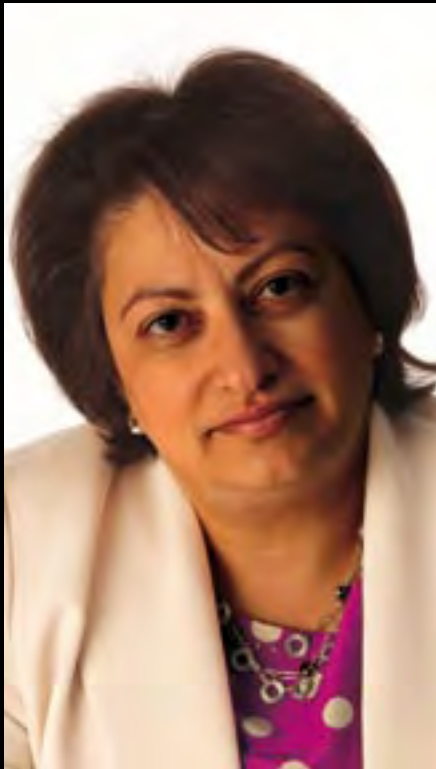




FULL FINANCIAL AND GOVERNANCE STATEMENTS 2009/10

F01	FINANCIAL OVERVIEW
F09	INDEPENDENT AUDITOR'S REPORT
F10	GROUP FINANCIAL STATEMENTS AND NOTES
F79	UK GAAP ACCOUNTING STANDARDS RECONCILIATION
F89	GOVERNANCE





FINANCIAL OVERVIEW

“WE MUST CONTINUALLY MANAGE OUR BUSINESS SO THAT WE MEET OUR PUBLIC PURPOSES, AND SATISFY OUR LICENCE FEE PAYERS OF A JOB WELL DONE.”

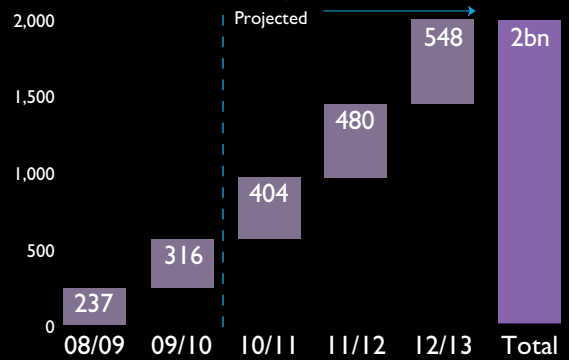
ZARIN PATEL
CHIEF FINANCIAL OFFICER

KPIs

EFFICIENCY

- More than £550million saved since the start of our current efficiency programme in April 2008, including £316million this year.
- On target to achieve our 3% annual savings target – equivalent to nearly £2billion (£1.8billion net), to be re-invested in content, infrastructure and services.

Gross efficiency savings £m



LICENCE FEE COLLECTION

- Cost of collection and evasion maintained at 8.7% of the licence fee for third consecutive year.
- More people are paying for their television licence online, by direct debit and by telephone.

Licence fee collection/evasion %

07/08	8.7
08/09	8.7
09/10	8.7

BBC WORLDWIDE PROFIT

- Despite the global economic crisis, BBC Worldwide increased its sales year-on-year by 7%, and its statutory profit was up to a record £145million with operating margins up from 11% to 14%.
- BBC Worldwide has returned £837million in dividends and programme investments since 2004.

BBC Worldwide statutory profit before specific items, interest and tax £m

07/08	118
08/09	106
09/10	145*

2007/08 figures are UK GAAP. Other years are IFRS.

* Specific items are significant items which are highlighted by virtue of their size or importance to enable a full understanding of BBC Worldwide's performance.

OUR CONTINUING FOCUS IS ON DELIVERING THE BEST POSSIBLE VALUE FOR LICENCE FEE PAYERS. THAT'S OUR BOTTOM LINE, AND IT MEANS FOCUSING ON IMPROVING EFFICIENCY AND GENERATING MAXIMUM RETURNS ON OUR ASSETS.

BY 2013, WE WILL HAVE DELIVERED EFFICIENCY SAVINGS TOTALLING NEARLY £2BILLION, MEETING OUR 3% ANNUAL SAVINGS TARGET.

We are now two years into our five-year efficiency programme. By 2013, the work we have already done will generate efficiency savings of £1,453million, which is equivalent to 73% of our total savings target. Plans are now in place to deliver a further £0.5billion.

We have succeeded in reducing licence fee evasion to just 5.2% of income, a 0.1% improvement on 2008/09. This is despite a very tough economic environment, and slower than expected growth in the number of new households (0.5% growth compared to budgeted 0.8%).

Our financial statements show a surplus of £478million (2009: £244million), including an exceptional one-off benefit of £334million resulting from actions taken to reduce future pension costs through the changes to early retirement provision.

BBC Worldwide has achieved a significant increase in profitability this year from £106million to £145million*, by growing its new businesses areas. This improved performance will benefit the BBC through increased returns to invest in original programming. Exchange gains have helped offset the impact of difficult economic conditions, which particularly impacted UK businesses.

The BBC's Strategy Review, *Putting Quality First*, re-enforces our commitment to making the licence fee work harder. We are looking ahead to ensure that we have robust financial management, enabling us to continue to place quality and audience value at the heart of our agenda.

The BBC has a unique funding structure, with Public Service Broadcasting financed by the licence fee, dividends from the BBC's commercial activities, and grant-in-aid funding to support the World Service.

We have a number of core objectives and metrics that allow us to measure our performance and efficiency. These are more important indicators for us than profitability and growth targets.

Like most other public sector organisations, the BBC has adopted IFRS for the first time in 2009/10. While this does not impact our cash flows or underlying performance, the adoption of IFRS changes the way we recognise and measure some of our property leases and long-term, outsourced service contracts. Our financial statements include a reconciliation between IFRS and UK GAAP.

EFFICIENCY

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

Our income is affected by the number of new households, the level of licence fee evasion, and by the level of the licence fee itself. Gross income is up £85million or 2% this year, reflecting the increased value of the licence fee (£76million) and household growth (£9million). The number of new households was lower than anticipated due to the recession, with growth of just 0.5%, compared to a budget of 0.8%.

We have been able to mitigate the contraction in household growth by holding down our costs, maintaining the total cost of collection and evasion at 8.7%. The total cost has reduced by 40% in relative terms, from 14.4% in 2000, to just 8.7% in 2010.

The current economic environment is tough for everybody. In these difficult circumstances, we have tried to make it easier for people to pay their licence fee. Collection is more flexible now than ever before, and is supported by a new, more customer-friendly website, and active communication programmes like the 'push a little button' campaign to raise public awareness. This has helped reduce evasion to 5.2%, whilst the level of complaints has fallen slightly from 0.14% to 0.12% of television licences.

The launch of the new website means that every licence fee payer can now see their licence online, as well as pay for their licence and change their details. As a result, the number of self-serve transactions has increased again this year from 35% to 44%. The level of direct debit payments has also increased again, to 68%.

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

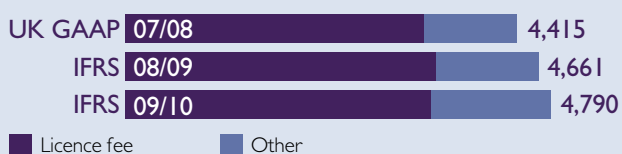
We have now completed the first two years of our five-year efficiency programme, delivering cumulative savings of £553million so far, with one-off costs of £85million. By 2013, the work we have already done will ultimately generate efficiency savings of £1,453million, equivalent to 73% of our total target. Over the next three years, we will implement further initiatives, which will generate an additional £0.5billion of savings so that by 2013, we will deliver total cumulative efficiency savings of nearly £2billion (£1.8billion net).

This is a significant achievement given the internal and external challenges we have faced, including a subdued commercial property market, which has meant we have had to adapt our efficiency plans to respond.

Table 1
Continuous Improvement programme – efficiency savings by category

Savings category	% of total savings	
People	13%	We have reduced the number of people in the organisation, focusing staff on editorial priorities that audiences really value. We have also committed to reduce our spending on top talent and on senior managers. For the fourth consecutive year, our payroll has increased by less than inflation.
Production and process improvement	29%	We are making the most of new technology to improve our programmes, cut our costs, and improve the skills of our people. New approaches have helped us become more efficient in everything we do, from scheduling to shooting. For example, our Multimedia Newsroom has helped us deliver output more efficiently across TV, radio and online.
Procurement and contracts	23%	We are freeing up funds for production, making savings from bulk buying, outsourcing, and renegotiating contracts. We have renegotiated contracts to deliver savings without damaging quality, including our major transmission contracts, and subtitling and sign language services.
Property and technology	7%	Major projects like the Digital Media Initiative are helping us transform the way we work. For example, our move to tapeless digital production allows us to create content more efficiently than ever before. We will see increased savings as we realise the full benefits of our property and technology modernisation programme.
Focusing on content quality	28%	We are shifting our focus to the kind of output that our audiences really appreciate. We have spent less on programmes that deliver lower value, and directed money towards programmes that deliver the highest quality and maximum audience impact, such as <i>A History of the World in 100 Objects</i> and <i>The Seven Ages of Britain</i> .

Chart 1
Income £m



Income

- Licence fee income has grown £85million as a result of the £3 increase per licence, lower evasion rates and an increase in the number of licences issued.
- It is now clear that the overall costs of digital switchover will be less than anticipated and the BBC will repay £132million of underspend to the Government.
- Adjusting for this repayment, licence fee income, overall, shows a decline, as the underspend is not recognised as income.
- Other Income is up £177million to £1,344million, due primarily to BBC Worldwide growth.

We have been running pan-BBC efficiency programmes since 2000, and this is now an integral part of the way we run the business. Our current Continuous Improvement programme is looking at a number of new ways of saving money. These include adapting the way we make programmes, making greater use of new technology, and changing the way we work as an organisation. The latter requires behavioural changes, which are by nature more complex, but which will deliver sustainable, long-term financial and creative benefits.

The new BBC Scotland headquarters in Pacific Quay is a good example. It's a more efficient building, which is cheaper to run, but it has also allowed us to pioneer technological advances like tapeless production, and reduced the number of people we need, as they can now work across TV, radio, and online.

These changes in workflow and technology will help BBC Scotland deliver efficiencies of approximately 30% over five years. Most importantly, these efficiencies are sustainable, and demonstrate the difference that a more effective working environment can make to a creative organisation. We were also able to take a more innovative approach to the funding of the building, which avoided a large capital outlay upfront and reduced risks associated with construction and technical fit-out.

Pacific Quay is an example of efficiency and innovation on a grand scale, but smaller scale changes are just as important, from better utilisation of our production facilities, to more efficient production schedules. Every efficiency saving allows us to invest more in the quality of our content. Examples this year include increasing our investment in HD and spending £25.5million more in Children's programming by 2013.

MAXIMISING THE IMPACT OF THE LICENCE FEE

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

Our main commercial subsidiary, BBC Worldwide, was created to generate the maximum return on programmes paid for by licence fee payers. To achieve this, it sells BBC programmes, formats, and merchandise across the world. BBC Worldwide has had a challenging but successful year, with revenues (including intra-group transactions and share

of joint venture income) up by 7% to £1,074million, and statutory profit before specific items, interest and tax also increasing by 36% to £145million this year. Operating margins are up from 11% to 14%.

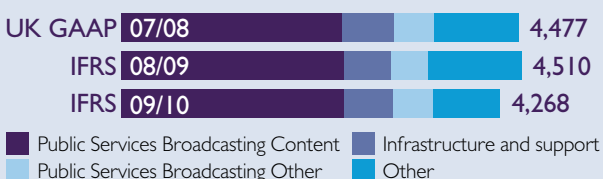
This performance has allowed BBC Worldwide to provide significant returns to the BBC, including £78million invested in BBC programmes, and £32million returned to the BBC through dividends. BBC Worldwide has also declared a further dividend for 2009/10, which will take total dividends to £74million, a year-on-year increase of £5million. Since 2004, this means that BBC Worldwide has now returned £837million to the BBC in dividends and investment in BBC programmes.

BBC Worldwide achieved revenue growth through geographical expansion, including channel launches in Australasia, Africa, Scandinavia, and Latin America; focusing on leading brands like *Lonely Planet* and *Top Gear*; and maximising sales from its production investments, including *Dancing with the Stars*, the international version of the BBC's *Strictly Come Dancing*. Improved performance in the Digital Media business, and other cost cutting measures have helped increase profitability. During the year, BBC Worldwide took full ownership of 2entertain (the DVD operation formerly 40%-owned by Woolworths Group plc) for £17million, thereby securing distribution of BBC and other quality UK content.

Whilst the effect of the UK economic downturn was most acutely felt in advertising and retail based businesses, BBC Worldwide's overseas operations benefited from the weakness of Sterling. This generated exchange gains, which helped offset difficult trading conditions. However, the weakness of Sterling against the Australian Dollar has required BBC Worldwide to reduce the carrying value of *Lonely Planet*, its travel information business, despite strong operating performance. If the exchange rates at 28 February 2010, when the impairment testing was performed, had remained consistent with those at 31 March 2009, the recoverable value would have exceeded the carrying value and no impairment charge would have been recorded.

Chart 2

Operating expenditure £m



Operating expenditure

- The BBC's Continuous Improvement programme has been effective in delivering cumulative efficiency savings of £316million in the year, and £553million to date.
- UK PSB content spend is regulated by the BBC Trust through service licences.
- Two service licence budgets (2009: two) were outside the 10% tolerance this year (BBC Radio 3 and BBC HD).

BBC Worldwide will continue to focus on international activities, brands and online operations, so that it can continue providing value to the BBC and licence fee payers.

BBC World News also suffered a fall in advertising sales, partly offset by increased subscription income from cable and satellite providers, with total revenue dropping just 2% to £62.9million (including intra-group income). Trading losses were more than offset by foreign exchange gains, resulting in statutory PBIT of £3.6million. World News achieved record revenues in March 2010, and has recently implemented cost-cutting measures to reverse trading losses.

BBC Studios and Post Production has also been affected by the current downturn, and a rise in the number of productions moving out of London. Despite this, the business has delivered revenues of £59.8million (including intra-group income) and a statutory operating profit before restructuring of £0.4million, mainly as a result of tighter cost control.

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

The BBC is for all licence fee payers, across absolutely every corner of the UK, and we are committed to growing the whole country's creative industries and production talent.

That is why one of our key metrics is the proportion of money we spend on network television outside of London. 50% of our network television programming will be made outside London by 2016, and the Nations will account for 12% of our network spend by 2012, and 16% by 2016.

We are already on target to achieve this: as we reported to Ofcom this year, total network television spend outside London for the calendar year 2009 was 38% of our eligible spend, up from 35% in 2008.

The increase was greatest in Scotland, where we increased the percentage of eligible network output from 3.7% to 6.1% in 2009, partly through landmark commissions, such as the This is Scotland season. A number of programme strands moved from London during 2009/10, including *The Review Show* (formerly *Newsnight Review*) to Glasgow.

In Northern Ireland, we doubled the level of programmes commissioned to 1.2% of eligible network output, with titles such as the multi-award-winning *Five Minutes of Heaven* on BBC Two.

In Wales, we increased the proportion of eligible network television commissioned from 3.5% to 4.4%. With the opening of our new Drama Village in Cardiff Bay, this trend is set to continue. *Casualty* is one of the major shows set to move to Drama Village in 2011.

These are just a part of our clear long-term commitment to spread the BBC's investment in content more widely across the whole country. With production areas like Children's and Sport moving to Salford from 2011/12, this will be the biggest shift we have ever seen in the geographical presence of the BBC. As part of our move to Salford, BBC Radio 5 live will relocate from London to its new home in the North. This is a key part of our commitment to increase the proportion of network radio commissioned outside of London to 38% from 2012.

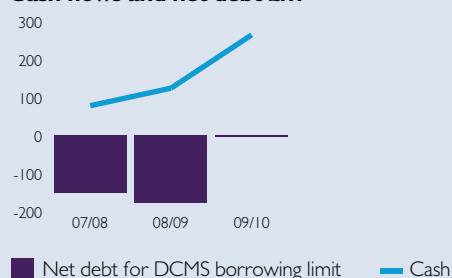
According to an independent study of our economic impact by Deloitte, BBC activity now supports around 7,000 jobs in Glasgow, Cardiff and Bristol. This generates around £200million of economic value every year.

• Ensuring the licence fee supports the wider creative economy

The economic impact study has also endorsed the BBC's important role as an investor in the UK's creative economy. It shows that for every £1 of licence fee spent, we generate £2 of value to licence fee payers. Our Strategy Review includes a commitment to maintaining this level of impact.

We invest significant sums every year in independent production companies, artists and contributors, as well as external facilities and buying programmes. The fact that we do this is a particularly important stabilising factor in tough times, when investment by the commercial sector is under pressure. This has certainly been the case in the last 18 months, and during that time we have maintained our own levels of spend. In the last year we invested £1.1billion in the UK creative economy, and commissioned 40% of our television content

Chart 3
Cash flows and net debt £m



Managing our resources

- UK PSB borrowings are limited by the DCMS, but these limits exclude certain property leases. After adjusting net debt to exclude these leases, PSB continues to operate well within the DCMS borrowing limit for debt.
- UK PSB had net funds of £168million (2009: £46million) available for use at the year end, of which £132million is repayable under the DSHS.
- The BBC, as a whole, has £575million of available borrowings under its current banking facilities.
- The BBC's cash position has increased from £124million in 2009 to £264million in 2010, of which £132million is due for repayment. Net debt has improved by £173million to £3million.

from independents. This is up from 37% the year before. We also commissioned 14% of our eligible network radio content from independents, an increase of 0.5%. External suppliers received 26% of eligible BBC Online spend, slightly exceeding its 25% target.

The amount we spend on the indie sector is only one aspect of our support for the UK creative economy. The other important one is partnerships. Since the launch of our partnerships programme in 2008, we have been working in partnership with ITV, Channel 4, five and commercial radio to support UK public service broadcasting and the wider UK media sector.

FINANCIAL STRATEGY AND RISK

The BBC is focused first and foremost on delivering great programmes for the whole of the UK. We structure our business to deliver maximum value from the licence fee, for example through our Continuous Improvement efficiency programme. We are also driving more of the licence fee into programmes by minimising overhead and support costs.

One way we do this is by outsourcing some support services to expert providers, and minimising how much of the licence fee is spent on these activities.

We structure our supply deals in different ways, according to the competitive environment. In some markets, this means we have shorter-term deals, with contracts put out to tender every three to four years. In other cases we can achieve better value through longer-term deals, where partnership, shared savings, and new ways of working can deliver the greatest value.

Taking this approach means we can minimise the risk to the licence fee payer, and guarantee an efficient and effective service. The savings we make can then be invested in quality content. Across our largest contracts, we have saved more than £350million.

ADOPTION OF IFRS

The BBC has prepared its financial statements using International Financial Reporting Standards (IFRS) for the first time in 2009/10. This is consistent with the adoption of IFRS in the wider public sector; and for Whole of Government Accounts (WGA). 1 April 2008 is the transition date for our first IFRS balance sheet.

As reported in previous Annual Reports, the most significant impact of adoption relates to the recognition and measurement of leases under IFRS. Certain property leases are now treated as finance leases rather than operating leases, resulting in significantly higher assets and lease liabilities being recognised on the balance sheet. However, the net asset impact of this is only £159million. In addition, changes to disclosure requirements relating to operating leases and other commitments have changed how we show these very long-term commitments.

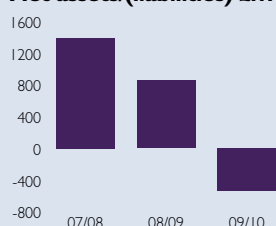
These leasing and contractual commitments are not new. They result from the way we manage our business. We have chosen to outsource a number of services that are not core to programming or content making, including for example, transmission services. This strategy has allowed the BBC to focus on core delivery, improve value for money, and reduce risk. Our property strategy has allowed us to release the value of our assets, through sale and leaseback, giving us the up front cash to invest in programmes and services.

Many of these contracts are very long-term in nature. This allows us to secure a better price, and gives us and our contractual partners certainty, subject to performance criteria. As a result, on an annual basis, we have capital commitments of only £116million, which represents less than 2.5% of total income, and variable contract commitments totalling £557million per annum.

It is important to note that the finance lease obligations recognised on the balance sheet as a result of the adoption of IFRS are excluded from the DCMS definition of borrowings and therefore do not impact our borrowing limits.

Note 27 in the extended outline financial statements gives more detail on the impact of adopting IFRS.

Chart 4
Net assets/(liabilities) £m



Net assets/(liabilities)

- The financial statements show the BBC has net liabilities. In fact, the BBC has net assets of £1.1 billion, excluding the pension scheme deficit of £1.6 billion. The deficit represents a long-term liability.
- In aiming to deliver value for money the BBC has outsourced a number of services, including transmission services.
- The BBC's on balance sheet commitments, extend over a long period. Only £116million of the BBC's commitments are due in the next year (less than 2.5% of annual income).
- Licence fee income, under the Charter, is guaranteed until 2013, and we expect it to be extended thereafter. As such, the BBC has substantial financial flexibility to meet its future obligations, whilst continuing to focus on delivering against the public purposes.

OTHER CURRENT AND FUTURE CHALLENGES

Pension obligations

Our 2008/09 Annual Report set out the need to continually review our approach to pension provision, recognising that it must remain affordable in the long-term.

Over the last 12 months, a combination of market uncertainty, increased life expectancy, lower interest rates and anticipated inflation rises have driven the accounting valuation of the BBC Pension Scheme from a deficit of £0.1billion to a deficit of £1.6billion at 31 March 2010.

In order to value the pension, future pension payments (liabilities) are discounted back to today's money using current market interest yields on highly-rated corporate bonds. This yield fell from 7.2% in 2009 to 5.5% in 2010, increasing pension liabilities by £2.2billion. In addition, the inflation rate used to determine the amount by which pensions grow each year has increased from 2.9% in 2009 to 3.7% in 2010, which also increases the value of pension liabilities by £0.9billion.

The value placed on the future pension payments is very sensitive to the yield on corporate bonds and the assumed inflation rate. For example, if the yield on corporate bonds had been around 6.8% in 2010, the liabilities would have reduced to a level that would have removed the deficit.

The increase in value of liabilities has cancelled out the recovery in the value of the Scheme's assets and led to the £1.5billion increase in the deficit.

The accounting valuation is only a snapshot at a point in time and is therefore impacted by relatively short-term market fluctuations. In the long-term, the Scheme remains healthy, in that it currently earns more from pension contributions and investment income than it pays out in pensions.

The BBC Pension Scheme is subject to a formal actuarial valuation every three years, which is used to determine the employer's contributions. A formal valuation is being undertaken as at 1 April 2010, and whilst the results will not be known for some time, our estimate is for a deficit of around £1.5billion.

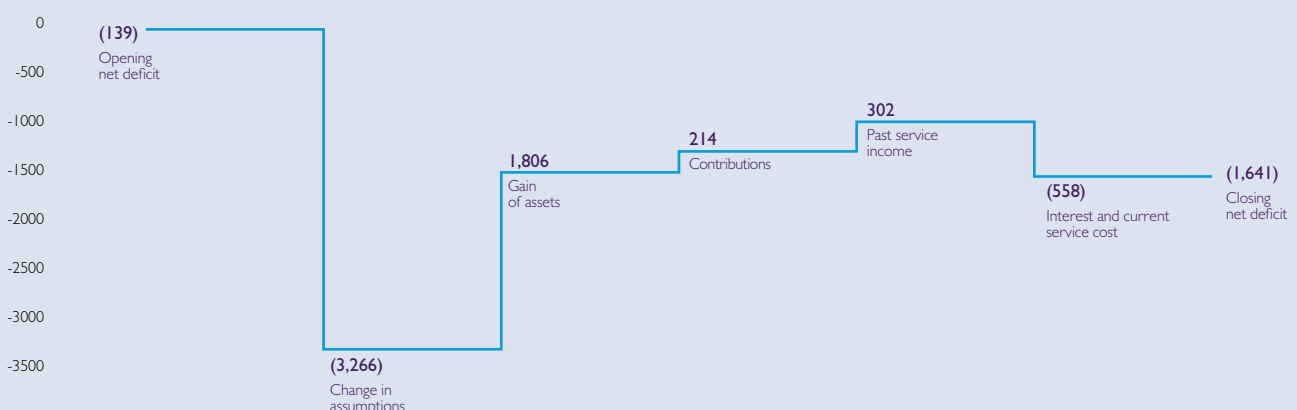
We began a programme of significant reform of our Scheme in 2006, with the aim of containing costs and risks. The final salary section of the Scheme was closed to new joiners, and a lower cost defined benefit, career-average section was introduced. Employee contributions to the final salary section of the Scheme have been increasing steadily over recent years, and rose to 7.5% from April 2010. The early payment terms for the final salary section were also reviewed and amended to reduce costs, giving an exceptional one-off increase in income of £334million. Taken together, these changes have helped make the Scheme more affordable for the BBC over the long-term.

