



## BBC Full Financial Statements 2013/14

Presented to Parliament by the Secretary of State for Culture, Media and Sport by command of Her Majesty July 2014

The BBC's Annual Report and Accounts 2013/14, giving narrative context to the numbers contained in this document, were also laid before Parliament on 21 July 2014 and are available online at bbc.co.uk/annualreport

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# Review of the Managing Director, BBC Finance & Operations



"This year we have built on our impressive track record of delivering efficiencies whilst maintaining the production of outstanding programmes and services. The BBC is currently well placed to meet its targets as well as to continue to invest in its future."

Anne Bulford

#### Delivering efficiencies whilst prioritising our most valued output

The BBC has just completed its fourth year with the colour licence fee at £145.50 and is in the middle of delivering a major efficiency project, Delivering Quality First (DQF), which is on track to deliver an annual total of £700million in annual recurrent savings. Staff across the BBC continue to work hard to deliver these efficiencies, which allows the BBC to fund a range of new obligations. This year has been one of a continued focus on successfully delivering efficiencies whilst ensuring our most creative outputs are prioritised.

In 2013/14, the BBC started to fund a number of new obligations from the licence fee, specifically Broadband rollout, S4C, Local TV and BBC Monitoring, at a combined cost of £250million. The delivery of the first £374million of the £700million DQF savings target has meant that these costs have been absorbed without the need to utilise the BBC's cash balances. As a result we start 2014/15 in a strong position with sufficient cash reserves to fund the World Service (at an annual incremental funding requirement of £245million from 1 April 2014) without compromising the quality or range of our output.

The delivery of these savings has also given the BBC the foundation from which to make a number of key strategic decisions this year for our licence fee funded activities, targeting increased investment in the strategic priorities announced by the Director-General in October 2014.

#### A track record of delivering efficiencies

DQF builds on the BBC's long track record of successfully delivering savings and meeting efficiency targets. Across our Value For Money (2005-2008) and Continuous Improvement (CI) (2008-2013) programmes, we delivered nearly £I billion of real terms recurring savings, and these have already been reinvested in our content and essential infrastructure. This has been achieved whilst maintaining focus on the quality of services provided, optimising value for money rather than simply maximising savings in order to become the cheapest provider.

CBeebies presenter Cat Carey



Cast of Ambassadors



2012/13 was the first year of our DQF programme, which has an annual savings target of £700million by 2016/17. We planned to achieve a significant proportion of the savings by this year and progress has been made with audited savings of £374million delivered. We are on track to achieve the full £700million by 2016/17.

We are doing this by taking advantage of new technologies and ways of working to reduce costs, increasing commercial income, and addressing concerns around talent costs and top management pay and expenses.

In delivering our savings we have sought to protect our production activities as much as we can. We have found productivity savings through the reprocurement of key supplier deals, by improving our asset utilisation and by controlling talent spend. We have exited both Television Centre and our White City building. We have streamlined our facilities management workflows and invested in new systems and processes to deliver savings in our Finance division.

#### Enhancing and simplifying our governance structure

As an organisation, we have demonstrated that we are able to optimise our cost base and deliver against efficiency targets set, however, we need to go further in order to be confident that the BBC is a well-run organisation. We recognise that there have been failures in the past, such as the Digital Media Initiative (DMI) and in the level of some individual severance payments made to former executives and senior managers.

We have learned lessons from these and made changes to our governance structures and processes to deliver a simpler, more creative BBC. Since April, we have implemented a new way of working with the BBC Trust with a clearer definition of individual responsibilities. The Trust is now focussed on challenging the strategy for the BBC and making sure we are answerable to licence fee payers whilst the Executive takes full responsibility for the running of the BBC. This means a reduction in meetings with fewer, but more effective updates to the Trust and ensuring the Executive Board are the key decision makers.

In addition, we have simplified our meeting structures to streamline decision making and reduce bureaucracy. As an organisation, we will be much clearer on how decisions are made and who in the organisation is accountable for them.

We now have in place a cap of £150,000 on all severance payments and have also removed pay in lieu of notice in all but the most exceptional of circumstances. Dame Fiona Reynolds, our Senior Independent Director, has reviewed our severance deals and her findings have been published online: bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/bbc\_review\_severance\_payments\_2013\_14.html.

#### Breakdown of UK PSB Group expenditure 2013/14

	2013/14 £m	%	2012/13 £m	%
Service licences –				
direct content spend	2,315	61	2,443	64
Other direct content spend	91	3	87	2
Property and technology	271	7	357	9
Distribution	217	6	222	6
Other infrastructure				
and support	325	9	318	9
LF collection costs	102	3	Ш	3
Digital Switchover	7	_	57	1
Broadband rollout / S4C /	2.42	,		
LocalTV	242	6	_	-
Costs to fund other income	230	6	232	6
Lease cost reclassified	(81)	(2)	(82)	(2)
Restructuring costs	10	_	23	1
Pension deficit payments	49	I	49	1
Total	3,778	100	3,817	100

#### Future challenges

The delivery of efficiencies, both through the ongoing DQF programme and the historical CI programme, means we start 2014/15 in a strong position with sufficient cash reserves to meet our immediate obligations. As an organisation however, we face new competitive pressures in an evolving media landscape and structural change in audience behaviour, and this means the BBC's strategic context is changing. We have set ourselves three overall goals to address these challenges and stay ahead of the trend:

- innovating online
- making the most creative content and
- serving all our audience

This will enable us to continue to build on our track record of delivering savings pushing both efficiency and creativity as hard as we can. We must, however, be mindful that given our constraints and financial risks, these savings alone cannot fully fund the investments needed and consequently, difficult decisions in relation to scope reductions have to be made. The most significant of these is the proposed move of the BBC Three linear channel to an online platform only, which will be subject to a public consultation in 2014, as part of a public value test undertaken by the BBC Trust.

### Financial overview

#### How we use the licence fee

The way in which the BBC is funded places significant responsibilities on the BBC as an organisation. Specifically, it has to:

- provide value for money by focusing expenditure on the programmes and services the public most wants from the BBC;
- ensure that its output is then delivered as cost efficiently as possible;
- ensure effective and efficient collection of the licence fee;
   and
- maximise funding from other sources, most significantly BBC Worldwide, the BBC's commercial trading operation, in a manner consistent with the terms of its Charter and other obligations.

#### Adjustment to last years published results

Changes in accounting standards for pension costs mean our comparative figures have been restated this year. The change predominantly impacts the interest calculation on our plan assets and means that our previously reported surplus before taxation of £367million has reduced to £196million and the previously reported net liabilities position of £60million has improved to a net assets position of £40million.

#### Results for the year

Our results this year once again show that we have successfully managed the financial challenges facing us so as to ensure a sound base for meeting our future commitments and delivering our strategic ambitions. Disposal of commercial businesses including Lonely Planet mean total income for the year has fallen from £5,102million to £5,066million, but this was offset by lower overall operating costs resulting in group surplus of £154million for the year (2012/13 restated: £157million). Through our efficiency programmes and a step-down in activity following the London Olympics last year, our operating costs have fallen from £4,808million to £4,722million.

#### Summary consolidated income statement

For the year ended 31 March 2014

	What is it?	2014 £m	2013 £m	What has happened this year?
Licence fee income	The total of licence fees collected	3,726	3,656	Reduced Digital Switchover funding and limited household growth
	Commercial (mainly BBC Worldwide) income and Grant-in-Aid for World Service	1,340	1,446	Fall in sales in Worldwide partially offset by Global News
Total income		5,066	5,102	
	The cost of producing all content and of running the BBC	(4,722)	(4,808)	Fall reflecting additional cost of Olympics last year
Exceptional impairment of tangible and intangible assets	One-off significant item	-	(52)	Prior year write off of DMI
Restructuring costs	Sums provided to fund future efficiency initiatives	(16)	(44)	Release of accounting provision in 2013/14 as a result of lower actual restructuring costs than originally budgeted for completed moves
Total operating costs		(4,738)	(4,904)	
	Our share of the profit of the businesses where we control less than 50%	23	23	
Gain on sale of operations and disposal of fixed assets	Profit on asset disposals	4	111	Profit last year principally from the sale of Television Centre and Lonely Planet
Other gains and losses	Share of net liabilities of joint ventures	(17)	_	The BBC's accounting share of the net liabilities of UKTV not previously recognised
Ü	The net interest on the BBC's pension assets and liabilities, interest on loans and fair value movements on derivatives	(149)	(136)	Higher accounting charge for the BBC pension plan liabilities
	The net tax liability of the BBC on its taxable profits	(35)	(39)	
Group surplus for the year		154	157	

Due to the adoption of IAS~19~(revised)~during~2014, the~2013~comparatives~have~been~restated.~Further~information~is~available~in~the~financial~statements.

#### Income

Total licence fee income collected increased by £16million from £3,706million to £3,722million as a result of modest household growth.

Licence fee income is adjusted for the costs of the Digital Switchover (DSO) initiative to give net licence fee income. In the year, net licence fee income increased by £70million to £3,726million. 2012/13 was the final year of DSO, although there was some limited ongoing activity this year where none was originally scheduled. Savings against DSO funding are paid over to the Government, and deducted from our income. In 2012/13 the savings amounted to £50million with a £4million carry over of cost into 2013/14.

	2013/14 £m	2012/13 £m
Licence fee collected	3,722	3,706
DSO overspend/(savings)	4	(50)
Net licence fee	3,726	3,656

#### Licence fee collection

Effective financial management is a key part of the BBC's unique relationship with its audiences. This includes spending the licence fee efficiently and collecting a television licence fee from everyone who is required to buy one.

Collection costs have reduced as the new contract with Capita continues to deliver savings – costs were £102million this year, down from £111 million last year, falling below 3% of licence fee collected for the first time. Total cost savings of £220million will be delivered over the eight years of the contract, which started in 2012, releasing funding to be spent on our programmes and services.

#### Licence fee statement

As in previous years, we also prepare a licence fee revenue statement audited by the National Audit Office (NAO). This account sets out the amounts we collected in the year and paid over to HM Government. Alongside their audit work, the NAO examines our collection arrangements and reports on them to Parliament. More on the licence fee revenue statement can be found on our website: bbc.co.uk/aboutthebbc.

#### Commercial trading

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

	Headline i	ncome	Headline result		
	2013/14 £m	2012/13 £m	2013/14 £m	2012/13 £m	
UK PSB Group	269	277	n/a	n/a	
BBC Worldwide	1,042	1,116	157	156	
BBC Global News	101	92	(7)	(1)	
S&PP	29	38	(3)	(1)	

CBBC's My Life Race for Rio featuring Reece, Hattie and Julia who are all trying to win a place in the Paralympics



Cast of WIA inside New Broadcasting House



### Financial overview

#### **BBC** Worldwide

BBC Worldwide exists to support the BBC public service mission and to maximise income to the Group on its behalf. It returned £174million to the BBC in 2013/14, up from £156million in 2012/13. This was primarily through investment in BBC commissioned content and dividends. Returns from BBC Worldwide to the BBC support an ongoing commitment to manage financial performance sustainably, protecting the interests of licence fee payers.

Despite mixed market conditions and a significant adverse impact from foreign exchange, BBC Worldwide's overall financial performance was good. Headline sales of £1,042million (2012/13: £1,116million) declined by 7% (or 5% after adjusting for exchange rate movements), principally due to disposals and a new intra-BBC revenue share arrangement for BBC.com. Headline profit of £157million (2012/13: £156million) was up 1% (or 12% if exchange rate movements are discounted), with headline operating margin improving to 15% (2012/13: 14%). Revenue growth was strongest across sales to digital clients, advertising sales and in emerging markets. BBC Worldwide's best performing programme in the year was Sherlock Series 3. The Doctor Who 50th anniversary episode was also a global highlight, transmitting in 15 languages in 98 countries, with 3D screenings in 23 countries, and generating unprecedented interest amongst fans across the world.

BBC Worldwide entered a new phase this year, with a new organisational structure and a new strategy. BBC Worldwide's ambition is to grow the BBC brand around the world, increasing its global presence and future profitability, resulting in sustainable and rising returns to the BBC and the UK creative industry. BBC Worldwide announced that it will concentrate on three core areas: increasing spend on and delivering value from content, developing and rolling out a focused portfolio of new global BBC genre brands and consolidating global digital services.

In its first year, the new BBC Worldwide strategy showed good signs of progress:

- content investment was £201million (2012/13: £176million), reaching BBC Worldwide's target of £200million one year early. It continued to invest in the core BBC genres of drama, natural history and factual entertainment. Major investments included Atlantis, Doctor Who, Orphan Black, The Musketeers and Hidden Kingdoms.
- three new global genre brands were announced by BBC Worldwide: BBC First, BBC Earth and BBC Brit. Each will showcase premium content from the three core genres of, respectively, drama, premium factual and factual entertainment. Plans for a mix of linear and over the top launches in lead markets in the new financial year, prior to wider roll out, are underway.
- in digital, regulatory approval was received for the launch of BBC Store, to be funded and operated by BBC Worldwide. BBC Store will launch in the UK next year. Meanwhile, BBC Worldwide announced plans for a series of investments in BBC.com, and the end of the pilot of its Global BBC iPlayer app, as it focuses on the BBC.com site. This will help support the BBC in achieving a global reach of 500 million per week by 2022.

The business moved to regional operation at the start of the year, further increasing its focus on international markets. Successful international expansion included the launch of new channels, with BBC Knowledge marking a debut in Vietnam, as well as a Memorandum of Understanding signed with China's state broadcaster CCTV for the development of natural history titles.

BBC Worldwide is also an important source of revenue for UK independents, and in the year paid £116million (2012/13: £91million) to independent rightsholders in upfront rights investment, profit share and royalties – the vast majority of which was in the UK.





#### **BBC Global News**

BBC Global News operates two commercially funded international news services, BBC World News and bbc.com, and saw a strong increase in use of its services during 2013/14. Digital reach for News content was up 25%, with bbc.com achieving a record 1.3 billion page views in March from 96 million unique browsers, whilst TV distribution increased to 388 million households. BBC Global News services were the main driver of increased audiences to the BBC's World Service Group: the total weekly audience grew from 256 million to 265 million. The business has continued to nurture key on-screen talent, and seen great success in the social media arena as BBC World News has welcomed its five millionth Facebook fan and been identified as the most shared news brand on Twitter. As a result of the business' continued planned investment programme, building on the relaunch of the BBC World News Channel in January 2013, the business returned an operating loss close to plan of £7million in 2013/14 (2012/13: loss of £1million).

#### Studios and Post Production

It has been a transformational year for Studios and Post Production (S&PP), moving from its historic home at Television Centre and successfully establishing operations at new core locations – Elstree Studios and South Ruislip – whilst new studios are being built at Television Centre.

The company delivered an impressive range of creative projects for numerous broadcasters, media companies and content owners – including full studios and post production services on *Strictly Come Dancing, EastEnders, Children in Need* and Channel 4's Winter Paralympics. It hosted a variety of independent productions including Sky's *A League of Their Own* and ITV's *The Chase* and built new production facilities for Channel 4's *Deal or No Deal* in Bristol. In addition, BBC S&PP's award winning Digital Media Services team digitally restored the original black and white televised film footage of the Queen's Coronation and cult classic *The Professionals*, as well as completing many other media handling projects.

Whilst the company has achieved £29million in sales from its new locations and smaller studio footprint, it has delivered an operating loss of £3million for the year against a £1million operating loss the previous year (after accounting for BBC pension deficit contributions but before exceptional items). A level of loss was always budgeted for this year of relocation and changing operations and is being funded through S&PP cash reserves which were retained in anticipation.

Radio 5 live commentators Jonathan Agnew and Geoffrey Boycott at the Old Trafford Ashes Test, July 2013



BBC Two drama Line of Duty



### Financial overview

Expenditure UK Public Services Broadcasting (UK PSB) Group expenditure

(		D:	Infrastructure/	0.1	<b>-</b> .	2013
2014 Service	Content £m	Distribution £m	support £m	Other items £m	Total £m	Total £m
BBC One	1,023.7	51.0	236.4	_	1,311.1	1,463.2
BBC Two	400.0	28.8	93.0	_	521.8	543.1
BBC Three	81.0	5.9	22.4	_	109.3	121.7
BBC Four	48.9	4.3	12.7	_	65.9	70.2
CBBC	76.1	5.5	19.3	_	100.9	108.7
CBeebies	28.7	4.6	9.3	_	42.6	43.0
BBC ALBA	5.2	1.3	1.5	_	8.0	7.8
BBC News Channel*	48.7	8.0	9.5		66.2	61.5
BBC Parliament	1.7	7.2	1.5	_	10.4	10.5
BBC Red Button	13.5	21.9	4.1	_	39.5	41.8
Television	1,727.5	138.5	409.7	_	2,275.7	2,471.5
BBC Radio I	40.2	5.8	6.8	_	52.8	54.2
BBC Radio 2	47.8	5.7	7.3	_	60.8	62.1
BBC Radio 3	40.8	5.8	10.1	_	56.7	54.3
BBC Radio 4	91.8	9.0	19.8	_	120.6	122.1
BBC Radio 5 live	49.2	5.7	11.6	_	66.5	76.0
BBC Radio 5 live sports extra	2.4	1.4	1.4	_	5.2	5.6
BBC Radio IXtra	5.6	1.6	2.6	_	9.8	11.8
BBC Radio 6 Music	7.9	1.6	2.5	_	12.0	11.5
BBC Radio 4 extra	4.1	1.6	1.7	_	7.4	7.2
BBC Asian Network	6.6	1.8	2.4	_	10.8	13.0
BBC Local Radio	115.4	10.8	23.4	_	149.6	152.5
BBC Radio Scotland	22.6	3.2	6.4	_	32.2	32.7
Radio nan Gàidhael	3.8	1.4	1.0	_	6.2	6.3
BBC Radio Wales	13.4	1.4	3.8	_	18.6	18.8
BBC Radio Cymru	11.7	1.6	3.5	_	16.8	17.6
BBC Radio Ulster/BBC Radio Foyle	17.4	1.3	4.9	_	23.6	23.8
Radio	480.7	59.7	109.2	_	649.6	669.5
BBC Online**	106.5	18.8	49.1	_	174.4	176.6
Spend regulated by service licence	2,314.7	217.0	568.0	_	3,099.7	3,317.6

#### Total UK PSB Group expenditure

' '						
2014 Service	Content £m	Distribution £m	Infrastructure/ support £m	Other items £m	Total £m	2013 Total £m
Spend regulated by service licence	2,314.7	217.0	568.0	_	3,099.7	3,317.6
Licence fee collection costs	_	-	_	102.1	102.1	111.1
Orchestras and performing groups	22.8	_	5.1	-	27.9	29.2
S4C	23.4	-	5.7	76.3	105.4	30.0
Development spend	45.2	_	10.0	_	55.2	50.5
BBC Monitoring	_	-	_	7.2	7.2	_
UK PSB Group pension deficit reduction payment	_	_	_	48.6	48.6	48.6
Costs incurred to generate intra-group income	_	_	_	169.3	169.3	164.8
Costs incurred to generate third-party income	_	_	_	60.6	60.6	67.4
Other content related spent	91.4	-	20.8	464.1	576.3	501.6
Restructuring costs	_	_	-	9.6	9.6	23.1
Total UK PSB Group content expenditure	2,406.1	217.0	588.8	473.7	3,685.6	3,842.3
Digital Switchover (Digital UK Limited)	_	_	_	_	_	12.5
Digital Switchover (DSHS Limited)	_	=	_	7.2	7.2	44.4
Local TV ***	_	_	_	16.0	16.0	_
Broadband rollout***	_	_	_	150.0	150.0	_
Total UK PSB Group expenditure	2,406.1	217.0	588.8	646.9	3,858.8	3,899.2
Lease reclassification****	_	_	-	(81.0)	(0.18)	(81.9)
UK PSB Group expenditure	2,406.1	217.0	588.8	565.9	3,777.8	3,817.3

Included within BBC News channel are production costs of £26.8 million, Newsgathering costs of £21.2 million and other costs of £0.7 million (2013: production costs of £27.2 million, Newsgathering costs of £17.8million and other costs of £0.2million).

