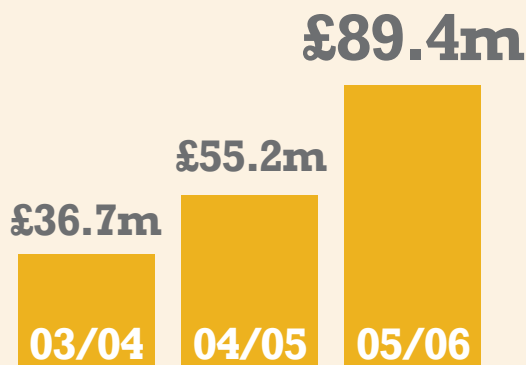


# Financial Review

## Overview

### Profit before interest and taxation

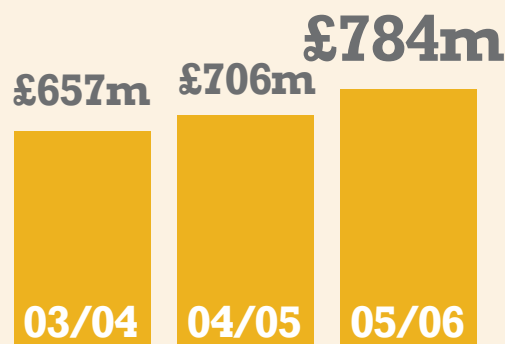
BBC Worldwide has beaten its target of doubling profit over two years. Profit before interest and taxation has grown to £89.4 million (2005: £55.2 million, 2004: £36.7 million). Profit before interest and taxation includes £9.3 million profit on the sale of a package of rights and £1.7 million profit on disposal of part of the Learning business. Total operating profit increased from £57.5 million to £78.9 million.



### Turnover

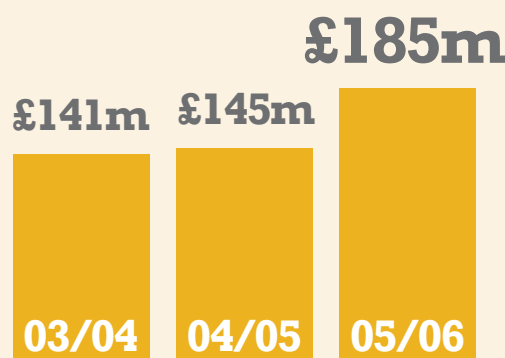
Turnover including share of joint ventures grew 11% to £784 million. This included the effect of 12 months 2 entertain turnover (2005: 4 months).

Turnover excluding joint ventures grew 2% to £556 million. Prior year turnover of £545 million included £29.0 million from activities now transferred to the 2 entertain joint venture.



### BBC Cashflow

BBC Cashflow, the BBC's measure of how much cash BBC Worldwide returns to the BBC, rose 28% to deliver record cash to the BBC of £185 million. BBC Cashflow in 1996/97, the start of the current BBC Charter, was £53 million. Cumulative BBC Cashflow over the period to date is £1.1 billion.



### Future Performance

BBC Worldwide expects to deliver profit before interest and taxation of over £100 million in 2006/07. Although no longer the key measure of performance, BBC Worldwide also expects to meet its 10-year target of delivering over £200 million of BBC Cashflow by the year 2006/07.

### Key Performance Indicators (KPI's)

BBC Worldwide's primary target is growth in profit before interest and taxation. Specific operating and financial KPI's relevant to individual businesses achieving this objective are highlighted in the trading results below.

# Financial Review

## Trading Results

BBC Worldwide has delivered an exceptional set of results, exceeding its target of doubling profit before interest and taxation over two years. This has been achieved through strong trading performance, turnaround or closure of under-performing businesses and a continuing programme of cost efficiencies. The business was also restructured during the year, separating Content & Production activities from the Global TV Sales business.

