

Financial statements

Consolidated statement of income and expenditure

for the year ended 31 March

	Note	2006 £m	2005 £m
Income (including share of joint ventures)		4,234.5	3,997.1
Less: share of joint ventures	13b ii	(229.5)	(161.8)
Group income	1	4,005.0	3,835.3
Operating expenditure excluding exceptional restructuring costs		(4,094.1)	(4,022.2)
Exceptional restructuring costs	4c	(119.1)	(50.7)
Total operating expenditure	2	(4,213.2)	(4,072.9)
Group operating deficit		(208.2)	(237.6)
Share of operating surplus of associates and joint ventures		31.2	19.7
Operating deficit: Group and share of associates and joint ventures	3	(177.0)	(217.9)
Profit on sale and termination of operations	5	125.2	28.2
Profit/(loss) on disposal of fixed assets	6	16.0	(43.1)
Deficit before interest and taxation		(35.8)	(232.8)
Interest receivable and similar items	7a	13.5	5.2
Interest payable and similar items	7b	(12.0)	(11.3)
Other net finance income (from defined benefit pension scheme)	8c ii	65.7	65.4
Surplus/(deficit) before taxation and minority interest	1	31.4	(173.5)
Taxation	9	(27.7)	(15.2)
Minority interest		(0.1)	0.5
Surplus/(deficit) for the financial year	18	3.6	(188.2)

All results arise from continuing operations.

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

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Balance sheets

at 31 March

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Fixed assets					
Intangible fixed assets	10	19.3	20.3	—	—
Tangible fixed assets	11	697.2	721.6	493.0	488.1
Investment in programmes for future sale	12	106.5	97.3	—	—
Other investments	13	46.3	40.6	283.9	285.4
		869.3	879.8	776.9	773.5
Current assets					
Stocks	14	462.4	458.8	447.6	439.5
Long-term debtors	15	45.9	106.1	26.9	84.3
Current debtors	15	727.1	674.8	582.8	547.4
Total debtors		773.0	780.9	609.7	631.7
Short-term investments	21	—	41.9	—	22.6
Cash at bank and in hand	21	160.2	38.3	104.6	7.6
		1,395.6	1,319.9	1,161.9	1,101.4
Creditors – amounts falling due within one year	16b	(919.8)	(918.3)	(729.5)	(775.2)
Net current assets		475.8	401.6	432.4	326.2
Total assets less current liabilities		1,345.1	1,281.4	1,209.3	1,099.7
Creditors – amounts falling due after more than one year	16c	(116.8)	(187.6)	(33.3)	(34.7)
Provisions for liabilities	17	(196.2)	(139.6)	(164.5)	(94.9)
Net assets excluding pension asset/(liability)		1,032.1	954.2	1,011.5	970.1
Pension asset	8c i	170.2	—	—	—
Pension liability	8c i	(5.3)	(426.8)	—	—
Net assets		1,197.0	527.4	1,011.5	970.1
Represented by					
Operating reserve excluding pension reserve	18	257.5	188.7	237.0	204.3
Pension reserve	18	164.9	(426.8)	—	—
Total operating reserve	18	422.4	(238.1)	237.0	204.3
Capital reserve	18	771.3	761.8	771.3	761.8
Revaluation reserve	18	3.2	4.0	3.2	4.0
		1,196.9	527.7	1,011.5	970.1
Minority interest		0.1	(0.3)	—	—
		1,197.0	527.4	1,011.5	970.1

The financial statements were approved by the Governors and Executive Board on 14 June 2006 and signed on their behalf by:

Michael Grade
Mark Thompson
Zarin Patel

Chairman
Director-General
Group Finance Director

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Consolidated statement of total recognised gains and losses

for the year ended 31 March

The adjustment to reserves on adoption of FRS 26 relates to the fair value of derivatives existing at 1 April 2005 which have not been recognised in the comparatives, as permitted by the standard.

	Note	2006 £m	2005 £m
Group surplus/(deficit) for the financial year		3.6	(188.2)
Exchange differences on retranslation of overseas subsidiaries		1.9	(0.5)
Unrealised gain on disposal of business		—	22.8
Actuarial gain on defined benefit pension schemes	8c iii	661.1	80.9
Total recognised gains and losses relating to the year		666.6	(85.0)
Adjustment on adopting FRS 26	18	2.6	—
Total gains and losses since last annual report		669.2	(85.0)

Reconciliations of movement in reserves

for the year ended 31 March

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Surplus/(deficit) for the financial year	3.6	(188.2)	41.4	(16.5)
Other recognised gains and losses relating to the year (net)	663.0	103.2	—	—
Increase/(decrease) in reserves during the year	666.6	(85.0)	41.4	(16.5)
Adjustment on adopting FRS 26	2.6	—	—	—
Increase/(decrease) in reserves since last annual report	669.2	(85.0)	41.4	(16.5)
Opening reserves	527.7	612.7	970.1	986.6
Closing reserves	1,196.9	527.7	1,011.5	970.1

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Consolidated cash flow statement
for the year ended 31 March

Reconciliation of Group operating deficit to net cash flow from operating activities

	2006 £m	2005 £m
Group operating deficit	(208.2)	(237.6)
Depreciation and amortisation	197.3	198.6
Difference between pension charge and cash contribution	135.1	136.8
Loss on disposal of tangible fixed assets	2.4	8.8
Increase in stocks	(6.8)	(38.2)
Increase in debtors	(28.7)	(43.8)
Increase in creditors	47.5	24.4
Increase in provisions	77.5	32.9
Cash outflow on termination of operations	—	(1.7)
Net cash inflow from operating activities	216.1	80.2

Cash flow statement

	Note	2006 £m	2005 £m
Net cash inflow from operating activities		216.1	80.2
Dividends received from joint ventures and associates	13a	19.8	13.6
Return on investments and servicing of finance			
Interest received		13.5	5.2
Interest paid		(9.2)	(11.3)
Interest paid on finance leases		(0.5)	—
Net cash inflow/(outflow) from return on investments and servicing of finance		3.8	(6.1)
Taxation			
Taxation paid		(12.0)	(2.0)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(130.7)	(487.7)
Investment in programmes for future sale		(73.6)	(75.5)
Investment in intangible fixed assets		(0.4)	(0.5)
Repayment of loan to associate undertaking		0.4	0.3
Proceeds from the sale of tangible fixed assets		20.2	382.6
Net cash outflow from capital expenditure and financial investments		(184.1)	(180.8)
Acquisitions and disposals			
Purchase of a subsidiary		(0.8)	—
Purchase of interest in associates and joint ventures		(4.1)	(7.1)
Proceeds from sale of operations		166.1	144.1
Proceeds from disposal of interests in associates		—	21.0
Net cash inflow from acquisitions and disposals		161.2	158.0
Net cash inflow before use of liquid resources and financing		204.8	62.9
Management of liquid resources			
Sale/(purchase) of other liquid resources	20	41.9	(29.3)
Net cash inflow/(outflow) from management of liquid resources	20	41.9	(29.3)
Financing			
Increase in loans		57.0	20.0
Repayment of loans		(135.0)	(50.0)
Capital repayment of finance leases		(9.4)	(3.2)
Repayment of loan notes		(0.5)	(0.1)
Net cash outflow from financing	20	(87.9)	(33.3)
Increase in cash in the year	20	158.8	0.3

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Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated. A footnote in italics follows some policies to explain technical aspects of the accounting treatment in plain English.

The financial statements have been prepared in accordance with the provisions of the BBC's Charter and Agreement. Although not mandatory, the BBC has in previous years chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the Financial Services Authority Listing Rules to ensure that its financial statements were prepared on a basis consistent with those of UK public limited companies.

Following changes in company law, if it had continued to report as if it were a public limited company, the BBC would have prepared its Group financial statements in accordance with EU-adopted International Financial Reporting Standards (IFRS) from 1 April 2005. However, as discussed in the Financial review (see pages 92 to 94), reporting under IFRS would be inconsistent with Government reporting. Instead the current financial statements have been prepared under UK GAAP as in previous years.

In line with other companies, the BBC files with Companies House audited financial statements for all its subsidiary companies.

Basis of accounting

The financial statements are presented in accordance with UK GAAP under the historical cost accounting convention as modified by the revaluation of certain plant, machinery, furniture and fittings.

Adoption of new accounting standards

The BBC has adopted the following applicable UK accounting standards for the first time in these Group accounts.

- FRS 21 (IAS 10) *Events after the balance sheet date*. This has had no impact on the statement of income and expenditure or the balance sheet.
- FRS 23 (IAS 21) *The effects of changes in foreign exchange rates*. The principal effect of this change is that transactions are now recorded at the prevailing exchange rate and not the forward contract rate if a related foreign currency contract has been entered into. The gain or loss when the forward contract is discharged flows directly to the statement of income and expenditure.
- FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation* and FRS 26 (IAS 39) *Financial Instruments: Measurement*. The principal effect of these standards has been to recognise derivative financial instruments. As permitted under these standards the 2005 comparatives have not been restated and continue to be presented under previously applicable accounting standards.
- FRS 28 *Corresponding amounts*. This has had no impact on the statement of income and expenditure or the balance sheet.

Basis of consolidation

The Group comprises:

- UK Public Service Broadcasting (the deemed parent company) and those subsidiaries incorporated to act solely on its behalf,

notably Centre House Productions Limited, BBC Property Limited, BBC Property Investment Limited and BBC Free to View Limited (UK Public Service Broadcasting Group)

- BBC World Service (and its subsidiaries)
- Commercial subsidiary companies comprising BBC Commercial Holdings Limited and its various subsidiaries (notably BBC World Group and BBC Ventures Group – which includes BBC Worldwide)

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually between 20% and 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of profits less losses of associates and joint ventures is included in the consolidated statement of income and expenditure and its interest in their net assets is included in the consolidated balance sheet except where the BBC has no obligation to make good its share of their cumulative operating losses.

A separate statement of income and expenditure reflecting the results of UK Public Service Broadcasting has not been presented, as permitted by Section 230 of the Companies Act 1985 as if it were a company.

These accounts of the Group include the results of UK Public Service Broadcasting, BBC World Service and all other businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses over which the BBC has influence but not control (associates) and those which the BBC jointly controls (joint ventures).

Investments in Group undertakings

Other than the BBC World Service, investments are recorded on the balance sheet of UK Public Service Broadcasting at cost less provision for any impairment in value.

The funding of UK Public Service Broadcasting and of BBC World Service is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing UK Public Service Broadcasting's balance sheet, UK Public Service Broadcasting is considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

Income

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

■ Television licences

Income derived from television licences is recognised when receivable from the Department for Culture, Media and Sport. This represents the value of licences issued in the year. The amount which can be paid in cash to the BBC for any year cannot exceed the total amount voted by Parliament for that year. Any excess between the value of licences issued and the amount voted is recognised in the following year.

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Statement of accounting policies

■ **Grant-in-Aid from the Foreign and Commonwealth Office**

BBC World Service Grant-in-Aid is recognised when receivable from the Foreign and Commonwealth Office. It is intended to meet estimated expenditure in the year but unexpended receipts for the year, within predetermined limits, are not liable to surrender.

■ **Provision of equipment, facilities and services**

With the exception of long-term contracts, income is recognised when the equipment, facilities and services are provided to customers.

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

■ **Provision of programme making facilities and services**

Recognised on provision of service.

■ **Distribution and advertising income**

Recognised on provision of service.

■ **Licence fees from international television programme sales**

Recognised at the start of the licence period unless the programme rights have not been delivered by that date, in which case, revenue is recognised on delivery of the rights.

■ **Sale of promotional merchandise and income from publishing**

Recognised at the time of delivery or on provision of service. Sales are stated after deduction of the sales value of actual and estimated returned goods.

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial, UK Public Service Broadcasting or BBC World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 76 to 78 of this report.

Foreign currency translation

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

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

The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates for the year. Exchange differences arising on consolidation from the retranslation of the opening net assets of overseas subsidiaries and any related long-term foreign currency borrowings together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end, are taken to the statement of total recognised gains and losses.

As these financial statements are prepared in sterling, the BBC's foreign currency transactions and balances must be translated, at appropriate exchange rates, into sterling. This policy states how those retranslations are included in the financial statements and is consistent with the methods used by many companies.

Pension costs

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

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

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

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

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC.