#### Infrastructure and support costs are made up of:

	2014 £m	2013 £m
Property	141.2	181.6
HR and training	38.6	45.4
Policy and strategy	9.1	12.0
Finance and operations	70.3	67.7
Marketing, audiences and communication	71.9	68.7
Total central costs	331.1	375.4
Technology	130.3	175.1
Libraries, learning support and community events	32.0	33.6
Divisional running costs	62.7	64.5
BBC Trust Unit	12.0	11.9
Other	20.7	14.9
Total infrastructure/support costs	588.8	675.4

Newsgatnering costs of £1.74million and other costs of £0.2million).

BBC Online spend is monitored by annexe (relating to editorial areas of the service). Non-annexe spend covers costs relating to central editorial activities such as the BBC Homepage, technologies which operate across the service and overheads. The spend for each annexe was: News, Sport & Weather £47.8million (2013: £43.8million), Childrens £9.3million (2013: £8.5million), Knowledge & Learning £15.7million (2013: £18.7million), TV & iPlayer £11.1million (2013: £12.2million) and Audio & Music £11.7million (2013: £13.3million), giving a total annexe spend of £95.6million (2013: £96.5million). Non-annexe spend was £10.9million (2013: £6.5million).

Under the terms of the latest licence fee agreement, The BBC has committed to contribute funding toward broadband rollout across the UK and funding for the development of

Local TV channels.

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

### Financial overview

#### **World Service**

2013/14 was the final year of Foreign & Commonwealth Office (FCO) funding for the World Service prior to becoming licence fee funded. As well as delivering planned savings of £12million in the year a further reduction in Grant-in-Aid income of £2million on £240million from the FCO was mitigated by savings in restructuring costs and accommodation spend.

After its move to New Broadcasting House last year and its co-location with BBC News teams, the organisation will continue to pursue building synergies and therefore savings with the wider BBC.

#### Focusing spend

The BBC concentrates its expenditure on the production of programmes and other content and its delivery to audiences and users, and the essential infrastructure to support this. Year-to-year spend can vary significantly because of the cycle of major sports events, and total content spend reduced by 4.9% to £2,406million (2012/13: £2,530million) this year which was largely due to additional investment in our coverage of the London Olympics last year.

No service licences spent above the regulated baseline threshold during 2013/14. BBC Parliament service licence was the only service to underspend by more than 10% as it delivered additional efficiency savings, especially in its overheads, without compromising editorial performance.

The BBC must invest in technology and property infrastructure to enable new ways of working which will deliver both enhanced content and financial efficiency savings to fund the BBC's DQF strategy. Last year the write down of DMI increased our expenditure for these two areas to £357million, and expenditure this year is lower at £271million. This is to be expected given the historical spend on technical infrastructure in MediaCity UK and in New Broadcasting House, the financial benefits of which continue to be seen. Our expenditure on all infrastructure and support costs reduced by nearly 13% this year, as it fell from £675million to £589million. An analysis of these costs are set out in the table on page 09.

#### Delivering efficiencies

Halfway through the DQF programme, more than half of the savings target of £700million has been delivered with savings to date of £374million, higher than our targeted figure for this point of £367million.

Our annual savings achievement is reviewed by our auditors, KPMG LLP. It will also be examined by the NAO in 2014/15 following up on their report, of November 2011, which commended the way the BBC manages the delivery of efficiencies.

We are doing this by taking advantage of new technologies and ways of working to reduce costs, reprocuring key contracts, increasing commercial income, and addressing concerns around talent costs and top management pay and expenses. Throughout our efficiency programmes, there has been particular focus on rationalising and modernising our operating estate which will continue as part of DQF.

We have sought to protect our production activities as much as we can, but we have found productivity savings in Television by reviewing procurement deals, by improving our asset utilisation and by controlling talent spend. We have also mitigated the impact of inflationary increases in our long-term sports rights deals.

We have placed particular emphasis on finding savings in those of our activities that do not directly face our audiences. We have re-procured our security contracts, and exited both Television Centre and our White City building. We have also put new rosters and supplier management arrangements in place to streamline our Facilities Management workflows and eliminate duplication, and we have reviewed our Marketing and Audience activities. We have invested in new systems and processes to reduce headcount in our Finance division.

The speed of delivery of our plans for West London, as well as the redevelopment of Television Centre, both carry a level of risk. However, we are still on track to deliver the remaining savings by 2016/17.

All these savings are essential to generate the cash required to continue to develop the BBC's content and distribution, and thus ensure we are able to continue to provide licence fee payers with the quality and range of services they are entitled to expect from the BBC into the foreseeable future.

#### Balance sheet

Prudent financial management means we have ended the year with £526million of cash and cash equivalents. This provides a sound base as we absorb World Service's running costs in 2014/15 and deliver on our other strategic ambitions. The provisions we hold for restructuring costs have fallen to £54million (2012/13: £81million) as provisions raised predominantly in 2012/13 were utilised in 2013/14.

The rationalisation of our estate has continued this year, and will continue in future years as we exit White City and refurbish Television Centre. This is reflected in lower plant, property and equipment values and higher depreciation charges outweighing additions in the year.

#### Future pension costs

The accounting pension deficit (as defined by IAS 19) has reduced to £1,516million compared to £1,617million a year ago. The major reasons for the reduction is the payment of additional amounts under the agreed pension deficit recovery arrangement as well as changes in the valuation assumptions. The accounting valuation is only a 'snapshot' at a particular date in time, and is therefore sensitive to short-term market fluctuations.

The most recent actuarial valuation was completed in 2013 and showed a funding shortfall of £2,054million and a plan has been agreed between the BBC and the pension scheme Trustees detailing the contribution amounts to be paid by the BBC over a 12-year period commencing in 2014. The next formal actuarial valuation of the Scheme is expected to be performed as at 1 April 2016. We are continuing to look at ways to reduce the volatility in the Scheme to provide greater stability for long-term financial planning. We believe the agreed funding plan represents a sensible and affordable plan to address the deficit, without adversley affecting programmes or pension scheme members. We will continue working with the Trustees to ensure the Scheme delivers best value to members and licence fee payers.

#### Summary consolidated balance sheet

#### For the year ended 31 March 2014

Balance sheet classification	What is it?	2014 £m	Restated 2013 £m	What has happened this year?
Non-current assets	Mainly the BBC's property, plant, equipment and investments	1,702	1,783	Increased depreciation on new infrastructure offset by additions in the year
Current assets	Programme and other stocks and amounts to be received in the next 12 months	2,258	2,166	Increase in prepayments to acquire future programme-related rights
Current liabilities	Amounts to be paid in the next 12 months	(1,038)	(1,149)	Reduction in provisions through utilisation and releases
Non-current liabilities (excluding pension liabilities)	Amounts to be paid after the next 12 months	(1,098)	(1,144)	Reduced borrowings and long-term provisions
Net assets (excluding pension liabilities)		1,824	1,656	
Net pension liabilities	The net deficit of the BBC Pension Scheme	(1,516)	(1,616)	Decrease to reflect changes in assumptions and contributions paid during the year
Net assets		308	40	
Represented by:				
BBC reserves	The net resources available to the BBC for future use	308	40	

### Financial overview

#### Cash

The BBC's cash balance of £526million at the end of the year will be used to help fund a number of imminent financial pressures and, together with future efficiency savings, deliver our Strategic Initiatives. These include:

- the new obligations for World Service in 2014/15 of £245million;
- the continuing obligations for S4C, Local TV and Broadband, budgeted in aggregate at £230million in 2014/15;
- circa £103million of spending on our Strategic Initiatives including iPlayer+, myBBC, increased investment in the arts and our television drama portfolio; and
- the next annual pension deficit recovery payment (£100million).

#### Tax

The BBC is a committed and prudent tax payer in all the countries in which it operates. Its commercial operations undertake appropriate and legitimate tax planning measures in accordance with the spirit and intention of all laws and regulations.

#### Summary consolidated cashflow statement

#### For the year ended 31 March 2014

Cash flow classification	What is it?	2014 £m	2013 £m	What has happened this year?
Net cash inflow from operating activities	Surplus of the BBC's income over its operating costs	336	338	
Net cash used in investing activities	Cash invested in intangible assets and property, plant and equipment (PPE)	(243)	(40)	Higher intangible asset purchases in the current year exacerbated by higher proceeds from property, plant and equipment disposals last year
Net cash used in financing activities	Net interest paid on the BBC's borrowings	(136)	(129)	
Net (decrease)/increase in cash and cash equivalents		(43)	169	
Cash and cash equivalents at the beginning of the year	The BBC's cash balance at the beginning of the year	575	407	
Effect of foreign exchange rate changes on cash and cash equivalents	The impact of foreign exchange rates on the BBC's cash	(6)	I	Adverse movements in exchange rates impacting the sterling value of our cash
Movement in cash held as restricted funds	DSO savings to be paid over to DCMS or received for Licence Fee stamps	-	(2)	
Cash and cash equivalents at the end of the year	The BBC's cash at the end of the year	526	575	

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### Looking forward

As we head into the Charter Review process we face a challenging three years. In addition to delivering our DQF strategy, our strategic context is changing as we respond to pressures from new competitors and structural changes in audience behaviour.

Although there are signs of recovery in the UK economy, we continue to see ongoing challenges in licence fee collection and strong commercial pressures from global competitors.

Our financial management has provided us with a solid base with which to face these future challenges which will be further boosted as we build on our track record of delivering efficiencies. We must, however, be mindful that given our constraints and financial risks, we cannot deliver these ambitions through efficiencies alone and we will have to make scope reductions.

This is my first review as Managing Director of Finance and Operations and I look back on my first year as one where we have continued to produce outstanding programmes and services whilst building on our impressive track record of delivering efficiencies. Delivery of all our savings targets by 2016/17, to enable us to deal effectively with 26% lower funding in real terms for our UK public services caused by the freeze in the licence fee and all the new obligations, whilst continuing to invest in the future of the BBC, is a very tough challenge requiring difficult choices. We have made good progress to date and remain on track to meet our targets.

Due Bulfard

Anne Bulford
Managing Director, BBC Finance and Operations
19 June 2014

BBC Two's Peaky Blinders won the BAFTA Television Craft award for Director – Fiction



BBC Natural History Unit production Beyond Human



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

In preparing the financial statements the Executive Board has:

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

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

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

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

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and surplus of the Group;
- the Annual Report and financial statements includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Group's performance, business model and strategy.

#### Statement of disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

#### Going concern

The Executive Board has prepared cash flow forecasts for a period in excess of a year from the date of approval of these financial statements, and has reviewed these forecasts, together with the sensitivities and mitigating factors in the context of available funds. The Executive Board is 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.

Taylan

Tony Hall
Director-General
19 June 2014

### Independent Auditor's report to the Trustees of the British Broadcasting Corporation (BBC) only

#### Opinions and conclusions arising from our audit

# I. Our opinion on the Group financial statements is unmodified We have audited the Group financial statements of the BBC for the year ended 31 March 2014 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes to the accounts. 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 2014 and of its surplus for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU.

#### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

### Restructuring provisions – £53.7million

Refer to page 110 of Part Two of the BBC Annual Report (Executive Audit Committee Report), page 85 (accounting policy) and page 60 (financial disclosures)

#### The risk

As part of the ongoing Delivering Quality First efficiency programme at the BBC, a number of individuals will leave the organisation resulting in significant restructuring costs.

Accounting standards require the Executive Board to make provisions when the Delivering Quality First plans are sufficiently detailed and the organisation has raised a valid expectation in those affected that it will carry out the plan. At the time of recognising provisions, the Executive Board make judgements regarding the level of payments that will be made based on the level of individuals that leave the organisation, the BBC's redundancy policy and levels of natural attrition and redeployment.

In addition, estimates and judgements are made regarding the timing of the recognition of restructuring provisions. This is therefore a particular focus area for the audit.

#### Our response

Our audit procedures including analysing the timing of communication of management decisions (through review of board minutes, business plans and public announcements) to individuals at risk, testing on a sample basis, that a valid expectation had been communicated and raised by the balance sheet date.

On a sample basis we tested the value of restructuring provisions by agreeing to approved business plans. We considered whether post balance sheet event disclosures were required for announcements subsequent to year end where the conditions for recognising a provision were not met at year end.

We additionally assessed the historical accuracy of provisions made in previous years through testing the level of provisions utilised and released in 2013/14.

We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

### Independent Auditor's report to the Trustees of the British Broadcasting Corporation (BBC) only

#### Capital projects included in Assets under construction – £105.2million

Refer to page 110 of Part Two of the BBC Annual Report (Executive Audit Committee Report), page 82 (accounting policy) and page 45 (financial disclosures)

#### The risk

The BBC is completing a number of significant capital projects for which amounts have been capitalised on the

The recoverability of these assets is dependent on the achievement of project completion and the assets being used in the manner intended as part of the original business case. In was recorded for the Digital Media Initiative programme capitalised in

The majority of the significant ongoing capital projects relate to IT fit out and expenditure. There is an increased risk of impairment due to the highly specialised technology based nature of these projects.

Accounting for the BBC property portfolio - total value capitalised -£838.9million; annual operating lease expenditure £70.2million

Refer to page 110 of Part Two of the BBC Annual Report (Executive Audit Committee Report), pages 82-83 (accounting policy) and pages 45-48 (financial disclosures)

Group's balance sheet.

the prior year a significant impairment Assets under construction following a critical review of the project status.

The Group has a significant property portfolio combining freehold properties and properties leased under both finance and operating

As part of the Delivering Quality First strategy, the Group has considered its ongoing portfolio which has resulted in certain properties being sold or sub-leased.

Given the number of properties owned and leased by the BBC and the changing portfolio, there is a risk that property transactions may not be appropriately accounted for, and that property impairments or onerous lease obligations are not identified or measured accurately.

#### Our response

In this area our audit procedures focused on the status of individually significant projects capitalised in Assets under construction at 31 March 2014.

For these significant projects we considered their ongoing need and future use within the BBC. We obtained analysis of costs to complete and compared this against original business plans. We agreed significant capitalised costs in the year to invoices and other third party supporting documentation and assessed the need for impairment based on the status of the projects. We corroborated this information through interviews with respective project managers. Board minutes and relevant committee minutes were obtained and discussions regarding significant capital projects considered to identify projects at risk of not completing in line with planned timescales.

We also assessed whether the Group's disclosures reflected appropriately the status of capital projects.

In this area our procedures included, among others, analysing all significant property transactions entered into during the year. We obtained signed agreements and considered terms and contractual obligations to support the proposed accounting treatment.

We assessed the competence of the Group's third party land management company through whom we obtained a list of buildings that were not being used at 31 March 2014 (notably the White City building) and corroborated this through our understanding of the business. We considered the accounting implications for these buildings through analysing BBC public announcements, Executive Board papers and the Group's expert third party reports.

For significant properties held on balance sheet at year end we tested recoverable amount through reference to the BBC's external third party valuation reports. We considered the results of these valuation reports through reference to external market factors.

### Other income recognition (from commercial operations) – income recognised – £1,021.5million;

Refer to page 110 of Part Two of the BBC Annual Report (Executive Audit Committee Report), pages 80-81 (accounting policy) and pages 27-28 (financial disclosures)

#### The risk

Revenue recognition in BBC Worldwide is complex, with a number of different revenue streams including sale of content to global broadcasters, subscription income, carriage agreements with cable operators and revenue from the sale of physical and digital products.

The complexity of individual contractual terms may require the group to make judgements in assessing when the triggers for revenue recognition have been met and in determining the rates that should be charged under the contract. In particular, whether the group has sufficiently fulfilled its obligations under the contract to allow revenue to be recognised, whether it should be recognised at a single point of delivery or across the length of the service period and whether contractual terms have been appropriately interpreted.

The high concentration of sales contracts entered into around the year end as a result of BBC's Showcase event in February makes the recognition of revenue in the appropriate period on a basis of delivery and licence period a continued focus.

pension scheme. Significant estimates are made in valuing the Group's post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the results and financial position of the

The Group has a defined benefit

#### Our response

Our audit procedures in this area included, among others, testing of controls, using our internal IT specialists, including the accuracy of data input in comparison to the related contract, interface of key financial systems and effectiveness of management oversight and contract review procedures.

We compared the revenue recognised against our expectation, which was formed using existing knowledge of both the Group and the industry, subscription numbers agreed on a sample basis to third party supporting evidence, signed contractual amounts and proof of delivery. We set tolerance levels and investigated differences outside of these, comparing explanations provided to independent evidence.

We agreed a sample of revenue transactions to supporting contracts and proof of delivery in the last month of the year and first month after the year end, testing the application of the appropriate revenue recognition criteria in respect of licences and that delivery had been satisfied.

### **Defined benefit pension obligations** – £1,515.7million

Refer to page 110 of Part Two of the BBC Annual Report (Executive Audit Committee Report), page 82 (accounting policy) and pages 40-44 and 64-67 (financial disclosures) Using the knowledge and experience of our own actuarial specialists, our audit procedures included, among others, challenging the key assumptions applied to membership data to determine the Group's net deficit: discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data.

We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficits to these assumptions.

### 3. Our application of materiality and an overview of the scope of our audit

Group.

The materiality for the Group financial statements as a whole was set at £10million. This has been agreed with the Executive Audit Committee and has been set at a lower level than traditional materiality measures would suggest, reflecting the unique funding nature of the entity. For illustration, it represents 0.2% of total Group income and 0.3% of total Group assets.

We agreed with the Executive Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £Imillion, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at two key reporting components and by the

Group audit team at a further two key components. All components are located in the United Kingdom. These audits covered 100% of total Group income, Group surplus before taxation and total Group assets.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to component materiality levels set by the Group audit team. These were set individually for each component and ranged from  $\pounds 2.5$ million to  $\pounds 8$ million.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited all component audit teams during the course of the audit.