### Sales and Profit before Interest and Taxation

	Sales (including share of joint ventures)		Profit before interest and taxation	
	2006 £m	2005 £m	2006 £m	2005 £m
Global Channels	165.4	140.6	6.9	4.0
Global TV Sales	173.1	158.8	31.7	30.9
Content & Production	36.1	13.2	3.2	1.0
Magazines (including Children's magazines)	163.7	169.4	19.3	22.0
Home Entertainment (including Learning)	175.3	160.8	25.8	8.7
Children's (excluding Magazines)	37.7	30.0	(0.9)	(6.6)
Digital Media	33.1	33.2	3.4	(4.8)
<b>Total</b>	<b>784.4</b>	<b>706.0</b>	<b>89.4</b>	<b>55.2</b>

Global Channels delivered an 18% increase in turnover to £165.4 million, with profit before interest and taxation rising to £6.9 million (2005: £4.0 million). Dividends received from the UKTV joint venture were £4.0 million (2005: £2.1 million). Together the channels reach 288 million unique households (2005: 245 million).

Global TV Sales had a record year, with profits of £31.7 million (2005: £30.9 million). Growth in key territories and the success of titles such as *Hustle*, *Doctor Who* and *My Family* drove much of this increase, together with growth in factual co-productions. Margin fell by 1.2%, largely a result of increased amortisation on co-productions and the effect of increased payaways to Independent producers.

Content & Production activities were separated from Global TV Sales during the year, with the success of titles such as *Dancing with the Stars* and *Honey We're Killing the Kids* driving growth in profit to £3.2 million (2005: £1.0 million).

Magazines profit was £19.3 million (2005: £22.0 million). The prior year included profit from the sale of *Eve* magazine as well as significant costs arising on the move of titles to Bristol. On a normalised basis profit before interest and taxation was £20.7 million (2005: £20.2 million) with strong performances from lifestyle and specialist titles offsetting difficult conditions in the children's market.

Magazines normalised	06	05
Profit before interest and tax	19.3	22.0
Discontinued titles and set-up of Origin	0.4	3.9
Goodwill amortisation	1.0	0.8
Eve sale	-	(6.5)
Normalised profit	20.7	20.2

# Financial Review

## Trading Results (Continued)

The Audit Bureau of Circulations (ABC) reports on magazines performance in the UK every six months. The year on year growth rates for the period July to December for the top 5 titles by circulation were as follows:

Magazines Circulation	Increase/(decrease) 06	05
Radio Times	(1.3)%	(4.2)%
BBC Good Food	0.5%	0.0%
BBC Gardeners World	(8.5)%	(9.8)%
BBC Top Gear	5.9%	10.0%
BBC Good Homes	4.6%	22.2%

Home Entertainment profits increased to £25.8 million (2005: £8.7 million). Performance in the year resulted from strong DVD front list sales and the first full year of the newly created 2 entertain joint venture, unencumbered by the effect of transition. The video/DVD activities of the 2 entertain joint venture delivered £99.7 million turnover (2005: £56.7 million – 4 months only). In addition, the Books business has moved into profit of £1.0 million (2005: £3.1 million loss) and a £1.7 million gain was generated on disposal of part of the Learning business.

Children's (excluding magazines) reduced its losses to £0.9 million (2005: £6.6 million loss). Improvement was driven by a strong performance in the core business, reduced amortisation charges and the full year effect of the cost reduction programme initiated in the prior year.

Digital Media (formerly New Media) includes Music, Radio, sales to Mobile, Audiocall and the BBC Motion Gallery clips business. Profits rose to £3.4 million (2005: £4.8 million loss). Broadcasting Dataservices Limited was disposed of during the year having made losses of £3.6 million in the prior year. In addition, a package of rights was disposed of during the year for £9.3m million, providing funds for restructuring and development of new services.

### Overseas Sales

For the first time, BBC Worldwide's overseas sales (excluding joint ventures) exceeded UK sales (51% overseas, 49% UK), led by growth in Content & Production, Global Channels and Global TV Sales.

### Acquisitions and disposals

BBC Worldwide's trading activity includes the acquisition, development, exploitation, licensing and sale of intellectual property. During the year ended 31 March 2006 BBC Worldwide completed a number of transactions and the rationalisation of several businesses in pursuit of its strategy as follows:

In May 2005 BBC Worldwide purchased the remaining 25% minority interest shares in Broadcasting Dataservices Limited, before disposing of its 100% holding to BBC Broadcast Limited, a fellow BBC subsidiary, in July 2005. There was no profit or loss on disposal.