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

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

Research and development

Research and development expenditure is written off as incurred.

Intangible fixed assets

Goodwill

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

Goodwill arises when the BBC pays more for a business than the sum of the business' net assets acquired, representing the fact that the Group places more value on the business entity as a whole (usually due to expected synergies or earning potential of that business). As such, this

premium is treated as being an asset in its own right and held on the Group's balance sheet, with a presumed economic life of 20 years.

As with any other asset, the profit or loss on sale or disposal (in this case sale/disposal of the business) is calculated after writing off the unamortised amount still held on the Group's balance sheet.

Other intangibles

Other intangibles are capitalised and amortised on a straight line basis over their useful economic life (usually 2–4 years) subject to review for impairment.

Tangible fixed assets

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

UK Public Service Broadcasting's plant and machinery is stated at the estimated current replacement cost of the assets, as at 31 March 1993, adjusted for remaining service potential, or cost if acquired later, less accumulated depreciation.

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

There is no material difference between the net book value of these tangible fixed assets and their value as determined on an historical cost basis.

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

The BBC's useful lives for depreciation purposes for the principal categories of assets are:

Land and buildings

Freehold land	– not depreciated
Freehold and long-leasehold buildings	– 50 years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

Computer equipment	– three to five years
Electrical and mechanical infrastructure	– ten to 25 years
Other	– three to ten years

Furniture and fittings	– three to ten years
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The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue them on an ongoing basis. This reflects the fact that they are used within the BBC rather than being held for resale or their investment potential. Assets are therefore included at the amount they cost when purchased or constructed (in either case less subsequent depreciation).

Investment in programmes for future sale

Investment in programmes for future sale is stated at cost, after writing off the costs of programmes that are considered irrecoverable, less accumulated amortisation. Amortisation

of investment in programmes for future sale is charged to the statement of income and expenditure over the estimated average marketable life of the programme genre which is generally between two and ten years. The cost and accumulated amortisation of investment in programmes for future sale are reduced by programmes which are fully written off.

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

Impairment of fixed assets

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

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

Originated programme stocks and work in progress

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

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

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

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

Acquired programmes and film stocks

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

Other stocks

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

Provisions

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

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Statement of accounting policies

Deferred tax

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

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

Operating leases

Operating lease rentals are written off on a straight line basis over the term of the lease.

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

The BBC receives operating lease income which is also accounted for on a straight line basis over the term of the lease.

Finance leases

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

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

Reserves

Each year an amount equivalent to the costs expended by the Home and World Services on capital assets over and above depreciation, adjusted for disposals, is transferred to capital reserve so that, at the balance sheet date, the amount of the capital reserve is equivalent to the historical cost net book value of Home and World Services' fixed assets.

The revaluation reserve reflects the difference between the net book value of fixed assets of UK Public Service Broadcasting and BBC World Service at historic cost compared with their revalued amount.

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

The pension reserve represents the net surplus or liability of the Group's defined benefit pension schemes.

The BBC is careful not to mix UK Public Service Broadcasting and BBC World Service reserves. Hence BBC World Service reserves are shown separately in the notes to the financial statements.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable

on demand. Liquid resources are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values: they comprise money market deposits and liquidity funds with a notice period in excess of one working day.

Financial instruments

The Group does not enter into speculative derivative contracts. However some derivative financial instruments are used with a view to managing the BBC's exposure to fluctuations in foreign currency exchange rates and interest rates.

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

A limited number of derivative financial instruments are used to hedge the Group's exposure to fluctuations in interest rates. The fair value of interest swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations. The fair value of foreign currency forward contract rates is determined by using forward exchange market rates at the balance sheet date.

The Group does not apply hedge accounting but instead allows the movement on the fair values of the hedging contracts to flow to the statement of income and expenditure as it arises.

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

Disclosure of the Group's loans and other financial assets and liabilities is provided within Note 23 to the financial statements.

The BBC's derivative financial instruments comprise forward exchange contracts and interest rate swaps.

Forward exchange contracts provide certainty of future expenses and income in a foreign currency by fixing the exchange rate rather than waiting for the prevailing exchange rate at the time of the transaction or payment. The BBC also enters into interest rate swaps to effectively swap a floating rate loan into a fixed rate loan, again to provide more certainty of interest payments.

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

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Notes to the financial statements

Note 1 provides analysis of the different business areas within the BBC.

UK Public Service Broadcasting Group (referred to as 'Home Services' within the BBC Charter) comprises the UK Public Service Broadcasting operations and those subsidiary companies incorporated to act solely on behalf of those public service operations.

BBC World Service comprises broadcasting and media monitoring activities.

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

I Analysis of income, surplus/(deficit) and net assets

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

Note	UK Public Service Broadcasting Group £m	BBC World Service £m	Commercial Businesses £m	Total £m
2006				
Total income	3,242.1	260.5	976.6	4,479.2
Less: Intra-Group income	(117.3)	(0.3)	(127.1)	(244.7)
Total external income	3,124.8	260.2	849.5	4,234.5
Less: Share of joint ventures	–	–	(229.5)	(229.5)
Group income	I b,d,g,h	3,124.8	260.2	4,005.0
Surplus/(deficit) before interest, taxation and non-cash pension costs	I e,h	(105.7)	(1.9)	206.9
Defined benefit pension scheme				
– additional operating costs*†				(135.1)
– other net finance income*				65.7
Net interest receivable				1.5
Surplus before taxation and minority interest				31.4
Net assets (excluding pension asset)	I f,h	730.5	158.6	1,032.1
Net pension asset*†				164.9
Net assets				1,197.0
2005				
Total income	3,084.8	247.7	1,090.3	4,422.8
Less: Intra-Group income	(120.1)	(0.5)	(305.1)	(425.7)
Total external income	2,964.7	247.2	785.2	3,997.1
Less: Share of joint ventures	(0.9)	–	(160.9)	(161.8)
Group income	I b,d,g,h	2,963.8	247.2	3,835.3
(Deficit)/surplus before interest, taxation and non-cash pension costs	I e,h	(194.5)	7.1	91.4
Defined benefit pension scheme				
– additional operating costs*†				(136.8)
– other net finance income*				65.4
Net interest payable				(6.1)
Deficit before taxation and minority interest				(173.5)
Net assets (excluding pension liability)	I f,h	689.2	160.1	954.2
Pension liability*†				(426.8)
Net assets				527.4

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

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

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Notes to the financial statements

The income from licences represents the value of all licences issued in the year:

Ib UK Public Service Broadcasting Group income

	2006 £m	2005 £m
Licence fee income		
Colour	2,622.3	2,489.2
Monochrome	1.8	2.0
Concessionary	0.9	0.9
Over 75s	459.2	432.3
Quarterly payment scheme premium	16.4	15.9
Total licence fee income	3,100.6	2,940.3
Other income	24.2	23.5
Total external income	3,124.8	2,963.8

Other income includes the provision of content and services to overseas broadcasters, concert ticket sales and exploitation of the programme archive.

During the year 3.3 million (2005 3.2 million) colour licences were issued under the quarterly payment scheme at a premium of £5 each (2005 £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 departments.

Licences in force are those which are still valid as at 31 March each year.

	2006 Number m	2005 Number m
Licences in force		
Colour	20.8	20.6
Monochrome	0.1	0.1
Over 75s	3.9	3.8
Concessionary	0.2	0.2
	25.0	24.7

Licence fees are set by the Department for Culture, Media and Sport.

	2006 £	2005 £
Licence fees		
Colour	126.50	121.00
Monochrome	42.00	40.50
Concessionary	5.00	5.00

From 1 April 2006 the colour and monochrome licence fees were increased to £131.50 and £44 respectively. The concessionary licence remained at £5.

Ic Geographical analysis of UK Public Service Broadcasting Group

UK Public Service Broadcasting Group income and deficit arise in the UK. The net assets used by these operations are located in the UK.

Id BBC World Service income

	2006 £m	2005 £m
Grant-in-Aid	239.1	225.1
Subscriptions	15.8	16.7
Other income	5.3	5.4
Total external income	260.2	247.2

Other income is generated from the sale of programmes, co-production deals, publishing activities and the provision of media monitoring services.

Ie BBC World Service (deficit)/surplus before interest and taxation by activity

	2006 £m	2005 £m
Broadcasting	0.7	7.7
BBC Monitoring	(2.6)	(0.6)
Total (deficit)/surplus before interest and taxation	(1.9)	7.1

If Geographical analysis of BBC World Service

BBC World Service income, operating expenditure and (deficit)/surplus arises primarily in the UK.

Location of BBC World Service net assets:	2006 £m	2005 £m
UK	65.8	66.2
Overseas	92.8	93.9
Net assets	158.6	160.1

Ig Analysis of Commercial Businesses' income by activity

	2006 £m	2005 £m
Children's, new media and home entertainment	133.5	161.0
Television sales	193.5	158.2
Magazines	152.1	163.5
Entertainment and news television channels	112.1	90.8
Provision of playout and channel management services	31.5	108.9
Provision of programme making facilities and services	124.4	135.1
Provision of technology services	—	111.9
Less intra-Group income	(127.1)	(305.1)
Total external income	620.0	624.3

Ih Geographical analysis of Commercial Businesses

This table shows where the customers of Commercial Businesses are based.

	United Kingdom £m	Americas £m	Rest of the world £m	Total £m
2006				
External income by destination	302.4	147.6	170.0	620.0
Surplus before interest and taxation	167.5	7.6	31.8	206.9
Net assets	106.8	35.9	0.3	143.0
2005				
External income by destination	358.9	115.6	149.8	624.3
Surplus before interest and taxation	69.7	4.1	17.6	91.4
Net assets	75.9	28.5	0.5	104.9

All commercial income originates in the UK as this is where rights for exploitation and the skills and services of the Commercial Businesses are developed.

2 Operating expenditure

2a Analysis of operating expenditure by activity

	Note	Total 2006 £m	Total 2005 £m
UK Public Service Broadcasting Group	2b	3,236.7	3,107.7
BBC World Service*	2c	262.1	240.1
Commercial Businesses	2d	579.3	588.3
Non-cash pension scheme operating costs**		135.1	136.8
		4,213.2	4,072.9

*BBC World Service expenditure of £262.1million (2005 £240.1million) excludes £0.3million (2005 £0.5million) of expenditure on the provision of services to other BBC Group companies

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

2b UK Public Service Broadcasting Group expenditure

	Note	2006 £m	2005 £m
Analogue services			
BBC One	(i)	840.4	872.9
BBC Two	(i)	374.1	374.5
National and regional television	(ii)	228.6	213.5
National, regional and local radio		141.3	142.2
BBC Radio 1		17.7	17.8
BBC Radio 2		24.1	23.8
BBC Radio 3		31.1	32.0
BBC Radio 4		71.4	71.3
BBC Radio Five Live	(i)	48.9	53.8
		1,777.6	1,801.8
Digital services			
The CBBC Channel, CBeebies	(iii)	63.2	49.7
BBC Three		92.9	92.9
BBC News 24		23.1	22.9
BBC Parliament		1.9	2.2
BBC Four	(iv)	46.9	41.1
Interactive television (BBCi)		18.2	17.1
IXtra		5.7	5.7
BBC Radio Five Live Sports Extra		1.6	1.6
6 Music		4.4	4.5
BBC 7		5.0	4.8
BBC Asian Network	(v)	7.6	5.4
bbc.co.uk		72.3	69.2
BBCjam (formerly known as Digital Curriculum)	(vi)	35.5	8.3
		378.3	325.4
Transmitted programme spend		2,155.9	2,127.2

table continues

2b UK Public Service Broadcasting Group expenditure continued

	Note	2006 £m	2005 £m
Programme related spend			
Newsgathering		89.5	89.5
Collecting society		60.4	57.2
Orchestras and performing groups		19.0	17.9
Marketing, press and publicity		40.3	49.6
On-air trails		23.7	24.5
Market research and consumer services		12.1	16.0
Libraries, helplines, development and one-off events		93.3	84.2
		338.3	338.9
Total programme spend		2,494.2	2,466.1
Overheads excluding restructuring	(vii)	311.5	281.6
Total output spend		2,805.7	2,747.7
Percentage of output spend on programmes		89%	90%
Licence fee collection costs		153.4	152.0
Transmission costs	(viii)	166.9	157.3
		320.3	309.3
Exceptional restructuring costs	(ix), 4c	106.7	50.7
Digital UK costs	(x)	4.0	—
Total UK PSB expenditure		3,236.7	3,107.7