### Independent Auditor's report to the Trustees of the British Broadcasting Corporation (BBC) only

### 4. Our opinion on other matters prescribed by the terms of our engagement is unmodified

In addition to our audit of the Group financial statements, the Trustees have engaged us to audit the information in the Trustees and Executive Board Remuneration Reports that is described as having been audited, which the Executive Board has 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.

In our opinion:

- the information given in the Overview Section of the Annual Report and Accounts, 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.

### 5. We have nothing to report in respect of the matters on which we are required to report by exception

Under International Standards on Auditing (ISAs) (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading. In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Executive Board's statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Trustees to assess the Group's performance, business model and strategy; or
- the Executive Audit Committee Report does not appropriately address matters communicated by us to the Executive Audit Committee.

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 was required to comply with the Listing Rules of the Financial Conduct Authority in relation to these matters. Under the terms of our engagement we are required to review:

 the Executive Board's statement, set out on page 14, in relation to going concern; and the part of the Corporate Governance Statement on pages 91-92 of Part Two of the BBC Annual Report relating to the BBC's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

#### Respective responsibilities of Executive Board and auditor

As explained more fully in the Trustees' and Executive Board responsibilities statements set out on page 14, the Executive Board is responsible for the preparation of Group financial statements which 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 ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

### Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at www.kpmg.co.uk/ auditscopeother2013. This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### The purpose of this report and restrictions on its use by persons other than the Trustees

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 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 Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Downer

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

logthan Louner

15 Canada Square, London, E14 5GL

19 June 2014

# The BBC's consolidated financial statements

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

#### Consolidated income statement

The income the BBC receives and expenditure incurred by the Group's operations during the financial year.

#### Consolidated statement of comprehensive income

Items of income and expense, including reclassification adjustments, that are not directly recognised in the income statement and hence are charged or credited directly against or to reserves.

#### Consolidated balance sheet

The statement of the assets and liabilities of the BBC at a specific point in time, the financial year end.

#### Consolidated statement of changes in equity

Components that make up the capital and reserves of the Group and the changes to each component during the financial year.

#### Consolidated cash flow statement

Cash generated by the BBC from its operations and how those cash flows have been used.

### Consolidated income statement

		2014	Restated*
	Note	£m	£m
Licence fee income	Al	3,726.1	3,656.2
Other income	Al	1,339.9	1,446.1
Total income	Al	5,066.0	5,102.3
Operating costs excluding specific items		(4,721.9)	(4,808.1)
Exceptional impairment of tangible and intangible assets	ВІ	_	(51.7)
Restructuring costs	C3	(16.5)	(43.7)
Total operating costs	AI	(4,738.4)	(4,903.5)
Group operating surplus		327.6	198.8
Gain on sale and termination of operations	E3	4.1	23.3
Other gains and losses	E4	(16.5)	_
Gain on disposal of fixed assets	D3	_	87.2
Share of results of associates and joint ventures	E4	22.7	23.0
Financing income	F9	14.6	10.2
Financing costs	F9	(163.6)	(146.5)
Net financing costs	F9	(149.0)	(136.3)
Surplus before taxation		188.9	196.0
Taxation	G2.I	(35.1)	(38.7)
Surplus for the year		153.8	157.3
Attributable to:			
BBC		153.8	156.4
Non-controlling interests		_	0.9
Surplus for the year		153.8	157.3

<sup>\*</sup>IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated (see page 78).

As the BBC Group is run for the public benefit, the surplus arising does not represent a 'profit' that can be distributed, but is retained for future investment.

### Consolidated statement of comprehensive income

		D
	2014	Restated* 2013
No		£m
Surplus for the year	153.8	157.3
Other comprehensive income/(loss):		
Remeasurement on defined benefit pension schemes C	7.2 <b>125.0</b>	(516.6)
Total items that will not be reclassified to the income statement in the future	125.0	(516.6)
Exchange differences on translation of foreign operations	(7.5)	8.9
Loss on foreign currency translation	-	(0.5)
Gains/(losses) on cash flow hedges	16.4	(10.8)
Recycling of translation and hedging reserves on disposal	_	(49.0)
Fair value (loss)/gain on assets available for trading	.3 (15.7)	12.1
Deferred tax on financial instruments	(3.7)	2.6
Total items that may be reclassified to the income statement in the future	(10.5)	(36.7)
Other comprehensive income/(loss) net of tax	114.5	(553.3)
Total comprehensive income/(loss) for the year	268.3	(396.0)
Attributable to:		
BBC	268.3	(396.9)
Non-controlling interests	_	0.9
Total comprehensive income/(loss) for the year	268.3	(396.0)

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated (see page 78).

### Consolidated balance sheet

	At 31 March	At 31 March 2013	At I April 2012
	2014	(restated)*	(restated)*
Not	£ £m	£m	£m
Non-current assets			
Intangible assets (including goodwill)		159.5	289.4
Property, plant and equipment D		1,370.3	1,451.8
Interests in associates and joint ventures		31.5	31.3
Other receivables F6.		80.3	30.6
Assets available for trading D		121.5	100.9
Derivative financial instruments G4.	6.0	4.9	2.3
Deferred tax assets G2:	9.5	15.1	13.4
	1,702.0	1,783.1	1,919.7
Current assets			
Programme-related assets and other inventories B	730.5	645.6	691.7
Trade and other receivables F6.	988.7	931.3	875.2
Assets classified as held for sale	_	9.9	90.9
Derivative financial instruments G4.	12.9	4.0	3.4
Cash and cash equivalents	526.1	575.2	407.3
	2,258.2	2,166.0	2,068.5
Current liabilities			
Trade and other payables F7.	(959.7)	(1,033.2)	(1,118.3)
Borrowings F3.	(7.7)	(27.0)	(36.8)
Provisions	(53.3)	(66.0)	(86.1)
Derivative financial instruments G4.	(2.8)	(10.1)	(4.2)
Current tax liabilities	(14.8)	(12.5)	(13.1)
	(1,038.3)	(1,148.8)	(1,258.5)
Non-current liabilities			
Other payables F7.	(15.2)	(18.4)	(73.6)
Borrowings F3.		(1,043.1)	(1,052.9)
Provisions F.	(56.8)	(71.5)	(68.0)
Derivative financial instruments G4.	(14.4)	(10.6)	(5.9)
Deferred tax liabilities G2:	1	(0.7)	(6.0)
Pension liabilities C7.	(1 = 1 = =)	(1,615.8)	(1,078.6)
	(2,613.4)	(2,760.1)	(2,285.0)
Net assets	308.5	40.2	444.7
Attributable to the BBC:			
Operating reserve	226.9	(51.9)	309.2
Available for sale reserve	91.6	107.3	95.2
Hedging reserve	5.4	(7.3)	1.0
Translation reserve	(15.4)	(7.9)	32.1
	308.5	40.2	437.5
Non-controlling interests	_	_	7.2
Total capital and reserves	308.5	40.2	444.7
· · · · · · · · · · · · · · · · · · ·			

<sup>\*</sup>The Group has presented a third balance sheet as at 1 April 2012 because the retrospective changes to IAS 19 (revised) Employee benefits have a material impact on the information presented in the statement.

The financial statements were approved by the Executive Board on 19 June 2014 and signed on its behalf by:

due Bulfard

Tony Hall
Director-General

Anne Bulford

Managing Director Finance and Operations

### Consolidated statement of changes in equity

						Non-	
	Operating	Available for	Hedging	Translation		controlling	
	reserve £m	sale reserve £m	reserve £m	reserve £m	Total £m	interests £m	Total £m
Balance at 1 April 2012,							
as previously reported	209.2	95.2	1.0	32.1	337.5	7.2	344.7
Impact of IAS 19 changes	100.0	_	_	_	100.0	_	100.0
At I April 2012 – restated*	309.2	95.2	1.0	32.1	437.5	7.2	444.7
Surplus for the year (restated*)	156.4	_	_	_	156.4	0.9	157.3
Exchange differences on translation of foreign operations	_	_	_	8.9	8.9	_	8.9
Loss on foreign currency translation	(0.5)	_	_	_	(0.5)	_	(0.5)
Cash flow hedges	_	_	(10.8)	_	(10.8)	_	(10.8)
Recycling of cumulative currency			,		, ,		,
translation reserve on disposal	_	_	(0.1)	(48.9)	(49.0)	_	(49.0)
Deferred tax on financial instruments	_	_	2.6	_	2.6	_	2.6
Remeasurement on defined benefit pension scheme (restated*)	(516.6)	_	_	_	(516.6)	-	(516.6)
Fair value gain on asset available for trading	_	12.1	_	_	12.1	_	12.1
Total comprehensive (loss)/income							
for the year	(360.7)	12.1	(8.3)	(40.0)	(396.9)	0.9	(396.0)
Dividends paid	_	_	_	_	-	(8.1)	(8.1)
Acquisition of non-controlling	45.00						
interest	(0.4)	<del>-</del>			(0.4)		(0.4)
At 31 March 2013 – restated*	(51.9)	107.3	(7.3)	(7.9)	40.2	_	40.2
Surplus for the year	153.8	_	_	_	153.8	_	153.8
Exchange differences on translation of foreign operations	_	_	_	(7.5)	(7.5)	_	(7.5)
Cash flow hedges	_	_	16.4	_	16.4	_	16.4
Deferred tax on financial instruments	_	_	(3.7)	_	(3.7)	_	(3.7)
Remeasurement on defined benefit pension scheme	125.0	_	_	_	125.0	_	125.0
Fair value loss on asset available for trading	_	(15.7)	-	_	(15.7)	_	(15.7)
Total comprehensive income/(loss) for the year	278.8	(15.7)	12.7	(7.5)	268.3	_	268.3
At 31 March 2014	226.9	91.6	5.4	(15.4)	308.5	_	308.5
Represented by:							
General Group reserves	120.0	91.6	5.4	(15.4)	201.6	_	201.6
BBC World Service and BBC							
Monitoring reserves	106.9	_	_		106.9		106.9
	226.9	91.6	5.4	(15.4)	308.5		308.5

<sup>\*</sup> IAS 19 (revised) *Employee benefits* has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

The reserves relating to BBC World Service and BBC Monitoring are maintained separately from the rest of the Group and are restricted for use solely on BBC World Service and BBC Monitoring activities. From 1 April 2014 both BBC World Service and BBC Monitoring will be fully licence fee funded.

### Consolidated cash flow statement

Note	2014 £m	2013 £m
Operating activities		
Cash generated from operations F5	373.6	375.2
Tax paid	(37.3)	(37.2)
Net cash from operations	336.3	338.0
Investing activities		
Interest received	5.9	6.0
Dividends received from associates and joint ventures	18.2	19.5
Proceeds from sale of operations	11.9	40.7
Proceeds from disposal of property, plant and equipment	19.9	147.7
Proceeds from disposal of available for sale investments	1.8	_
Acquisition of non-controlling interests	_	(14.4)
Acquisition of investments	_	(1.7)
Acquisition of interests in associates and joint ventures	(0.4)	(0.4)
Purchases of other intangible assets	(190.2)	(98.5)
Purchases of property, plant and equipment	(110.4)	(139.4)
Net cash used in investing activities	(243.3)	(40.5)
Financing activities		
Interest paid	(12.6)	(10.3)
Proceeds from increase in borrowings	158.5	189.4
Repayments of borrowings	(187.5)	(200.7)
Payments of obligations under finance leases	(94.9)	(98.9)
Dividends paid to non-controlling interests	_	(8.1)
Net cash used in financing activities	(136.5)	(128.6)
Net (decrease)/increase in cash and cash equivalents	(43.5)	168.9
Cash and cash equivalents at beginning of the year	575.2	407.3
Effect of foreign exchange rate changes on cash and cash equivalents	(5.6)	1.0
Movement in cash held as restricted funds	_	(2.0)
Cash and cash equivalents at the end of the year	526.1	575.2

### Key themes for the BBC

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### Notes to the accounts

#### A. Where the BBC's funding comes from

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

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

The BBC Group's operating segments are reported in a manner consistent with the internal reports provided to the BBC Executive Board. The BBC Executive Board is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments.

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

- **UK PSB Group** This primarily receives licence fee income and is responsible for the Group's public sector activities. This includes delivery of its obligations under the Service Licence Operating Framework issued by the BBC Trust.
- BBC World Service and BBC Monitoring These have historically been funded by Grant-in-Aid from the Foreign and Commonwealth Office and the Cabinet Office respectively. From 1 April 2013, BBC Monitoring became licence fee funded however, it has continued to be reported as part of the BBC World Service and BBC Monitoring segment throughout the year. BBC World Service will become licence fee funded from 2014/15 from which point both BBC World Service and BBC Monitoring will be reported as part of the UK PSB Group.
- BBC Worldwide BBC Worldwide generates revenue from exploiting the various assets of the BBC, for example licencing formats, selling international rights, merchandising and production facilities.

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

The prices charged for services provided by one segment of the BBC Group to another are determined on an arm's length basis in accordance with the BBC's Fair Trading policy. More information on the BBC's fair trading requirements and policies can be found in the 'Managing the business' section in Part Two of the 'BBC Annual Report and Accounts 2014'.

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 80).

#### Al Income and operating results

		UK PSB Group	BBC World Service and BBC Monitoring	BBC Worldwide	Other commercials	Group adjustments*	Group
2014	Note	£m	£m	£m	£m	£m	£m
Licence fee income	A2	3,726.1			_	_	3,726.1
Other revenue		67.8	8.7	838. I	108.6	_	1,023.2
Intra-group trading		167.5	7.8	9.6	20.6	(205.5)	-
Grant-in-Aid and other grant income		5.1	238.5	1.0	_	-	244.6
Royalties		20.5	_	42.5	0.3	_	63.3
Rental income		7.9	0.1	0.8	_	_	8.8
Other income		268.8	255.1	892.0	129.5	(205.5)	1,339.9
Total income		3,994.9	255. I	892.0	129.5	(205.5)	5,066.0
Restructuring costs	C3	(9.6)	0.8	(7.0)	(0.7)	_	(16.5)
Depreciation and amortisation		(122.1)	(24.7)	(115.8)	(4.6)	_	(267.2)
Pension deficit reduction payment		(48.6)	(7.6)	(2.3)	(1.5)	60.0	_
Other operating costs		(3,597.5)	(240.7)	(653.0)	(123.3)	159.8	(4,454.7)
Total operating costs	B3, B4	(3,777.8)	(272.2)	(778.1)	(130.1)	219.8	(4,738.4)
Group operating surplus/(deficit)		217.1	(17.1)	113.9	(0.6)	14.3	327.6
Gain on sale and termination of							
operations	E3	_	_	4.1	-	-	4.1
Other gains and losses	E4	_	_	(16.5)	_	-	(16.5)
Share of results of associates and joint ventures	E4	(3.2)	_	25.9	_	_	22.7
Operating segment result		213.9	(17.1)	127.4	(0.6)	14.3	337.9
Financing income	F9		,				14.6
Financing costs	F9						(163.6)
Net financing costs	F9						(149.0)
Surplus before taxation							188.9
Taxation	G2.I						(35.1)
Surplus for the year							153.8

<sup>\*</sup> Group adjustments include costs of £125.0million for the defined benefit pension scheme. The remaining adjustments relate to intra-group transactions.

Additional information on total operating costs for the UK PSB Group can be found in note B3 and note B4 for the Commercial and Grant-in-Aid funded activities. Total operating costs for the Group are also analysed further in note B1.

### Notes to the accounts

#### A. Where the BBC's funding comes from continued

#### Al Income and operating results continued

2013	Note	UK PSB Group £m	BBC World Service and BBC Monitoring	BBC Worldwide	Other commercials	Restated* Group adjustments** £m	Restated* Group £m
Licence fee income	A2	3,656.2	_	_	_	_	3,656.2
Other revenue		86.1	10.1	898.9	106.1	_	1,101.2
Intra-group trading		164.4	1.9	16.4	23.0	(205.7)	_
Grant-in-Aid and other grant income		4.5	264.7	0.5	_	_	269.7
Royalties		13.2	_	52.0	0.2	_	65.4
Rental income		8.9	0.1	0.8	_	_	9.8
Other income		277.1	276.8	968.6	129.3	(205.7)	1,446.1
Total income		3,933.3	276.8	968.6	129.3	(205.7)	5,102.3
Restructuring costs	C3	(23.1)	(6.8)	(10.9)	(2.9)	_	(43.7)
Depreciation and amortisation		(139.7)	(33.2)	(130.4)	(2.9)	_	(306.2)
Impairment of tangible and intangible fixed assets		(51.7)	_	_	_	_	(51.7)
Pension deficit reduction payment		(48.6)	(7.6)	(2.3)	(1.5)	60.0	_
Other operating costs		(3,554.2)	(260.0)	(719.1)	(134.3)	165.7	(4,501.9)
Total operating costs	B3, B4	(3,817.3)	(307.6)	(862.7)	(141.6)	225.7	(4,903.5)
Group operating surplus		116.0	(30.8)	105.9	(12.3)	20.0	198.8
Gain on sale and termination of operations	E3	_	_	35.7	_	(12.4)	23.3
Gain on disposal of fixed assets	D3	87.2	_	_	_	_	87.2
Share of results of associates and joint ventures	E4	(3.1)	_	26.1	_	_	23.0
Operating segment result		200.1	(30.8)	167.7	(12.3)	7.6	332.3
Financing income	F9						10.2
Financing costs	F9						(146.5)
Net financing costs	F9						(136.3)
Surplus before taxation							196.0
Taxation	G2.I						(38.7)
Surplus for the year							157.3

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.
\*\* Group adjustments include income of £90.4million for the defined benefit pension scheme. The remaining adjustments relate to intra-group trading.

#### A2 Licence fee income

	Licence fee 2014 £	Licences in force 2014 Number '000	Total income 2014 £m	Licence fee 2013 £	Licences in force 2013 Number '000	Total income 2013 £m
Colour	145.50	21,367	3,096.1	145.50	21,351	3,089.9
Monochrome	49.00	8	0.4	49.00	9	0.5
Concessionary	7.50	176	1.4	7.50	172	1.3
Over 75s	_	4,328	607.8	_	4,251	597.3
		25,879	3,705.7		25,783	3,689.0
Quarterly payment scheme premium			16.4			16.8
Digital Switchover Help Scheme overspend/						
(underspend) (note B6)			4.0			(49.6)
Total licence fee income			3,726.1			3,656.2

During the year 3.3 million (2013: 3.4 million) colour licences were issued under the quarterly payment scheme at a premium of  $\pounds 5$  each (2013:  $\pounds 5$ ).

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.

#### A3 Contribution of commercial operations

In the year ended 31 March 2014, a dividend of £66.8 million (2013: £49.5 million) was generated by BBC Worldwide and paid/proposed to UK PSB Group. The dividends paid by BBC Worldwide are not identifiable in the consolidated primary statements as the amounts paid by BBC Worldwide and received by UK PSB Group are eliminated during the consolidation process.