BBC Worldwide also completed the sale of a package of rights in May 2005. A total cash consideration of £10.3 million was received, generating a profit on disposal of £9.3 million.

In August 2005 BBC Worldwide announced its intention to terminate its teacher learning business at a cost of £0.5 million.

In October 2005 BBC Worldwide entered into an agreement with Pearson Education to form a partnership branded BBC Active. In return for the transfer of assets of its Learning business, BBC Worldwide acquired a 15% stake in the new partnership. BBC Worldwide received net cash proceeds of £6.3 million in return for assets with a book value of £4.6 million.

### Joint ventures and associates

In line with FRS9, BBC Worldwide has shown its share of joint venture turnover of £228.4 million (2005: £160.9 million) on the face of the profit and loss account. Gross assets and liabilities are presented on the balance sheet. The Group's share of operating profit of joint ventures, after goodwill amortisation of £1.7 million, was £30.4 million (2005: £18.5 million).

The Group's share of turnover for the 12 month period to 2 entertain's 31 January 2006 accounting reference date was £115.2 million (2005: £64.0 million – 4 months only) and the share of operating profit after goodwill amortisation was £25.8 million (2005: £15.9 million).

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# Financial Review

## Trading Results (Continued)

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The structure of the arrangements with its joint venture partners, Flextech, Discovery and Alliance Atlantis, is such that BBC Worldwide has no liability to fund the losses or net liabilities of the ventures and its effective financial obligation is therefore adjusted to £nil (2005: £nil). BBC Worldwide will consolidate the results of each joint venture company at the point they are cumulatively profitable and have net assets.

The share of turnover from BBC Worldwide's principal Flextech joint ventures, UK Gold Holding Limited and UK Channel Management Limited, was £77.1 million (2005: £68.4 million). BBC Worldwide's share of operating profit of these ventures was £19.5 million (2005: £20.0 million). These profits were not accounted for within the results of BBC Worldwide as cumulative profitability has not been reached.

During the year ended 31 March 2006 the Group received dividends of £4.0 million from UK Gold Holdings Limited (2005: £2.1 million), which has been recorded within joint venture operating profit.

The share of turnover from BBC Worldwide's other joint ventures, including BBC Haymarket Exhibitions Limited and Worldwide Media Limited, was £36.1 million (2005: £28.5 million), generating a share of operating profit after goodwill amortisation of £0.6 million (2005: £0.5 million).

In April 2005 BBC Worldwide announced an agreement with Dennis Publishing Limited to form a joint venture named Dovetail Services (UK) Limited, comprising the magazine subscription fulfilment business of each company. BBC Worldwide contributed the assets and business of its Galleon Limited subsidiary in exchange for a 50% stake in the new joint venture company. There was no gain or loss on disposal.

Operating profit from BBC Worldwide's associates, Frontline Limited, UK TV Pty Limited, BBC Worldwide (India) Private Limited and Children's Character Books Limited was £0.8 million (2005: £1.2 million).

### **Taxation**

The tax charge of £24.6 million (28%) compares to £22.5 million (45%) in 2005. UK corporation tax is provided at 30% (2005: 30%). The total effective tax rate for the current year is lower than the statutory rate of UK corporation tax principally due to a £3.7 million adjustment to deferred taxation provided in prior years. The higher comparative total effective

tax rate in the prior year is due to adjustments to deferred taxation that year, together with the provision of UK taxation on dividends received from overseas subsidiaries.

### **Dividends**

Dividends of £57.3 million were approved in the year (2005: £15.7 million), of which £57.1 million had been paid as at 31 March 2006.

### **Debt structure and borrowings**

BBC Worldwide had net borrowings of £19.5 million at 31 March 2006 (2005: £53.9 million).

BBC Worldwide has a loan facility with BBC Commercial Holdings Limited, the holding company for the BBC's commercial subsidiaries. The outstanding loan balance at 31 March 2006 was £39.8 million (2005: £67.6 million). The loan facility was due to terminate on 30 September 2006 and consequently the outstanding balance has been disclosed as a creditor falling due within one year. This facility has been renegotiated subsequent to the year end and has been extended to 30 September 2007.

