

Corporate Governance

BBC Worldwide's commitment

The BBC has an obligation under its Charter to demonstrate high standards of corporate governance.

The Combined Code was issued by the London Stock Exchange in June 1998. This Code, derived from the Hampel Committee report, sets out principles of good corporate governance and consolidates the work of the earlier Cadbury and Greenbury Committees. Both the BBC and BBC Worldwide voluntarily comply with the Combined Code to the extent it is applicable.

Statement of principles

In this section we explain how BBC Worldwide applies the Code's 14 principles of good governance. Following this we set out the extent to which we have complied with the 45 detailed provisions of the Code.

The requirements of the Combined Code can be applied to BBC Worldwide with the following exceptions:

- those requirements relating to shareholders as a wholly owned subsidiary of the BBC, BBC Worldwide is not accountable to external shareholders but to the BBC. The BBC, in turn, is accountable to the public, rather than to shareholders, through the stewardship of the Governors
- those requirements relating to non-executive directors, remuneration and audit committees the directors consider that BBC Worldwide should comply with the Combined Code in a manner which is common practice for a subsidiary whose parent is complying with the Code. Hence the directors do not consider it appropriate for BBC Worldwide to have separate non-executive directors or remuneration and audit committees from those established by the BBC.

How BBC Worldwide has applied the remuneration principles is covered separately within the remuneration report (pages 26 and 27).

Board structure

Details of the Board of Directors are shown on page 23. As explained above, BBC Worldwide does not have any non-executive directors. However, the BBC Worldwide board is represented on the BBC's Executive Committee and is accountable to the BBC Governors who constitute the members of the Corporation and act as trustees for the public interest.

The Governors are drawn from a variety of occupations and backgrounds and are independent of the BBC executive management. A register of interests for the Governors is maintained and may be inspected by written application to the Secretary of the BBC. The Governors are appointed by the Queen in Council for periods of five years.

The Board of Directors meets on a monthly basis. Other members of management attend as required.

A formal schedule of matters is reserved to the board for decisions. This includes:

- approval of the annual accounts
- approval of the budget
- approval of company strategy
- the establishment of new joint ventures and trading companies.

Directors are given appropriate documentation in advance of each board meeting. The directors have access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures are followed.

The Board of Governors delegates some matters relevant to BBC Worldwide to sub-committees. The main responsibilities of these sub-committees are explained elsewhere in the annual report as follows:

Fair Trading Audit Committee	(page 22)
Audit Committee	(page 25)
BBC Worldwide and Resources Committee	(page 25)

Previously a Remuneration Committee, consisting of three governors, had responsibility for recommending executive remuneration policy to the Board of Governors, including the package for BBC Worldwide's Chief Executive. Since June 1998 executive remuneration policy has been the responsibility of the entire Board of Governors.

Accountability and internal control

Financial reporting and going concern

The respective responsibilities of the directors and the external auditors are set out on pages 27 and 28.

A detailed review of the financial position of BBC Worldwide is included in the financial review by the Finance Director on pages 21 and 22. This, together with the Chief Executive's introduction on page 3, provides an assessment of BBC Worldwide's performance and current position.

The going concern basis has been adopted in the preparation of the financial statements as the directors, having made enquiries, believe that BBC Worldwide has adequate resources to continue in operational existence for the foreseeable future.

Internal financial control

The Board of Directors has overall responsibility for BBC Worldwide's system of internal financial control. Such a system can provide reasonable but not absolute assurance against material misstatement or loss.

The board exercises control through an organisational structure with clearly defined levels of responsibility, authority and appropriate reporting procedures. The key control procedures are described under the following headings:

– management reporting

there is a comprehensive budgeting system with an annual budget approved by the Board of Directors. Monthly financial information, including balance sheets, cash flow statements, trading results and indebtedness are reported against the corresponding figures for the budget and previous year, with corrective action taken by the directors as appropriate.

– operating unit controls

the management has defined the financial controls and procedures with which each operating unit is required to comply. All transactions over a certain upper threshold must be approved by the BBC and those over a certain lower threshold must be approved by the BBC Worldwide Investment Committee.