### Notes to the accounts

#### B. How the BBC spends the funds

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

#### Service Licences

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

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

BBC Parliament was under the baseline budget by more than the 10% tolerance due to early delivery of efficiency savings under the BBC's Delivering Quality First strategy.

Service licences show the cost to the licence fee payer of providing the relevant service and therefore exclude any costs funded by a co-producer. The table presented in note B3 sets out the UK PSB Group content expenditure by service.

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

For BBC 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 two services.

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

#### Digital Switchover

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

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 81).

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#### BI Total operating costs

Total operating costs have been arrived at after charging/(crediting) the following items:

	Note	2014 £m	Restated* 2013 £m
Intangible fixed assets, property, plant and equipment and other investments			
Depreciation			
– owned assets	DI	115.0	116.7
- leased assets	DI	39.5	41.4
Exceptional impairment of tangible and intangible fixed assets	DI, EI	_	51.7
Other impairments	DI	0.4	_
Amortisation of intangible fixed assets	EI	112.7	148.1
Impairment of investments in joint ventures and associates		2.8	1.9
Inventories Write-downs of programme-related assets recognised as an expense		8.3	7.5
Other operating costs			
Payments under operating leases			
– land and buildings		70.2	76.0
– plant and machinery		35.6	24.5
- other		46.5	34.1
Net (profit)/loss on disposal of tangible fixed assets**		(1.2)	1.0
Research costs		81.9	68.5
Audit and non-audit fees paid to KPMG (see below)		2.5	3.6
Fair trading auditor's remuneration (Deloitte LLP)		0.2	0.3
Net exchange differences on settled transactions		9.0	(1.0)
Impairment of trade debtors	F6.2	5.5	8.0
Staff costs Staff costs	C2	1,224.7	1,292.3

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

A review in October 2012 of the Digital Media Initiative (DMI) concluded that it would not deliver its full scope and consequently a total impairment of  $\pounds$ 51.7million was recognised in 2012/13 within Plant and Machinery (£8.8million) and Other Intangible assets (£42.9million). Assets were written down to nil value as there was a significant risk that they would not be utilised within the organisation and could not be re-used elsewhere within the BBC.

<sup>\*\*</sup> The profit on disposal of tangible fixed assets represent adjustments to depreciation on disposals made in the ordinary course of business. Profit on disposals classified as 'exceptional' is disclosed separately in note D3.

### Notes to the accounts

#### B. How the BBC spends the funds continued

#### B2 Auditor remuneration

Fees paid during the year to KPMG LLP and its associates are as follows:

	2014 £m	2013 £m
For the audit of the BBC's annual accounts	0.6	0.6
For the audit of subsidiaries of the BBC	0.8	0.9
Audit related assurance services	0.3	0.2
Total audit and audit related assurance services	1.7	1.7
Taxation compliance services	0.1	0.2
Services related to corporate finance transactions	_	0.2
Services related to actuarial advice*	0.2	0.9
All other services	0.5	0.6
Total non-audit services	0.8	1.9
Total fees paid	2.5	3.6

 $<sup>{\</sup>rm *The\ actuarial\ services\ provided\ relate\ primarily\ to\ advice\ regarding\ the\ changes\ to\ the\ BBC\ Pension\ Scheme.}$ 

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# B3 UK PSB Group expenditure

# B3.I UK PSB Group expenditure by service

			1.6		
	Content	Distribution	Infrastructure/ support	Other items	Total
2014 Service	£m	£m	£m	£m	£m
BBC One	1,023.7	51.0	236.4	_	1,311.1
BBC Two	400.0	28.8	93.0	_	521.8
BBCThree	0.18	5.9	22.4	_	109.3
BBC Four	48.9	4.3	12.7	_	65.9
CBBC	76.1	5.5	19.3	_	100.9
CBeebies	28.7	4.6	9.3	_	42.6
BBC ALBA	5.2	1.3	1.5	_	8.0
BBC News Channel*	48.7	8.0	9.5	_	66.2
BBC Parliament	1.7	7.2	1.5	_	10.4
BBC Red Button	13.5	21.9	4.1	_	39.5
Television	1,727.5	138.5	409.7	_	2,275.7
BBC Radio I	40.2	5.8	6.8	_	52.8
BBC Radio 2	47.8	5.7	7.3	_	60.8
BBC Radio 3	40.8	5.8	10.1	_	56.7
BBC Radio 4	91.8	9.0	19.8	_	120.6
BBC Radio 5 Live	49.2	5.7	11.6	_	66.5
BBC Radio 5 Live Sports Extra	2.4	1.4	1.4	_	5.2
BBC IXtra	5.6	1.6	2.6	_	9.8
BBC 6Music	7.9	1.6	2.5	_	12.0
BBC 4 Extra	4.1	1.6	1.7	_	7.4
BBC Asian Network	6.6	1.8	2.4	_	10.8
BBC Local Radio	115.4	10.8	23.4	_	149.6
BBC Radio Scotland	22.6	3.2	6.4	_	32.2
BBC Radio nan Gàidhael	3.8	1.4	1.0	_	6.2
BBC Radio Wales	13.4	1.4	3.8	_	18.6
BBC Radio Cymru	11.7	1.6	3.5	_	16.8
BBC Radio Ulster/BBC Radio Foyle	17.4	1.3	4.9	_	23.6
Radio	480.7	59.7	109.2	_	649.6
BBC Online**	106.5	18.8	49.1	_	174.4
Spend regulated by service licence	2,314.7	217.0	568.0	_	3,099.7
Licence fee collection costs	_	_	_	102.1	102.1
Orchestras and performing groups	22.8	_	5.1	_	27.9
S4C	23.4	_	5.7	76.3	105.4
Development spend	45.2	_	10.0	_	55.2
BBC Monitoring	_	_	_	7.2	7.2
UK PSB Group pension deficit reduction payment	_	_	_	48.6	48.6
Costs incurred to generate intra-group income	_	_	_	169.3	169.3
Costs incurred to generate third party income	_	_	_	60.6	60.6
Other content related spent	91.4	_	20.8	464.1	576.3
Restructuring costs	_	_	_	9.6	9.6
Total UK PSB Group content expenditure	2,406. I	217.0	588.8	473.7	3,685.6
Digital switchover (DSHS Limited)	<u> </u>	_	_	7.2	7.2
Local TV***	_	_	_	16.0	16.0
Broadband rollout***	_	_	_	150.0	150.0
Total UK PSB Group expenditure	2,406.1	217.0	588.8	646.9	3,858.8
Lease reclassification****				(81.0)	(81.0)
UK PSB Group expenditure	2,406.1	217.0	588.8	565.9	3,777.8
511. 35 Group experience	۷, ۱۰۰۰ ۱	217.0	550.0	303.7	3,777.0

# B. How the BBC spends the funds continued

# B3.1 UK PSB Group expenditure by service continued

b3.1 OK F3b Group expenditure by service continued					
	Content	Distribution	Infrastructure/	Other items	Total
2013 Service	£m	£m	support £m	£m	£m
BBC One	1,129.2	52.9	281.1	_	1,463.2
BBC Two	404.8	31.7	106.6	_	543.I
BBC Three	89.7	4.6	27.4	_	121.7
BBC Four	50.0	4.2	16.0	_	70.2
CBBC	81.6	4.0	23.1	_	108.7
CBeebies	28.9	4.5	9.6	_	43.0
BBC ALBA	4.9	1.5	1.4	_	7.8
BBC News Channel*	45.2	7.5	8.8	_	61.5
BBC Parliament	1.9	7.2	1.4	_	10.5
BBC Red Button	15.6	22.3	3.9	_	41.8
Television	1,851.8	140.4	479.3		2,471.5
BBC Radio I	40.7	5.4	8.1		54.2
BBC Radio 2	47.8	5.3	9.0	_	62.1
BBC Radio 3	38.3	5.3	10.7	_	54.3
BBC Radio 4	91.1	9.8	21.2	_	122.1
BBC Radio 5 Live	55.0	6.8	14.2	_	76.0
BBC Radio 5 Live Sports Extra	2.7	1.4	1.5	_	5.6
BBC IXtra	7.5	1.5	2.8	_	11.8
BBC 6Music	7.4	1.5	2.6	_	11.5
BBC 4 Extra	4.0	1.5	1.7	_	7.2
BBC Asian Network	8.3	1.7	3.0	_	13.0
BBC Local Radio	114.7	9.9	27.9	_	152.5
BBC Radio Scotland	23.2	3.2	6.3	_	32.7
BBC Radio nan Gàidhael	3.8	1.4	1.1	_	6.3
BBC Radio Wales	13.9	1.2	3.7	_	18.8
BBC Radio Cymru	12.5	1.6	3.5	_	17.6
BBC Radio Ulster/BBC Radio Foyle	17.0	2.1	4.7	_	23.8
Radio	487.9	59.6	122.0		669.5
BBC Online**	103.0	21.8	51.8		176.6
Spend regulated by service licence	2,442.7	221.8	653.I		3,317.6
Licence fee collection costs		_	_	111.1	111.1
Orchestras and performing groups	23.4	_	5.8	_	29.2
S4C	23.6	_	6.4	_	30.0
Development spend	40.4	_	10.1	_	50.5
UK PSB Group pension deficit reduction payment	_	_	_	48.6	48.6
Costs incurred to generate intra-group income	_	_	_	164.8	164.8
Costs incurred to generate third party income	_	_	_	67.4	67.4
Other content related spend	87.4	_	22.3	391.9	501.6
Restructuring costs		_		23.1	23.1
Total UK PSB Group content expenditure	2,530.1	221.8	675.4	415.0	3,842.3
Digital switchover (Digital UK Limited)			_	12.5	12.5
Digital switchover (DSHS Limited)	_	_	_	44.4	44.4
Total UK PSB Group expenditure	2,530.1	221.8	675.4	471.9	3,899.2
Lease reclassification****	_	_	_	(81.9)	(81.9)
UK PSB Group expenditure	2,530.1	221.8	675.4	390.0	3,817.3

### B3.2 UK PSB Group infrastructure/support costs

Infrastructure/support costs include the following:

	2014 £m	2013 £m
Property	141.2	181.6
HR and training	38.6	45.4
Policy and strategy	9.1	12.0
Finance and operations	70.3	67.7
Marketing, audiences and communication	71.9	68.7
Total central costs	331.1	375.4
Technology*	130.3	175.1
Libraries, learning support and community events	32.0	33.6
Divisional running costs	62.7	64.5
BBC Trust Unit	12.0	11.9
Other	20.7	14.9
Total infrastructure/support costs	588.8	675.4

<sup>\*</sup>Comparatives include the £51.7million impairment of DMI. See Note B1 for further details.

### B4 Analysis of total operating costs by non-UK PSB entities

### **B4.1** Commercial activities

	Note	BBC Worldwide 2014 £m	BBC Worldwide 2013 £m	Other Commercials 2014 £m	Other Commercials 2013 £m	Total Commercials 2014 £m	Total Commercials 2013 £m
Cost of sales		524.7	557.7	118.9	121.6	643.6	679.3
Distribution costs		86.1	126.7	_	_	86.1	126.7
Administrative expenses		167.3	178.3	11.2	20.0	178.5	198.3
Total operating costs	Al	778.1	862.7	130.1	141.6	908.2	1,004.3

### B4.2 BBC World Service and BBC Monitoring

	Note	2014 £m	2013 £m
Cost of sales		1.4	1.4
Distribution costs		27.3	33.8
Administrative expenses		243.5	272.4
Total operating costs	Al	272.2	307.6

Included within BBC News channel are production costs of £26.8 million, Newsgathering costs of £21.2 million and other costs of £0.7 million (2013: production costs of £27.2 million, Newsgathering costs of £21.2 million and other costs of £0.7 million (2013: production costs of £27.2 million, Newsgathering costs of £0.4 million). Newsgathering costs of £17.8million and other costs of £0.2million).

BBC Online spend is monitored by annexe (relating to editorial areas of the service). Non-annexe spend covers costs relating to central editorial activities such as the BBC Homepage,

technologies which operate across the service and overheads. The spend for each annexe was: News, Sport & Weather £47.8million (2013: £43.8million), Childrens £9.3million (2013: £8.5 million), Knowledge & Learning £15.7 million (2013: £18.7 million), TV & iPlayer £11.1 million (2013: £12.2 million) and Audio & Music £11.7 million (2013: £13.3 million), giving a total annexe spend of £95.6 million (2013: £96.5 million). Non-annexe spend was £10.9 million (2013: £6.5 million).

\*\*\* Under the terms of the latest licence fee agreement, the BBC has committed to contribute funding toward broadband rollout across the UK and funding for the development of Local

TV channels.

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

### B. How the BBC spends the funds continued

#### B5 Programme-related assets and other inventories

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

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

	2014 £m	2013 £m
Programme-related assets		
– Rights to broadcast acquired programmes and films	146.8	144.4
– Prepayments to acquire future programme-related rights	255.3	224.2
– Completed originated programmes	73.5	67.3
– Programmes in production	232.5	195.4
Total programme-related assets	708. I	631.3
Other inventories	15.1	14.3
Work-in-progress	7.3	_
Total programme-related assets and other inventories	730.5	645.6

### B6 UK PSB ring-fenced expenditure

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

Digital Switchover	Cumulative spend to 2014 £m	Outstanding amount repayable £m	Cumulative amount repaid to date £m	Total to date £m	Six-year ring-fenced funding £m	Remaining funding available
Help for the elderly and disabled (DSHS Limited)	249.0	4.5	346.0	599.5	603.0	3.5
Digital UK Limited	118.9	2.8	78.3	200.0	200.0	_
Total	367.9	7.3	424.3	799.5	803.0	3.5

The Secretary of State agreed with the BBC that the £603million estimated cost of the Digital Switchover Help Scheme (operated by DSHS Limited) would be ring-fenced and set aside from the licence fee for the purpose of funding the Scheme over the six-year life of the licence fee settlement.

The Framework Agreement between the BBC and DCMS stated that the BBC was committed to leading certain aspects of the Digital Switchover programme, through Digital UK, and the licence fee settlement included a ring-fenced amount of up to £200million 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 was only part of the BBC's annual contribution to Digital UK.

Digital underspend Note	£m
At I April 2013	32.7
Overspend in the year A2	(4.0)
Repayment of underspend to DCMS	(17.9)
At 31 March 2014	10.8

The £10.8 million consists of underspend which is yet to be repaid to DCMS of £7.3 million and spend of £3.5 million on after-care and warranties which the BBC expects to spend through 2014/15. The underspend which has yet to be repaid to DCMS will be repaid as follows:

Anticipated digital underspend repayment profile	Note	£m
2014/15	F7.1	7.3

## C. What the BBC spends on its people

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

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

Further information on the analysis of the BBC Pension Scheme assets and the assumptions underlying the liabilities are set out in note G3.

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 82).

### CI Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2014 Number	2013 Number
UK PSB Group	16,672	16,534
BBC World Service and BBC Monitoring	1,975	2,149
BBC Worldwide	1,816	2,326
Other commercial businesses	273	273
Group total	20,736	21,282

Within the averages above 3,135 (2013: 3,112) part-time employees have been included at their full-time equivalent of 1,574 (2013: 1,539).

In addition to the above, the Group employed an average full-time equivalent of 774 (2013: 739) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 366 (2013: 378) full-time equivalents.

## C. What the BBC spends on its people continued

### C2 Employee remuneration

	Note	2014 £m	Restated* 2013 £m
Salaries and wages		937.4	998.5
Social security costs		94.2	96.5
Pension costs			
– Main scheme (defined benefit)	C7.3	155.2	136.4
- Other schemes	C7.3	21.4	17.2
Restructuring costs	C3	16.5	43.7
		1,224.7	1,292.3
Comprising:			
UK PSB Group		922.3	961.2
BBC World Service and BBC Monitoring		83.6	96.6
BBC Worldwide		153.8	192.2
Other commercial businesses		19.9	24.2
Group adjustments**		45.I	18.1
	_	1,224.7	1,292.3

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

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

### C3 Restructuring costs

	2014 £m	2013 £m
UK PSB Group	9.6	23.1
BBC World Service and BBC Monitoring	(0.8)	6.8
BBC Worldwide	7.0	10.9
Other commercial businesses	0.7	2.9
	16.5	43.7

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

BBC Worldwide includes reorganisation costs arising as a result of changes within the Group's organisation structure.

The credit in the year relates to the release of a provision.

# C4 Remuneration of the BBC Trust members and the BBC Executive Board

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

<sup>\*\*</sup> Includes Group adjustments for the BBC Pension Scheme.

### C5 Key management personnel compensation

Key management personnel are those people who have authority and responsibility for planning, directing and controlling the activities of the BBC. This includes all members of the BBC Executive Board, including the non-executive Directors (see the BBC Executive remuneration report), the Trustees and the Director of the Trust Unit (see the Trustees' remuneration report) and BBC Worldwide Limited's Chief Executive Officer and Director, Global (see the 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/insidethebbc/managementstructure.

Key management personnel compensation is as follows:

	2014 £m	2013 £m
Short-term employee benefits	4.6	5.6
Post-employment benefits	0.4	0.5
Other long-term benefits	_	0.2
Compensation for loss of office	_	1.4
	5.0	7.7

# C6 Related party<sup>1</sup> transactions with key management personnel

### Executive Directors:

James Purnell has a close family member employed by the BBC on standard terms and conditions.

Danny Cohen has a close family member who contributes on an ad-hoc basis to BBC programmes and all transactions are at an arms length basis.

#### Trustees:

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

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

### C. What the BBC spends on its people continued

#### C7 Group pension plans

The following section includes the key notes relating to BBC Group pension plans and more specifically the BBC Pension Scheme<sup>1</sup>. Further supplementary notes on the assumptions underpinning the value of the BBC Pension Scheme asset and liability are disclosed in note G3.

As the BBC Group has two defined benefit pension schemes, the BBC Pension Scheme and the Unfunded Scheme, the information in this section first analyses the liability and income statement charge between the two schemes (note C7). Separate analysis then follows in respect of the BBC Pension Scheme to highlight the points outlined below (note C8).

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

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

The analysis provided in the following notes is based on the IAS 19 estimate of the Scheme's assets and liabilities as at 31 March 2014. The most recent actuarial valuation of the pension scheme completed in 2013 by Towers Watson showed a funding shortfall of  $\pounds$ 2,054million.