At 31 March 2006 there were unsecured loan notes outstanding of £5.3 million (2005: £1.5 million). These were issued in connection with the acquisitions of Cover to Cover Limited and Origin Publishing Limited.

### **Foreign exchange**

51% of BBC Worldwide's revenues, excluding joint ventures, in the year were generated outside the UK (2005: 44%) and have been affected by fluctuations in exchange rates. It remains 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 and amortisation**

BBC Worldwide and its joint venture partners invested a total of £93.5 million in programme investments in the year (2005: £75.2 million). It was split £89.0 million in-house and independent programmes commissioned by the BBC (2005: £74.6 million) and £4.5 million in non-BBC commissioned programming (2005: £0.9 million).

Amortisation was £82.3 million (2005: £79.0 million) reflecting higher investment levels and the increased proportion of sales from co-production activity.

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# Financial Review

## Trading Results (Continued)

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### Capital expenditure

Capital expenditure on tangible fixed assets was £7.4 million in the year (2005: £3.9 million) reflecting the decision to purchase rather than lease IT equipment and development of a production facility in the USA.

### Risks & uncertainties

The range of activities operated by BBC Worldwide means that its portfolio could be considered lower risk than businesses operating in a single market or media.

BBC Worldwide has an embedded programme of risk assessment and management, which is described in more detail in the corporate governance section of BBC Worldwide's Report and Financial Statement.

The management team and Audit Committee manage key risks, ensuring that mitigating controls and actions required to enhance the control environment are implemented.

BBC Worldwide considers its key risks and uncertainties to be as follows:

- exposure to the advertising sales market over which BBC Worldwide has no control, mainly affecting linear channels and magazines;
- exposure to fluctuations in major currencies, particularly the US dollar, mainly affecting TV licensing, childrens licensing and channels;
- the impact of new technologies that may alter consumption patterns, mainly affecting linear channels and DVD; and
- increased competition for key programmes and talent rights, reducing margins in all businesses.

### Post balance sheet events

In April 2004 BBC Worldwide exercised a put-option to require Discovery to purchase the Group's entire 25% shareholding in Animal Planet LLC, which in turn owns 80% of Animal Planet LLP (acquired in 1998 as part of the Discovery Communications Inc joint venture arrangements). This sale was finalised in April 2006.

In April 2006 BBC Worldwide also sold 61% of Origin Publishing Limited, and all of the non-BBC related titles published by it, to a management buy-out team led by its Managing Director. BBC Worldwide will

maintain a minority stake in Origin Publishing Limited for a period of time as part of a staged exit. The BBC-branded titles previously produced by Origin Publishing Limited will be retained in a new subsidiary called Bristol Magazines Limited.

### International Financial Reporting Standards

BBC Worldwide has prepared its financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). This is consistent with its ultimate parent company, the British Broadcasting Corporation, which is incorporated under Royal Charter.

A summary of the impact that adopting International Financial Reporting Standards will have on the group financial statements of the BBC will be published with its results for the year ended 31 March 2006.

### David King

Finance and IT Director  
BBC Worldwide

# Financial Review

## Consolidated Profit & Loss

	2006	2005
For the year ended 31 March	£m	£m
Turnover (including share of joint ventures)	784.4	706.0
Less: share of joint ventures	(228.4)	(160.9)
<b>Group turnover</b>	556.0	545.1
Cost of sales	(341.3)	(335.4)
<b>Gross profit</b>	214.7	209.7
Distribution costs	(147.0)	(147.3)
Administrative expenses	(20.0)	(24.6)
<b>Group operating profit</b>	47.7	37.8
Share of operating profit of joint ventures	30.4	18.5
Share of operating profit of associates	0.8	1.2
<b>Total operating profit</b>	78.9	57.5
Profit on disposal of business	1.7	0.4
Profit on sale of fixed assets	9.3	-
Loss on termination of business	(0.5)	(2.7)
<b>Profit before interest and taxation</b>	89.4	55.2
Interest receivable	1.5	0.2
Interest payable	(4.1)	(5.7)
<b>Profit on ordinary activities before taxation</b>	86.8	49.7
Tax on profit on ordinary activities	(24.6)	(22.5)
<b>Profit on ordinary activities after taxation</b>	62.2	27.2
Equity minority interests	(0.1)	0.5
<b>Profit attributable to shareholders</b>	62.1	27.7

On 19 January 2005 BBC Worldwide completed the sale of *Eve* magazine to Haymarket Magazines Limited. Sale proceeds of £6.5 million have been included within Group turnover in the year ended 31 March 2005.

