Full Financial Statements 2010/11

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BBC FULL FINANCIAL STATEMENTS 2010/11

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

July 2011

The BBC's Annual Report and Accounts 2010/11, giving narrative context to the numbers contained in this document, were also laid before Parliament on 12 July 2011 and are available online at www.bbc.co.uk/annualreport


BBC
RADIO
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Chief Financial Officer's review

The last year has seen the BBC face a number of financial challenges. But we end the year in a financially resilient position – able to absorb these challenges, and also unlock significant future savings as we transform our ways of working as we continue to provide audiences with excellent content across all our platforms.

Financial resilience

It is the management of these challenges and our preparations for the future which have driven the result for the year. The full year group surplus of £483million reflects some exceptional credits which are not part of our regular operations: we benefit from a £250million actuarial gain which is a direct result of significant pension reform to reduce our ongoing pension costs, as well as a profit of £96million from the disposal of *Animal Planet* as we concentrate our commercial activities on BBC branded channels and platforms. Excluding these two significant items, the underlying group surplus for the year was £137million, or 2.7% of our income. A small surplus like this is appropriate as it reflects a broad matching of income and expenditure, whilst providing some headroom for unforeseen events or costs.

Although at the year-end we are showing an overall cash balance of £513million, this needs to be seen in the context of our short-term commitments. £266million of this cash is ring-fenced for repayment to DCMS as it is the surplus on the Digital Switchover Help Scheme and Digital UK. Further sums of £74million and £120million respectively, have been set aside to fund the completion of the move to Salford and our pension deficit recovery payments for the next two years. Finally, £69million of this cash is destined for investment in the development of our commercial operations. After allowance for these amounts, the BBC has an underlying net overdraft of £16million at the year-end which is a reasonable level.

The first step of providing value to licence fee payers is to ensure the maximisation of our income. In difficult economic times we have protected the level of licence fee income and at the same time grown our non-licence fee incomes to show an overall increase in our income of over £200million. The commercial operations should not be overlooked with significant contributions being made by BBC Worldwide, which goes from strength-to-strength as a business, but BBC World News and BBC Studios & Post Production (BBC S&PP) also contributed.

We have also agreed with the government the levels of the licence fee through to the end of the Charter period and although this agreement comes with significant additional financial obligations, it gives us the financial security to plan our operations and prioritise our expenditure to best serve the needs of our audiences.

Delivering efficiency

We are in the position to do this is because of the operational and financial efficiencies we have delivered in recent years, augmented by the prioritisation of our expenditure in line with the editorial priorities set out in *Putting Quality First*.

We are now projecting that the efficiencies to be generated from our Continuous Improvement Programme will exceed £2billion, with all the money being recycled into either the enhancement of our content or investment in our infrastructure, especially our operational sites. In addition we continue to identify further opportunities to reduce the costs of senior managers and of our talent and remain on track to hit all our targets in these areas.

Financial challenges

In the course of this year we have not only confirmed the size of our pension deficit but also agreed a plan with the pension trustees to recover the deficit over a mutually agreed timescale and which does not unduly compromise the funding available for our services.

The management of high inflation (the RPI increase was 5.3% over the year) has put significant pressure on the BBC's finances, and will continue to do so with the licence fee frozen for the next five years. However, recent experience has taught us how to manage such pressures and puts the BBC in a strong position to enable their management without compromising our spending and investment ambitions.

Zarin Patel

Zarin Patel
Chief Financial Officer
23 June 2011

Summary financial performance

Licence fee payers rightly expect their investment in the BBC to offer distinctive, high-quality programmes, and at the same time deliver real and sustainable value for them and their families. The onus is on the BBC to efficiently manage how we spend licence fee income, as well as striving to continuously cut duplication and waste across all our operations, and increase revenues from our commercial activities.

Licence fee spend

- 80p in every £1 of licence fee is spent on programmes or the infrastructure to support the BBC's activities.
- 6p in every £1 is spent getting our services to audiences on analogue, DTT, satellite and the internet.
- The cost of collecting the licence fee is lower than last year at 3.4p per £1 collected (down from 3.5p last year).

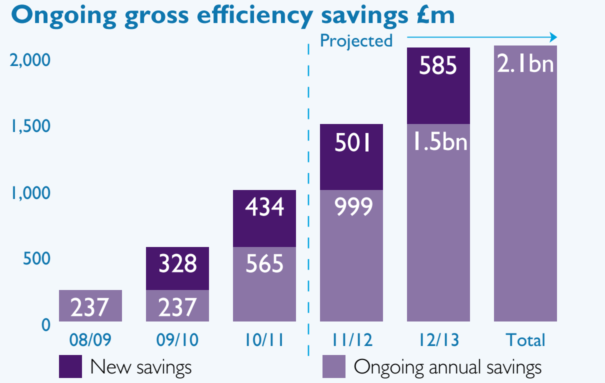
Breakdown of licence fee spend 2010/11

	£m	%
Content spend	2,549	71
Property and technology	308	9
Support and marketing functions	303	8
Service distribution	202	6
Licence fee collection	124	3
Digital Switchover Help Scheme	80	2
Restructuring	30	1
Total	3,596	100

Efficiency savings

- £1billion of sustainable savings achieved since the start of the Continuous Improvement Programme without deterioration in quality of our content.
- Of the remaining £1.1billion, £870million will be delivered by initiatives already in place (assured savings).
- We remain on track to achieve our 3% annual savings target.
- Total savings are anticipated to be £1.9billion after implementation costs.

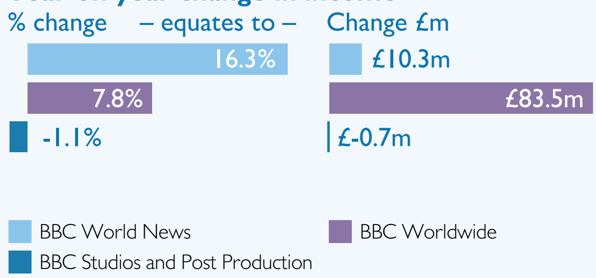
Ongoing gross efficiency savings £m



Commercial performance

- BBC Worldwide record gross sales of £1.158billion – 8% up on last year.
- BBC World News sales benefit from recovery in advertising markets and show a 16% increase on last year.
- BBC S&PP operations show profits before restructuring costs.
- BBC Worldwide returned £182million to Public Services Broadcasting in the year.

Year-on-year change in income



Financial overview

In common with many other organisations, the BBC has continued to face some significant financial challenges as the UK economy has continued to suffer from the effects of its deepest recession since the 1930s. Collecting the licence fee has been a challenge in this difficult environment, and as I set out last year, the value of the pension scheme has led to the need for us to address a significant deficit.

The actions that we have taken during the last two years have met the short-term pressures of needing to fund the pensions deficit and lower than planned income from the licence fee whilst sustaining and improving the breadth, depth and reach of the services that our viewers, listeners and readers value. This has, I believe, created a strong platform from which we can begin to meet the future challenge of maintaining the quality of our output within our future funding pressures.

We set out our strategic view for the BBC in the publication in March 2010 of *Putting Quality First*. This strategy ambitiously reshapes the BBC and its output to serve audiences in a future that will be much more dynamic than traditional linear programming. It would have been an easy response to the prevailing financial conditions to have scaled back our ambition for more creative and innovative programming, or to have retrenched our range of TV and radio channels or to have scaled back our transformational investment programme in an infrastructure that will enable the delivery of great quality output for the next 25 years.

We have, though, maintained the direction of travel on which we had embarked whilst beginning the implementation of our plans to tackle the key issue of the recovery of the pension scheme deficit. Our financial statements and the balance sheet in particular, demonstrate the underlying health of the BBC and the success, so far, of our investment strategy.

The multimedia newsroom at Television Centre brings different journalistic sources together so that all BBC news outlets and services on all platforms can meet the challenges of an on-demand digital world.

Efficiency savings by category

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

The following examples give a sense of how and where we made some of our ongoing efficiency savings this year:

Saving today, planning for tomorrow

During 2010/11 BBC network radio made some immediate practical changes to how it is structured, removing duplication and improving impact across the division – for the benefit of our audiences. For instance, it now has a single Live Events unit, a one-stop-shop where specialist expertise and resources are easily found and shared.

The same colleagues also carried out a number of studies to identify opportunities for new and future efficiency savings – including an external review benchmarking BBC music radio operations against the commercial sector, and a study comparing programme prices across BBC radio networks. Both provided real insight into current BBC practices and will help to deliver sustainable improvements.

Deriving ongoing benefits

While long-term contracts deliver many benefits, dramatic changes in the economic environment can necessitate some renegotiations. The economic downturn over the last few years coupled with the licence fee freeze has given us leverage to renegotiate some supplier contracts and deliver improved value to licence fee payers.

For example, with operations from catering to construction, car parking to cleaning, BBC Workplace manages some of our biggest contracts. During 2010/11, it negotiated a change to the contracted inflation provisions (from RPI-based to CPI-based) and embedded guaranteed reductions in charges into two service provider contracts. The result was additional savings of £1.3million over the year, worth around £7.0million until the end of the current licence fee period.

News headlines

Last year we realised our first full year of savings from the introduction of a new playout system for dedicated politics channel BBC Parliament from its Millbank HQ in Westminster. The new system enabled the automation of a number of key tasks, as well as facilitating integration with the operations supporting the *Democracy Live* website. Combined, these different ways of working delivered significant savings on what had previously been a separate third party contract for BBC Parliament channel playout.

Creative solutions

Different television programme genres have distinct ways of working, and there is not always a single solution to a problem that can be applied across the board.

Because of large studio and overhead costs, growing volume and long-term or bulk deals allow better cost management for entertainment series, and effectively reduce the average cost of programmes.

Volume commissioning has also been used to lower average programme costs in drama (due to low marginal cost of additional episodes) and has delivered savings on shows such as *The Armstrong and Miller Show* (pictured).

Shooting drama episodes together in blocks has reduced preparation time, and therefore costs, which have been further reduced by re-working crew structures and levels.

Commissioning of returning factual strands has generated some of the largest efficiencies. For example, *The Antiques Roadshow* is now a 60 minute programme (was 50 minutes in 2007/08), allowing additional content that would previously have been cut, driving audience value at little extra input and having no negative impact on programme quality.

The Armstrong and Miller Show.

Summary consolidated income statement

For the year ended 31 March 2011

	2011 £m	2010 £m
Licence fee income	**3,513**	3,447
Other income	**1,480**	1,343
Total income	**4,993**	4,790
Operating costs (excluding restructuring costs and exceptional pension income)	**(4,789)**	(4,541)
Exceptional pension income	**250**	334
Restructuring costs	**(63)**	(62)
Total operating costs	**(4,602)**	(4,269)
Share of results of associates and joint ventures	**27**	37
Gain on sale of operations and disposal of fixed assets	**96**	41
Tax, interest and financing costs	**(31)**	(122)
Group surplus for year	**483**	477

Effective and efficient collection of the **licence fee** has maintained income despite household growth continuing to be lower than historic levels

Other income – primarily from the commercial group – is up by 10% with strong growth in BBC Worldwide sales

Operating costs reflect higher sales in BBC Worldwide. Costs also reflect a big year in sport and coverage of the General Election and world events

The **exceptional pension income** reflects the change in scheme benefits announced during 2010/11, partly offset by the cost of early retirement and redundancy

Gains this year relate to the disposal by BBC Worldwide of *Animal Planet*

Income and expenditure statement

The management of our recent financial challenges and the preparations put in place for the future are heavily reflected in the group result of a £483million surplus. An actuarial gain of £250million was made as a direct result of significant pension reform to reduce our ongoing pension costs; and a profit of £96million was made from the disposal of *Animal Planet* as we moved to concentrate our commercial activities on BBC branded channels and platforms. After excluding these two items, the underlying group surplus for the year was £137million (2.7% of our income), in line with our broad aim to match our income and costs over each licence fee period.

The licence fee is our single biggest source of income and through efficient and effective collection we have increased this by £66million this year. This income is augmented by the commercial exploitation of licence fee funded content through our commercial subsidiaries – primarily BBC Worldwide, but this year has also seen greater contributions from BBC World News and from BBC S&PP.

Despite the difficult wider trading environment, total commercial revenues have increased 13% year-on-year, with a 68% increase in profit before interest and tax – boosted by the disposal of *Animal Planet* for £96million as the BBC continues to focus on BBC branded channels and platforms.

BBC Worldwide has delivered record gross sales of £1,158million, up 8%. The continued diversity of its portfolio of businesses has allowed it to beat the trend in many markets and generate strong margins with operating profit before specific items up by 10%.

As a result of its activities in 2010/11, BBC Worldwide contributed £182million to the BBC from, in the main, dividends and investment in programming – an increase of 9% on last year. Looking forward, BBC Worldwide will continue to invest in great programming, international expansion, the growth of its channels businesses and new digital opportunities to fuel the UK creative economy.

During the year, BBC Worldwide wrote down the carrying value of its *Lonely Planet* investment by £34million. This is as a result of the continued strengthening of the Australian dollar – at a 27-year high against sterling – as well as the challenging market conditions facing the business.

BBC World News maintained the BBC's international reputation for high quality journalism and delivered an operating profit for the first time this year with sales increasing and reduced costs – advertising sales in particular recovered from the prior year recession and sales improved, although in part from the continued weakness of sterling.

Despite tough market conditions BBC S&PP performed well, achieving an operating profit before restructuring of £6million. This is the highest operating profit margin achieved since incorporation. BBC S&PP also completed the closure of its Sport and Children's business as this activity transfers to Salford.

The Trust, on behalf of licence fee payer, scrutinises how we spend this revenue whilst also ensuring that our high profile role in the sector does not damage the industry. One of the tools that the Trust uses to monitor our performance is Service Licences – we agree a Baseline Budget for each one of our 28 major services and report against that baseline within a 10% tolerance either higher or lower.

The full outturn of our content spend by service shows that through our efficiency programme, we are delivering output for broadly the same cost as last year, and this includes funding the cost of covering the General Election and the FIFA World Cup in South Africa. We have been able to do this by managing our cost base tightly, for example with staff costs, where we have held pay increases to below the rate of inflation again.

We have seen a very marginal increase in headcount in the licence fee funded services (from 17,238 to 17,242 full-time equivalent people) and a reduction in the staff paybill of 4% this year, reflecting the continued focus on reducing our permanent staffing levels.

Total operating expenditure on UK public services

2011 Service	Content £m	Distribution £m	Infrastructure/ support £m	**2011 Total £m**	2010 Total £m
BBC One	1,130.9	50.8	221.2	**1,402.9**	1,373.6
BBC Two	421.0	21.0	86.3	**528.3**	575.6
BBC Three	84.7	3.9	21.5	**110.1**	118.6
BBC Four	50.8	2.9	13.4	**67.1**	74.0
CBBC*	78.3	3.2	17.8	**99.3**	57.1
CBeebies*	28.5	3.3	7.9	**39.7**	28.7
BBC HD	2.1	8.2	1.5	**11.8**	10.9
BBC ALBA	5.0	1.5	1.1	**7.6**	6.1
BBC News channel	47.1	6.2	7.8	**61.1**	64.0
BBC Parliament	2.0	4.7	1.3	**8.0**	10.3
BBC Red Button	14.9	19.5	5.1	**39.5**	39.3
Television	**1,865.3**	**125.2**	**384.9**	**2,375.4**	2,358.2
BBC Radio 1	36.7	4.8	6.6	**48.1**	43.8
BBC 1Xtra	7.4	1.2	2.4	**11.0**	10.1
BBC Radio 2	46.7	4.9	7.6	**59.2**	53.2
BBC Radio 3	37.3	4.9	8.5	**50.7**	54.7
BBC Radio 4	92.8	9.9	17.1	**119.8**	112.7
BBC Radio 4 Extra	5.3	1.1	1.8	**8.2**	7.8
BBC Radio 5 Live	55.4	6.2	11.3	**72.9**	72.7
BBC Radio 5 Live Sports Extra	2.5	1.1	1.3	**4.9**	4.9
BBC 6Music	7.3	1.2	2.3	**10.8**	10.0
BBC Asian Network	8.6	1.4	2.6	**12.6**	12.9
BBC Local Radio	114.8	10.1	22.6	**147.5**	141.5
BBC Radio Scotland	23.8	3.3	5.3	**32.4**	33.1
BBC Radio nan Gàidheal	3.8	1.4	0.9	**6.1**	6.3
BBC Radio Wales	13.0	1.2	2.8	**17.0**	16.7
BBC Radio Cymru	11.8	1.6	2.7	**16.1**	15.9
BBC Radio Ulster/BBC Radio Foyle	16.2	1.8	3.6	**21.6**	18.9
Radio	**483.4**	**56.1**	**99.4**	**638.9**	615.2
BBC Online	125.8	21.1	47.3	**194.2**	199.3
Spend regulated by service licence	**2,474.5**	**202.4**	**531.6**	**3,208.5**	3,172.7

* The methodology for setting the CBBC and CBeebies content spend changed in 2010/11, following the BBC Trust's 2009 review of children's services. All children's spend is now allocated to either CBBC or CBeebies, including that portion which was previously allocated to BBC One and BBC Two.

