

Consolidated statement of income and expenditure

for the year ended 31 March

	Note	2002 £m	2001 as restated £m
Income	1	3,382.9	3,164.5
Operating expenditure	2	(3,556.3)	(3,294.3)
Group operating deficit*		(173.4)	(129.8)
Share of operating surplus of associates and joint ventures		1.4	0.9
Operating deficit	3	(172.0)	(128.9)
Profits and losses on sale and termination of operations	5	7.7	18.2
Profit on disposal of fixed assets	6	11.7	–
Deficit before interest and taxation		(152.6)	(110.7)
Net interest receivable	7	21.6	25.8
Other finance income (from defined benefit pension scheme)	8	133.9	169.5
Surplus before taxation		2.9	84.6
Taxation	9	(17.7)	(9.6)
Minority interest		(1.1)	0.5
(Deficit)/surplus for the financial year	19	(15.9)	75.5

The income and expenditure account for 2001 has been restated for the adoption of FRS 17 (see Note 26a).

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of their cumulative operating losses (see Note 14d).

The above results are derived from continuing operations in both the current and previous financial periods.

The BBC does not aim to make a profit. Surpluses or deficits represent timing differences between income and expenditure in each accounting period.

* After charging £179.5million (2001 £156.8million) in respect of pension costs under FRS 17 (see Notes 4 and 8).

Balance sheets

at 31 March

	Note	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
Fixed assets					
Intangible fixed assets	10	15.4	0.5	–	–
Tangible fixed assets	12	760.8	817.0	520.8	466.4
Investment in programmes for future sale	13	111.8	117.2	–	–
Other investments	14	16.8	1.8	299.2	339.5
		904.8	936.5	820.0	805.9
Current assets					
Stocks	15	449.4	397.6	425.3	378.0
Current debtors	16	663.6	648.2	542.8	544.7
Long-term debtors	16	137.2	47.8	113.8	44.8
Total debtors		800.8	696.0	656.6	589.5
Short-term investments	21	356.8	253.4	356.8	253.4
Cash at bank and in hand	21	0.3	117.9	–	80.3
		1,607.3	1,464.9	1,438.7	1,301.2
Creditors – amounts falling due within one year	17	(871.2)	(844.6)	(767.9)	(657.7)
Net current assets		736.1	620.3	670.8	643.5
Total assets less current liabilities		1,640.9	1,556.8	1,490.8	1,449.4
Creditors – amounts falling due after more than one year	17	(102.5)	(51.3)	(46.1)	(21.7)
Provisions for liabilities and charges	18	(82.6)	(53.2)	(74.6)	(48.3)
Net assets excluding pension asset and liability		1,455.8	1,452.3	1,370.1	1,379.4
Pension asset	8	965.0	1,708.0	–	–
Pension liability	8	(3.9)	(3.7)	–	–
Net assets		2,416.9	3,156.6	1,370.1	1,379.4
Represented by					
Operating reserve excluding pension asset and liability	19	646.2	654.5	561.1	581.1
Pension reserve	19	961.1	1,704.3	–	–
Operating reserve		1,607.3	2,358.8	561.1	581.1
Capital reserve	19	802.6	791.1	802.6	791.1
Revaluation reserve	19	6.4	7.2	6.4	7.2
		2,416.3	3,157.1	1,370.1	1,379.4
Minority interest		0.6	(0.5)	–	–
		2,416.9	3,156.6	1,370.1	1,379.4

The balance sheets have been restated for the adoption of FRS 17 (see Note 26a).

The BBC has entered into certain joint ventures with Flextech and Discovery Communications Inc. but has no obligation to make good its share of the net liabilities which at 31 March 2002 amounted to £82.5million (2001: £88.2million). These liabilities have not been included in the financial statements (see Note 14d).

