BBC Commercial Holdings Limited

Registered number 04463534

Annual Reports and Consolidated Financial Statements

For the year ended 31 March 2018

Officers and advisors

Directors
Tony Hall
Anne Bulford
Tim Davie
Thomas Fussell
Sarah Jones
Mark Linsey
Anna Mallett
Dharmash Mistry
Balraj Samra
Howard Stringer

Company secretary
Anthony Corriette

Registered office
BC2 A5, Broadcast Centre
201 Wood Lane
London
W12 7TP

Auditor
National Audit Office
157 - 197 Buckingham Palace Road
London
SW1W 9SP

Contents

Strategic report, Directors' report and Consolidated financial statements

Strategic report

The Directors present their annual report for BBC Commercial Holdings Limited (the 'Company'), together with the consolidated and Company financial statements and auditor's report, for the year ended 31 March 2018. The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company financial statements have been prepared in accordance with FRS 101: Reduced Disclosure Framework for all periods presented and these can be seen on pages 91 to 98.

Principal activities of the Group

The Company is the holding company for the British Broadcasting Corporation's (BBC) principal commercial subsidiary undertakings including BBC Worldwide Limited, BBC Studios Limited, BBC Global News Limited, BBC Studioworks Limited and special purpose vehicles for productions such as BBC Grafton House Limited and BBC Childrens Productions Limited (together the 'Group'). BBC Commercial Holdings Limited operates under the BBC Charter and Agreement, which sets out four commercial criteria with which its activities must comply. The activities must:

- fit with the BBC's public purposes, as set out in its Charter;
- be commercially efficient;
- not jeopardise the good reputation of the BBC or the value of the BBC brand; and
- comply with BBC's Fair-trading Guidelines and avoid distorting the market.

The Group's main activities include:

- commercial television channels and internet sites, including advertising thereon;
- production, sales and distribution of programme content and formats;
- developing and rolling out a focused portfolio of global brands;
- manufacture and distribution of consumer products;
- re-development of parts of Television Centre (TVC); and
- provision of equipment, facilities and services for use primarily in programme production.

Strategic report (continued)

Business review

The Group monitors its business using a number of key performance indicators including revenue, operating profit and the level of net debt/funds held. These have been summarised below:

2018	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Other commercial entities £m	Group adjustments £m	Group £m
Revenue	868.3	432.0	108.7	30.8	24.3	(84.6)	1,379.5
Cost of sales	(603.4)	(432.7)	(74.8)	(25.7)	(27.4)	80.0	(1,084.0)
Gross profit/(loss)	264.9	(0.7)	33.9	5.1	(3.1)	(4.6)	295.5
Operating costs	(164.3)	(6.6)	(31.8)	(3.4)	(2.9)	-	(209.0)
Operating profit/(loss) before specific items	100.6	(7.3)	2.1	1.7	(6.0)	(4.6)	86.5
Specific items	(6.9)	(0.2)	15.3	-	-	-	8.2
Gain on disposal of non-current assets	4.8	-	-	-	-	-	4.8
Profit/(loss) before financing costs & tax	98.5	(7.5)	17.4	1.7	(6.0)	(4.6)	99.5
Net financing (costs)/income	(2.2)	(0.7)	(1.0)	-	1.6	-	(2.3)
Profit/(loss) before taxation	96.3	(8.2)	16.4	1.7	(4.4)	(4.6)	97.2
Taxation	(10.9)	18.3	(2.9)	(0.3)	2.8	1.8	8.8
Profit/(loss) after taxation	85.4	10.1	13.5	1.4	(1.6)	(2.8)	106.0
Net (debt)/funds	(132.2)	8.3	(49.4)	8.6	(280.1)	210.4	(234.4)

Strategic report (continued)

Business review (continued)