It is the '*more for less*' strategy that is creating downward pressure on service licence baselines. One service licence finished the year below its 10% tolerance – BBC 1Xtra, where savings were delivered from leveraging greater synergies from its sister station, BBC Radio 1 and several others were close to the 10% mark as efficiencies and savings are delivered. We are careful, though, to ensure that these savings are not at the cost of quality and we carefully monitor the audience response to our output to ensure that we still deliver value.

The increasing costs of BBC Radio 1 and BBC Radio 2 reflect their success in attracting larger audiences which increases their allocation of music copyright costs with corresponding reductions across other services.

Management is committed to reducing the budget of BBC Online by 25% and has now agreed plans with the Trust to deliver this saving over the next three years.

Our orchestras (like the BBC National Orchestra of Wales, shown) and singers are based across the UK, and work among local communities and groups as well as take their rightful place on the global stage. For more see www.bbc.co.uk/orchestras/.

The team from *In Your Corner* travels round and about Northern Ireland picking up on the stories that affect the ordinary person on the street.

Total BBC expenditure

2011	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	**2011 Total £m**	2010 Total £m
Spend regulated by service licence	2,474.5	202.4	531.6	–	3,208.5	3,172.7
Other UK PSB spend						
Licence fee collection costs	–	–	–	123.6	123.6	126.5
Orchestras and performing groups	20.2	–	3.9	–	24.1	24.1
S4C	26.9	–	5.3	–	32.2	36.6
Development spend	27.6	–	5.3	–	32.9	37.1
Costs incurred to generate third party income	–	–	–	64.6	64.6	41.5
Total other UK PSB spend	74.7	-	14.5	188.2	277.4	265.8
Restructuring costs	–	–	–	29.6	29.6	36.9
Total UK public services expenditure	2,549.2	202.4	546.1	217.8	3,515.5	3,475.4
Digital switchover (Digital UK Limited)	–	–	–	25.0	25.0	29.2
Digital switchover (DSHS Limited)	–	–	–	55.3	55.3	55.6
Total UK Public Service Broadcasting Group expenditure	2,549.2	202.4	546.1*	298.1	3,595.8	3,560.2

* Infrastructure and support costs include spend on learning support and community events, marketing, press and publicity, the BBC Trust Unit (£14.0million (2010: £13.9million)) and other overheads excluding restructuring.

Summary balance sheet

for the year ended 31 March 2011

	2011 £m	2010 £m
Non current assets	**1,947**	1,533
Current assets	**2,082**	2,242
Current liabilities	**(1,344)**	(1,498)
Non current liabilities (excluding pensions)	**(1,357)**	(1,084)
Net assets (excluding pension)	**1,328**	1,193
Net pension liability	**(927)**	(1,647)
Net assets/(liabilities)	**401**	(454)
Represented by		
BBC reserves	**394**	(470)
Non-controlling interests	**7**	16
	401	(454)

Completed refurbishment of Broadcasting House has increased **non current assets** and reduced **current asset** as the pre-paid value is capitalised. Recognition of the finance lease liability increases liabilities

The valuation of the **pensions scheme's** net liabilities reflect changes to scheme benefits, the deficit reduction payments and changes in market valuation of assets

The balance sheet – plant, property and equipment

A quick glance at the change in our balance sheet from last year to this shows the increase in value of our non current assets, particularly our plant, property and equipment, ie the assets on which we rely to make and distribute programmes.

The key reason behind the increase is the delivery to the BBC of our major development of the renewed Broadcasting House in London, delivered ahead of time and on budget. This building, along with Pacific Quay in Glasgow, MediaCityUK in Salford and the new Roath Lock Drama Village in Cardiff Bay (the latter two will both come into service next year) are cornerstones of our strategy to transform the way we work, and to move the BBC out of London. The depreciation of Broadcasting House will only commence once the building becomes functional in 2011/12.

It will be sad to leave Television Centre (as announced for 2015) but it is a building that needs significant investment and which is becoming increasingly less suited to the way that programmes are made now. Our new buildings represent substantial investments to enhance creative collaborations and cross-platform working. This investment is also serving to redistribute our infrastructure across the UK to ensure that by 2016, 50% of network TV spend will be outside of London.

Although our permanent asset base has increased by £414million this year, we will reap future cost savings from more efficient use of space, people and time as well as broadening our dialogue with audiences across the UK, finding and fostering new talent and opening up opportunities for production beyond the M25. These benefits are why it was right that we continued with these projects despite the added risks and pressures from the economic environment.

Pension liability

Last year's valuation of our pension scheme showed a deficit of £1,647million, a situation that clearly needed addressing. Due to a combination of stronger performance from the scheme's investments, pension reform and an initial deficit recovery payment made to the scheme in 2010/11, the scheme has made significant progress in recovering the deficit. At 31 March 2011, the deficit has reduced by £720million (44%) to £927million.

There are three main constituent parts to this improvement:

Pension curtailment

During the year we announced plans to reform the pension benefits of active scheme members and to reduce the cost of benefits building up in the future. The gain is calculated at £250million based on the expected actions of scheme participants.

Actuarial gain on defined benefit pension schemes

A net gain of £304million arose in the year as a consequence of a rise in the equity markets, and changes in the key demographic assumptions.

Additional payments

We have agreed a *Deficit Reduction Plan* with the Scheme Trustees, which after making an initial payment of £110million in 2010/11, allows for annual payments of between £60million and £100million over the ten years to 2021/22 at levels which are regarded as affordable and do not unduly jeopardise the delivery of programme content and other investments.

Summary consolidated cashflow statement

for the year ended 31 March 2011

	2011 £m	2010 £m
Net cash inflow from operating activities	**475**	441
Net cash outflow from investing activities	**(149)**	(147)
Net cash outflow from financing activities	**(110)**	(144)
Net increase in cash and cash equivalents	**216**	150
Cash and cash equivalents at the beginning of the year	**264**	124
Effect of foreign exchange rate changes on cash and cash equivalents	**(1)**	(2)
Cash classified as held for sale and restricted funds	**34**	(8)
Cash and cash equivalents at the end of the year	**513**	264

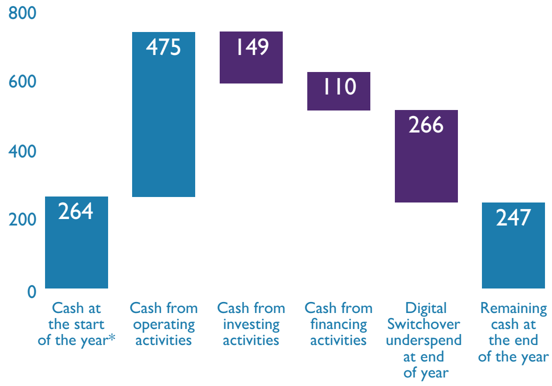
The group's **operating surplus** excluding depreciation, but including changes in working capital

Addition and disposal of **assets less interest** earned

Interest paid and **finance leases** entered into

2011 figure represents:
£266m – digital underspend
£69m – commercial companies
£178m – Home and World Services

Movements in cash £m



* Includes Digital Switchover underspend at start of the year of £132million.

Cash

We always seek to match the cash collected from the licence fee payer with the programmes and services we deliver. This year, however, we have a significant amount of cash retained for three very good reasons:

Digital Switchover

£266million of the year-end cash is money that we collected to fund the transition to digital transmission. This reflects significantly lower rates of take up of the offer of digital switchover support than were initially assumed and also contract procurement efficiencies. £32million of the cash saved so far has already been paid back to DCMS and we expect to repay substantially more over the course of the next year.

Investment in our infrastructure

As I set out above, we are investing in our productive infrastructure across the UK. These are large scale projects that spread across a number of years and the cash demands vary from year to year. Hence we have cash set aside now to finance the completion of these projects. We also face the challenge of moving 1,600 posts from London to Salford which commenced in May 2011 and will complete in December at a budgeted cost of £74million.

Recovery of the pension scheme deficit

As set out above, we have agreed a deficit reduction plan with the scheme trustees and have made financial provision for the payments of £120million due to 2013.

As these pressures crystallise, and are compounded by the financial challenges of the flat licence fee settlement from this year onward plus the wider inflation environment, the BBC's cash balance will reduce rapidly.

It has been a significant year for science programming on BBC television – which saw some creative thinking in meeting existing efficiency targets as well as delivering sustainable changes in work practices.

1 *Bang Goes the Theory* presenter Liz Bonnin was on OB duties in Hawaii for *Stargazing Live*, speaking to an assortment of experts over the three programmes. The production team from her 'day job' took this as an opportunity to work up two relevant stories for *Bang…*, completing film inserts that otherwise they could not have afforded. *The Bang…* and *Stargazing* teams shared all location staff, and both teams benefited from improved usage of valuable presenter time, as well as savings in location and travel costs.

2 *Horizon* improved the efficiency of its staffing mix so that the two Series Producers covered most of the development producer role, used more desktop FCP editing to reduce post-production costs, and – in common with increasing numbers of other factual teams like *The One Show* – increased the amount of self shooting, reducing the number of staff needed to make a shoot. The use of different combinations of initiatives enabled significant saving to be made without impacting on programme quality.

3 *The One Show*.

Optimising our income – collecting the licence fee with sensitivity

I am very aware of the BBC's unique position of trust with the licence fee payer, and this places on us some important responsibilities: to use the money well and to spend it on the things that matter, to use the money efficiently and finally, to make sure that everyone who should pay does pay. There is an inherent unfairness in evasion which penalises those who do pay.

Within these principles, we have continued to improve our collection services – offering different ways to pay; enhancing the web based self-serve options; more targeted marketing and reminder contacts and earlier follow up action on licences that are not renewed.

During this year, the fall in the rate of growth in licence fee income seen last year has stopped as household growth has started to show signs of recovery. Also, despite the recessionary pressures in the economy, we have held the rate of evasion stable. Income is higher than last year, attributable to the increase in the cost of a TV Licence. This is the last time the fee will be increased for the next five years under the settlement agreed with the government.

Even within a difficult collection environment, the cost of collection is lower than last year and the cost per £1 collected is lower at 3.4p. There is evidence that people prefer electronic options as a method of payment as self-serve transactions on our website have increased to 54% and around 68% of all licences are paid for now by direct debit.

We have continued to focus on enforcement activity and have been quicker to follow up where licences are not renewed or direct debit payments missed. But alongside this, we have been able to offer flexible ways for people to pay through the cash schemes and whilst this activity is expensive compared to renewals via direct debit, it is still cost effective in protecting our income. Furthermore, I believe that this approach is reasonable and fair, a view supported by the fact that recorded complaints are down by 20% this year at less than 1% of licences in force.

This year, in collaboration with Harris, the world regarded polling agency, we have started maintaining a Reputation Index to track the attitude of the British public towards the activity for the collection of the TV licence. Over the course of the year this index has increased from 100 to 102.

For the first time this year, the BBC is publishing a Trust Statement which specifically discloses all licence fee income collected and paid over to HM Treasury. The statement is audited by the National Audit Office.

Making the licence fee work harder – the efficiency story

Looking at what we do and how we do it has become part of the way that the BBC does business since the *Value for Money* programme was launched in 2005. We are now three years into a five year programme of Continuous Improvement that aims to generate over £2billion of savings without compromising quality. This is money that has been recycled to develop our content and our infrastructure.

This year, savings of £434million have been generated and the actions taken to date, if continued, will deliver over £2billion of savings by the end of 2012/13. There are plans in place to deliver the remaining efficiencies by March 2013 and whilst the achievement of this is not without risk, I am confident that we will continue to deliver on this programme.

Beyond continuous improvement, we have looked further at how much we spend on senior staff pay. We have set ourselves some challenging targets to reduce senior manager paybill by 25% and senior manager headcount by 20% – both targets to be achieved by December 2011. We are on course to deliver these targets. Talent costs have also been targeted following a 3% reduction in talent spend last year, a further £9million has been saved this year.

The Continuous Improvement savings plan, reductions in senior manager pay and what we spend on talent were initiatives already in place at the beginning of this year and are all important contributors to being able to commit as much of the licence fee to content as possible. When the valuation of the pension deficit was confirmed, it was clear that pension reform would not be adequate in itself to close the gap and consequently that additional contributions to the scheme would be needed. To afford those additional contributions, a further set of challenges were put in place to generate savings.

1 Picture shows Hilary Kay, one of the *The Antiques Roadshow* experts, who understands the importance of knowing the value of assets. Format sold by BBC Worldwide.

2 Picture shows Sir Kenneth Clark's landmark 1969 arts series *Civilisation*, remastered this year by BBC S&PP in HD for broadcast and retail sale.

Looking forward

The licence fee settlement means that we are able to plan ahead, including investing in programmes and genres like *Lost Land of the Tiger* that have long production lead times and need major up-front commitment of resources or may be unattractive to commercial producers.

20%
Reduction in annual cost base after impact of licence fee settlement and Government Spending Review.

£501m
Projected pan-BBC efficiency savings for 2011/12, on top of £999million already achieved.

£9m
Year-on-year reduction in spend on talent, artists and contributors – just over 4%.

Future challenges

Reflecting on our financial performance in 2010/11 and the strength of our balance sheet, we are in a good position to shape our own destiny. We have faced considerable financial risks to our plans in the past year and have managed these risks to date, whilst continuing to meet our primary purpose of serving the licence fee payer. To continue to do so, we need to show the same belief in our strategy and to continue to focus on delivering the priorities of the business – the five editorial priorities set out in *Putting Quality First*.

Next year carries its own challenges and for the first time, we have published a summary of our budget which sets them out and how we intend to meet them. Uppermost in these are the moves to Salford and Broadcasting House which will be logistically demanding but I am pleased to confirm the financial risk is included in our plans.

We are also preparing for the major broadcasting events to come in 2012 (Olympics, Diamond Jubilee) and our further investment in digital production initiatives. These costs are also budgeted.

There are challenges arising from the funding limits set for the BBC World Service in the Government's Comprehensive Spending Review last year, which reduced Grant-in-Aid funding by 16% over three years. A number of savings initiatives to meet these challenges were announced in January 2011. These included the closure of five language services (Albanian, Serbian, Macedonian, Portuguese for Africa and English for the Caribbean), the cessation of radio broadcasting in other services (for example Russian and Turkish) in order to focus on online and new media content, savings in distribution and support costs, and changes to the English schedule. More than 400 posts will close as a result of these changes and cost of these post closures has been provided for in this year's accounts.