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

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

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

#### C7.1 Pension liabilities included in the balance sheet

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

	Pension lia	abilities
	2014 £m	Restated* 2013 £m
BBC Pension Scheme	(1,508.5)	(1,608.7)
Unfunded Scheme	(7.2)	(7.1)
Total	(1,515.7)	(1,615.8)

<sup>\*</sup>IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

See Glossary for further details

# C7.2 Movement in deficit during the year

	BBC Pension Scheme 2014 £m	Unfunded Scheme 2014 £m	Total 2014 £m	Restated* BBC Pension Scheme 2013 £m	Unfunded Scheme 2013 £m	Restated* Total 2013 £m
Deficit in scheme at the start of the year	(1,608.7)	(7.1)	(1,615.8)	(1,072.0)	(6.6)	(1,078.6)
Movement in the year:						
Current service cost <sup>1</sup>	(167.2)	_	(167.2)	(149.8)	_	(149.8)
Contributions (from employer)**	222.5	0.4	222.9	192.8	0.3	193.1
Past service costs <sup>1</sup>	(2.4)	_	(2.4)	(3.4)	_	(3.4)
Administration costs incurred	(8.3)	_	(8.3)	(8.0)		(8.0)
Net finance cost <sup>1</sup>	(69.6)	(0.3)	(69.9)	(52.2)	(0.3)	(52.5)
Remeasurement <sup>1</sup> recognised in the consolidated statement of comprehensive income	125.2	(0.2)	125.0	(516.1)	(0.5)	(516.6)
Deficit in scheme at the end of the year	(1,508.5)	(7.2)	(1,515.7)	(1,608.7)	(7.1)	(1,615.8)

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated. \*\* The contribution shown for the unfunded scheme represents the pensions paid to members during the year.

The assumptions for pension scheme liabilities of the Unfunded Scheme are the same as the main scheme. As the scheme is unfunded there are no assets.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

## C. What the BBC spends on its people continued

### C7.3 Pension charges in consolidated income statement

		Defined benef	it schemes	Defined	
	Note	BBC Pension Scheme £m	Unfunded Scheme £m	contribution scheme £m	All schemes
2014					
Current service cost		(167.2)	_	(21.4)	(188.6)
Past service costs		(2.4)	_	-	(2.4)
Administration costs		(8.3)	_	_	(8.3)
Total operating charge**		(177.9)	_	(21.4)	(199.3)
Net finance cost	F9	(69.6)	(0.3)	_	(69.9)
Net cost in consolidated income statement		(247.5)	(0.3)	(21.4)	(269.2)
2013 restated*					
Current service cost		(149.8)	_	(17.2)	(167.0)
Past service costs		(3.4)	_	_	(3.4)
Administration costs		(8.0)	_	_	(8.0)
Total operating charge**		(161.2)	_	(17.2)	(178.4)
Net finance cost	F9	(52.2)	(0.3)		(52.5)
Net cost in consolidated income statement		(213.4)	(0.3)	(17.2)	(230.9)

### C8 BBC Pension Scheme

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

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

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

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 <sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.
 \*\* Of the total net operating charge of £177.9million for 2014 (2013 restated\*: £161.2million), £22.7million (2013: £24.8million) was recognised as an expense in earlier years as part of redundancy costs in accordance with IAS 37. The remaining charge of £155.2million (2013 restated\*: £136.4million) was recognised in the current year.

### C8.1 Scheme financial position

IAS 19 valuation <sup>1</sup>	Note	2014 £m	Restated* 2013 £m	Restated* 2012 £m	Restated* 2011 £m	Restated* 2010 £m
Scheme assets**	G3.2	10,684.2	10,201.1	9,198.5	8,835.8	8,154.8
Scheme liabilities	G3.I	(12,192.7)	(11,809.8)	(10,270.5)	(9,656.3)	(9,695.7)
Deficit		(1,508.5)	(1,608.7)	(1,072.0)	(820.5)	(1,540.9)
Percentage by which scheme assets cover liabilities		88%	86%	90%	92%	84%

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the previous comparatives have been restated. \*\* Excluding Additional Voluntary Contribution (AVC) funds.

Key movements in the year are shown in note C7.2.

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

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

	Assumption used	Movement	Impact on Scheme liabilities %	(Increase)/ decrease on Scheme liabilities £m
Discount rate	4.4%	decrease 0.1%	2.1%	(258)
Discount rate	4.4%	increase 0.1%	1.6%	195
Retail price inflation rate	3.4%	decrease 0.1%	1.8%	215
Retail price inflation rate	3.4%	increase 0.1%	1.8%	(220)
Mortality rate	See note G3.6	decrease 0.1%	3.3%	404
Mortality rate	See note G3.6	increase 0.1%	3.4%	(418)

### C8.2 Funding the Scheme

The 2013 actuarial valuation by Towers Watson of the pension scheme showed a funding shortfall of £2,054million. Consequently, a recovery plan was agreed between the BBC and the pension scheme Trustees which details the contribution amounts to be paid by the BBC over a 12 year period commencing in 2014.

The next formal actuarial valuation is expected to be performed as at 1 April 2016.

Contribution rates	Projections 2015 %	2014	2013	2012	2011
Employer*	16.7	14.5	14.5	14.5/15.5	18.15
Employee (Old and New Benefits)	7.5	7.5	7.5	7.5	7.5
Employee (Career Average Benefits 2006)	4.0	4.0	4.0	4.0	4.0
Employee (Career Average Benefits 2011)	6.0	6.0	6.0	6.0	

<sup>\*</sup> Includes an allowance for BBC AVC matching contributions of 0.1% (2013: 0.1%) but excludes the cost effectively paid for by the employee via the salary sacrifice arrangement.

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

On the basis of the pension assumptions made above, contributions totalling £242.4million are expected to be paid in 2014/15.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

## C. What the BBC spends on its people continued

## C8.3 Scheme cash flows (day-to-day liquidity)

Below are the cash flows related to the BBC Pension Scheme (not included in the Group results). The contributions paid have increased due to an accelerated £100million contribution paid in March 2014 (2013: additional £60million). As the scheme is now closed to new entrants the level of contribution from employees will decrease (as members retire, there are no new entrants to replace the reduction in employee contributions).

	2014 £m	2013 £m
Contributions including additional voluntary (employer and employee)	226.8	197.0
Investment income	208.4	212.3
Cash inflows	435.2	409.3
Payments of pensions and transfers out	(367.2)	(356.2)
Expenses	(34.2)	(33.9)
Net cash inflow	33.8	19.2

## D. The property, technology and equipment used by the BBC to make its programmes

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

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

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

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 82).

### DI Property, plant and equipment

	Land and buildings	Plant and machinery	Furniture and fittings	Assets under construction	Total
	£m	£m	£m	£m	£m
Cost	1.157.4	10100	1.770	120.4	0.505.0
At I April 2012	1,156.4	1,063.8	167.2	138.4	2,525.8
Additions	1.6	18.1	2.1	117.6	139.4
Transfer to intangible assets	_	(5.6)	_	(10.6)	(16.2)
Brought into service	18.0	132.4	2.7	(153.1)	-
Disposals	(36.7)	(172.9)	(21.3)	(1.2)	(232.1)
Exchange movements	0.3	0.6	0.3	_	1.2
At 31 March 2013	1,139.6	1,036.4	151.0	91.1	2,418.1
Additions	_	4.8	1.9	103.7	110.4
Transfer to intangible assets	_	_	_	(0.5)	(0.5)
Brought into service	8.4	70.5	4.1	(83.0)	_
Disposals	(2.9)	(86.2)	(6.9)	(6.1)	(102.1)
Exchange movements	(0.8)	(0.9)	(0.4)	-	(2.1)
At 31 March 2014	1,144.3	1,024.6	149.7	105.2	2,423.8
Depreciation					
At I April 2012	245.0	730.9	98.1	-	1,074.0
Charge for the year	47.8	96.0	14.3	-	158.1
Transfer to intangible assets	_	(2.4)	_	_	(2.4)
Disposals	(32.5)	(141.1)	(18.1)	-	(191.7)
Impairment*	_	8.8	_	_	8.8
Exchange adjustments	0.2	0.6	0.2	-	1.0
At 31 March 2013	260.5	692.8	94.5	-	1,047.8
Charge for the year	48.1	91.6	14.8	-	154.5
Disposals	(3.0)	(73.0)	(7.2)	-	(83.2)
Impairment	0.2	0.1	0.1	-	0.4
Exchange adjustments	(0.4)	(0.7)	(0.2)	_	(1.3)
At 31 March 2014	305.4	710.8	102.0	_	1,118.2
Net book value					
At 31 March 2014	838.9	313.8	47.7	105.2	1,305.6
At 31 March 2013	879.1	343.6	56.5	91.1	1,370.3

<sup>\*</sup> Relates to the impairment of DMI. See note BI for further information.

## D. The property, technology and equipment used by the BBC to make its programmes continued

## D2 Assets available for trading

	Note	2014 £m	2013 £m
Assets held at fair value	G4.3	108.9	121.5

The BBC Group holds an asset available for trading of £104.5 million (2013: £116.4 million) relating to Daunus Limited that is carried at fair value. The principle activity of Daunus Limited is property development, see note G4.3 for further information.

## D3 Gain on disposal of fixed assets

	2014 £m	2013 £m
Disposal of properties	_	87.2

In the prior year, the Group disposed of BBC Television Centre (£77.9million) and Centre House (£9.3million).

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 BI.

See Glossary for further details

## D4 Obligations under finance leases<sup>1</sup>

	2014 £m	2013 £m
Due within one year	7.0	27.0
Due after more than one year	851.7	855.6
	858.7	882.6

See note F3 for full analysis of borrowings, including obligations under finance leases.

Finance lease liabilities are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
2014			
Not later than one year	85.5	78.5	7.0
Later than one year but not later than five years	342.2	310.0	32.2
Later than five years	1,585.5	766.0	819.5
	2,013.2	1,154.5	858.7
2013			
Not later than one year	109.3	82.3	27.0
Later than one year but not later than five years	334.5	311.6	22.9
Later than five years	1,681.1	848.4	832.7
	2,124.9	1,242.3	882.6

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.

Interest rates are fixed at the contract date. Leases with a carrying value of £851.6million (2013: £852.1million) have contingent elements included within their contracts and result in contingent rents of £8.2million (2013: £7.0million) being reflected in operating costs.

Included within the carrying amount of assets in note DI are amounts held under finance leases. Set out below is the analysis of the carrying amount of assets held under finance leases by asset category:

	Land and buildings £m	Plant and machinery £m	Total £m
Net book value			
At 31 March 2014	712.2	3.5	715.7
At 31 March 2013	747.4	17.3	764.7

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

## D. The property, technology and equipment used by the BBC to make its programmes continued

### D5 Financing costs of leasing arrangements

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

	Note	2014 £m	2013 £m
Financing costs of leasing arrangements	F9	81.0	81.9

### D6 Operating leases<sup>1</sup>

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

	2014 £m	2013 £m
Not later than one year	118.5	101.9
Later than one year and not later than five years	351.5	250.3
Later than five years	639.6	568.0
	1,109.6	920.2

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

The BBC Group has entered into a number of sublease arrangements. The total future minimum sublease income expected to be received under non-cancellable subleases at 31 March 2014 is:

	2014 £m	2013 £m
Due within one year	5.9	7.4
Due after one year and not later than five years	11.4	17.6
Due after more than five years	0.9	3.3
	18.2	28.3

### D7 Property provisions

Property provisions relate to the cost of returning leasehold properties (accounted for as operating leases) to their original condition at the end of the lease. The average life of these leases is 12 years, and the actual amount payable will depend on the extent of leasehold improvements made over the remainder of the lease. For full analysis of provisions and contingent liabilities see note F8.

	At I April £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	At 31 March £m
2014	20.3	2.4	(0.1)	(0.4)	22.2
2013	20.3	1.3	(1.2)	(0.1)	20.3

See Glossary for further details

## E. Investments in the BBC's commercial activities

The following section is primarily driven by the commercial activities of the BBC Group and includes information on what assets are used to generate economic benefits for the BBC Group. The section also includes intangible assets such as goodwill and programme acquisitions, balances held to represent the BBC's interests in associates and joint ventures and the results of any sale of operations that have occurred.

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 83).

## El Intangible assets

	Goodwill	Programme rights	Other intangibles	Total
	£m	£m	£m	£m
Cost	10.40	2000	2 ( 2 2	
At I April 2012	126.3	309.9	262.0	698.2
Additions	_	74.5	24.0	98.5
Elimination of fully amortised programme rights	_	(92.8)	-	(92.8)
Disposals	(96.1)	_	(96.5)	(192.6)
Transfer from property, plant and equipment	_	_	16.2	16.2
Exchange differences	5.9	(10.4)	4.3	(0.2)
At 31 March 2013	36.1	281.2	210.0	527.3
Additions	_	145.1	45.1	190.2
Disposals	_	_	(60.1)	(60.1)
Transfer from property, plant and equipment	_	_	0.5	0.5
Exchange differences	(2.0)	5.5	(2.2)	1.3
At 31 March 2014	34.1	431.8	193.3	659.2
Amortisation and impairment				
At I April 2012	68.1	192.7	148.0	408.8
Charge for the year	_	104.5	43.6	148.1
Elimination of fully amortised programme rights	_	(92.8)	_	(92.8)
Transfer from property, plant and equipment	_	_	2.4	2.4
Disposals	(72.1)	_	(66.4)	(138.5)
Impairment	_	_	42.9	42.9
Exchange differences	4.0	(9.1)	2.0	(3.1)
At 31 March 2013	_	195.3	172.5	367.8
Charge for the year	_	103.4	9.3	112.7
Disposals	_	_	(59.6)	(59.6)
Exchange differences	_	5.8	(0.7)	5.1
At 31 March 2014	_	304.5	121.5	426.0
Net book value				
At 31 March 2014	34.1	127.3	71.8	233.2
At 31 March 2013	36.1	85.9	37.5	159.5
Other intangibles include:				
Net book value			2014 £m	2013 £m
Software			65.6	29.1
301tWal C				

Net book value	2014 £m	2013 £m
Software	65.6	29.1
Acquired carrier agreements	6.1	8.2
Other	0.1	0.2
	71.8	37.5

### E. Investments in the BBC's commercial activities continued

#### E2 Goodwill

All goodwill is recognised in BBC Worldwide.

Goodwill, allocated by cash generating unit<sup>1</sup> (CGU), is analysed as follows:

Goodwill by cash generating unit	2014 £m	2013 £m
Consumer Distribution	25.4	25.4
Australian Channels	8.7	10.7
	34.1	36.1

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

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

#### Consumer Distribution business

The goodwill in this CGU arose as a result of the acquisition of 2entertain on 6 August 2009. The cash flow projections used in determining value in use are based on the current business plan approved by management, which covers a five year period after which cash flows have been extrapolated using an expected growth rate of -6% (2013: -5%).

A discount rate of 14.4% (2013: 12.8%) 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 UKTV 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 five years (2013: five years) and a discount rate of 14.9% (2013: 11.7%). Cash flows beyond the forecast period have been extrapolated using an expected growth rate of 1% (2013: 1%). 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 licence fee rates. In forming its assumptions about licence fee rates, the Group has used a combination of long-term trends and recent contracted terms.

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

See Glossary for further details

### E3 Gain on sale and termination of operations

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

	2014 £m	2013 £m
Lonely Planet	_	15.0
Left Bank	_	8.0
Other	4.1	0.3
Gain on sale and termination of operations	4.1	23.3

On 13 September 2013, the Group disposed of its interest in Ragdoll Worldwide Limited for cash consideration of £8.7million and a £3.5million dividend immediately prior to disposal, resulting in a gain on disposal of £2.3million. Net assets at the date of disposal were £9.9million.

In September 2012, the Group disposed of distribution rights relating to Ragdoll properties back to its Ragdoll joint venture. Distribution rights with a book value of £2.0million were disposed of for cash proceeds of £1.8million, resulting in a loss on disposal of £0.2million.

On 26 July 2013, the Group disposed of its interest in Big Talk Productions Limited for cash consideration of £3.1 million and £1.3 million loan settlement, resulting in a gain on disposal of £1.7 million. Net assets at the date of disposal were £1.5 million.

On 12 August 2013, the Group disposed of its interest in BBC Haymarket Exhibitions Limited for cash consideration of £0.1million resulting in a gain on disposal of £0.1million. Net assets at the date of disposal were £nil.

On 31 March 2013, BBC Worldwide completed the disposal of its Lonely Planet group of companies for cash consideration of £41.2 million and deferred consideration of £10.3 million. As a result of the disposal, cumulative currency translation gains of £48.4 million and hedged derivative gains of £0.1 million were removed from reserves and recorded in the income statement. Together with transaction costs of £3.0 million, a gain on disposal of £15.0 million was recognised overall.

On 17 August 2012, BBC Worldwide disposed of its interest in Left Bank Pictures for a total consideration of £10.1 million, giving rise to a gain on disposal of £8.0 million.

On 30 April 2012, the Group disposed of its interest in Freehand International Pty Ltd, by way of a share buyback, for proceeds of AUS\$0.8million. Net assets at the date of disposal were AUS\$0.8million (March 2012: AUS\$0.8million). Translation gains of £0.5million were reclassified from reserves to the income statement as a result of the disposal giving rise to a gain on disposal of £0.5million.

## E. Investments in the BBC's commercial activities continued

## E4 Interests in associates<sup>1</sup> and joint ventures<sup>1</sup>

This note details the BBC Group's share of net assets in associates and joint ventures, along with the impact that they have on the income statement. Details of significant associates and joint ventures along with principal subsidiary undertakings, including their activities, are provided in note G5.

	2014 £m	2013 £m
Interest in joint ventures	0.8	15.4
Interest in associates	12.2	16.1
Total interest in associates and joint ventures	13.0	31.5
Share of results of joint ventures	22.2	21.7
Share of results of associates	0.5	1.3
Total share of results of associates and joint ventures	22.7	23.0
The following table represents the BBC Group's aggregate share of joint ventures:		
	2014 £m	2013 £m
Non-current assets	8.5	10.9
Current assets	111.4	115.0
Current liabilities	(76.3)	(79.0)
Non-current liabilities	(54.6)	(54.2)
Shareholder's equity	(11.0)	(7.3)
Adjustment to reflect effective obligation	12.7	27.I
Provision for unrealised profit	(6.1)	(5.9)
Goodwill	(6.1)	(3.7)
Group's share of net (liabilities)/assets of joint ventures	(4.4)	15.3
The net book value is presented within:	(1.1)	15.5
Interest in associates and joint ventures	0.8	15.4
Assets held for sale	_	9.9
Provisions <sup>1</sup>	(5.2)	(10.0)
	(4.4)	15.3
Income	153.9	152.7
Profit after tax	31.3	32.7
Adjustment to reflect effective obligation	(9.1)	(11.0)
,	(***)	

22.2

21.7

See Glossary for further details

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

	2014 £m	2013 £m
Total assets	95.6	93.2
Total liabilities	(79.8)	(80.8)
Net assets	15.8	12.4
Group share of net assets	4.4	4.9
Provision for unrealised profit	(0.4)	(0.8)
Goodwill	8.2	12.0
Total net book value	12.2	16.1
Income	101.1	159.6
Profit after tax	5.9	9.2
Adjustment to reflect effective obligation	(5.4)	(7.9)
Group share of results	0.5	1.3

#### UKTV

The Group's 100% owned subsidiary, BBC Worldwide has a major partnership deal with Scripps Networks Interactive (Scripps) for the production, marketing and supply on a wholesale basis of free-to-air and subscription channels in the UK. The partnership operates through the joint venture company UKTV Media Limited (UKTV).