That said, we have a duty to safeguard the long-term health of the Scheme. We have both a current deficit that needs to be reduced and a longer term need to improve affordability of the Scheme, which has been adversely affected by increasing life expectancy and increased market volatility. Without further reform, we predict that pension costs may continue to rise, as people live longer and markets remain unstable.

We believe that it would be inappropriate to divert a higher proportion of the licence fee to offset further pension cost increases. Doing so would provide no guarantee that a similar deficit would not occur in the future, and our income is not guaranteed in the longer-term, so it would be inappropriate to take such a risk.

We have therefore announced a package of changes to the benefits paid by the Scheme, with the aim of further reducing risk and cost to the BBC. The changes are subject to consultation, but we plan to include:

Chart 5
Movement in pension scheme deficit in the year £m



- all sections of the defined benefit scheme will be closed to new joiners and they will be offered membership of a new, defined contribution arrangement, where the BBC will match employee contributions.
- current members of the Scheme will be offered a choice of remaining within the Scheme, or joining the new defined contribution arrangement. For members wishing to remain within the Scheme, future salary increases for calculating pension benefits will be capped at 1% per annum including promotion increases.

Over the coming year, we will work closely with our staff, the Trustees of the Scheme and trade unions to agree and implement these reforms, which are needed to deliver an affordable solution and safeguard the long-term health of the Scheme for current and former employees.

OTHER MATTERS

Treasury policies

Our Treasury function manages the BBC's financial risk, and ensures that we can meet our obligations when they fall due, and remain within our borrowing limits and covenants.


The majority of the BBC's activities are funded from the licence fee, and, as a result, our borrowing facilities are relatively low in comparison to our total annual cash outflow (£200million for Public Service Broadcasting, and £350million for the commercial businesses). These facilities were put in place in 2007/08 to ensure we are fully funded to 2012/13. The facilities are with a select group of counterparties, with strong credit ratings. They can be used to finance major transactions, but other financing routes can also be utilised where appropriate. For example, the properties at the BBC North base in Salford are being leased.

One of the other financial risks we need to consider is exposure to fluctuations in exchange rates. We have a relatively low number of foreign currency transactions, but we still seek to reduce or eliminate the risk of volatility by taking out forward currency contracts. These effectively fix the sterling price of these transactions.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those areas where the greatest judgement needs to be exercised. For the BBC these include:

- Pension scheme assumptions – although the assumptions for financial reporting are market based, there are still important decisions to be made in determining how the BBC Pension Scheme's liabilities compare to market indices. A small change in assumptions can have a significant impact on the valuation of the liabilities. The discount rate used for valuations is a good example.
- Provisions – considerable judgement is required in accounting for provisions, including determining how likely it is that expenditure will be required by the BBC, and calculating a best estimate. This can be very complex, especially when there is a wide range of possible outcomes.
- Leases and managed services – we have to determine whether a lease or arrangement has effectively transferred the rights and obligations associated with the assets to the BBC. 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. However, under IFRS the full value of operating lease payments is also disclosed.
- Impairment – sometimes an asset or investment may be deemed to be impaired, because the benefits to be generated from it are less than its cost. This requires an estimation of the cash flows that will be realised in the future, and judgement is required in modelling possible outcomes.



Zarin Patel

Chief Financial Officer
16 June 2010

Chart 5 continued

The movement on the deficit on the BBC's defined benefit pension scheme results from:

- Changes in the assumptions used to calculate the pension liability: The discount rate, based on AA corporate bond yields, has fallen from 7.2% to 5.5%, increasing the deficit by £2.2billion. In addition, the inflation rate applied to expected future pension payments has increased from 3% to 3.7%, adding £0.9billion to the deficit.
- Gain on assets: A benefit of £1.8billion overall due to plan assets achieving higher returns than expected as world equity markets recover year-on-year.
- Past service income: an amendment to the early retirement arrangements results in a £334million reduction in past service cost (net £302million).
- Contributions: payments made into the scheme by employees and the BBC.
- Interest and current service cost: Includes a year's interest charge on the full pension liability of £463million and the current service cost of £128million, being the cost of pension rights earned by employees in the year.

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

We have audited the group financial statements (the 'financial statements') of the BBC for the year ended 31 March 2010, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Loss, the Consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

In addition to our audit of the financial statements, the Trustees have engaged us to audit the information in the Trustees' and Executive Board Remuneration Reports (together "the Remuneration Reports") that is described as having been audited and which the Trustees have decided to prepare (in addition to that required to be prepared) as if the BBC were a quoted company and hence required to comply with Schedule 8 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410).

This report is made solely to the BBC's Trustees as a body and, in respect of the separate opinion in relation to the Remuneration Reports and reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the BBC's Trustees those matters we are required to state to them in an auditor's report and, in respect of the separate opinion in relation to the Remuneration Reports and reporting on corporate governance, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BBC and the BBC's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustees, Executive Board and Auditors

The Trustees' and Executive Board's responsibilities for preparing the Annual Report, the Remuneration Reports and the financial statements in accordance with applicable law and IFRS as adopted by the EU are set out in the Statement of Executive Board Responsibilities.

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

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

In addition to our audit of the financial statements, the Trustees have engaged us to review the Corporate Governance Statement as if the BBC were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the Corporate Governance Statement reflects the BBC's compliance with the nine provisions of the June 2008 Combined Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Trustees' statements on internal control cover all risks and controls, or form

an opinion on the effectiveness of the BBC's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU of the state of the Group's affairs at 31 March 2010 and of its surplus for the year then ended;
- the parts of the Remuneration Reports which we were engaged to audit have been properly prepared in accordance with Schedule 8 of the Companies Act 2006, as if those requirements were to apply to the BBC;
- 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, the Corporate Governance Statement and the unaudited parts of the Remuneration Reports in Part Two of the Annual Report and Accounts is consistent with the group financial statements.



Scott Cormack (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, 8 Salisbury Square, London EC4Y 8BB
16 June 2010

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 £m	2009 £m
Licence fee income	1a	3,446.8	3,494.4
Other income	1a	1,343.6	1,166.4
Total income	1a	4,790.4	4,660.8
Operating costs excluding restructuring costs and exceptional pension income		(4,540.5)	(4,469.6)
Exceptional pension income	4b	334.1	–
Restructuring costs	4c	(61.9)	(40.3)
Total operating costs	3	(4,268.3)	(4,509.9)
Group operating surplus		522.1	150.9
Gain/(loss) on sale and termination of operations	5	2.0	(2.9)
Gain on disposal of fixed assets	6	39.0	15.9
Share of results of associates and joint ventures	11	36.9	29.8
Financing income	7	445.8	633.9
Financing costs	7	(533.5)	(576.3)
Net financing (cost)/income	7	(87.7)	57.6
Surplus before taxation		512.3	251.3
Taxation	8	(34.7)	(7.5)
Surplus for the year		477.6	243.8
Attributable to:			
BBC		473.3	242.7
Minority interests		4.3	1.1
Surplus for the year		477.6	243.8

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 £m	2009 £m
Group surplus for the year		477.6	243.8
Other comprehensive income/(loss):			
Exchange differences on translation of foreign operations		5.0	23.3
Cash flow hedges		1.0	–
Tax on items taken directly to equity		(0.3)	–
Actuarial loss on defined benefit pension schemes	23b	(1,871.4)	(784.2)
Recognition of share of joint venture liabilities	11	–	(19.4)
Other comprehensive loss net of tax		(1,865.7)	(780.3)
Total comprehensive loss for the year		(1,388.1)	(536.5)
Attributable to:			
BBC		(1,393.5)	(537.3)
Minority interests		5.4	0.8
Total comprehensive loss for the year		(1,388.1)	(536.5)

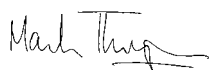
The effects of the changes in accounting policy that have been implemented as part of the adoption of IFRS are disclosed in Note 27.

CONSOLIDATED BALANCE SHEET

	Note	31 March 2010 £m	31 March 2009 £m	1 April 2008* £m
Non-current assets				
Intangible assets (including goodwill)	9	290.0	255.9	219.4
Property, plant and equipment	10	1,157.1	1,188.2	1,211.9
Interests in associates and joint ventures	11	57.8	83.7	71.3
Other receivables	15a	25.7	430.9	399.4
Available for sale investments	12	–	–	2.7
Derivative financial instruments	24c	6.7	12.2	2.6
Deferred tax asset	8d	21.5	27.1	15.3
Pension asset	23bi	–	–	528.4
		1,558.8	1,998.0	2,451.0
Current assets				
Programme-related assets and other inventories	14	682.3	615.5	633.0
Trade and other receivables	15b	1,253.8	747.7	695.9
Assets classified as held for sale	13	30.0	0.6	19.7
Derivative financial instruments	24c	11.9	10.9	2.6
Cash and cash equivalents	2e	263.9	124.3	78.0
		2,241.9	1,499.0	1,429.2
Current liabilities				
Trade and other payables	16a	(1,504.6)	(877.4)	(964.7)
Borrowings	17a	(7.4)	(14.2)	(66.9)
Provisions	18	(59.3)	(87.0)	(112.4)
Liabilities classified as held for sale	13	(8.4)	–	(5.1)
Derivative financial instruments	24c	(8.9)	(22.5)	(2.3)
Current tax liabilities		(12.8)	(15.1)	(12.7)
		(1,601.4)	(1,016.2)	(1,164.1)
Non-current liabilities				
Other payables	16b	(175.1)	(513.1)	(514.7)
Borrowings	17b	(814.6)	(877.5)	(750.0)
Provisions	18	(75.1)	(63.5)	(40.6)
Derivative financial instruments	24c	(13.3)	(21.8)	(0.6)
Deferred tax liabilities	8d	(6.3)	(9.3)	(16.0)
Pension liability	23bi	(1,647.1)	(143.3)	(5.1)
		(2,731.5)	(1,628.5)	(1,327.0)
Net (liabilities)/assets				
		(532.2)	852.3	1,389.1
Attributable to the BBC:				
Operating reserve		(547.6)	850.0	1,409.1
Other reserve		(36.3)	(32.3)	(31.0)
Hedging reserve		0.5	–	–
Translation reserve		35.6	23.6	–
		(547.8)	841.3	1,378.1
Minority interests		15.6	11.0	11.0
Total capital and reserves				
		(532.2)	852.3	1,389.1

* Date of IFRS transition.

The financial statements were approved by the Executive Board on 16 June 2010 and signed on its behalf by:



Mark Thompson Director-General



Zarin Patel Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2010

	Operating reserve £m	Other reserve £m	Hedging reserve £m	Translation reserve £m	Total £m	Minority interests £m	Total equity £m
At 1 April 2008	1,409.1	(31.0)	–	–	1,378.1	11.0	1,389.1
Total comprehensive (loss)/income for the year	(560.9)	–	–	23.6	(537.3)	0.8	(536.5)
Recognised on acquisition of UK.TV	0.5	–	–	–	0.5	–	0.5
Dividends paid	–	–	–	–	–	(0.8)	(0.8)
Foreign exchange movement	1.3	(1.3)	–	–	–	–	–
At 31 March 2009	850.0	(32.3)	–	23.6	841.3	11.0	852.3
Total comprehensive (loss)/income for the year	(1,398.1)	–	0.5	4.1	(1,393.5)	5.4	(1,388.1)
Adjustment on acquisition of Zentertain	0.5	–	–	–	0.5	–	0.5
Dividends paid	–	–	–	–	–	(0.8)	(0.8)
Adjustment in respect of put option	–	3.9	–	–	3.9	–	3.9
Transfer of foreign exchange movement on put option	–	(7.9)	–	7.9	–	–	–
At 31 March 2010	(547.6)	(36.3)	0.5	35.6	(547.8)	15.6	(532.2)
Represented by:							
General Group reserves	(712.2)	(36.3)	0.5	35.6	(712.4)	15.6	(696.8)
BBC World Service and BBC Monitoring reserves	164.6	–	–	–	164.6	–	164.6

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 £m	2009 £m
Operating activities			
Cash generated from operating activities*	21	474.9	249.9
Tax paid		(33.7)	(23.1)
Net cash from operating activities		441.2	226.8
Investing activities			
Interest received		2.4	7.7
Dividends received from associates and joint ventures		10.7	37.0
Dividends paid to minority interests		(0.8)	(0.8)
Proceeds from sale of operations	5	2.0	15.1
Paid on termination of operations		–	(0.9)
Proceeds from disposal of property, plant and equipment		44.3	20.5
Acquisition of subsidiary net of cash acquired with subsidiary		20.0	(13.2)
Acquisition of interests in associates and joint ventures		(0.7)	(15.8)
Drawdown of loan to joint venture		1.3	(0.4)
Purchases of other intangible assets		(100.8)	(100.8)
Purchases of property, plant and equipment	10	(125.2)	(147.5)
Net cash used in investing activities		(146.8)	(199.1)
Financing activities			
Interest paid		(14.3)	(15.3)
Proceeds from increase in borrowings		101.0	223.1
Repayments of borrowings		(174.1)	(144.4)
Payments of obligations under finance leases		(57.4)	(49.1)
Net cash used in financing activities		(144.8)	14.3
Net increase in cash and cash equivalents		149.6	42.0
Cash and cash equivalents at beginning of the year	2e	124.3	78.0
Effect of foreign exchange rate changes on cash and cash equivalents		(1.7)	4.3
Cash classified as held for sale		(8.3)	–
Cash and cash equivalents at the end of the year	2e	263.9	124.3

* See Note 21 for reconciliation of operating surplus to cash generated from operating activities.

NOTES TO THE GROUP FINANCIAL STATEMENTS

THE BBC

The BBC is incorporated in the United Kingdom under Royal Charter (the Charter).

STATEMENT OF ACCOUNTING POLICIES

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

BASIS OF PREPARATION

These consolidated financial statements for the BBC Group (the Group) have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (IFRS).

The financial statements are principally prepared on the historical cost basis. Areas where other bases are applied are identified in the accounting policies below.

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 Group's financial performance.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

First-time adoption of IFRS

These are the Group's first consolidated financial statements to be prepared under IFRS and the disclosures required by IFRS 1 *First-time adoption of International Financial Reporting Standards* concerning the transition from UK GAAP to IFRS are given in Note 27.

IFRS 1 sets out the requirements for the first time adoption of IFRS. The Group is required to establish its IFRS accounting policies for the year ended 31 March 2010 and, generally, apply those policies consistently in the opening IFRS balance sheet as at 1 April 2008 (the date of transition) and thereafter, subject to a number of optional exemptions permitted by IFRS 1.

The Group has adopted the following approach to the key exemptions:

- **Business combinations:** the Group has chosen to apply IFRS 3 Business combinations (as issued in March 2004), and related standards, to business combinations that occurred after 1 April 2007; business combinations occurring prior to this date have not been restated.
- **Fair value or revaluation as deemed cost:** the Group has chosen to use the revalued amount less depreciation for items of plant and equipment held by BBC World Service and BBC Monitoring as their deemed cost on transition to IFRS. All other items of property, plant and equipment continue to be measured on the historical cost basis.
- **Cumulative translation differences:** only those translation differences arising since 1 April 2008 are presented as a separate component of reserves.
- **Leases:** the Group has applied IFRIC 4 Determining whether an Arrangement contains a Lease from 1 April 2008 and therefore determined whether or not an arrangement contains a lease on the basis of facts and circumstances existing at that date.

The BBC has adopted **IFRS** for the first time. It has therefore restated all historic financial information as if it had always applied IFRS.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

Going Concern

The financial statements are prepared on a going concern basis, notwithstanding net liabilities of £532million as at 31 March 2010. The directors believe this to be appropriate for the following reasons.

The net liability position results entirely from the recognition of an additional £1.5billion deficit on the BBC pension scheme. The accounting valuation of the scheme as at 31 March 2010 showed a deficit of £1.6billion (31 March 2009: £0.1billion) primarily driven by a change to the discount rate, which is used to discount back the future pension liability. The discount rate is determined by reference to market yields at the balance sheet date on AA rated corporate bonds, which as a result of current market conditions, have fallen substantially.

The triennial valuation as at 31 March 2010 is currently underway and it is not until this valuation is finalised and agreement is reached with the pension fund trustees that definitive levels of future funding will be determined.

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 2013), the anticipated results of the triennial actuarial valuation of the BBC pension scheme and resultant negotiations with the pension scheme Trustees impacting the level of future funding and the planned cost savings under the 'Continuous Improvement' programme being realised.

The Charter and licence fee give the 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 Department of Culture, Media and Sport (DCMS) on both UK Public Sector Broadcasting (£200million) and the commercial operations of the BBC (£350million).

The group has funding available: including a £200million Sterling revolving credit facility which is in place until June 2013 and which is currently unutilised, and a £350million multicurrency revolving credit facility available to the BBC commercial operations, of which £161million was drawn down at 31 March 2010.

The directors of the 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 the pension deficit and expect the 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.

BASIS OF CONSOLIDATION

The 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 Group accounts for its interests in joint ventures and associates using the equity method.

BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase 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 Group in exchange for control of the acquiree plus costs that are directly attributable to the acquisition. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (as issued in March 2004) are recognised at their fair value at the acquisition date. When control is obtained in successive share purchases (a 'step acquisition'), each significant transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities acquired are stated at fair value when control is obtained.

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 of signing.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

SEGMENTAL ANALYSIS

In accordance with IFRS 8 *Operating Segments*, the Group's operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision maker ('CODM'). The CODM, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the BBC Executive Board. The Executive Board comprises executive and non-executive Directors, and is responsible for making strategic decisions.

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.

FOREIGN CURRENCIES

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, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of initial recognition.

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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

INCOME

Income includes licence fee income, external revenue, other operating income (including government grants and Grant-in-Aid) (together 'total income').

Licence fee income

Income derived from television licences is recognised as a receivable from the relevant Government department, principally the Department for Culture, Media and Sport. This represents the value of licences issued in the year, subject to deductions for refunds made 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 receivable, except that 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 the relevant amount of licence fee income, as agreed with the Government, will be repayable and recognised in the year the obligation to repay arises.

Other income

Other income, or revenue, 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 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 unexpended amounts for the year, within predetermined limits, are not liable to surrender. The grants are recognised as income in the financial year that they relate to.

- **Grants from other Government organisations**

Other grants from Government organisations 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 the grant will be received.

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service Broadcasting or Grant-in-Aid and grant funded activities. More information on the BBC's fair trading requirements and policies can be found in the 'Managing the Business' section in Part Two of the BBC Annual Report and Accounts 2009/10.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

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.

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 and therefore any borrowing costs that could be attributed to those programmes are not significant and 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.

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 in force for the year, and any adjustment to tax payable in respect of previous years. In respect of tax currently payable:

- The BBC (UK Public Service Broadcasting, BBC World Service and BBC Monitoring) is not liable to corporation tax on any surplus licence fee income or grants received from Government departments. However, it is fully liable for corporation tax on capital gains and on all its other 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 Group has the right of set off.

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

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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

INTANGIBLE FIXED ASSETS

Goodwill

Acquisitions on or after 1 April 2007 – on initial recognition goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired.

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 – this 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.

Programme-related intangible assets

Programme-related intangible assets, which includes 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 capitalised only if all of the following conditions are met:

- An identifiable asset is created;
- 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 Group's commercial businesses.

Other intangible assets

Other intangible assets acquired separately by the 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* (as issued in March 2004)) less accumulated amortisation and any accumulated impairment losses.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

Amortisation

Amortisation is charged to the income statement on a straight line 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 – estimated average marketable life of the programme genre, generally between 2 and 10 years
- Other intangibles:

– Lonely Planet masthead	Straight line	20 years
– UK.TV carrier agreements	Straight line	17 years
– 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.

PROPERTY, PLANT AND EQUIPMENT

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

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.

PROGRAMME-RELATED ASSETS AND EXPENDITURE, AND OTHER INVENTORY

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

Originated programmes, excluding those commissioned from independent producers, are stated at the lower of cost and net realisable value, and the full value is written off on first transmission.

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.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

TRADE AND OTHER RECEIVABLES

These are recognised initially and subsequently at fair value. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Group will not be able to recover all amounts due, through a review of all accounts and prior experience collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Consolidated income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, call deposits with maturity of less than or equal to three months.

IMPAIRMENT OF ASSETS

Non-financial assets

At each balance sheet date, the Group reviews the carrying amount 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 or cash generating unit is the higher of fair value less costs to sell and value in use. 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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 that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Financial assets

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. 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.

All impairment losses are recognised in the income statement.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

FINANCIAL INSTRUMENTS

The Group's non-derivative financial instruments (including assets such as trade investments and liabilities such as borrowings) are stated at amortised cost using the effective interest rate, less any impairment losses.

Derivative financial instruments

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

Derivative financial instruments 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 Group would receive or pay to terminate the swap, cap or collar at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap, cap or collar counterparties.

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

Hedge accounting

The fair value changes on hedging instruments (typically foreign exchange forwards) are recognised in the relevant period's operating costs. However, where a financial instrument is designated and effective as a net investment hedge of a foreign operation or a cash flow hedge of purchases or sales in a foreign currency any exchange differences arising on the retranslation of the financial instrument will be recognised directly in the consolidated statement of comprehensive income. Any ineffective portion is recognised immediately in the income and expenditure account.

Embedded Derivatives

Derivatives which are embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are 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.

TRADE AND OTHER PAYABLES

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

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 directly in equity, except for impairment losses. When these investments are derecognised the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

PROVISIONS

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

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

Forward exchange contracts allow you to 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

EMPLOYEE BENEFITS

Defined contribution plans

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

Defined benefit plans

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

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

The difference between the value of the pension scheme assets and pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total 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.

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

Termination benefits

Termination benefits are a component of restructuring provisions and are recognised as an expense in accordance with the accounting policy for provisions.

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.

RESERVES

The operating reserve is the accumulated surplus to date.

Other reserves represent the value of a put option exercisable by minority shareholders.

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.

SERVICE LICENCE REPORTING

Service licences are used by the BBC Trust to regulate the BBC's services and ensure that each aims to provide public value and contribute to delivering the BBC's public purposes. Note 2 provides more detail on how costs are allocated to individual services.

USE OF ESTIMATES AND JUDGEMENTS

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

Post-retirement benefits

The pension costs and defined benefit plan obligations of the Group's defined benefit plans 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. More details are given in Note 23.

Carrying value of 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. Please refer to Note 9 for further details on the impairment loss calculation for the current year.

Leases

In assessing whether a lease is an operating lease or a finance lease, judgment 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 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.

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.

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.

IFRS 1 (amended)/IAS 27 (amended)	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 3 (revised 2008)	Business Combinations
IFRS 5 (amended)	Non Current Assets held for sale and discontinued operations
IAS 17 (revised)	Leases
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 28 (revised 2008)	Investments in Associates
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets From Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Improvements to IFRSs (April 2009)

The Group 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 Group.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

I SEGMENT REPORTING

The Executive Board, the Group's CODM, has determined the reportable segments based upon the reports it regularly reviews and uses to make strategic decisions and allocate resources.

Segmental information provided to the BBC Executive Board is based on the BBC Group's primary 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.,
- BBC Worldwide and the Commercial businesses – These generate revenue from exploiting the various assets of the BBC, for example licensing formats, selling international rights, merchandising and production facilities.

The BBC's Other Commercial activities have been aggregated for reporting purposes as they meet the quantitative thresholds set out in IFRS 8.

Inter-segment pricing is determined on an arm's length basis in accordance with the BBC's fair trading policy.

Information regarding reportable segment assets and liabilities is not reported to the Executive Board.

The UK PSB's expenditure by service licence is also presented in Note 2c.

1a Analysis of income

2010	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	2a	3,446.8	–	–	–	–	3,446.8
Joint venture income	11	4.9	–	185.9	–	–	190.8
Rental income		19.3	–	–	–	–	19.3
Royalties		3.9	–	45.3	0.6	–	49.8
Other revenue*		283.8	7.9	843.0	122.0	–	1,256.7
Grant-in-aid		–	293.0	–	–	–	293.0
Other grant income		5.0	–	–	–	–	5.0
Less intra-group income		(219.6)	(1.5)	–	(48.9)	(10.2)	(280.2)
Other income		92.4	299.4	888.3	73.7	(10.2)	1,343.6
		3,544.1	299.4	1,074.2	73.7	(10.2)	4,981.2
Less joint venture income	11	(4.9)	–	(185.9)	–	–	(190.8)
Total income		3,539.2	299.4	888.3	73.7	(10.2)	4,790.4

* Other revenue arises from activities such as the sale of goods, provision of services and granting of licences.

Note 1 provides analysis of the different segments within the BBC. These reflect the way that management looks at the organisation.

