and mortality.

7c ii Changes in the fair value of plan assets

The table below illustrates the movement on the plan assets during the year. The key drivers of this change are contributions made, changes in the value of the pension plan assets (including the investment return) and benefits paid during the year.

The employee contributions to the scheme by members are mainly paid via a salary sacrifice arrangement. These have been treated as employer contributions.

	2012 £m	2011 £m
Opening fair value of plan assets*	8,835.8	8,154.8
Expected rate of return on plan assets	643.3	603.4
Actuarial (losses)/gains on plan assets	(157.8)	93.1
Contributions by employer	212.6	304.6
Contributions by plan participants	1.8	7.1
Benefits paid and expenses	(337.2)	(327.2)
Closing present value of plan assets*	9,198.5	8,835.8

Actuarial gains/losses on plan assets represent the amount by which the assets held by the scheme (such as equities, bonds and property) have performed better or worse than the expected prior year value.

* Excluding AVC funds

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7c iii Plan assets

The allocation of assets by the Pension Trust Trustees is governed by the 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 42.5%, private markets 16.0%, absolute returns 8.5%, return seeking bonds 13.0% and liability matching bonds 20.0%. For more information on the Scheme see <http://www.bbc.co.uk/mypension>.

Type of asset	2012		2011	
	£m	%	£m	%
Equities	4,101	45	4,480	51
Bonds	2,369	25	1,938	22
Property	1,077	12	1,080	12
Alternatives*	1,494	16	1,324	15
Cash	158	2	14	–
Total assets	9,199	100	8,836	100
Actual return on pension plan assets**	486		697	

* Alternatives include private equity, debt and currency.

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

7c iv BBC Pension Scheme (losses)/gains in consolidated statement of comprehensive (loss)/income

	2012 £m	2011 £m
Actual return less expected return on pension plan assets	(157.8)	93.1
Experience (losses)/gains arising on plan liabilities	(113.3)	71.7
Changes in assumptions underlying the present value of plan liabilities	(189.3)	138.9
Net (loss)/gain recognised in the consolidated statement of comprehensive (loss)/income	(460.4)	303.7
Cumulative loss recognised in the consolidated statement of comprehensive (loss)/income	(4,552.0)	(4,091.6)

These **gains and losses** arise from actual performance being different from that predicted. Only defined benefit schemes give rise to gains and losses in the statement of comprehensive income.

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7c v History of experience gains and losses

	2012	2011	2010	2009	2008
Experience adjustments on plan assets:					
Amount (£million)	(157.8)	93.1	1,363.0	(2,094.0)	(584.6)
Percentage of plan assets	1.7%	1.1%	16.7%	32.4%	7.3%
Experience adjustments on plan liabilities:					
Amount (£million)	(113.3)	71.7	33.2	171.3	(149.1)
Percentage of plan liabilities	1.1%	0.7%	0.3%	2.6%	2.0%
Total actuarial (loss)/gain recognised in consolidated statement of comprehensive loss					
Amount (£million)	(460.4)	303.7	(1,869.9)	(784.6)	52.3
Percentage of plan liabilities	4.4%	3.1%	19.1%	11.9%	0.7%

7c vi Principal actuarial assumptions

The calculation of the scheme liabilities and pension charges, for IAS 19 purposes, requires a number of financial and demographic assumptions to be made. The principal assumptions used by the actuaries, at the balance sheet date were:

Principal financial assumptions	2012 %	2011 %	The discount rate for the IAS 19 valuation is taken as the rate for an AA rated corporate bond.
Rate of increase in salaries	1.0	1.0	
Rate of increase in pension payments:			
Old Benefits	3.5	3.7	
New Benefits	3.3	3.5	
Career Average Benefits (2006)	2.4	2.4	
Career Average Benefits (2011)	2.4	2.7	
Inflation assumption (RPI)	3.5	3.7	
Inflation assumption (CPI)	2.5	2.9	
Expected take up rate*	–	40.0	
Discount rate	5.2	5.5	

* Assumption required in the previous financial year to reflect the proportion of members that were assumed to transfer into either the CAB 2011 or defined contribution plans following the changes made to the pension plans. As members have transferred during 2011/12, no assumption is required in the current year.

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

Principal demographic assumptions	2012 Number of years	2011 Number of years
Retiring today:		
Male	27.9	27.8
Female	28.5	28.4
Retiring in 20 years:		
Male	30.3	30.2
Female	30.2	30.1

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 ('SI' series of tables, published by the CMI) which reflect recent research into mortality experience in the UK with a long-term rate of improvement of 1.5% per annum for males and 1.0% per annum for females.

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7c vi Principal actuarial assumptions continued

Expected long-term rate of return (per annum)*	2012 %	2011 %
Equities	8.4	8.6
Bonds and gilts	4.4	4.2
Property	6.4	6.4
Alternatives	8.4	8.6
Cash	3.5	3.7
Total expected rate of return	7.1	7.4

* As at the beginning of the financial year.

The expected return on plan assets for the next year is determined by considering the expected returns available on the major asset classes held by the Scheme at the end of each reporting period. Expected returns on bonds are determined by reference to the redemption yield on Government bonds of long duration. Expected returns on equity investments and other assets reflect long-term real rates of return expected by the market. The expected rate of return adopted for property investments is chosen to be mid-way between the return on equities and the return on bonds.

7c vii Scheme membership analysis and maturity profile

	2012 Number	2011 Number
Contributors	15,647	18,032
Pensioners	18,884	18,805
Dependants	4,028	3,971
Deferred pensioners	28,313	19,591

The total number of Scheme beneficiaries as at 31 March 2012 was 57,186 (2011: 58,009). Membership numbers in the table above are higher as members can hold more than one record. For example, contributing members who have transferred to the Career Average Benefits 2011 section from another section of the Scheme may have a deferred pensioner record for their benefits built up in the Old Benefits, New Benefits or Career Average Benefits 2006 sections and a contributing record for their Career Average Benefits 2011 benefits.