There is no difference in the profit for the financial period as reported compared to an historical cost basis in either the current or prior year.

The profit for the current and prior year is derived from continuing operations.

Following amendments to the Companies Act 1985 dividends are presented as deductions from equity and are not presented within the profit and loss account.

# Financial Review

## Consolidated Balance Sheet

	2006	2005
As at 31 March	£m	£m
<b>Fixed assets</b>		
Intangible fixed assets	19.3	20.3
Tangible fixed assets	12.1	11.5
Investment in programmes for future sale	106.5	97.3
Interests in joint ventures:		
Share of gross assets	150.7	139.4
Share of gross liabilities	(171.5)	(175.9)
Adjustment to reflect effective obligation	37.2	46.7
Goodwill	26.7	26.9
	43.1	37.1
Interests in associated undertakings	1.1	1.3
	44.2	38.4
	182.1	167.5
<b>Current assets</b>		
Stocks	14.4	18.5
Current debtors	160.4	167.8
Long-term debtors	6.7	13.8
Total debtors	167.1	181.6
Cash at bank and in hand	25.6	15.2
	207.1	215.3
Creditors: amounts falling due within one year	(263.9)	(263.8)
Net current liabilities	(56.8)	(48.5)
Total assets less current liabilities	125.3	119.0
Provisions for liabilities	(14.9)	(15.9)
Net assets	110.4	103.1
<b>Capital and reserves</b>		
Called up share capital	0.2	0.2
Profit and loss account	110.2	103.3
Equity shareholders' funds	110.4	103.5
Equity minority interests	-	(0.4)
Total capital employed	110.4	103.1

# Financial Review

## Consolidated cash flow statement

	2006	2005
For the year ended 31 March	£m	£m
Net cash inflow from operating activities	172.0	132.8
Dividends from joint ventures and associates	19.8	13.6
<b>Returns on investments and servicing of finance</b>		
Interest received	0.6	0.2
Interest paid	(4.1)	(5.7)
<b>Net cash outflow from return on investments and servicing of finance</b>	<b>(3.5)</b>	<b>(5.5)</b>
<b>Taxation</b>		
Taxation paid	(13.5)	(10.1)
<b>Capital expenditure and financial investments</b>		
Purchase of tangible fixed assets	(7.4)	(3.9)
Purchase of intangible assets	(0.4)	-
Proceeds from sale of fixed assets	1.0	9.3
Investment in programmes for future sale	(74.0)	(75.2)
Repayment of loan to associated undertaking	0.4	0.3
<b>Net cash outflow for capital expenditure and financial investments</b>	<b>(80.4)</b>	<b>(69.5)</b>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertakings	(0.8)	-
Payment on account to acquire associate	(4.1)	-
Investment in joint ventures	-	(7.1)
Disposal of business	6.3	1.4
<b>Net cash inflow/(outflow) from acquisitions and disposals</b>	<b>1.4</b>	<b>(5.7)</b>
Cash inflow before distributions and financing	95.8	55.6
Equity dividends paid to shareholders	(57.1)	(35.6)
<b>Cash inflow before financing</b>	<b>38.7</b>	<b>20.0</b>
<b>Financing</b>		
Repayment of loan from parent undertaking	(27.8)	(14.6)
Outflow in respect of unsecured loan notes	(0.5)	(0.1)
<b>Net cash outflow from financing</b>	<b>(28.3)</b>	<b>(14.7)</b>
<b>Increase in cash in the year</b>	<b>10.4</b>	<b>5.3</b>

The comparative cash flow statement has been restated to achieve a consistent presentation in both years. Further details are included in BBC Worldwide's Report and Financial Statements which may be obtained from Companies House ([www.companies-house.gov.uk](http://www.companies-house.gov.uk)).