

Governors' review of commercial activities

Overview

This has been a year of further major change in the BBC's commercial activities following the full scale review in 2004/2005 which recommended wide-ranging restructuring.

One key recommendation was that the BBC did not need to own either BBC Resources or BBC Broadcast. In August 2005 BBC Broadcast, which provided playout and other services, was sold and now operates under the name Red Bee Media Limited. A sale of BBC Resources will not take place before June 2007.

The commercial review recommended that BBC Worldwide should be retained and work has progressed to simplify the company structure and improve its financial performance. Profits from BBC Worldwide are re-invested for the benefit of licence fee payers.

BBC Worldwide publishes its own annual review which is available online at www.bbcworldwide.com



The Office ringtones

Exploiting BBC assets to benefit licence fee payers: BBC Worldwide deals, such as the one with Orange turning *The Office* catchphrases into ringtones, produce investment funds for public service broadcasting

BBC Worldwide

BBC Worldwide is the main commercial subsidiary of the BBC. It exploits the BBC's content assets, brands and intellectual property around the world, bringing value to the BBC for the benefit of licence fee payers. The BBC reinvests the earnings from its commercial activities into public service broadcasting.

Moves to improve Worldwide's transparency and governance include the publication of a more open annual review and the introduction of external non-executive directors. An independent non-executive Chairman, Etienne de Villiers, was appointed in August 2005 and further non-executive appointments will be announced in due course.

BBC Worldwide's target of doubling profit over two years from April 2004 was beaten with profits of £89million – an increase of 144% over the two years and 62% year on year. This was achieved by turning around loss-making businesses and pulling out of, or finding partners for businesses which no longer fitted Worldwide's new remit or which lacked scale, combined with good growth in other businesses and a cost reduction programme.

In 2005/2006 sales were up 11% from £706million to £784million, and BBC Worldwide returned £185million in cash flow – profits and direct programme investment – to the BBC (up 28% from £145million in 2004/2005).

The company expects further growth in 2006/2007, particularly in developing markets and its Global Channels business, as well as a number of new media opportunities such as an advertiser-funded international website, bbc.com and the potential commercialisation of an interactive media player, should these projects be

BBC Worldwide profit before interest and tax (£million)

2005/2006	89.4
2004/2005	55.2
2003/2004	36.7
2002/2003	32.4
2001/2002	25.7

Source: BBC Worldwide. Profit before interest and tax based on continuing operations. Excludes BBC World and beeb.com

BBC Worldwide cash flow to the BBC (£million)

2005/2006	185
2004/2005	145
2003/2004	141
2002/2003	123
2001/2002	106

Source: BBC Worldwide

approved. It is aiming to achieve a profit of £100million in 2006/2007.

In January 2006, BBC Worldwide in partnership with the Indian media company, Mid Day Multimedia Limited, won the licences to broadcast radio on FM in seven major Indian cities.

In March 2006, BBC Worldwide was told by JMC, its distributor in Japan, that it no longer had the financial means to distribute the BBC Japan channel. As a result, it went off the air at the end of April. However, BBC Prime found a new market in Korea.

The Global Channels division achieved a 73% increase in profits, £6.9million up from £4million last year.

BBC Worldwide's share of profits from its video/DVD joint venture with Woolworths plc – 2|entertain Limited, part of the Home Entertainment division – were £27.3million. Sales of its *Little Britain* DVDs have reached 3 million units. BBC Books, also part of the Home Entertainment division, has achieved profits of £1million, a significant improvement on the £3.1million loss of 2004/2005.

The Children's division, which was losing £11million in 2003/2004, again improved upon its 2004/2005 performance, reducing its losses from £6.6million last year to £0.9million. This business is expected to reach profit in 2006/2007.

In June 2005, BBC Worldwide's subsidiary, Broadcasting Data Services (BDS), was sold to BBC Broadcast which was subsequently itself sold.

BBC Worldwide formed a partnership with Pearson Education for its academic, consumer and English language teaching (ELT) businesses. The partnership will publish

BBC-branded educational products and services under a new imprint, BBC Active. BBC Worldwide is seeking partnerships for its interactive learning business and for BBC Books, and to sell Audiocall, which supports functions such as telephone voting, donation and information lines.

BBC Worldwide has begun to exploit new ways of bringing its content to audiences. A good example is the deal with Orange which enables mobile-phone users to download clips from BBC shows including *The Office* and *Little Britain*, and use their catchphrases as ringtones.

BBC Resources

BBC Resources is a wholly-owned subsidiary of the BBC. It supplies production facilities: outside broadcasts; post production; studios; and costumes and wigs. Its customers include the BBC, independent producers, other broadcasters and corporate clients.

As expected, this was a challenging year for the business, which performed well against budget. In 2005/2006 BBC Resources delivered revenues of £128million and PBIT of £6million (£135million and £7million in 2004/2005); and a net cash inflow of £8million (£13million 2004/2005).

BBC production highlights included *Strictly Come Dancing* and *Strictly Dance Fever*, *Planet Earth*, *Life in the Undergrowth* and *Coast, Glastonbury*, the Royal Wedding, the General Election and key sporting events such as Wimbledon, Six Nations and the Open Golf.

Independent production highlights included *Friday Night with Jonathan Ross* for Open Mike, *8 out of 10 Cats* for Endemol, the Live8 DVD Box Set for the Band Aid Trust and EMI, *Come and Have a Go* for 12 Yard, *Lenny Henry* for Tiger Aspect, Formula One for North One, horse racing for Sunset and Vine and snooker for TWI.