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.

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7d Financial instruments

This section details the financial instruments held by the BBC Group. A financial instrument is a contract that results in one entity recording a financial asset (a contractual right to receive financial assets e.g. cash) in their accounts and another entity recording a financial liability.

The BBC Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and cash equivalents, borrowings and various items such as trade receivables and payables that arise directly from its operations.

7d i Financial risk management

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

BBC 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 Group, both UK PSB Group 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 BBC Group takes a risk averse approach to the management of foreign currency trading and has implemented a clear economic hedging policy to minimise volatility in the financial results. A small number of the forward foreign currency contracts entered into by the BBC Group were designated as hedging instruments in effective cash flow hedges. Hedge accounting is only applied where there is appropriate designation and documentation.

The BBC Group is exposed to the following areas of risk arising from financial instruments:

- Market risk, principally currency and interest rate risk;
- Liquidity risk; and
- Credit risk. The largest element is the licence fee debtor, £410.4million (2011: £413.0million), the amount of income that the BBC receives is directly related to the amount of licence fee collected from households in the UK.

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.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

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7d i Financial risk management continued

The material risks to the BBC Group are:

Currency risk: The BBC Group is principally a domestic organisation with the majority of transactions, assets and liabilities arising in the UK and being sterling based. However, the BBC Group undertakes some transactions in currencies other than sterling. Due to movements in exchange rates over time, the amount the BBC Group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction.

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

As a result of this certainty of cash flows the BBC Group has mitigated its underlying sensitivity to currency fluctuations and therefore has not presented sensitivity analysis as any potential variation is insignificant.

At 31 March 2012 the BBC Group had entered into a net commitment to sell foreign currencies amounting to £220.1million (2011: net commitment to sell £161.5million) that mature in the period through to 2015 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). These forward foreign exchange contracts mean the BBC Group had no significant currency exposure.

Interest rate risk: The BBC Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the BBC Group has been borrowing at floating rates of interest and then using interest rate swaps, caps and collars to manage the BBC 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. The effect of taking out the interest rate swaps, caps and collars is that in the longer term the BBC Group has no significant exposure to interest rate fluctuations and hence no sensitivity analysis is presented.

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 May 2013. In total, £195.3million (2011: £226.3million) of swaps and £84.0million (2011: £177.8million) of caps and collars were entered. All swaps and caps were effective at 31 March 2012 to ensure borrowings are suitably covered for the foreseeable future. The coverage is £79.5million higher (2011: £189.6million higher) than the current level of borrowings of £199.6million (2011: £214.5million).

Fair value movements in respect of interest rate swaps and interest rate options are recorded through the income statement within financing income/financing costs.

Liquidity risk

Liquidity risk is the risk that the BBC Group will not be able to meet its financial obligations as they fall due. 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 6a). In order to comply with these ceilings together with the terms of any individual debt instruments the BBC's Group Treasury manages the BBC Group's borrowings by continuously monitoring BBC Group cash flow forecasts. The BBC holds its surplus liquidity in term deposit accounts with highly rated financial institutions.

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7d ii Fair values of financial instruments

The following table shows the fair value and carrying value of the BBC 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
2012 – Carrying value and fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments	3.4	2.3	–	5.7
Loans and receivables				
Trade and other receivables	628.6	–	7.8	636.4
Cash and cash equivalents				
	407.3	–	–	407.3
Available-for-sale financial assets				
Other investments	–	–	100.9	100.9
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments	(4.2)	(5.9)	–	(10.1)
Trade and other payables	(14.0)	–	–	(14.0)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(30.8)	(169.9)	–	(200.7)
Trade and other payables	(376.5)	–	–	(376.5)
Obligations under finance leases	(6.0)	(35.3)	(847.7)	(889.0)

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7d ii Fair values of financial instruments continued

	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
2011 – Carrying value and fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments	8.0	1.9	–	9.9
Loans and receivables				
Trade and other receivables	642.3	–	6.6	648.9
Cash and cash equivalents				
	513.4	–	–	513.4
Available-for-sale financial assets				
Other investments	–	–	76.9	76.9
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments	(5.8)	(7.6)	–	(13.4)
Trade and other payables	–	(7.5)	–	(7.5)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(20.7)	(194.5)	–	(215.2)
Trade and other payables	(372.4)	–	–	(372.4)
Obligations under finance leases	(2.5)	(29.3)	(865.6)	(897.4)

As at 31 March 2012 there are no differences (2011: no differences) between the fair value and carrying value of any of the BBC Group's financial instruments.

The finance leases include £7.0million (2011: £9.5million) 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. The BBC has a right of offset which meets the criteria as set out in IAS 32 (Financial Instruments Presentation); therefore, the finance lease creditor is presented net of defeasance deposits to arrive at the net unmatched liability at the year end. These defeasance deposits, £125.3million at 31 March 2012 (2011: £153.1million), 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.

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.

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7d iii Derivative financial instruments

When calculating the fair value of the BBC Group's financial instruments (subsequent to the initial recognition), the technique used in each calculation has to be allocated to the relevant level of hierarchy in the table below. This disclosure helps to show the level of judgement that the BBC Group has used in calculating fair values, subsequent to the initial recognition.

Categorisation into the following headings is based on the inputs used for the valuation technique as opposed to the technique itself:

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets (where transactions occur on a frequent basis and in sufficient volumes for the pricing information to be available on an ongoing basis). The prices are therefore available to the general public for identical instruments and occur on a regular basis, thus ensuring they are continually up to date;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Instruments that would typically fall into this category include those where quoted prices are available for similar, but not identical instruments and instruments where a quoted price is available, but in a non-active market i.e. the price may be out of date and therefore require some limited adjustments; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This can include methods such as project future cash flows and occur where there is little, or no, market activity.

