

# Financial Review

During the year, BBC Worldwide increased revenues, profits and BBC cash flow. Turnover increased to £446m (including share of joint ventures), £420m excluding joint ventures.

## Trading results

Profit before tax increased by 67% to £20m and operating profit improved from a loss of £7m to a profit of £12m.

Publishing sales were down £2m, following strong growth last year of £39m. This followed the closure of two underperforming magazines and a difficult Christmas, particularly in video sales.

Programme distribution saw sales grow year on year by nearly £9m, about 7%, despite the downward pressure on prices in some markets. Profits improved by £6m to £13m as the full effect of sales to developing channels was realised.

The channels activity, which includes BBC PRIME, BBC WORLD and BBC AMERICA, showed growth of £5m, largely a result of growth in BBC PRIME, and the launch of BBC AMERICA. Channel losses fell by nearly £4m as a result of tight cost control in BBC WORLD, and the improving trading performance of BBC PRIME.

## Joint ventures results

In line with Financial Reporting Standard 9 'Associates and Joint Ventures', BBC Worldwide has included its share of joint venture turnover on the face of the profit and loss account, increasing turnover to £446m. Gross assets and liabilities are included in the balance sheet.

The structure of these arrangements is such that BBC Worldwide has no liability to fund the losses of the ventures, and its effective financial obligation is therefore adjusted to nil.

## Taxation and earnings

The tax charge of £7.8m (39%) compares to £8.5m (72%) in 1997/98. UK corporation tax is provided at 31% and includes a net deferred tax charge of £1.5m. The effective rate of tax of 39% results from treatment of income received and taxed on a cash received basis in the US.

BBC Worldwide does not propose a dividend, retaining its reserves to fund further expansion.

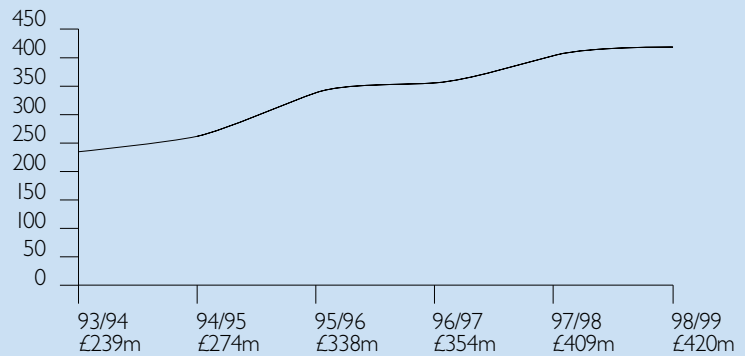
## Exceptional items

The £20m profit before tax includes a profit on the sale of shares held in Flextech plc of £8m.

	1999 £m	1998 £m
Exceptional operating costs:		
Costs associated with negotiation of the Discovery joint venture and launch support costs for new channels	—	(5)
Bad debt provision following the acquisition of European Channel Management Ltd and European Channel Broadcasting Ltd as wholly owned subsidiaries of BBC Worldwide	—	(9)
Profit on sale of Flextech shares	8	21
	8	7

## BBC Worldwide sales history excluding joint ventures

Sales £m



Over the last five years BBC Worldwide's group turnover has grown by 12% per annum to £420m (excluding share of joint ventures).

## Cash flow

Cash flow available to the BBC increased from £75m to £81m for the year.

BBC Worldwide ended the year with net cash in hand of £4m, compared to borrowings, net of cash balances, at 31 March 1998 of £4m.

Cash flow from operations increased by £19m to £81m. The following table analyses BBC cash flow:

	1999 £m	1998 £m
Investment in BBC programmes	55	50
Cash co-production	4	3
Payments to BBC Rights Archive	5	7
Interest paid to BBC	1	2
Net cash generated/(consumed)	8	(8)
	73	54
Profit on Flextech share sale	8	21
BBC cash flow	81	75

## Debt structure and treasury policy

The loan debt due to the BBC has been reduced by £3m to £14m following a £10m reduction last year. BBC Worldwide has raised £3m of external debt funding in the US during the year.