BBC Worldwide operates its own treasury procedures within the overall policies set by the BBC's Group Treasury department. Major transactions are processed through Group Treasury. Each operating unit maintains additional financial controls and procedures appropriate to its own business environment and carries out local treasury activities, in both cases conforming to overall standards and guidelines.

– computer systems

BBC Worldwide's financial and management information is processed by and stored on computer. BBC Worldwide has established controls and procedures over the security of data held on computer systems. Arrangements are in place for computer processing to continue and data to be retained in the event of the complete failure of the BBC Worldwide's own data processing facility. BBC Worldwide's progress in preparing computer systems and equipment for the Year 2000 is explained later on this page.

– monitoring financial control

BBC Worldwide has a formally constituted Risk Management and Internal Control Committee (RMICC). Comprising the Board of Directors and the Head of BBC Internal Audit, this group is charged with reviewing major risk facing the company and the effectiveness of BBC Worldwide's internal financial control environment. The RMICC meets regularly to consider, inter alia, reports from internal and external auditors and reports to the BBC's Audit Committee.

Audit Committee

Matters relating to BBC Worldwide are also considered by the BBC's Audit Committee, which comprises three of the BBC's Governors.

The Audit committee meets three times a year, and is charged with reviewing the effectiveness of internal financial controls, approving and monitoring the Internal Audit work plan, considering issues arising from Internal Audit's work, reviewing management's response to internal control issues, approving the external audit fee, considering the external audit strategy and plans, reviewing the external auditors' reports and reviewing and approving the annual accounts. Both internal and external auditors are given the opportunity to meet privately with the Audit Committee without any member of management present.

BBC Worldwide and Resources Committee

The membership of this committee is drawn mainly from the Board of Governors and the Executive Committee. It oversees the performance and effectiveness of the BBC's commercial subsidiaries. The Governors aim to ensure that the BBC maximises the opportunities to earn additional income for reinvestment in public service, but without putting the licence fee at risk.

Statement of compliance with the Combined Code of Best Practice

BBC Worldwide has complied throughout the year ended 31 March 1999 with the specific provisions in section 1 of the Combined Code with the exception of those provisions relating to non-executive directors, remuneration and audit committees and shareholder requirements which, as discussed earlier, are not applicable to BBC Worldwide's structure.

In line with most listed companies, pending final guidance from the Turnbull Committee, BBC Worldwide has complied with the Combined Code provision D.2.1 on internal control by reporting on its internal financial control rather than the wider aspects of operational control. BBC Worldwide is reviewing the draft Turnbull guidance with a view to amending its procedures as necessary.

The millennium issue

The 'millennium issue' is the threat that systems or equipment may not function properly as a result of the year change from 1999 to 2000. Problems could arise, for example, with systems and equipment showing incorrect dates, failing to operate reliably or not operating at all.

The millennium issue has potential consequences for BBC Worldwide because our operations are highly dependent on different types of technology. If not remedied, millennium problems could cause disruption to our business. The issue affects all businesses and organisations across the world to some degree, including our suppliers, customers, joint venture partners and infrastructure providers. Hence we cannot deal solely with our own internal compliance when addressing this issue.

The BBC set up a project team in 1997 to deal with the issue and BBC Worldwide is a part of that overall project. The project has been divided into strands concentrating on different aspects of the millennium issue. These strands cover IT systems and infrastructure, broadcasting technology, suppliers and property. The approach has been to identify all items requiring remediation and prioritise work on those which are business-critical. Key non-compliant systems and equipment are being remediated and all remaining work is scheduled for completion by the third quarter of 1999 although most will be complete by second quarter. At the same time, work is progressing with key suppliers and joint venture partners to ensure that the essential goods and services on which BBC Worldwide depends continue to be delivered.

Although BBC Worldwide is taking extensive action to prevent potential millennium problems, there can be no assurance that failure of systems, including those of key suppliers, will not occur.