At 31 March 2012 and 31 March 2011 there are no material differences between the fair value and carrying value of any of the BBC Group's other financial instruments.

	Fair value hierarchy level	Assets £m	Liabilities £m
2012			
Greater than one year			
Forward foreign currency contracts	2	2.1	(1.3)
Interest rate swaps, caps and collars	2	–	(3.8)
Embedded derivatives	2	0.2	(0.8)
Assets available for trading	3	100.9	–
		103.2	(5.9)
Less than one year			
Forward foreign currency contracts	2	3.4	(2.3)
Interest rate swaps, caps and collars	2	–	(1.8)
Embedded derivatives	2	–	(0.1)
Other payables	3	–	(14.0)
		3.4	(18.2)
2011			
Greater than one year			
Forward foreign currency contracts	2	1.7	(1.2)
Interest rate swaps, caps and collars	2	–	(6.3)
Embedded derivatives	2	0.2	(0.1)
Assets available for trading	3	76.9	–
Other payables	3	–	(7.5)
		78.8	(15.1)
Less than one year			
Forward foreign currency contracts	2	8.0	(4.8)
Interest rate swaps, caps and collars	2	–	(0.9)
Embedded derivatives	2	–	(0.1)
		8.0	(5.8)

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7d iii Derivative financial instruments continued

Level 3 financial assets recorded at fair value and included within available for sale investments include £100.3million (2011: £76.9million) for the shares held in Daunus Limited, the entity that is redeveloping Broadcasting House. The BBC holds a 10% share of the issued share capital of that company which it classes as an available for sale investment, due to mature in 2033. The estimated interest rate used (linked to RPI) was 5.0% and the rate used to discount the future cash flows was 3.2% (2011: 4.15%).

Level 3 financial liabilities recorded at fair value and included within other payables relate to written put options issued to non-controlling interests in the BBC Group's subsidiaries. The fair value of such instruments is calculated based on the strike price of the options and management's best estimate of the date at which options will be exercised. Where the strike price of an option is based on the fair value of the underlying business, this has been estimated based on forecasts of future cash flows prepared by management.

A **put option** is a contract that gives the holder the right, but not the obligation, to sell an asset at a specific point in time.

The **strike price** is the price the option will sell.

Exercise is the point at which the rights in the option are implemented or acted upon.

The change in fair value of Level 3 financial instruments is reconciled as follows:

	Note	2012 £m		2011 £m	
		Financial assets	Financial liabilities	Financial assets	Financial liabilities
Opening balance		76.9	(7.5)	–	(41.3)
Additions		0.6	–	76.9	–
Settlements		–	–	–	41.7
Unwinding of discount recorded within finance expense		–	–	–	(2.8)
Unwinding of discount recorded within finance income	4b	5.1	–	–	–
Change in fair value	4b	18.3	(6.5)	–	(4.0)
Foreign exchange translation gains and losses		–	–	–	(1.1)
		100.9	(14.0)	76.9	(7.5)

All remaining put options over minority share in the Group's subsidiary, Lonely Planet, were acquired by the BBC Group on 14 February 2011. In accordance with IAS 27 (2008) Consolidated and Separate Financial Statements, the exercise of the Lonely Planet put option was treated as an equity transaction.

Options outstanding at 31 March 2012 were exercised in April 2012 and will be settled in the year ending March 2013.

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7d iii Derivative financial instruments continued

The following table details the BBC Group's remaining contractual maturity for its non-derivative financial liabilities (including obligations under finance leases) but excludes trade and other payables that were settled in the normal course of business and are due within one year. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the BBC Group can be required to pay:

	Cash flow £m	Interest £m	Principal £m
2012			
Variable interest rate instruments			
Not later than one year	202.6	1.9	200.7
Fixed interest rate instruments			
Not later than one year	89.0	83.0	6.0
Later than one year but not later than five years	351.6	316.3	35.3
Later than five years	1,778.0	930.3	847.7
	2,421.2	1,331.5	1,089.7
2011			
Variable interest rate instruments			
Not later than one year	186.1	0.9	185.2
Later than one year but not later than five years	30.1	0.1	30.0
Fixed interest rate instruments			
Not later than one year	84.9	82.4	2.5
Later than one year but not later than five years	351.7	322.4	29.3
Later than five years	1,890.4	1,024.8	865.6
	2,543.2	1,430.6	1,112.6

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7e Interests in joint ventures, associates and subsidiaries

The BBC 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, White City Building, 201 Wood Lane, London W12 7TS.

7e i Significant joint ventures and their activities

The BBC 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	Joint ventures are businesses the BBC jointly controls with other parties.
Commercial joint ventures:		
UK Gold Holdings Limited	Holding company	
UK Channel Management Limited	TV channel operator	
Ragdoll Worldwide Limited	Content creation	

7e ii Significant associates and their activities

Name of entity	Holding of issued ordinary shares %	Activity	Associates are businesses over which the BBC exerts significant influence but does not have overall control.
YouView Limited	14.3	Multiplatform broadcasting	
3sixtymedia Limited	10*	Production	

* The BBC holds 10% holding of the total share capital of 3sixtymedia Limited but 20% of the Class A ordinary shares which gives us significant influence.