- (i) Spend on BBC One and BBC Radio Five Live was higher in 2005 due to coverage of the Olympics and Euro 2004.
- (ii) National and regional television spend increased in 2006 to support the BBC's policy of investment in local television initiatives and local politics programming.
- (iii) Spend on the children's channels has increased due to proportionally more quality content, particularly drama, being premiered on The CBBC Channel and CBeebies, rather than BBC One or BBC Two.
- (iv) Spend on BBC Four reflects the continuation of the channel's investment programme in original output, including drama and comedy.
- (v) Increased costs were incurred by BBC Asian Network on new refurbished facilities and the first phase of a new strategy which will see a strengthening schedule with increased investment in journalism.
- (vi) BBC jam, formerly known as the Digital Curriculum, launched in January 2006 with content available in four subject areas. The service will continue to expand over the next two and a half years, with content covering a range of subjects across the curriculum and Key Stages being made available at regular intervals.
- (vii) Overheads are the costs associated with the provision of physical infrastructure and support services across the BBC, which include the cost of accommodation, technology, finance and human resources. The proportion of these costs which are directly attributable to programme making are included within total programme spend, whilst the costs of services provided across the BBC as a whole are shown as overhead spend. In 2000 the BBC adopted a target to increase the proportion it spends on programmes, in relation to its total output spend. Output spend excludes licence fee collection costs, transmission costs, exceptional restructuring costs and Digital UK costs. The BBC targeted to increase the proportion of spend on programming to 85% which was achieved in 2003, and in 2006 the proportion of output spend incurred on programming was 89%. Overheads in 2006 are higher than 2005, as a result of one-off rebates in National Insurance and property rates in 2005.
- (viii) Of the transmission costs, £77.2million relates to analogue services (2005 £76.7million) and £89.7million to digital services (2005 £80.6million).
- (ix) Restructuring costs include those costs relating to the change programme occurring within the BBC which will deliver £355million savings annually from 2008/2009.
- (x) Digital UK costs represent the BBC share of the running costs and marketing expense for Digital UK, the company that will drive switchover in the UK, in line with Government strategy.

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BBC World Service expenditure excludes expenditure on intra-Group activities.

2c BBC World Service expenditure

	2006 £m	2005 £m
Radio	178.4	159.1
Monitoring	26.5	25.2
Transmission and distribution costs	42.8	42.3
Internet activity	14.4	13.5
Total	262.1	240.1

BBC World Service expenditure includes £12.4million of exceptional restructuring costs (see Note 4c).

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

2d Commercial Businesses' expenditure

	Note	2006 £m	2005 £m
Cost of sales		325.8	323.5
Distribution costs		149.5	136.9
Administrative and other costs		21.7	48.9
Amortisation of programme investment	12	82.3	79.0
Total		579.3	588.3

3 Operating deficit

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

	2006 £m	2005 £m
Payments under operating leases		
– land and buildings	60.8	59.5
– plant and machinery	4.3	13.2
– other	12.5	10.2
Research and development	16.2	18.8
Programme development	31.7	29.2
Depreciation		
– owned assets	107.1	113.9
– leased assets	6.5	1.7
Loss on disposal of tangible fixed assets*	2.4	8.8
Amortisation of investment in programmes for future sale	82.3	79.0
Amortisation of intangible fixed assets	1.4	4.0
Net exchange differences	(0.5)	(2.8)
Fair value losses on embedded derivatives	5.1	–
Fair value gains on forward foreign currency contracts	(4.3)	–
Auditors' remuneration (KPMG LLP)		
– financial audit – UK Public Service Broadcasting	0.7	0.6
– other	0.5	0.5
– further assurance services	0.3	0.4
– tax advisory services	0.3	0.4
– other non-audit services	0.4	0.3
Fair trading auditors' remuneration (PricewaterhouseCoopers LLP)	0.4	0.4

*Loss on disposal of tangible fixed assets represents adjustments to depreciation on disposals in the ordinary course of business. Significant disposals are disclosed separately in Note 6

4 Employees and remuneration

4a Persons employed

The average number of persons employed in the year was:

	Average for the year	
	2006 Number	2005 Number
UK Public Service Broadcasting	18,860	19,647
BBC World Service	2,367	2,347
Commercial Businesses	4,150	5,270
Group total	25,377	27,264

Within the averages above, 2,981 (2005 3,414) part-time employees have been included at their full-time equivalent of 1,717 (2005 1,593).

In addition to the above, the Group employed an average full-time equivalent of 823 (2005 785) persons on a casual basis and the BBC Orchestra and BBC Singers, employed on programme contracts, totalled 382 (2005 378) full-time equivalents.

On 31 July 2005 the equivalent of 1,056 full-time employees transferred to Red Bee Media Limited as part of the sale of BBC Broadcast Limited. This transfer is reflected in the average for 2006.

4b Staff costs

	Note	2006 £m	2005 £m
Salaries and wages		988.4	1,038.6
Social security costs		88.4	95.1
Pension costs			
– main scheme (defined benefit)	8c ii	184.9	176.8
– other schemes	8c ii	1.1	1.6
Redundancy costs	4c	129.5	61.5
		1,392.3	1,373.6
Comprising:			
UK Public Service Broadcasting		986.9	909.9
BBC World Service		100.6	84.3
Commercial Businesses		169.7	242.6
Main pension scheme additional operating cost (defined benefit)*		135.1	136.8
		1,392.3	1,373.6

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

4c Restructuring costs

	Note	2006 £m	2005 £m
Exceptional redundancy costs:			
– UK Public Service Broadcasting	2b	106.7	50.7
– BBC World Service		12.4	–
		119.1	50.7
Non-exceptional redundancy costs:			
– BBC World Service		3.9	3.0
– Commercial Businesses		6.5	7.8
		10.4	10.8
	4b	129.5	61.5

Exceptional redundancy costs relate to the change programme occurring within UK Public Service Broadcasting and the strategic review of BBC World Service.

4d Remuneration of the Board of Governors and Executive Board

The emoluments of the Governors and of the Executive Board members are disclosed on page 88 in the Governors' remuneration report.

5 Profit on sale and termination of operations

	Note	2006 £m	2005 £m
Profit on sale of BBC Broadcast Limited	19	108.8	—
Profit on sale of BBC Technology Holdings Limited		15.2	32.4
Profit on disposal of learning business	19	1.7	—
Loss on termination of operations		(0.5)	(4.6)
Profit on disposal of children's book business		—	0.4
Profit on sale and termination of operations		125.2	28.2

On 31 July 2005, the Group sold BBC Broadcast Limited, a wholly owned subsidiary, for £166.0million consideration to Creative Broadcast Services Limited, a company owned by Macquarie Capital Alliance Group and Macquarie Bank Limited (see Note 19). BBC Broadcast Limited provided playout and channel management services.

On 30 September 2004 the Group sold BBC Technology Holdings Limited to Siemens Business Services Limited. A profit of £32.4million was recorded in 2005 after providing £21.1million for the estimated pension liability in respect of the expected number of BBC Pension Scheme members transferring to Siemens Business Services Limited. During the year, after confirmation of the actual staff transferred from the BBC to the Siemens pension scheme the value of the pension liability was confirmed as £5.9million, resulting in a further profit of £15.2million.

In October 2005 BBC Worldwide entered into an agreement with Pearsons Education to form a partnership named BBC Active. In return for the transfer of the assets of its learning division to the partnership, BBC Worldwide acquired a 15% share in the new partnership together with cash of £6.6million (see Note 19). The Group is accounting for its investment as an associate undertaking.

In August 2005, BBC Worldwide announced its intention to terminate its teacher learning business, which maintained a learning website. During the year ended 31 March 2006 termination costs totalling £0.5million were charged to the profit and loss account, of which £0.3million was in respect of the write off of assets held at 31 March 2005. The balance of £0.2million comprised the cash costs of exiting the business.

During the prior year BBC Worldwide Limited terminated its multimedia publishing business which developed and marketed gaming titles for Playstation, Xbox and Gameboy platforms. This resulted in termination costs of £2.7million of which £1.4million comprised the cash costs of exiting the business and £1.3million comprised the write-down of stocks held at 31 March 2004.

In July 2004 the Group decided to terminate the operations of BBC Vecta Limited. This resulted in a loss on termination of business of £1.9million of which £0.3million comprised cash termination costs.

6 Profit/(loss) on disposal of fixed assets

	2006 £m	2005 £m
Disposal of music publishing rights	9.3	—
Regional properties	1.5	19.4
Other properties	5.2	—
White City site	—	(62.5)
Profit/(loss) on disposal of fixed assets	16.0	(43.1)

In May 2005 BBC Worldwide completed the sale of its current catalogue of music publishing rights held within Investment in programmes for future sale. Consideration of £10.3million was received, with a profit of £9.3million. A cash advance against the deal was received in March 2005.

In 2005 the BBC entered into a sale and leaseback of regional properties; 20 regional properties were disposed in 2005 realising a profit of £19.4million. In 2006, two further regional properties were disposed in this way realising a profit of £1.5million. In 2006 the BBC also disposed of Melbourne House, the Hippodrome and Motspur Park properties realising a combined profit of £5.2million.

In the prior year the BBC changed the terms on which it occupies the White City site. This involved a number of discrete legal steps, including: purchase of the freehold of the White City site from the BBC's joint venture with Land Securities Trillium (LST); cancellation of the existing lease on the White City site and the White City Development Partnership capital; and the sale and leaseback of the White City site with a new third party investment vehicle.

The BBC considers that the substance of these discrete steps is that they formed part of a single property related transaction. This gave rise to a net charge to the income and expenditure account in the year of £62.5million, comprising a £1.5million loss on disposal of the White City site, £8.5million accelerated amortisation of goodwill in the property partnerships and £52.5million from the accelerated amortisation of balances previously shown in long-term prepayments. There was no cash effect from this accelerated amortisation. The BBC expects that the charge recorded in 2005 will be more than compensated in future years through reduced rental payments.

7 Interest

7a Interest receivable and similar items

	2006 £m	2005 £m
Interest receivable	13.5	5.2

7b Interest payable and similar items

	2006 £m	2005 £m
Fair value losses on interest rate swaps	(2.3)	—
Interest payable on bank and other loans	(9.2)	(11.3)
Finance charges payable in respect of finance leases	(0.5)	—
Interest payable and similar items	(12.0)	(11.3)

8 Pensions

8a Group pension schemes

The Group operates several pension schemes. The BBC Pension Scheme (the BBC's most significant scheme) and a small unfunded scheme (which is closed to new members) are contributory defined benefit schemes. Additionally the Group Personal Pension Scheme and other small schemes are defined contribution schemes. Note 8b describes the BBC Pension Scheme and Note 8c explains all the amounts included in the financial statements.

8b BBC Pension Scheme

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

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

Valuations of the scheme are performed by Watson Wyatt, consulting actuaries. Formal valuations are undertaken every three years, and interim updates of the latest formal valuation are carried out for each financial year end. The most recent formal valuation was carried out as at 1 April 2005 and, consistent with changes in the valuation methodology used by other pension schemes, the actuarial valuation of the assets has changed and has been carried out using a market-based method. The previous formal valuation (April 2002) and its interim updates, including March 2005, were carried out on the basis of an assessed value method (see Note 8b iv).

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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.

8b i Scheme membership analysis and maturity profile

	2006 Number	2005 Number	2004 Number
Contributors	19,864	21,093	21,426
Pensioners	16,803	16,567	16,302
Dependants	3,676	3,622	3,555
Deferred pensioners	16,890	16,241	14,864

8b ii Funding the scheme

The scheme has shown an actuarial surplus for many years which has allowed both the BBC and the scheme members to pay contributions at reduced rates.

As a result of the 2005 market-based valuation by Watson Wyatt, it has been agreed between the Group and the trustees that employer contributions will increase to 7.5% on 1 April 2006 (with employee contributions rising to 6% in summer 2006) and then rise to 17.3% on 1 April 2007 with employee contributions rising to 7.5% on the same date. This is part of the ongoing consultation process with BBC staff on the proposed changes to the pension scheme. Ordinarily the next formal actuarial valuation would be performed on 1 April 2008, however, given the current consultation, the next formal valuation has been brought forward to 1 April 2007. The position will be reviewed again once the results of the 1 April 2007 valuation are known.