Most significantly, in a separate announcement in October, the government also set out the medium term future for the licence fee which will stay at its current value for the remainder of the Charter period and, in future years will also be used to fund the BBC World Service and S4C. We estimate that the loss of any increase in the licence fee and the use of income to fund services previously funded by government will equate to around 20% of our ongoing licence fee funding. We believe we cannot accommodate that size of a reduction in spending power by efficiency savings alone. We are now engaged in a major exercise reaching across the whole of the BBC's operations to determine what the shape of the organisation should be – what services should we be providing; what should we be doing less of or even stopping. We exist to inform, to educate and to entertain the UK public, so we will also be seeking, through the Trust, viewer and listener feedback on these ideas.

As described above, 2011/12 will see significant changes to the BBC's operations, and combined with the efficiencies we have delivered and financial strategies we have pursued, the BBC is in a strong, resilient position as it sets out to *Deliver Quality First*.

Independent auditor's report to the Trustees of the British Broadcasting Corporation (BBC)

We have audited the group financial statements of the BBC for the year ended 31 March 2011. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Trustees' and Executive Board responsibilities Statements set out on page F83, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU

Opinion on other matters prescribed by the terms of our engagement

In our opinion:

- the information given in the Chairman's Foreword and the Trustees' performance review in Part One of the Annual Report and Accounts, the Director-General's Introduction, the Executive Board's performance review and financial overview and highlights, 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; and
- the parts of the Remuneration Reports which we were engaged to audit have been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the BBC

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

We have nothing to report in respect of the following:

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

In addition to our audit of the financial statements, the Trustees have engaged us to review the Corporate Governance statement as if the BBC were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. Under the terms of our engagement we are required to review:

- the directors' statement, set out on page F83, in relation to going concern; and
- the part of the Corporate Governance statement included in Part Two of the Annual Report and Accounts relating to the BBC compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

23 June 2011

Consolidated income statement

For the year ended 31 March 2011

	Note	2011 £m	2010 Restated* £m
Licence fee income	1a	**3,513.4**	3,446.8
Other income	1a	**1,479.6**	1,343.0
Total income	1a	**4,993.0**	4,789.8
Operating costs excluding restructuring costs and exceptional pension income		**(4,789.4)**	(4,540.5)
Exceptional pension income	4b	**250.4**	334.1
Restructuring costs	4c	**(63.3)**	(61.9)
Total operating costs	3	**(4,602.3)**	(4,268.3)
Group operating surplus		**390.7**	521.5
Gain on sale and termination of operations	5	**96.4**	2.0
Gain on disposal of fixed assets	6	**–**	39.0
Share of results of associates and joint ventures	11	**26.6**	36.9
Financing income	7	**613.6**	445.8
Financing costs	7	**(606.8)**	(533.5)
Net financing income/(cost)	7	**6.8**	(87.7)
Surplus before taxation		**520.5**	511.7
Taxation	8	**(37.6)**	(34.7)
Surplus for the year		**482.9**	477.0
Attributable to:			
BBC		**477.6**	472.7
Non-controlling interests		**5.3**	4.3
Surplus for the year		**482.9**	477.0

The surplus for the financial year is the result of 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 income/(loss)

For the year ended 31 March 2011

	Note	2011 £m	2010 Restated* £m
Group surplus for the year		**482.9**	477.0
Other comprehensive income/(loss):			
Exchange differences on translation of foreign operations		**(5.8)**	5.0
Cash flow hedges		**(0.2)**	1.0
Tax on items taken directly to other comprehensive income		**–**	(0.3)
Actuarial gain/(loss) on defined benefit pension schemes	23biii	**303.6**	(1,871.4)
Fair value gain on available-for-sale asset	12	**76.9**	–
Other		**0.9**	–
Other comprehensive income/(loss) net of tax		**375.4**	(1,865.7)
Total comprehensive income/(loss) for the year		**858.3**	(1,388.7)
Attributable to:			
BBC		**853.0**	(1,394.1)
Non-controlling interests		**5.3**	5.4
Total comprehensive income/(loss) for the year		**858.3**	(1,388.7)

* Further details of adjustments made to previously reported balances are provided in Note 19.

Consolidated balance sheet

For the year ended 31 March 2011

	Note	31 March 2011 £m	31 March 2010 Restated* £m	1 April 2009 Restated* £m
Non-current assets				
Intangible assets (including goodwill)	9	**265.6**	290.0	255.9
Property, plant and equipment	10	**1,513.9**	1,131.3	1,162.4
Interests in associates and joint ventures	11	**36.5**	57.8	83.7
Other receivables	15a	**25.9**	25.7	430.9
Available-for-sale investments	12	**76.9**	–	–
Derivative financial instruments	24b	**1.9**	6.7	12.2
Deferred tax asset	8d	**25.9**	21.5	27.1
		1,946.6	1,533.0	1,972.2
Current assets				
Programme-related assets and other inventories	14	**619.2**	682.3	615.5
Trade and other receivables	15b	**861.5**	1,253.8	747.7
Assets classified as held for sale	13	**50.3**	30.0	0.6
Derivative financial instruments	24b	**8.0**	11.9	10.9
Cash and cash equivalents	2e	**513.4**	263.9	124.3
		2,052.4	2,241.9	1,499.0
Current liabilities				
Trade and other payables	16a	**(1,130.6)**	(1,400.9)	(773.1)
Borrowings	17a	**(23.2)**	(7.4)	(14.2)
Provisions	18	**(103.7)**	(59.3)	(87.0)
Liabilities classified as held for sale	13	**(36.5)**	(8.4)	–
Derivative financial instruments	24b	**(5.8)**	(8.9)	(22.5)
Current tax liabilities		**(14.6)**	(12.8)	(15.1)
		(1,314.4)	(1,497.7)	(911.9)
Non-current liabilities				
Other payables	16b	**(197.2)**	(175.1)	(513.1)
Borrowings	17b	**(1,089.4)**	(814.6)	(877.5)
Provisions	18	**(45.7)**	(75.1)	(63.5)
Derivative financial instruments	24b	**(7.6)**	(13.3)	(21.8)
Deferred tax liabilities	8d	**(16.9)**	(6.3)	(9.3)
Pension liability	23bi	**(926.8)**	(1,647.1)	(143.3)
		(2,283.6)	(2,731.5)	(1,628.5)
Net assets/(liabilities)		**401.0**	(454.3)	930.8
Attributable to the BBC:				
Operating reserve		**286.0**	(469.7)	928.5
Other reserve		**–**	(36.3)	(32.3)
Available-for-sale reserve		**76.9**	–	–
Hedging reserve		**0.5**	0.5	–
Translation reserve		**31.1**	35.6	23.6
		394.5	(469.9)	919.8
Non-controlling interests		**6.5**	15.6	11.0
Total capital and reserves		**401.0**	(454.3)	930.8

* Further details of adjustments made to previously reported balances are provided in Note 19.

The financial statements were approved by the Executive Board on 23 June 2011 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 2011

	Operating reserve £m	Other reserve £m	Available-for-sale reserve £m	Hedging reserve £m	Translation reserve £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
At 1 April 2009 restated	928.5	(32.3)	–	–	23.6	**919.8**	11.0	**930.8**
Total comprehensive (loss)/income for the year	(1,398.7)	–	–	0.5	4.1	**(1,394.1)**	5.4	**(1,388.7)**
Adjustment on acquisition of 2entertain	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	(469.7)	(36.3)	–	0.5	35.6	**(469.9)**	15.6	**(454.3)**
Total comprehensive income/(loss) for the year	782.1	–	76.9	(0.3)	(5.7)	**853.0**	5.3	**858.3**
Dividends paid	–	–	–	–	–	**–**	(3.0)	**(3.0)**
Exercise of put option over non-controlling interests	(26.4)	37.5	–	0.3	–	**11.4**	(11.4)	**–**
Transfer of foreign exchange movement on put option	–	(1.2)	–	–	1.2	**–**	–	**–**
At 31 March 2011	**286.0**	**–**	**76.9**	**0.5**	**31.1**	**394.5**	**6.5**	**401.0**
Represented by:								
General Group reserves	138.5	–	76.9	0.5	31.1	**247.0**	6.5	**253.5**
BBC World Service and BBC Monitoring reserves	147.5	–	–	–	–	**147.5**	–	**147.5**
	286.0	**–**	**76.9**	**0.5**	**31.1**	**394.5**	**6.5**	**401.0**

* Further details of adjustments made to previously reported balances are provided in Note 19.

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 2011

	Note	2011 £m	2010 £m
Operating activities			
Cash generated from operating activities*	21	**506.4**	474.9
Tax paid		**(31.5)**	(33.7)
Net cash from operating activities		**474.9**	441.2
Investing activities			
Interest received		**9.0**	2.4
Dividends received from associates and joint ventures		**43.8**	10.7
Dividends paid to non-controlling interests		**(3.0)**	(0.8)
Proceeds from sale of operations	5	**109.5**	2.0
Proceeds from disposal of property, plant and equipment		**–**	44.3
Acquisition of non-controlling interests		**(41.7)**	–
Acquisition of subsidiary net of cash acquired with subsidiary		**–**	20.0
Acquisition of interests in associates and joint ventures		**(3.7)**	(0.7)
Drawdown of loan to joint venture		**2.2**	1.3
Purchases of other intangible assets		**(115.1)**	(100.8)
Purchases of property, plant and equipment	10	**(149.6)**	(125.2)
Net cash used in investing activities		**(148.6)**	(146.8)
Financing activities			
Interest paid		**(13.9)**	(14.3)
Proceeds from increase in borrowings		**100.0**	101.0
Repayments of borrowings		**(102.3)**	(174.1)
Payments of obligations under finance leases		**(94.0)**	(57.4)
Net cash used in financing activities		**(110.2)**	(144.8)
Net increase in cash and cash equivalents		**216.1**	149.6
Cash and cash equivalents at beginning of the year	2e	**263.9**	124.3
Effect of foreign exchange rate changes on cash and cash equivalents		**(0.6)**	(1.7)
Movement in cash held as restricted funds		**34.0**	–
Cash classified as held for sale		**–**	(8.3)
Cash and cash equivalents at the end of the year	2e	**513.4**	263.9

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

** Further details of adjustments made to previously reported balances are provided in Note 19.

Notes to the group financial statements

For the year ended 31 March 2011

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 IFRS 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 position and performance.

Adoption of new and revised accounting standards

IFRS 3 "Business Combinations (2008)" and IAS 27 "Consolidated and Separate Financial Statements (2008)"

These standards have been applied prospectively for all business combinations and acquisitions of non-controlling interests occurring in the financial year starting 1 April 2010. Under the new accounting policy, all transactions with non-controlling interests are recorded in equity as a transaction with equity holders if there is no change in control and these transactions no longer result in goodwill or gains and losses being recognised. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of acquisition.

The adoption of IFRS 3 (revised) has had no impact in the current year as no acquisitions have occurred. The Group has applied IAS 27 (revised) to the acquisition of non-controlling interests in the year, see note 20 for further details.

Amendment to IAS 17, Leases

The amendment was issued as part of Improvements to IFRSs 2009 and has been applied retrospectively to all unexpired leases as at 1 April 2010. Under this amendment leases of land are no longer presumed to be operating leases but are classified in accordance with the substance of the related transaction. Application of the amended standard has resulted in the granting of a number of long leasehold interests in land to third parties being reclassified as sales. Previously these transactions had been treated as prepaid operating leases with the proceeds received being recognised over the life of the lease.

The adjustment results in an increase in opening equity of £77.9million (2010: £78.4million), a reduction in land and buildings and trade and other payables at 31st March 2011 of £25.8million (2010: £25.8million) and £103.1million (2010: £103.7million) respectively and a reduction in other revenue for the year ended 2011 of £0.6million (2010: £0.6million)

Notes to the group financial statements

For the year ended 31 March 2011

Going concern

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

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.

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 external 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 in place until June 2012, of which £190million was drawn down at 31 March 2011 (2010: £187million). The £350 million facility available to the BBC commercial operations is due to expire in June 2012. A new facility, of an equivalent amount, is being agreed with a syndicate of banks and is expected to be in place from early July 2011 with maturity in July 2016.

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 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. Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of non-controlling interests are adjusted to reflect any changes in their, and the Group's, relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the BBC.

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

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.

Put option

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

Notes to the group financial statements

For the year ended 31 March 2011

Business combinations

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

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

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.

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.

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. 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

For the year ended 31 March 2011

Income

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

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 2010/11.

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. In this case, 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.

Notes to the group financial statements

For the year ended 31 March 2011

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.

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

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.

Borrowing costs

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

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

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

Taxation

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

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

- The BBC (UK 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.

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

For the year ended 31 March 2011

Intangible fixed assets

Goodwill

Goodwill is measured as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. If the fair value of consideration transferred is less than the fair value of net assets acquired, the difference is recognised immediately in the income statement.

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.

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

Research and development expenditure – internally-generated intangible assets

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

Expenditure on development activities is 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*) less accumulated amortisation and any accumulated impairment losses.

Notes to the group financial statements

For the year ended 31 March 2011

Amortisation

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

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

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

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

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

For the year ended 31 March 2011

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 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

For the year ended 31 March 2011

Cash and cash equivalents

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

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.

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.

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

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

An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds is 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.

Financial assets

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

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

Notes to the group financial statements

For the year ended 31 March 2011

Financial instruments

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

Derivative financial instruments

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

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

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

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

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.

Hedge accounting

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 statement of comprehensive income. Any ineffective portion is recognised immediately in the income statement.

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.

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.

Trade and other payables

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

Trade and other receivables

These are recognised initially at fair value and subsequently measured at fair value directly attributable transaction costs less an allowance for estimated impairment. The allowance is based on objective evidence that the Group will not be able to recover all amounts due. Changes in the carrying amount of the allowance are recognised in the income statement.

Investments in equity securities

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

Notes to the group financial statements

For the year ended 31 March 2011

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from past events, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. 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.

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 period.

Defined benefit plans

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

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.

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

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

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

Termination benefits

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

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

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

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

Notes to the group financial statements

For the year ended 31 March 2011

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:

Post-retirement benefits

The pension costs and obligations of the Group's defined benefit schemes are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. More details on sensitivity of pension assumptions are given in Note 23cviii.

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, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the 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.

Basis of consolidation

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

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.

Notes to the group financial statements

For the year ended 31 March 2011

New standards and interpretations not yet adopted

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

Endorsed by the EU:

IAS 24 (Revised)	*Related party disclosures*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs (May 2010)	

Not yet endorsed by the EU:

IFRS 9	*Financial instruments*
IFRS 10	*Consolidated financial statements*
IFRS 11	*Joint arrangements*
IFRS 12	*Disclosures of interests in other entities*
IFRS 13	*Fair value measurement*
IAS 28 (Revised 2011)	*Associates and joint ventures*

The Group currently does not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

Notes to the group financial statements

For the year ended 31 March 2011

1 Segment reporting

The Executive Board, the Group's Chief Operating Decision Maker (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 and the Cabinet 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

2011	Note	UK PSB Group £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group £m
Licence fee income	2a	**3,513.4**	–	–	–	–	**3,513.4**
Joint venture income		**4.6**	–	**150.6**	–	–	**155.2**
Rental income		**30.5**	–	–	–	–	**30.5**
Royalties		**2.9**	–	**52.9**	**0.3**	–	**56.1**
Other revenue*		**291.3**	**30.5**	**954.2**	**132.0**	–	**1,408.0**
Grant-in-aid		–	**266.3**	–	–	–	**266.3**
Other grant income		**5.1**	–	–	–	–	**5.1**
Less intra-group income		**(225.4)**	**(0.4)**	–	**(49.0)**	**(11.6)**	**(286.4)**
Other income		**104.4**	**296.4**	**1,007.1**	**83.3**	**(11.6)**	**1,479.6**
Total income including joint ventures		**3,622.4**	**296.4**	**1,157.7**	**83.3**	**(11.6)**	**5,148.2**
Less joint venture income		**(4.6)**	–	**(150.6)**	–	–	**(155.2)**
Total income		**3,617.8**	**296.4**	**1,007.1**	**83.3**	**(11.6)**	**4,993.0**

* Other revenue arises from activities such as the sale of goods, provision of services and granting of licences. The principle products within BBC Worldwide and Other Commercials are the sale of TV rights and advertising income.