The financial statements were approved by the Governors and Executive Committee on 20 June 2002 and signed on their behalf by:

Gavyn Davies *Chairman*

Greg Dyke *Director-General*

John Smith *Director of Finance, Property & Business Affairs*

Statement of total recognised gains and losses

for the year ended 31 March

	Note	2002 £m	2001 as restated £m
Group (deficit)/surplus for the financial year		(15.9)	75.5
Exchange differences on retranslation of overseas subsidiaries		0.5	2.4
Actuarial loss on defined benefit pension schemes	8b	(725.4)	(708.2)
Total recognised gains and losses relating to the year		(740.8)	(630.3)
Prior year adjustment for the adoption of FRS 17	26a	1,751.5	
Total recognised gains and losses since the previous financial year		1,010.7	

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

Reconciliation of movement in reserves

for the year ended 31 March

	Group 2002 £m	Group 2001 as restated £m	Home Services 2002 £m	Home Services 2001 as restated £m
(Deficit)/surplus for the financial year	(15.9)	75.5	(9.3)	32.5
Other recognised gains and losses relating to the year (net)	(724.9)	(705.8)	–	–
(Decrease)/increase in reserves during the year	(740.8)	(630.3)	(9.3)	32.5
Opening reserves as previously stated	1,405.6	1,395.6	1,344.6	1,335.6
Prior year adjustment for the adoption of FRS 17	1,751.5	2,391.8	34.8	11.3
Opening reserves as restated	3,157.1	3,787.4	1,379.4	1,346.9
Closing reserves	2,416.3	3,157.1	1,370.1	1,379.4

The 2001 figures have been restated for the adoption of FRS 17 (see Note 26a).

Consolidated cash flow statement

for the year ended 31 March

	Note	2002 £m	2001 £m
Net cash inflow from operating activities	20	217.5	129.0
Dividends received from joint ventures and associates		1.1	–
Return on investments and servicing of finance			
Interest received		24.9	26.3
Interest paid		(2.8)	(2.1)
Net cash inflow from return on investments and servicing of finance		22.1	24.2
Taxation			
Taxation paid		(13.9)	(14.8)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(194.2)	(140.8)
Investment in programmes for future sale		(83.2)	(76.3)
Investment in intangible fixed assets		(8.7)	–
Proceeds from the sale of investments		0.6	–
Proceeds from sale of investment in programmes		5.9	–
Proceeds from the sale of tangible fixed assets		46.8	2.3
Net cash outflow from capital expenditure		(232.8)	(214.8)
Acquisitions and disposals			
Purchase of a subsidiary net of overdrafts acquired	11	(9.1)	(0.6)
Investments in joint ventures		(11.4)	–
Proceeds from sale of operations	5	9.0	18.7
Net cash (outflow)/inflow from acquisitions and disposals		(11.5)	18.1
Net cash outflow before use of liquid resources and financing		(17.5)	(58.3)
Management of liquid resources			
Net cash withdrawn from deposit	21	15.0	2.5
(Purchase)/sale of other liquid resources	21	(103.4)	4.2
Net cash (outflow)/inflow from management of liquid resources		(88.4)	6.7
Financing			
Increase in loans	21	10.3	–
Repayment of loans	21	–	–
Net cash inflow from financing		10.3	–
Decrease in cash	21, 22	(95.6)	(51.6)

The decrease in cash shown here is due to the BBC policy of investing surplus cash in short-term liquid investments. Taking cash and short-term investments together, the BBC's funds at 31 March 2002 remain at a similar level to 31 March 2001 (see Note 21).

Statement of accounting policies

This section explains the BBC's main accounting policies, which have been applied consistently, throughout the year, and with the preceding year except where stated. A footnote in italics follows some policies below to explain the 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 chosen to follow the accounting and disclosure provisions of the Companies Act 1985, applicable UK accounting standards and the rules of the UK Listing Authority to ensure that its financial statements are prepared on a basis which is consistent with that of UK public limited companies.

Basis of accounting

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

The Group has also fully adopted FRS 17, *Retirement benefits*, early. FRS 17 requires a different accounting policy for the recognition of pension costs in the financial statements compared with its predecessor, SSAP 24. Accordingly the 2001 financial statements have been restated onto a comparable basis. Note 26a provides more details of the effect of this change in accounting policy.

The BBC chooses to adopt all accounting standards early.

Basis of consolidation

The BBC Group comprises the Home Services and those subsidiaries incorporated to act solely on behalf of, and for the benefit of, the Home Services (notably Centre House Productions Limited and BBC Property Limited), BBC World Service, and the BBC's commercial subsidiary companies, BBC Worldwide Limited (BBC Worldwide), BBC Resources Limited (BBC Resources) and BBC Technology Holdings Limited (BBC Technology). 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.

A separate statement of income and expenditure reflecting the results of the Home Services has not been presented, as permitted by Section 230 of the Companies Act 1985.