	Projections		2006 %	2005 %	2004 %	2003 %
	2008 %	2007 %				
Employer	17.3	7.5	6.0	5.5	5.0	4.5
Employee	7.5	5.5/6.0	5.5	5.0	4.5	4.5

Underlying cost of scheme to BBC

as % of pensionable salaries*	17.3	19.3/18.8	19.3	19.0	19.5	20.4
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*Excludes the cost effectively paid for by the employee

8b iii Scheme cash flows (day-to-day liquidity)

In 2006 cash outflows from the pension scheme exceed its cash inflows, however, this includes an outgoing of £29.8million due to transfers out relating to the sale of BBC Technology.

	2006 £m	2005 £m	2004 £m
Contributions (employer and employee)	112	99	90
Investment income	189	187	167
Cash inflows	301	286	257
Payments of pensions and transfers out	(275)	(239)	(220)
Expenses	(29)	(22)	(20)
Net cash inflow	(3)	25	17

This note considers whether the scheme's assets are sufficient to cover the scheme's liabilities.

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

An actuarial valuation assumes the scheme will continue for the foreseeable future.

8b iv Ability to meet long-term commitments and scheme financial position

The most recent formal valuation (as at 1 April 2005) shows a surplus of £13.0million (with assets sufficient to cover just over 100% of the benefits due to members).

FRS 17 valuation	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Scheme assets (Note 8b v)	7,846	6,342	5,880	4,903	6,219
Scheme liabilities (Note 8b vi)	(7,676)	(6,764)	(6,312)	(5,973)	(5,254)
Surplus/(deficit)	170	(422)	(432)	(1,070)	965
Percentage by which scheme assets cover liabilities	102%	94%	93%	82%	118%

Actuarial valuation*	2005 Final £m	2005 Interim £m	2004 Interim £m	2003 Interim £m	2002 Final £m
Scheme assets (Note 8b v)	6,406	6,038	5,668	5,496	5,392
Scheme liabilities (Note 8b vi)	(6,393)	(5,764)	(5,525)	(5,229)	(4,951)
Surplus	13	274	143	267	441
Percentage by which scheme assets cover liabilities	100%	105%	103%	105%	109%

*For the years 2002 to 2005 interim, the actuarial valuation of assets was carried out on an assessed value method which values assets by projecting the income that will be generated by the assets, and discounts both assets and liabilities by reference to a prudent long-term average discount rate which is consistent with the scheme's asset portfolio

The 2005 final actuarial valuation has been carried out using a market-based method which takes assets at their market value on the assessment date and discounts the liabilities by reference to a discount rate consistent with market conditions at that time and the scheme's asset portfolio.

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

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Where FRS 17 values are higher than actuarial values in 2004 and 2005 it means the market was anticipating greater future investment returns than were being assumed in funding the scheme's liabilities.

8b v Scheme assets

The allocation of assets by the scheme trustees is governed by a need to manage risk against the desire for high returns and any liquidity needs. A high percentage of assets are held in equities which the trustees expect will produce higher returns in the long term. The target allocation, based on market values, for equities is 60%, bonds and gilts 30% and property 10%.

Type of asset	Long-term rate of return expected at 31 March (used for market value)	FRS 17 value		Actuarial value* Final		Actuarial value* Interim	
		£m	%	£m	%	£m	%
2006							
Equities	7.7%	5,687	73				
Bonds and gilts	4.4%	1,116	14				
Property	6.1%	890	11				
Cash	3.9%	153	2				
Total assets		7,846					
2005							
Equities	7.7%	4,333	68	4,320	67	4,294	71
Bonds and gilts	4.7%	1,050	17	1,063	17	909	15
Property	6.2%	737	12	737	12	668	11
Cash	3.7%	222	3	286	4	167	3
Total assets		6,342		6,406		6,038	
2004							
Equities	7.9%	4,118	70			4,109	72
Bonds and gilts	4.8%	1,048	18			902	16
Property	6.3%	597	10			556	10
Cash	3.9%	117	2			101	2
Total assets		5,880				5,668	

*As per 8b iv, for the 2004 and 2005 actuarial valuations the scheme assets were valued on an assessed value basis, but for the 2005 final a market-based method was used for the actuarial valuation and therefore the scheme assets would be valued at the same amount for both FRS 17 and actuarial purposes from 2006 onwards.

The last formal valuation was undertaken in 2005. The 2005 and 2004 figures are from an interim update of the 2002 formal valuation.

8b vi Scheme liabilities

The calculation of the scheme liabilities requires a number of assumptions, both demographic and financial, to be made. The key financial assumptions made by the actuaries were:

	2006	2005 Final %	2005 Interim %	2004 Interim %
Key financial assumptions	%			
FRS 17 valuation				
Rate of increase in salaries	4.9		4.7	4.7
Rate of increase in pension payments	2.9		2.7	2.7
Inflation assumption	2.9		2.7	2.7
Discount rate for FRS 17 valuation	5.0		5.5	5.6
Longevity assumption post-retirement (age 60) – Males	23.5 years		22.0 years	22.0 years
Longevity assumption post-retirement (age 60) – Females	25.7 years		24.5 years	24.5 years
Actuarial valuation				
Rate of increase in salaries		4.7	4.5	4.5
Rate of increase in pension payments*		2.5/2.7	2.5	2.5
Inflation assumption		2.7	2.5	2.5
Discount rate for actuarial valuation**		5.45/6.7	6.25	6.25
Longevity assumption post-retirement (age 60) – Males		23.5 years	22.0 years	22.0 years
Longevity assumption post-retirement (age 60) – Females		25.7 years	24.5 years	24.5 years
	2006	2005 Final £m	2005 Interim £m	2004 Interim £m
Scheme liabilities at present value	£m			
FRS 17 valuation	7,676		6,764	6,312
Actuarial valuation		6,393	5,764	5,525

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

The discount rate used in the actuarial valuation of liabilities is that of the expected return on assets held by the scheme and is considered to be a prudent long-term average.

A higher discount rate means a lower value for the liabilities.

*This increase in new benefit pension payments has been held at 2.5% as in previous years, however, old benefits have been increased in line with the inflation assumption. New Benefits members' pension increase with RPI up to a limit of 5% (for Old Benefits the limit is 10%). This assumption is adopted on the basis that in some years RPI may increase above 5% and New Benefit pension increases will be capped, so on average the increases for New Benefits will be lower than actual RPI

**For the 2005 valuation a dual discount has been adopted since the assets backing the post-retirement benefits have a different split between equities, bonds, property, and cash to those backing the pension liabilities in payment, with the investment assumptions for post-retirement funding being more risk averse and therefore leading to a lower discount rate

8c Pension charges and balances within financial statements

8c i Movement in pension liability during year

	BBC Pension Scheme 2006 £m	Unfunded scheme 2006 £m	Total 2006 £m	BBC Pension Scheme 2005 £m	Unfunded Scheme 2005 £m	Total 2005 £m
Net pension liability at start of year	(421.8)	(5.0)	(426.8)	(431.6)	(4.7)	(436.3)
Contributions (from employer)*	49.8	0.2	50.0	40.0	0.2	40.2
Operating charge for year	(184.9)	(0.2)	(185.1)	(176.8)	(0.2)	(177.0)
Net finance income/(cost)	66.0	(0.3)	65.7	65.7	(0.3)	65.4
Net gain recognised in STRGL	661.1	–	661.1	80.9	–	80.9
Closing net pension asset/(liability)	170.2	(5.3)	164.9	(421.8)	(5.0)	(426.8)

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

*The contribution shown for the unfunded scheme represents the pensions paid to members during the year. The assumptions for pension scheme liabilities of the unfunded scheme are the same as the main scheme. As the scheme is unfunded there are no assets and hence no expected return on assets

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8c ii Pension charges in statement of income and expenditure

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

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

The finance return comprises estimates based on predictions of future performance and economic conditions.

	Defined benefit scheme		Defined contribution schemes £m	All schemes £m
	BBC Pension Scheme £m	Unfunded scheme £m		
2006				
Current service cost	(194.1)	(0.2)	(0.9)	(195.2)
Past service cost	(9.8)	–	–	(9.8)
Gain on settlements and curtailments*	19.0	–	–	19.0
Operating cost	(184.9)	(0.2)	(0.9)	(186.0)
Expected return on pension scheme assets	431.8	–	–	431.8
Interest on pension scheme liabilities	(365.8)	(0.3)	–	(366.1)
Net finance income/(cost)	66.0	(0.3)	–	65.7
Net cost in statement of income and expenditure	(118.9)	(0.5)	(0.9)	(120.3)
2005				
Current service cost	(192.3)	(0.2)	(1.4)	(193.9)
Past service cost	(7.5)	–	–	(7.5)
Gain on settlements and curtailments	23.0	–	–	23.0
Operating cost	(176.8)	(0.2)	(1.4)	(178.4)
Expected return on pension scheme assets	412.7	–	n/a	412.7
Interest on pension scheme liabilities	(347.0)	(0.3)	n/a	(347.3)
Net finance income/(cost)	65.7	(0.3)	–	65.4
Net cost in statement of income and expenditure	(111.1)	(0.5)	(1.4)	(113.0)

*There was a curtailment gain of £19.0million during the year in respect of the transfer for BBC Broadcast Limited employees, 395 of whom have elected to transfer their past service benefits to the Red Bee Media Pension Plan. In addition, there was a further curtailment gain of £3.0million during the year in respect of approximately 180 members who left the Scheme on 31 March 2006 as part of the HR outsourcing exercise. Also there was a settlement loss during the year of around £3.0million in respect of the bulk transfer payment of £29.8million for the BBC Technology Limited employees to Siemens on 16 November 2005

8c iii Pension costs in statement of total recognised gains and losses (STRGL)

These gains and losses arise from actual performance being different from that predicted – for example changes in economic conditions or the demographic profile of BBC employees.

	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	1,249.2	198.7
Experience gains/(losses) arising on scheme liabilities	208.6	(1.4)
Changes in assumptions underlying present value of scheme liabilities	(796.7)	(116.4)
Net gain recognised in STRGL	661.1	80.9

Only defined benefit schemes give rise to gains and losses in the STRGL.

The actual return on scheme assets is significantly higher than the previous year due to very strong market performance in 2006, particularly in the run up to the year end. However, some of these gains have been lost since the year end as the markets have fallen sharply since 31 March 2006.

The gains on scheme assets are offset in part by an actuarial loss due to changes in assumptions relating to the calculation of the scheme's liabilities. The key changes are that longevity rates have been increased as pensioners and dependants are living longer (and therefore drawing pensions for longer) than previously assumed and that the discount rate (taken to be that of an AA rated corporate bond) has fallen from 5.5% to 5.0%.

This note is designed to show trends over several years.

8c iv History of experience gains and losses

	2006	2005	2004	2003	2002
Amount by which the expected return on scheme assets is (higher)/lower than the actual return:					
Amount (£million)	1,249.2	198.7	778.4	(1,607.9)	(532.0)
Percentage of scheme assets	15.9%	3.1%	13.2%	32.8%	8.6%
Experience gains and (losses) on scheme liabilities:					
Amount (£million)	208.6	(1.4)	0.1	(12.4)	26.6
Percentage of present value of scheme liabilities	2.7%	0.0%	0.0%	0.2%	0.5%
Total gain/(loss) recognised in STRGL:					
Amount (£million)	661.1	80.9	778.5	(2,013.4)	(725.4)
Percentage of present value of scheme liabilities	8.6%	1.2%	12.3%	33.7%	13.8%

8d UK Public Service Broadcasting pension charge

UK Public Service Broadcasting, in accordance with the group scheme provision within FRS 17, accounts for the scheme as if it were a defined contribution scheme. This is because it is not possible to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure for UK Public Service Broadcasting of £38.2million therefore represents the contributions payable in the year. These contributions are set based on the funding needs identified from the valuation and benefit from the actuarial surplus (see Note 8b iv). They are therefore lower than the underlying cost.