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

Notes to the group financial statements
For the year ended 31 March 2011

1a Analysis of income continued

2010	Note	UK PSB Group Restated* £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group Restated*
Licence fee income	2a	3,446.8	–	–	–	–	3,446.8
Joint venture income		4.9	–	185.9	–	–	190.8
Rental income		19.3	–	–	–	–	19.3
Royalties		3.9	–	45.3	0.6	–	49.8
Other revenue		283.2	7.9	843.0	122.0	–	1,256.1
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		91.8	299.4	888.3	73.7	(10.2)	1,343.0
Total income including joint ventures		3,543.5	299.4	1,074.2	73.7	(10.2)	4,980.6
Less joint venture income		(4.9)	–	(185.9)	–	–	(190.8)
Total income		3,538.6	299.4	888.3	73.7	(10.2)	4,789.8

* Further details of adjustments made to previously reported balances are provided in Note 19.

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

2011	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	**3,617.8**	**296.4**	**1,007.1**	**83.3**	**(11.6)**	**4,993.0**
Restructuring costs	4c	**(29.6)**	**(23.7)**	**(1.8)**	**(8.2)**	**–**	**(63.3)**
Depreciation and amortisation		**(109.8)**	**(28.0)**	**(95.2)**	**(3.2)**	**–**	**(236.2)**
Other operating costs		**(3,398.2)**	**(261.8)**	**(820.4)**	**(55.3)**	**232.9**	**(4,302.8)**
Total operating costs	3	**(3,537.6)**	**(313.5)**	**(917.4)**	**(66.7)**	**232.9**	**(4,602.3)**
Group operating surplus/(deficit)		**80.2**	**(17.1)**	**89.7**	**16.6**	**221.3**	**390.7**
Gain on sale and termination of operations	5	**–**	**–**	**96.4**	**–**	**–**	**96.4**
Share of results of associates and joint ventures	11	**(1.0)**	**–**	**27.6**	**–**	**–**	**26.6**
Operating segment result		**79.2**	**(17.1)**	**213.7**	**16.6**	**221.3**	**513.7**
Financing income	7						**613.6**
Financing costs	7						**(606.8)**
Net financing income							**6.8**
Surplus before taxation							**520.5**
Taxation	8						**(37.6)**
Surplus for the year							**482.9**

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 £306.7million (2010: £387.9million) for the defined benefit pension scheme, of this balance £250.4million relates to a gain on settlements and curtailments (2010: £334.1million relates to past service income arising from a change to early retirement terms and conditions).

Notes to the group financial statements

For the year ended 31 March 2011

1 Segment reporting continued

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

2010	Note	UK PSB Group restated* £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group restated* £m
Income	1a	3,538.6	299.4	888.3	73.7	(10.2)	4,789.8
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)		19.4	44.4	97.9	(21.3)	381.1	521.5
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		55.3	44.4	140.0	(21.3)	381.0	599.4
Financing income	7						445.8
Financing costs	7						(533.5)
Net financing costs							(87.7)
Surplus before taxation							511.7
Taxation	8						(34.7)
Surplus for the year							477.0

* Further details of adjustments made to previously reported balances are provided in Note 19.

Notes to the group financial statements

For the year ended 31 March 2011

1 Segment reporting continued

1c Geographical location of income and non-current assets

2011	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	**1,471.8**	**55.6**	**196.3**	**13.2**	**(31.8)**	**1,705.1**
Rest of world	**1.9**	**95.9**	**115.9**	**–**	**–**	**213.7**
	1,473.7	**151.5**	**312.2**	**13.2**	**(31.8)**	**1,918.8**
Additions included in fixed assets and investments	**514.3**	**19.5**	**112.4**	**4.3**	**–**	**650.5**
External income:						
UK	**3,617.8**	**291.9**	**389.2**	**15.1**	**(11.6)**	**4,302.4**
Rest of world	**–**	**4.5**	**617.9**	**68.2**	**–**	**690.6**
	3,617.8	**296.4**	**1,007.1**	**83.3**	**(11.6)**	**4,993.0**

2010	UK PSB Group restated* £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group restated* £m
Non-current assets excluding deferred tax and derivative financial instruments:						
UK	1,002.8	57.5	169.9	14.8	(18.9)	1,226.1
Rest of world	3.5	101.7	173.5	–	–	278.7
	1,006.3	159.2	343.4	14.8	(18.9)	1,504.8
Additions included in fixed assets and investments	98.8	25.3	130.6	5.0	–	259.7
External income:						
UK	3,538.6	295.5	351.1	14.8	–	4,200.0
Rest of world	–	3.9	537.2	58.9	(10.2)	589.8
	3,538.6	299.4	888.3	73.7	(10.2)	4,789.8

2009	UK PSB Group restated* £m	BBC World Service and BBC Monitoring £m	BBC Worldwide £m	Other Commercials £m	Group Adjustments £m	Group restated* £m
Non-current assets excluding deferred tax and derivative financial instruments:						
UK	1,433.1	69.9	167.4	9.4	(11.6)	1,668.2
Rest of world	3.6	99.0	162.1	–	–	264.7
	1,436.7	168.9	329.5	9.4	(11.6)	1,932.9
Additions included in fixed assets and investments	103.6	31.3	162.4	2.7	–	300.0
External income:						
UK	3,587.8	292.9	286.4	17.9	–	4,185.0
Rest of world	–	3.6	418.2	60.9	(7.5)	475.2
	3,587.8	296.5	704.6	78.8	(7.5)	4,660.2

* Further details of adjustments made to previously reported balances are provided in Note 19.

Notes to the group financial statements

For the year ended 31 March 2011

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 2011 £	Licences in force 2011 Number '000	Total income 2011 £m	Licence fee 2010 £	Licences in force 2010 Number '000	Total income 2010 £m
Colour	**145.50**	**21,235**	**3,080.2**	142.50	21,171	3,002.3
Monochrome	**49.00**	**15**	**1.0**	48.00	19	1.2
Concessionary	**7.50**	**188**	**1.4**	7.50	181	1.4
Over 75s	**–**	**4,156**	**579.4**	–	4,088	556.4
		25,594	**3,662.0**		25,459	3,561.3
Quarterly payment scheme premium			**17.1**			17.5
Digital switchover help scheme under-spend (Note 2d)			**(165.7)**			(132.0)
Total licence fee income			**3,513.4**			3,446.8

During the year 3.4 million (2010: 3.5 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2010: £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.

	2011 £m	2010 £m
UK Public Service Broadcasting Group expenditure	**3,537.6**	3,519.2
Adjustments:		
Lease reclassification	**58.2**	38.2
Employee benefits	**–**	2.8
UK Public Service Broadcasting Group expenditure for service licence reporting purposes	**3,595.8**	3,560.2

Notes to the group financial statements

For the year ended 31 March 2011

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.

Following redefinition of the CBBC and CBeebies licences for 2010/11, these licences now include all content expenditure on Children's programmes, and not only the cost of programmes aired on CBBC and CBeebies. Accordingly BBC One and BBC Two no longer include the content costs of children's programmes. Prior year service licence costs have not been restated.

Notes to the group financial statements

For the year ended 31 March 2011

2 UK Public Service Broadcasting Group additional reporting continued

2c UK Public Service Broadcasting Group expenditure by service continued

2011 Service	Note	Content[i] £m	Distribution[ii] £m	Infrastructure/ support £m	Other items £m	Total £m
BBC One		1,130.9	50.8	221.2	–	1,402.9
BBC Two		421.0	21.0	86.3	–	528.3
BBC Three		84.7	3.9	21.5	–	110.1
BBC Four		50.8	2.9	13.4	–	67.1
CBBC		78.3	3.2	17.8	–	99.3
CBeebies		28.5	3.3	7.9	–	39.7
BBC HD		2.1	8.2	1.5	–	11.8
BBC ALBA		5.0	1.5	1.1	–	7.6
BBC News channel	v	47.1	6.2	7.8	–	61.1
BBC Parliament		2.0	4.7	1.3	–	8.0
BBC Red Button		14.9	19.5	5.1	–	39.5
Television		**1,865.3**	**125.2**	**384.9**	**–**	**2,375.4**
BBC Radio 1		36.7	4.8	6.6	–	48.1
BBC Radio 2		46.7	4.9	7.6	–	59.2
BBC Radio 3		37.3	4.9	8.5	–	50.7
BBC Radio 4		92.8	9.9	17.1	–	119.8
BBC Radio Five Live		55.4	6.2	11.3	–	72.9
BBC Radio Five Live Sports Extra		2.5	1.1	1.3	–	4.9
BBC 1Xtra	iv	7.4	1.2	2.4	–	11.0
BBC 6Music		7.3	1.2	2.3	–	10.8
BBC 7		5.3	1.1	1.8	–	8.2
BBC Asian Network		8.6	1.4	2.6	–	12.6
BBC Local Radio	vi	114.8	10.1	22.6	–	147.5
BBC Radio Scotland		23.8	3.3	5.3	–	32.4
BBC Radio nan Gàidhael		3.8	1.4	0.9	–	6.1
BBC Radio Wales		13.0	1.2	2.8	–	17.0
BBC Radio Cymru		11.8	1.6	2.7	–	16.1
BBC Radio Ulster/BBC Radio Foyle		16.2	1.8	3.6	–	21.6
Radio		**483.4**	**56.1**	**99.4**	**–**	**638.9**
BBC Online	x	125.8	21.1	47.3	–	194.2
Online		**125.8**	**21.1**	**47.3**	**–**	**194.2**
Spend regulated by service licence		**2,474.5**	**202.4**	**531.6**	**–**	**3,208.5**
Licence fee collection costs		–	–	–	123.6	123.6
Orchestras and performing groups		20.2	–	3.9	–	24.1
S4C	vii	26.9	–	5.3	–	32.2
Development spend	viii	27.6	–	5.3	–	32.9
Costs incurred to generate third party income		–	–	–	64.6	64.6
Other		74.7	–	14.5	188.2	277.4
Restructuring costs	4c	–	–	–	29.6	29.6
Total UK public services expenditure		**2,549.2**	**202.4**	**546.1**	**217.8**	**3,515.5**
Digital switchover (Digital UK Limited)	ix	–	–	–	25.0	25.0
Digital switchover (DSHS Limited)	ix	–	–	–	55.3	55.3
Total UK Public Service Broadcasting Group expenditure		**2,549.2**	**202.4**	**546.1**	**298.1**	**3,595.8**

Notes to the group financial statements

For the year ended 31 March 2011

2 UK Public Service Broadcasting Group additional reporting continued

2c UK Public Service Broadcasting Group expenditure by service continued

2010 Service	Note	Content £m	Distribution restated* £m	Infrastructure/ support £m	Other items £m	Total restated* £m
BBC One		1,113.1	43.4	217.1	–	1,373.6
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		1.6	7.8	1.5	–	10.9
BBC ALBA		4.3	0.8	1.0	–	6.1
BBC News channel		47.8	8.4	7.8	–	64.0
BBC Parliament		2.4	6.5	1.4	–	10.3
BBC Red Button		14.2	20.4	4.7	–	39.3
Television		**1,833.4**	**138.7**	**386.1**	**–**	**2,358.2**
BBC Radio 1		32.2	4.9	6.7	–	43.8
BBC Radio 2		40.4	5.1	7.7	–	53.2
BBC Radio 3		40.8	5.4	8.5	–	54.7
BBC Radio 4		86.7	9.5	16.5	–	112.7
BBC Radio Five Live		55.0	6.5	11.2	–	72.7
BBC Radio Five Live Sports Extra		2.5	1.0	1.4	–	4.9
BBC 1Xtra		6.5	1.1	2.5	–	10.1
BBC 6Music		6.5	1.1	2.4	–	10.0
BBC 7		5.0	1.0	1.8	–	7.8
BBC Asian Network		8.9	1.2	2.8	–	12.9
BBC Local Radio		110.2	9.9	21.4	–	141.5
BBC Radio Scotland		24.9	3.0	5.2	–	33.1
BBC Radio nan Gàidhael		4.2	1.2	0.9	–	6.3
BBC Radio Wales		13.1	1.1	2.5	–	16.7
BBC Radio Cymru		12.3	1.3	2.3	–	15.9
BBC Radio Ulster/BBC Radio Foyle		14.4	1.5	3.0	–	18.9
Radio		**463.6**	**54.8**	**96.8**	**–**	**615.2**
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**	**215.8**	**533.2**	**–**	**3,172.7**
Licence fee collection costs		–	–	–	126.5	126.5
Orchestras and performing groups		20.3	–	3.8	–	24.1
S4C		30.0	–	6.6	–	36.6
Development spend		31.2	–	5.9	–	37.1
Costs incurred to generate third party income		–	–	–	41.5	41.5
Other		81.5	–	16.3	168.0	265.8
Restructuring costs		–	–	–	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)		–	–	–	29.2	29.2
Digital switchover (DSHS Limited)		–	–	–	55.6	55.6
Total		**2,505.2**	**215.8**	**549.5**	**289.7**	**3,560.2**

* Distribution costs relating to Digital text and DAB digital radio spend have previously been disclosed on the face of Note 2c. These costs are now apportioned by service within distribution expenditure and consequently the 2009/10 position has been restated. Note – all of the Digital Text related costs are reported exclusively against the BBC Red Button service

Notes to the group financial statements

For the year ended 31 March 2011

2 UK Public Service Broadcasting Group additional reporting continued

2c UK Public Service Broadcasting Group expenditure by service continued

Infrastructure/support costs	Note	2011 £m	2010 £m
Marketing		**60.7**	74.5
Press and publicity		**11.8**	5.0
Libraries, learning support and community events		**38.6**	49.8
Overheads (excluding restructuring)	iii	**421.0**	406.3
BBC Trust Unit (excluding restructuring)		**14.0**	13.9
	iii	**546.1**	549.5

(i) Content costs are made up of the direct programme and service specific costs of production and an apportionment of other production related costs that are managed centrally, for example, newsgathering and copyright costs. Of the total content costs regulated by service of £2,474.5million (2010: £2,423.7million) direct costs were £2,295.2million (2010: £2,247.7million) and the centrally managed and allocated costs were £179.3million (2010: £176.0million).

(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 Digital Terrestrial Television (DTT), satellite, cable, broadband, digital text and DAB digital radio. Of the distribution costs, £57.7million relates to analogue services (2010: £67.7million) and £144.7million to digital services (2010: £148.1million). Distribution expenditure is apportioned to each service.

(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 expenditure and are subsequently apportioned across all relevant activities.

(iv) BBC 1Xtra's content costs were under the baseline budget by more than the 10% tolerance due to efficiencies generated through better alignment of the service with BBC Radio 1.

(v) Included within BBC News channel content costs are production costs of £29.8million, newsgathering costs of £17.1million and other costs of £0.2million (2010: production costs of £30.0million, newsgathering costs of £17.3million and other costs of £0.5million).

(vi) The service licence for BBC Local Radio covers all of the individual stations in England.

(vii) 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.

(viii) Development spend is not regulated by service licence and, as such, is separately identified. The 2011 figure includes costs relating to the production of the recently launched Radioplayer, improvements to the iPlayer (now in version 3), new features for the World Cup and General Election, and next generation applications for iPTV television devices.

(ix) 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 £23.6million (2010: £27.5million) being 100% of the communication expenditure (which is ring-fenced, see Note 2d) and 58.02% (2010: 56%) of all other costs incurred by Digital UK Limited. £1.4million (2010: £1.7million) was contributed by other broadcasters.