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
CONTINUED

1a Analysis of income continued

2009	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	2a	3,494.4	–	–	–	–	3,494.4
Joint venture income	11	1.5	–	299.0	–	–	300.5
Rental income		15.2	–	–	–	–	15.2
Royalties		4.1	–	41.8	0.6	–	46.5
Other revenue		255.3	7.6	662.8	128.7	–	1,054.4
Grant-in-aid		–	289.6	–	–	–	289.6
Other grant income		5.0	–	–	–	–	5.0
Less intra-group income		(185.6)	(0.7)	–	(50.5)	(7.5)	(244.3)
Other income		94.0	296.5	704.6	78.8	(7.5)	1,166.4
		3,589.9	296.5	1,003.6	78.8	(7.5)	4,961.3
Less joint venture income	11	(1.5)	–	(299.0)	–	–	(300.5)
Total income		3,588.4	296.5	704.6	78.8	(7.5)	4,660.8

1b Analysis of income, surplus/(deficit) by activity

2010	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	*Group Adjustments £m	Group £m
Income	1a	3,539.2	299.4	888.3	73.7	(10.2)	4,790.4
Restructuring costs	4c	(36.9)	(6.3)	(6.8)	(11.9)	–	(61.9)
Depreciation and amortisation		(106.1)	(32.9)	(92.4)	(3.5)	0.1	(234.8)
Other operating costs		(3,376.2)	(215.8)	(691.2)	(79.6)	391.2	(3,971.6)
Total operating costs	3	(3,519.2)	(255.0)	(790.4)	(95.0)	391.3	(4,268.3)
Group operating surplus/(deficit)		20.0	44.4	97.9	(21.3)	381.1	522.1
Gain on sale and termination of operations	5	–	–	2.0	–	–	2.0
Gain on disposal of fixed assets	6	39.0	–	–	–	–	39.0
Share of results of associates and joint ventures	11	(3.1)	–	40.1	–	(0.1)	36.9
Operating segment result		55.9	44.4	140.0	(21.3)	381.0	600.0
Financing income	7						445.8
Financing costs	7						(533.5)
Net financing costs							(87.7)
Surplus before taxation							512.3
Taxation	8						(34.7)
Surplus for the year							477.6

Group adjustments, finance income and costs and taxation are not split between reportable segments because they are managed centrally across the group and it is not possible to allocate them on a consistent basis.

* Group adjustments include £387.9million (2009: £0.3million) for the defined benefit pension scheme, of this balance £334.1million (2009: £nil) relates to past service income arising from a change to early retirement terms and conditions.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

I SEGMENT REPORTING continued

I b Analysis of income, surplus/(deficit) by activity continued

2009	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	*Group Adjustments £m	Group £m
Income	1 a	3,588.4	296.5	704.6	78.8	(7.5)	4,660.8
Restructuring costs	4c	(14.3)	(4.8)	(2.3)	(18.9)	–	(40.3)
Depreciation and amortisation		(107.3)	(30.3)	(95.5)	(5.9)	–	(239.0)
Other operating costs		(3,299.6)	(214.5)	(587.9)	(126.7)	(1.9)	(4,230.6)
Total operating costs	3	(3,421.2)	(249.6)	(685.7)	(151.5)	(1.9)	(4,509.9)
Group operating surplus/(deficit)		167.2	46.9	18.9	(72.7)	(9.4)	150.9
Gain/(loss) on sale and termination of operations	5	0.3	–	(9.4)	5.9	0.3	(2.9)
Gain on disposal of fixed assets	6	15.9	–	–	–	–	15.9
Share of results of associates and joint ventures	11	(5.6)	–	34.6	–	0.8	29.8
Operating segment result		177.8	46.9	44.1	(66.8)	(8.3)	193.7
Financing income	7						633.9
Financing costs	7						(576.3)
Net financing income							57.6
Surplus before taxation							251.3
Taxation	8						(7.5)
Surplus for the year							243.8

* Group adjustments include £0.3million for the defined benefit pension scheme.

NOTES TO THE GROUP FINANCIAL STATEMENTS
CONTINUED

I SEGMENT REPORTING continued

Ic Geographical location of income and non-current assets

2010	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group £m
Non-current assets excluding deferred tax and financial instruments:						
UK	1,028.6	57.5	169.9	14.8	(18.9)	1,251.9
Rest of world	3.5	101.7	173.5	–	–	278.7
	1,032.1	159.2	343.4	14.8	(18.9)	1,530.6
Additions included in fixed assets and investments	98.8	25.3	130.6	5.0	–	259.7
External income:						
UK	3,539.2	295.5	351.1	14.8	–	4,200.6
Rest of world	–	3.9	537.2	58.9	(10.2)	589.8
	3,539.2	299.4	888.3	73.7	(10.2)	4,790.4

2009	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group £m
Non-current assets excluding deferred tax and derivative financial instruments:						
UK	1,458.9	69.9	167.4	9.4	(11.6)	1,694.0
Rest of world	3.6	99.0	162.1	–	–	264.7
	1,462.5	168.9	329.5	9.4	(11.6)	1,958.7
Additions included in fixed assets and investments	103.6	31.3	162.4	2.7	–	300.0
External income:						
UK	3,588.4	292.9	286.4	17.9	–	4,185.6
Rest of world	–	3.6	418.2	60.9	(7.5)	475.2
	3,588.4	296.5	704.6	78.8	(7.5)	4,660.8

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING

This note includes BBC Trust and Department of Culture, Media and Sport (DCMS) regulatory reports and voluntary reports providing additional information on licence fee income and related expenditure. The regulatory reports are presented on the basis upon which the regulations were set.

2a Licence fee income

	Licence fee 2010 £	Licences in force 2010 Number '000	Total income 2010 £m	Licence fee 2009 £	Licences in force 2009 Number '000	Total income 2009 £m
Colour	142.50	21,171	3,002.3	139.50	21,154	2,941.1
Monochrome	48.00	19	1.2	47.00	24	1.4
Concessionary	7.50	181	1.4	7.50	186	1.4
Over 75s	–	4,088	556.4	–	4,000	532.9
		25,459	3,561.3		25,364	3,476.8
Quarterly payment scheme premium			17.5			17.6
Digital switchover help scheme under-spend (Note 2d)			(132.0)			–
Total licence fee income			3,446.8			3,494.4

During the year 3.5 million (2009: 3.5 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2009: £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.

2b Reconciliation of UK Public Service Broadcasting Group expenditure to the basis for service licence reporting purposes

Service licences are used by the BBC Trust to regulate the BBC's services and ensure that each service provides public value and contributes to the delivery of the BBC's public purposes. The annual assessment of performance compares actual costs for content against an agreed and authorised baseline budget. A reconciliation between total UK Public Service Broadcasting Group expenditure and UK Public Service Broadcasting Group expenditure for service licence reporting purposes is provided below. The adjustments reflect the basis on which service licence baseline budgets are set.

Actual costs may vary by up to 10% of the baseline budget to permit management flexibility in its commissioning decisions.

	2010 £m	2009 £m
UK Public Service Broadcasting Group expenditure	3,519.2	3,421.2
Adjustments:		
Lease reclassification	38.2	26.8
Employee benefits	2.8	1.3
UK Public Service Broadcasting Group expenditure for service licence reporting purposes	3,560.2	3,449.3

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING continued

2c UK Public Service Broadcasting Group expenditure by service

During the year there were 28 service licences in operation. Service licences show the cost to the licence fee payer of providing the relevant service and therefore exclude any costs funded by a third party co-producer. A number of television programmes are broadcast on more than one channel and in general the full cost of the programme is recognised as a cost of the channel when the programme is first broadcast. Where a programme is commissioned by two channels the cost of the programme is recognised as a cost of the primary channel irrespective of the channel holding first transmission.

Accordingly, the costs of individual service licences are not necessarily equivalent to the costs which would be incurred by such a service on a stand-alone basis.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING continued

2c UK Public Service Broadcasting Group expenditure by service continued

2010 Service	Note	Content ⁽⁶⁾ £m	Distribution ⁽⁶⁾ £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One		1,113.1	43.2	217.1	–	1,373.4
BBC Two		450.0	30.6	95.0	–	575.6
BBC Three		87.5	6.8	24.3	–	118.6
BBC Four		54.5	3.8	15.7	–	74.0
CBBC		39.9	6.0	11.2	–	57.1
CBeebies		18.1	4.2	6.4	–	28.7
BBC HD	iv	1.6	7.8	1.5	–	10.9
BBC ALBA		4.3	0.8	1.0	–	6.1
BBC News channel	vi	47.8	8.4	7.8	–	64.0
BBC Parliament		2.4	6.5	1.4	–	10.3
BBC Red Button		14.2	13.8	4.7	–	32.7
Television		1,833.4	131.9	386.1	–	2,351.4
BBC Radio 1		32.2	4.9	6.7	–	43.8
BBC Radio 2		40.4	4.4	7.7	–	52.5
BBC Radio 3	v	40.8	4.7	8.5	–	54.0
BBC Radio 4		86.7	8.8	16.5	–	112.0
BBC Radio Five Live		55.0	5.8	11.2	–	72.0
BBC Radio Five Live Sports Extra		2.5	0.2	1.4	–	4.1
BBC 1Xtra		6.5	0.4	2.5	–	9.4
BBC 6 Music		6.5	0.4	2.4	–	9.3
BBC 7		5.0	0.3	1.8	–	7.1
BBC Asian Network		8.9	0.4	2.8	–	12.1
BBC Local Radio	vii	110.2	6.1	21.4	–	137.7
BBC Radio Scotland		24.9	2.6	5.2	–	32.7
BBC Radio nan Gàidheal		4.2	0.9	0.9	–	6.0
BBC Radio Wales		13.1	0.9	2.5	–	16.5
BBC Radio Cymru		12.3	1.2	2.3	–	15.8
BBC Radio Ulster/BBC Radio Foyle		14.4	1.4	3.0	–	18.8
Radio		463.6	43.4	96.8	–	603.8
BBC Online		126.7	22.3	50.3	–	199.3
Online		126.7	22.3	50.3	–	199.3
Spend regulated by service licence		2,423.7	197.6	533.2	–	3,154.5
Licence fee collection costs		–	–	–	126.5	126.5
Orchestras and performing groups		20.3	–	3.8	–	24.1
S4C	viii	30.0	–	6.6	–	36.6
Development spend	ix	31.2	–	5.9	–	37.1
Costs incurred to generate third party income		–	–	–	41.5	41.5
DAB digital radio		–	11.6	–	–	11.6
Digital text		–	6.6	–	–	6.6
Other		81.5	18.2	16.3	168.0	284.0
Restructuring costs	x	–	–	–	36.9	36.9
Total UK public services expenditure		2,505.2	215.8	549.5	204.9	3,475.4
Digital switchover (Digital UK Limited)	xi	–	–	–	29.2	29.2
Digital switchover (DSHS Limited)	xi	–	–	–	55.6	55.6
Total UK Public Service Broadcasting Group expenditure		2,505.2	215.8	549.5	289.7	3,560.2

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING continued

2c UK Public Service Broadcasting Group expenditure by service continued

2009 Service	Note	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One		1,142.0	47.9	209.2	–	1,399.1
BBC Two		450.6	34.1	87.5	–	572.2
BBC Three		87.3	4.2	23.6	–	115.1
BBC Four		54.8	3.0	13.9	–	71.7
CBBC		35.8	3.4	11	–	50.2
CBeebies		16.3	3.5	5.7	–	25.5
BBC HD		2.1	2.7	1.9	–	6.7
BBC ALBA		3.0	0.8	0.7	–	4.5
BBC News channel		47.9	6.6	6.7	–	61.2
BBC Parliament		2.8	5.1	1.8	–	9.7
BBC Red Button		13.5	12.3	4.3	–	30.1
Television		1,856.1	123.6	366.3	–	2,346.0
BBC Radio 1		33.1	3.5	6.5	–	43.1
BBC Radio 2		40.1	3.8	6.9	–	50.8
BBC Radio 3		40.0	4.1	7.2	–	51.3
BBC Radio 4		85.9	8.3	14.8	–	109.0
BBC Radio Five Live		56.5	5.7	10.3	–	72.5
BBC Radio Five Live Sports Extra		2.6	0.3	0.8	–	3.7
BBC 1Xtra		6.8	0.5	2.3	–	9.6
BBC 6 Music		6.5	0.4	2.1	–	9.0
BBC 7		5.2	0.4	1.3	–	6.9
BBC Asian Network		9.2	0.5	2.4	–	12.1
BBC Local Radio		108.6	6.3	18.7	–	133.6
BBC Radio Scotland		25.0	2.4	5.0	–	32.4
BBC Radio nan Gàidheal		4.0	0.9	0.8	–	5.7
BBC Radio Wales		12.9	1.0	2.3	–	16.2
BBC Radio Cymru		12.0	1.3	2.2	–	15.5
BBC Radio Ulster/BBC Radio Foyle		14.5	1.1	2.9	–	18.5
Radio		462.9	40.5	86.5	–	589.9
BBC Online		112.2	18.5	47.1	–	177.8
Online		112.2	18.5	47.1	–	177.8
Spend regulated by service licence		2,431.2	182.6	499.9	–	3,113.7
Licence fee collection costs		–	–	–	122.8	122.8
Orchestras and performing groups		21.5	–	3.7	–	25.2
S4C		27.6	–	5.1	–	32.7
Development spend		30.9	–	5.4	–	36.3
Costs incurred to generate third party income		–	–	–	40.0	40.0
DAB digital radio		–	10.3	–	–	10.3
Digital text		–	6.9	–	–	6.9
Other		80.0	17.2	14.2	162.8	274.2
Restructuring costs		–	–	–	11.0	11.0
Total UK Public Services expenditure		2,511.2	199.8	514.1	173.8	3,398.9
Digital switchover (Digital UK Limited)		–	–	–	26.0	26.0
Digital switchover (DSHS Limited)		–	–	–	24.4	24.4
Total		2,511.2	199.8	514.1	224.2	3,449.3

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING continued

2c UK Public Service Broadcasting Group expenditure by service continued

Infrastructure/support costs	Note	2010 £m	2009 £m
Marketing		74.5	76.6
Press and publicity		5.0	5.3
Libraries, learning support and community events		49.8	49.9
Reduction to pension payment	xii	–	(19.5)
Overheads (excluding restructuring)	iii	406.3	387.1
BBC Trust Unit (excluding restructuring)		13.9	14.7
	iii	549.5	514.1

- (i) Content costs are made up of the direct programme/service specific costs of production and an apportionment of other production related costs that are managed centrally including, for example, newsgathering and copyright costs. Of the total content costs regulated by service of £2,423.7million (2009: £2,431.2million) direct costs were £2,247.7million (2009: £2,259.0million) and the centrally allocated costs were £176.0million (2009: £172.2million).
- (ii) The cost of distribution represents the transmission and carriage of the BBC's UK public services (television, radio and interactive) on digital and analogue broadcast platforms – this includes analogue television, Digital Terrestrial Television (DTT), satellite, cable, broadband, analogue radio and DAB digital radio. Of the distribution costs, £67.7million relates to analogue services (2009: £77.0million) and £148.1million to digital services (2009: £122.8million).
- (iii) Overheads represent expenditure on the BBC's central functions, for example the Director-General's office, BBC People, BBC Finance, Policy and Legal departments. Spend incorporates accommodation and staff costs relating to those functions. The proportion of these costs which are directly attributable to programme-making are included within total content spend, whilst costs of services provided across the BBC as a whole or managed at a corporate level (for example marketing, press and publicity) are shown as infrastructure and support spend.
- (iv) BBC HD's content costs were under the baseline budget by more than the 10% tolerance due to significant savings in contractual costs.
- (v) BBC Radio 3's content costs were over the baseline budget by more than the 10% tolerance level as delays in efficiency savings resulted in additional costs during the year.
- (vi) Included within BBC News channel content costs are production costs of £30.0million, newsgathering costs of £17.3million and other costs of £0.5million (2009: production costs of £29.8million, newsgathering costs of £17.6million and other costs of £0.5million).
- (vii) The service licence for BBC Local Radio covers all of the individual stations in England.
- (viii) The BBC is required to provide Welsh language programming to S4C (the Welsh language channel) as part of the Strategic Partnership Agreement between the BBC Trust and the S4C Authority.
- (ix) Development spend is not regulated by service licence and, as such, is separately identified. The 2010 figure includes costs relating to the multiplatform release of the BBC iPlayer and improvements in other consumer-facing products such as navigating and viewing content on bbc.co.uk and the multiplatform offering of Formula One.
- (x) Restructuring costs primarily relate to the Continuous Improvement programmes and costs resulting from our commitment to relocate and increase investment out of London occurring within UK Public Service Broadcasting (see Note 4c).
- (xi) Under the terms of the current licence fee settlement, a proportion of licence fee income is set aside to help pay for wider industry costs of relating to digital switchover. This includes a marketing and awareness campaign run by Digital UK Limited and the Digital Switchover Help Scheme administered by DSHS Limited.
- As set out in Note 2d the BBC controls 56% of the voting rights of the company Digital UK Limited, and therefore consolidates its results with those of the BBC. As a result, these costs represent the full expenditure by Digital UK Limited, which is financed by contributions from the BBC and other broadcasters. The BBC contributed £27.5million (2009: £24.3million) being 100% of the communication expenditure (which is ring-fenced, see Note 2d) and 56% of all other costs incurred by Digital UK Limited. £1.7million (2009: £1.7million) was contributed by other broadcasters.
- The BBC contributed £48.5million (2009: £23.6million) to DSHS Limited with £7.1million (2009: £0.8million) being contributed by third parties.
- (xii) See Note 23b for a full explanation of pension costs.
- (xiii) For comparative purposes the cost incurred to generate third party income have been removed from the infrastructure/support cost and shown separately

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING continued

2d UK Public Services Group ring-fenced expenditure

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

Digital Switchover	Amount spent prior to 2009 £m	Amount spent in 2009 £m	Amount spent in 2010 £m	Amount repayable 2010 £m	Cumulative Total £m	Six-year ring-fenced funding £m
Help for the elderly and disabled	5.9	23.6	48.5	132.0	210.0	603.0
Digital UK Limited	27.6	20.4	29.7	–	77.7	201.0

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

During the year the BBC and the Secretary of State agreed a mechanism for recovering under spent ring-fenced funds. Of the £132.0million cumulative under spend as at 31 March 2010, £89.1million will be repaid in 2010-11 and £42.9million in 2011-12. Confirmed under-spends arising in future periods will become available for repayment in the following year. Responsibility for ensuring value for money for funds repaid will pass from the BBC Trust to the Government. The funds will be used for purposes not inconsistent with the purposes of the licence fee.

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.

2e Analysis of net (debt)/funds for Department of Culture, Media and Sport (DCMS) borrowing ceilings

	At 1 April 2009 £m	Cash flows £m	Non-cash changes £m	Exchange £m	At 31 March 2010 £m
Cash and cash equivalents	124.3	149.6	(8.3)	(1.7)	263.9
Bank overdrafts	(2.5)	0.8	–	–	(1.7)
Gross funds	121.8	150.4	(8.3)	(1.7)	262.2
Cash classified as held for sale	–	–	8.3	–	8.3
Loans and loan notes	(271.3)	72.3	–	(12.4)	(211.4)
Derivatives associated with loans	(4.8)	–	(3.5)	–	(8.3)
Finance leases	(617.9)	9.0	–	–	(608.9)
Leases not included in DCMS borrowing limits	596.2	–	(40.7)	–	555.5
Net (debt)/funds	(176.0)	231.7	(44.2)	(14.1)	(2.6)
Made up of:					
Public Service Broadcasting	46.4				168.1
Centre House Productions	(13.6)				(10.7)
BBC Worldwide	(157.5)				(23.0)
Other commercial businesses	(51.3)				(137.0)
Net debt	(176.0)				(2.6)

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. These leases are therefore excluded when comparing net debt/funds to DCMS borrowing ceilings.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

2 UK PUBLIC SERVICE BROADCASTING GROUP ADDITIONAL REPORTING CONTINUED

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.

2f Reconciliation of net funds/(debt) to the Department of Culture, Media and Sport (DCMS) borrowing ceilings

	Note	Public Services		Commercial Businesses
		Capital or current expenditure* £m	Current expenditure on Digital Switchover Help Scheme** £m	*** £m
2010				
Net funds/(debt)		168.1	–	(160.0)
Borrowing ceiling	24f	(200.0)	(25.0)	(350.0)
2009				
Net funds/(debt)		46.4	–	(208.8)
Borrowing ceiling	24f	(200.0)	(25.0)	(350.0)

Public Services in this context represent the UK Public Service Broadcasting Group (excluding Centre House Productions Limited – see Note 24b), BBC World Service and BBC Monitoring.

- * The Public Service borrowing limit of £200million is set by the Secretary of State in accordance with the Framework Agreement between the BBC and DCMS. As at 31 March 2010, 31 March 2009, and throughout both financial years, the BBC was in compliance with the borrowing ceilings.
- ** £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 2010 and 31 March 2009, BBC Commercial Holdings Limited was in compliance with both of these covenants. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

3 TOTAL OPERATING COSTS

	Note	2010 £m	2009 £m
Intangible fixed assets, property, plant and equipment and other investments			
Depreciation			
– owned assets		110.6	113.3
– leased assets		28.9	24.4
Write off/impairment of property, plant and equipment	10	6.7	10.9
Amortisation of intangible fixed assets	9	95.3	101.3
Impairment of intangible fixed assets (excl. goodwill)	9	–	2.9
Impairment of investments		1.7	2.3
Impairment of goodwill	9	17.5	–
		260.7	255.1
Inventories			
Write-downs of programme-related assets recognised as an expense		3.7	4.0
		3.7	4.0
Other operating costs			
Payments under operating leases			
– land and buildings		43.0	42.4
– plant and machinery		38.4	34.4
– other		12.8	21.7
Profit on disposal of tangible fixed assets*		(0.1)	(0.5)
Loss on disposal of tangible fixed assets*		1.9	10.4
Programme research costs		28.7	32.1
Research costs		50.1	47.8
Audit and non-audit fees paid to KPMG (see below)		3.6	2.6
Fair trading auditor's remuneration (Deloitte LLP)		0.2	0.2
Net exchange differences on settled transactions		(2.6)	(10.3)
Impairment of trade debtors		4.1	5.7
Fair value (gains)/losses on embedded derivatives		(7.1)	8.1
Fair value (gains)/losses on open forward foreign currency contracts		(14.0)	10.4
Staff costs	4b	1,286.0	1,292.4
Exceptional pension income (defined benefit)	4b	(334.1)	–
Other operating costs**		2,893.0	2,753.4
		4,003.9	4,250.8
Total		4,268.3	4,509.9

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

** Other includes the direct programme/service specific costs of production and other production related costs excluding items disclosed separately including staff costs.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

3 TOTAL OPERATING COSTS continued

The analysis of auditor's remuneration is as follows:

	2010 £m	2009 £m
Fees payable for the audit of the BBC's annual accounts	0.6	0.5
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	0.7
– Other services relating to taxation	0.3	0.2
– Services relating to corporate finance transactions	0.2	0.1
– Services relating to information technology	0.1	–
– Valuation and actuarial advice	0.5	–
– All other services	0.8	1.1
	3.5	2.6
Other services provided to the BBC Pension Scheme	0.1	–
Total	3.6	2.6

4 EMPLOYEES AND REMUNERATION

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2010 Number	2009 Number
UK Public Service Broadcasting Group	17,238	17,078
BBC World Service and BBC Monitoring	2,448	2,379
BBC Worldwide	2,598	2,580
Other commercial businesses	577	837
Group total	22,861	22,874

Within the averages above, 2,870 (2009: 2,806) part-time employees have been included at their full-time equivalent of 1,647 (2009: 1,584).

In addition to the above, the Group employed an average full-time equivalent of 746 (2009: 789) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 379 (2009: 375) full-time equivalents.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

4 EMPLOYEES AND REMUNERATION continued

4b Staff costs

	Note	2010 £m	2009 £m
Salaries and wages*		1,012.3	1,003.6
Social security costs		84.0	86.9
Pension costs*			
– main scheme excl. exceptional pension income (defined benefit)**	23bii	124.6	158.9
– Exceptional pension income (defined benefit)***	23bii	(334.1)	–
– other schemes	23bii	3.2	2.7
Restructuring costs	4c	61.9	40.3
		951.9	1,292.4
Comprising:			
UK Public Service Broadcasting Group		1,004.8	974.1
BBC World Service and BBC Monitoring		106.2	99.1
BBC Worldwide		182.1	155.5
Other commercial businesses		46.7	64.0
Pension schemes additional operating cost (defined benefit)***		(387.9)	(0.3)
		951.9	1,292.4

* A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefit pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions, and a corresponding reduction in salary. The total salary sacrificed in accordance with this arrangement was £43.5million (2009: £38.3million).

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

*** Pension costs in 2010 includes a one-off benefit of £334.1million resulting from the changes to the early retirement terms and conditions within the defined benefit pension scheme.

4c Restructuring costs

	2010 £m	2009 £m
UK Public Service Broadcasting Group	36.9	14.3
BBC World Service and BBC Monitoring	6.3	4.8
BBC Worldwide	6.8	2.3
Other commercial businesses	11.9	18.9
	61.9	40.3

UK Public Service Broadcasting Group restructuring costs include the Continuous Improvement Programme and costs resulting from our commitment to relocate and increase investment out of London. Also included in restructuring costs are redundancy and severance costs incurred as part of a review process aimed at achieving more efficient operations within Commercial Businesses.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

4 EMPLOYEES AND REMUNERATION continued

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

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

4e 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 Executive Board, including the Non-Executive Directors, the Trustees, the Directors of the Trust Unit, and the Chief Executive Officer of BBC Worldwide.