9 Taxation

9a Analysis of charges for the year

The charge for the year, based on the rate of corporation tax of 30% (2005 30%) comprised:

	Note	2006 £m	2005 £m
Current tax			
UK corporation tax		17.6	7.1
Deduct: double tax relief		(3.2)	(2.7)
		14.4	4.4
Adjustments in respect of prior years		0.3	(8.3)
		14.7	(3.9)
Foreign tax		8.2	3.8
Share of associates and joint ventures tax		8.9	5.5
Total current tax	9b	31.8	5.4
Deferred tax			
Origination and reversal of timing differences		(0.4)	5.3
Adjustments in respect of previous years		(3.7)	4.5
Total deferred tax	9d	(4.1)	9.8
Total charge for the year		27.7	15.2

9b Factors affecting the tax charge

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

	Note	2006 £m	2005 £m
Surplus/(deficit) before tax		31.4	(173.5)
Surplus/(deficit) before tax multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)		9.4	(52.0)
Effects of			
Public Services taxable external income		(2.1)	1.7
Non-taxable deficit in Public Services		38.4	59.4
FRS 17 element of net Group pension charge		20.8	21.5
Commercial activities			
Non-taxable income		(38.4)	(17.2)
Disallowed expenditure		2.1	3.1
UK taxation on intra-group overseas dividends		—	1.6
Capital allowances in excess of depreciation		(3.8)	(3.5)
Tax differential re overseas earnings		1.6	(0.7)
Other		3.5	(0.2)
Adjustments in respect of previous periods		0.3	(8.3)
Current tax charge for the year	9a	31.8	5.4

9c Factors that may affect future tax charges

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

9d Deferred tax analysis

	Note	2006 £m	2005 £m
Movement on deferred tax provision/(asset) in the year			
Provision/(asset) at start of year		10.0	(1.9)
Exchange adjustment		(0.4)	0.2
Deferred tax (credit)/charge	9a	(4.1)	9.8
Disposal of subsidiary		(2.4)	1.9
Deferred tax provision at end of year		3.1	10.0
Analysis of deferred tax provision/(asset) at end of year			
Accelerated capital allowances		13.1	15.4
Other timing differences		(3.6)	(0.1)
Deferred tax provision		9.5	15.3
US timing differences		(6.4)	(5.3)
Deferred tax asset		(6.4)	(5.3)
Deferred tax provision at year end		3.1	10.0

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.

10 Intangible fixed assets

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 April 2005	22.8	0.4	23.2
Additions	0.1	0.3	0.4
At 31 March 2006	22.9	0.7	23.6
Amortisation			
At 1 April 2005	2.5	0.4	2.9
Charge for the year	1.3	0.1	1.4
At 31 March 2006	3.8	0.5	4.3
Net book value			
At 31 March 2006	19.1	0.2	19.3
At 31 March 2005	20.3	–	20.3

The addition to goodwill in the year relates to the final adjustment to the contingent purchase consideration for Origin Publishing Limited. On acquisition of 100% of the share capital of Origin Publishing Limited on 20 February 2004 by BBC Worldwide, contingent consideration of up to £5.1million was payable, based on the performance of the acquired business in the period to 30 September 2005. The full £5.1million was settled in the year ended 31 March 2006 of which £0.8million was paid in cash and the balance of £4.3million settled by way of the issue of loan notes. Of the £5.1million settled, £5.0million had been accrued and recognised as additional goodwill in the year ended 31 March 2005.

Other intangibles comprise of a customer list of names and brand names. Additions to other intangible assets comprise the purchase of customer listings during the year and these are amortised on a straight line basis over 2–4 years subject to reviews for impairment.

11 Tangible fixed assets

11a Group

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2005	431.5	950.2	146.5	87.2	1,615.4
Additions	6.1	56.1	15.7	65.6	143.5
Brought into service	3.5	52.0	5.8	(61.3)	–
Disposals	(14.8)	(26.7)	(8.0)	(1.4)	(50.9)
Disposal of subsidiary	–	(75.7)	(4.8)	(1.7)	(82.2)
At 31 March 2006	426.3	955.9	155.2	88.4	1,625.8
Depreciation					
At 1 April 2005	225.2	597.4	71.2	–	893.8
Charge for the year	14.6	85.1	13.9	–	113.6
Elimination in respect of disposals	(4.7)	(23.4)	(5.7)	–	(33.8)
Disposal of subsidiary	–	(43.8)	(1.2)	–	(45.0)
At 31 March 2006	235.1	615.3	78.2	–	928.6
Net book value					
At 31 March 2006	191.2	340.6	77.0	88.4	697.2
At 31 March 2005	206.3	352.8	75.3	87.2	721.6

11b UK Public Service Broadcasting

	Land and buildings £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2005	362.1	510.0	120.9	63.7	1,056.7
Additions	6.0	38.9	11.1	37.4	93.4
Brought into service	1.6	34.7	3.0	(39.3)	—
Disposals	(14.7)	(14.6)	(6.8)	(0.4)	(36.5)
At 31 March 2006	355.0	569.0	128.2	61.4	1,113.6
Depreciation					
At 1 April 2005	185.9	327.8	54.9	—	568.6
Charge for the year	11.5	52.0	11.2	—	74.7
Elimination in respect of disposals	(4.4)	(13.7)	(4.6)	—	(22.7)
At 31 March 2006	193.0	366.1	61.5	—	620.6
Net book value					
At 31 March 2006	162.0	202.9	66.7	61.4	493.0
At 31 March 2005	176.2	182.2	66.0	63.7	488.1

11c Land and building at net book value comprise:

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Undepreciated land	18.3	21.7	18.0	21.6
Freehold buildings	105.2	121.4	95.5	110.1
Total freeholds	123.5	143.1	113.5	131.7
Long leaseholds	45.5	52.0	26.3	33.3
Short leaseholds	22.2	11.2	22.2	11.2
	191.2	206.3	162.0	176.2

11d Finance leases

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

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Cost	15.6	—	14.2	—
Accumulated depreciation	(6.5)	—	(5.9)	—
Net book value	9.1	—	8.3	—

The finance leases relate to IT equipment that was originally leased to the BBC under operating leases. As at 1 April 2005 the contract was varied to allow the assets to be used by the BBC for substantially their entire economic lives. As a result these assets have been capitalised and included in tangible fixed assets.

12 Investment in programmes for future sale

	Group £m
Cost	
At 1 April 2005	228.7
Exchange adjustment	1.9
Additions	93.5
Disposals	(4.1)
Elimination in respect of programmes fully amortised	(73.0)
At 31 March 2006	247.0
Amortisation	
At 1 April 2005	131.4
Exchange adjustment	1.1
Charge for the year	82.3
Disposals	(1.3)
Elimination in respect of programmes fully amortised	(73.0)
At 31 March 2006	140.5
Net book value	
At 31 March 2006	106.5
At 31 March 2005	97.3

Investment by BBC Worldwide in programmes for future sale relates to programmes provided by the BBC and external producers. The additions figure above includes £89.0million direct investment in BBC programmes (2005 £74.6million).

Included in the net book value is £3.6million (2005 £2.5million) relating to investments held under a licence agreement.

During the year there were disposals of music publishing rights with a carrying value of £1.0million (see Note 6) and as part of the sale of BBC Worldwide Limited's learning business there was a disposal with a carrying value of £1.8million (see Note 19).

13 Other investments (including BBC World Service net assets)

13a Movements in the year for the Group

	Interests in joint ventures Note 13b £m	Interests in associates Note 13c £m	Total Group £m
Cost			
At 1 April 2005	10.7	0.8	11.5
Exchange adjustment	—	0.1	0.1
Additions	1.5	—	1.5
Disposals	—	(0.4)	(0.4)
At 31 March 2006	12.2	0.5	12.7
Share of post acquisition reserves			
At 1 April 2005	1.7	0.5	2.2
Exchange adjustment	(0.2)	—	(0.2)
Share of profits/(losses) after taxation	30.0	(9.3)	20.7
Dividends received	(19.4)	(0.4)	(19.8)
Adjustment to reflect effective obligations	(5.8)	9.8	4.0
At 31 March 2006	6.3	0.6	6.9
Goodwill			
At 1 April 2005	26.9	—	26.9
Additions	1.5	—	1.5
Amortisation	(1.7)	—	(1.7)
At 31 March 2006	26.7	—	26.7
Net book value			
At 31 March 2006	45.2	1.1	46.3
At 31 March 2005	39.3	1.3	40.6

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

13b Interests in joint ventures

13b i Significant joint ventures and their activities

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

Name of entity	Activity	Partner	Accounting date
UK Channel Management Limited	Channels	Flextech	31 December 2005
UK Gold Holdings Limited	Channels	Flextech	31 December 2005
UKTV New Ventures Limited	Channels	Flextech	31 December 2005
UKTV Interactive Limited	Channels	Flextech	31 December 2005
JV Programmes LLC ¹	Channels	Discovery	31 December 2005
BBC Haymarket Exhibitions Limited	Publishing	Haymarket Exhibitions Limited	31 December 2005
Worldwide Media Limited ²	Magazines	Bennett, Coleman and Company Limited	31 July 2005
2 entertain Limited ³	Video/DVD	Woolworths	28 January 2006
DTV Services Limited ⁴	Marketing	Crown Castle UK Limited, British Sky Broadcasting Limited	31 August 2005
Insight Property Partnership	Property	Land Securities Trillium (Media Services) Limited	31 March 2006
Daunus Limited ⁵	Property	Land Securities Trillium (BH) Limited, Morgan Stanley Delta LLC, Structured Finance Management Limited	30 November 2005

¹ Incorporated in the USA

² Incorporated in India

³ 60% equity interest

⁴ 20% equity interest

⁵ 100% holding of 'A' class shares, representing 10% of the total issued shares of Daunus Limited. The rest of the shares in Daunus Limited are held by the other partners. The BBC holds its investment in Daunus Limited through a subsidiary, BBC Property Development Limited.

For a number of years the BBC, through its subsidiary BBC Worldwide, has had major partnership deals with Flextech, the content division of Telewest Communications plc, for the production and marketing of subscription channels in the UK and with Discovery Communications Inc. for new channels around the world and providing new co-production funding for programmes. The joint ventures operated by these alliances are included in the list above. The BBC has no obligation to make good its share of their cumulative operating losses.

The BBC is part of a joint venture, DTV Services Limited, to provide marketing services for digital channels on a terrestrial platform in the UK. The BBC's subsidiary BBC Free to View Limited (see Note 13e) holds the BBC's digital terrestrial multiplex licence and its equity interest in the joint venture to ensure the costs of this joint venture are managed separately from licence fee-funded activities. On 11 October 2005 the Group sold a 13% stake in DTV Services Limited reducing its equity interest to 20%.

The joint venture with Land Securities Trillium (LST), the Insight Property Partnership, provides a range of property and development services to the BBC. Related joint ventures and associate companies have been set up to develop particular BBC properties. In May 2005 the BBC and LST agreed to restructure this partnership. The Insight Property Partnership's contract to provide facilities management and property services to the BBC will expire on 30 June 2006.

In December 2004, BBC Worldwide completed the acquisition of a 50% equity interest in Worldwide Media Limited, a magazine publishing joint venture based in India for total cash consideration of £5.5million. Goodwill of £2.9million arose on the transaction. Contingent consideration paid to the joint venture of up to 245million rupees (£3.0million) may be payable, based on the financial performance of the acquired business in the period to 31 July 2006. Based on the applicable financial targets and the expected short-term financial performance of the business during this period, the full contingent consideration has been recognised in the calculation of goodwill during the year ended 31 March 2006. This additional investment payable to the joint venture has been recorded as an addition to the Group's share of joint venture net assets (£1.5million) and as additional goodwill £1.5million.

The following disclosures represent the Group's equity shares of the assets and liabilities of its joint ventures based on the results for the latest accounting periods as shown above. Where the latest accounting period for the joint venture is more than three months prior to the Group's accounting reference date of 31 March the latest interim financial information has been used.