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7e iii Subsidiary undertakings

Name of entity		Activity	Subsidiary undertakings are businesses the BBC controls.
Commercial Subsidiaries: (All 100% owned unless stated)			
BBC Commercial Holdings Limited	*	Holding company	
BBC Worldwide Limited	**	Publishing, channels and programme distribution	
BBC World News Limited	**	Broadcaster	
BBC Ventures Group Limited	**	Holding company	
BBC Studios and Post Production Limited	**	Programme making facilities and services	
Lonely Planet Publications Pty Limited (incorporated in Australia)	**	Travel Guides Publisher	
Zentertain Limited	**	DVD/video publisher	
BBC Worldwide Australia Pty Limited (incorporated in Australia)	**	Investment company	
BBC Worldwide Americas Inc. (incorporated in the USA)	**	Holding company	
BBC World Distribution Limited	**	Programme distribution	
Subsidiaries incorporated to act on behalf of UK PSB:			
BBC Property Limited	*	Property	
BBC Property Development Limited	*	Property	
Centre House Productions Limited	*	Production financing	
Digital UK Limited***	*	Digital switchover	
DSHS Limited	*	Digital switchover	

* Directly owned.

** Indirectly owned.

*** The BBC controls 58.02% 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 11.4%, Channel Four Television Corporation 11.4%, Channel Five Broadcasting Limited 9.07%, Arqiva Services Limited 6.48% and SDN Limited 3.63%.

7f Reserves

7f i Operating reserve

At 31 March 2012, the cumulative goodwill written off to reserves on acquisitions prior to 1999 amounted to £6.8million. This amount is unchanged on prior year and remained in equity upon transition to IFRS as permitted by IFRS1 *First time adoption of IFRS*.

7f ii Available-for-sale reserve

The balance as at 31 March 2012 relates to the fair value of the BBC's investment in Daunus Limited (see note 4b).

7g Post balance sheet events

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

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7h Related party transactions

Transactions with related parties excluding key management personnel

	Joint ventures, associates and other investments		BBC Pension Scheme	
	2012 £m	2011 £m	2012 £m	2011 £m
Rendering of services	70.3	75.4	–	–
Receiving of services	(21.5)	(21.1)	–	–
Pension contributions	–	–	212.6	304.6
Dividends received	18.8	43.8	–	–
	67.6	98.1	212.6	304.6

Transactions during the year also include £54.3million (2011: £43.3m) of payments made to joint ventures in respect of finance leases.

	Amounts owed by related parties		Amounts owed to related parties	
	2012 £m	2011 £m	2012 £m	2011 £m
BBC Pension Scheme	–	–	(0.7)	(14.1)
Joint ventures, associates and other investments	40.7	52.6	(16.4)	(17.3)
	40.7	52.6	(17.1)	(31.4)

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

The BBC Group also enters into various transactions with government and local authorities on an arm's length basis. These transactions include council tax agreements and corporation tax payments.

Related party transaction with key management personnel are disclosed in note 3f.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

OTHER CONTINUED

7i Segment reporting

Geographical location of income and non-current assets

	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group £m
2012						
Non-current assets excluding deferred tax and financial instruments:						
UK	1,460.7	70.6	200.7	101.7	(111.8)	1,721.9
Rest of world	1.7	79.5	100.8	0.1	–	182.1
	1,462.4	150.1	301.5	101.8	(111.8)	1,904.0
Additions included in fixed assets and investments	176.6	27.0	138.9	2.8	–	345.3
External income:						
UK	3,877.2	279.3	325.7	53.9	(206.1)	4,330.0
Rest of world	1.0	5.4	680.8	69.3	–	756.5
	3,878.2	284.7	1,006.5	123.2	(206.1)	5,086.5
2011						
Non-current assets excluding deferred tax and financial instruments:						
UK	1,471.8	55.6	196.3	101.3	(119.9)	1,705.1
Rest of world	1.9	95.9	115.9	–	–	213.7
	1,473.7	151.5	312.2	101.3	(119.9)	1,918.8
Additions included in fixed assets and investments	514.3	19.5	112.4	4.3	–	650.5
External income:						
UK	3,769.6	292.3	389.2	64.1	(212.8)	4,302.4
Rest of world	–	4.5	617.9	68.2	–	690.6
	3,769.6	296.8	1,007.1	132.3	(212.8)	4,993.0

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

8. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES

The BBC is incorporated in the United Kingdom under the Charter.

Statement of accounting policies

The BBC Group is required to select and apply accounting policies for each type of transaction entered into throughout the year and in the preceding year. An accounting policy will specify the timing for recognising and derecognising assets, liabilities, income and expenditure, how those items will subsequently be measured and where they are presented in the statement of total income and expenditure, balance sheet and statement of cash flows.

For ease of reference, the accounting policies are grouped below into the section headings used above for the notes to the accounts.

Use of estimates and judgement

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the BBC Executive Board to exercise judgement in applying the BBC Group's accounting policies. These areas involve a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the consolidated financial statements. We have presented such estimates or judgements alongside the related accounting policy within the relevant section of the notes.

Basis of preparation

These consolidated financial statements for the BBC Group have been prepared in accordance with EU (IFRS).

The financial statements are principally prepared on the historical cost basis, meaning that after initial recognition, the carrying amount of assets and liabilities are determined by reference to their original cost. Areas where other bases are applied are identified in the accounting policies within the relevant section of the notes.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the BBC Group's financial position and performance.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Adoption of new and revised accounting standards

In the current year, the following revised Standards have been adopted and have been applied since April 2011:

IAS 24 (2009)	<i>Related party disclosures</i>
IFRIC 14 (2009)	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Improvements to IFRSs (May 2010)

There were no material impacts on the financial statements of the BBC Group following the introduction of these revised standards. No changes have been made to the BBC Group's accounting policies during the year either.

Going concern

The financial statements are prepared on a going concern basis. The Directors have prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements. In the Directors' judgement, the key factors in these forecasts are: the continuity of the Charter and licence fee (the quantum of which has been agreed until 2016), the BBC Pension Scheme deficit and the resultant deficit recovery payments agreed with the pension scheme Trustees and the realisation of planned cost savings under the 'Continuous Improvement' and 'Delivering Quality First' programmes.