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 www.bbc.co.uk/aboutthebbc/running/executive/eb.

Key management personnel compensation is as follows:

	2010 £m	2009 £m
Short term employee benefits*	7.0	6.6
Post-employment benefits	0.3	0.4
Other long term benefits	0.2	0.1
	7.5	7.1

* The BBC Group introduced a salary sacrifice arrangement on 1 June 2008 for Old and New Benefits members who joined the Pension Scheme before 1 November 2006. This arrangement is also applicable to all Career Average Benefit members. Eleven (2009: ten) members in the table above participated in the arrangement. From that date, the terms and conditions of employment were changed for those employees opting for the salary sacrifice arrangement and as a result employee pension contributions made via the salary sacrifice have been treated as employer contributions, with a corresponding reduction in salary. Base salaries for key management have not been adjusted to reflect the impact of salary sacrifice.

5 Gain/(loss) on sale and termination of operations

	2010 £m	2009 £m
Sale of Outside Broadcast division	–	5.9
Project Kangaroo sale/(closure)	2.0	(9.1)
BBC jam closure	–	0.3
Gain/(loss) on sale and termination of operations	2.0	(2.9)

In the year ended 31 March 2008, an independent joint venture ('UK VOD LLP') was created by BBC Worldwide, ITV and Channel 4 to develop a new UK on-demand service known to the industry as Kangaroo. On 4 February 2009, the Competition Commission reported that it believed the proposed venture would create a lessening of competition in the emerging video on demand industry in the UK, and blocked the joint venture from continuing. As a result BBC Worldwide terminated its investment and during the year ended 31 March 2009, exceptional costs relating to this termination totalling £9.1million were charged to the income statement within the BBC Worldwide segment. This included BBC Worldwide's share of the joint venture's assets impairment. In July 2009, UK VOD LLP sold all of the Project Kangaroo's assets, resulting in a gain of £2.0million.

On 1 April 2008, BBC Studios and Post Production Limited sold its Outside Broadcast business, a provider of mobile production units, communications and special camera solutions, based in Langley, Berkshire, resulting in a gain of £5.9million.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

6 GAIN ON DISPOSAL OF FIXED ASSETS

	2010 £m	2009 £m
Disposal of properties	39.0	15.9
Gain on disposal of fixed assets	39.0	15.9

The gain on disposal of properties relates to the sale of Woodlands £22.5million, Victoria Road £5.0million and Kingswood Warren in Surrey £11.5million.

The gain of £15.9million in 2009 related to the disposal of Queen Margaret Drive in Glasgow.

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 3.

7 NET FINANCING (COSTS)/INCOME

	Note	2010 £m	2009 £m
Financing income			
Interest income		2.4	7.9
Expected return on pension scheme assets	23bii	443.4	626.0
		445.8	633.9
Financing costs			
Interest expense		(12.0)	(15.2)
Interest on obligations under finance leases		(46.3)	(44.6)
Fair value movement on financial liabilities		(4.9)	–
Fair value losses on interest rate swaps and caps		(3.5)	(5.1)
		(66.7)	(64.9)
Unwinding of discount on provisions	18	(3.1)	(2.7)
Interest cost on pension scheme liabilities	23bii	(463.7)	(508.7)
		(533.5)	(576.3)
Net financing (costs)/income		(87.7)	57.6

The **expected return on pension scheme assets** represents the amount by which the assets held by the scheme have performed better than expected.

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

The net cost of financing can be analysed as follows:

	2010 £m	2009 £m
Net financing costs of leasing arrangements	(46.3)	(44.6)
Net financing (cost)/income related to pension obligations	(20.3)	117.3
Net financing costs related to loans and financial instruments	(21.1)	(15.1)
	(87.7)	57.6

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

8 TAXATION

8a Recognised in the income statement

The charge for the year, based on the rate of corporation tax of 28% (2009: 28%) comprised:

	Note	2010 £m	2009 £m
Current tax			
UK corporation tax		27.3	22.7
Deduct: double tax relief		(7.6)	(11.1)
		19.7	11.6
Adjustments in respect of prior years		(4.5)	3.4
		15.2	15.0
Foreign tax		14.7	10.1
Total current tax		29.9	25.1
Deferred tax			
Origination and reversal of timing differences		5.1	(12.7)
Adjustments in respect of prior years		(0.3)	(4.9)
Total deferred tax	8d	4.8	(17.6)
Total taxation expense in the consolidated income statement	8b	34.7	7.5

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.

8b Reconciliation of taxation expense

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

	Note	2010 £m	2009 £m
Surplus before tax		512.3	251.3
Share of Joint Venture and Associates		6.0	16.0
		518.3	267.3
Surplus before tax multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)		145.1	74.8
Effects of			
Public Services activities			
Public services taxable external income		5.4	6.6
Non-Taxable Licence Income		(10.0)	(33.7)
Non-cash element of net Group pension charge		(102.9)	(32.9)
Commercial activities			
Disallowed expenditure		4.7	6.0
Tax differential on overseas earnings		0.3	1.7
Tax differential in Joint Ventures and Associates		2.9	2.5
Adjustments in respect of prior years			
Deferred tax		(0.3)	(4.9)
Current tax		(4.5)	3.4
Total tax charge for the year		40.7	23.5
Share of tax of Joint Venture and Associate		(6.0)	(16.0)
	8a	34.7	7.5

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

8 TAXATION continued

8b Reconciliation of taxation expense continued

The tax impact of a gain on sale and termination of operations (Note 5) and a gain on disposal of fixed assets (Note 6) is £0.6million (2009: £nil). There is no capital gains tax arising on the sale of property (Note 6) due to the availability of indexation allowances.

8c Factors that may affect future tax charges

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

8d Deferred tax asset/(liability)

	Fixed asset temporary differences £m	Provisions £m	Financial instruments £m	Other £m	Net deferred tax asset/ (liability) £m
At 1 April 2008	(12.9)	11.8	0.3	0.1	(0.7)
Charge to income statement	7.0	(2.6)	5.1	8.1	17.6
Acquired on acquisition of investment	(1.4)	–	–	1.2	(0.2)
Exchange differences	–	3.5	–	(2.4)	1.1
At 1 April 2009	(7.3)	12.7	5.4	7.0	17.8
Charge to income statement	3.8	(3.4)	(5.3)	0.1	(4.8)
Acquired on acquisition of subsidiary, JV and Associates	0.3	2.3	–	–	2.6
Exchange differences	–	(1.3)	0.2	0.7	(0.4)
At 31 March 2010	(3.2)	10.3	0.3	7.8	15.2

Deferred tax asset/(liability) presented within:	2010 £m	2009 £m	2008 £m
Non-current assets	21.5	27.1	15.3
Non-current liabilities	(6.3)	(9.3)	(16.0)
	15.2	17.8	(0.7)

The tax charge is driven by the results of the commercial businesses, as the group's public sector 'free-to-air' broadcasting activities are not subject to taxation.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group has unrecognised deferred tax assets arising on capital losses totalling £24.4million (2009: £24.9million) and on operating losses totalling £nil (2009: £2.9million). These assets are not recognised on the basis that there is insufficient certainty that capital or operating gains will arise against which the Group can utilise these losses.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £3.1million (2009: £1.9million). No liability has been recognised in respect of these differences because the Group is in the position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with the Group's interest in the undistributed earnings of associates and joint ventures for the year are insignificant (2009: insignificant).

8d Deferred tax asset/(liability)

Deferred tax relating to cash flow hedges amounting to £0.3million (2009: £nil) has been included in other comprehensive loss and charged to equity.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

9 INTANGIBLE ASSETS

9a Intangible assets carrying amount and amortisation

	Goodwill £m	Programme rights £m	Residual programme rights £m	Other* intangibles £m	Total £m
Cost					
At 1 April 2008	76.6	50.6	91.1	127.3	345.6
Additions on acquisition**	7.6	–	–	7.4	15.0
Additions	–	9.8	83.1	28.6	121.5
Elimination of fully amortised programme rights	–	(4.8)	(51.2)	–	(56.0)
Disposals	–	–	–	(2.9)	(2.9)
Exchange differences	2.8	–	18.6	0.4	21.8
At 1 April 2009	87.0	55.6	141.6	160.8	445.0
Additions on acquisition	25.3	–	–	–	25.3
Additions	–	6.0	84.5	17.3	107.8
Elimination of fully amortised programme rights	–	(1.7)	(47.3)	–	(49.0)
Disposals	–	–	–	(8.0)	(8.0)
Classified as held for sale	(5.6)	–	(2.5)	(0.7)	(8.8)
Exchange differences	13.6	0.3	(4.1)	10.7	20.5
At 31 March 2010	120.3	60.2	172.2	180.1	532.8
Amortisation and impairment					
At 1 April 2008	–	44.2	35.9	46.1	126.2
Charge for the year	–	4.9	76.0	20.4	101.3
Elimination of fully amortised programme rights	–	(4.8)	(51.2)	–	(56.0)
Disposals	–	–	–	(2.9)	(2.9)
Impairment***	–	–	–	2.9	2.9
Exchange differences	–	–	17.6	–	17.6
At 1 April 2009	–	44.3	78.3	66.5	189.1
Charge for the year	–	5.5	66.9	22.9	95.3
Elimination of fully amortised programme rights	–	(1.7)	(47.3)	–	(49.0)
Disposals	–	–	–	(5.9)	(5.9)
Impairment	17.5	–	–	–	17.5
Classified as held for sale	–	–	(2.3)	(0.6)	(2.9)
Exchange differences	–	0.3	(3.4)	1.8	(1.3)
At 31 March 2010	17.5	48.4	92.2	84.7	242.8
Net book value					
At 31 March 2010	102.8	11.8	80.0	95.4	290.0
At 31 March 2009	87.0	11.3	63.3	94.3	255.9
At 31 March 2008	76.6	6.4	55.2	81.2	219.4

* Other intangibles includes:

Net book value	2010 £m	2009 £m	2008 £m
Software	58.1	63.1	55.7
Acquired masthead	26.8	22.6	22.9
Acquired carrier agreements	7.6	6.4	–
Other	2.9	2.2	2.6
	95.4	94.3	81.2

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

9 INTANGIBLE ASSETS CONTINUED

** Additions in the prior year reflect the acquisition of UK.TV. This goodwill has been allocated to the group of assets or cash-generating units (CGUs) within the BBC Worldwide segment that are expected to benefit from the business combination.

*** The impairment charge of £2.9million recorded against other intangibles during the prior year primarily relates to the termination of the Kangaroo joint venture in BBC Worldwide. The impairment loss relating to the Kangaroo joint venture is included in the loss on termination of businesses in the income statement while the remaining impairment loss is included in total operating costs.

9b Goodwill

All goodwill is recognised in BBC Worldwide. Goodwill additions in the current year reflect the acquisition of 2entertain Limited (see Note 19a). Included within additions of £25.3million is goodwill of £14.7million transferred from investment in joint ventures which arose on the original acquisition of the Group's 60% interest in 2entertain Limited.

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

Goodwill by cash generating unit	2010 £m	2009 £m
Australian Travel Guide business	64.2	68.7
DVD Distribution business	25.3	—
Other CGUs	13.3	18.3
	102.8	87.0

Goodwill impairment in the current year relates to the Australian Travel Guide business.

The recoverable amount of each CGU is based on value in use calculations. The present value of future cash flows has been calculated by applying pre-tax discount rates to pre-tax cash flows.

The Group 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. No impairment of goodwill was recognised in the prior year or at the date of transition to IFRS.

Australian Travel Guide business

The goodwill in this CGU arose as a result of the acquisition of Lonely Planet on 1 October 2007. An impairment charge of £17.5million in this CGU has been recognised during the course of 2010, resulting in the carrying value of goodwill in this CGU being written down to its recoverable amount. The impairment charge reflects the strength of the Australian dollar relative to the US dollar and Sterling at the date of the impairment testing.

The estimated cash flows of the current business plan used in determining the recoverable amount of the CGU are consistent with those used at 31 March 2009 as they remain management's expectation for the performance of the CGU. The CGU continues to achieve its short term targets and to expand in the key UK and US markets. However, upon converting the estimated non-Australian cash flows to Australian dollar for the purposes of the impairment testing at the relatively weak spot exchange rates at the date of the impairment testing, the recoverable amount has fallen below the carrying value and an impairment has been necessary. If the exchange rates at 28 February 2010, when the testing was performed, had remained consistent with those at 31 March 2009, the recoverable value would have exceeded the carrying value and no impairment charge would have been recorded.

The recoverable amount calculation uses cash flow projections based on the current business plan approved by management covering a ten year period and a discount rate of 12.8% (2009: 12.6%). The calculation required a ten year projection period to fully assess the impact of a gradual transition to digital content delivery which is expected to grow the business substantially beyond the near term. In addition to providing digital content, the business intends to utilise online capabilities to provide a wider service offering. Beyond this ten year period a terminal value was calculated using a growth rate of 3%. This growth rate does not exceed the long-term average growth rate for the market in which Lonely Planet operates.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

9b Goodwill continued

The main assumptions on which the forecast cash flows were based are growth of the travel market and the Group's share of key markets, being the US, UK and Australia.

In determining a value to assign to growth of the travel market in the short term the Group consulted the Consumer Confidence Index ('CCI'), which usually has a 5-7 month time lag impact on the business. In the longer term, a value was determined in line with Gross Domestic Product ('GDP') and economic growth forecasts.

Past experience was used to assign a value to the Group's share of key markets.

DVD distribution business

The goodwill in this CGU arose as a result of the acquisition in the year of 2entertain. Cash flow projections used in the recoverable amount calculation are based on the current business plan approved by management covering a five year period and are extrapolated using an expected growth rate of 1%. A discount rate of 19.9% has been applied to the cash flows. In forming the assumptions used in calculating the recoverable amount, the Group has used expectations of long term trends for the DVD distribution industry.

Management believes that any reasonably possible change in the key assumptions on which the DVD distribution business' recoverable amount is based would not cause carrying amount to exceed its recoverable amount.

Other CGUs

Other CGUs include the Australian Channels business, Audiobooks business and UK Magazines business these CGUs are not individually significant.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts to exceed the recoverable amounts.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

10 PROPERTY, PLANT AND EQUIPMENT

10a Property, plant and equipment carrying amount and depreciation

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2008	851.2	956.5	157.5	64.3	2,029.5
Additions	20.7	54.7	9.1	57.0	141.5
Brought into service	1.1	26.2	3.0	(30.3)	–
Disposals	(2.7)	(61.1)	(9.1)	(0.4)	(73.3)
Transfers	(0.1)	8.2	(8.2)	0.1	–
Assets held for sale	(1.4)	–	–	–	(1.4)
Exchange movements	0.9	2.1	0.5	–	3.5
At 31 March 2009	869.7	986.6	152.8	90.7	2,099.8
Additions on acquisition	–	0.7	–	–	0.7
Additions	25.0	39.7	12.2	48.3	125.2
Brought into service	10.5	40.3	5.1	(55.9)	–
Disposals	(20.3)	(64.7)	(2.6)	(0.6)	(88.2)
Write off*	–	–	–	(6.7)	(6.7)
Assets held for sale	(0.7)	(0.5)	(0.8)	–	(2.0)
Exchange movements	(0.1)	2.8	0.8	0.5	4.0
At 31 March 2010	884.1	1,004.9	167.5	76.3	2,132.8
Depreciation					
At 1 April 2008	177.4	569.1	71.1	–	817.6
Charge for the year	30.2	91.7	15.8	–	137.7
Disposals	(1.4)	(53.6)	(5.1)	–	(60.1)
Transfers	–	3.2	(3.2)	–	–
Impairment	3.7	9.8	0.8	–	14.3
Assets held for sale	(0.8)	–	–	–	(0.8)
Exchange adjustments	0.7	1.8	0.4	–	2.9
At 31 March 2009	209.8	622.0	79.8	–	911.6
Charge for the year	30.2	91.6	17.7	–	139.5
Disposals	(10.1)	(63.8)	(2.4)	–	(76.3)
Transfers	–	–	–	–	–
Assets held for sale	(0.4)	(0.4)	(0.7)	–	(1.5)
Exchange adjustments	(0.1)	1.5	1.0	–	2.4
At 31 March 2010	229.4	650.9	95.4	–	975.7
Net book value					
At 31 March 2010	654.7	354.0	72.1	76.3	1,157.1
At 31 March 2009	659.9	364.6	73.0	90.7	1,188.2
At 31 March 2008	673.8	387.4	86.4	64.3	1,211.9

* The write off at cost of £6.7million in UK PSB 'assets under construction' is as a consequence of the Digital Media Initiative (DMI) project being re-scoped in order for it to be delivered as a complete 'end to end' digital production tool.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

10 PROPERTY, PLANT AND EQUIPMENT continued

10b Property, plant and equipment held under finance leases

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Net book value					
At 31 March 2010	448.7	28.7	–	–	477.4
At 31 March 2009	467.2	36.8	–	–	504.0
At 31 March 2008	474.4	45.0	0.4	–	519.8

11 INTERESTS IN ASSOCIATES AND JOINT VENTURES

Details of significant joint ventures and associates along with principal subsidiary undertakings, including their activities, are provided in Note 26.

	Group share of joint ventures			Group share of associates			Total		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Current assets	107.6	165.1	178.3	33.0	39.0	46.7	140.6	204.1	225.0
Non-current assets	24.2	29.2	19.6	13.0	18.7	8.9	37.2	47.9	28.5
Total assets	131.8	194.3	197.9	46.0	57.7	55.6	177.8	252.0	253.5
Current liabilities	(53.0)	(96.5)	(110.2)	(41.0)	(38.5)	(41.5)	(94.0)	(135.0)	(151.7)
Non-current liabilities	(84.0)	(88.6)	(84.3)	(192.3)	(212.5)	(122.2)	(276.3)	(301.1)	(206.5)
Total liabilities	(137.0)	(185.1)	(194.5)	(233.3)	(251.0)	(163.7)	(370.3)	(436.1)	(358.2)
Adjustment to reflect effective obligation	34.6	22.8	42.5	185.4	191.4	107.9	220.0	214.2	150.4
Goodwill	2.6	19.7	21.5	13.5	13.6	4.1	16.1	33.3	25.6
Total net book value	32.0	51.7	67.4	11.6	11.7	3.9	43.6	63.4	71.3
The net book value is presented within:									
Interest in associates and joint ventures	46.2	72.0	67.4	11.6	11.7	3.9	57.8	83.7	71.3
Provisions*	(14.2)	(20.3)	–	–	–	–	(14.2)	(20.3)	–
	32.0	51.7	67.4	11.6	11.7	3.9	43.6	63.4	71.3
Income	190.8	300.5	274.6	72.9	57.8	48.8	263.7	358.3	323.4
Profit/(loss) after tax	22.5	22.4	44.8	6.9	(6.8)	(6.3)	29.4	15.6	38.5
Adjustment to reflect effective obligation**	0.8	2.6	1.9	5.2	10.0	7.7	6.0	12.6	9.6
Other	–	2.0	–	0.4	(0.3)	(0.1)	0.4	1.7	(0.1)
	23.3	27.0	46.7	12.5	2.9	1.3	35.8	29.9	48.0

* Of the provisions balance for joint ventures, the recognition of the Group's share of net liabilities (which did not represent operating losses) for UK Gold Holdings Limited (UKGH) as at 1 April 2008 was recorded in the Consolidated statement of comprehensive income, resulting in a reserves adjustment of £19.4million. In the current year the Group has recognised £7.0million as its share of profit for UKGH, carrying forward an amount of £13.0million within provisions (Note 18) as the Group's share of net liabilities.

** Under the terms of the agreements with the other investors in certain of the Group's joint ventures and associates the Group has no obligation to fund losses incurred by those entities or to make good their net liabilities. As a result no share of any relevant losses is included in the financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

12 AVAILABLE FOR SALE INVESTMENTS

	2010 £m	2009 £m
Cost		
At 1 April	4.0	4.2
Exchange adjustment	–	(0.2)
At 31 March	4.0	4.0
Provision		
At 1 April	4.0	1.5
Charge for the year	–	2.7
Exchange adjustment	–	(0.2)
At 31 March	4.0	4.0
Net Book Value	–	–

The available-for-sale investment relates to the Group's 20% unquoted investment in the ordinary share capital of Radio Mid-Day (West) India PVT. Limited, a company registered in India. The principal activity of the company is to obtain and operate FM radio licences in India. During the prior year, the Directors reassessed the carrying value of the Group's investment based on its future business plan and recorded an additional provision of £2.7million bringing the carrying value of the investment to £nil. This assessment reflects difficult challenging local and global market conditions. Recoverable amount calculations were based on value in use and were calculated using a discount rate of 16.1%. The prior year impairment loss is reflected in the BBC Worldwide segment.

This investment is classified as available-for-sale as the Group has no significant influence over the company. This is because the Group does not have Board representation and has limited influence due to Indian regulations applicable to foreign investors.

The group also holds an available-for-sale investment at £nil cost relating to its 10% share of the total issued share capital of Daunus Limited. The principal activity of Daunus Limited is property development.

13 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	2010 £m	2009 £m	2008 £m
Interests in associates and joint ventures	7.2	–	–
Non-current assets			
Programme-related assets and other inventories	0.2	–	–
Intangible assets	4.6	–	–
Property, plant and equipment	0.5	0.6	16.5
Current assets			
Programme-related assets and other inventories	2.4	–	–
Trade and other receivables due within one year	6.8	–	3.2
Cash and cash equivalents	8.3	–	–
Total assets classified as held for sale	30.0	0.6	19.7
	2010 £m	2009 £m	2008 £m
Trade and other payables	(8.1)	–	(5.1)
Current tax liabilities	(0.3)	–	–
Total liabilities classified as held for sale	(8.4)	–	(5.1)

During the year, the Group took the decision to dispose of its 50% interest in Animal Planet Europe and has classified this associate as an asset held for sale. The asset is carried at £7.2million at 31 March 2010.

Following a decision taken by management in September 2009 the group company Audiobooks is held for sale as at 31 March 2010.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

14 PROGRAMME-RELATED ASSETS AND OTHER INVENTORIES

	2010 £m	2009 £m	2008 £m
Programme-related assets			
– Rights to broadcast acquired programmes and films	132.2	139.3	130.0
– Prepayments to acquire future programme-related rights	285.7	252.1	243.3
– Completed originated programmes	71.2	74.1	79.8
– Programmes in production	159.8	130.4	159.3
Total programme-related assets	648.9	595.9	612.4
Other inventories	33.4	19.6	20.6
Total programme-related assets and other inventories	682.3	615.5	633.0

Within other inventories is £4.9million (2009: £6.7million; 2008: £5.9million) relating to the Australian Travel Guide business, which is expected to be sold more than 12 months after the balance sheet date in accordance with the entity's normal operating cycle.

15 TRADE AND OTHER RECEIVABLES

15a Other receivables due after more than one year

	2010 £m	2009 £m	2008 £m
Other receivables	17.1	43.0	17.0
Amounts owed by associates and joint ventures	5.7	2.8	4.3
Prepayments and other assets*	2.9	385.1	378.1
Total	25.7	430.9	399.4

* See 'other payables' for explanation of balance.

15b Trade and other receivables due within one year

	2010 £m	2009 £m	2008 £m
Trade receivables	174.4	141.9	134.4
Licence fee debtors	410.8	384.6	368.4
Amounts owed by associates and joint ventures	30.1	43.3	36.4
VAT recoverable	36.1	30.8	26.2
Other receivables	32.3	19.7	13.0
Prepayments and other assets*	570.1	127.4	117.5
Total	1,253.8	747.7	695.9

*See 'other payables' for explanation of balance.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

16 TRADE AND OTHER PAYABLES

16a Trade and other payables due within one year

	2010 £m	2009 £m	2008 £m
Trade payables*	490.6	396.0	442.5
Amounts owed to associates and joint ventures	2.3	7.1	2.6
Other taxation and social security	26.8	27.4	28.1
Other payables**	522.6	45.8	57.3
Accruals and deferred income	393.7	329.6	360.7
Licence savings stamp deposits and direct debit instalments	68.6	71.5	73.5
Total	1,504.6	877.4	964.7

* Trade payables also include programme-related payables, residual copyright payments, and salaries and wages.

** Other payables includes a £382.0million liability for the BBC's contracted obligation in respect of the Broadcasting House lease arrangement. This liability has been measured at its fair value. A corresponding asset has been recognised in 'Prepayments and other assets'. These amounts will be transferred to finance lease creditors and fixed assets respectively on occupation of the Broadcasting House building in accordance with the planned refurbishment programme. In 2009, these amounts were included within 'other payables' and 'prepayments and other assets' due after more than one year in accordance with the occupation schedule. Other Payables also includes a £37.8million (2009: £32.3million) liability in relation to a put option over 25% of the issued share capital of Lonely Planet (see Note 20).