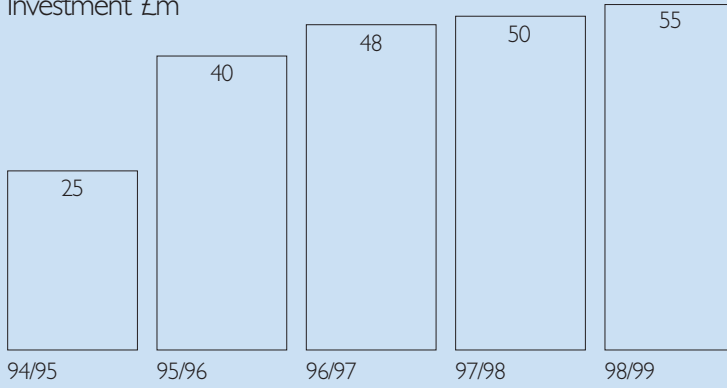
36% of our revenues are generated outside the UK and have therefore been affected by the strength of sterling. It is the policy of BBC Worldwide to take a risk-averse approach to the management of foreign exchange, including the hedging of risk by entering into forward exchange contracts.

## Programme investments

BBC Worldwide invested £68m in programmes (£55m in BBC programmes) in 1998/99. Amortisation was £3m higher than the previous year in line with increased levels of investment.

## BBC Worldwide programme investment with the BBC

Investment £m



Investment in BBC programmes has grown by 22% per annum since 1994/95.

### Capital expenditure

Capital expenditure on tangible fixed assets was £5.4 m in the year; up £1.7m on 1997/98.

### Acquisitions

BBC Worldwide made no significant acquisitions in 1998/99.

### Disposals

On 28 May 1998, BBC Worldwide disposed of 1.6m shares in Flextech plc for £8.4m. These shares were acquired as part of the proceeds of the disposal of its interest in UK Gold Television Ltd on 25 April 1997.

### Discovery Communications Inc.

Following the signing of a number of joint venture arrangements with Discovery in March 1998, BBC Worldwide and Discovery have since launched Animal Planet (Asia) and People & Arts (Latin America) has been launched in Portugal.

### Flextech plc

In addition to the three new channels launched in 1997 – UK HORIZONS, UK ARENA and UK STYLE – as part of the UKTV PayTV offering, UKPLAY was launched in October 1998. Revenues of £24m have been earned in the form of programme licensing income. Revenues and profits earned by BBC Worldwide are in line with expectations.

David King  
Finance Director

## BBC commercial activities and Fair Trading

Licence payers' investments, built up over many years, have produced a critical mass of talent and production capability for the BBC, together with an unparalleled archive of past programming. These assets have a secondary value, over and above their use on public service channels and outlets. The BBC, through BBC Worldwide, has a responsibility to ensure that this value is properly developed, and used, to the benefit of the licence payer.

In performing its commercial role, BBC Worldwide is fully subject to domestic and European Competition Law in the same way as any other British company. The Competition Act 1998 significantly strengthens the powers of the regulatory authorities to enforce fair trading.

In addition to these statutory provisions, and unlike its competitors, the BBC is subject to further requirements to trade fairly, arising from its Royal Charter and accompanying Agreement. These requirements, to which BBC Worldwide is also subject, are published as the BBC's Fair Trading Commitment.

This Fair Trading Commitment requires BBC Worldwide to:

- engage in commercial activities which are consistent with, and support, the BBC's role as a public service broadcaster;
- pay fair charges for any goods or services received from other parts of the BBC;
- charge prices which are a fair reflection of both costs incurred and market practice.

### Compliance

BBC Worldwide's compliance with the Fair Trading Commitment is continuously monitored by the BBC's Board of Governors. A standing sub-committee of the Board of Governors, the Fair Trading Audit Committee, monitors and reviews the effectiveness of the controls across the BBC, which are designed to ensure Fair Trading. The Committee is chaired by the BBC's Vice Chairman, Baroness Young of Old Scone, and includes three other Governors.

### Annual Statement on compliance with the Fair Trading Commitment

The Governors consider that the policies contained in the BBC's Fair Trading Commitment are consistent with the requirements of the Royal Charter and the accompanying Agreement. Through the Fair Trading Audit Committee, they have gained reasonable assurance that the framework of controls and procedures designed to ensure that these policies are applied throughout the BBC has been operating effectively throughout the year.

The BBC's external Fair Trading auditors, KPMG, have issued an opinion, the full basis and text of which are set out in the BBC's Annual Report and Accounts, that the Governors' statement appropriately reflects the BBC's compliance with its Fair Trading Commitment.