UKTV is financed by Scripps and has both trade and debt in a number of subsidiary operating companies. These companies previously formed a number of discrete legal groups with ownership of each held directly by the joint venture partners. In accordance with IAS 28 Joint ventures and associates, BBC Worldwide equity accounted only for those joint ventures which were cumulatively profitable. Accordingly, the Group did not account for two companies within the UKTV group which had net liabilities and where BBC Worldwide had no obligation to provide further funding.

During the current year, UKTV management agreed in principle a reorganisation of the unified UKTV Group, which will involve collapsing the disparate trading subsidiaries into a single trading entity. As a result of this change, BBC Worldwide has recognised a 50% share of those net liabilities not previously recognised.

A charge of £16.5m (2013: £Nil) has been recorded in other gains and losses in the income statement as a result of this change. As at 31 March 2014, the consolidated UKTV group was in an overall net asset position.

In April 2006, BBC Worldwide entered into an agreement with Ragdoll Limited to form a joint venture. The purpose of the joint venture was to exploit and manage existing Children's intellectual properties and to invest in the development of new intellectual property rights. In May 2011, the Board resolved to dispose of the Group's interest in the joint venture. The joint venture was classified as held for sale at 31 March 2013 and disposed of in the year ended 31 March 2014.

### F. Managing funding (including future costs)

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

It also sets out the external borrowings of the BBC Group. The BBC Group is subject to two (2013: three) specific constraints on its borrowing levels as set out below:

- the Public Service borrowing limit of £200million is set by the Secretary of State in accordance with the Framework Agreement between the BBC and DCMS.
- 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.
- Digital Switchover Help Scheme in the prior year £25million could 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).

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

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 85).

### FI Analysis of net funds for DCMS borrowing ceilings

	At I April 2013 £m	Cash flows £m	Non-cash changes £m	Exchange £m	At 31 March 2014 £m
Total cash and cash equivalents	575.2	(43.5)	_	(5.6)	526.1
Loans and loan notes	(187.5)	30.3	_	_	(157.2)
Derivatives associated with loans	(5.0)	_	(6.8)	-	(11.8)
Finance leases	(882.6)	94.9	(71.0)	_	(858.7)
	(499.9)	81.7	(77.8)	(5.6)	(501.6)
Leases not included in DCMS borrowing limits	849.6				849.7
Net funds	349.7				348.1
Made up of:					
UK PSB Group	470.1				458.0
Centre House Productions	(3.5)				(1.7)
BBC Worldwide	(7.7)				43.8
Other commercial businesses	(109.2)				(152.0)
Net funds	349.7				348.1

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.

See Glossary for further details

# F2 Reconciliation of net funds to the DCMS borrowing ceilings

	Public S	iervices <sup>1</sup>	
	Capital or current expenditure £m	Current expenditure on Digital Switchover Help Scheme* £m	Commercial businesses** £m
2014			
Net funds/(debt)	458.0	_	(108.2)
Borrowing ceiling	(200.0)	_	(350.0)
Headroom	658.0	_	241.8
2013			
Net funds/(debt)	470.1	_	(116.9)
Borrowing ceiling	(200.0)	(25.0)	(350.0)
Headroom	670.1	25.0	233.1

<sup>\*</sup> In the year ended 31 March 2013 a borrowing ceiling of £25million was in place in respect of borrowing to fund expenditure on meeting the responsibilities placed on the BBC by any scheme agreed under clause 39 of the Framework Agreement (targeted help schemes).

As at 31 March 2014, 31 March 2013, and throughout both financial years, the BBC Group did not breach the borrowing ceilings.

### F3 Borrowings

### F3.1 Borrowings due within one year

	2014 £m	2013 £m
Bank loan	0.7	_
Obligations under finance leases	7.0	27.0
Total	7.7	27.0

## F3.2 Borrowings due after more than one year

	2014	2013
	£m	£m
Bank loan	156.5	187.5
Obligations under finance leases	851.7	855.6
Total	1,008.2	1,043.1

Analysis of the BBC Group's borrowing facilities is set out in note F4.

<sup>\*\*</sup>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 2014 and 31 March 2013, BBC Commercial Holdings Limited was in compliance with both of these covenants.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

# F. Managing funding (including future costs) continued

## F4 Borrowing facilities

Facility	Interest rate	Total available 31 March 2014 £m	Drawn down at 31 March 2014 £m	Total available 31 March 2013 £m	Drawn down at 31 March 2013 £m	Expiry or review date
UK PSB Group						
•	LIBOR* plus 0.55% rising to LIBOR* plus 0.70% on utilisations over 1/3 and LIBOR* plus 0.85% on utilisations over 2/3	150	-	200	_	31 March 2017
Uncommitted money market lines (short- term borrowings)	Margin of 0.45% over LIBOR*	25	-	_	_	July 2014
Uncommitted money market lines (short-term borrowings)	Margin of 0.5% over LIBOR*	25	_	5	_	Reviewed annually
GBP overdraft	Bank base rates plus 1.5%	5	_	5	_	Reviewed annually
Multicurrency overdraft	Banks short-term offered rates for the relevant currency plus 1%	5	_	5	_	Reviewed annually
Overdraft*	Bank base rate plus 1%. Excess usage at bank base rate plus 2%	I	_		_	Reviewed annually
BBC Commercial Hold	lings Limited					
Multicurrency, revolving credit facility agreement for loans and letters of credit	LIBOR* plus 0.8% rising to LIBOR* plus 1.0% on utilisations over 1/3 and LIBOR* plus 1.2% on utilisations over 2/3. Letter of credit fee is the same as the bank lending margin, but does not include LIBOR*	210	-	380	172	July 2016
Overdraft or money market lines	Money market line – margin of 1.0% (2013: 1.0%)	20	-	20	17	Reviewed annually
US Private Placement	Fixed interest at 2.36%	28	28	_	_	June 2020
US Private Placement**	Fixed interest at 2.71%	130	130	_	_	June 2020
BBC Worldwide						
Overdraft*	Bank base rate plus 1% up to £100k, bank base rate plus 3% over £100k	2	_	2	_	Reviewed annually
Overdraft or working capital loan for Indian Rupees	Market rate at drawdown	I	I	_	_	Reviewed annually

<sup>\*</sup> The base rate used varies according to the currency drawn. GBP drawings are linked to LIBOR. At 31 March 2013, £27.6million was drawn down in AUS\$ and consequently linked to BBSW rather than LIBOR. These were repaid during the current year.

\*\*The \$216million US placement is valued at £130million as at 31 March 2014 and is hedged to a sterling value of £143million.

There have been no defaults or breaches of covenants on these facilities during the year (2013: none).

# F5 Cash generated from operations

	2014	Restated*
	£m	£m
Group surplus before taxation	188.9	196.0
Depreciation, amortisation and impairment	270.4	359.8
Difference between pension charge and cash contribution	(45.0)	(31.9)
Fair value impact of derivatives associated with loans	6.8	(0.6)
Fair value impact of other derivatives	(7.6)	(0.2)
Profit on disposal of tangible and intangible fixed assets	(1.2)	(87.2)
Loss on disposal of tangible and intangible fixed assets	0.5	7.2
Gain on disposal of available for sale investment	(1.1)	_
Gain on sale and termination of operations	(4.1)	(23.3)
Other gains and losses	16.5	_
Share of results of associates and joint ventures	(22.7)	(23.0)
Financing income	(14.6)	(10.2)
Financing costs	163.6	146.5
(Increase)/decrease in programme related assets and inventories	(84.9)	21.3
Decrease/(increase) in debtors	0.7	(53.2)
Decrease in creditors	(65.2)	(110.5)
Decrease in provisions	(27.4)	(15.5)
Cash generated from operations	373.6	375.2

<sup>\*</sup> IAS 19 (revised) *Employee benefits* has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

## F6 Trade and other receivables

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

# F6.1 Other receivables due after more than one year

	2014 £m	2013 £m
Other prepayments and receivables	21.7	76.9
Loans to other entities	3.7	1.7
Amounts owed by associates and joint ventures	0.4	1.7
Total	25.8	80.3

### F. Managing funding (including future costs) continued

### F6.2 Trade and other receivables due within one year

	2014 £m	2013 £m
Trade receivables	217.9	224.3
Licence fee receivables	407.3	404.9
Amounts owed by associates and joint ventures	19.4	27.7
VAT recoverable	43.2	46.4
Other receivables	103.5	64.1
Prepayments and other assets	197.4	163.9
Total	988.7	931.3

Included in the BBC Group's trade and other receivables at 31 March 2014 are balances of £42.9million (2013: £43.9million) which are past due at the reporting date but not impaired. The aged analysis of these balances is as follows:

Trade receivables past due but not impaired	2014 £m	2013 £m
Up to 3 months	31.5	33.1
3 to 6 months	4.6	8.3
Over 6 months	6.8	2.5
	42.9	43.9

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

There are no significant impairment provisions relating to balances of any individual debtor. Amounts charged to the impairment provision are written off when there is no expectation of recovery. Subsequent recoveries of amounts previously written off are credited to the income statement. The impairment provision stands at £5.5million at 31 March 2014 (2013: £11.8million).

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

		0010
	2014	2013
	£m	£m
Balance at the beginning of the year	11.8	5.5
		0.0
Impairment losses recognised	5.5	8.0
Amounts written off as uncollectable	(10.8)	(0.6)
A security response of the second sec	(1.0)	(1.0)
Amounts recovered during the year	(1.0)	(1.0)
Exchange differences on revaluation	_	(0.1)
Balance at the end of the year	5.5	11.8

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

## F7 Trade and other payables

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

# F7.1 Trade and other payables due within one year

	2014 ote £m	
Trade and employment related payables	424.6	444.2
Amounts owed to associates and joint ventures	5.9	5.9
Other taxation and social security	26.3	26.5
Other payables	19.9	35.6
Accruals and deferred income (including licence fee payables)	422.7	442.7
Cash balance payable to DCMS	B6 <b>7.3</b>	17.9
Licence savings stamp deposits and direct debit instalments	53.0	60.4
Total	959.7	1,033.2

## F7.2 Other payables due after more than one year

	2014 £m	2013 £m
Other payables	15.2	18.4
Total	15.2	18.4

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 their contracted terms and conditions. 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 2014 was 23 days (2013: 25 days).

### F. Managing funding (including future costs) continued

### F8 Provisions and contingent liabilities

	Note	At I April 2013 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	At 31 March 2014 £m
Restructuring		80.9	23.6	(40.0)	(10.8)	53.7
Litigation and insurance		19.1	3.8	(0.5)	(2.1)	20.3
Property	D7	20.3	2.4	(0.1)	(0.4)	22.2
Decommissioning		6.0	_	-	(0.6)	5.4
Share of joint ventures net liabilities	E4	10.0	1.1	(5.9)	-	5.2
Other		1.2	2.8	(0.5)	(0.2)	3.3
Total		137.5	33.7	(47.0)	(14.1)	110.1
Included in current liabilities		66.0				53.3
Included in non-current liabilities		71.5				56.8
Total		137.5				110.1

	Note	At I April 2012 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	At 31 March 2013 £m
Restructuring		107.4	46.6	(59.2)	(13.9)	80.9
Litigation and insurance		11.8	12.1	(2.6)	(2.2)	19.1
Property	D7	20.3	1.3	(1.2)	(0.1)	20.3
Decommissioning		_	6.0	_	_	6.0
Share of joint ventures net liabilities	E4	11.1	0.8	(1.9)	_	10.0
Other		3.5	_	(1.9)	(0.4)	1.2
Total		154.1	66.8	(66.8)	(16.6)	137.5
Included in current liabilities		86.1				66.0
Included in non-current liabilities	E4	68.0				71.5
Total		154.1				137.5

The restructuring charge for the year mainly relates to the restructuring programmes within the UK PSB Group and BBC Worldwide. The balance at 31 March 2014 predominantly relates to the Delivering Quality First strategy which is due to complete in 2016/17. Following a reassessment of the level of restructuring provisions required and a reassessment of the amounts to be paid, £10.8million has been released to the income statement during the year.

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

The decommissioning provision was created at 31 March 2013 for the costs of decommissioning the Cyprus shortwave transmission site in BBC World Service.

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

There were no other significant contingent liabilities known at the year end (2013: no significant).

See Glossary for further details

### F9 Net financing costs

Set out below is an analysis of the finance income and expenses incurred in the year. These amounts include interest relating to finance lease liabilities (see note D5) and defined benefit pension schemes (see note C7).

Note	2014 £m	2013 £m
Financing income		
Interest income	5.9	6.0
Investment income on assets available for trading G4.3	3.8	3.9
Fair value gains on interest rate swaps and caps	4.9	0.3
	14.6	10.2
Financing costs		
Interest expense	(12.6)	(10.3)
Investment expense on liabilities available for trading G4.3	(0.1)	_
Interest on obligations under finance leases D5	(81.0)	(81.9)
Fair value movement on financial liabilities	_	(1.8)
	(93.7)	(94.0)
Interest cost on pension plan liabilities C7.3	(69.9)	(52.5)
	(163.6)	(146.5)
Net financing cost	(149.0)	(136.3)
The net impact of financing can be analysed as follows:		
	2014 £m	2013 £m
Net financing costs of leasing arrangements	(0.18)	(81.9)

Net financing income/(costs) related to loans and financial instruments

Net financing costs related to pension obligations

## FIO Long-term commitments not reflected in the balance sheet – contracts placed for future expenditure

This note shows amounts to which the BBC Group is contractually committed, but which do not meet the criteria for inclusion in the balance sheet. The BBC has chosen to include fixed (but not variable) payments due under outsourcing contracts for the life of those contracts, as this matches the BBC's interpretation of the requirements of s.410A of the Companies Act 2006.

(69.9)

(149.0)

1.9

(1.9)

(136.3)

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

	2014 £m	2013 £m
Fixed asset additions	33.3	24.6
Programme acquisitions and sports rights	<b>743.</b> I	903.2
Independent programmes	186.4	195.1
Other fixed payments on long-term outsourcing arrangements	2,476.0	2,469.5
	3,438.8	3,592.4

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

### G. Other

For additional information on the relevant accounting policies applied in this section please see section H. Basis of preparation of the financial statements and other accounting policies (page 85).

### GI Assets held for sale

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

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

	Note	2014 £m	2013 £m
Non-current assets:			
Interests in associates and joint ventures	E4	_	9.9
Total assets classified as held for sale		_	9.9

In the prior year, the major classes of assets and liabilities comprising operations classified as held for sale related to the BBC Group's investment in the Ragdoll joint venture. These were disposed of in 2013/14.

### **G2** Taxation

# G2.1 Recognised in the income statement

The charge for the year, based on the rate of corporation tax of 23% (2013: 24%) comprised:

No	2014 te £m	2013 £m
Current tax		
UK corporation tax	8.9	16.3
Adjustments in respect of prior years	(0.1)	(1.2)
	8.8	15.1
Foreign tax	22.1	24.2
Total current tax	30.9	39.3
Deferred tax <sup>l</sup>		
Origination and reversal of timing differences	2.6	(0.6)
Tax rate increase	0.7	0.5
Adjustments in respect of prior years	0.9	(0.5)
Total deferred tax	4 4.2	(0.6)
Total taxation expense in the consolidated income statement	2 <b>35.1</b>	38.7

## G2.2 Reconciliation of taxation expense

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

NI .	2014	Restated*
Note:	£m 188.9	£m 196.0
Surplus before tax		
Share of associates and joint ventures	7.7	7.9
	196.6	203.9
Surplus before tax multiplied by standard rate of corporation tax in the UK of 23% (2013: 24%)	45.2	48.9
Effects of		
Public Service activities		
Public service taxable external income	7.9	7.2
Non-taxable public service activities	(18.1)	(4.1)
Commercial activities		
Disallowed expenditure (including goodwill impairment)	4.3	8.8
Production tax credits	(5.1)	_
Tax exempt investment sale	(1.2)	(21.4)
Tax differential on overseas earnings	3.9	8.2
Tax differential in associates and joint ventures	4.4	0.3
Tax rate increase	0.7	0.4
Adjustments in respect of prior years	0.8	(1.7)
Total tax charge for the year	42.8	46.6
Share of tax of associates and joint ventures	(7.7)	(7.9)
G2.	35.1	38.7

<sup>\*</sup> IAS~19~(revised)~Employee benefits~has~been~adopted~for~2014~and~accordingly~the~2013~comparatives~have~been~restated.

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

The reduction in effective tax rate (total tax charge for the year as a percentage of Group profit excluding tax) arises from film tax credits available on high-end drama productions.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

### G. Other continued

### G2.3 Factors that may affect future tax charges

The UK Government has announced a phased reduction in the main rate of corporation tax in the UK. On 1 April 2013, the rate was reduced from 24% to 23%. Two further annual reductions are expected to follow in subsequent years, reducing the corporation tax rate to 21% from 1 April 2014 and 20% from 1 April 2015. The impact of the future rate reductions will be accounted for in future periods, to the extent that they are enacted at the balance sheet date, however, it is estimated that this will not have a material effect on the BBC Group.

### G2.4 Deferred tax assets/(liabilities)

	Fixed asset temporary differences £m	Provisions £m	Financial instruments £m	Other £m	Net deferred tax asset/ (liability) £m
At I April 2013	6.1	3.3	3.1	1.9	14.4
Net charge to the income statement	(1.0)	(0.1)	(1.6)	(1.5)	(4.2)
Charge to reserves	_	_	(3.7)	_	(3.7)
Exchange differences	0.4	1.2	(0.1)	(1.6)	(0.1)
At 31 March 2014	5.5	4.4	(2.3)	(1.2)	6.4

Deferred tax asset/(liability) presented within:	2014 £m	2013 £m
Non-current assets	9.5	15.1
Non-current liabilities	(3.1)	(0.7)
	6.4	14.4

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profit is probable. The BBC Group has unrecognised deferred tax assets arising on capital losses totalling £22.2million (2013: £22.4million). These assets are not recognised on the basis that there is insufficient certainty that capital or operating gains will arise against which the BBC Group can utilise these losses.

#### G3 Pension plans

Note G3 sets out the additional detailed disclosures related to the BBC Pension Scheme which were not included in note C7 or C8.