16b Other payables due after more than one year

	2010 £m	2009 £m	2008 £m
Other payables	175.1	513.1	514.7
Total	175.1	513.1	514.7

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 2010 was 29 days (2009: 32 days). Residual payables and associated costs have been excluded for the purpose of this calculation, as they relate to payments to artists and contributors other than trade creditors.

17 BORROWINGS

17a Borrowings due within one year

	2010 £m	2009 £m	2008 £m
Bank loan and overdraft	1.7	2.5	58.6
Unsecured loan notes	–	3.3	0.7
Obligations under finance leases	5.7	8.4	7.6
Total	7.4	14.2	66.9

17b Borrowings due after more than one year

	2010 £m	2009 £m	2008 £m
Bank loan	211.4	268.0	140.0
Obligations under finance leases	603.2	609.5	610.0
Total	814.6	877.5	750.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

17 BORROWINGS continued

17c Finance lease obligations

Finance lease liabilities are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
2010			
Not later than one year	51.0	45.3	5.7
Later than one year but not later than five years	210.2	175.3	34.9
Later than five years	1,138.4	570.1	568.3
	1,399.6	790.7	608.9
2009			
Not later than one year	53.7	45.3	8.4
Later than one year but not later than five years	214.9	180.4	34.5
Later than five years	1,193.2	618.2	575.0
	1,461.8	843.9	617.9
2008			
Not later than one year	53.5	45.9	7.6
Later than one year but not later than five years	196.2	177.1	19.1
Later than five years	1,247.1	656.2	590.9
	1,496.8	879.2	617.6

A **finance lease** is a lease where the lessee has 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.

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'). 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. 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.

Further, 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 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 £552.5million (2009: £550.8million, 2008: £539.8million) have contingent elements included within their contracts and resulted in contingent rents of £16.3million (2009: credit £6.9million 2008: £0.6million) being reflected in operating costs.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

18 PROVISIONS AND CONTINGENT LIABILITIES

	At 1 April 2009 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Unwinding of discount £m	At 1 April 2010 £m
Restructuring	95.6	64.5	(79.5)	(2.6)	3.1	81.1
Litigation and insurance	12.6	8.0	(2.6)	(4.9)	–	13.1
Property	19.6	1.8	–	–	–	21.4
BBC jam suspension	0.3	–	(0.3)	–	–	–
Share of joint ventures net liabilities	20.3	0.9	–	(7.0)	–	14.2
Other	2.1	3.5	(0.2)	(0.8)	–	4.6
Total	150.5	78.7	(82.6)	(15.3)	3.1	134.4
Included in current liabilities	87.0					59.3
Included in non-current liabilities	63.5					75.1
Total	150.5					134.4

	At 1 April 2008 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Unwinding of discount £m	At 1 April 2009 £m
Restructuring	120.0	44.1	(67.4)	(3.8)	2.7	95.6
Litigation and insurance	13.8	2.9	(1.7)	(2.4)	–	12.6
Property	16.4	4.1	(0.9)	–	–	19.6
BBC jam suspension	1.5	0.1	(0.9)	(0.4)	–	0.3
Share of joint ventures net liabilities	–	20.3	–	–	–	20.3
Other	1.3	1.2	(0.1)	(0.3)	–	2.1
Total	153.0	72.7	(71.0)	(6.9)	2.7	150.5
Included in current liabilities	112.4					87.0
Included in non-current liabilities	40.6					63.5
Total	153.0					150.5

The majority of the restructuring charge for the year relates to redundancy for the Continuous Improvement programme, (a five-year programme to secure annual efficiencies ending in 2012/13) and to the BBC's commitment to transfer investment out of London.

Litigation and insurance provisions relate to self-insurance and production related insurance based on previous experience as well as potential legal claims.

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.

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

Share of joint ventures net liabilities represents the amount held in provisions relating to the group share of joint ventures with net liabilities (see Note 11).

At 31 March 2010 the group had contingent liabilities estimated to be £0.6million (2009: £1.0million) in respect of guarantees and indemnities.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

18 PROVISIONS AND CONTINGENT LIABILITIES continued

The 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. Provision is only made to the extent that the group consider it probable that there will be an outflow of economic benefits and the amount can be reliably estimated.

19 ACQUISITIONS

19a Acquisition of 2entertain Limited

On 6 August 2009, BBC Worldwide gained control of 2entertain Limited ('2entertain') and from this date consolidated its results and financial position. Prior to 6 August 2009, BBC Worldwide equity accounted for 2entertain in line with its 60% ownership and joint control of the entity. The purchase followed BBC Worldwide's joint venture partner entering administration and BBC Worldwide exercising its call option over the joint venture partner's shares. The purchase was completed on 1 March 2010 when BBC Worldwide acquired the remaining 40% of 2entertain shares.

The adjustments required to the book values of the assets and liabilities of 2entertain in order to present the net assets at fair value under the accounting policies of BBC Worldwide were a reduction of £13.8million. These are set out below:

	Book value £m	Fair value adjustments £m	Fair value £m
Non-current Assets			
Programme investments	13.8	(13.8)	–
Property, plant and equipment	0.7	–	0.7
Current assets			
Inventories	13.7	–	13.7
Trade and other receivables	18.7	–	18.7
Advances	15.7	–	15.7
Other current assets	8.1	–	8.1
Derivative Financial Instruments	0.5	–	0.5
Cash and cash equivalents	40.5	–	40.5
Total assets	111.7	(13.8)	97.9
Current Liabilities			
Trade payables	(6.9)	–	(6.9)
Royalty creditors	(39.6)	–	(39.6)
Accruals and deferred income	(24.9)	–	(24.9)
Total Liabilities	(71.4)	–	(71.4)
Net assets acquired	40.3	(13.8)	26.5
Less: investment in joint venture already owned			(15.9)
Goodwill			9.9
Purchase consideration and costs of acquisition			20.5
Satisfied by:			
Cash consideration			17.0
Costs of acquisitions			3.5
Total			20.5

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

19a Acquisition of 2entertain Limited continued

Following BBC Worldwide joint venture partner entering administration, the licence agreement covering 2entertain's right to distribute BBC programme investments terminated. This termination and BBC Worldwide's call option, was challenged by the administrators of BBC Worldwide's joint venture partner and was subsequently upheld by the High Court and Court of Appeal. As a result the programme investments were considered to have a £nil market value and were written down accordingly. The Court also ruled that the consideration paid by BBC Worldwide for the remaining 40% stake should be a fair value reflecting the termination of this licence agreement. On this basis, BBC Worldwide subsequently agreed with the administrators the price paid of £17.0million.

A consistent approach is undertaken at each acquisition to identify the fair value of the separable assets and liabilities acquired. The residual goodwill on acquisition for 2entertain principally represents the value of the assembled workforce and the transfer of their knowledge of the operation. This does not form a separable asset under IFRS 3 but is nonetheless expected to contribute to the future results of the Group.

2entertain contributed £30.2million to operating profit in BBC Worldwide for the period between the date of acquisition and 31 March 2010.

If the acquisition had occurred on 1 April 2009, management estimates that BBC Worldwide revenues (excluding BBC Worldwide's share of joint venture revenue) would be £49.0million higher at £937.3million. Its contribution to BBC Worldwide's profit attributable to equity holders for the year ended 31 March 2010 would have been £10.0million, giving rise to a profit before tax figure of £130.4million. This information takes account of the profit recognised while the investment was a joint venture and should not be viewed as indicative of the results of operations that would have occurred if the acquisitions had actually been completed on 1 April 2009.

19b Other acquisitions

During the year ended 31 March 2010, BBC Worldwide also acquired minority shareholdings in two production companies for a total consideration of £0.7million. No fair value adjustments were required. Goodwill of £0.7million arose on acquisition representing the skills of the entities' workforce.

In accordance with IAS 28: Investment in Associates both of the acquired minority shareholdings have been assessed as associated undertakings.

19c Prior year acquisitions

On 1 July 2008 the Group acquired the remaining 80% of UK.TV, registered in Australia, for a total cash consideration of AU\$31.2million (£15.1million). UK.TV operates a television channel showing British television content in Australia and New Zealand. This transaction has been accounted for by the purchase method of accounting. The Group previously held a 20% interest in UK.TV upon which no goodwill was recognised.

The business was acquired to provide a platform for the launch of BBC-branded channels in Australia and to participate fully in a channel largely broadcasting BBC content.

The total adjustments required to the book values of the assets and liabilities of UK.TV in order to present the net assets of those companies at fair value and under the accounting policies of the Group were £3.4million.

The goodwill arising on acquisition is attributable to the value of the uncommitted workforce.

UK.TV contributed £11.2million to revenue and £2.7million to profit before tax for the period between the date of acquisition and 31 March 2009.

If the acquisition had occurred on 1 April 2008, management estimates that its contribution to BBC Worldwide revenues for the year ended 31 March 2009 would have been £14.1million. Its contribution to BBC Worldwide profit attributable to equity holders for the year ended 31 March 2009 would have been £3.5million. This information takes into account profits recognised while the investment was an associate and the amortisation of acquired intangible assets together with related income tax effects and should not be viewed as indicative of the results of operations that would have occurred if the acquisitions had actually been completed on 1 April 2008.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

19c Prior year acquisitions continued

In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2008.

The Group previously held a 20% interest in UK.TV. In line with IFRS 3 an adjustment of £0.6million has been recorded in retained earnings to reflect the increase in stake.

During the year ended 31 March 2009, the group also acquired minority shareholdings in several production companies, accounted for as associates or joint ventures. The Group's share of the fair value of assets acquired was £3.6million, and the Group's share of the fair value of liabilities acquired was £3.2million. £10.4million of goodwill was recognised, on a consideration including costs of £10.4million.

The goodwill recognised on acquisition is attributable to the anticipated profitability of content to be produced.

20 RESERVES

Operating reserve

An adjustment of £0.5million was recognised in the Consolidated Statement of Changes in Equity, being the cumulative profits recognised by the group in relation to the acquisition of 2entertain.

At 31 March 2010, the cumulative goodwill written off to reserves on acquisitions prior to 1999 amounted to £6.8million. This amount is unchanged on prior year and remains in equity upon transition to IFRS as permitted by IFRS 1: First time adoption of IFRS.

Other reserve

Other reserve includes a put option over 25% of the issued share capital of Lonely Planet, which is exercisable by the minority shareholders. On 7 October 2009, the terms of the put option were renegotiated. This renegotiation has resulted in the original liability being de-recognised and a new liability based upon the revised option terms being recognised. The debit entry for this liability was recognised within equity as it is considered that the minority shareholders continue to retain the risks and rewards of ownership. Changes to the fair value of the put option liability other than in relation to changes in foreign exchange rates, continue to be recorded in the income statement within financing income and expense.

21 RECONCILIATION OF GROUP OPERATING SURPLUS TO CASH GENERATED FROM OPERATIONS

	2010 £m	2009 £m
Group operating surplus	522.1	150.9
Depreciation, amortisation and impairment	260.7	255.1
Difference between pension charge and cash contribution	(387.9)	(0.3)
Fair value impact of derivatives associated with loans	3.5	5.0
Fair value impact of other derivatives	(19.6)	18.5
Profit on disposal of tangible fixed assets	–	(0.5)
Loss on disposal of tangible fixed assets	7.3	10.4
Profit on disposal of operations	–	(1.8)
(Increase)/decrease in stocks	(54.5)	13.3
Increase in debtors	(67.1)	(76.5)
Increase/(decrease) in creditors	226.5	(100.9)
Decrease in provisions	(16.1)	(23.3)
Cash generated from operations	474.9	249.9

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

22 LONG TERM COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET

22a Contracts placed for future expenditure

	2010 £m	2009 £m
Fixed asset additions	50.9	51.7
Programme acquisitions and sports rights	1,026.2	1,307.5
Independent programmes	148.8	106.8
Other fixed payments on long term outsourcing arrangements	3,432.7	3,865.2
	4,658.6	5,331.2

Represents amounts which the BBC is **contractually committed** to, but which should not be recognised on the balance sheet as they do not meet the recognition criteria.

The BBC has outsourced certain non-core functions, including IT support, content distribution and transmission, facilities management and elements of finance support.

Following the provisions of s410A of the Companies Act 2006 the Group has included amounts committed under agreements that are not reflected in the balance sheet, or disclosed elsewhere in the financial statements. The Group has interpreted this disclosure to include fixed payments due under outsourcing and similar arrangements for the duration of those arrangements. The amounts disclosed do not include variable payments.

22b Operating leases

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

	2010 £m	2009 £m
Not later than one year	110.1	104.4
Later than one year and not later than five years	344.9	381.4
Later than five years	453.4	514.3
	908.4	1,000.1

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'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.

22c Post balance sheet events

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

23 PENSION PLANS

23a Group pension plans

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

Note 23b sets out the assets and liabilities and charges for the period for each plan. Note 23c provides further details on the BBC Pension Scheme.

23b Pension charges and balances within the financial statements

23b i Pension asset/(liability) included in the balance sheet

	Pension asset			Pension liability		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
BBC Pension Scheme	–	–	528.4	(1,640.9)	(138.6)	–
Unfunded Scheme	–	–	–	(6.2)	(4.7)	(5.1)
Total	–	–	528.4	(1,647.1)	(143.3)	(5.1)

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

23 PENSION PLANS continued

23b Pension charges and balances within the financial statements continued

23b ii Pension income/(charges) in consolidated income statement

	Defined benefit schemes			All schemes £m
	BBC Pension Scheme £m	Unfunded Scheme £m	Defined contribution scheme £m	
2010				
Current service cost	(128.2)	–	(3.2)	(131.4)
Past service costs	(32.6)	–	–	(32.6)
Exceptional past service income*	334.1	–	–	334.1
Total operating income/(charge)**	173.3	–	(3.2)	170.1
Expected return on pension plan assets	443.4	–	–	443.4
Interest on pension scheme liabilities	(463.4)	(0.3)	–	(463.7)
Net finance cost	(20.0)	(0.3)	–	(20.3)
Net income/(cost) in consolidated income statement	153.3	(0.3)	(3.2)	149.8
2009				
Current service cost	(161.8)	–	(2.7)	(164.5)
Past service cost*	(24.2)	–	–	(24.2)
Gain on curtailments	10.0	–	–	10.0
Total operating charge**	(176.0)	–	(2.7)	(178.7)
Expected return on pension plan assets	626.0	–	–	626.0
Interest on pension scheme liabilities	(508.4)	(0.3)	–	(508.7)
Net finance income/(cost)	117.6	(0.3)	–	117.3
Net cost in consolidated income statement	(58.4)	(0.3)	(2.7)	(61.4)

* This balance relates to past service income arising from a change to early retirement terms and conditions.

** Of the total net operating income of £173.3million for 2010 (2009 net charge £176.0million), £36.2million (2009 £17.1million expense) was recognised as an expense in earlier years as part of redundancy costs in accordance with IAS 37. The remaining income of £209.5million (2009: charge £158.9million) was recognised in the current year.

23b iii Movement in (deficit)/surplus during the year

	BBC Pension Scheme 2010 £m	Unfunded scheme 2010 £m	Total 2010 £m	BBC Pension Scheme 2009 £m	Unfunded scheme 2009 £m	Total 2009 £m
(Deficit)/surplus in scheme at the start of the year	(138.6)	(4.7)	(143.3)	528.4	(5.1)	523.3
Movement in the year:						
Current service cost	(128.2)	–	(128.2)	(161.8)	–	(161.8)
Contributions (from employer)*	214.3	0.3	214.6	176.0	0.3	176.3
Past service income/(costs)	301.5	–	301.5	(24.2)	–	(24.2)
Gain on settlements and curtailments	–	–	–	10.0	–	10.0
Net finance (cost)/income	(20.0)	(0.3)	(20.3)	117.6	(0.3)	117.3
Actuarial (loss)/gain recognised in the consolidated statement of comprehensive loss	(1,869.9)	(1.5)	(1,871.4)	(784.6)	0.4	(784.2)
Deficit in scheme at the end of the year	(1,640.9)	(6.2)	(1,647.1)	(138.6)	(4.7)	(143.3)

* 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 main scheme. As the scheme is unfunded there are no assets and hence no expected return on assets.

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

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

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

The **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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

23 PENSION PLANS continued

23c BBC Pension Scheme

The BBC Pension Scheme is the main pension plan of the Group and covers the majority of employees. This plan provides 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.

23c i Scheme financial position

IAS 19 valuation	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Scheme assets	8,154.8	6,454.0	8,042.0	8,117.9	7,843.4
Scheme liabilities	(9,795.7)	(6,592.6)	(7,513.6)	(7,788.6)	(7,675.9)
(Deficit)/surplus	(1,640.9)	(138.6)	528.4	329.3	167.5
Percentage by which scheme assets cover liabilities	83%	98%	107%	104%	102%

Key movements in the year are shown in Note 23b iii.

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

23c ii Changes in the present value of plan liabilities

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

	2010 £m	2009 £m	2008 £m
Opening present value of plan liabilities	6,592.6	7,513.6	7,788.6
Current service cost	128.2	161.8	164.8
Past service (income)/cost	(301.5)	24.2	21.5
Gains on curtailments	–	(10.0)	–
Interest on pension plan liabilities	463.4	508.4	413.6
Experience (gains)/losses arising on plan liabilities	(33.2)	(171.3)	149.1
Changes in assumptions underlying plan liabilities	3,266.1	(1,138.1)	(786.0)
Contributions by plan participants	7.2	14.2	53.1
Benefits paid	(327.1)	(310.2)	(291.1)
Closing present value of plan liabilities	9,795.7	6,592.6	7,513.6

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.

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 represents the changes in estimates used to value the future liability. Key assumptions include the discount rate, future increase in salaries, mortality and employee turnover.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

23 PENSION PLANS continued

23c iii Changes in the fair value of plan assets

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

A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefit members and 1 November 2006 for Career Average Benefit members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions.

	2010 £m	2009 £m	2008 £m
Opening fair value of plan assets	6,454.0	8,042.0	8,117.9
Expected rate of return on plan assets	443.4	626.0	562.7
Actuarial gains/(losses) on plan assets	1,363.0	(2,094.0)	(584.6)
Contributions by employer	214.3	176.0	184.0
Contributions by plan participants	7.2	14.2	53.1
Benefits paid	(327.1)	(310.2)	(291.1)
Closing present value of plan assets	8,154.8	6,454.0	8,042.0

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 expected.

23c iv Plan assets

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

Type of asset	2010		2009		2008	
	£m	%	£m	%	£m	%
Equities	4,573	56	3,313	51	4,624	58
Bonds	1,825	22	1,598	25	1,693	21
Property	787	10	796	12	1,001	12
Alternatives*	719	9	508	8	455	6
Cash	251	3	239	4	269	3
Total assets	8,155		6,454		8,042	
Actual return on pension plan assets**	1,806		(1,468)		(22)	

* Alternatives include private equity, debt and currency.

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

23c v Pension losses in consolidated statement of comprehensive loss

	2010 £m	2009 £m
Actual return less expected return on pension plan assets	1,363.0	(2,094.0)
Experience gains arising on plan liabilities	33.2	171.3
Changes in assumptions underlying the present value of plan liabilities	(3,266.1)	1,138.1
Net loss recognised in the consolidated statement of comprehensive loss	(1,869.9)	(784.6)
Cumulative loss recognised in the consolidated statement of comprehensive loss	(4,395.3)	(2,525.4)

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

23 PENSION PLANS continued

23c vi History of experience gains and losses

	2010	2009	2008	2007	2006
Experience adjustments on plan assets:					
Amount (£million)	1,363.0	(2,094.0)	(584.6)	(121.0)	1,246.5
Percentage of plan assets	16.7%	32.4%	7.3%	1.5%	15.9%
Experience adjustments on plan liabilities:					
Amount (£million)	33.2	171.3	(149.1)	(164.6)	208.6
Percentage of plan liabilities	0.3%	2.6%	2.0%	2.1%	2.7%
Total actuarial (loss)/gain recognised in consolidated statement of comprehensive loss					
Amount (£million)	(1,869.9)	(784.6)	52.3	136.1	658.4
Percentage of plan liabilities	19.1%	11.9%	0.7%	1.7%	8.6%

23c vii Funding the Scheme

As a result of the 2007 actuarial valuation by Towers Watson, it has been agreed between the BBC and the pension scheme trustees that employer contributions would increase to 19.35% from 1 July 2008. Employee contributions for Old and New Benefit members rose from 6% to 6.75% from 1 April 2009 and will rise to 7.5% from 1 April 2010 and employer contributions decreased from 19.35% to 18.6% from 1 April 2009 and will decrease to 17.85% from 1 April 2010. Employee contributions for Career Average Benefit members are set at 4%.

A salary sacrifice arrangement was introduced on 1 June 2008 for Old and New Benefits members and 1 November 2006 for Career Average Benefit members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions.

An interim valuation was performed as at 1 April 2009 which indicated an increased deficit on the scheme compared to the previous actuarial valuation. The next formal actuarial valuation is expected to be performed as at 1 April 2010.

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

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

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

On the basis assumed above, contributions totalling £179.4million are expected to be paid in 2011.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

23 PENSION PLANS continued

23c viii Principal actuarial assumptions

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

Principal financial assumptions	2010 %	2009 %	2008 %
Rate of increase in salaries	3.7	4.4*	5.6
Rate of increase in pension payments:			
Old Benefits	3.7	3.0	3.6
New Benefits	3.5	2.7	3.4
Career Average Benefits	2.4	2.4	2.5
Inflation assumption	3.7	2.9	3.6
Discount rate	5.5	7.2	6.9

The **discount rate** for the IAS 19 valuation is taken as the rate for an AA rated corporate bond.

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

The effect of reducing the discount factor from 7.2% in 2009 to 5.5% in 2010 increased the plan liabilities by £2,260million.

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

Principal demographic assumptions	2010 Number of years	2009 Number of years	2008 Number of years
Retiring today			
Male	27.0	26.9	26.6
Female	29.7	29.6	29.1
Retiring in 20 years			
Male	29.0	28.9	28.1
Female	31.8	31.7	30.7

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

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

Expected long-term rate of return (per annum)*	2010 £m	2009 £m
Equities	8.8	8.6
Bonds and gilts	4.4	3.7
Property	6.6	6.2
Alternatives	8.8	8.6
Cash	4.4	4.4
Total expected rate of return	7.5	6.9

* As at the beginning of the financial year.

The expected return on plan assets 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

23 PENSION PLANS continued

23c ix Scheme membership analysis and maturity profile

	2010 Number	2009 Number	2008 Number
Contributors	17,883	17,774	18,736
Pensioners	18,776	17,970	17,569
Dependents	3,920	3,863	3,798
Deferred pensioners	18,971	19,137	18,286

The scheme is becoming more mature with the number of pensioners increasing. There has also been a slight increase in the number of contributors. These movements are reflected in the overall reduction in cash inflows shown in Note 23cx.

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.

23c x Scheme cash flows (day-to-day liquidity)

2010 saw a decrease in the net cash inflow compared to 2009. The increase in the numbers of pensioners, transfer payments and adverse market conditions resulted in increased cash outflows as the payments made out of the scheme increased and the return on the schemes investments reduced. These increased cash outflows are partly offset by an increase in the contributions made to the scheme following a rise in the number of contributors as noted in Note 23cix.

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

	2010 £m	2009 £m
Contributions (employer and employee)	226.9	196.3
Investment income	200.2	225.2
Cash inflows	427.1	421.5
Payments of pensions and transfers out	(341.9)	(313.1)
Expenses	(33.8)	(36.9)
Net cash inflow	51.4	71.5

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24 FINANCIAL INSTRUMENTS

24a Financial risk management

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

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

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

The group's financial instruments, other than those used for treasury risk management purposes, comprise cash and cash equivalents, borrowings and various items such as trade receivables and payables that arise directly from its operations. The group finances its operations from these financial instruments. The group does not undertake speculative treasury transactions.

Market risk

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

Some contracts may also contain clauses whereby changes in currency rates outside an agreed range impact on the contract price; in the majority of cases the value of the individual contracts and other features within the contract limit the currency risk exposure to a level that is not significant to the group.

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

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

Interest rate risk: The group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the group has been borrowing at floating rates of interest and then using interest rate swaps, caps and collars to manage the group's exposure to interest rate fluctuations and provide greater certainty of cash flows. Interest rate swaps, caps and collars are taken out based on projected borrowing requirements, therefore differences will occur between the notional amount of the swaps, caps and collars and the actual borrowing requirements. The effect of taking out the interest rate swaps, caps and collars is that in the longer term the group has no significant underlying sensitivity to interest rate fluctuations and hence no sensitivity analysis has been presented.

Market risk comprises currency risk and other price risks.

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

24 FINANCIAL INSTRUMENTS continued

24a Financial risk management continued

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

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

Credit risk

The Group's credit risk management policy in relation to trade receivables involves regularly assessing the financial reliability of customers, taking into account several factors such as their financial position and historical performance. Credit terms, where given, are generally for a 30-day period. The carrying amount of financial assets included in the financial statements represents the Group's maximum exposure to credit risk in relation to these assets.

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.