The Charter and licence fee give the BBC Group a guaranteed source of income, however, the timing of cash flows is an important factor in the consideration of going concern, given the relatively small borrowing restrictions imposed by the DCMS on both UK PSB Group (£200million) and the commercial operations of the BBC (£350million).

The BBC Group has external funding available, including a £200million Sterling revolving credit facility which is in place until June 2013 and which is currently unutilised, and a £380million multicurrency revolving credit facility available to the BBC commercial operations in place until July 2016, of which £185million was drawn down at 31 March 2012 (2011: £190million).

The Directors of the BBC Group have reviewed these forecasts taking all above factors into consideration, together with the sensitivities and mitigating factors in the context of available funds and expect the BBC Group to be able to meet its debts as they fall due for the foreseeable future.

As a result, the Directors are satisfied that the going concern basis is appropriate for the preparation of these the annual financial statements.

The directors are required to make a statement that the BBC is a **going concern** which means it can meet its debts for a period of 12 months from the date on which these financial statements were signed.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Basis of consolidation

The BBC Group accounts include the results of the BBC and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has significant influence but not control (associates) and those which the BBC jointly controls (joint ventures).

The BBC Group accounts for its interests in joint ventures and associates using the equity method. The equity method means that the BBC presents its interest in the joint venture or associate as a single line item in the balance sheet, measured at cost of investment plus share of net results, less dividends received. The equity accounted result for the year is presented as a single line item in the statement of income and expenditure.

Changes in the BBC Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, being movements between reserves attributable to the BBC and non-controlling interests. A non-controlling interest is the interest in a subsidiary that is not owned, directly or indirectly, by the BBC. The non-controlling interest reflects the amount of the net result for the year and the net assets/(liabilities) which is not attributable to the BBC. The carrying amounts of non-controlling interests are adjusted to reflect any changes in their, and the BBC Group's, relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the BBC.

When the BBC Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the net assets of the subsidiary (including attributable goodwill) and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to the income statement or transferred directly to retained earnings as appropriate. The fair value of any interest retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in a joint venture or associate.

Use of estimates and judgement – Basis of consolidation

Judgement is required in determining whether certain entities in which the BBC Group has an economic interest should be considered to be subsidiaries or joint ventures. In such circumstances, the BBC Group has assessed its ability to control or influence those entities. Control has been assessed with reference to the ability of the BBC Group to direct, unilaterally, key policies of the entity. Where such policies are reserved such that an economic partner has the power to veto key strategic financial and operating decisions, the entity is considered to be a joint venture.

A **subsidiary** is an entity that is directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

An **associate** is an entity other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of an entity but is not control or joint control over those policies.

A **joint venture** is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given by the BBC Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Subsequent adjustments to the fair values of net assets acquired are made within 12 months of the acquisition date where original fair values were determined provisionally. These adjustments are accounted for from the date of acquisition. Transaction costs that the BBC Group incurs in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred. The BBC Group, on an acquisition recognises any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of net assets.

When control is obtained in successive share purchases (a 'step acquisition') it is accounted for using the acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement.

Foreign currency transactions

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 at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign currency gains or losses arising from the translation of assets and liabilities at these rates of exchange, together with exchange differences arising from transactions settled during the year, are included in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of initial recognition.

Financial statements of foreign operations

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. The income and expenses of foreign operations are translated into sterling at average monthly rates of exchange ruling during the financial period, which is a good approximation for the actual rate. Exchange differences arising on translation are recognised directly in the translation reserve.

On disposal of an investment in a foreign operation the associated translation reserve balance is released to the income statement.

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.

This means that variations in exchange rates can cause the valuation of investments to fluctuate, even when there has been no change in the health of the underlying business.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section I

Licence fee income

Income from television licences is treated as an amount due from the relevant Government department, principally the DCMS. This represents the value of licences issued in the year, less a deduction for refunds and cancellations.

Where an element of the licence fee income has been ring-fenced by the Government for a specific purpose, that income is recognised when it is due, except if it becomes virtually certain that the BBC's expenditure on the ring-fenced purposes will be less than the ring-fenced income already received. In this case, the relevant amount of licence fee income, as agreed with the Government, will be repayable and recognised as such in the year the obligation to repay arises.

Other income

Other income arises from activities such as the sale of goods, provision of services and granting of licences. Revenue is measured after deductions for value added tax, any other sales taxes, trade discounts and sales between BBC Group companies.

- **Sale of goods**

Revenue is recognised once the significant risks and rewards of ownership of the goods have been passed to the customer and the BBC has released all managerial involvement surrounding the goods. Sales of goods are stated after deduction of the sales value of actual and estimated returned goods. Examples of goods sold include magazines, books and DVDs.

- **Sale of services**

Revenue is recognised at the point the service has been delivered and the receipt of the income is probable. Where the delivery is over a period of time, the revenue is recognised on a straight line basis. Examples of services sold include advertising and commercial licences for specific rights associated with TV programmes.

- **Royalties**

Royalty income is recognised on an accruals basis in accordance with the detail of the relevant agreements.

- **Rental income**

Rental income is recognised on a straight line basis over the term of the lease.

- **Grants from Government departments**

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 drawn down to meet estimated expenditure in the year but unspent amounts do not have to be repaid, as long as they fall within predetermined limits. The grants are recognised as income in the financial year that they relate to.

- **Grants from other public bodies**

Grants from other public bodies are recognised as income consistently with the related costs, provided that there is reasonable assurance that the BBC will comply with any conditions attached to the grant and that the grant will be received.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 2

Completed originated programmes, programmes in production and prepayments to acquire future programme-related rights

Completed originated programmes and programmes in production are held at cost.