13b ii Group share of joint ventures results and net assets

Group share of:	2entertain Limited £m	UK Gold Holdings Limited* £m	UK Channel Management Limited* £m	Other joint ventures £m	Total joint ventures 2006 £m
2006					
Turnover	115.2	40.8	36.3	37.2	229.5
Profit/(loss) before tax	28.2	7.8	11.7	(1.7)	46.0
Taxation	(8.5)	(3.8)	(3.5)	(0.2)	(16.0)
Profit/(loss) after tax	19.7	4.0	8.2	(1.9)	30.0
Fixed assets	5.2	—	—	7.9	13.1
Goodwill	22.6	—	—	4.1	26.7
Current assets	59.3	16.4	34.5	29.5	139.7
Liabilities less than one year	(53.5)	(8.9)	(13.4)	(6.4)	(82.2)
Liabilities more than one year	—	(22.7)	(25.1)	(41.5)	(89.3)
Adjustment to reflect effective obligations	—	15.2	4.0	18.0	37.2
Net book value	33.6	—	—	11.6	45.2
2005					
Turnover	64.0	36.8	31.6	29.4	161.8
Profit/(loss) before tax	16.7	11.0	9.0	(3.1)	33.6
Taxation	(5.1)	(2.8)	(2.7)	(0.1)	(10.7)
Profit/(loss) after tax	11.6	8.2	6.3	(3.2)	22.9
Fixed assets	3.8	—	—	7.4	11.2
Goodwill	24.1	—	—	2.8	26.9
Current assets	68.2	15.6	21.1	25.5	130.4
Liabilities less than one year	(65.0)	(6.6)	(2.9)	(5.1)	(79.6)
Liabilities more than one year	—	(28.1)	(30.4)	(37.8)	(96.3)
Adjustment to reflect effective obligations	—	19.1	12.2	15.4	46.7
Net book value	31.1	—	—	8.2	39.3

*The figures are based on unaudited financial statements

Under the terms of the agreements with Flextech and Discovery, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses/net liabilities of the relevant entities and accordingly no share of these is included in the financial statements for the year ended 31 March 2006 (2005 £nil). The share of net liabilities not recognised comprises the £37.2million shown in the table as 'adjustment to reflect effective obligations'. The Group is entitled to its share of any profits or net assets only once the ventures' cumulative profits exceed cumulative losses since incorporation.

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

13c Interests in associates

13c i Significant associates and their activities

The Group holds (directly and indirectly) significant interests in the associates listed below which, except where otherwise stated, are incorporated in Great Britain and registered in England and Wales. A full list of associates is available on request from The Secretary, BBC, Room MC3C3, Media Centre, 201 Wood Lane, London W12 7TQ.

	Holding of issued ordinary shares %	Activity
Parliamentary Broadcasting Unit Limited	33	Content provider
Broadcasters Audience Research Board Limited (BARB)	*	Audience research
The Commonwealth Broadcasting Association	*	Broadcasting forum
Radio Joint Audience Research Limited (RAJAR)	50	Audience research
Frontline Limited	23	Publishing
UKTV Pty Limited (incorporated in Australia)	20	Channels
People and Arts (Latin America) LLC (incorporated in the USA)**	50	Channels
Animal Planet LLC (incorporated in the USA)****	25	Channels
The Animal Planet Europe Partnership**	50	Channels
Animal Planet Japan KK (incorporated in Japan)**	33	Channels
Jasper Broadcasting Inc (incorporated in Canada)	20	Channels
Jasper Junior Broadcasting Inc (incorporated in Canada)	20	Channels
3sixtymedia Limited	10	Production
White City Development Partnership	***	Property

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

** Discovery associate

*** 50% partnership share

**** Animal Planet LLC (Discovery Associate). On 3 April 2006 the Group sold its shareholding

13c ii Group share of associates' turnover and net assets

The following additional disclosures are based on the results of the Discovery associates for the year ended 31 December 2005 and the remaining associates' disclosures are based on the results at the date of their individual financial statements. These additional disclosures represent the Group's equity share of assets and liabilities of those entities.

	2006 £m	2005 £m
Group interests in associates		
Share of turnover	49.6	42.9
Share of fixed assets	52.0	38.8
Share of current assets	28.2	24.5
Share of liabilities due within one year	(22.5)	(19.3)
Share of liabilities due after more than one year	(160.9)	(123.9)
Adjustment to reflect effective obligation	104.3	81.2
Net interests in associates	1.1	1.3

The results include the Group share of the operating profit/(loss) of UKTV Pty Limited of £0.5million (2005 £0.5million), Frontline Limited of £0.5million (2005 £0.7million), Children's Character Books Limited £(0.2)million (2005 £(0.1)million) and BBC World (India) Private Limited of £nil (2005 £0.1million). The Group's share of the remaining associates, including Jasper Broadcasting Inc. and Jasper Junior Broadcasting Inc., operated in partnership with Alliance Atlantis, was £nil (2005 £nil).

Under the terms of the agreements with Discovery and Alliance Atlantis, the Group has no obligation to fund losses incurred by the entities nor to make good their net liabilities. As a result, the Group does not share in losses or net liabilities of the relevant entities and accordingly no share of these are included in the financial statements for the year ended 31 March 2006 (2005 £nil). The Group is entitled to its share of any profits or net assets once the ventures' cumulative profits exceed cumulative losses since incorporation, with the exception of JV Network LLC. JV Network LLC was formed for the purpose of providing debt funding from Discovery to the other Discovery joint ventures and BBC Worldwide is not entitled to any profits arising within this entity.

13d Movements in the year for UK Public Service Broadcasting

	Interest in BBC World Service net assets £m	Interests in subsidiaries £m	Total £m
At 1 April 2005	160.1	125.3	285.4
Deficit for year	(1.5)	–	(1.5)
At 31 March 2006	158.6	125.3	283.9

Subsidiary undertakings are businesses the BBC controls.

13e Subsidiary undertakings

The principal subsidiary undertakings of the BBC at 31 March 2006 are listed below. All are wholly owned and incorporated in Great Britain and registered in England and Wales. A full list of subsidiaries is available on request from The Secretary, BBC, Room MC3C3, Media Centre, 201 Wood Lane, London W12 7TQ.

Name of entity		Activity
BBC Commercial Holdings Limited	*	Holding company
BBC Worldwide Limited	**	Publishing, channels and programme distribution
BBC World Limited	**	Channels
BBC Ventures Limited	**	Holding company
BBC Resources Limited	**	Programme making facilities and services
BBC Free To View Limited	*	Holding company for digital licence
BBC Property Limited	*	Property
BBC Property Development Limited	*	Property
BBC Property Investment Limited	*	Property
Centre House Productions Limited	*	Production financing
Switchco Limited ¹ (Digital UK)	*	Digital switchover

*Directly owned

**Indirectly owned

¹The BBC controls 56% of the voting rights of Switchco Limited and therefore it is a subsidiary. Its results have been consolidated into the Group accounts. Switchco Limited is a company limited by guarantee of which the BBC is a joint member with other broadcasters

14 Stocks

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Raw materials	1.7	2.9	0.2	0.7
Work in progress				
– originated programmes	287.9	281.0	287.8	280.7
– other	1.9	2.4	0.1	0.1
Finished programmes				
– acquired programmes and films	98.5	88.1	98.5	88.1
– originated programmes	61.0	69.9	61.0	69.9
Other	11.4	14.5	–	–
Total	462.4	458.8	447.6	439.5

15 Debtors

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Receivable within one year					
Trade debtors		114.9	119.5	17.1	12.9
Department for Culture, Media and Sport – licence fee debtors		318.2	285.8	318.2	285.8
Amounts owed by subsidiaries		–	–	27.2	28.0
Amounts owed by associates and joint ventures		34.9	10.2	14.5	5.8
VAT recoverable		36.0	35.5	33.9	32.6
Other debtors		28.8	102.3	6.6	78.6
Prepayments		190.8	121.5	165.3	103.7
		723.6	674.8	582.8	547.4
Financial assets	23e	3.5	–	–	–
Total current debtors		727.1	674.8	582.8	547.4
Receivable after more than one year					
Other debtors		2.7	6.1	–	–
Prepayments		40.0	100.0	26.9	84.3
		42.7	106.1	26.9	84.3
Financial assets	23e	3.2	–	–	–
Total long-term debtors		45.9	106.1	26.9	84.3
Total		773.0	780.9	609.7	631.7

Other debtors in 2005 included £56.6million in relation to the sale of the White City site, see Note 6 for details.

16 Creditors

16a Prompt payment policy

It is the BBC's policy to comply with the Better Payment Practice Code in relation to the payment of suppliers, provided that the supplier is complying with the relevant terms and conditions of their contracts. The BBC monitors compliance against the terms of this code. Payments for programme acquisitions are made in accordance with contractual terms. The Group's number of creditor days outstanding in respect of other trade creditors at 31 March 2006 was 35 days (2005 35 days).

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

16b Amounts falling due within one year

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Bank overdrafts and other loans					
Bank overdrafts	21	—	36.9	—	31.2
Unsecured loan notes	23b	5.3	1.5	—	—
		5.3	38.4	—	31.2
Trade creditors					
Programme creditors		74.9	60.1	74.7	58.9
Programme acquisitions		31.3	26.5	31.0	26.3
Salaries and wages		64.4	59.0	41.4	36.0
Residual copyright payments		25.6	21.5	—	—
Other trade creditors		169.8	167.0	119.6	107.2
		366.0	334.1	266.7	228.4
Other creditors					
Amounts owed to subsidiaries		—	—	37.2	51.7
Amounts owed to associates and joint ventures		—	8.5	—	—
Corporation tax		11.5	5.8	4.7	2.3
Other taxation and social security		28.7	28.6	26.8	26.6
Obligations under finance leases	23b	4.8	—	4.7	—
Other		14.7	59.9	11.4	59.9
		59.7	102.8	84.8	140.5
Accruals and deferred income					
Accruals and deferred income		393.5	342.6	285.9	274.7
Licence savings stamps deposits and direct debit instalments		92.1	100.4	92.1	100.4
		485.6	443.0	378.0	375.1
Financial liabilities					
	23e	3.2	—	—	—
Total		919.8	918.3	729.5	775.2

Other creditors in 2005 included £59.9million in relation to the sale of the White City site, see Note 6.

16c Amounts falling due after more than one year

	Note	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Bank and other loans					
	23b	72.0	150.0	—	—
Trade creditors					
Programme acquisitions		3.6	7.1	3.6	7.1
Other creditors					
Obligations under finance leases	23b	28.5	27.1	3.8	—
Amounts owed to subsidiaries		—	—	25.9	27.6
Other		8.7	3.4	—	—
		37.2	30.5	29.7	27.6
Financial liabilities					
	23e	4.0	—	—	—
Total		116.8	187.6	33.3	34.7

17 Provisions for liabilities

Group	At 1 April 2005 £m	Provisions disposed £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2006 £m
Licence fee	17.2	—	(17.2)	—	19.5	19.5
Restructuring	47.4	(0.5)	(41.8)	(3.4)	127.7	129.4
Litigation and insurance	13.8	(0.1)	(1.8)	(1.8)	6.5	16.6
Property	11.8	—	(0.7)	(0.9)	3.0	13.2
Pension	21.1	—	(5.9)	(15.2)	—	—
Deferred tax	15.3	(2.6)	(7.0)	—	3.8	9.5
Other	13.0	—	(8.0)	(5.0)	8.0	8.0
Total	139.6	(3.2)	(82.4)	(26.3)	168.5	196.2

Licence fee provisions are made for the expected level of refunds (money repayable on the unexpired portion of a licence where the licence is no longer required) and revocations (where no money is received in relation to a licence sold).

The restructuring provision includes a net charge for the year of £119.1million of exceptional redundancy costs relating to the change programme occurring within the BBC and non-exceptional redundancy costs of £5.2million. In addition, non-exceptional redundancy costs of £5.2million are included in other creditors as there was no uncertainty over the amount or timing of these payments.

Property provisions relate to the cost of returning leasehold properties to their original condition at the end of the lease, and include BBC World Service's liability of £3.4million (2005 £3.3million) to restore Bush House to its original condition.

Pension provisions comprised an amount of £21.1million which crystallised on the sale of BBC Technology Holdings Limited. The final valuation of the pension liability was £5.9million and this liability has been transferred to creditors. The remaining £15.2million was released during the year (see Note 5).

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

Provisions disposed of during the year relate entirely to the sale of BBC Broadcast Limited.