Accordingly, we are also developing contingency plans to ensure that BBC Worldwide is able to continue operating from 1 January 2000. The target is for contingency plans to be complete by the end of the third quarter of 1999.

To date, BBC Worldwide has not identified any business-critical system under its control that cannot be rectified before October 1999. However, the general uncertainty inherent in the Year 2000 issue, means that BBC Worldwide is unable to provide categorical assurance as to its Year 2000 compliance.

By coupling our extensive remediation work with contingency planning to ensure business continuity, BBC Worldwide considers it unlikely that there will be any material disruption to its key services as a result of the millennium issue.

The project team continues to monitor BBC Worldwide's progress and is continually re-assessing the project's progress to ensure that adequate resources are available to address the remaining issues.

Economic and Monetary Union

On 1 January 1999, 11 out of the 15 countries in the European Union (EU) introduced the Euro as their common currency, although national currencies continue in parallel for a further three years. Prior to the introduction, management reviewed the operational and systems implications of the Euro for BBC Worldwide to ensure that the relevant computer systems used by the company can deal satisfactorily with the invoicing and reporting demands of the new currency. The group has not incurred significant costs to date and the number of transactions conducted in Euros has, so far, been limited.

Remuneration Report

One of the responsibilities of the BBC's Board of Governors is to act as a Remuneration Committee. In this role, the Governors have responsibility for setting executive remuneration policy, including the remuneration package for BBC Worldwide's Chief Executive. The Chief Executive determines the remuneration packages for the rest of the BBC Worldwide Board of Directors, taking account of the remuneration policies set out by the Governors.

This report explains the remuneration policy of the BBC for BBC Worldwide's directors and provides details of their remuneration.

Remuneration policy

The directors are appointed by the Chief Executive and their initial and subsequent remuneration is determined by the Chief Executive. The Chief Executive measures the performance of the directors before recommending their annual remuneration and bonus awards. The BBC's personnel director provides technical support to the Chief Executive in this respect.

The Chief Executive aims to ensure that the packages offered to directors:

- enable the BBC to attract, retain and motivate high-calibre executives
- are positioned at the median against an established comparator group (which includes other broadcasting organisations, major listed companies and central government agencies) in terms of total cash (basic salary plus annual bonus payment)
- remunerate individuals fairly for individual responsibility and contribution, while providing an element of 'at risk' performance-related pay, reflecting the underlying performance of BBC Worldwide
- take into account salary policy within the rest of the BBC and the relationship that should exist between the remuneration of directors and that of other employees.

In determining appropriate levels, the Chief Executive has access to internal expertise in the remuneration area, annual surveys conducted by external consulting firms and published remuneration information on comparable companies.

The remuneration arrangements for directors include the following components:

Basic salary

Basic salaries are reviewed in July each year, except for the Chief Executive's which is reviewed in August, taking into account external market levels and internal comparisons as well as the individual's responsibilities and performance.

Annual bonus

The Directors are eligible to receive a bonus of up to 20%, with the exception of the Chief Executive who is eligible to receive a bonus of up to 30%, of basic salary for meeting certain performance targets. Qualitative and quantitative objectives are set at the beginning of the financial year, and performance is reviewed at the end of the year. For the year under review the targets related primarily to BBC cash flow, profit before interest and taxation and sales turnover.

Bonuses are generally reflected in these accounts on a paid basis, other than in respect of bonuses accrued for directors who leave during the year. This is because bonuses are paid in July each year, after the financial statements have been finalised for the year in question.

Benefits

Directors are eligible for a company car and fuel for private use and medical insurance covering the executive and family. The Chief Executive has the additional benefit of a chauffeur driven car for business use.

Pensions

Most directors participate in the BBC Pension Scheme, which provides salary-related pension benefits on a defined benefit basis, with an accrual rate of 1/60th of final salary per year of service subject to the Inland Revenue earnings cap where appropriate. Only base salary is pensionable. The scheme provides for early retirement on medical grounds and life insurance cover of four times salary, subject to the Inland Revenue earnings cap where appropriate.