Cost includes all direct costs, production overheads and a proportion of other attributable overheads. The proportion of programmes necessarily taking a substantial period of time to produce is small and as such no borrowing costs are included in cost.

Where, exceptionally, a programme is unable to be broadcast, as soon as it is virtually certain that this is the case, the full value of the programme will be written off to the income statement.

Programme development costs are expensed to the income statement until such time as there is a strong indication that the development work will result in a commissioned programme, when any further costs are recognised as programme-related assets.

Originated programmes that are still in production at the balance sheet date are recognised as programmes in production, except that prepayments to acquire future programme-related rights are shown separately where the BBC has made payments to independent producers, or the holders of certain rights (for example, rights to broadcast sporting events), to receive the programme on completion.

Rights to broadcast acquired programmes and films

The rights to broadcast acquired programmes and films are recognised at cost. The costs of acquired programmes and films are written off on first transmission except to the extent that the numbers of further showings are contractually agreed, when it is written off according to its 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 rights whose licence period has not commenced and where there has been no payment by the balance sheet date are disclosed as purchase commitments.

Where the BBC has invested in independent productions, in addition to broadcasting rights the BBC may obtain rights to future royalties from the sale of rights associated with the production. These residual interests are recognised initially at cost subject to amortisation as royalties are received and impairment if anticipated royalties do not materialise.

Other inventories

Raw materials and other physical inventory, including finished goods, are stated at the lower of cost and net realisable value.

Originated programmes are programmes produced internally by the BBC Group for broadcasting and/or sale of the rights to broadcast.

A **commissioned programme** is where an agreement has been made for the programme to be produced for broadcast.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 3

Other employee benefits

Other short and long term employee benefits, including holiday pay and long service leave, are recognised as an expense over the period in which they accrue.

Termination benefits

Termination benefits are a component of restructuring provisions and are payable when employment is terminated before the normal retirement date. They are recognised as an expense when the group is demonstrably committed to termination being when there is a detailed formal plan to terminate employment without possibility of withdrawal.

Defined contribution plans

The amounts charged as expenditure for the defined contribution plans represent the contributions payable by the BBC for the accounting period.

Defined benefit plans

The defined benefit plans, of which the majority of staff are members, provide benefits based on pensionable pay. The assets of the BBC's pension scheme are held separately from those of the BBC Group.

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured using a projected unit credit method. The present value of scheme liabilities is calculated by discounting estimated future cash out flows at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities.

The difference between the fair value of the pension scheme assets and the present value of the 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 comprehensive income, 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 Group recognises a curtailment when it is demonstrably committed to a significant reduction in employees covered by the scheme or amends the scheme's terms such that a significant element of future service will qualify for no or reduced benefits. Curtailment gains and losses are recognised in the income statement.

Use of estimates and judgement – Post-retirement benefits

The pension costs and obligations of the BBC Group's defined benefit schemes are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. Further analysis on the sensitivity of pension assumptions is given in note 3h i.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 4

Owned assets

Other than as noted below, items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Leased assets

Assets held under finance leases are capitalised within property, plant and equipment and depreciation is provided as appropriate. On initial recognition the asset is measured at the lower of its fair value and the present value of the minimum lease payments.

Depreciation

Depreciation is provided to write off the cost of each item of property, plant and equipment, less its estimated residual value, on a straight line basis over its estimated useful life. The major categories of property, plant and equipment are depreciated as follows:

- **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**

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date.

Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Payments made under finance leases are apportioned between financing costs and the reduction of the outstanding liability. The financing costs are allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Use of estimates and judgement – Leases

In assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the BBC Group. Given that finance leases are recognised as liabilities, and operating leases are not, this can have a significant effect on the reported financial position of the BBC. Other key judgements include the determination of the commencement date of a lease and the estimate of RPI to be included in the minimum lease payments.

When determining the accounting for a finance lease, the BBC has assessed whether it has the right to use the leased asset at the inception of the lease, or whether this right passes at a later date ('the commencement date').

Where a significant site is being redeveloped, occupation may occur in distinct phases; consequently, the leased asset and liabilities are recognised based on the proportion of the site occupied at each commencement date.

A **finance lease** is a lease that transfers substantially all the risks and rewards of ownership of the leased asset to the lessee, which is accounted for as if it were an asset of the lessee. As such, both the asset and future liability are recognised on the balance sheet.

An **operating lease** is a lease in which the lessee has not taken on substantially all the risks and rewards of ownership of the leased asset.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 4 continued

Non-current assets held for sale

Non-current assets (and disposal groups comprising assets and liabilities) are classified as held for sale if their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable.

On initial classification as held for sale, non-current assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale.

Investments in equity securities

Investments in equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the statement of comprehensive income, except for impairment losses. When these investments are derecognised the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 5

Programme-related intangible assets

Programme-related intangible assets, which include programme rights and residual programme rights, are stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. The cost and accumulated amortisation of programme-related intangible assets are reduced by programmes which are fully written off.

Research and development expenditure – internally-generated intangible assets

Expenditure on research activities is written off in the income statement when incurred.

Expenditure on development activities is included on the balance sheet as an asset only if all of the following conditions are met:

- It is probable that the asset will generate future economic benefits; and
- The development costs of the asset can be measured reliably.
- The assets are measured at cost less accumulated amortisation and any accumulated impairment losses

For UK PSB Group it is generally unlikely that future economic benefits in the form of cash inflows will be received, and as a result, other than assets created for use by the business in delivering its public purposes, development costs are only capitalised by the BBC Group's commercial businesses.