UK Public Service Broadcasting	At 1 April 2005 £m	Provision acquired this year £m	Utilised during the year £m	Released during the year £m	Charge for the year £m	At 31 March 2006 £m
Licence fee	17.2	—	(17.2)	—	19.5	19.5
Restructuring	45.6	—	(36.2)	(2.9)	109.6	116.1
Litigation and insurance	12.0	—	(0.8)	(2.0)	2.1	11.3
Property	7.8	—	(0.5)	(0.3)	2.8	9.8
Pension	—	21.1	(5.9)	(15.2)	—	—
Deferred tax	—	—	—	—	3.5	3.5
Other	12.3	—	(8.0)	(4.3)	4.3	4.3
Total	94.9	21.1	(68.6)	(24.7)	141.8	164.5

18 Reserves

Group	Operating reserve excluding pension reserve £m	Pension reserve £m	Total operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2005	188.7	(426.8)	(238.1)	761.8	4.0	527.7
Adjustment on adopting FRS 26	2.6	—	2.6	—	—	2.6
Exchange difference	1.9	—	1.9	—	—	1.9
Surplus for financial year	3.6	—	3.6	—	—	3.6
Actuarial gain on defined benefit pension schemes	—	661.1	661.1	—	—	661.1
Revaluation reserve transfer	0.8	—	0.8	—	(0.8)	—
Pension reserve transfer	69.4	(69.4)	—	—	—	—
Capital reserve transfer	(9.5)	—	(9.5)	9.5	—	—
At 31 March 2006	257.5	164.9	422.4	771.3	3.2	1,196.9
Represented by:						
General Group reserves	256.0	164.9	420.9	617.4	—	1,038.3
BBC World Service reserves	1.5	—	1.5	153.9	3.2	158.6
	257.5	164.9	422.4	771.3	3.2	1,196.9

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

UK Public Service Broadcasting	Operating reserve £m	Capital reserve £m	Revaluation reserve £m	Total £m
At 1 April 2005	204.3	761.8	4.0	970.1
Surplus for financial year	41.4	—	—	41.4
Revaluation reserve transfer	0.8	—	(0.8)	—
Capital reserve transfer	(9.5)	9.5	—	—
At 31 March 2006	237.0	771.3	3.2	1,011.5
Represented by:				
UK Public Service Broadcasting reserves	235.5	617.4	—	852.9
BBC World Service reserves	1.5	153.9	3.2	158.6
	237.0	771.3	3.2	1,011.5

Under the accounting standard FRS 10 *Goodwill and intangible assets* any newly arising goodwill must be capitalised and amortised over its useful life. As is permitted by the standard, goodwill arising in periods prior to 1999 of £6.8million (2005 £6.8million) remains offset against the operating reserve.

The Group has adopted FRS 26 *Financial Instruments: Measurement* this year and has also taken the exemption in the standard to not restate comparatives. This therefore requires an adjustment to reserves for balances existing at 1 April 2005 not previously recognised. The fair value gains and losses on the Group's financial instruments between this date and the year end (for stand alone derivatives such as forward exchange contracts and interest rate swaps, and derivatives embedded within contracts) have been taken to the current year's statement of income and expenditure.

The cumulative translation differences at 31 March 2006 were £1.9million. In accordance with FRS 23, any differences relating to prior years have not been separated out and remain within the operating reserve.

19 Sale of businesses

	Learning business 2006 £m	BBC Broadcast Limited 2006 £m	Total 2006 £m
Investment in programmes for future sale	1.8	—	1.8
Net assets disposed	2.8	48.9	51.7
Profit on disposal	1.7	108.8	110.5
	6.3	157.7	164.0
Of which:			
Cash consideration received	6.6	166.0	172.6
Less transaction costs	(0.3)	(8.3)	(8.6)
Net proceeds from sale of businesses	6.3	157.7	164.0

20 Reconciliation of net cash flow to movement in net funds/(debt)

	2006 £m	2005 £m
Increase in cash in year	158.8	0.3
Net cash (inflow)/outflow from management of liquid resources	(41.9)	29.3
Net cash outflow from decrease in loans and finance leases	87.9	33.3
Change in net debt resulting from cash flows	204.8	62.9
Non-cash increase in finance leases	(15.6)	—
Non-cash increase in unsecured loan notes	(4.3)	—
Change in net debt	184.9	62.9
Net debt at the beginning of the year	(135.3)	(198.2)
Net funds/(debt) at the end of the year	49.6	(135.3)

21 Analysis of changes in net (debt)/funds

	At 1 April 2005 £m	Cash flows £m	Non-cash changes £m	At 31 March 2006 £m
Net cash				
Bank overdrafts	(36.9)	36.9	—	—
Cash at bank and in hand	38.3	121.9	—	160.2
	1.4	158.8	—	160.2
Liquid resources				
Short-term investments	41.9	(41.9)	—	—
Gross funds	43.3	116.9	—	160.2
Debt				
Loans from third parties	(150.0)	78.0	—	(72.0)
Unsecured loan notes	(1.5)	(0.5)	(4.3)	(5.3)
Finance leases	(27.1)	9.4	(15.6)	(33.3)
Net (debt)/funds	(135.3)	204.8	(19.9)	49.6
Made up of:				
Public Service (including World Service)	11.6	113.8	(15.2)	110.2
Commercial Businesses	(121.7)	87.8	(4.7)	(38.6)
Centre House Productions Limited	(25.2)	3.2	—	(22.0)
Net (debt)/funds	(135.3)	204.8	(19.9)	49.6

Liquid resources are current asset investments that are readily disposable without disrupting the BBC, and are either readily convertible into known amounts of cash at, or close to, their carrying amount, or are traded in an active market. In relation to the BBC, liquid resources are sterling amounts on deposit.

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 flow effect.

Public Services in this context represent the UK Public Service Broadcasting Group and BBC World Service.

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

	Note	Public Services 2006 £m	Public Services 2005 £m	Commercial Businesses 2006 £m	Commercial Businesses 2005 £m
Net funds/(debt)	21	110.2	11.6	(38.6)	(121.7)
Licence savings stamps deposits and direct debit instalments*	16b	(92.1)	(100.4)	—	—
Funds/(borrowings) as defined by DCMS borrowing ceiling		18.1	(88.8)	(38.6)	(121.7)
Borrowing ceiling		(200.0)	(200.0)	(350.0)	(350.0)

* The BBC must be able to repay the licence savings stamps deposits and direct debit instalments on demand and they are therefore included in the Public Service Borrowings.

The Public Service borrowing limit of £200million is set within the BBC Charter. As at 31 March 2006 and 31 March 2005, and throughout the financial year, the BBC was in compliance with this borrowing ceiling.

When the DCMS granted a £350million borrowing limit for BBC Commercial Holdings Limited in July 2002, three financial covenants were defined which are required to be met as at 31 March each year. As at 31 March 2006 and 31 March 2005 BBC Commercial Holdings Group was in compliance with each of these covenants. Compliance with the borrowing ceiling is detailed in the table above.

23 Financial instruments

The Group has adopted FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation* and FRS 26 (IAS 39) *Financial Instruments: Measurement* for the first time in this financial year.

Accounting and disclosures for the current year are in accordance with FRS 25 and FRS 26, and as permitted under both standards the comparatives have not been restated and continue to be presented under previously applicable accounting standards (FRS 4 and FRS 13).

Had FRS 25 and FRS 26 been applied in the prior year the effect would have been to restate the 2005 balance sheet for derivatives existing at 31 March 2005, and the prior year statement of income and expenditure for the movement in the fair value of derivatives between 1 April 2004 and 31 March 2005.

23a Financial risk management

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

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

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

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

Currency risk

The Group is principally a domestic organisation with the majority of transactions, assets and liabilities being in the UK and sterling based. However, the Group undertakes some transactions in currencies other than sterling. Due to movements in exchange rates over time, the amount the Group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The Group enters into forward currency contracts to manage this currency risk. These allow the Group to settle transactions at known exchange rates, thereby eliminating much of this uncertainty.

A forward currency contract is a contract to buy or sell foreign currency in exchange for sterling at a specific rate on a specific date. Companies typically enter into forward contracts to lock into a particular exchange rate, thereby eliminating currency risk that may be associated with a future purchase or sale.

An interest rate swap is a contract between two parties to change the basis of their interest rate payment or receipts either from fixed to floating rates or vice versa. Companies typically enter into these arrangements to reduce the exposure to interest rate risk by fixing a floating interest rate thereby giving certainty to the level of future interest payments. Alternatively, a company may believe that interest rates may fall and wish to convert a fixed rate loan to a floating rate.

The Group has one significant overseas operation, BBC Worldwide America, which operates in the USA and whose revenues and expenses are denominated exclusively in US dollars.

Interest rate risk

The Group's main exposure to interest rate fluctuations arises on external borrowings. Since March 2003 the Group has been borrowing at floating rates of interest and then used interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

Market price risk of financial assets

The Group invests surplus cash in money market funds and money market deposits, therefore it is not subject to market price risk.

Credit risk

Due to the unique way in which the BBC is funded via the licence fee, the BBC does not believe that it is exposed to major concentrations of credit risk.

Liquidity risk

The BBC is subject to limits on its borrowings imposed under the Charter and by the DCMS. The BBC's Group Treasury manages the Group's borrowings in order to comply with these limits together with the terms of the individual debt instruments. The BBC holds its surplus liquidity in readily convertible financial instruments with highly rated financial institutions.

23b Fair values of financial instruments

	Carrying value 2006 £m	Fair value 2006 £m
Amounts receivable within one year		
Trade debtors	427.7	427.7
Other debtors	4.9	4.9
Derivative financial instruments	3.5	3.5
Amounts receivable after more than one year		
Derivative financial instruments	3.2	3.2
Cash at bank and in hand	160.2	160.2
Amounts payable falling due within one year		
Loans	(5.3)	(5.3)
Trade creditors	(252.8)	(252.8)
Programme acquisitions	(36.6)	(36.6)
Obligations under finance leases	(4.8)	(4.8)
Derivative financial instruments	(3.2)	(3.2)
Amounts payable falling due after more than one year		
Loans	(72.0)	(72.0)
Programme acquisitions	(3.6)	(3.6)
Obligations under finance leases	(28.5)	(28.5)
Derivative financial instruments	(4.0)	(4.0)
Provisions for liabilities and charges	(3.4)	(3.4)

As at 31 March 2006 there are no significant differences between fair value and carrying value of any of the Group's financial instruments. The fair value of forward currency contracts, interest rate swaps, and embedded derivatives are based on market prices and exchange rates at the balance sheet date. The remaining financial instruments are carried at cost or amortised cost in accordance with FRS 26 which approximates to fair value.

At 31 March 2005 there were no significant differences in value between the book and fair value of the Group's financial instruments except for derivatives which were not recognised on the balance sheet in accordance with applicable standards at that time.

The fair value of these derivatives was an unrealised loss of £7.8million on forward exchange hedging contracts and an unrealised gain of £3.3million for interest rate swaps. These, along with £7.1million of unrealised gains on embedded derivatives at 31 March 2006 result in an adjustment to reserves on adoption of FRS 26 of £2.6million.

23c Financial assets

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the maturity profile of the Group's financial assets at 31 March 2006 was:

	Effective interest rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Greater than 5 years £m	Total 2006 £m
2006								
Cash at bank and in hand	4.5	160.2	—	—	—	—	—	160.2
Trade and licence fee debtors	—	427.7	—	—	—	—	—	427.7
Other debtors	—	4.9	—	—	—	—	—	4.9
Derivative financial instruments	0.8	3.5	2.6	0.3	0.3	—	—	6.7
		596.3	2.6	0.3	0.3	—	—	599.5

The Group's financial assets are subject to floating rate interest. Included within derivatives are forward foreign currency contracts (which are not subject to interest) and interest rate swaps (which have the effect of converting the variable rate loans to fixed rate loans for the whole term of the loans).

As at 31 March 2005 the Group's financial assets, excluding short-term debtors, amounted to £80.2million, all of which were subject to floating rate interest.

23d Financial liabilities

The Group arranges its borrowings to meet forecast cash flows such that it has access to sufficient funds to meet its commitments. Short-term flexibility is achieved by overdraft facilities. The maturity profile of the Group's financial liabilities at 31 March 2006 was:

	Effective interest rate %	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Greater than 5 years £m	Total 2006 £m
2006								
Trade creditors	—	252.8	—	—	—	—	—	252.8
Programme acquisitions	—	36.6	3.6	—	—	—	—	40.2
Obligations under finance lease	4.7	4.8	3.3	1.1	—	—	24.1	33.3
Derivative financial instruments	0.1	3.2	1.7	0.6	0.7	0.9	0.1	7.2
Loans	4.9	5.3	72.0	—	—	—	—	77.3
Provisions	3.5	—	—	3.4	—	—	—	3.4
		302.7	80.6	5.1	0.7	0.9	24.2	414.2

The above includes contractual liabilities, including those held within provisions.