2017	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Other commercial entities £m	Group adjustments £m	Group £m
Revenue	876.3	-	110.4	26.0	55.5	(5.9)	1,062.3
Cost of sales	(653.8)	-	(93.4)	(20.4)	(67.7)	10.3	(825.0)
Gross profit/(loss)	222.5	-	17.0	5.6	(12.2)	4.4	237.3
Operating costs	(63.6)	-	(14.5)	(1.3)	(3.0)	-	(82.4)
Operating profit/(loss) before specific items	158.9	-	2.5	4.3	(15.2)	4.4	154.9
Specific items	(110.0)	-	(0.4)	(0.9)	-	-	(111.3)
Gain on disposal of non-current assets	7.7	-	-	-	-	-	7.7
Profit/(loss) before financing costs & tax	56.6	-	2.1	3.4	(15.2)	4.4	51.3
Net financing costs	(2.1)	-	(3.2)	-	(5.0)	-	(10.3)
Profit/(loss) before taxation	54.5	-	(1.1)	3.4	(20.2)	4.4	41.0
Taxation	(14.1)	-	(0.3)	(0.6)	12.7	0.2	(2.1)
Profit/(loss) after taxation	40.4	-	(1.4)	2.8	(7.5)	4.6	38.9
Net (debt)/funds	(154.1)	-	(50.1)	14.7	(223.6)	236.9	(176.2)

Operating profit is adjusted for specific items to reflect the underlying performance of the Group. Reorganisation costs, interest and taxation on profits of associates and joint ventures and other non-routine items which help to facilitate a consistent view of the Group's results are all classified as specific items.

Net debt includes the borrowings disclosed in note 20 after deducting cash and cash equivalents and any financial instruments associated with borrowings (interest rate swap agreements as disclosed in note 26d).

Strategic report (continued)

Business review (continued)

BBC Worldwide group

The BBC Worldwide group supports the BBC public service mission and generates income for the BBC Group. This year, the group generated returns of £209.9 million to the benefit of the BBC Group (which included dividends and investments in programmes), above £200.0 million for the fourth year running (2017: £210.0 million).

The group maximises the value of the BBC's intellectual property, providing income to fund high quality, distinctive programming for the licence fee payer, while supporting the UK's television industry on the world stage.

Management uses the following key measures to monitor the performance of BBC Worldwide group:

	2018	2017
	£m	£m
Revenue (including share of JVs and associate revenue)	**1,044.0**	1,059.9
Earnings before financing costs, taxation, depreciation and non-content related amortisation (EBITDA) including tax credits	**118.3**	83.5
Net debt	**(132.2)**	(154.1)
Free cash flow	**121.4**	90.8

During 2017/18, BBC Worldwide generated headline sales (revenue including share of joint ventures and associates revenue) of £1,044.0 million, which is a 1.5% reduction from prior year (2017: £1,059.9 million). The business achieved growth in BBC branded channels, acquired a majority stake in Sid Gentle (an independent production company) and matched the previous year record in content sales with the business again being the largest distributor of UK content. Furthermore, production and formats grew in Global Markets whilst a reduction in the Americas reflected fewer hours of Dancing With the Stars. This sales growth was more than offset by the inter-company transfer of advertising sales to Global News, continuing decline in the DVD market and the impact of contract renewals in UKTV.

EBITDA of £118.3 million was 42% higher than last year. This reflected a strong performance in content sales, cost efficiencies across branded services and overhead savings. These offset significant currency pressure and a decline in consumer products. 2016/17 also included one-off specific items such as a change in amortisation profile.

Free cash flow (pre interest and tax) is the cash flow available to settle interest and taxation obligations and to pursue discretionary opportunities that enhance shareholder value (e.g. acquisitions, dividends and debt repayment). It is calculated as operating cash flow less capital expenditure. Free cash flow of £121.4 million was 34% higher than the prior year (2017: £90.8 million). Once adjusted for one-off specific items, alongside foreign exchange and joint venture performance, this represents a 41% increase in owned and operated free cash flow.