Other intangible assets

Other intangible assets acquired separately by the BBC Group are stated at cost less accumulated amortisation and any accumulated impairment losses. The identifiable intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition (in accordance with IFRS 3 Business combinations) less accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a systematic basis over the estimated useful lives of intangible assets, from the date that they are available for use, unless such lives are indefinite. The useful lives and amortisation methods for each major class of intangible asset are as follows:

- Programme rights and residual programme rights – charged to the income statement to match the average revenue profile of the programme genre over the estimated average marketable life, generally between 2 and 10 years
- Other intangibles:

– Lonely Planet masthead	Straight line	20 years
– UK.TV carrier agreements	Straight line	unexpired term of agreement
– Software	Straight line	2 – 5 years
– Other	Straight line	3 – 8 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date and adjusted if appropriate.

Programme rights

are rights held by the BBC that permit a future transmission of a particular programme or event.

Research and development

costs are incurred to explore ideas for new programmes or assets, such as the BBC iPlayer. Research costs are where the ideas are generated, some of which are then developed further into a plan or design where the costs are then categorised as development.

Amortisation

is the reduction reflected in the carrying value of the asset as a consequence of the regular use of that asset by the organisation.

Useful economic life

is the period over which the BBC Group will be utilising the asset.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 5 continued

Impairment: Non-financial assets

At each balance sheet date, the BBC Group reviews the carrying amount (net amount held on the balance sheet) of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

For goodwill the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. For the purposes of impairment testing, assets are grouped at the lowest level at which they generate separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Where a cash-generating unit is impaired the impairment loss will first be allocated to reduce goodwill and then to the other assets of the cash-generating unit on a pro rata basis, except that the carrying amount of any individual asset will not be reduced below its separately identifiable recoverable amount.

Impairment losses in respect of goodwill are not reversed. In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Goodwill

Goodwill is recorded in the balance sheet as the difference between the fair value of the consideration transferred by the BBC and the recognised amount of non-controlling interests in the acquiree compared to the fair value of the identifiable assets and liabilities acquired. These are all measured at the date of acquisition. Where the consideration is less than the net assets acquired, the difference is recognised immediately in the income statement.

Acquisitions prior to 1 April 2007 – as part of the adoption of IFRS, in accordance with IFRS 1 'First-time adoption of IFRS', the Group elected to restate only those business combinations that occurred on or after 1 April 2007. In respect of acquisitions prior to 1 April 2007, goodwill is recognised at deemed cost being the amount previously recognised under UK accounting standards, subject to being tested for impairment at that date. Goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve, as was permitted by UK GAAP at the time.

Goodwill arising on the acquisition of joint ventures and associates is included in the carrying amount of the joint venture or associate and is tested for impairment as part of the overall balance.

Subsequent measurement of separately recognised goodwill – goodwill is tested annually for impairment and is measured at cost less any accumulated impairment losses. For the purposes of impairment testing the goodwill is allocated to cash-generating units on the basis of those expected to benefit from the relevant business combination.

Use of estimates and judgement – Goodwill

The determination of whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate that reflects current market assessments of the risks specific to the asset and the time value of money, in order to calculate present value.

An **impairment** occurs when the carrying value of an asset is higher than the amount that is recoverable from its use or sale.

The **fair value** of an asset is the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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.

Consideration, in this context, is the monetary value transferred in exchange for the share in ownership of another entity.

Where the BBC does not own an entity outright, the other shareholders are known/ disclosed as non-controlling interests.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 6

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at fair value less an allowance for estimated impairment. The allowance is based on objective evidence that the BBC Group will not be able to recover all amounts due.

Changes in the carrying amount of the allowance are recognised in the income statement.

Trade and other payables

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use.

Originated programmes can be qualifying assets, but those necessarily taking a substantial period of time to get ready for broadcast are a small proportion of overall programme investment. Any borrowing costs that could be attributed to those programmes are not significant and, therefore, no borrowing costs are capitalised.

All finance income and other borrowing costs are recognised in income and expense in the period in which they are incurred.

Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the BBC. This can be very complex, especially when there is a wide range of possible outcomes.

The BBC Group recognises decommissioning liabilities as part of the initial cost of the asset, discounted to present value. The group reassesses whether there has been a change in this liability based on the facts and circumstances at each balance sheet date.

Amortised cost is the initial value of the transaction that has been amended for subsequent payments, the time value of money and any impairment that may be required.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 7

Taxation

The tax charge for the period comprises both tax currently payable and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves.

Current tax is the expected tax payable for the year, using tax rates that are enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In respect of tax currently payable:

- The BBC (UK PSB Group, 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 external income. Expenditure on capital assets is not eligible for capital allowances giving rise to temporary differences that would lead to deferred tax assets or liabilities. Movements of fair value adjustments in the income statement give rise to deferred tax balances.
- The BBC's commercial subsidiaries are liable for corporation tax based on taxable profit for the year.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the tax rates expected to apply in the period when the liability is settled or the asset is realised using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the BBC Group has the right of set off.

Financial instruments

The BBC Group holds various derivative and non-derivative financial instruments (including assets such as trade investments and liabilities such as borrowings). The accounting policy for the major categories of financial instruments is set out below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of less than three months. Cash and cash equivalents also includes licence fee funds collected on behalf of HM Treasury, which are excluded from the group's net funds and in respect of which a separate creditor is recognized.

Deferred tax is corporation tax which is expected to be payable (or receivable) in the future as a result of differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the corresponding tax bases used to calculate the corporation tax currently payable.

A **derivative** is an asset or liability that is dependent on, or derives its value from, another asset or liability and is to be settled in the future.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 7 continued

Derivative financial instruments

The BBC Group does not enter into speculative derivative contracts. However some derivative financial instruments are used to manage the BBC's exposure to fluctuations in interest rates (interest rate swaps, caps and collars) and foreign currency exchange rates (foreign currency forwards contracts, currency options).