The Group's financial liabilities are subject to fixed rate interest, except for the interest rate swaps included within derivatives which fix the interest rate of the Group's commercial loans. All interest rates are unchanged for the term of the liabilities, except for a £350million multicurrency revolving credit facility agreement where interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Included within the loan balance above is £47million against this facility (see Note 23f).

Defeasance deposits are amounts deposited with banks by Centre House Productions Limited 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.

The finance leases include £24.1million (2005 £27.1million) relating to Centre House Productions Limited. Centre House Productions Limited enters into finance leases as a means of financing drama productions which result in lower production costs for the BBC. These finance leases are matched by defeasance deposits which may only be used to settle the finance lease liabilities and therefore do not represent separate assets and liabilities. Consequently they are netted off the finance lease creditor to show the net unmatched liability at the year end. These defeasance deposits, £250.4million at 31 March 2006 (2005 £263.0million), are structured such that the principal on deposit and the 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 limits.

The maturity profile of the Group's financial liabilities at 31 March 2005 was:

	Overdraft £m	Bank loans £m	Unsecured loan notes £m	Finance leases £m	Creditors £m	Provisions £m	Total 2005 £m
2005							
Within one year	36.9	—	1.5	—	—	2.7	41.1
Between one and two years	—	—	—	—	7.5	2.5	10.0
Between two and five years	—	150.0	—	—	1.3	6.8	158.1
Greater than five years	—	—	—	27.1	1.7	12.4	41.2
	36.9	150.0	1.5	27.1	10.5	24.4	250.4

After taking account of the various interest rate swaps and forward foreign currency contracts entered into by the Group, the interest rate profile (ie maturity or re-pricing date) of the Group's interest-bearing financial liabilities at 31 March 2005 was:

	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate liabilities		
				Amount £m	Weighted average interest rate %	Weighted average period until maturity Years
2005						
Sterling	250.4	34.2	—	216.2	4.6	3
Total	250.4	34.2	—	216.2		

As permitted under FRS 25 and FRS 26 the comparatives have not been restated and continue to be presented under previously applicable accounting standards (FRS 4 and FRS 13).

23e Derivative financial instruments

	Assets 2006 £m	Liabilities 2006 £m
Greater than one year		
Forward foreign currency contracts	1.3	(3.4)
Interest rate swaps	1.2	(0.2)
Embedded derivatives	0.7	(0.4)
	3.2	(4.0)
Less than one year		
Forward foreign currency contracts	1.6	(3.0)
Interest rate swaps	—	—
Embedded derivatives	1.9	(0.2)
	3.5	(3.2)

At 31 March 2006 the Group had entered into a net commitment to purchase foreign currencies amounting to £90.0million (2005 £95.0million) that mature in the period through to 2012 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). After taking into account the effects of these forward foreign exchange contracts, the Group had no significant currency exposures.

Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature in March 2008.

In total, £246.0million of swaps were entered into to cover all facilities, which is £174.0million (2005 £58.0million) more than the current level of borrowings of £72.0million (2005 £188.0million).

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

23f Borrowing facilities

As at 31 March 2006 the UK Public Service Broadcasting had available a £100million loan facility which is available as either a revolving LIBOR-based loan or an overdraft to May 2006 with an option to extend the facility to May 2007. The loan facility bears interest at a margin of 0.2% and the overdraft facility bears interest at bank base rates plus 1%.

In addition to this loan facility UK Public Service Broadcasting has access to uncommitted money market lines, from individual banks, totalling £24million (2005 £24million) with interest payable at a margin of between 0.125% and 0.5% over LIBOR.

BBC Commercial Holdings Limited's liabilities comprise a £350million multicurrency revolving credit facility agreement repayable in full in March 2008. At 31 March 2006 £47.0million (2005 £125.0million) was drawn down by way of advances. Interest is payable at LIBOR plus 0.375%, rising to LIBOR plus 0.45% once the facility is more than 50% utilised. Of the total amount £100million is available in the form of letters of credit to be issued in favour of the European Investment Bank to support their lending under the facilities detailed immediately below. As at 31 March 2006 a further £25.0million (2005 £41million) was utilised by way of letters of credit issued to support the borrowing under these facilities.

The European Investment Bank has made a loan facility available to BBC Commercial Holdings Limited, for an amount of £25.0million. This loan is repayable in one single instalment by June 2007. £25.0million was drawn under this facility at 31 March 2006 (2005 £25.0million). The interest rate applicable on the facility is determined with reference to the European Investment Bank's own funding cost and carries no margin above this funding rate. The lending under the facility is supported by a letter of credit issued by the commercial banks under the £350million revolving credit facility referred to above.

In addition BBC Commercial Holdings Limited had a facility of £20.0million which was available as an overdraft at 1% over the Bank's base rate, or a money market line, with a margin of 0.3%. The facility is due for review in January 2007.

Money market lines are short-term borrowings.

24 Commitments

24a Contracts placed for future expenditure

	Group 2006 £m	Group 2005 £m	UK Public Service Broadcasting 2006 £m	UK Public Service Broadcasting 2005 £m
Fixed asset additions	79.9	27.7	67.5	21.5
Programme acquisitions and sports rights	918.3	987.7	861.9	945.1
Independent programmes	96.3	85.3	85.7	76.2
	1,094.5	1,100.7	1,015.1	1,042.8

Fixed asset additions includes a commitment of £43.3million for the design, build and installation of the full technology solution for BBC Scotland's new broadcasting headquarters at Pacific Quay. Of this amount £29.6million is expected to be paid within one year.

24b Operating leases

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

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.

	Land and buildings 2006 £m	Land and buildings 2005 £m	Other 2006 £m	Other 2005 £m
Group				
Within one year	2.7	2.9	1.4	3.3
In two to five years	8.3	6.3	8.5	5.9
After five years	41.4	35.9	3.2	2.6
	52.4	45.1	13.1	11.8
UK Public Service Broadcasting				
Within one year	2.1	1.8	0.5	1.7
In two to five years	6.1	3.8	2.6	2.8
After five years	40.9	35.7	1.0	0.8
	49.1	41.3	4.1	5.3

24c Other financial commitments

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

25 Contingent assets and liabilities

At 31 March 2006 the Group had unprovided contingent liabilities estimated to be £6.3million (2005 £5.4million) in respect of guarantees and indemnities. Of this, £1.6million relates to UK Public Service Broadcasting. The remainder relates to BBC Worldwide's joint venture, Worldwide Media Limited. BBC Worldwide Limited has guaranteed bank loans in respect of this joint venture which were 366million rupees (£4.7million) on 31 March 2006. This debt may rise to 400million rupees (£5.2million) over the next two years.

In January 2006 the BBC received a reminder of a claim originally made in 2000 by the contractor engaged to build and install gas turbines at TVC for an additional £3.1million. Given the length of time that has elapsed since the original claim and the sporadic pursuit by the contractor of this claim, the BBC considers the likelihood of the claim succeeding as remote and therefore has not provided for this claim in the accounts.

The Group also has a number of contingent liabilities arising from litigation. The BBC makes specific provision (see Note 17) for its best estimate of any damages and costs which may be awarded.

26 Post balance sheet events

On 3 May 2006 BBC Worldwide completed the disposal of 61% of its interest in Origin Publishing Limited to a management buyout team. BBC Worldwide retains a 39% interest which will be accounted for as an associate.

On 30 April 2004, BBC Worldwide exercised a put option to require Discovery to purchase the Group's entire 25% shareholding in Animal Planet LLC. The net book value of the Group's investment in this associate at 31 March 2006 is £nil (2005 £nil). On 3 April 2006 consideration of \$80million (£45.8million) was received by BBC Worldwide in respect of its 25% holding in Animal Planet LLC.

27 Related party transactions

The related party transactions of the Group have been presented in accordance with FRS 8 *Related party disclosures*. Under the provisions of FRS 8 the BBC has not disclosed transactions between Group entities where more than 90% of those entities' voting rights are controlled within the Group. UK Public Service Broadcasting does not underwrite any of the activities or liabilities of the subsidiaries.

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

27a Transactions with joint ventures and associated undertakings

Included in the statement of income and expenditure is income from UKTV of £45.8million (2005 £51.8million) relating to the sale of programmes and dividends. Also included is income of £27.9million (2005 £30.5million) relating to the sale of programmes to JV Programmes LLC. Net income from 2|entertain Limited of £23.5million (2005 £15.6million) was received for licensing of programmes, other commissions and dividends. There is also £5.9million (2005 £6.3million) of income from various other joint ventures and associates relating to the sale of programmes. Included in the statement of income and expenditure is income of £0.8million (2005 £0.8million) from BBC Haymarket Exhibitions Limited relating to management fees and dividends. In addition, Frontline Limited charged £2.0million (2005 £3.1million) for the distribution of BBC Worldwide Limited's magazines and paid a dividend of £0.4million (2005 £0.6million). Also included is a charge for £0.3million (2005 £0.4million) from Parliamentary Broadcast Unit Limited, for the purchase of broadcast licences.

The BBC, Crown Castle UK Limited and British Sky Broadcasting Limited are partners in DTV Services Limited. In the year the BBC paid DTV Services Limited £1.3million (2005 £0.9million) for marketing services.

The BBC and Land Securities Trillium Limited are partners in the Insight Property Partnership and the White City Development Partnership. The partnerships charged the BBC £104.8million for property services during the year (2005 £153.2million).

In July 2003, the BBC granted a head lease on Broadcasting House to Daunus Limited (a company in which the BBC holds a 10% interest (see Note 13b) and Morgan Stanley Gamma Investments. During the year the BBC has paid rent of £11.5million to Daunus Limited and received £1.0million (2005 £14.9million) for reimbursement of Broadcasting House development costs.

Amounts owed by/to joint ventures and associated undertakings at the year end are disclosed within Notes 15 and 16. In all transactions the terms of trade were negotiated on an arm's length basis.

Related parties include Governors, the Executive Board and other senior managers, their immediate families and external entities controlled by them

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

27b Other transactions

In the normal course of business the BBC transacts with other parties which are related to it by virtue of its senior employees being married or closely related to employees of the BBC or individuals who own or are employed at other media, production and broadcasting companies.

The BBC has set procedures for dealing with situations to avoid any conflict of interest. Where transactions have arisen between connected parties, the BBC Governor or employee is not a party to the approval process.

Baroness Deech, Governor, has a daughter who is a journalist in BBC News. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Professor Merfyn Jones, Governor, has a son who is a researcher in BBC News. His remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Ranjit Sondhi, Governor, is married to Anita Bhalla, who has been employed by the BBC since 1987 in various production and broadcasting roles. Her current role is Head of Political Community Affairs for the English Regions. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity. His daughter is an actress and works occasionally on BBC Radio and Television programmes. Her fees are based on the BBC's standard artists and contributor terms and conditions.

Deborah Bull, Governor, is sole Director of Deborah Bull Limited. Subsequent to her appointment, Deborah received, through Deborah Bull Limited, payments totalling £2,853 (2005 £8,650) for contributions to various BBC programmes. No amounts were outstanding at the year end (2005 £nil).

The wife of Richard Tait, Governor, is a BBC Radio 4 commissioning editor. Her remuneration is based on the BBC's standard terms and conditions applicable to other staff employed in this capacity.

Michael Grade, Chairman, is non-executive Chairman of Pinewood Shepperton and non-executive Chairman of Hemscott plc. In the year ended 31 March 2006 the BBC paid £2,494,051 (2005 £2,148,763) to Pinewood Shepperton for the use of studios and related facilities. At the year end £16,105 was outstanding (2005 £5,554).

Menna Richards is controller of BBC Wales. Her sister has a controlling interest in Torpedo Limited. BBC Wales made payments on contracts to the value of £323,895 with Torpedo Limited for the provision of independent radio and television programmes in the year. These amounts had been paid in full by 31 March 2006. Also, BBC Wales entered into artists' contracts worth £56,267 with her husband Patrick Hannan. These amounts had been paid in full by 31 March 2006.