#### G3.1 Changes in the present value of plan liabilities<sup>1</sup>

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

	2014 £m	Restated* 2013 £m
Opening present value of plan liabilities	11,809.8	10,270.5
Current service cost	167.2	149.8
Past service cost	2.4	3.4
Administration cost	8.3	8.0
Interest on pension plan liabilities	523.1	524.9
Experience gains arising on plan liabilities	(62.3)	(12.7)
Changes in assumptions underlying plan liabilities	114.1	1,224.4
Contributions by plan participants	1.1	0.8
Benefits paid and expenses	(371.0)	(359.3)
Closing present value of plan liabilities	12,192.7	11,809.8

<sup>\*</sup>IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

See Glossary for further details

### G3.2 Changes in the fair value of plan assets

The table below illustrates the movement on the plan assets during the year. The key items 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 employee contributions to the scheme by members are mainly paid via a salary sacrifice arrangement. These have been treated as employer contributions.

	2014 £m	Restated* 2013 £m
Opening fair value of plan assets**	10,201.1	9,198.5
Interest income on assets	453.5	472.7
Remeasurements on plan assets <sup>1</sup>	177.0	695.6
Contributions by employer	222.5	192.8
Contributions by plan participants	1.1	0.8
Benefits paid and expenses	(371.0)	(359.3)
Closing fair value of plan assets**	10,684.2	10,201.1

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

### G3.3 Plan assets

The allocation of assets by the Pension Trust Trustees is governed by the need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the Trustees expect will produce higher returns in the long term. For more information on the Scheme, including target assets allocations, see www.bbc.co.uk/mypension.

	2014		2013	
pe of asset	£m	%	£m	%
uities	3,487	33	3,948	39
	3,793	35	3,229	31
ty	1,029	10	1,060	10
	1,965	18	1,801	18
	410	4	163	2
	10,684		10,201	
ension plan assets**	631		1,168	

<sup>\*</sup> Alternatives include private equity, debt and currency.

### G3.4 BBC Pension Scheme gains/(losses)<sup>1</sup> in the consolidated statement of comprehensive income

	2014 £m	Restated* 2013 £m
Actual return less return on pension plan assets included within the income statement	177.0	695.6
Experience gains arising on plan liabilities	62.3	12.7
Changes in assumptions underlying the present value of plan liabilities	(114.1)	(1,224.4)
Net gain/(loss) recognised in the consolidated statement of comprehensive income	125.2	(516.1)
Cumulative loss recognised in the consolidated statement of comprehensive income	(4,942.9)	(5,068.1)

<sup>\*</sup>IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

<sup>\*\*</sup> Excluding AVC funds.

<sup>\*\*</sup> 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.

See Glossary for further details

### G. Other continued

### G3.5 History of experience gains and losses

	2014	Restated* 2013	2012	2011	2010
Experience adjustments on plan assets:					
Amount (£million)	177.0	695.6	(157.8)	93.1	1,363.0
Percentage of plan assets	1.7%	6.8%	1.7%	1.1%	16.7%
Experience adjustments on plan liabilities:					
Amount (£million)	62.3	12.7	(113.3)	71.7	33.2
Percentage of plan liabilities	0.5%	0.1%	1.1%	0.7%	0.3%
Remeasurement recognised in the consolidated statement of comprehensive income:					
Amount (£million)	125.2	(516.1)	(460.4)	303.7	(1,869.9)
Percentage of plan liabilities	1.0%	4.4%	4.4%	3.1%	19.1%

<sup>\*</sup> IAS 19 (revised) Employee benefits has been adopted for 2014 and accordingly the 2013 comparatives have been restated.

### G3.6 Principal actuarial assumptions

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

Principal financial assumptions	2014	2013
Rate of increase in salaries	1.0	1.0
Rate of increase in pension payments:		
Old Benefits	3.4	3.4
New Benefits	3.2	3.2
Career Average Benefits (2006)	2.4	2.4
Career Average Benefits (2011)	2.3	2.3
Inflation assumption (RPI)	3.4	3.4
Inflation assumption (CPI)	2.4	2.4
Discount rate <sup>l</sup>	4.4	4.5

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

Principal demographic assumptions	2014 Number of years	2013 Number of years
Retiring today:		
Male	27.4	28.0
Female	29.8	28.6
Retiring in 20 years:		
Male	29.3	30.5
Female	31.8	30.3

The mortality assumptions have been selected to reflect the characteristics and experience of the membership of the scheme and are based on those used for the actuarial investigation which was carried out for funding purposes as at 1 April 2013. The standard 'S1' series of tables, published by the CMI, reflect recent research into mortality experience in the UK. A subset of these tables have been used for males and females, with a multiplier of 122% for males and 107% for females. For the allowance for future improvements, the CMI 2012 core projection has been adopted with a long-term trend of 1.25% for both males and females.

See Glossary for further details

### G3.7 Scheme membership analysis and maturity profile

	2014 Number	2013 Number
Contributors	13,100	14,203
Pensioners	19,214	19,055
Dependants	4,151	4,094
Deferred pensioners	29,349	28,957

The total number of Scheme beneficiaries as at 31 March 2014 was 52,447 (2013: 57,062). Membership numbers in the table above are higher as members can hold more than one record. For example, contributing members who have transferred to the Career Average Benefits 2011 section from another section of the Scheme may have a deferred pensioner record for their benefits built up in the Old Benefits, New Benefits or Career Average Benefits 2006 sections and a contributing record for their Career Average Benefits 2011 benefits.

#### G4 Financial instruments

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

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

### G4.1 Financial risk management

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

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

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

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

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

- market risk, principally currency and interest rate risk;
- liquidity risk; and
- credit risk<sup>1</sup>. The largest element is the licence fee debtor, £407.3 million (2013: £404.9 million). The amount of income that the BBC receives is directly related to the amount of licence fee collected from households in the UK.

See Glossary for further details

#### G. Other continued

**G4.1 Financial risk management** continued The material risks to the BBC Group are:

### Currency risk

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

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

The overall income or expenditure to be recognised in relation to contracts denominated in foreign currency (and the related hedges) is therefore fixed, however, where these contracts span financial years, the recognition of the fair value of the forward currency contracts results in timing gains/losses in each financial year. These timing gains/losses are therefore a result of market conditions and not variances in underlying contract value.

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

At 31 March 2014, the BBC Group had entered into a net commitment to sell foreign currencies amounting to £372.6million (2013: net commitment to sell £312.2million) that mature in the period through to 2017 in order to fix the sterling cost of commitments through this period (mainly euros and US dollars). These forward foreign exchange contracts mean the BBC Group had no significant currency exposure.

#### Interest rate risk

The Group's main exposure to interest rate fluctuations arises on external borrowings. BBC Commercial Holding's 2013 private placement included a tranche of fixed rate sterling debt alongside a tranche of fixed rate US dollar debt, with the latter swapped to fixed rate sterling to eliminate the associated interest rate risk throughout the period of the instrument. Since March 2003, the Group has been borrowing under its revolving credit facilities 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.

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature by June 2020. The impact of a change in interest rates can also be limited by entering into interest rate cap and collar transactions; there are no outstanding caps and collars as at 31 March 2014. In total, £260.2million (2013: £282.0million) of swaps were entered into. No caps and collars were entered into during the year ended 31 March 2014 (2013: £40.0million). All swaps were effective at 31 March 2014 to ensure borrowings are suitably covered for the foreseeable future. The coverage is £101.7million higher (2013: £132.6million higher) than the current level of borrowings of £158.5million (2013: £189.4million).

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

#### Liquidity risk

Liquidity risk is the risk that the BBC Group will not be able to meet its financial obligations as they fall due. The BBC is subject to ceilings on its borrowings set by the Secretary of State in accordance with the Agreement between the BBC and DCMS (see note FI). In order to comply with these ceilings, together with the terms of any individual debt instruments, the BBC's Group Treasury function manages the BBC Group's borrowings by regularly monitoring BBC Group cash flow forecasts. The BBC holds its surplus liquidity in term deposit accounts with highly rated financial institutions.

# G4.2 Fair values of financial instruments

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

	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after more than five years £m	Total £m
2014 – Fair value				
Financial assets at fair value through income and expenditure				
Derivative financial instruments:				
Derivatives that are designated in effective hedges	5.7	2.8	-	8.5
Derivatives held for trading	7.2	3.2	-	10.4
Loans and receivables				
Trade and other receivables	625.5	_	10.7	636.2
Cash and cash equivalents	526.1	_	-	526.1
Available for sale financial assets				
Other investments	_	_	108.9	108.9
Financial liabilities at fair value through income and expenditure				
Derivative financial instruments:				
Derivatives that are designated in effective hedges	(0.5)	(0.8)	-	(1.3)
Derivatives held for trading	(2.3)	(13.6)	-	(15.9)
Trade and other payables	(0.3)	(0.2)	-	(0.5)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	(0.7)	_	(157.8)	(158.5)
Trade and other payables	(360.0)	_	-	(360.0)
Obligations under finance leases	(28.7)	(126.3)	(1,226.3)	(1,381.3)

#### G. Other continued

#### G4.2 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
2013 – Fair value				
Financial assets at fair value through income and expenditure  Derivative financial instruments:				
Derivatives that are designated in effective hedges	0.5	0.1	_	0.6
Derivatives held for trading	3.5	4.8	_	8.3
Loans and receivables				
Trade and other receivables	629.5	_	9.3	638.8
Cash and cash equivalents	575.2	_	_	575.2
Available for sale financial assets				
Other investments	_	_	121.5	121.5
Financial liabilities at fair value through income and expenditure  Derivative financial instruments:				
Derivatives that are designated in effective hedges	(5.4)	(4.4)	_	(9.8)
Derivatives held for trading	(4.7)	(6.2)	_	(10.9)
Trade and other payables	(0.4)	_	_	(0.4)
Financial liabilities measured at amortised cost				
Bank loans, overdrafts and loan notes	_	(189.4)	_	(189.4)
Trade and other payables	(369.9)	_	_	(369.9)
Obligations under finance leases	(52.3)	(150.4)	(1,263.1)	(1,465.8)

The fair value and carrying value of financial instruments was the same with the exception of finance leases. At 31 March 2014, the fair value of the Group's obligations under finance leases was £522.6million higher (2013: £583.2million higher) than their carrying value. The fair value at 31 March 2014 was determined by recalculating the finance lease liability using the current market interest rates, adjusted for an appropriate risk premium. The movement in the interest rates between the inception of each finance lease (used to generate the finance lease models) and 31 March 2014 creates a difference between the carrying value and the fair value.

The finance leases include £2.8million (2013: £4.8million) 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 deposits¹ 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, £61.1million at 31 March 2014 (2013: £94.0million), are structured such that the principal on deposit and interest earned will be sufficient to cover the rental obligations on the finance leases until the end of the lease. Accordingly, it is not included as borrowing for the purposes of compliance with the BBC's borrowing ceilings.

See Glossary for further details

#### G4.3 Derivative financial instruments

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

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

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

	Fair value hierarchy level	Assets £m	Liabilities £m
2014			
Greater than one year			
Forward foreign currency contracts	2	5.9	(1.6)
Interest rate swaps, caps and collars	2	_	(11.7)
Embedded derivatives	2	0.1	(1.1)
Assets available for trading	3	108.9	_
Other payables	3	_	(0.2)
Finance leases	3	_	(1,352.6)
		114.9	(1,367.2)
Less than one year			
Forward foreign currency contracts	2	12.9	(2.7)
Interest rate swaps, caps and collars	2	_	(0.1)
Other payables	3	_	(0.3)
Finance leases	3	_	(28.7)
		12.9	(8.18)
2013			
Greater than one year			
Forward foreign currency contracts	2	4.8	(5.5)
Interest rate swaps, caps and collars	2	_	(3.7)
Embedded derivatives	2	0.1	(1.4)
Assets available for trading	3	121.5	_
Finance leases	3	_	(1,413.5)
		126.4	(1,424.1)
Less than one year			
Forward foreign currency contracts	2	4.0	(8.8)
Interest rate swaps, caps and collars	2	_	(1.3)
Other payables	3	_	(0.4)
Finance leases	3	_	(52.3)
		4.0	(62.8)

#### G. Other continued

#### G4.3 Derivative financial instruments continued

Level 3 financial assets recorded at fair value and included within available for sale investments include £104.5million (2013: £116.4million) for the shares held in Daunus Limited, the entity that redeveloped Broadcasting House. The BBC holds a 10% share of the issued share capital (preferential in nature) of that company which it classes as an available for sale investment, due to mature in 2033 at which point in time the BBC receives certain rights in respect of Broadcasting House. The BBC's shares in Daunus Limited entitles it to the first £90million (plus RPI from the start of the lease) of any proceeds on termination of the lease. The fair value estimate has been based on the £90million, inflated by RPI, and discounted back to present day. The estimated interest rate used (linked to RPI) was 3.1% (2013: 2.6%) and the rate used to discount the future cash flows was 3.4% (2013: 2.7%).

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

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

		2014 £m		2013 £m	
	Note	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Opening balance		121.5	(0.4)	100.9	(14.0)
Additions		_	_	5.0	1.4
Settlements		(1.8)	_		14.0
Unwinding of discount recorded within finance expense		_	(0.1)	-	-
Unwinding of discount recorded within finance income		3.8	_	3.9	
Change in fair value recorded in operating costs		1.1	_	(0.6)	-
Change in fair value recorded in the consolidated statement of					
comprehensive income		(15.7)	_	12.1	(1.8)
Foreign exchange translation gains and losses		_	_	0.2	_
	D2	108.9	(0.5)	121.5	(0.4)

Level 3 financial assets settled in the year relate to the Group's minority investment in Viki Inc, which was acquired in the year by a third party. The prior year settlement in financial liabilities related to written put options issued over non-controlling interests in the Group's subsidiary, Bedder 6 Limited.

The BBC 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 exists. Net gains (before tax and non-controlling interests) recognised in the hedging reserve on forward foreign exchange contracts in cash flow hedge relationships at 31 March 2014 were £16.4million (2013: £10.8million net losses). 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 twelve months.

See Glossary for further details

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

	Cash flow £m	Interest £m	Principal £m
2014			
Variable interest rate instruments			
Not later than one year	0.7	_	0.7
Fixed interest rate instruments			
Not later than one year	89.7	82.7	7.0
Later than one year but not later than five years	361.0	328.8	32.2
Later than five years	1,749.6	772.3	977.3
	2,201.0	1,183.8	1,017.2
2013	2,201.0	1,183.8	1,017.2
2013 Variable interest rate instruments	2,201.0	1,183.8	1,017.2
	<b>2,201.0</b>	0.8	1,017.2
Variable interest rate instruments			
Variable interest rate instruments  Not later than one year			
Variable interest rate instruments  Not later than one year  Fixed interest rate instruments	190.2	0.8	189.4
Variable interest rate instruments  Not later than one year  Fixed interest rate instruments  Not later than one year	190.2 109.3	0.8 82.3	189.4

# G. Other continued

# G5 Interests in joint ventures, associates and subsidiaries

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

#### G5.1 Significant joint ventures and their activities

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

Name of entity	Activity
Commercial joint ventures:	
UKTV Media Limited	TV channel operator
JV Programmes LLC	Programme distributor

#### G5.2 Significant associates and their activities

	Holding of issued ordinary shares %	Activity
Digital UK Limited	25	Digital Switchover
YouView Limited	14.2	Multiplatform broadcasting
3sixtymedia Limited	10*	Production

<sup>\*</sup>The BBC holds 10% of the total share capital of 3sixtymedia Limited but 20% of the Class A ordinary shares which gives it significant influence.

# G5.3 Subsidiary undertakings<sup>1</sup>

Name of entity		Activity
Commercial Subsidiaries (all 100% owned unless stated):		
BBC Commercial Holdings Limited	*	Holding company and TVC re-development management
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC Global News Holdings Limited	**	Holding company
BBC Ventures Group Limited	**	Holding company
BBC Studios and Post Production Limited	**	Programme making facilities and services
2entertain Limited	**	DVD/video publisher
BBC Worldwide Australia Pty Limited (incorporated in Australia)	**	Investment company
BBC Worldwide Americas Inc. (incorporated in the USA)	**	Holding company
BBC Global News Limited	**	Broadcaster
BBC.com Limited	**	Programme distribution
BBC World Distribution Limited	**	Programme distribution
Grafton House Productions Limited	**	Programme making
Subsidiaries incorporated to act on behalf of the UK PSB Group:		
BBC Property Development Limited	*	Property
Centre House Productions Limited	*	Production financing
Media Application Technologies Limited	*	Applications technology development
DSHS Limited	*	Digital switchover

<sup>\*</sup> Directly owned.

Except where noted above all entities are incorporated in England and Wales.

# **G6** Reserves

# G6.1 Operating reserve

At 31 March 2014, the cumulative goodwill written off to reserves on acquisitions prior to 1999 amounted to £6.8 million. This amount is unchanged from the prior year and remained in equity upon transition to IFRS as permitted by IFRS1 First time adoption of IFRS.

# G6.2 Available for sale reserve

The balance as at 31 March 2014 relates to the fair value of the BBC's investment in Daunus Limited (see note D2).

# G7 Post balance sheet events

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

<sup>\*\*</sup>Indirectly owned.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

# G. Other continued

# G8 Related party transactions

The following table represents transactions with related parties excluding key management personnel.

		Associates, joint ventures and other investments		on Scheme
	2014 £m			2013 £m
Rendering of services	49.8	62.6	_	_
Receiving of services	(16.5)	(15.7)	_	_
Pension contributions	_	_	222.5	192.8
Dividends received	18.5	19.5	_	_
	51.8	66.4	222.5	192.8

		Amounts owed by related parties		wed to arties
	2014 £m			2013 £m
BBC Pension Scheme	_	-	(0.6)	(1.1)
Associates, joint ventures and other investments	19.8	29.4	(5.9)	(5.9)
	19.8	29.4	(6.5)	(7.0)

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

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

Related party transactions with key management personnel are disclosed in note C6.

# **G9** Segment reporting

# Geographical location of income and non-current assets

2014	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	1,334.6	54.6	241.6	7.0	(42.8)	1,595.0
Rest of world	2.3	60.2	28.6	0.4	-	91.5
	1,336.9	114.8	270.2	7.4	(42.8)	1,686.5
Additions included in fixed assets and investments	119.8	22.9	197.9	3.9	(42.8)	301.7
External income:						
UK	3,991.6	249.1	222.0	28.6	(203.5)	4,287.8
Rest of world	3.3	6.0	670.0	100.9	(2.0)	778.2
	3,994.9	255.1	892.0	129.5	(205.5)	5,066.0

2013	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	1,426.2	59.7	211.6	8.1	(45.7)	1,659.9
Rest of world	1.0	62.8	39.0	0.4	_	103.2
	1,427.2	122.5	250.6	8.5	(45.7)	1,763.1
Additions included in fixed assets and investments	139.3	6.0	131.8	4.6	(38.4)	243.3
External income:						
UK	3,926.0	272.2	257.7	37.6	(205.7)	4,287.8
Rest of world	7.3	4.6	710.9	91.7	_	814.5
	3,933.3	276.8	968.6	129.3	(205.7)	5,102.3

# G10 Contingent liabilities

The Group has a number of contingent liabilities arising from litigation and from the rights of customers and suppliers to undertake routine audits. These arise from trading activities undertaken in the ordinary course of business. The Group makes specific provision for the best estimate of any amounts which might be awarded as a result of these. A provision is only made to the extent that the Directors consider it probable that there will be an outflow of economic benefits and the amount can be reliably estimated.