The BBC contributed £45.8million (2010: £48.5million) to DSHS Limited with £9.5million (2010: £7.1million) being contributed by third parties.

Notes to the group financial statements

For the year ended 31 March 2011

2 UK Public Service Broadcasting Group additional reporting continued

2c UK Public Service Broadcasting Group expenditure by service continued

(x) BBC Online spend is monitored by annexe (editorial areas of the service). Non-annexe spend refers to costs relating to central editorial activities (e.g. BBC homepage), technologies which operate across the service and overheads. The spend for each is shown in the table below:

Annexe	2011 £m	2010 £m
News and Sport	**29.1**	27.0
Audio & Music	**13.3**	15.1
Nations & Regions	**21.2**	21.8
Formal Learning	**8.6**	10.9
Knowledge, Childrens & Entertainment	**26.6**	28.5
iPlayer	**2.9**	3.2
	101.7	106.5
Non-annexe spend	**24.1**	20.2
	125.8	126.7

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	Cumulative spend to 2010 £m	Cumulative spend to 2011 £m	Outstanding amount repayable £m	Cumulative amount repaid £m	Total £m	Six-year ring- fenced funding £m
Help for the elderly and disabled	78.0	**123.8**	**213.2**	**31.6**	**368.6**	603.0
Digital UK Limited	77.7	**105.3**	**52.9**	**–**	**158.2**	201.0
Total	155.7	**229.1**	**266.1**	**31.6**	**526.8**	804.0

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.

Digital underspend	Note	2011
At 1 April 2010		**132.0**
Underspend in the year	2a	**165.7**
Repayment of underspend to DCMS		**(31.6)**
At 31 March 2011		**266.1**

Of the £266.1million (2010: £132.0million) cumulative under spend as at 31 March 2011, £99.4million (2010: £89.1million to be repaid in 2010-11) will be repaid in 2011-12, £95.0million (2010: £42.9million to be repaid in 2011-12) in 2012-13 and £71.7million (2010: £nil) in later years. 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.

Notes to the group financial statements

For the year ended 31 March 2011

2 UK Public Service Broadcasting Group additional reporting continued

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

	At 1 April 2010 £m	Cash flows £m	Non-cash changes £m	Exchange £m	**At 31 March 2011 £m**
Total cash and cash equivalents	263.9	250.1	–	(0.6)	**513.4**
Less restricted cash*	–	(34.0)	–	–	**(34.0)**
Bank overdrafts	(1.7)	1.4	–	–	**(0.3)**
Gross funds	262.2	217.5	–	(0.6)	**479.1**
Cash classified as held for sale	8.3	–	(8.3)	–	**–**
Loans and loan notes	(211.4)	1.0	(0.3)	(4.2)	**(214.9)**
Derivatives associated with loans	(8.3)	–	1.1	–	**(7.2)**
Finance leases	(608.9)	–	(288.5)	–	**(897.4)**
Leases not included in DCMS borrowing limits	555.5	–	298.1	–	**853.6**
Net (debt)/funds	(2.6)	218.5	2.1	(4.8)	**213.2**
Made up of:					
Public Service Broadcasting	168.1				**375.0**
Centre House Productions	(10.7)				**(8.3)**
BBC Worldwide	(23.0)				**(56.3)**
Other commercial businesses	(137.0)				**(97.2)**
Net (debt)/funds	(2.6)				**213.2**

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

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.

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

		Public Services		Commercial Businesses
2011	Note	Capital or current expenditure* £m	Current expenditure on Digital Switchover Help Scheme** £m	*** £m
Net funds/(debt)		375.0	–	(153.5)
Borrowing ceiling	24e	(200.0)	(25.0)	(350.0)
Headroom		**575.0**	**25.0**	**196.5**
2010				
Net funds/(debt)		168.1	–	(160.0)
Borrowing ceiling	24e	(200.0)	(25.0)	(350.0)
Headroom		368.1	25.0	190.0

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 2011, 31 March 2010, 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 2011 and 31 March 2010, 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

For the year ended 31 March 2011

3 Total operating costs

	Note	2011 £m	2010 £m
Intangible fixed assets, property, plant and equipment and other investments			
Depreciation			
– owned assets		**103.2**	110.6
– leased assets		**27.4**	28.9
Write off of property, plant and equipment	10	**4.0**	6.7
Amortisation of intangible fixed assets	9	**105.6**	95.3
Impairment of investments in joint ventures and associates		**2.1**	1.7
Impairment of goodwill	9	**33.8**	17.5
		276.1	260.7
Inventories			
Write-downs of programme-related assets recognised as an expense		**10.0**	3.7
		10.0	3.7
Other operating costs			
Payments under operating leases			
– land and buildings		**61.6**	43.0
– plant and machinery		**42.9**	38.4
– other		**17.0**	12.8
Profit on disposal of tangible fixed assets*		**(0.7)**	(0.1)
Loss on disposal of tangible fixed assets*		**4.0**	1.9
Programme research costs		**24.6**	28.7
Research costs		**44.6**	50.1
Audit and non-audit fees paid to KPMG (see below)		**7.1**	3.6
Fair trading auditor's remuneration (Deloitte LLP)		**0.2**	0.2
Net exchange differences on settled transactions		**(5.1)**	(2.6)
Impairment of trade debtors		**2.4**	4.1
Fair value gains on embedded derivatives		**(1.3)**	(7.1)
Fair value losses/(gains) on open forward foreign currency contracts		**2.3**	(14.0)
Staff costs	4b	**1,332.1**	1,286.0
Exceptional pension income (defined benefit)	4b	**(250.4)**	(334.1)
Other operating costs**		**3,034.9**	2,893.0
		4,316.2	4,003.9
Total		**4,602.3**	4,268.3

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

For the year ended 31 March 2011

3 Total operating costs continued

The analysis of auditor's remuneration is as follows:

	2011 £m	2010 £m
Fees payable for the audit of the BBC's annual accounts	**0.6**	0.6
Fees payable to the BBC's auditor and its associates for other services		
– The audit of the BBC's subsidiaries pursuant to legislation	**0.9**	1.0
– Other services relating to taxation	**0.4**	0.3
– Services relating to corporate finance transactions	**0.6**	0.2
– Services relating to information technology	**–**	0.1
– Valuation and actuarial advice*	**3.5**	0.5
– All other services	**1.0**	0.8
	7.0	3.5
Other services provided to the BBC Pension Scheme	**0.1**	0.1
Total	**7.1**	3.6

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

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year 2011 Number	2010 Number
UK Public Service Broadcasting Group	**17,242**	17,238
BBC World Service and BBC Monitoring	**2,525**	2,448
BBC Worldwide	**2,689**	2,598
Other commercial businesses	**443**	577
Group total	**22,899**	22,861

Within the averages above, 2,993 (2010: 2,870) part-time employees have been included at their full-time equivalent of 1,726 (2010: 1,647).

In addition to the above, the Group employed an average full-time equivalent of 724 (2010: 746) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 377 (2010: 379) full-time equivalents.

Notes to the group financial statements

For the year ended 31 March 2011

4 Employees and remuneration continued

4b Staff costs

	Note	2011 £m	2010 £m
Salaries and wages*		**1,021.7**	1,012.3
Social security costs		**84.9**	84.0
Pension costs*			
– main scheme excl. exceptional pension income (defined benefit)**	23bii	**157.9**	124.6
– Exceptional pension income (defined benefit)***	23bii	**–**	(334.1)
– Gain on settlements and curtailments (defined benefit)****	23bii	**(250.4)**	–
– other schemes	23bii	**4.3**	3.2
Restructuring costs	4c	**63.3**	61.9
		1,081.7	951.9
Comprising:			
UK Public Service Broadcasting Group		**961.2**	1,004.8
BBC World Service and BBC Monitoring		**119.0**	106.2
BBC Worldwide		**196.8**	182.1
Other commercial businesses		**37.9**	46.7
Pension schemes additional operating cost (defined benefit)***		**(233.2)**	(387.9)
		1,081.7	951.9

* The contributions to the scheme are paid via a salary sacrifice arrangement. These have been treated as employer contributions, and a corresponding reduction in salary. The total salary sacrificed in accordance with this arrangement was £46.6million (2010: £43.5million).

** 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.

*** The 2011 balance has arisen due to the change in the defined benefit plan terms which has resulted in a significant element of future service by current employees qualifying for reduced benefits. 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.

**** This balance has arisen due to the change in the defined benefit plan terms which has resulted in a significant element of future service by current employees qualifying for reduced benefits.

4c Restructuring costs

	2011 £m	2010 £m
UK Public Service Broadcasting Group	**29.6**	36.9
BBC World Service and BBC Monitoring	**23.7**	6.3
BBC Worldwide	**1.8**	6.8
Other commercial businesses	**8.2**	11.9
	63.3	61.9

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 the effects of the reduction of grant-in-aid funding within World Service and 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

For the year ended 31 March 2011

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 (see BBC executive remuneration report), the Trustees and the Directors of the Trust Unit (see Trust report and remuneration table), and the Chief Executive Officer of BBC Worldwide (see BBC Worldwide Annual Report and Accounts).

Information about the BBC's structure, senior staff salaries and expenses are published on the BBC's website. This unaudited information can be found at www.bbc.co.uk/aboutthebbc/running/executive/eb.

Key management personnel compensation is as follows:

	2011 £m	2010 £m
Short term employee benefits	**7.0**	7.0
Post-employment benefits	**0.6**	0.3
Other long term benefits	**0.2**	0.2
Loss of office	**1.4**	–
	9.2	7.5

5 Gain on sale and termination of operations

	2011 £m	2010 £m
Project Kangaroo sale	**–**	2.0
Animal Planet Europe and People & Arts	**96.4**	–
Gain on sale and termination of operations	**96.4**	2.0

BBC Worldwide disposed of its interests in Animal Planet Europe and People & Arts on 12 November 2010 for a total consideration of £97.9million. These were classified as assets held for sale as at 31 March 2010 and have not therefore been equity accounted for during the year to 31 March 2011. As a result of the cessation of equity accounting, the Group's share of the results of these joint ventures is included in the gain on disposal. Similarly, dividends received during the year have been included within the calculation of the gain on disposal.

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. In July 2009, UK VOD LLP sold all of the Project Kangaroo's assets, resulting in a gain of £2.0million.

Notes to the group financial statements

For the year ended 31 March 2011

6 Gain on disposal of fixed assets

	2011 £m	2010 £m
Disposal of properties	–	39.0
Gain on disposal of fixed assets	–	39.0

The gain on disposal of properties in 2010 relates to the sale of Woodlands £22.5million, Victoria Road £5.0million and Kingswood Warren in Surrey £11.5million.

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 income/(costs)

	Note	2011 £m	2010 £m
Financing income			
Interest income		**9.1**	2.4
Expected return on pension plan assets	23bii	**603.4**	443.4
Fair value gains on interest rate swaps and caps		**1.1**	–
		613.6	445.8
Financing costs			
Interest expense		**(13.9)**	(12.0)
Interest on obligations under finance leases		**(58.5)**	(46.3)
Fair value movement on financial liabilities		**(4.0)**	(4.9)
Fair value losses on interest rate swaps and caps		**–**	(3.5)
		(76.4)	(66.7)
Unwinding of discount on provisions	18	**(0.5)**	(3.1)
Interest cost on pension plan liabilities	23bii	**(529.9)**	(463.7)
		(606.8)	(533.5)
Net financing income/(costs)		**6.8**	(87.7)

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

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:

	2011 £m	2010 £m
Net financing costs of leasing arrangements	**(58.5)**	(46.3)
Net financing income/(cost) related to pension obligations	**73.5**	(20.3)
Net financing costs related to loans and financial instruments	**(8.2)**	(21.1)
	6.8	(87.7)

Notes to the group financial statements
For the year ended 31 March 2011

8 Taxation

8a Recognised in the income statement

The charge for the year, based on the rate of corporation tax of 28% (2010: 28%) comprised:

	Note	2011 £m	2010 £m
Current tax			
UK corporation tax		**30.2**	19.7
Adjustments in respect of prior years		**(4.9)**	(4.5)
		25.3	15.2
Foreign tax		**12.2**	14.7
Total current tax		**37.5**	29.9
Deferred tax			
Origination and reversal of timing differences		**–**	5.1
Tax rate increase		**0.3**	–
Adjustments in respect of prior years		**(0.2)**	(0.3)
Total deferred tax	8d	**0.1**	4.8
Total taxation expense in the consolidated income statement	8b	**37.6**	34.7

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	2011 £m	2010 £m
Surplus before tax		**520.5**	511.7
Share of Joint Venture and Associates		**9.2**	6.0
		529.7	517.7
Surplus before tax multiplied by standard rate of corporation tax in the UK of 28% (2010: 28%)		**148.3**	145.0
Effects of			
Public Services activities			
Public services taxable external income		**7.2**	5.4
Disallowable costs of Public Services/(Non-Taxable Licence Income)		**(90.0)**	(112.8)
Commercial activities			
Disallowed expenditure (including goodwill impairment)		**13.5**	4.7
Animal Planet sale		**(27.7)**	–
Tax differential on overseas earnings		**0.5**	0.3
Tax differential in Joint Ventures and Associates		**(0.2)**	2.9
Tax rate increase		**0.3**	–
Adjustments in respect of prior years		**(5.1)**	(4.8)
Total tax charge for the year		**46.8**	40.7
Share of tax of Joint Venture and Associate		**(9.2)**	(6.0)
	8a	**37.6**	34.7

Notes to the group financial statements

For the year ended 31 March 2011

8 Taxation continued

8b Reconciliation of taxation expense continued

There is no capital gains tax arising on the sale of property referred to in Note 6 due to the availability of indexation allowance.

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.

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

8c Factors that may affect future tax charges

Prior to the balance sheet date, the UK Government announced a phased reduction in the main UK corporation tax rate from 28% to 24%, with the first 1% reduction taking effect from 1 April 2011 (and substantively enacted on 20 July 2010). On 23 March 2011, the UK Government announced an additional 1% reduction in the main UK corporation tax rate to 26% taking effect from 1 April 2011 (and substantively enacted on 29 March 2011). A further three reductions of 1% will follow annually, reducing the corporation tax rate to 23% from 1 April 2014. The impact of the future rate reductions will be accounted for in future periods, to the extent that they are enacted at the balance sheet date; however it is estimated that this will not have a material effect on the Group.

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 2010	(3.2)	10.3	0.3	7.8	**15.2**
Charge to income statement	3.8	(3.6)	(1.0)	0.7	**(0.1)**
Acquired on acquisition of subsidiary, JV and Associates	(0.3)	–	–	–	**(0.3)**
Exchange differences	(3.9)	(1.1)	–	(0.8)	**(5.8)**
At 31 March 2011	**(3.6)**	**5.6**	**(0.7)**	**7.7**	**9.0**

Deferred tax asset/(liability) presented within:	**2011 £m**	2010 £m
Non-current assets	**25.9**	21.5
Non-current liabilities	**(16.9)**	(6.3)
	9.0	15.2

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 £22.9million (2010: £24.4million). 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 £nil (2010: £3.1million). 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 (2010: insignificant).

8d Deferred tax asset/(liability)

Deferred tax relating to cash flow hedges amounting to £nil (2010: £0.3million) has been included in other comprehensive loss and charged to equity.