These accounts of the BBC Group include the results of the Home Services, BBC World Service and all businesses controlled by the BBC (subsidiaries) together with the BBC's share of the results of businesses where we influence their policies (associates) and those which we jointly control (joint ventures).

Investments

Investments are recorded on the balance sheet of the Home Services at cost less provision for any impairment in value. The funding of the Home Services and BBC World Service is legally separate and cross-subsidisation is not permissible. Accordingly, for the purposes of preparing the Home Services' balance sheet, the Home Services are considered to have an investment in BBC World Service equal to the net assets of BBC World Service.

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 over its useful economic life. 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.

Intellectual property rights

Purchased intellectual property rights are capitalised and amortised on a straight line basis over the expected useful life of the assets.

Income

Income derived from television licences, receivable from the Department of Culture, Media and Sport, 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 difference between the value of licences issued and the amount voted is adjusted in the amount of cash received in the following year. Any amounts which have not been paid to the BBC are included within debtors.

BBC Worldwide Limited income is shown net of value added tax and trade discounts and predominantly represents: licence fees from the distribution of joint productions; agency income and commission from the distribution of programmes on behalf of the BBC and other producers; income from joint venture TV channels; and income from the sale of magazines, books, videos, compact discs, tapes, DVDs and character merchandise.

BBC Resources Limited and BBC Technology Holdings Limited income is shown net of value added tax and trade discounts and predominantly represents income from the provision of equipment, facilities and services to the BBC and external customers.

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

The distinction between the various income sources is important. The BBC is careful not to cross-subsidise commercial and public service activities or Home and World Service activities. More information on these BBC fair trading requirements and policies can be found on pages 60 to 62 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 or at forward rates where related hedging contracts are in place.

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 are taken directly to the operating reserve, together with the differences arising when the profit and loss accounts are retranslated at the rates ruling at the year end. Other exchange differences are taken to the statement of income and expenditure.

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 pension schemes for the benefit of employees.

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

The defined benefit schemes, of which the majority of staff are members, provide benefits based on final pensionable pay. Amounts are charged to expenditure so as to spread the cost of pensions over employees' working lives with the BBC. The assets of the BBC's main scheme are held separately from those of the Group.

As noted above, the BBC has adopted FRS 17, *Retirement benefits*, early and now recognises the position of the scheme at the balance sheet date. The impact on the results and the financial position of the Group is disclosed in Note 26a. The main difference between the figures provided under FRS 17 and SSAP 24 is that the valuation of assets in the scheme is based on market valuation rather than longer-term actuarial valuation. This means that there will be greater volatility in the pension scheme surplus as the valuation must reflect market conditions at a particular point in time. For the BBC this is 31 March each year.

The Home Services have taken advantage of the provisions included within FRS 17 and account for the scheme as if it were a defined contribution scheme. This is because it is unable to identify its share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The expenditure charge under FRS 17 for the Home Services therefore 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 BBC 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.

Tangible fixed assets

Expenditure on fixed assets is capitalised together with incremental and internal direct labour costs incurred on capital projects.

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	– fifty years
Short-leasehold land and buildings	– unexpired lease term

Plant and machinery

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

Furniture and fittings

– three to ten years

Home Services' plant and machinery is stated at the estimated current replacement cost of the assets, adjusted for remaining service potential, as at 31 March 1993, 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 adjusted for remaining service potential, as at 1 April 1996, or cost if acquired later, less accumulated depreciation.

The BBC has revalued its assets once, when the internal market was introduced, but has chosen not to revalue its tangible assets 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 income and expenditure account over the estimated average marketable life of the programme genre which is generally between five 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 income and expenditure account to match the expected timing of income from future sales.

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.

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.

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.

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 against the income and expenditure account, 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.

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. 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.

Reserves

The value of the capital reserve is equal to the combined net book value of fixed assets of the Home Services and BBC World Service at historic cost.

The revaluation reserve reflects the difference between the net book value of fixed assets of the Home Services 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 BBC is careful not to mix Home Services 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 either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise bank deposits not repayable on demand and other short-term investments which include gilts, certificates of deposit and commercial paper.

Financial instruments

The Group does not enter into speculative derivative contracts. Some hedging contracts are undertaken in order to limit the Group's exposure to foreign exchange fluctuations. (The accounting treatment for these contracts is explained in the foreign currency translation accounting policy).

Disclosure of the Group's loans and other financial assets and liabilities is provided within the notes to the financial statements covering debtors, creditors and cash and debt balances.