# H. Basis of preparation of the financial statements and other accounting policies

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

# Statement of accounting policies

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

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

#### Use of estimates and judgement

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

#### Basis of preparation

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

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

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

#### Adoption of new and revised accounting standards

The following new and revised Standards and Interpretations have been adopted for the first time, as they became effective for this financial year. They have been applied since 1 April 2013.

Amendments to IAS | Presentation of financial statements

Amendments that are relevant to the Group are the amendments to IAS I regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that related notes are not required to accompany the third statement of financial position.

IFRS 13 Fair value measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and their disclosures. The application of IFRS 13 has not had a material impact on the amounts recognised in the consolidated financial statements apart from some additional disclosures.

IAS 19 (revised) Employee benefits

In the current year, the Group has applied IAS 19 (as revised in June 2011) Employee benefits. There are three specific impacts on the income statement:

- future administration costs are no longer permitted to be included in the measurement of the defined benefit obligation. Instead they are now charged to operating profit as the related services are received;
- a change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability (a discount rate derived from corporate bonds). The difference between this calculated return and the actual return is reported as a remeasurement through the consolidated statement of comprehensive income; and
- the reporting of a combined net figure within finance expense, rather than showing the pension interest income and pension interest expense separately.

The effect of adopting IAS 19 (revised) on the Group's result for the year ended 31 March 2013 was to reduce the surplus by £171million. The full impact on the income statement is set out in the table below:

	2013 Restated	2013 Reported
Group operating surplus	198.8	206.8
Other non-operating income	133.5	133.5
Financing income	10.2	651.1
Financing costs	(146.5)	(624.4)
Surplus before taxation	196.0	367.0

The impact on the statement of comprehensive loss, for the year ended 31 March 2013, is as follows:

Total comprehensive loss for the year	(396.0)	(396.0)
Other comprehensive loss for the year	(36.7)	(36.7)
Remeasurement on defined benefit pension schemes	(516.6)	(687.6)
Group surplus for the year	157.3	328.3
	2013 Restated	2013 Reported

The impact on the balance sheet is as follows:

Total capital and reserves/(deficit)	40.2	(59.8)
Other reserves	92.1	92.1
Operating reserve	(51.9)	(151.9)
Net assets/(liabilities)	40.2	(59.8)
Total non-current liabilities	(2,760.1)	(2,860.1)
Pension liabilities	(1,615.8)	(1,715.8)
Other non-current liabilities	(1,144.3)	(1,144.3)
Total assets less current liabilities	2,800.3	2,800.3
	2013 Restated	2013 Reported

### Going concern<sup>1</sup>

The financial statements are prepared on a going concern basis. The Directors believe this to be appropriate for the reasons set out below.

The Directors have prepared and reviewed cash flow forecasts for the 24 month period to 31 March 2016, 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 2017), the BBC Pension Scheme deficit and the resultant deficit recovery payments agreed with the pension scheme Trustees and the realisation of planned cost savings under the Delivering Quality First programme.

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

The BBC Group has external funding available, including a £150million sterling revolving credit facility which expires on 31 March 2017, which is currently unutilised. UK PSB net funds at 31 March 2014 were £458.0million, this equates to a headroom of £658.0million. The UK PSB cash position is expected to remain positive for at least the duration of 12 months from the date of signing which the Directors consider to be the foreseeable future.

The BBC Group also has a £380million multicurrency revolving credit facility available to the BBC commercial operations, with funding split between a US\$259million US Private Placement (fixed through foreign exchange swap transactions at £170million) until June 2020 and a £210million facility until July 2016. As at the year end the Group had drawn down £158.5million of the facilities available (2013: £172.0million).

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

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

#### Basis of consolidation

The BBC Group accounts include the results of the BBC and all businesses controlled by the BBC (subsidiaries¹) together with the BBC's share of the results of businesses over which the BBC has significant influence but not control (associates¹) and those which the BBC jointly controls (joint ventures¹).

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

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

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

See Glossary for further details

# H. Basis of preparation of the financial statements and other accounting policies continued

#### **Business** combinations

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

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

#### Foreign currency transactions1

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

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

# Financial statements of foreign operations

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

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

# Accounting policies relevant to section A

#### Licence fee income

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

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

#### Other income

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

#### ■ Sale of goods

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

#### ■ Sale of services

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

# ■ Royalties

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

#### ■ Rental income

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

# ■ Grants from Government departments

For the year ended 31 March 2014, the BBC World Service received Grant-in-Aid from the Foreign and Commonwealth Office. Previously, BBC Monitoring also received a grant from the Cabinet Office. These grants have been drawn down to meet estimated expenditure in the year but unspent amounts do not have to be repaid, as long as they fall within predetermined limits. The grants are recognised as income in the financial year that they relate to.

See Glossary for further details

#### Accounting policies relevant to section A continued

#### ■ Grants from other public bodies

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

■ Use of estimates and judgements – commercial income
Revenue recognition in the BBC's commercial operations is
complex, with a number of different revenue streams including
sale of content to global broadcasters, subscription income and
revenue from the sale of physical and digital products.

The complexity of individual contractual terms may require the Group to make judgements in assessing when the triggers for revenue recognition have been met, particularly whether the Group has sufficiently fulfilled its obligations under the contract to allow revenue to be recognised.

#### Accounting policies relevant to section B

# Completed originated programmes<sup>1</sup>, programmes in production and prepayments to acquire future programme-related rights

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

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

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

Programme development costs are expensed to the income statement until such time as there is a strong indication that the development work will result in a commissioned programme<sup>1</sup>, 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 they are written off according to the 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 impaired 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.

Works in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the assets to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

See Glossary for further details

# H. Basis of preparation of the financial statements and other accounting policies continued

Accounting policies relevant to section C continued

# Other employee benefits

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

#### Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructure. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

#### Defined contribution plans

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

#### Defined benefit plans

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

Pension Scheme assets are measured at fair value. Pension Scheme liabilities are measured using a projected unit credit method. The present value of scheme liabilities is calculated by discounting estimated future cash outflows 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.

Remeasurement comprising gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in the income statement in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. When the benefits of a plan are changed the resulting change in benefit that relates to past service is recognised immediately in the income statement. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### Use of estimates and judgement – post-retirement benefits

The pension costs and obligations of the BBC Group's defined benefit schemes are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. Further analysis on the sensitivity of pension assumptions is given in note C8.1.

#### Accounting policies relevant to section D

#### 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<sup>1</sup> 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 buildings – 50 years

Freehold building improvements – 10-50 years

Long leasehold buildings – shorter of 50 years or life of lease

Long leasehold building improvements – 10-50 years

Short leasehold land and buildings – within unexpired lease term

# Plant and machinery

Computer equipment – 3-5 years

Electrical and mechanical infrastructure – 10-25 years

Other -3-10 years

#### ■ Furniture and fittings — 3-10 years

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

# ■ Use of estimates and judgements — capital projects

The BBC is completing a number of significant capital projects for which amounts have been capitalised on the Group's balance sheet.

The recoverability of these assets is dependent on the achievement of project completion and the assets being used in the manner intended as part of the original business case.

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See Glossary for further details

#### Accounting policies relevant to section D continued

#### Lease payments

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

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

# Use of estimates and judgement – leases

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

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

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

### Non-current assets held for sale

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

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

#### Investments in equity securities

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

# Accounting policies relevant to section E

#### Programme-related intangible assets

Programme-related intangible assets, which include programme rights<sup>1</sup> 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<sup>1</sup> expenditure – internallygenerated intangible assets

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

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

- it is probable that the asset will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

The assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

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

#### Other intangible assets

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

See Glossary for further details

# H. Basis of preparation of the financial statements and other accounting policies continued

Accounting policies relevant to section E continued

#### Amortisation<sup>1</sup>

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; and
- other intangibles:

Lonely Planet masthead Straight line 20 years

UKTV 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.

# Impairment<sup>1</sup>: Non-financial assets

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

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

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

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

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

#### Goodwill<sup>1</sup>

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

Acquisitions prior to I April 2007 – as part of the adoption of IFRS, in accordance with IFRS I First-time adoption of IFRS, the Group elected to restate only those business combinations that occurred on or after I April 2007. In respect of acquisitions prior to I 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 I April 1998 remains offset against the operating reserve, as was permitted by UK GAAP at the time.

Goodwill arising on the acquisition of associates and joint ventures 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 cashgenerating units on the basis of those expected to benefit from the relevant business combination.

See Glossary for further details

#### Accounting policies relevant to section F

#### Trade and other receivables

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

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

#### Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost<sup>1</sup> using the effective interest method.

#### Borrowing costs

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

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

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

## Use of estimates and judgements - provisions

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

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

# Accounting policies relevant to section G

#### **Taxation**

The tax charge for the period comprises both tax currently payable and deferred tax<sup>1</sup>. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves.

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

- the BBC (UK PSB Group, BBC World Service and BBC Monitoring) is not liable to corporation tax on any surplus licence fee income or grants received from Government departments, however, it is fully liable for corporation tax on capital gains and on all its other external income. Expenditure on capital assets is not eligible for capital allowances giving rise to temporary differences that would lead to deferred tax assets or liabilities. Movements of fair value adjustments in the income statement give rise to deferred tax balances.
- the BBC's commercial subsidiaries are liable for corporation tax based on taxable profit for the year.

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

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

# Financial instruments

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

# Cash and cash equivalents

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

See Glossary for further details

# H. Basis of preparation of the financial statements and other accounting policies continued

**Accounting policies relevant to section G** continued

#### Derivative financial instruments

The BBC Group does not enter into speculative derivative contracts, however, some derivative financial instruments are used to manage the BBC's exposure to fluctuations in interest rates (interest rate swaps<sup>1</sup>, caps<sup>1</sup> and collars<sup>1</sup>) and foreign currency exchange rates (foreign currency forwards contracts<sup>1</sup> and currency options).

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

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

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

#### Put option1

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

#### Hedge accounting

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

#### Embedded derivatives

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

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

# Impairment of financial assets

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate<sup>1</sup>. All impairment losses are recognised in the income statement.

#### Reserves

The operating reserve is the accumulated surplus/deficit to date.

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.

<sup>&</sup>lt;sup>1</sup> See Glossary for further details

#### 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 (and in some cases had not yet been adopted by the EU):

IFRS 9 Financial instruments

IFRS 10 Consolidated financial statements

IFRS II Joint arrangements

IFRS 12 Disclosures of interests in other entities

IFRS 10 and 12 and IAS 27 (amendments)

Investment entities

IFRS 15 Revenue from contracts with customers

IAS 16 (amendments)

Property, plant and equipment

IAS 27 (amendments)

Separate financial statements (2011)

IAS 28 Investment in associates and joint ventures (2011)

IAS 32 (amendments) Offsetting financial assets and liabilities

IAS 36 (amendments)

Recoverable amount disclosures for non-financial assets

IAS 38 (amendments) Intangible assets

IAS 39 (amendments)

Novation of derivatives and continuation of hedge accounting

The directors do not expect that the adoption of the Standards and Interpretations listed above would have a material impact on the financial statements of the Group in future periods, with the exception of IFRS 9 and IFRS 15.

IFRS 9 is likely to impact both the measurement and disclosures of financial instruments but the standard has already been revised twice since the first version was introduced in 2009. Entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (I) the classification and measurement requirements for financial assets, (2) the classification and measurement requirements for both financial assets and financial liabilities, or (3) the classification and measurement requirements and the hedge accounting requirements. In addition, entities may choose to apply only the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without the early application of the other requirements of IFRS 9. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. Until the project is finalised, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 on the Group financial statements in future periods.

IFRS 15 will impact revenue recognition, in particular royalty based income.

# Glossary

With the aim of improving comprehension, the table below explains the financial terms used within the financial statements:

Note	Term	Definition	
C6	Related parties	Related parties include key management personnel, their immediate families ar external entities controlled by them.	
C7	Pension Scheme	On retirement, members of the BBC's defined benefit Pension Scheme are paid their pensions from a fund which is kept separate from the Group to which the BBC makes cash contributions.	
C7.2	Current service cost	The current service cost is the underlying cost to the BBC of pension rights earned by employees during the year.	
C7.2	Net finance income/(cost)	Net finance income/(cost) is the difference between the expected return on assets and the interest liabilities.	
C7.2	Remeasurements	Remeasurements which arise from actual performance being different from that predicted give rise to gains and losses in the statement of comprehensive income.	
C7.2	Past service cost	The past service charges arise from changes to the terms and conditions relating to member's defined retirement benefits, resulting in a credit for years of service already given.	
C8.I	IAS 19 valuation	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.	
D2	Assets available for trading	Assets available for trading are interests in entities in which the BBC has neither control nor a significant interest.	
D4	Finance lease	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.	
D6	Operating lease	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.	
E2	Cash Generating Units (CGU)	Cash generating units are the smallest group of assets that can independently generate cash flows.	
E4	Joint venture	A joint venture is where the BBC Group has joint control over an entity with another partner(s).	
E4	Provisions in relation to associates and joint ventures	Where the BBC has an obligation to settle an individual net liability of a joint venture, this is reflected within provisions.	
E4	Associate	An associate is an entity that the BBC Group has significant influence over, but that does not meet the definition of a joint venture or subsidiary.	
FI	DCMS borrowings	The DCMS definition of 'borrowings' excludes leases which would be classified as operating under UK GAAP, but which are classified as finance leases under IFRS at the date of transition to IFRS. These leases are therefore excluded when comparing net debt/funds to DCMS borrowing ceilings.	
F2	Public Services	Public Services in this context represent the UK PSB Group (excluding Centre House Productions Limited – see note G4.2), BBC World Service and BBC Monitoring.	
F9	Interest cost on pension plan liabilities	The interest cost on pension plan liabilities represents the increase during the year in the value of the plan liabilities because the benefits are one year closer to settlement.	

Note	Term	Definition	
G2.I	Deferred tax	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.	
G3.I	Plan liability	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.	
G3.I	Changes in assumptions underlying plan liabilities	Changes in assumptions underlying plan liabilities represent the changes in estimates used to value the future liability. Key assumptions include the discount rate and mortality.	
G3.2	Remeasurements on plan assets	Remeasurements 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.	
G3.4	Gains and losses	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.	
G3.6	Discount rate	The discount rate for the IAS 19 valuation is taken as the rate for an AA rated corporate bond.	
G3.7	Maturity	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.	
G4.I	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 obligation.	
G4.2	Defeasance deposits	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.	
G4.3	Put option	A put option is a contract that gives the holder the right, but not the obligation, to sell an asset at a specific point in time.	
G4.3	Strike price	The strike price is the price the option will sell at.	
G4.3	Exercise	Exercise is the point at which the rights in the option are implemented or acted upon.	
G5.3	Subsidiary undertakings	Subsidiary undertakings are businesses the BBC controls.	

# Glossary

The following terms are used within the section H. Basis of preparation of the financial statements and other accounting policies:

	0		01
Section	Term	Definition	
	Going concern	The Directors are required to make a stater which means it can meet its debts and contin 12 months from the date on which these final	nue trading for a period of at least
	Subsidiary	A subsidiary is an entity that is directly or ind Control exists where the Group has the pow operating policies of the entity so as to obtai In assessing control, potential voting rights th or convertible are taken into account.	wer to govern the financial and n benefits from its activities.
	Associate	An associate is an entity other than a subsidial Group has significant influence. Significant in the financial and operating decisions of an control over those policies.	fluence is the power to participate
	Joint venture	A joint venture is an entity in which the Grou contractual arrangement where the Group a undertake an economic activity that is subject	and one or more other parties
	Foreign currency transactions	As these financial statements are prepared in transactions and balances must be translated sterling. This means that variations in exchan investments to fluctuate even when there has underlying business.	d at appropriate exchange rates, into ge rates can cause the valuation of
В	Originated programmes	Originated programmes are programmes pr for broadcasting and/or sale of the rights to b	
В	Commissioned programme	A commissioned programme is where an agreement has been made for the programme to be produced for broadcast.	
D	Finance lease	A finance lease is a lease that transfers substantially all the risks and rewards of ownership of the leased asset to the lessee, which is accounted for as if it were an asset of the lessee. As such, both the asset and future liability are recognised on the balance sheet.	
D	Operating lease	An operating lease is a lease in which the less the risks and rewards of ownership of the le	
E	Programme rights	Programme rights are rights held by the BBC that permit a future transmission of a particular programme or event.	
Е	Useful economic life	Useful economic life is the period over which the BBC Group will be utilising the asset.	
E	Research and development	Research and development costs are incurre programmes or assets, such as the BBC iPlay ideas are generated, some of which are then design where the costs are then categorised	rer. Research costs are where the odeveloped further into a plan or

Section	Term	Definition	
E	Amortisation	Amortisation is the reduction reflected in the carrying value of the asset as a consequence of the regular use of that asset by the organisation.	
E	Impairment	An impairment occurs when the carrying value of an asset is higher than the amount that is recoverable from its use or sale.	
E	Fair value	The fair value of an asset is the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.	
Е	Goodwill	Goodwill is the difference between the value paid for a business and the fair value of its net assets. It represents the premium the purchaser is prepared to pay for the business.  Consideration, in this context, is the monetary value transferred in exchange for the share in ownership of another entity.  Where the BBC does not own an entity outright, the other shareholders are known/disclosed as non-controlling interests.	
F	Amortised cost	Amortised cost is the initial value of the transaction that has been amended for subsequent payments, the time value of money and any impairment that may be required.	
G	Deferred tax	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.	
G	Derivative	A derivative is an asset or liability that is dependent on, or derives its value from, another asset or liability and is to be settled in the future.	
G	Forward exchange contracts	Under forward exchange contracts you buy or sell a currency at a fixed exchange rate with delivery made on a given date or dates in the future.	
G	Interest rate caps	Interest rate caps protect against interest rates rising, by setting an upper limit (cap) on the floating interest rate, whilst still allowing the benefit of falling interest rates.	
G	Interest rate collars	Interest rate collars are the same as interest rate caps except that there is also a lower limit set to the floating interest rate.	
G	Interest rate swaps	Interest rate swaps effectively swap a floating rate loan into a fixed rate loan, or vice versa.	
G	Put option	A put option issued by the BBC provides the holder the rights, but not the obligation to require the BBC to buy shares at a future date and price determined by the option agreement.	
G	Inception	Inception is the point at which a contract is confirmed, this is normally the point at which the contract is signed.	
G	Unrealised changes	Unrealised changes are those changes that occur to the value of the embedded derivative prior to the point at which the derivative is exercised.	
G	Effective interest rate	An effective interest rate is the rate used to discount future cash flows over the life of the contract back to present value.	

# Copyright credits

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