Notes to the group financial statements

For the year ended 31 March 2011

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 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**
Additions	0.1	21.6	64.5	29.0	**115.2**
Elimination of fully amortised programme rights	–	(2.2)	(55.1)	–	**(57.3)**
Disposals	–	–	–	(2.8)	**(2.8)**
Classified as held for sale	(5.1)	–	(1.5)	(2.2)	**(8.8)**
Exchange differences	4.6	(0.2)	(3.2)	4.1	**5.3**
At 31 March 2011	**119.9**	**79.4**	**176.9**	**208.2**	**584.4**
Amortisation and impairment					
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 1 April 2010	17.5	48.4	92.2	84.7	**242.8**
Charge for the year	–	13.1	60.9	31.6	**105.6**
Elimination of fully amortised programme rights	–	(2.2)	(55.1)	–	**(57.3)**
Disposals	–	–	–	(2.1)	**(2.1)**
Impairment	33.8	–	–	–	**33.8**
Classified as held for sale	–	–	(0.6)	(0.7)	**(1.3)**
Exchange differences	(1.1)	–	(3.2)	1.6	**(2.7)**
At 31 March 2011	**50.2**	**59.3**	**94.2**	**115.1**	**318.8**
Net book value					
At 31 March 2011	**69.7**	**20.1**	**82.7**	**93.1**	**265.6**
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

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.

* Other intangibles includes:

Net book value	**2011 £m**	2010 £m
Software	**54.7**	58.1
Acquired masthead	**27.0**	26.8
Acquired carrier agreements	**9.3**	7.6
Other	**2.1**	2.9
	93.1	95.4

Notes to the group financial statements

For the year ended 31 March 2011

9 Intangible assets continued

9b Goodwill

All goodwill is recognised in BBC Worldwide.

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

Goodwill by cash generating unit	2011 £m	2010 £m
Lonely Planet	**34.5**	64.2
DVD Distribution business	**25.3**	25.3
Other CGUs	**9.9**	13.3
	69.7	102.8

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

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

Lonely Planet

The goodwill in this CGU arose as a result of the acquisition of Lonely Planet on 1 October 2007. Following the impairment review performed during the year to 31 March 2011, the carrying value of this CGU has been written down to its recoverable amount, resulting in a charge to the income statement of £33.8m.

The Lonely Planet business is based in Australia, where most of its costs are incurred. Accordingly, the CGU's cost base is primarily denominated in Australian dollars. However, the business operates internationally and earns revenues in a wide variety of jurisdictions, with material revenue streams being earned in sterling and in US dollars. The strength of the Australian dollar in recent years has led to challenging sales conditions for the Lonely Planet business. This has been compounded by declines since 2008 in key travel guide markets suffering from the impact of the Global Financial Crisis. Further adverse movements in currency pairings during the course of the year have weakened the commercial environment in which the business operates.

The Group is now in the process of identifying areas where efficiencies can be achieved and greater synergies made with its other operations. Included in the Group's plans are reductions in the local cost base - which will reduce the exposure of the business to Australian dollars - expansion of the business into new geographical markets and exploitation of the Lonely Planet brand in generating new sources of revenue. In accordance with IAS 36 Impairment of Assets, some of these plans, which were approved by management subsequent to the balance sheet date, have not been reflected in the forecast future cash flows used in determining value in use.

Had foreign exchange rates at the date of the Group's impairment tests remained unchanged since the prior year, the impairment recorded in respect of the Lonely Planet business would have been reduced by £20.7m. The remaining impairment of the business reflects the ongoing challenges facing the industry. As described above, management is currently in the process of implementing plans which will seek to address these ongoing challenges.

The future cash flows used by management in determining the value in use are based on the most recent financial budgets approved by management and cover a period of 10 years from the balance sheet date. This period reflects the transition of the business away from traditional print towards mobile and online content, supported by ongoing investment in a proprietary content management system. Beyond this period, forecast cash flows have been extrapolated based on an estimated growth rate of 3% (2010: 3%). This growth rate does not exceed the average long-term growth rate for the markets in which the Lonely Planet business operates.

The rate used to discount forecast cash flows is 13.4% (2010: 12.8%).

Notes to the group financial statements

For the year ended 31 March 2011

9 Intangible assets continued

DVD distribution business

The goodwill in this CGU arose as a result of the acquisition of 2 entertain on 6 August 2009. Prior to this date, 2 entertain had operated as a joint venture between BBC Worldwide and Woolworths Group plc ('Woolworths'). The Group gained control of the business on the above date following the administration of Woolworths, at which point it began accounting for the business as a subsidiary. The cash flow projections used in determining value in use are based on the current business plan approved by management, which covers a five year period after which cash flows have been extrapolated using an expected growth rate of 2% (2010: 1%).

A discount rate of 12.4% (2010: 12.3%) has been applied to the cash flows.

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

Australian Channels business

The goodwill in this CGU arose as a result of the acquisition of UK.TV on 1 July 2008. Cash flow projections used in the recoverable amount calculation are based on financial budgets approved by management covering a period of seven years (2010: eight years) and a discount rate of 13.8% (2010: 13.7%). UK.TV's cash flows beyond the forecast period have been extrapolated using an expected growth rate of 1% (2010: 2%). The terminal growth rate assumes contractual rates remaining in place and a modest growth of subscribers as per external sources. Cash flow projections are consistent with the business acquisition plans and those used in the previous year.

The main assumption on which the forecast cash flows are based is license fee rates. In forming its assumptions about license fee rates, the Group has used a combination of long term trends and recent contracted terms.

Management believes that any reasonably possible change in the key assumptions on which the value in use of UK.TV is based would not result in any impairment.

UK Magazines business

On 1 October 2010, the board resolved to dispose of the Group's Magazines operations. Accordingly, assets associated with the Magazines business, including goodwill, have been classified as held for sale at 31 March 2011 (see Note 13).

Notes to the group financial statements

For the year ended 31 March 2011

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 2009 restated*	843.9	986.6	152.8	90.7	**2,074.0**
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 restated*	858.3	1,004.9	167.5	76.3	**2,107.0**
Additions***	387.7	10.3	4.8	128.8	**531.6**
Brought into service	9.1	38.0	2.1	(49.2)	**–**
Disposals	(5.7)	(15.5)	(4.1)	(1.5)	**(26.8)**
Write off**	–	–	–	(4.0)	**(4.0)**
Assets held for sale	(11.2)	(4.4)	(0.4)	–	**(16.0)**
Exchange movements	(0.1)	0.4	0.4	–	**0.7**
At 31 March 2011	**1,238.1**	**1,033.7**	**170.3**	**150.4**	**2,592.5**
Depreciation					
At 1 April 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)**
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**
Charge for the year	33.1	81.2	16.3	–	**130.6**
Disposals	(2.3)	(14.1)	(2.5)	–	**(18.9)**
Assets held for sale	(5.6)	(3.2)	(0.4)	–	**(9.2)**
Exchange adjustments	(0.1)	0.2	0.3	–	**0.4**
At 31 March 2011	**254.5**	**715.0**	**109.1**	**–**	**1,078.6**
Net book value					
At 31 March 2011	**983.6**	**318.7**	**61.2**	**150.4**	**1,513.9**
At 31 March 2010 restated*	628.9	354.0	72.1	76.3	1,131.3
At 31 March 2009 restated*	634.1	364.6	73.0	90.7	1,162.4

* Further details of adjustments made to previously reported balances are provided in Note 19.

** The write off at cost of £4.0million (2010: £6.7million) in UK PSB 'assets under construction' is due to a further review of the Digital Media Initiative (DMI) project.

*** £382million of additions occurred upon the handing over of the Broadcasting House building in accordance with the planned refurbishment programme during 2011. The assets under construction balance of £150.4million predominantly relates to the fit out of Broadcasting House and Media City, Salford.

Notes to the group financial statements

For the year ended 31 March 2011

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 2011	**809.3**	**24.3**	**–**	**–**	**833.6**
At 31 March 2010	448.7	28.7	–	–	477.4

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	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Current assets:	**100.0**	107.6	**14.6**	33.0	**114.6**	140.6
Non-current assets	**21.6**	24.2	**1.4**	13.0	**23.0**	37.2
Total assets	**121.6**	131.8	**16.0**	46.0	**137.6**	177.8
Current liabilities	**(73.2)**	(53.0)	**(27.6)**	(41.0)	**(100.8)**	(94.0)
Non-current liabilities	**(60.1)**	(84.0)	**(0.3)**	(192.3)	**(60.4)**	(276.3)
Total liabilities	**(133.3)**	(137.0)	**(27.9)**	(233.3)	**(161.2)**	(370.3)
Adjustment to reflect effective obligation	**20.9**	34.6	**15.8**	185.4	**36.7**	220.0
Goodwill	**–**	2.6	**10.9**	13.5	**10.9**	16.1
Total net book value	**9.2**	32.0	**14.8**	11.6	**24.0**	43.6
The net book value is presented within:						
Interest in associates and joint ventures	**21.7**	46.2	**14.8**	11.6	**36.5**	57.8
Provisions	**(12.5)**	(14.2)	**–**	–	**(12.5)**	(14.2)
	9.2	32.0	**14.8**	11.6	**24.0**	43.6
Income	**161.2**	190.8	**20.1**	72.9	**181.3**	263.7
Profit/(loss) after tax	**24.6**	22.5	**1.5**	6.9	**26.1**	29.4
Adjustment to reflect effective obligation*	**–**	0.8	**0.5**	5.2	**0.5**	6.0
Other	**–**	–	**–**	0.4	**–**	0.4
	24.6	23.3	**2.0**	12.5	**26.6**	35.8

* 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

For the year ended 31 March 2011

12 Available-for-sale investments

	2011 £m	2010 £m
Cost or valuation		
At 1 April	**4.0**	4.0
Fair value gains transferred to equity	**76.9**	–
At 31 March	**80.9**	4.0
Provision		
At 1 April	**4.0**	4.0
Charge for the year	**–**	–
At 31 March	**4.0**	4.0
Net Book Value	**76.9**	–

Daunus Limited is the entity that is redeveloping Broadcasting House. The BBC holds a 10% share of the issued share capital of that company which it classes as an available for sale investment, due to mature in 2033. Following the completion of phase two of the development and the handover of Broadcasting House for technical fit out, the value of that investment has been re-assessed which is capped at £90million plus RPI. As the cash flows underlying the ultimate realization of the BBC's 10% interest are now more certain, a gain of £76.9m (2010: nil) has been recognized. The estimated growth rate used was 2.5% and the rate used to discount the future cash flows was 4.15%.

The other 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.

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.

13 Assets and liabilities classified as held for sale

	2011 £m	2010 £m
Interests in associates and joint ventures	**6.1**	7.2
Non-current assets:		
Programme-related assets and other inventories	**–**	0.2
Intangible assets	**7.5**	4.6
Property, plant and equipment	**7.1**	0.5
Current assets:		
Programme-related assets and other inventories	**1.4**	2.4
Trade and other receivables due within one year	**28.2**	6.8
Cash and cash equivalents	**–**	8.3
Total assets classified as held for sale	**50.3**	30.0

	2011 £m	2010 £m
Trade and other payables	**(36.5)**	(8.1)
Current tax liabilities	**–**	(0.3)
Total liabilities classified as held for sale	**(36.5)**	(8.4)

On 1 October 2010, the BBC Worldwide Board resolved to dispose of the Group's Magazines operations subject to limited titles being retained on a contract publishing basis. Negotiations with interested parties have subsequently taken place and the Group was in exclusive discussions with a potential partner at the date of approval of the financial statements. These operations, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet. The proceeds of the disposal are expected to substantially exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

Notes to the group financial statements

For the year ended 31 March 2011

13 Assets and liabilities Classified as held for sale continued

In March 2011, the BBC had agreed the sale and exchanged contracts on its Oxford Road property (£5.6million net book value) in Manchester. At the balance sheet date the BBC continued to occupy the premises and the risks and rewards of ownership have not passed to the purchaser.

As at 31 March 2010 the Group held its 50% interest in Animal Planet Europe (£7.2million) as held for sale. The Group's interest was disposed of during the year (Note 5).

14 Programme-related assets and other inventories

	2011 £m	2010 £m
Programme-related assets		
– Rights to broadcast acquired programmes and films	**118.0**	132.2
– Prepayments to acquire future programme-related rights	**241.1**	285.7
– Completed originated programmes	**67.8**	71.2
– Programmes in production	**153.3**	159.8
Total programme-related assets	**580.2**	648.9
Other inventories	**39.0**	33.4
Total programme-related assets and other inventories	**619.2**	682.3

Within other inventories is £4.1million (2010: £4.9million), relating to Lonely Planet, which is expected to be sold more than 12 months after the balance sheet date in accordance with the entity's normal operating cycle.

15 Trade and other receivables

15a Other receivables due after more than one year

	2011 £m	2010 £m
Other receivables	**20.7**	**17.1**
Amounts owed by associates and joint ventures	**2.5**	**5.7**
Prepayments and other assets	**2.7**	**2.9**
Total	**25.9**	**25.7**

15b Trade and other receivables due within one year

	2011 £m	2010 £m
Trade receivables	**228.9**	174.4
Licence fee debtors	**413.0**	410.8
Amounts owed by associates and joint ventures	**47.4**	30.1
VAT recoverable	**29.7**	36.1
Other receivables	**27.3**	32.3
Prepayments and other assets*	**115.2**	570.1
Total	**861.5**	1,253.8

* See 'other payables' for explanation of balance.

Included in the Group's trade and other receivables at 31 March 2011, are balances of £34.9million (2010: £37.3million) which are past due at the reporting date but not impaired. The aged analysis of these balances is as follows:

Trade receivables past due but not impaired	**2011 £m**	2010 £m
Up to 3 months	**26.1**	28.7
3 to 6 months	**5.0**	5.2
Over 6 months	**3.8**	3.4
	34.9	37.3

Notes to the group financial statements

For the year ended 31 March 2011

15 Trade and other receivables continued

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

There are no significant impairment provisions relating to balance of any individual debtor. Amounts charged to the impairment provision are written off when there is no expectation of recovery. Subsequent recoveries of amounts previously written off are credited to the Income Statement. The impairment provision stands at £5.6million at 31 March 2011 (2010: £9.1million).

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

	2011 £m	2010 £m
Balance at the beginning of the year	**9.1**	12.5
Impairment losses recognised	**2.4**	3.0
Amounts written off as uncollectible	**(4.0)**	(1.2)
Amounts recovered during the year	**(1.8)**	(6.4)
Additions due to acquisition of subsidiaries	**–**	1.1
Exchange differences on revaluation	**(0.1)**	0.1
Balance at the year of the year	**5.6**	9.1

16 Trade and other payables

16a Trade and other payables due within one year

	2011 £m	2010 restated* £m	2009 restated* £m
Trade payables**	**420.7**	490.6	396.0
Amounts owed to associates and joint ventures	**17.3**	2.3	7.1
Other taxation and social security	**26.1**	26.8	27.4
Other payables***	**124.5**	522.6	45.8
Accruals and deferred income	**175.6**	158.0	225.3
Cash balance payable to DCMS (see Note 2d)	**266.1**	132.0	–
Cash balance payable to the Consolidated Fund	**34.0**	–	–
Licence savings stamp deposits and direct debit instalments	**66.3**	68.6	71.5
Total	**1,130.6**	1,400.9	773.1

* Further details of adjustments made to previously reported balances are provided in Note 19

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

*** In 2010 '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 was also recognised in 'Prepayments and other assets'. These amounts have been transferred to finance lease creditors and fixed assets respectively upon the handing over of the Broadcasting House building in accordance with the planned refurbishment programme during 2011. Other payables also includes £7.5million (2010: £37.8million) relating to put options over non-controlling interests.

16b Other payables due after more than one year

	2011 £m	2010 £m	2009 £m
Other payables	**197.2**	175.1	513.1
Total	**197.2**	175.1	513.1

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 2011 was 28 days (2010: 29 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.