Trade and other receivables: The largest element is the licence fee debtor, £410.8million (2009: £384.6million, 2008: £368.4million). The amount of income that the BBC receives from is directly related to the amount of licence fee collected from households in the UK.

Of the remaining £843.0million (2009: £363.1million, 2008: £327.5million) trade and other receivables, £43.7million (2009: £40.8million, 2008: £34.1million) is past due and not impaired.

At 31 March 2010 an impairment provision of £9.1million (2009: £12.5million, 2008 £5.2million) was recognised.

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

Liquidity risk

The BBC is subject to ceilings on its borrowings set by the Secretary of State in accordance with the Agreement between the BBC and DCMS (see Note 2f). In order to comply with these ceilings together with the terms of any individual debt instruments the BBC's Group Treasury manages the group's borrowings by continuously monitoring group cash flow forecasts. The BBC holds its surplus liquidity in readily convertible financial instruments with highly rated financial institutions.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24 FINANCIAL INSTRUMENTS continued

24b Fair values of financial instruments

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

	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after more than five years £m	Total £m
2010 – Carrying value and fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments	11.9	6.7	–	18.6
Loans and receivables				
Trade and other receivables	588.6	–	–	588.6
Cash and cash equivalents				
	263.9	–	–	263.9
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments	(8.9)	(13.3)	–	(22.2)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(1.7)	(211.4)	–	(213.1)
Trade and other payables	(452.8)	(3.5)	–	(456.3)
Obligations under finance leases	(5.7)	(34.9)	(568.3)	(608.9)

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24 FINANCIAL INSTRUMENTS continued

24b 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
2009 – Carrying value and fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments	10.9	12.2	–	23.1
Loans and receivables				
Trade and other receivables	526.2	–	–	526.2
Cash and cash equivalents	124.3	–	–	124.3
Available-for-sale financial assets				
Other investments (non-current)	–	–	–	–
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments	(22.5)	(21.8)	–	(44.3)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(5.8)	(268.0)	–	(273.8)
Trade and other payables	(409.5)	–	–	(409.5)
Obligations under finance leases	(8.4)	(34.5)	(575.0)	(617.9)
2008 – Carrying value and fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments	2.6	2.6	–	5.2
Loans and receivables				
Trade and other receivables	504.4	–	–	504.4
Cash and cash equivalents	78.0	–	–	78.0
Available-for-sale financial assets				
Other investments (non-current)	–	–	2.7	2.7
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments	(2.3)	(0.5)	(0.1)	(2.9)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(59.3)	(140.0)	–	(199.3)
Trade and other payables	(405.1)	–	–	(405.1)
Obligations under finance leases	(7.6)	(19.1)	(590.9)	(617.6)

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24 FINANCIAL INSTRUMENTS continued

24b Fair values of financial instruments continued

As at 31 March 2010 there are no differences (2009: no differences, 2008: no differences) between the fair value and carrying value of any of the group's financial instruments. The fair value of forward currency contracts, interest rate swaps, caps and collars and embedded derivatives are based on market prices and exchange rates at the balance sheet date. These are recorded in the statement of income and expenditure (see Notes 3 and 7). The remaining financial instruments are carried at cost or amortised cost in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', which approximates to fair value.

The finance leases include £12.2million (2009: £15.0million, 2008: £18.0million) relating to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £177.9million at 31 March 2010 (2009: £199.8million, 2008: £219.0million), are structured such that the principal on deposit and interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing ceilings.

At 31 March 2009, the Group had guaranteed bank loans outstanding in Worldwide Media Limited totalling Rupees 155million (£2.1million) (2008: Rupees 155million, £2.0million). These loans were fully repaid in the year and therefore no guarantee is outstanding at 31 March 2010.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24 FINANCIAL INSTRUMENTS continued

24c Derivative financial instruments

The fair values of standalone derivatives are determined using market prices and exchange rates at the balance sheet date in active markets which determines their classification as Level 1. The fair value of embedded derivatives that are not traded in an active market are determined using valuation model techniques. All significant inputs into the valuation techniques are based on observable market data justifying classification as Level 2. At 31 March 2010 and 31 March 2009 there are no material differences between the fair value and carrying value of any of the Group's other financial instruments.

	Fair value hierarchy level	Assets £m	Liabilities £m
2010			
Greater than one year			
Forward foreign currency contracts	1	6.7	(3.7)
Interest rate swaps, caps and collars	1	–	(8.3)
Embedded derivatives	2	–	(1.3)
		6.7	(13.3)
Less than one year			
Forward foreign currency contracts	1	11.9	(8.9)
		11.9	(8.9)
2009			
Greater than one year			
Forward foreign currency contracts	1	11.8	(10.4)
Interest rate swaps, caps and collars	1	0.3	(5.1)
Embedded derivatives	2	0.1	(6.3)
		12.2	(21.8)
Less than one year			
Forward foreign currency contracts	1	10.9	(20.3)
Embedded derivatives	2	–	(2.2)
		10.9	(22.5)
2008			
Greater than one year			
Forward foreign currency contracts	1	2.2	(0.2)
Interest rate swaps, caps and collars	1	0.3	(0.1)
Embedded derivatives	2	0.1	(0.3)
		2.6	(0.6)
Less than one year			
Forward foreign currency contracts	1	2.6	(2.2)
Embedded derivatives	2	–	(0.1)
		2.6	(2.3)

At 31 March 2010 the group had entered into a net commitment to sell foreign currencies amounting to £100.1million (2009: net commitment to sell £135.6million, 2008: net commitment to purchase £17.9million) that mature in the period through to 2013 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). After taking into account the effects of these forward foreign exchange contracts, the group had no significant currency exposure.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

24 FINANCIAL INSTRUMENTS continued

24c Derivative financial instruments continued

Interest rate risk is managed by the use of interest rate swaps, caps and collars. Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature by April 2014. The impact of a change in interest rates can also be limited by entering into interest rate cap and collar transactions; all outstanding caps and collars mature by April 2013. In total, £223.9million (2009: £213.4million, 2008: £80.0million) of swaps and £212.2million (2009: £209.6million, 2008: £128.2million) of caps and collars were entered. Of these only £193.9million (2009: £108.4million, 2008: £80.0million) of swaps and £182.2million (2009: £129.6million, 2008: £128.2million) of caps were effective at 31 March 2010 as new agreements are arranged to ensure borrowings are suitably covered for the foreseeable future. This is £164.7million higher (2009: £33.3million lower, 2008 £8.9million higher) than the current level of borrowings of £211.4million (2009: £271.3million, 2008: £199.3million).

In accordance with IAS 39, the Group has reviewed contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. Any such embedded derivatives have been recognised at fair value.

24d Hedges of net investments in foreign operations

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24 FINANCIAL INSTRUMENTS continued

24e Liquidity risk

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities (including obligations under finance leases). The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

	Cash flow £m	Interest £m	Principal £m
2010			
Variable interest rate instruments			
Not later than one year	163.9	0.8	163.1
Later than one year but not later than five years	51.1	1.1	50.0
Later than five years	–	–	–
Fixed interest rate instruments			
Not later than one year	51.0	45.3	5.7
Later than one year but not later than five years	210.2	175.3	34.9
Later than five years	1,138.4	570.1	568.3
	1,614.6	792.6	822.0
2009			
Variable interest rate instruments			
Not later than one year	221.9	1.4	220.5
Later than one year but not later than five years	52.0	1.7	50.3
Later than five years	–	–	–
Fixed interest rate instruments			
Not later than one year	53.7	45.3	8.4
Later than one year but not later than five years	214.6	180.4	34.2
Later than five years	1,193.2	618.2	575.0
	1,735.4	847.0	888.4
2008			
Variable interest rate instruments			
Not later than one year	154.6	6.0	148.6
Later than one year but not later than five years	53.4	2.1	51.3
Later than five years	–	–	–
Fixed interest rate instruments			
Not later than one year	53.6	45.9	7.7
Later than one year but not later than five years	194.8	177.0	17.8
Later than five years	1,247.1	656.2	590.8
	1,703.5	887.2	816.2

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

24f Borrowing facilities

Facility	Interest rate	Total available 31 March 2010 £m	Drawn down at 31 March 2010 £m	Total available 31 March 2009 £m	Drawn down at 31 March 2009 £m	Total available 31 March 2008 £m	Drawn down at 31 March 2008 £m	Expiry or review date
UK Public Service Broadcasting								
LIBOR-based loan or overdraft	Loan – margin of 0.175%	–	–	–	–	50	–	Expired June 2008
	Overdraft – bank base rates plus 1%							
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	25	–	25	–	24	–	
BBC Commercial Holdings Limited								
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**	161	350**	218	350**	145	June 2012
Overdraft or money market lines	Money market line – margin of 0.45% Overdraft – bank base rates plus 1%	20	–	20	–	20	4	November 2010
BBC Worldwide Limited								
Loan with European Investment Bank (50% secured by letters of credit)**	European Investment Bank's own funding cost plus a margin of 0.09% on unsecured loans	50	50	50	50	50	50	£20m December 2011 and £30m May 2012

* The base rate used will vary according to the currency drawn. At 31 March 2010 £61.1million (2009: £47.8million, 2008: £90.3million) was drawn down in AUS\$ and consequently linked to BBSW rather than LIBOR. All other amounts drawn are in sterling and consequently linked to LIBOR.

** Of this amount, up to £100million is available to issue letters of credit in favour of the European Investment Bank to support its lending under facilities to the group. At 31 March 2010, total drawn on this facility was £187.3million which consisted of cash drawings of £161.7million (2009: £243.5million, 2008: £146.0million) and £25.6million (2009: £25.6million, 2008: £25.6million) utilised by way of letters of credit.

There have been no defaults or breaches of covenants on the facilities above during the year (2009: none, 2008: none).

In addition to the facilities above the group has other smaller facilities, upon which nothing was drawn at the year end (2009: £3.3million, 2008: £0.7million), used to manage working capital.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

25 RELATED PARTY TRANSACTIONS

25a Transactions with related parties excluding key management personnel

	Joint ventures, associates and other investments		BBC Pension Scheme	
	2010 £m	2009 £m	2010 £m	2009 £m
Rendering of services	83.8	108.1	–	–
Receiving of services	(52.0)	(57.3)	–	–
Pension contributions	–	–	214.3	176.0
Dividends received	10.7	37.0	–	–
	42.5	87.8	214.3	176.0

	Amounts owed by related parties			Amounts owed to related parties		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
BBC Pension Scheme	–	–	–	(9.1)	(4.0)	(2.7)
Joint ventures, associates and other investments	35.8	46.1	40.7	(2.3)	(7.1)	(2.6)
	35.8	46.1	40.7	(11.4)	(11.1)	(5.3)

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.

25b Transactions with key management personnel

Member of key management personnel	Close family member employed on standard terms and conditions	Artists contracts with close family member	Transactions with a company owned/ controlled by member and/or close family member	Notes
Trustees:				
Diane Coyle	✓			
Richard Tait	✓			
Members of the Executive Board and other members of key management personnel:				
Jana Bennett			✓	Juniper Communications Limited*
Peter Salmon		✓		Wife Sarah Lancashire 2010 amount received was not significant (2009 received £185,000)
Samir Shah	✓		✓	Juniper Communications Limited*

* Juniper Communications Limited is co-owned by BBC non-executive Director Samir Shah (70%), his wife Belkis Shah (20%) and the husband of Jana Bennett (Director, BBC Vision) Richard Clemmow (10%). During the year the BBC received services from Juniper Communications Limited to the value of £893,503 (2009: £715,261), with £55,757 outstanding at 31 March 2010 (2009: paid in full). In addition, Juniper Communications Limited received services from the BBC to the value of £109,000 (2009: £108,520), which were fully paid at 31 March 2010 (2009: £10,684 outstanding at 31 March 2009).

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 www.bbc.co.uk/aboutthebbc/running/executive/eb.

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

Key management personnel is the BBC Trustees, members of the Executive Board, the Chief Executive Officer of BBC Worldwide and the Director, Trust Unit.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

26 INTERESTS IN JOINT VENTURES, ASSOCIATES AND SUBSIDIARIES

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

26a Significant joint ventures and their activities

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

Name of entity	Activity	Accounting date
Commercial joint ventures:		
UK Gold Holdings Limited	Channels	31 March 2010
UK Channel Management Limited	Channels	31 March 2010
UK VoD LLP*	Development	31 December 2009
JV Programmes LLC (incorporated in the USA)	Sales and distribution	31 March 2010
Ragdoll Worldwide Holdings Limited	Magazines and children's	31 March 2010
Joint ventures of UK Public Service Broadcasting		
DTV Services Limited**	Marketing	31 August 2009
Freesat (UK) Limited	Provision of free to air satellite television service	31 March 2010

Joint ventures are businesses the BBC jointly controls with other parties.

* 33% equity interest. VoD LLP has a December year end, since it was set up in February 2008, results were equity accounted for the year to 31 December 2009.

** 20% equity holding. DTV Services Limited has an August year end, results were equity accounted for the year to 31 August 2009

26b Significant associates and their activities

	Holding of issued ordinary shares %	Activity
Commercial associates:		
Frontline Limited	23	Magazines and children's
OPL Holdings Limited	39	Magazines and children's
3sixtymedia Limited	*10	Production
The Animal Planet (Europe) Partnership	50	Channels
Associates of UK Public Service Broadcasting		
Parliamentary Broadcasting Unit Limited	50	Content provider
Broadcasters Audience Research Board Limited (BARB)	**	Audience research
The Commonwealth Broadcasting Association	**	Broadcasting forum
Radio Joint Audience Research Limited (RAJAR)	50	Audience research

Associates are businesses over which the BBC exerts significant influence but does not have overall control.

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
CONTINUED

26 INTERESTS IN JOINT VENTURES, ASSOCIATES AND SUBSIDIARIES continued

26c Subsidiary undertakings

Name of entity		Activity
Commercial Subsidiaries:		
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC World News Limited	**	Channels
BBC Ventures Group Limited	**	Holding company
BBC Studios and Post Production Limited	^ **	Programme making facilities and services
Lonely Planet Pty Limited (incorporated in Australia)	**	Travel Guides Publisher
2entertain Limited	^^ **	Home entertainment
BBC Worldwide Australia Pty Limited (incorporated in Australia)	**	Investment company
BBC Magazines Limited	**	Investment company
BBC Magazines Rights Limited	**	Investment company
BBC Worldwide Americas Inc. (incorporated in the USA)	**	Investment company
BBC World Distribution Limited	**	Programme distribution
Subsidiaries incorporated to act on behalf of UK Public Service Broadcasting:		
BBC Property Limited	*	Property
Centre House Productions Limited	*	Production financing
Digital UK Limited***	*	Digital switchover
DSHS Limited	*	Digital switchover

Subsidiary undertakings are businesses the BBC controls.

* Directly owned.

** Indirectly owned.

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

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

^^ 2entertain was 60% owned and accounted for as a joint venture up to 5 August 2009.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

27 CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The BBC has adopted IFRS in these financial statements for the year ended 31 March 2010. The results and balance sheet for the year ended 31 March 2009 and 2008 differ in some respects from the illustrative IFRS financial statements previously published, as in finalising the BBC group IFRS accounting policies and approach to the exemptions and options available in IFRS, the application of these policies has been further refined. The reconciliations below highlight the key impacts on both the surplus for the financial year and the net assets.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Reconciliation of surplus from UK GAAP to IFRS		
Surplus (UK GAAP)	488.2	254.2
IAS 17 – Lease reclassification	(1.5)	(15.4)
IAS 38 – Goodwill and intangible assets	7.4	5.4
IAS 19 – Employee benefits	2.6	1.3
Other	(19.1)	(1.7)
Surplus (IFRS)	477.6	243.8

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Reconciliation of comprehensive loss from UK GAAP to IFRS		
Loss (UK GAAP)	(1,377.5)	(528.2)
IAS 17 – Lease reclassification	(1.5)	(15.4)
IAS 38 – Goodwill and intangible assets	7.4	6.1
IAS 19 – Employee benefits	2.6	1.3
Other	(19.1)	(0.3)
Loss (IFRS)	(1,388.1)	(536.5)

	31 March 2010 £m	31 March 2009 £m	1 April 2008 £m
Reconciliation of net (liabilities)/assets from UK GAAP to IFRS			
Net (liabilities)/assets UK GAAP	(383.3)	990.1	1,519.2
IAS 17 – Lease reclassification	(160.8)	(159.2)	(143.7)
IAS 38 – Goodwill and intangible assets	25.1	17.2	13.5
IAS 19 – Employee benefits	(14.1)	(16.7)	(18.3)
Other	0.9	20.9	18.4
Net (liabilities)/assets IFRS	(532.2)	852.3	1,389.1

The principal IFRS adjustments are as follows:

a) IAS 17 – Lease reclassification

The BBC classified its leases as either finance leases or operating leases in accordance with SSAP 21 'Leases and Hire Purchase Contracts'. IAS 17 Leases includes similar definitions for finance and operating leases, however it sets out different requirements for determining whether an individual lease has the characteristics of a finance lease. In particular, it normally requires property leases to be separated into components comprising a lease of a land and a lease of the building; this is not required by SSAP 21.

As a result the buildings elements of certain property leases (in particular Broadcasting House, White City and Pacific Quay), which are classified as operating leases under SSAP 21, have been reclassified as finance leases under IFRS. For these leases the building has been recognised as a property asset (which is depreciated over the life of the lease) and a corresponding liability for the lease payments has been recorded, excluding finance charges that will be recognised over the period of the lease. In addition, the relevant portion of the operating lease rental previously accounted for as an expense has been eliminated.

The land elements of these leases continue to be classified and accounted for as operating leases.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

27 CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *continued*

These property transactions involved the BBC, which owns the freehold to the sites, first granting a long leasehold to a third party and then leasing the property back on a short leasehold, thereby continuing to occupy the property. In accordance with UK GAAP the granting of a long leasehold is typically accounted for as a sale of the property with any surplus on the sale being recognised in the income and expenditure account at the time of the sale. Under IFRS, the land and buildings elements of these leases must be considered separately; the land element treated as an operating lease and the building element as a finance lease. In addition, the proceeds from the granting of the long leaseholds, under sale and leaseback arrangements, have been treated as deferred income to be released to the income statement over the period of the lease (up to 150 years) and any surplus originally recognised under UK GAAP being reversed.

Non-property related leases have not been affected.

b) IAS 38 – Goodwill and intangible assets

Purchased goodwill

In accordance with FRS 10 'Goodwill and Intangible Assets' the BBC amortised capitalised purchased goodwill over its estimated expected useful life, which was usually 20 years. Under IFRS purchased goodwill is not amortised and instead is subject to an annual impairment test. As a result the goodwill amortisation for the year has been reversed and no impairment has been identified on transition. In accordance with the first-time adoption exemption, goodwill that had been amortised, or written off against reserves, prior to the date of transition has not been reinstated.

Intangible assets

Although the definitions of intangible assets in FRS 10 and IAS 38 are similar, IFRS require certain assets to be accounted for as intangible assets that would be treated as tangible fixed assets under UK GAAP, for example computer software costs. Similarly investments in programmes for future sale meet the IAS 38 definition of intangible assets. These reclassifications do not affect the measurement of the assets (including amortisation over their useful economic life).

c) IAS 19 – Employee benefits

Under UK GAAP, the BBC did not make a provision for holiday pay, i.e. holiday earned but not taken prior to the year end. In contrast, IAS 19 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement. As a result an additional accrual has been made to reflect this.

d) Other

Included within the other adjustments are the following adjustments.

One relates to disposal groups of assets and liabilities (together forming business units) that, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, would be classified as assets held for sale. Under IFRS 5, from the date a disposal group meets the definition of held for sale, any assets within the disposal group must no longer be depreciated (or amortised) and the disposal group is valued at the lower of its carrying amount or its fair value less costs to sell with the assets and liabilities presented separately in the balance sheet. Amortisation since the date the disposal group met the held for sale criteria has been reversed, but no further measurement adjustment has been necessary and the assets and liabilities in the disposal group are re-presented as held for sale.

Although both UK GAAP and IFRS require, or permit, associates and joint ventures to be accounted for using versions of the equity method, there are some differences in the practical application of the methods. In particular IAS 28 Investments in Associates (which describes the equity method whether applied to investments in associates or joint ventures) and IAS 1 require that where the equity method is adopted, the share of the operating surplus of associates (and joint ventures) to be included in the income statement be based on the investors' share of profit after tax and minority interests. In contrast FRS 9 'Associates and Joint Ventures' requires an investor to include its share of operating results and then add its share of any subsequent items (eg taxation) to the relevant line.

NOTES TO THE GROUP FINANCIAL STATEMENTS

CONTINUED

27 CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *continued*

UK GAAP requires an impairment review of goodwill where the useful economic life is identified as being greater than one year, or where circumstances indicate that the carrying amount may not be recoverable. In comparison, IAS 36 Impairment of assets, requires all goodwill to be reviewed annually for impairment, or more frequently if there are indications that it may be impaired. The 2010 annual review resulted in an impairment of goodwill being recognised (see Note 9) due to the exchange rate fluctuations noted between the Australian dollar, US Dollar and Sterling.

UK GAAP ACCOUNTING STANDARDS RECONCILIATION

THIS DOES NOT FORM PART OF THE FINANCIAL STATEMENTS

The BBC's Charter and agreement requires a 'statement of accounts' to be prepared.

In recent years, both quoted companies and the public sector have moved to reporting under IFRS, and UK accounting standards are becoming converged with IFRS. This year, HM Treasury will require the BBC to provide detailed financial information on an IFRS basis for consolidation in the Whole of Government Accounts for 2009/10.

The BBC's primary financial information has been presented under IFRS for 2009/10, which provides additional transparency for readers over the requirements of UK accounting standards, and therefore is consistent with the overarching requirement for the BBC to be open and transparent.

The BBC has completed the following reconciliations between the International Financial Reporting Standards (IFRS), shown within the financial statements on preceding pages, and the results prepared under UK accounting standards to aid the readers understanding of the changes.