Derivative financial instruments, excluding derivatives held as qualifying hedges are initially recognised at fair value and are subsequently remeasured to fair value at the balance sheet date with movements recorded in the income statement.

The fair value of interest rate swaps, caps and collars is the estimated amount that the BBC 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 rates at the balance sheet date.

Put option

Equity put options held by non-controlling interest holders are recognised as financial liabilities at the present value of the fair value of amounts payable on their exercise. The Group continues to recognise non-controlling interests in respect of these equity investments where the risks and rewards of ownership are deemed to have been retained by the non-controlling interest holders.

Hedge accounting

The BBC Group designates certain derivatives as cash flow hedges by documenting the relationship between the hedging instrument and the hedged item along with the risk management objectives and its strategy for undertaking various hedge transactions. Where the hedge is deemed to have been effective, the effective portion of any changes in the fair value the derivatives that are designated in the hedge are recognised in other comprehensive income. Any ineffective portion is recognised immediately in the income statement.

Embedded derivatives

These derivatives are found embedded within other financial instruments or other host contracts. Once identified they are treated as derivatives in their own right if their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value.

Embedded derivatives are carried on the balance sheet at fair value from inception of the host contract. Unrealised changes in fair value are recognised as gains/losses within the income statement during the period in which they arise.

Under **forward exchange contracts** you buy or sell a currency at a fixed exchange rate with delivery made on a given date or dates in the future.

Interest rate caps protect against interest rates rising, by setting an upper limit (cap) on the floating interest rate, while still allowing the benefit of falling interest rates.

Interest rate collars are the same as interest rate caps except that there is also a lower limit set to the floating interest rate.

Interest rate swaps effectively swap a floating rate loan into a fixed rate loan, or vice versa.

A **put option** issued by the BBC provides the holder the right, but not the obligation to require the BBC to buy shares at a future date and price determined by the option agreement

Inception is the point at which a contract is confirmed, this is normally the point at which the contract is signed.

Unrealised changes are those changes that occur to the value of the embedded derivative prior to the point at which the derivative is exercised

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

Accounting policies relevant to section 7 continued

Impairment of financial assets

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence of impairment. Factors considered in determining whether there is objective evidence of an impairment include significant financial difficulty of the counterparty and breach of contract. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. All impairment losses are recognised in the income statement.

Reserves

The operating reserve is the accumulated surplus to date.

Other reserves include the value of put options exercisable by non-controlling shareholders and available-for-sale reserve includes fair value gains and losses on available-for-sale financial assets.

The hedging reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (net of tax).

The translation reserve is used to record exchange differences arising from the retranslation of the net assets and results of overseas subsidiaries.

An **effective interest rate** is the rate used to discount future cash flows over the life of the contract back to present value.

GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

NOTES TO THE ACCOUNTS

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER ACCOUNTING POLICIES CONTINUED

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective.

Endorsed by the EU:

IFRS 7 (Revised)	<i>Financial instruments: disclosure</i>
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Not yet endorsed by the EU:

IFRS 9	<i>Financial instruments</i>
IFRS 10	<i>Consolidated financial statements</i>
IFRS 11	<i>Joint arrangements</i>
IFRS 12	<i>Disclosures of interests in other entities</i>
IFRS 13	<i>Fair value measurement</i>
IAS 1 (Revised)	<i>Financial Statement presentation</i>
IAS 12 (Revised)	<i>Income Taxes</i>
IAS 19 (Revised)	<i>Employee Benefits</i>
IAS 27 (Revised 2011)	<i>Separate financial statements</i>
IAS 28 (Revised 2011)	<i>Associates and joint ventures</i>
IAS 32 (Revised)	<i>Financial instruments: presentation</i>

The BBC Group currently does not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the BBC Group, except as follows:

- IFRS 9 will impact both the measurement and disclosures of Financial instruments; and
- IFRS 12 will impact the disclosure of interest the BBC Group has in other entities.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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

The Charter requires the BBC to prepare an audited annual report and statement of accounts .

The Trustees' responsibilities are detailed in Part One of the Annual Report and Accounts.

The Executive Board has accepted its responsibility for the preparation of an operating and financial review, statements of compliance with applicable codes and regulations (including the Executive Board Remuneration Report) and the statement of accounts which are intended by them to give a true and fair view of the state of affairs of the BBC and its subsidiaries (the 'Group') and of the income and expenditure for that period. The Executive Board has prepared the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Executive Board must not approve the statement of accounts (or 'financial statements') unless it is satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and of the surplus or deficit for that period.

In preparing the financial statements the Executive Board has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that are reasonable and prudent.
- Stated whether they have been prepared in accordance with IFRS as adopted by the EU.
- Prepared the financial statements on the going concern basis as they believe that the BBC will continue in business.

The Executive Board is responsible for keeping proper accounting records that are sufficient to show and explain the BBC's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Executive Board Remuneration Report comply with the Charter. It also has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the BBC and to prevent and detect fraud and other irregularities.

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

The Executive Board members who held office at the date of approval of the Annual Report and Accounts, whose names and functions are listed in the Governance section of Part Two of the Annual Report and Accounts, confirm that, to the best of each of their knowledge and belief:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and surplus of the Group; and
- The operating and financial review includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

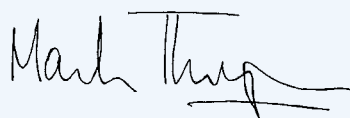
Statement of disclosure of information to auditors

The Executive 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 Executive Board member has taken all the steps that they ought to have taken as an Executive 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

The directors have prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements, and have reviewed these forecasts, together with the sensitivities and mitigating factors in the context of available funds. The directors are satisfied that the BBC is well placed to manage the risks 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 Executive Board.



Mark Thompson
Director-General
21 June 2012



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