Notes to the group financial statements

For the year ended 31 March 2011

17 Borrowings

17a Borrowings due within one year

	2011 £m	2010 £m
Bank loan and overdraft	**20.7**	1.7
Obligations under finance leases	**2.5**	5.7
Total	**23.2**	7.4

17b Borrowings due after more than one year

	2011 £m	2010 £m
Bank loan	**194.5**	211.4
Obligations under finance leases	**894.9**	603.2
Total	**1,089.4**	814.6

17c Finance lease obligations

Finance lease liabilities are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
2011			
Not later than one year	**84.9**	**82.4**	**2.5**
Later than one year but not later than five years	**351.7**	**322.4**	**29.3**
Later than five years*	**1,890.4**	**1,024.8**	**865.6**
	2,327.0	**1,429.6**	**897.4**
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

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

* See 'Other payables' in Note 16a

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 £851.6million (2010: £552.5million) have contingent elements included within their contracts and resulted in contingent rents of £13.2million (2010: £16.3million) being reflected in operating costs.

Notes to the group financial statements

For the year ended 31 March 2011

18 Provisions and contingent liabilities

	At 1 April 2010 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	Unwinding of discount £m	**At 31 March 2011 £m**
Restructuring	81.1	66.6	(47.9)	(3.3)	0.5	**97.0**
Litigation and insurance	13.1	10.9	(4.3)	(2.3)	–	**17.4**
Property	21.4	1.3	(2.2)	(0.1)	–	**20.4**
Share of joint ventures net liabilities	14.2	2.0	(3.7)	–	–	**12.5**
Other	4.6	2.0	(1.3)	(3.2)	–	**2.1**
Total	134.4	82.8	(59.4)	(8.9)	0.5	**149.4**
Included in current liabilities	59.3					**103.7**
Included in non-current liabilities	75.1					**45.7**
Total	134.4					**149.4**

	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 31 March 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**

The restructuring charge for the year mainly relates to the restructuring programme within World Service Broadcasting, Studios and Post Production and Home Services.

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

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 insignificant 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 2011 the Group had contingent liabilities estimated to be £0.1million (2010: £0.6million) in respect of guarantees and indemnities.

Notes to the group financial statements

For the year ended 31 March 2011

19 Amendment to IAS 17 - Leases

The amendment was issued as part of Improvements to IFRSs 2009 and has been applied retrospectively to all unexpired leases as at 1 April 2010. Under this amendment leases of land are no longer presumed to be operating leases but are classified in accordance with the substance of the related transaction. Application of the amended standard has resulted in a number of long leasehold interests in land granted to third parties prior to 2003 being reclassified as sales. Previously these transactions had been treated as prepaid operating leases with the proceeds received being recognised over the life of the lease.

The effect on the consolidated income statement and balance sheet can be seen below.

	2010 Reported £m	Adjustment £m	2010 Restated £m
Other income	1,343.6	(0.6)	1,343.0
Total income	4,790.4	(0.6)	4,789.8
Group operating surplus	522.1	(0.6)	521.5
Surplus before taxation	512.3	(0.6)	511.7
Surplus for the year	477.6	(0.6)	477.0

	2010 Reported £m	Adjustment £m	2010 Restated £m	At 1 April 2009 Reported £	Adjustment £m	At 1 April 2009 Restated £m
Non-current assets						
Property, plant and equipment	1,157.1	(25.8)	1,131.3	1,188.2	(25.8)	1,162.4
Current liabilities						
Trade and other payables	(1,504.6)	103.7	(1,400.9)	(877.4)	104.3	(773.1)
		77.9			78.5	
Capital and reserves						
Operating reserve	(547.6)	77.9	(469.7)	850.0	78.5	928.5
		77.9			78.5	

20 Reserves

Operating reserve

At 31 March 2011, the cumulative goodwill written off to reserves on acquisitions prior to 1999 amounted to £6.8million. This amount is unchanged on prior year and remained in equity upon transition to IFRS as permitted by IFRS1.

Other reserve

Other reserves at 31 March 2010 comprised the cost on initial recognition of a put option over 25% of the issued share capital of Lonely Planet. The put option was exercised by the non-controlling shareholders on 4 January 2011.

Available-for-sale reserve

The balance as at 31 March 2011 relates to the fair value of the BBC's investment in Daunus Limited (see Note 12).

Notes to the group financial statements

For the year ended 31 March 2011

21 Reconciliation of group surplus before tax to cash generated from operations

	2011 £m	2010 restated* £m
Group operating surplus	**520.5**	511.7
Depreciation, amortisation and impairment	**276.1**	260.7
Difference between pension charge and cash contribution	**(343.2)**	(387.9)
Fair value impact of derivatives associated with loans	**(1.1)**	3.5
Fair value impact of other derivatives	**1.5**	(19.6)
Profit on disposal of tangible fixed assets	**–**	(39.0)
Loss on disposal of tangible fixed assets	**8.6**	7.3
Gain on sale and termination of operations	**(96.4)**	(2.0)
Share of results of associates and joint ventures	**(26.6)**	(36.9)
Financing income	**(613.6)**	(445.8)
Financing costs	**606.8**	533.5
Decrease/(increase) in stocks	**61.6**	(54.5)
Increase in debtors	**(16.0)**	(67.1)
Increase in creditors	**111.7**	227.1
Decrease/(increase) in provisions	**16.5**	(16.1)
Cash generated from operations	**506.4**	474.9

* Further details of adjustments made to previously reported balances are provided in Note 19.

22 Long term commitments not reflected in the balance sheet

22a Contracts placed for future expenditure

	2011 £m	2010 £m
Fixed asset additions	**72.8**	50.9
Programme acquisitions and sports rights	**866.6**	1,026.2
Independent programmes	**195.4**	148.8
Other fixed payments on long term outsourcing arrangements	**3,303.4**	3,432.7
	4,438.2	4,658.6

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 as defined by the accounting standards.

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.

Notes to the group financial statements
For the year ended 31 March 2011

22 Long term commitments not reflected in the balance sheet continued
22b Operating leases

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

	2011 £m	2010 £m
Not later than one year	**114.4**	110.1
Later than one year and not later than five years	**300.8**	344.9
Later than five years	**613.7**	453.4
	1,028.9	908.4

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.

Notes to the group financial statements

For the year ended 31 March 2011

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, LifePlan 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 liability included in the balance sheet

	Pension liability 2011 £m	Pension liability 2010 £m
BBC Pension Scheme	**(920.5)**	(1,640.9)
Unfunded Scheme	**(6.3)**	(6.2)
Total	**(926.8)**	(1,647.1)

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

	Defined benefit schemes			
	BBC Pension Scheme £m	Unfunded Scheme £m	Defined contribution scheme £m	**All schemes £m**
2011				
Current service cost	(192.8)	–	(4.3)	**(197.1)**
Past service costs	(19.3)	–	–	**(19.3)**
Gain on curtailments*	250.4	–	–	**250.4**
Total operating income/(charge)**	38.3	–	(4.3)	**34.0**
Expected return on pension plan assets	603.4	–	–	**603.4**
Interest on pension plan liabilities	(529.6)	(0.3)	–	**(529.9)**
Net finance income/(cost)	73.8	(0.3)	–	**73.5**
Net income/(cost) in consolidated loss statement	112.1	(0.3)	(4.3)	**107.5**
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 plan liabilities	(463.4)	(0.3)	–	(463.7)
Net finance cost	(20.0)	(0.3)	–	(20.3)
Net income/(cost) in consolidated loss statement	153.3	(0.3)	(3.2)	149.8

* This balance has arisen due to the change in the defined benefit plan terms which has resulted in a significant element of future service by current employees qualifying for reduced benefits. See Note 23cviii.

** Of the total net operating income of £38.3million for 2011 (2010 net income £173.3million), £54.2million (2010 £36.2million expense) was recognised as an expense in earlier years as part of redundancy costs in accordance with IAS 37. The remaining income of £92.5million (2010: income £209.5million) was recognised in the current year.

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

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

The **past service charges** 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.

Notes to the group financial statements

For the year ended 31 March 2011

23 Pension plans continued

23b Pension charges and balances within the financial statements continued

23b iii Movement in deficit during the year

	BBC Pension Scheme 2011 £m	Unfunded scheme 2011 £m	Total 2011 £m	BBC Pension Scheme 2010 £m	Unfunded scheme 2010 £m	Total 2010 £m
Deficit in scheme at the start of the year	**(1,640.9)**	**(6.2)**	**(1,647.1)**	(138.6)	(4.7)	(143.3)
Movement in the year:						
Current service cost	**(192.8)**	**–**	**(192.8)**	(128.2)	–	(128.2)
Contributions (from employer)*	**304.6**	**0.3**	**304.9**	214.3	0.3	214.6
Past service (costs)/income	**(19.3)**	**–**	**(19.3)**	301.5	–	301.5
Gain on curtailments	**250.4**	**–**	**250.4**	–	–	–
Net finance income/(cost)	**73.8**	**(0.3)**	**73.5**	(20.0)	(0.3)	(20.3)
Actuarial gain/(loss) recognised in the consolidated statement of comprehensive loss	**303.7**	**(0.1)**	**303.6**	(1,869.9)	(1.5)	(1,871.4)
Deficit in scheme at the end of the year	**(920.5)**	**(6.3)**	**(926.8)**	(1,640.9)	(6.2)	(1,647.1)

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

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.

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.

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 pensionable salary related benefits on a defined benefit basis funded from assets held in separate trustee-administered funds.

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

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

23c i Scheme financial position

IAS 19 valuation	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Scheme assets	**8,835.8**	8,154.8	6,454.0	8,042.0	8,117.9
Scheme liabilities	**(9,756.3)**	(9,795.7)	(6,592.6)	(7,513.6)	(7,788.6)
Deficit	**(920.5)**	(1,640.9)	(138.6)	528.4	329.3
Percentage by which scheme assets cover liabilities	**91%**	83%	98%	107%	104%

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.

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

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

Notes to the group financial statements

For the year ended 31 March 2011

23 Pension plans continued

23c BBC Pension Scheme continued

23c ii Scheme financial position

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

	2011 £m	2010 £m
Opening present value of plan liabilities	**9,795.7**	6,592.6
Current service cost	**192.8**	128.2
Past service cost/(income)	**19.3**	(301.5)
Gains on curtailments	**(250.4)**	–
Interest on pension plan liabilities	**529.6**	463.4
Experience gains arising on plan liabilities	**(71.7)**	(33.2)
Changes in assumptions underlying plan liabilities	**(138.9)**	3,266.1
Contributions by plan participants	**7.1**	7.2
Benefits paid and expenses	**(327.2)**	(327.1)
Closing present value of plan liabilities	**9,756.3**	9,795.7

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 and mortality.

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.

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

	2011 £m	2010 £m
Opening fair value of plan assets	**8,154.8**	6,454.0
Expected rate of return on plan assets	**603.4**	443.4
Actuarial gains on plan assets	**93.1**	1,363.0
Contributions by employer	**304.6**	214.3
Contributions by plan participants	**7.1**	7.2
Benefits paid and expenses	**(327.2)**	(327.1)
Closing present value of plan assets	**8,835.8**	8,154.8

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

Notes to the group financial statements

For the year ended 31 March 2011

23 Pension plans continued

23c BBC Pension Scheme continued

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%.

	2011		2010	
Type of asset	£m	%	£m	%
Equities	**4,480**	**51**	4,573	56
Bonds	**1,938**	**22**	1,825	22
Property	**1,080**	**12**	787	10
Alternatives*	**1,324**	**15**	719	9
Cash	**14**	**0**	251	3
Total assets	**8,836**	**100**	8,155	100
Actual return on pension plan assets**	**697**		1,806	

* Alternatives include private equity, debt and currency.

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

23c v Pension gains/(losses) in consolidated statement of comprehensive loss

	2011 £m	2010 £m
Actual return less expected return on pension plan assets	**93.1**	1,363.0
Experience gains arising on plan liabilities	**71.7**	33.2
Changes in assumptions underlying the present value of plan liabilities	**138.9**	(3,266.1)
Net gain/(loss) recognised in the consolidated statement of comprehensive gains	**303.7**	(1,869.9)
Cumulative loss recognised in the consolidated statement of comprehensive gains	**(4,091.6)**	(4,395.3)

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.

23c vi History of experience gains and losses

	2011	2010	2009	2008	2007
Experience adjustments on plan assets:					
Amount (£million)	**93.1**	1,363.0	(2,094.0)	(584.6)	(121.0)
Percentage of plan assets	**1.1%**	16.7%	32.4%	7.3%	1.5%
Experience adjustments on plan liabilities:					
Amount (£million)	**71.7**	33.2	171.3	(149.1)	(164.6)
Percentage of plan liabilities	**0.7%**	0.3%	2.6%	2.0%	2.1%
Total actuarial gain/(loss) recognised in consolidated statement of comprehensive loss					
Amount (£million)	**303.7**	(1,869.9)	(784.6)	52.3	136.1
Percentage of plan liabilities	**3.1%**	19.1%	11.9%	0.7%	1.7%

Notes to the group financial statements
For the year ended 31 March 2011

23 Pension plans continued
23c BBC Pension Scheme continued
23c vii Funding the Scheme

The 2010 actuarial valuation by Towers Watson of the pension scheme showed a funding shortfall of £1,131million. Consequently a recovery plan has been agreed between the BBC and the pension scheme Trustees where additional contributions totalling £905million will be paid by the BBC over the next 11 years. The first contribution of £110million was paid on 28 March 2011. It was also agreed that employer contributions would decrease from 17.85 to 15.2% on 1 April 2011 and then to 14.2% from 1 January 2012. Employee contributions for Old and New Benefit members rose from 6.75% to 7.5% from 1 April 2010. Employee contributions for the Career Average Benefit 2006 members are 4% and for the Career Average Benefit 2011 members are 6%.

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

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

Contribution rates	Projections 2012 %	**2011 %**	2010 %	2009 %	2008 %
Employer	14.2/15.2	**17.85**	18.6	18.8/19.35	18.8
Employee (Old and New Benefits)	7.5	**7.5**	6.75	6.0	6.0
Employee (Career Average Benefits 2006)*	4.0	**4.0**	4.0	4.0	4.0
Employee (Career Average Benefits 2011)**	6.0	**–**	–	–	–
Underlying cost of scheme to BBC as % of pensionable salaries***	14.2/15.2	**17.85**	18.6	18.8/19.35	18.8

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

** The Career Average Benefit 2011 section started on 1 April 2011.

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

On the basis assumed above, contributions totalling £152.6million are expected to be paid in 2012.

Notes to the group financial statements

For the year ended 31 March 2011

23 Pension plans continued

23c BBC Pension Scheme 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	2011 %	2010 %
Rate of increase in salaries	**1.0**	3.7
Rate of increase in pension payments:		
Old Benefits	**3.7**	3.7
New Benefits	**3.5**	3.5
Career Average Benefits (2006)	**2.4**	2.4
Career Average Benefits (2011)	**2.7**	–
Inflation assumption (RPI)	**3.7**	3.7
Inflation assumption (CPI)*	**2.9**	–
Expected take up rate**	**40.0**	–
Discount rate	**5.5**	5.5

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

* The CPI rate is only relevant to the CAB 2011 section. All other sections continue to use the RPI rate, adjusted for the change in statutory revaluation. This has been treated as a change in assumptions and reflected through the consolidated loss statement.

** Following the changes to various pension plans in the current financial year, it is expected that a proportion of members will transfer out of the current sections into either the CAB 2011 or defined contribution plans.

As a consequence of the level of net pension deficit reported in 2009/10 and the 2010 actuarial valuation, changes have been made to future benefits available to scheme members. From 1 April 2011, future increases in pensionable salary will be limited to a maximum of 1% per annum. This has resulted in a curtailment gain of £250.4million. Old, New and CAB 2006 members can choose to opt out of their current section of membership and join the Career Average Benefits Section (CAB 2011) for future pension benefits with pension benefits earned to date being deferred in the Scheme. These deferred pension benefits would increase each year broadly in line with inflation.

Scheme members may opt to make this change at any time between 1 April 2011 to 31 December 2011. In calculating the present value of scheme liabilities as at 31 March 2011, the BBC has made an assumption as to the expected level of member changes during this time window. Based on the best available information as at 31 March 2011, the BBC assumes that 40% of the Old, New and CAB 2006 members will leave their current section. A sensitivity analysis surrounding this assumption is shown in the table below.