The UK accounting standards used are consistent with those published in the 31 March 2009 financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

2010	UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	IFRS £m
Group income	4,789.8	0.6	–	–	–	–	4,790.4
Operating costs excluding exceptional costs	(4,603.5)	38.2	4.9	1.8	(18.6)	36.7	(4,540.5)
Exceptional pension income	334.1	–	–	–	–	–	334.1
Exceptional restructuring costs	(25.2)	–	–	–	–	(36.7)	(61.9)
Total operating expenditure	(4,294.6)	38.2	4.9	1.8	(18.6)	–	(4,268.3)
Group operating surplus	495.2	38.8	4.9	1.8	(18.6)	–	522.1
Share of operating surplus of associates and joint ventures	44.1	–	1.7	–	(0.5)	(8.4)	36.9
Operating surplus: group and share of associates and joint ventures	539.3	38.8	6.6	1.8	(19.1)	(8.4)	559.0
Profit on sale and termination of operations	2.0	–	–	–	–	–	2.0
Profit on disposal of fixed assets	39.0	–	–	–	–	–	39.0
Surplus before interest and taxation	580.3	38.8	6.6	1.8	(19.1)	(8.4)	600.0
Interest receivable and similar items	2.8	–	–	–	–	443.0	445.8
Interest payable and similar items	(32.3)	(40.3)	–	–	–	(460.9)	(533.5)
Other net finance cost (from defined benefit pension scheme)	(20.3)	–	–	–	–	20.3	–
Surplus before taxation and minority interest	530.5	(1.5)	6.6	1.8	(19.1)	(6.0)	512.3
Taxation	(42.3)	–	0.8	0.8	–	6.0	(34.7)
Surplus after taxation and before minority interest	488.2	(1.5)	7.4	2.6	(19.1)	–	477.6
Minority interest	(3.5)	–	(0.8)	–	–	–	(4.3)
Surplus for the financial year	484.7	(1.5)	6.6	2.6	(19.1)	–	473.3

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

2009	UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	IFRS £m
Group income	4,605.7	1.7	–	–	0.6	52.8	4,660.8
Operating costs excluding exceptional costs	(4,461.8)	26.8	2.3	1.3	–	(38.2)	(4,469.6)
Restructuring costs	(29.9)	–	–	–	–	(10.4)	(40.3)
Total operating expenditure	(4,491.7)	26.8	2.3	1.3	–	(48.6)	(4,509.9)
Group operating surplus	114.0	28.5	2.3	1.3	0.6	4.2	150.9
Share of operating surplus of associates and joint ventures	49.3	–	2.3	–	1.8	(23.6)	29.8
Operating surplus: group and share of associates and joint ventures	163.3	28.5	4.6	1.3	2.4	(19.4)	180.7
Loss on sale and termination of operations	(1.1)	–	–	–	(1.8)	–	(2.9)
Profit on disposal of fixed assets	15.9	–	–	–	–	–	15.9
Surplus before interest and taxation	178.1	28.5	4.6	1.3	0.6	(19.4)	193.7
Interest receivable and similar items	9.1	–	–	–	–	624.8	633.9
Interest payable and similar items	(26.3)	(43.9)	–	–	–	(506.1)	(576.3)
Other net finance income (from defined benefit pension scheme)	117.3	–	–	–	–	(117.3)	–
Surplus before taxation and minority interest	278.2	(15.4)	4.6	1.3	0.6	(18.0)	251.3
Taxation	(24.0)	–	0.8	–	(2.3)	18.0	(7.5)
Surplus before taxation and minority interest	254.2	(15.4)	5.4	1.3	(1.7)	–	243.8
Minority interest	(0.5)	–	(0.6)	–	–	–	(1.1)
Surplus for the financial year	253.7	(15.4)	4.8	1.3	(1.7)	–	242.7

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2010	UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	IFRS £m
Group surplus for the financial year	484.7	(1.5)	6.6	2.6	(19.1)	473.3
Exchange differences on translation of foreign operations	3.9	–	–	–	–	3.9
Recognition and transfer of cash flow hedges	1.0	–	–	–	–	1.0
Tax on items taken directly to equity	(0.3)	–	–	–	–	(0.3)
Actuarial losses on defined benefit pension schemes	(1,871.4)	–	–	–	–	(1,871.4)
Total recognised gains and losses relating to the year	(1,382.1)	(1.5)	6.6	2.6	(19.1)	(1,393.5)

2009	UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	IFRS £m
Group surplus for the financial year	253.7	(15.4)	4.8	1.3	(1.7)	242.7
Exchange differences on translation of foreign operations	22.9	–	0.7	–	–	23.6
Actuarial losses on defined benefit pension schemes	(784.2)	–	–	–	–	(784.2)
Recognition of share of joint venture liabilities	(19.4)	–	–	–	–	(19.4)
Total recognised gains and losses relating to the year	(527.0)	(15.4)	5.5	1.3	(1.7)	(537.3)

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2010

At 31 March 2010	UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	IFRS £m
Fixed assets							
Intangible assets	117.7	–	90.0	–	(4.9)	87.2	290.0
Tangible assets	745.8	470.3	(58.9)	–	0.4	(0.5)	1,157.1
Investment in programmes for future sale	106.1	–	–	–	–	(106.1)	–
Investments in joint ventures	44.8	–	2.5	–	(1.1)	–	46.2
Interests in associates	18.3	–	0.5	–	–	(7.2)	11.6
	1,032.7	470.3	34.1	–	(5.6)	(26.6)	1,504.9
Current assets							
Stocks	551.8	–	(0.1)	–	0.2	130.4	682.3
Debtors due after more than one year	125.0	(49.7)	0.5	0.8	(6.4)	(16.3)	53.9
Debtors due within one year	941.0	447.9	0.5	–	(0.2)	(123.5)	1,265.7
Total debtors	1,066.0	398.2	1.0	0.8	(6.6)	(139.8)	1,319.6
Assets held for sale	–	–	–	–	–	30.0	30.0
Cash at bank and in hand	272.2	–	–	–	–	(8.3)	263.9
	1,890.0	398.2	0.9	0.8	(6.4)	12.3	2,295.8
Liabilities held for sale	–	–	–	–	–	(8.4)	(8.4)
Creditors – amounts falling due within one year	(1,178.5)	(353.4)	(1.9)	(12.6)	(10.0)	22.7	(1,533.7)
Net current assets	711.5	44.8	(1.0)	(11.8)	(16.4)	26.6	753.7
Total assets less current liabilities	1,744.2	515.1	33.1	(11.8)	(22.0)	–	2,258.6
Creditors – amounts falling due after more than one year	(320.3)	(675.9)	–	(2.3)	(4.5)	–	(1,003.0)
Provisions for liabilities	(160.1)	–	(8.0)	–	27.4	–	(140.7)
Net assets excluding pension liability	1,263.8	(160.8)	25.1	(14.1)	0.9	–	1,114.9
Pension liability	(1,647.1)	–	–	–	–	–	(1,647.1)
Net liabilities	(383.3)	(160.8)	25.1	(14.1)	0.9	–	(532.2)
Represented by							
Operating reserve	(357.1)	(160.8)	18.4	(14.1)	(1.5)	(32.5)	(547.6)
Other reserve	(36.3)	–	–	–	–	–	(36.3)
Hedging reserve	0.5	–	–	–	–	–	0.5
Translation reserve	–	–	0.7	–	2.4	32.5	35.6
BBC reserves	(392.9)	(160.8)	19.1	(14.1)	0.9	–	(547.8)
Minority interest	9.6	–	6.0	–	–	–	15.6
	(383.3)	(160.8)	25.1	(14.1)	0.9	–	(532.2)

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2009

At 31 March 2009	UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	IFRS £m
Fixed assets							
Intangible assets	95.7	–	85.3	–	(11.6)	86.5	255.9
Tangible assets	728.0	523.2	(62.3)	–	(0.1)	(0.6)	1,188.2
Investment in programmes for future sale	99.7	–	–	–	–	(99.7)	–
Investments in joint ventures	68.8	–	3.9	–	(0.7)	–	72.0
Interests in associates	11.2	–	0.5	–	–	–	11.7
	1,003.4	523.2	27.4	–	(12.4)	(13.8)	1,527.8
Current assets							
Stocks	491.0	–	(0.1)	–	11.9	112.7	615.5
Debtors due after more than one year	122.2	385.3	0.5	–	–	(37.8)	470.2
Debtors due within one year	831.3	2.2	–	–	–	(74.9)	758.6
Total debtors	953.5	387.5	0.5	–	–	(112.7)	1,228.8
Assets held for sale	–	–	–	–	–	0.6	0.6
Cash at bank and in hand	124.3	–	–	–	–	–	124.3
	1,568.8	387.5	0.4	–	11.9	0.6	1,969.2
Creditors – amounts falling due within one year	(952.4)	25.6	(1.8)	(14.4)	0.6	13.2	(929.2)
Net current assets	616.4	413.1	(1.4)	(14.4)	12.5	13.8	1,040.0
Total assets less current liabilities	1,619.8	936.3	26.0	(14.4)	0.1	–	2,567.8
Creditors – amounts falling due after more than one year	(314.6)	(1,095.5)	–	(2.3)	–	–	(1,412.4)
Provisions for liabilities	(171.8)	–	(8.8)	–	20.8	–	(159.8)
Net assets excluding pension liability	1,133.4	(159.2)	17.2	(16.7)	20.9	–	995.6
Pension liability	(143.3)	–	–	–	–	–	(143.3)
Net assets	990.1	(159.2)	17.2	(16.7)	20.9	–	852.3
Represented by							
Operating reserve	1,015.7	(159.2)	11.3	(16.7)	19.3	(20.4)	850.0
Other reserve	(32.3)	–	–	–	–	–	(32.3)
Revaluation reserve	0.8	–	–	–	–	(0.8)	–
Translation reserve	–	–	0.7	–	1.7	21.2	23.6
BBC reserves	984.2	(159.2)	12.0	(16.7)	21.0	–	841.3
Minority interest	5.9	–	5.2	–	(0.1)	–	11.0
	990.1	(159.2)	17.2	(16.7)	20.9	–	852.3

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

	2010 UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	2010 IFRS £m
Operating activities							
Cash generated from operating activities	426.6	47.4	–	–	1.7	(0.8)	474.9
Taxation paid	–	–	–	–	–	(33.7)	(33.7)
Net cash from operating activities	426.6	47.4	–	–	1.7	(34.5)	441.2
Dividends received from joint ventures and associates	10.7	–	–	–	–	–	10.7
Return on investments and servicing of finance							
Interest received	2.4	–	–	–	–	–	2.4
Interest paid	(14.3)	–	–	–	–	–	(14.3)
Interest paid on finance leases	(1.0)	–	–	–	–	1.0	–
Dividends paid to minority interests	(0.8)	–	–	–	–	–	(0.8)
Net cash outflow from return on investments and servicing of finance	(13.7)	–	–	–	–	1.0	(12.7)
Taxation							
Taxation paid	(33.7)	–	–	–	–	33.7	–
Capital expenditure on financial investments							
Purchase of tangible fixed assets	(125.2)	–	–	–	–	–	(125.2)
Investment in programmes for future sale	(100.8)	–	–	–	–	–	(100.8)
Drawdown of loan to joint venture	1.3	–	–	–	–	–	1.3
Proceeds from the sale of tangible fixed assets	44.3	–	–	–	–	–	44.3
Net cash outflow from capital expenditure and financial investments	(180.4)	–	–	–	–	–	(180.4)
Acquisition and disposals							
Purchase of a subsidiary	(20.5)	–	–	–	–	20.5	–
Cash acquired with subsidiary	40.5	–	–	–	–	(40.5)	–
Acquisition of subsidiary net of cash acquired with subsidiary	–	–	–	–	–	20.0	20.0
Purchase of interests in joint ventures and associates	(0.7)	–	–	–	–	–	(0.7)
Proceeds from sale of operations	2.0	–	–	–	–	–	2.0

CONSOLIDATED CASHFLOW STATEMENT CONTINUED

FOR THE YEAR ENDED 31 MARCH 2010

	2010 UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	2010 IFRS £m
Net cash inflow from acquisitions and disposals	21.3	–	–	–	–	–	21.3
Net cash inflow before use of liquid resources and financing	230.8	47.4	–	–	1.7	0.2	280.1
Management of liquid resources							
Sale of liquid resources	5,732.6	–	–	–	–	(5,732.6)	–
Purchase of liquid resources	(5,732.6)	–	–	–	–	5,732.6	–
Net cash inflow from management of liquid resources	–	–	–	–	–	–	–
Financing							
Increase in loans	104.3	–	–	–	–	(104.3)	–
Increase in borrowings	–	–	–	–	–	101.0	101.0
Repayment of loans	(174.1)	–	–	–	–	–	(174.1)
Capital element of finance lease payments	(9.0)	(47.4)	–	–	–	(1.0)	(57.4)
Repayment of loan notes	(3.3)	–	–	–	–	3.3	–
Net cash outflow from financing	(82.1)	(47.4)	–	–	–	(1.0)	(130.5)
Increase in cash in the year	148.7	–	–	–	1.7	(0.8)	149.6
Cash and cash equivalents at beginning of the year	121.8	–	–	–	–	2.5	124.3
Effect of foreign exchange rate changes on cash and cash equivalents	–	–	–	–	(1.7)	–	(1.7)
Cash classified as held for sale	–	–	–	–	(8.3)	–	(8.3)
Cash and cash equivalents at the end of the year	270.5	–	–	–	(8.3)	1.7	263.9

CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

	2009 UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	2009 IFRS £m
Operating activities							
Cash generated from operating activities	215.2	39.0	–	–	(4.3)	–	249.9
Taxation paid	–	–	–	–	–	(23.1)	(23.1)
Net cash from operating activities	215.2	39.0	–	–	(4.3)	(23.1)	226.8
Dividends received from joint ventures and associates	37.0	–	–	–	–	–	37.0
Return on investments and servicing of finance							
Interest received	7.7	–	–	–	–	–	7.7
Interest paid	(15.3)	–	–	–	–	–	(15.3)
Interest paid on finance leases	(0.4)	–	–	–	–	0.4	–
Dividends paid to minority interests	(0.8)	–	–	–	–	–	(0.8)
Net cash outflow from return on investments and servicing of finance	(8.8)	–	–	–	–	0.4	(8.4)
Taxation							
Taxation paid	(23.1)	–	–	–	–	23.1	–
Capital expenditure on financial investments							
Purchase of tangible fixed assets	(147.5)	–	–	–	–	–	(147.5)
Investment in programmes for future sale	(100.8)	–	–	–	–	–	(100.8)
Drawdown of loan to joint venture	(0.4)	–	–	–	–	–	(0.4)
Proceeds from the sale of tangible fixed assets	20.5	–	–	–	–	–	20.5
Net cash outflow from capital expenditure and financial investments	(228.2)	–	–	–	–	–	(228.2)
Acquisition and disposals							
Purchase of a subsidiary	(15.1)	–	–	–	–	15.1	–
Cash acquired with subsidiary	1.9	–	–	–	–	(1.9)	–
Acquisition of subsidiary net of cash acquired with subsidiary	–	–	–	–	–	(13.2)	(13.2)
Purchase of interests in joint ventures and associates	(15.8)	–	–	–	–	–	(15.8)
Paid on termination of operations	(0.9)	–	–	–	–	–	(0.9)
Proceeds from sale of operations	15.1	–	–	–	–	–	15.1

CONSOLIDATED CASHFLOW STATEMENT CONTINUED

FOR THE YEAR ENDED 31 MARCH 2009

	2009 UK GAAP £m	IAS 17 Leases £m	IFRS 3 Business Combinations and IAS 38 Intangible Assets £m	IAS 19 Employee Benefits £m	Other £m	Reclassification £m	2009 IFRS £m
Net cash outflow from acquisitions and disposals	(14.8)	–	–	–	–	–	(14.8)
Net cash (outflow)/inflow before use of liquid resources and financing	(22.7)	39.0	–	–	(4.3)	0.4	12.4
Management of liquid resources							
Sale of liquid resources	526.3	–	–	–	–	(526.3)	–
Purchase of liquid resources	(526.3)	–	–	–	–	526.3	–
Net cash inflow from management of liquid resources	–	–	–	–	–	–	–
Financing							
Increase in loans	218.0	–	–	–	–	(218.0)	–
Increase in borrowings	–	–	–	–	–	223.1	223.1
Repayment of loans	(144.4)	–	–	–	–	–	(144.4)
Capital element of finance lease payments	(9.7)	(39.0)	–	–	–	(0.4)	(49.1)
Increase in loan notes	2.6	–	–	–	–	(2.6)	–
Net cash inflow from financing	66.5	(39.0)	–	–	–	2.1	29.6
Increase in cash in the year	43.8	–	–	–	(4.3)	2.5	42.0
Cash and cash equivalents at beginning of the year	78.0	–	–	–	–	–	78.0
Effect of foreign exchange rate changes on cash and cash equivalents	–	–	–	–	4.3	–	4.3
Cash and cash equivalents at the end of the year	121.8	–	–	–	–	2.5	124.3

BBC CORPORATE GOVERNANCE FRAMEWORK

THE BBC'S CORPORATE GOVERNANCE FRAMEWORK IS DEFINED IN THE ROYAL CHARTER (THE CHARTER).

The BBC Trust assesses the performance of the BBC's management and its services. Its review and assessment for 2009/10 can be found in Part One of the Annual Report and Accounts.

The Charter requires the Executive Board to have regard to generally accepted principles of good corporate governance. So, although the BBC is not a listed company, it has opted to follow the relevant provisions of the Financial Services Authority's Listing Rules and the 2008 Financial Reporting Council Combined Code on Corporate Governance (the 2008 FRC Code), in order to be consistent with companies quoted on an EU regulated market.

The Executive Board has complied with the requirements of the Charter, creating appropriate and effective governance arrangements for the BBC. This has also secured substantial

compliance with the 2008 FRC Code although in a number of areas the 2008 FRC Code is not appropriate to the circumstances of the BBC. Compliance with the Charter has resulted in a small number of areas where compliance with the 2008 FRC Code has not been achieved, although the Executive Board believes that this does not compromise the quality of the governance arrangements in place, as shown below.

Some provisions of the 2008 FRC Code are not appropriate to the BBC's circumstances as a public body that is not profit-oriented and does not have shareholders. In particular provisions relating to interaction with shareholders clearly do not apply to the BBC, although in some circumstances it is possible to consider, by analogy, the way in which the Trust

PRINCIPLE OF THE 2008 FRC CODE	BBC POSITION	EXPLANATION
<p>A.2 – There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsible for the running of the company's business. No one individual should have unfettered powers of decision.</p>	<p>The Chairman of the Executive Board is the Director-General, the chief executive officer of the BBC.</p>	<p>The Charter specifies that the Director-General may be the Executive Chairman of the Executive Board. In addition, the strategic oversight by the BBC Trust ensures that no single individual has unfettered powers.</p>
<p>A.3 – The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.</p>	<p>The Executive Board comprises 16 directors, of which ten are executive directors and six are non-executive Directors. As a result, the Executive Board does not comply with the provision (A.3.2) that at least half the board, excluding the Chairman, should be independent.</p> <p>All non-executive Directors are considered independent for the purposes of the 2008 FRC Code, after recognising the need for insight from the media sector in the UK.</p>	<p>The Charter specifies that non-executive Directors must not be less than one-third and not equal to or more than one half of the members of the Executive Board.</p> <p>The Executive Board includes a balance of executive and non-executive Directors and no individual or small group of individuals can dominate decision taking.</p>

engages with licence fee payers. This is set out in Part One of the Annual Report and Accounts.

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

COST OF COMPLIANCE

In order to ensure that we complied with all relevant legislation, to which the BBC is subject in 2009/10, we incurred

compliance costs estimated at £17.6million (2009: £17.3million), which includes the BBC's annual £3.5million subscription to Ofcom.

EXECUTIVE BOARD

Role of the Executive Board

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

- delivering the BBC's services in line with the purpose remits, service licences and other business strategies;
- directing editorial and creative output;
- ensuring compliance with all relevant legal and regulatory requirements (including initial handling of complaints about the BBC), except where these areas specifically relate to the BBC Trust or the BBC Trust Unit;
- appointing the management teams for the BBC and its subsidiaries and holding them to account;
- conducting the BBC's financial affairs to ensure value for money; and
- accounting to the BBC Trust for its own performance, as well as the performance of the BBC and its subsidiaries, and complying with any decisions from the BBC Trust.

Table 2
Executive Board and Committee attendance

	Executive Board			Audit Committee	Fair Trading Committee	Nominations Committee ¹		Remuneration Committee	
	Ordinary	Extra-ordinary	Member	Attendee		Member	Attendee	Member	Attendee
Number of meetings for the period	11	6		4		3		2	7
Mark Thompson	10	6			3			2	6
Mark Byford	11	4					0	0	
Lucy Adams ²	7/9	3/4							5/5
Sharon Baylay ³	10/10	4/5							
Jana Bennett	10	4							
Tim Davie	10	3							
Erik Huggers	10	6							
Zarin Patel	11	6		4	3				
Peter Salmon ⁴	5/5	0/1							
John Smith ⁵	5/5	2/3							
Caroline Thomson	10	5			3				
Marcus Agius <i>Senior Independent Director Chairman of the Remuneration Committee</i>	10	5			1	1/1			7
Val Gooding <i>Chairman of the Fair Trading Committee from September 2009</i>	9	4			1/1				6/6
Dr Mike Lynch	9	5	4			2			0/1
David Robbie <i>Chairman of the Audit Committee</i>	11	2	4						
Dr Samir Shah	11	6	4		3				
Robert Webb <i>Chairman of the Fair Trading Committee until September 2009</i>	11	6			2/2	1/1			5

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

¹ Membership of the Committee differs depending on the appointment (non-executive or executive) being made. Marcus Agius, Mark Thompson and Dr Mike Lynch are members for all appointments. Mark Byford is a member for executive appointments and usually invited to attend for non-executive appointments. Mark Thompson is the chairman for executive appointments and Marcus Agius is the chairman for non-executive appointments. However, one meeting this year discussed the renewal of Marcus Agius's appointment and therefore he did not attend. In order to maintain an appropriate balance of Executive and non-executive Directors, Robert Webb joined the Nominations Committee for this meeting only.

² Lucy Adams was appointed Director, BBC People in June 2009.

³ Sharon Baylay was appointed Director, Marketing Communications & Audiences in May 2009.

⁴ Peter Salmon, Director, BBC North, joined the Executive Board in November 2009.

⁵ Following the BBC Trust's announcement about changes to the governance arrangements for BBC Worldwide, John Smith stepped down from the Executive Board from 1 October 2009.

Report of the Senior Independent Director

During the year, much of the BBC Executive Board's agenda considered the BBC's response to the economic downturn which continued to have an impact across all of the BBC's activities. Within this context public spending became a major topic and like other national organisations the activities of the BBC were quite correctly scrutinised.

The BBC's own response to the operational challenges posed by current economic conditions was swift. At the request of the BBC Trust, the Executive Board provided proposals on pay policy for senior managers, which we are now implementing. We remained mindful of the pressures the global financial crisis, and the arrival of new technology, has had on the BBC's competitors, and explored opportunities and partnerships where the BBC could appropriately use its position to benefit the wider media sector.

In March we put forward our new strategy, *Putting Quality First*. My fellow non-executive Directors and I believe that its proposals, to reduce the scope of the BBC's future production and output while increasing the quality of its programming, will mitigate some of the BBC's existing business risks and put it on a firmer footing for the future. The BBC stands for quality, and as a board it is our responsibility to ensure that it meets the highest public expectation. Within the confines of the multi-year licence fee settlement, this means doing fewer things, but doing them even better than we have in the past.

The composition of the Board also changed this year, adding a new post – Director, BBC North – whilst the Chief Executive Officer of BBC Worldwide stepped down. At times like these, the independent perspective the non-executive Directors bring remains crucial, and the added scrutiny we have faced has led to a sharper, and more determined approach in order to reach the right conclusions for licence payers and audiences.



Marcus Agius

Senior Independent Director
16 June 2010

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

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

An evaluation of the effectiveness of the Executive Board, its Committees and its interaction with the Trust took place during 2009. The evaluation was conducted by external consultants and included interviews with Executive Board members both executive and non-executive, an assessment of the governance protocols and the administrative support to the Executive Board. A report on the conclusions of the Review was considered by Executive Board which noted that, although direct comparisons or benchmarking with corporate boards was difficult given the unusual governance structure of the BBC, the Board had been assessed as working well according to the most important criteria. Recommendations resulting from the review have been considered in ongoing work to ensure the effectiveness of the BBC's governance processes.

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

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

INDUCTION, PERFORMANCE AND DEVELOPMENT

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

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

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

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

NOMINATIONS COMMITTEE

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

Executive appointments

No executive appointments were made this year, although Sharon Baylay, Director, Marketing, Communications and Audiences, and Lucy Adams, Director, BBC People who were appointed during 2008/09 took up their appointments this year. In addition Peter Salmon, Director, BBC North joined the Executive Board in November 2009.

Non-executive appointments

Two non-executive Directors were due to step down in 2009/10. After a thorough review of the composition and needs of the Executive Board, as well as the skills, experience and knowledge of the individual directors, the Nominations Committee re-appointed Marcus Agius as Senior Independent Director for a further three year term from 1 December 2009 and Val Gooding as a non-executive Director for a further two year term from 1 January 2010.

ACCOUNTABILITY AND INTERNAL CONTROL

The Board is responsible for the operational management of the BBC (excluding the Trust Unit), which includes safeguarding its assets and achieving value for money by ensuring there is a process in place for managing significant risks to the BBC, and maintaining an adequate system of internal control and reviewing its effectiveness.

Risk identification, management and ownership

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

BBC, which accords with the Turnbull guidance (Internal Control: Revised Guidance for Directors on the Combined Code), has been in place for the year ended 31 March 2010 and up to the date of approval of this BBC Annual Report and Accounts.

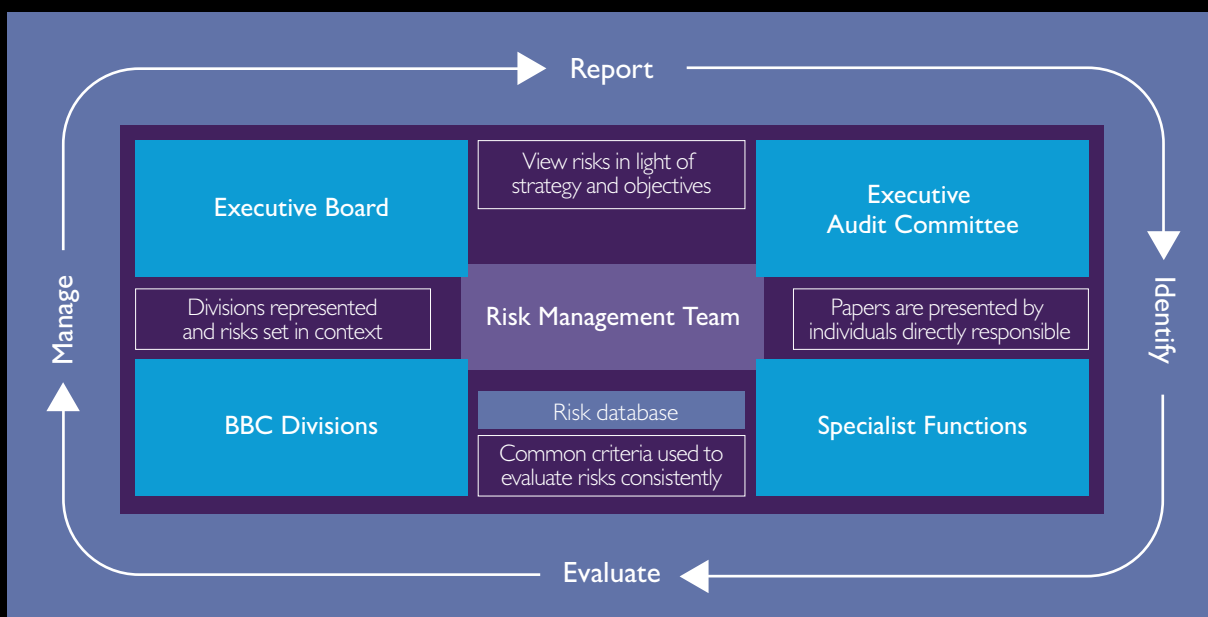
Internal control

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

- comprehensive monthly, quarterly and annual reporting processes, both within business groups and up to the Board. This includes the system of financial monitoring and reporting to the Board, based on an annual budget, monthly reporting of actual results, regular re-forecasting and analysis of variances and key drivers. It also includes performance reviews tracking achievements against strategy.
- regular treasury and cash reporting, analysing funding requirements and liquidity.
- formal authorisation limits and processes covering all financial transactions.