A variety of special arrangements have been made for those individuals who have joined the BBC late in their careers, including funded and unfunded arrangements outside the BBC pension scheme for those individuals earning in excess of the Inland Revenue approved earnings cap. Seven directors are members of a money purchase scheme.

Service contracts

Service contracts for directors have been individually determined. All directors have rolling or fixed term contracts with a maximum of one year's notice of termination by BBC Worldwide or the individual executive.

Remuneration received

The remuneration received by each director, who served during the year, in respect of their BBC Worldwide activities was:

	Salary £'000	Annual bonus £'000	Benefits £'000	Total 1998/99 £'000	Total 1997/98 £'000
A R Gavin	187	50	12	249	—
C Fairbairn	128	20	15	163	*102
D J King	2	—	—	2	—
J P Mayhew	117	18	4	139	*113
M J Phillips	134	20	13	167	151
P S Phippen	183	25	63	271	*134
J E Taylor	132	25	16	173	*126
P R Teague	161	40	16	217	151
M C Young	129	24	12	165	161
J S Younger	3	—	—	3	5

*C Fairbairn, J P Mayhew, P S Phippen and J E Taylor were appointed directors during 1997/98, and therefore the comparative remuneration represents a partial year.

A R Gavin's bonus of £50,000 represents partial compensation for loss of earnings upon his departure from British Telecom.

R J Emery, who resigned from office on 31 March 1998, subsequently received a bonus of £29,000 in respect of his service for the year ended 31 March 1998.

The salary for J S Younger represents the proportion of his emoluments recharged to the company by the World Service.

At 31 March 1999, under a scheme available to all staff, J P Mayhew had an interest free season ticket loan outstanding of £550. The loan at 31 March 1998 was £520 and the maximum amount outstanding during the year was £572.

Pensions

BBC Worldwide provided pension benefits to directors who served during the year as follows:

	Increase in accrued pension (a) £'000 per annum	Total accrued pension at 31 March 1999 (b) £'000 per annum	Transfer value of increase (c) (d) £'000 per annum	Directors' contributions (e) £'000	BBC Worldwide contribution to money purchase scheme (f) £'000
A R Gavin	1	1	12	3	24
C Fairbairn	1	3	12	4	15
D J King	—	9	—	—	—
J P Mayhew	2	11	25	7	13
M J Phillips	1	4	29	4	26
P S Phippen	2	7	23	7	20
J E Taylor	1	5	16	4	25
P R Teague	2	7	26	5	29
M C Young	3	15	30	9	—

No additional voluntary contributions have been included in the above table.

Notes to pension benefits

- (a) The increase in accrued pension during the year excludes any increase for inflation.
- (b) The pension entitlement shown is that which would be paid annually based on service to the end of the year.
- (c) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- (d) The transfer value represents a liability of the BBC to make pension payments in the future but not a sum paid or due to the individual and therefore cannot be meaningfully added to remuneration.
- (e) These are contributions made by the directors to the defined benefits scheme during the 1998/99 financial year.
- (f) This is the actual BBC Worldwide contribution to a separate money purchase (defined contribution) pension scheme.

Statement of directors' responsibilities for the preparation of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed and to disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis unless it is inappropriate to do so.

The directors are responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the Auditors to the members of BBC Worldwide Limited

We have audited the financial statements on pages 29 to 39. We have also examined the amounts relating to emoluments and pension entitlements of the directors which form part of the directors' Remuneration Report on pages 26 and 27.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 27 the financial statements. Our responsibilities, as independent auditors, are established by the Auditing Practices Board, our profession's ethical guidance and in accordance with the terms of our appointment, the Companies Act 1985.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information contained in the Annual Report, including the Corporate Governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

In addition to our audit of the financial statements, the directors have instructed us to review their Corporate Governance statement as if the group were required to comply with the Listing Rules of the London Stock Exchange in relation to these matters. We review whether the statement on page 25 reflects the group's compliance with those provisions of the Combined Code specified for audit review by those rules, and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to BBC Worldwide's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditors
London

25 May 1999