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

	Movement	Impact on Scheme liabilities %	Impact on Scheme liabilities £m
Discount rate	Decrease 0.1%	2.0	194
Discount rate	Increase 0.1%	1.6	157
Mortality rate	Increase/decrease 1 year	3.0	295
Proportion of members expecting to transfer schemes	Increase/decrease 10%	0.4	47

Notes to the group financial statements
For the year ended 31 March 2011

23 Pension plans continued

23c BBC Pension Scheme continued

23c viii Principal actuarial assumptions continued

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

Principal demographic assumptions	2011 Number of years	2010 Number of years
Retiring today		
Male	**27.8**	27.0
Female	**28.4**	29.7
Retiring in 20 years		
Male	**30.2**	29.0
Female	**30.1**	31.8

The longevity assumptions have been selected to reflect the characteristics and experience of the membership of the scheme. This has been done by adjusting standard mortality tables ('S1' series of tables, published by the CMI) which reflect recent research into mortality experience in the UK with a long-term rate of improvement of 1.5% per annum for males and 1.0% per annum for females.

Expected long-term rate of return (per annum)*	2012 %	2011 %
Equities	**8.6**	8.8
Bonds and gilts	**4.2**	4.4
Property	**6.4**	6.6
Alternatives	**8.6**	8.8
Cash	**3.7**	4.4
Total expected rate of return	**7.4**	7.5

* As at the beginning of the financial year.

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

23c ix Scheme membership analysis and maturity profile

	2011 Number	2010 Number
Contributors	**18,032**	17,883
Pensioners	**18,805**	18,776
Dependants	**3,971**	3,920
Deferred pensioners	**19,591**	18,971

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.

Notes to the group financial statements

For the year ended 31 March 2011

23 Pension plans continued

23c BBC Pension Scheme continued

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

The first additional contribution of £110million was paid in March 2011 to address the funding shortfall identified in the 2010 actuarial valuation by Towers Watson. Allowing for this payment, the net cash inflow saw a decrease of £30million compared to 2010. This movement includes an increase on the pensions paid to members in the year of £16million.

	2011 £m	2010 Restated* £m
Contributions including additional voluntary (employer and employee)	**317.4**	226.9
Investment income	**214.8**	232.3
Cash inflows	**532.2**	459.2
Payments of pensions and transfers out	**(326.1)**	(333.3)
Expenses	**(53.0)**	(52.6)
Net cash inflow	**153.1**	73.3

* The comparative figures have been restated to reflect an amendment made to the accounting policy for overseas property portfolios.

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.

The Group takes a risk averse approach to the management of foreign currency trading and has implemented a clear economic hedging policy to minimise volatility in the financial results. A small number of the forward foreign currency contracts entered into by the Group were designated as hedging instruments in effective cash flow hedges. Corresponding fair value movements have, accordingly, been recorded within other comprehensive income. For forward foreign currency contracts not designated as hedging instruments, movements in fair value are recorded directly in the income statement within 'total operating costs'.

Notes to the group financial statements

For the year ended 31 March 2011

24 Financial instruments continued

24a Financial risk management continued

Market risk

Currency risk: The Group is principally a domestic organisation with the majority of transactions, assets and liabilities arising in the UK and 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 and therefore has not presented sensitivity analysis as any potential variation is insignificant.

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

For the year ended 31 March 2011

24 Financial instruments continued

24a Financial risk management continued

Other price risk of financial assets: The Group only invests surplus cash in money market funds and money market deposits, therefore there is very limited price risk.

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

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.

Credit risk

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 obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, available-for-sale financial assets and trade and other receivables.

The carrying amount of these financial assets included in the financial statements represents the Group's maximum exposure to 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.

Trade and other receivables: The largest element is the licence fee debtor, £413.0million (2010: £410.8million).The amount of income that the BBC receives from is directly related to the amount of licence fee collected from households in the UK.

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

Guarantees: In order to assist employees relocating as part of an enforced move within the UK, the BBC operates a 'Homeowners Guaranteed Support Scheme'. After professional valuations, the beneficial interest of the employees' property is transferred to a third party to sell, allowing the employee to find a new property, chain-free within their relocation area. The BBC offers a guarantee to the third party for part of the market value of the property and is therefore exposed to fluctuations in the property market between the time the property is valued and sold. Only three employees entered this scheme during 2010/11 (2009/10 two) and one property was unsold at 31 March 2011 valued at £0.3m (2009/10 £nil).

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

Liquidity risk

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

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The BBC is subject to ceilings on its borrowings set by the Secretary of State in accordance with the Agreement between the BBC and DCMS (see Note 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 term deposit accounts with highly rated financial institutions.

Notes to the group financial statements

For the year ended 31 March 2011

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
2011 – Carrying value and fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments	8.0	1.9	–	**9.9**
Loans and receivables				
Trade and other receivables	642.3	–	6.6	**648.9**
Cash and cash equivalents	513.4	–	–	**513.4**
Available-for-sale financial assets				
Other investments*	-	–	76.9	**76.9**
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments	(5.8)	(7.6)	–	**(13.4)**
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(20.7)	(194.5)	–	**(215.2)**
Trade and other payables	(372.4)	(7.5)	–	**(379.9)**
Obligations under finance leases	(2.5)	(29.3)	(865.6)	**(897.4)**

* The fair value of the BBC's investment in the share capital of Daunus Limited is derived from a valuation technique that is not based on observable data (level 3).

Notes to the group financial statements

For the year ended 31 March 2011

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
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**
Available-for-sale financial assets				
Other investments	–	–	–	**–**
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)**

As at 31 March 2011 there are no differences (2010: no differences) between the fair value and carrying value of any of the Group's financial instruments.

The finance leases include £9.5million (2010: £12.2million) relating to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. The BBC has a right of offset which meets the criteria as set out in IAS 32 (Financial Instruments Presentation), therefore, the finance lease creditor is presented net of defeasance deposits to arrive at the net unmatched liability at the year end. These defeasance deposits, £153.1million at 31 March 2011 (2010: £177.9million), are structured such that the principal on deposit and interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly it is not included as borrowing for the purposes of compliance with the BBC's borrowing ceilings.

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

Notes to the group financial statements

For the year ended 31 March 2011

24 Financial instruments continued

24c Derivative financial instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

– Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 March 2011 and 31 March 2010 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
2011			
Greater than one year			
Forward foreign currency contracts	**2**	**1.7**	**(1.2)**
Interest rate swaps, caps and collars	**2**	**–**	**(6.3)**
Embedded derivatives	**2**	**0.2**	**(0.1)**
Other payables	**3**	**–**	**(7.5)**
		1.9	**(15.1)**
Less than one year			
Forward foreign currency contracts	**2**	**8.0**	**(4.8)**
Interest rate swaps, caps and collars	**2**	**–**	**(0.9)**
Embedded derivatives	**2**	**–**	**(0.1)**
		8.0	**(5.8)**
2010			
Greater than one year			
Forward foreign currency contracts	2	6.7	(3.7)
Interest rate swaps, caps and collars	2	–	(8.3)
Embedded derivatives	2	–	(1.3)
Other payables	3	–	(41.3)
		6.7	(54.6)
Less than one year			
Forward foreign currency contracts	2	11.9	(8.9)
		11.9	(8.9)

Level 3 financial liabilities recorded at fair value and included within other payables relate to written put options issued to non-controlling interests. The fair value of such instruments is calculated based on the strike price of the options and management's best estimate of the date at which options may be exercised. Options outstanding at 31 March 2011 may be exercised at dates within the period April 2012 to April 2014 (2010: January 2011 to April 2014). Where the strike price of an option is based on the fair value of the underlying business, this has been estimated based on forecasts of future cash flows prepared by management. A discount rate of 12.5% (2010: 11%) was applied to the forecast post-tax cash flows.

Notes to the group financial statements

For the year ended 31 March 2011

24 Financial instruments continued

24c Derivative financial instruments continued

	Fair Value of Level 3	
	2011 £m	2010 £m
Opening balance	**(41.3)**	(32.3)
Issues	**–**	(33.0)
Settlements	**41.7**	36.8
Unwinding of discount recorded within finance expense	**(2.8)**	(1.4)
Change in fair value	**(4.0)**	(3.5)
Foreign exchange translation gains and losses	**(1.1)**	(7.9)
	(7.5)	(41.3)

Put options over non-controlling interest include a put option over 25% of the issued share capital of Lonely Planet. This put option was renegotiated in the year to 31 March 2010, resulting in the cancellation and reissue of the option with revised terms of exercise. The revised option was exercised by non-controlling interests on 4 January 2011 resulting in an increase in the Group's ownership interest in Lonely Planet from 75% to 100%, effective 14 February 2011.

In accordance with IAS 27 (2008) Consolidated and Separate Financial Statements, the exercise of the Lonely Planet put option has been treated as an equity transaction.

At 31 March 2011 the Group had entered into a net commitment to sell foreign currencies amounting to £161.5million (2010: net commitment to sell £100.1million) that mature in the period through to 2016 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.

The Group applies cash flow hedge accounting for trades taken out by certain of its Commercial subsidiaries in respect of their forecasted foreign currency transactions. Hedge accounting is only applied where appropriate designation and documentation. Net gains and losses (after tax) recognised in the hedging reserve on forward foreign exchange contracts in cash flow hedge relationships at 31 March 2011 were £nil (2010: £0.5m). These amounts will be recognised in the income statement in the period when the hedged forecast transaction affects the income statement, at various dates over the next two years.

The fair value movements on foreign exchange forward contracts, currency options and embedded derivatives, other than those that are effective designated cash flow hedges, are recorded through the income statement within operating costs.

Notes to the group financial statements

For the year ended 31 March 2011

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 May 2013. In total, £226.3million (2010: £223.9million) of swaps and £177.8million (2010: £212.2million) of caps and collars were entered. All swaps and caps were effective at 31 March 2011 to ensure borrowings are suitably covered for the foreseeable future. This is £189.6million higher (2010: £164.7million higher) than the current level of borrowings of £214.5million (2010: £211.4million).

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

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.

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. Other than where hedge accounting is applied 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

For the year ended 31 March 2011

24 Financial instruments continued

24d Liquidity risk

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

	Cash flow £m	Interest £m	Principal £m
2011			
Variable interest rate instruments			
Not later than one year	**186.1**	**0.9**	**185.2**
Later than one year but not later than five years	**30.1**	**0.1**	**30.0**
Later than five years	**–**	**–**	**–**
Fixed interest rate instruments			
Not later than one year	**84.9**	**82.4**	**2.5**
Later than one year but not later than five years	**351.7**	**322.4**	**29.3**
Later than five years	**1,890.4**	**1,024.8**	**865.6**
	2,543.2	**1,430.6**	**1,112.6**
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

Notes to the group financial statements

For the year ended 31 March 2011

24e Borrowing facilities

Facility	Interest rate	Total available 31 March 2011 £m	Drawn down at 31 March 2011 £m	Total available 31 March 2010 £m	Drawn down at 31 March 2010 £m	Expiry or review date
UK Public Service Broadcasting						
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	–	
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****	**190**	350**	187	June 2012
Overdraft or money market lines	Money market line – margin of 0.45% Overdraft – bank base rates plus 1%	**20**	**–**	20	–	November 2011
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	£20m December 2011 and £30m May 2012

* The base rate used will vary according to the currency drawn. At 31 March 2011 £64.5million (2010: £61.1million) 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 2011, total drawn on this facility was £190.1million which consisted of cash drawings of £164.5million (2010: £161.7million) and £25.6million (2010: £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 (2010: none).

In addition to the facilities above the Group has other smaller facilities of which nothing was drawn at the year end (2010: £nil), used to manage working capital.

Notes to the group financial statements

For the year ended 31 March 2011

25 Related party transactions

25a Transactions with related parties excluding key management personnel

	Joint ventures, associates and other investments		BBC Pension Scheme	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Rendering of services	**75.4**	83.8	**–**	–
Receiving of services	**(64.4)**	(52.0)	**–**	–
Pension contributions	**–**	–	**304.6**	214.3
Dividends received	**43.8**	10.7	**–**	–
	54.8	42.5	**304.6**	214.3

	Amounts owed by related parties		Amounts owed to related parties	
	2011 £m	2010 £m	**2011 £m**	2010 £m
BBC Pension Scheme	**–**	–	**(14.1)**	(9.1)
Joint ventures, associates and other investments	**52.6**	35.8	**(17.3)**	(2.3)
	52.6	35.8	**(31.4)**	(11.4)

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

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

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* Perfectly Normal Productions Limited**
Peter Salmon		✔		
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 £1,258,089 (2010: £893,503), with £14,328 outstanding at 31 March 2011 (2010: £55,757). In addition, Juniper Communications Limited received services from the BBC to the value of £102,325 (2010: £109,000), with £23,735 outstanding at 31 March 2011 (2010: nil).

** Perfectly Normal Productions Limited is co-owned by BBC Vision Director Jana Bennett's husband (25%). During the year the BBC received services from Perfectly Normal Productions Limited to the value of £132,399 with £5,846 outstanding at 31 March 2011.

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

For the year ended 31 March 2011

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

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
Commercial joint ventures:	
UK Gold Holdings Limited	Holding company
UK Channel Management Limited	TV channel operator
UK VoD LLP*	VoD supplier
JV Programmes LLC (incorporated in the USA)	Content creation
Ragdoll Worldwide Holdings Limited	Holding company

* 33% equity holding.

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

The significant joint ventures are all accounted for up until 31 March except UK VoD LLP and JV Programmes LLC which are accounted for up to 31 December.

26b Significant associates and their activities

	Holding of issued ordinary shares %	Activity
Commercial associates:		
Frontline Limited	23	Magazine distributor
3sixtymedia Limited	10*	Production

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

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

Notes to the group financial statements
For the year ended 31 March 2011

26 Interests in joint ventures, associates and subsidiaries continued

26c Subsidiary undertakings

Subsidiary undertakings are businesses the BBC controls.

Name of entity		Activity
Commercial Subsidiaries: (All 100% owned unless stated)		
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC World News Limited	**	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	**	DVD/video publisher
BBC Worldwide Australia Pty Limited (incorporated in Australia)	**	Investment company
BBC Magazines Limited	**	Publishing company
BBC Magazines Rights Limited	**	Holding company
BBC Worldwide Americas Inc. (incorporated in the USA)	**	Holding company
BBC World Distribution Limited	**	Programme distribution
Subsidiaries incorporated to act on behalf of UK Public Service Broadcasting:		
BBC Property Limited	*	Property
Centre House Productions Limited	*	Production financing
Digital UK Limited***	*	Digital switchover
DSHS Limited	*	Digital switchover

* Directly owned.

** Indirectly owned.

*** The BBC controls 58.02% of the voting rights of Digital UK Limited. Its results have been consolidated into the Group accounts. Digital UK Limited is a company limited by guarantee of which the BBC is a joint member. The other members and their voting rights in Digital UK Limited are: ITV plc 11.4%, Channel Four Television Corporation 11.4%, Channel Five Broadcasting Limited 9.07%, Arquiva Services Limited 6.48% and SDN Limited 3.63%.

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 Executive Board has prepared the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The Executive Board must not approve the statement of accounts (or 'financial statements') unless it is satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and of the surplus or deficit for that period.

In preparing the financial statements the Executive Board has:

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

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

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

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

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

Statement of disclosure of information to auditors

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

Going concern

The directors have prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements, and have reviewed these forecasts, together with the sensitivities and mitigating factors in the context of available funds. The directors are satisfied that the BBC is well placed to manage the risks and has adequate resources to continue in operation for the foreseeable future. As a result the going concern basis has been adopted in the preparation of the financial statements.

This statement was approved by the Executive Board.

Mark Thompson

Mark Thompson
Director-General
23 June 2011

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