MANAGING RISK AT THE BBC

The Executive Board oversees an embedded process that gives visibility to prioritised risks.



- processes to ensure compliance with all applicable laws and regulations, including Ofcom requirements.
- formal policies and procedures concerning all material business processes, to ensure risks are managed and that timely, relevant and reliable information is available across the business.
- processes to ensure that our staff are professional and competent, such as recruitment policies, performance appraisals and training programmes.

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

INTERNAL AUDIT

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

or weaknesses identified are reported to appropriate levels of management. The status of corrective actions taken to address them is reported to the Audit Committee.

EXECUTIVE AUDIT COMMITTEE

The members of the Audit Committee, all first appointed in January 2007, are non-executive Directors David Robbie (Chairman), Dr Mike Lynch and Dr Samir Shah. The Board is satisfied that David Robbie has significant, recent and relevant financial experience. The committee augments the broad range of skills of its three members, gained from considerable experience in senior roles with other organisations, with advice as necessary from internal and external professionals, on relevant matters including developments in financial reporting and company law. Meetings are also attended by the Director-General, the Chief Financial Officer, the Director of Risk and Assurance, and representatives from Internal Audit, Risk Management and the external auditors.

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

The Audit Committee met four times during the financial year. The committee meets at least annually with the external auditors without any member of management present. The Chairman of the Audit Committee meets with the Director of Risk and Assurance, alone or with the external auditors, but without management, and also meets privately with the external audit lead partner.

Minutes of each Audit Committee meeting, once approved, are available to the Executive Board and to the BBC Trust. Recommendations of the committee on any area within its

Report of the Chairman of the Executive Audit Committee

The Audit Committee reviews and oversees financial reporting, internal control and risk management at the BBC. Focusing the BBC's spending on what matters most to the British public – driving improved value for money and reinvesting savings into high quality content – is the context against which we judge whether the control environment is fit-for-purpose.

We evaluate issues raised by Internal Audit, and management's progress in addressing them with the minimum of delay. We also receive regular updates from our external auditors, outlining their audit approach and any issues they wish to bring to our attention.

We regularly review the most significant risks facing the business, commissioning papers and presentations from management on major concerns and on risk profiles from across the BBC, with a view to ensuring that any proposed actions taken to manage and mitigate risk are appropriate and adequate. Where we find they are not, we challenge management to do better and to reconsider prioritisation.

Issues facing the BBC, or the wider industry, and which we have considered this year, have included: the implications of social and technological changes, especially on licence fee income; the security of confidential information; overall resilience of content delivery; and the implications for the BBC of adopting International Financial Reporting Standards (IFRS).

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



David Robbie

Chairman of the Executive Audit Committee
16 June 2010

remit where action or improvement is needed are reported back to the Board by whatever route is deemed most appropriate to the nature and circumstances of the issue. The committee Chairman formally reports to the Board at least once a year on all matters within the committee's duties and responsibilities.

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

- reviewed the effectiveness of the system of internal controls, including controls over financial reporting. In doing so it has considered the findings of the internal and external auditors and sought assurance from management that any control issues highlighted are being addressed. It has also considered reports from management on processes for managing significant risks.
- reviewed the BBC's arrangements for the adoption of IFRS and its group financial statements, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external auditors.
- overseen the BBC's relationship with the external auditors, including their engagement, the scope of and approach to their work, their fees, their performance and their independence, including the approval and compliance with the policy on non-audit work.
- approved the work plan of Internal Audit.
- reviewed the fraud detection processes and whistle-blowing arrangements.
- considered post investment reviews for major investments.
- monitored the implementation of all actions required as a result of the programme of value for money reviews carried out by the National Audit Office.

Independence of external auditors

We comply with the 2008 FRC Code guidance on maintaining an appropriate relationship with external auditors. The BBC re-appointed KPMG LLP as external auditors during 2008 for a period of three years starting with 2008/09, after a formal tender process. This period is extendable twice by one year each time, subject to a formal review process to be led by the Audit Committee.

The Audit Committee is satisfied that KPMG has adequate safeguards in place to avoid the possibility of its audit objectivity and independence being compromised, including appropriate rotation of its team, as well as an appropriate quality assurance programme.

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

Recruitment from KPMG LLP into any senior management position in the BBC requires the prior approval of the Audit Committee.

WHISTLE-BLOWING

We have a 'whistle-blowing' (protected disclosure) policy, to facilitate the confidential communication via a number of routes of any incident in which there is a suspicion that the BBC's codes have been breached. In recognition that there could be sensitivities regarding actual or suspected incidents, we provide a 'whistle-blowing' hotline, administered by an independent external company to ensure anonymity. Each incident or suspicion reported via any route is investigated in a confidential manner; a response is communicated and action is taken as appropriate. The Audit Committee ensures that there are appropriate arrangements in place for the proportionate and independent investigation of matters reported and for appropriate follow-up action.

EXECUTIVE BOARD REMUNERATION REPORT

This report sets out the BBC's remuneration policy and details the remuneration received by the members of the Executive Board. It has been prepared on the basis that the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and those of the Financial Services Authority apply to the BBC wherever these disclosure provisions are relevant. The sections on pensions and remuneration received by the Executive Board members are audited by KPMG LLP.

Remuneration Committees: constitution and operation

The Remuneration and Appointments Committee (RAC) of the BBC Trust is responsible for setting the remuneration strategy for the Executive Board and is responsible for all aspects of the remuneration of the Director-General and the non-executive Directors.

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

Complying with the 2006 FRC Combined Code on Corporate Governance, the ERC takes specialist advice from external professional advisers on some matters, and particularly those relating to market practice. During the year, independent advice was received from PricewaterhouseCoopers.

Report of the Chairman of the Executive Remuneration Committee

Executive remuneration has come under increasing scrutiny in recent months and concerns have been expressed that salaries, bonuses and long term incentives for senior individuals in both the private and the public sectors appear excessive against a backdrop of deep economic recession. Accordingly, in February 2009, the BBC Trust requested that the BBC Executive Board undertake a thorough review of its senior management remuneration policy and asked the Executive to consider how our approach could be modified to respond to the economic climate. We responded by putting in place a series of measures to address both the levels of remuneration received by individual senior managers and the total BBC senior management payroll. These measures will have the effect of reducing the amount spent on senior managers by 25% over the next three years. In summary:

- BBC Executive pay was frozen for four years.
- bonuses for BBC Executives were removed indefinitely.
- senior management pay was frozen and all senior management bonuses were removed for two years.
- the BBC pledged to reduce the number of senior managers by 18% over a four year period.

In carrying out this review, the Executive aimed to achieve a difficult balance between attracting and retaining the talented staff needed to lead the BBC and to continue to deliver outstanding content, with the need to ensure that it continues to offer Licence Fee payers value for money in a period when many of them have experienced the negative effects of the recession.

The review was wide-ranging and looked at our current remuneration strategy and policy, as well as undertaking a detailed study of our current Senior Managers, including where they had been recruited from, their length of service, age, experience and for those who had left the BBC, where they had gone on to work. The existing strategy orientated BBC executive remuneration principally towards the private sector labour markets from which the BBC generally recruits, rather than towards the public sector. The strategy also recognised the necessary restrictions on the BBC's ability to pay the significant cash bonuses and share-based awards enjoyed by the private sector. The review confirmed that whilst the strategy in place had proven largely successful in attracting and retaining the right calibre of individuals, there were some areas where internal relativities and the desire to ensure that senior pay was broadly comparable in different parts of the organisation, had led to pay rising above the median of the specific labour market. Overall the picture was one of restraint, with BBC senior managers receiving average pay settlements that mirrored both the private and public sectors and with senior managers in both the creative and business management areas joining and remaining at the BBC for lower remuneration than they could expect to receive elsewhere – in many instances, significantly lower.

The review also took into account the commercial pressures on the BBC, which is at the heart of change of unprecedented pace and scale in the media sector. Whilst we have built up some of the skills needed to reinvent the organisation for the digital age, the need to attract specialist technical and other skills will only increase. It is therefore vital that the BBC has the ability to attract highly skilled staff whose abilities command premium salaries. At the same time we saw evidence that the economic downturn had resulted in fundamental change to market practices with regard to bonuses or long term incentives and we anticipated that the value of executive

remuneration packages would soon resume their long-term above inflation rate of growth.

Taking all of these factors into account we made a number of additional recommendations with regard to executive remuneration. They included:

- a BBC discount factor of 50-80% of the commercial sector comparators' total remuneration for executive directors and a discount of between 20-40% for senior managers. This will mean that, in real terms, a senior manager joining or choosing to remain at the BBC can expect to receive significantly less remuneration than their commercial counterparts.
- a revised role replacement policy, whereby we would consider whether a vacant role needs to be replaced at all, whether it can be reduced to a lower grade or whether we can pay a lower salary
- we have removed the internal relativity process where we compared across Divisions as a key consideration for salary level setting and we will have remuneration strategies which recognise the different markets in which we operate, (ie: journalism, digital media, television production, business disciplines, etc)
- we wish to increase the rate of internal promotion from 65% to 70% within three years, resulting in reduced external recruitment expenditure

In implementing these significant measures, we are hopeful that the brand of the BBC and the satisfaction of working in the public service will enable us to continue to recruit and retain those key individuals who lead the BBC's ability to produce high quality output and to manage the organisation effectively and efficiently. If we find that this ability is impaired and that we can no longer attract and retain the people who lead the quality of services to our audiences, we would review with the Trust the appropriateness of our recommendations.

I am pleased to report that in the few months since the publication of our report and the end of the financial year that we have already made progress. We have reduced the number of senior managers by 15 (2.3%) and we have reduced the total payroll for the period October 2009-April 2010 by £6.78million (8.6%). We will maintain this momentum, and see even greater reduction in numbers and payroll this year. The Executive Remuneration Committee will continue to review progress. Moreover, the BBC's decision to publish the salaries of the 107 most senior managers in the organisation, in addition to the existing publication of remuneration statements for the executive directors demonstrates our commitment to continued transparency in this area.

The responsibility of the Executive Remuneration Committee is to ensure that the BBC senior remuneration is sensitive and responds to the changing economic climate, provides the Licence Fee payer with value for money and enables the BBC to attract and retain the people who will deliver the outstanding services our audiences deserve. Whilst this remains a complex and challenging task, I believe that we have thoroughly reviewed all of the relevant internal and external factors and have arrived at a remuneration

strategy and a set of medium term measures that provide the confidence that our responsibilities are being met.

Marcus Agius

Chairman of the Executive Remuneration Committee

16 June 2010



Remuneration of non-executive Directors

Non-executive Directors' fees are determined by the Trust. Non-executive Directors are appointed initially for a period of two years, except the Senior Independent Director, who is appointed for an initial three-year period.

Remuneration of executive directors

The strategy that has been set by the Trust is to provide remuneration that attracts, motivates and retains the key talent required to lead the BBC and to deliver outstanding public service broadcasting, whilst also recognising the BBC's status as a publicly funded corporation which must deliver value to the licence fee payer.

Each year the ERC reviews independently provided market pay data to support it in its decision making on remuneration, and ensure that levels of pay are consistent with the agreed strategy. As basic salaries for all executive directors was frozen in 2009, no market comparison was undertaken.

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

Base pay

In determining base pay the ERC takes into account the base pay of the BBC's principal competitors and the other organisations with which it competes for talent; the affordability of the BBC to reward its executives; and the performance of the executive. Base pay is aligned at around the market median for total remuneration, discounted by a factor of 50-80% ensuring that the BBC does not lead the market on executive pay in the media sector.

Variable pay

A limited element of variable pay, linked to the achievement of key objectives and overall contribution to BBC performance, is provided. Executive directors are eligible for an annual bonus of up to a maximum of 10% of base pay, of which up to 6% is for the achievement of divisional value-for-money targets, and up to 4% is for the achievement of divisional transformational objectives. During the year the annual bonus scheme for executive directors (with the exception of the CEO of BBC Worldwide) was suspended indefinitely. As a result no discretionary bonuses were paid in 2010.

With regard to the CEO of BBC Worldwide, the BBC's remuneration strategy recognises that as a commercially funded business, it is appropriate that its CEO participates in the annual bonus and the long term incentive plans of BBC Worldwide.

Benefits

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

Pension

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

For an employee joining the Pension Scheme before 1 November 2006, the accrual rate is 1/60th of the final pensionable salary for each year of service with pensionable salary being base pay, including London Weighting, but not including any bonuses or other payments. For employees in this group the normal pensionable age is 60. For an employee who joined on or after the 1 November 2006 the accrual rate is 1.67% of their pensionable pay for each year of service, adjusted in line with inflation. For employees in this group the normal pensionable age is 65.

The majority of the executive directors have a normal pensionable age of 60 but may continue in employment to age 65. The normal retirement date for Erik Huggers, Sharon Baylay and Lucy Adams is 65 as they are Career Average Benefits members of the Pension scheme. For those who joined the Pension Scheme after 31 May 1989 earnings are subject to the maximum annual limit (£123,600 per annum for 2009/10). No maximum annual limit is applied to those who joined on or before 31 May 1989. The Pension Scheme provides for early retirement on medical grounds and life assurance of four times pensionable pay up to a prescribed limit.

A variety of arrangements were put in place, for members of the Executive Board who joined on or after 1 June 1989, and whose pensionable pay exceeds the maximum annual limit, including funded and unfunded arrangements outside of the Pension Scheme. Since 1 April 2006 these arrangements have been replaced by a cash supplement paid to each Director on pensionable salary above the maximum annual limit. See Table 3.

Any participating employee who reaches or exceeds the Lifetime Allowance (£1.75million for 2009/10) may opt out of the Pension Scheme and instead receive a cash supplement.

Employment contracts

Employment contracts of executive directors have a notice period of a maximum of 12 months, and are subject to earlier termination for cause. As at 31 March 2010 the unexpired term of each executive director was a maximum of 12 months. There is no contractual entitlement to any additional remuneration in the event of early termination other than in the case of termination for reason of redundancy.

Outside interests

With the prior agreement of the Director-General and the Nominations Committee, executive members of the Executive Board may hold one remunerated external directorship with up to 15 days per year permitted to fulfil these duties. Remuneration which arises from directorships may be retained by the executive member. Executive directors may also hold non-remunerated posts outside the BBC.

During the year no executive director held any other remunerated external directorship. To obtain the Executive Board's register of interests visit www.bbc.co.uk/aboutthebbc/running/executive/eb

It is recognised that non-executive Directors are likely to have other directorships and the restrictions applying to executive directors do not apply to them.

The BBC's Commercial Businesses

The CEO of BBC Worldwide (the commercial subsidiary of the BBC) was a member of the Executive Board for six months of the year. He participates in the annual bonus plan and long term incentive plan (LTIP) of BBC Worldwide. These plans are not funded by the licence fee and the full costs of base pay, annual bonus and the LTIP are self-funded by the commercial revenues of BBC Worldwide.

The CEO of BBC Worldwide is eligible for a maximum annual bonus of 55% of base pay under the plan (increased from 50% in April 2009), determined principally by performance against profit targets. Up to 75% of the previous year's annual bonus may be deferred into the LTIP.

The LTIP is a cash incentive plan designed to align the CEO's remuneration with the strategy of the business. The maximum payout under the LTIP is 25% of base pay, and additionally a potential 100% match of deferred annual bonus. Awards, including the matching element, made under the scheme are subject to two performance measures: Profit Growth (75% weighting) and Return on Sales growth (25% weighting), measured over a three year period and relative to a comparator group of at least 15 other international media companies⁴.

The comparator group is selected for a mix of business, industry and geographical representation and comprises Aegis Group, British Sky Broadcasting Group, Informa, ITV, Pearson, WPP, Yell Group, Cablevision Systems Corp, Comcast A, Disney (Walt) Company, Eastman Kodak, Interpublic Group Cos, SBS Broadcasting, ProSiebenSat.1, Axel Springer (R), Havas Advertising, JC Decaux, M6-Metropole Television, Publicis Groupe, TFI, Vivendi Universal, Arnoldo Mondadori, Mediaset, RCS Mediagroup, Dentsu Inc, Fuji Television Network, Nippon Television Network Corp.

BBC Worldwide must be ranked at least at the median of the comparator group for any of the award to vest. Maximum vesting is achieved for a ranking at the upper quartile or above. There is a straight-line vesting scale between each vesting point. The vesting schedule is shown in the Table 6.

Table 3
Remuneration received

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

		Fee/base pay ⁴ £000	Annual bonus £000	Taxable benefits £000	Other remuneration ⁵ £000	Total remuneration 2009/10 £000	Total remuneration 2008/09 £000
Executive directors							
Director, BBC People							
Lucy Adams	Joined 1 June 2009	267	–	12	49	328	–
Stephen Kelly	Left 28 February 2009	–	–	–	–	–	396
Director, MC&A							
Sharon Baylay	Joined 5 May 2009	281	–	13	51	345	–
Director, Vision							
Jana Bennett		415	–	15	87	517	515
Deputy Director-General							
Mark Byford		475	–	13	–	488	485
Director, Audio & Music							
Tim Davie ¹		365	–	15	72	452	403
Jenny Abramsky	Retired 30 September 2008	–	–	–	–	–	248
Director, Future Media & Technology							
Erik Huggers	Joined 1 August 2008	330	–	15	62	407	274
Ashley Highfield	Left 30 June 2008	–	–	–	–	–	124
Chief Financial Officer							
Zarin Patel		352	–	14	68	434	429
Director, BBC North							
Peter Salmon	Joined 1 November 2009	156	–	6	31	193	–
Chief Executive Officer, BBC Worldwide							
John Smith ⁴	Stepped down 30 September 2009	200	141	7	–	348	480
Director-General							
Mark Thompson		668	–	7	163	838	834
Chief Operating Officer							
Caroline Thomson		335	–	21	63	419	413
Total executive directors		3,844	141	138	646	4,769	4,601
		Fee/base pay ⁴ £000	Annual bonus £000	Taxable benefits £000	Other remuneration ⁶ £000	Total remuneration 2009/10 £000	Total remuneration 2008/09 £000
Non-executive Directors⁷							
Marcus Agius		51	–	–	–	51	50
Val Gooding ²		37	–	–	–	37	35
Mike Lynch		36	–	–	–	36	35
David Robbie		41	–	–	–	41	40
Samir Shah		36	–	–	–	36	35
Robert Webb ³		83	–	–	–	83	40
Total non-executive Directors		284	–	–	–	284	235
Total Executive Board		4,128	141	138	646	5,053	4,836
Total Trustees						662	677
Total						5,715	5,513

¹ On 1 October 2008 Tim Davie was appointed as Director, Audio & Music. Prior to this appointment he was Director, MC&A.

² Val Gooding was appointed Chair of Fair Trading Committee 1/2/10.

³ Robert Webb ceased to be Chair of Fair Trading Committee 30/9/09. From 1 October 2009 he was appointed as non-executive Chairman of both BBC Commercial Holdings Limited and BBC Worldwide Limited. In recognition of these additional responsibilities he received fees of £45,000 during the 2009/10 financial year.

⁴ John Smith stepped down from the BBC Board on 30/9/09. The base pay detailed is for the six months that he was an executive director. Base pay for the year was £420,000. Benefits have been pro-rated. The bonus payment shown represents a payment for the whole financial year; in addition to which an equal amount has been invested into the 2010-2013 deferred bonus scheme. The maximum payout under the LTIP has increased to 25%, effective for the 2009-2012 scheme. Total remuneration for the year was £823,000 as disclosed in the BBC Worldwide Annual Review.

⁵ The BBC introduced a salary sacrifice arrangement on 1 June 2008 for members who joined the Pension Scheme before 1 November 2006, and those directors as indicated in the table above participated in the arrangement. The terms and conditions of employment were changed for those employees opting for the salary sacrifice arrangement and as a result employee pension contributions made via the salary sacrifice arrangement have been treated as employer contributions, with a corresponding reduction in salary. Base salaries for executive directors have not been adjusted to reflect the impact of salary sacrifice to enable like for like comparison with prior years. The total salary sacrifice by executive directors was £77,060 (2009: £84,704).

⁶ Other remuneration relates to pension arrangements; providing cash supplements for directors subject to the maximum annual limit.

⁷ Non-executive Directors are appointed initially for a period of two years, except the Senior Independent Director, who is appointed for an initial three-year period.

Table 4
Defined benefit schemes

Details of defined benefit entitlements are shown below:

Executive directors	Age as at 31 March 2010	Increase/ (decrease) in accrued pension over year £000	Total accrued pension at 31 March 2010 £000	Transfer value of accrued pension at 31 March 2010 £000	Transfer value of accrued pension at 31 March 2009 £000	Director's contributions (excluding contributions paid via the salary sacrifice arrangement) £000	Increase/ (decrease) in transfer value less director's contributions £000
Lucy Adams ¹	45	2	2	11	–	–	11
Sharon Baylay ²	41	2	2	10	–	–	10
Jana Bennett	54	3	16	247	212	–	35
Mark Byford	51	9	215	3,682	3,406	–	276
Tim Davie	42	2	10	92	57	–	35
Erik Huggers ³	37	2	4	19	7	–	12
Zarin Patel	49	3	24	284	220	–	64
Peter Salmon ⁴	53	2	7	107	73	–	34
John Smith ⁵	52	(26)	183	3,250	3,673	–	(423)
Mark Thompson	52	3	12	167	130	–	37
Caroline Thomson	55	6	73	1,460	1,475	–	(15)

¹ Lucy Adams was appointed as a director on 1 June 2009 and joined the scheme on 1 July 2009. She is a Career Average Benefits member with less than two years' service, and so she is not entitled to a deferred pension at 31 March 2010. However, to be consistent with the other members, we have calculated and valued her accrued deferred pension benefits.

² Sharon Baylay was appointed as a director on 5 May 2009 and joined the scheme on 1 June 2009. She is a Career Average Benefits member with less than two years' service, and so she is not entitled to a deferred pension at 31 March 2010. However, to be consistent with the other members, we have calculated and valued her accrued deferred pension benefits.

³ Erik Huggers is a Career Average Benefits member who had less than two years' service at 31 March 2009 and so he was not entitled to a deferred pension at that date. However, to be consistent with the other members at 31 March 2009 we have calculated and valued his accrued deferred pension benefits as at 31 March 2009.

⁴ Peter Salmon is a New Benefits member who was appointed as a director on 1 November 2009, although he joined the scheme on 1 October 2006. The figures shown include the period before he was appointed as a director.

⁵ John Smith resigned as a director on 30 September 2009 but he is still an active member of the Scheme at 31 March 2010, therefore his accrued pension as at 31 March 2010 has been valued.

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

Table 5
LTIP vesting schedule for BBC Worldwide

Performance ranking for BBC Worldwide	LTIP payment
Upper quartile or above	20% of base salary (25% for 2009-12 Scheme) and 100% match of deferred bonus
Median	10% of base salary, and 50% match of deferred bonus
Below median	Nothing vests

Notes

1. Straight line pro-ration applies between each of the vesting points above.

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

Table 6
LTIP vesting for CEO of BBC Worldwide

LTIP award	Bonus deferred £000	End of performance period	LTIP award vested £000	Deferred bonus matching award vested £000s	Total vested £000s
	a		b	c	a+b+c
LTIP 2007 to 2010	80	March 2010	88	80	248

Table 7
LTIP potential vesting in 2011 to 2012 for CEO of BBC Worldwide

LTIP award	Bonus deferred £000s	End of performance period	Potential LTIP vesting (at target) £000s	Potential LTIP vesting (at maximum) £000s	Potential deferred bonus matching award (at target) £000s	Potential deferred bonus matching (at maximum) £000s	Total potential (at target) £000s	Total potential (at maximum) £000s
	a		b	c	d	e	a+b+d	a+c+e
2008 to 2011	88	March 2011	44	88	44	88	176	264
2009 to 2012	69	March 2012	44	110	34	69	147	248

Notes

1. LTIP 2008-2011 for performance below lower quartile 50% of deferred bonus is forfeited.

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

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 of the income and expenditure for that period. The Board has prepared the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ('EU IFRS'), reflecting the fact that IFRSs are widely used in the UK, are being adopted in the public sector, and that their use is permitted under the Companies Act 2006.

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 BBC 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.

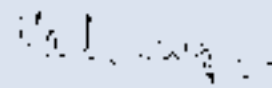
Statement of disclosure of information to auditors

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 Financial Statements show the BBC to be in a net liability position as at 31 March 2010, resulting from the recognition of an additional deficit of £1.6 billion on the BBC defined benefit pension scheme. 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
16 June 2010