Strategic report (continued)

BBC Worldwide group (continued)

BBC Worldwide group operates along the following lines of business:

	2018 Headline Revenue £m	**2018** EBITDA £m	2017 Headline Revenue £m	2017 EBITDA £m
Content sales	**422.9**	**22.5**	422.4	16.9
Branded services	**330.6**	**76.3**	354.6	60.5
Production & formats	**180.5**	**9.1**	164.3	7.3
Consumer products	**136.4**	**7.0**	146.0	(5.5)
Group adjustments	**(26.4)**	**3.4**	(27.4)	4.3
	1,044.0	**118.3**	**1,059.9**	**83.5**

Content sales: 2017/18 sales were in line with the previous year's record level. The EBITDA in 2016/17 included one-off specific items such as a change in amortisation profile, leading to an increase this year.

Branded services: The reduction in sales is due to pressures on pay TV and advertising revenue. The upside in EBITDA is driven by cost efficiencies and restructures during prior and current years.

Production & formats: The increases in sales and EBITDA are largely driven by the acquisition of a majority stake in Sid Gentle Films Limited.

Consumer products: The reduction in sales is due to a decline in the DVD market. The EBITDA in 2016/17 included one-off specific items such as a change in amortisation profile, leading to an increase this year.

BBC Studios group

BBC Studios is a subsidiary of the BBC, which creates distinctive, much-loved content across a wide range of genres. In a highly competitive market, BBC Studios provides a stable and large-scale source of Intellectual Property (IP) for the BBC Group, generating value for audiences and returns for licence fee payers.

As part of a major change to the BBC's content supply strategy, BBC Studios became a wholly owned commercial subsidiary of the BBC in April 2017 (see note 11). As a result, BBC Studios no longer has guaranteed business from the BBC, but for the first time the company has been able to make programmes for other broadcasters. This represents a significant opportunity to share creative ideas with new audiences around the world and increase revenue for the BBC Group. BBC Studios is making rapid progress in winning new commissions and has already announced deals with Discovery, Channel 4 and Channel 5.

Strategic report (continued)

BBC Studios group (continued)

Management uses the following key measures to monitor the performance of BBC Studios:

	2018	2017
	£m	£m
Revenue	**432.0**	-
Earnings before financing costs, taxation, depreciation and amortisation (EBITDA) including tax credits	**7.2**	-
Net debt	**8.3**	-

BBC Studios' priority this year has been to transform the business for this more competitive, market-driven environment. The group's strategy is to develop a more balanced portfolio of business by continuing to deliver existing programmes to the highest creative standards while investing in generating new IP and diversifying its customer base beyond the BBC. To support this strategy, efficiency savings were achieved to reduce the company's cost base and a new flexible operating model was introduced.

These measures have helped deliver a successful first year of trading. Headline sales were £432.0 million, and reductions in overheads helped drive EBITDA (including tax credits) of £7.2 million.

BBC Global News group

BBC Global News operates the BBC's two commercially-funded international news services: BBC World News, the 24-hour global news television channel, and the digital platform bbc.com (including the bbc.com website, a News app, and a Sport app). BBC Global News' mission is to be the best and most trusted international news provider in the world, while growing the BBC's international news audiences and operating as a commercially efficient business.

In 2017/18, BBC World News' global footprint continued to expand, growing by 2% over the year and the channel is now available to a record 458 million households (up from 451 million in 2016/17). The growth was driven by gains in Europe, the Americas and South Asia.

BBC.com saw a drop in its monthly audience, which averaged 88 million unique browsers in 2017/18. However, engagement levels increased during the year resulting in total page views across all platforms (website, apps and connected TV) remaining stable at a monthly average of 1.3 billion.

Off-platform consumption of BBC content plays a key role in BBC Global News' content distribution and commercial strategy. BBC Global News continued its successful partnerships and entered into a new agreement with News Republic. BBC News' social media presence is one of the biggest in international news with over 46 million Facebook likes globally and over 23 million followers on Twitter.

During the year, BBC Advertising (formerly part of BBC Worldwide) was integrated into BBC Global News, doubling the headcount next year to 350 staff. As identified in the NAO's Landscape Review of the BBC's commercial activities, the integration of BBC Advertising presented BBC Global News with a significant financial challenge. Rapid progress was made during the year to meet this challenge and further profitability improvements are planned during 2018/19 in order to ensure the continued achievement of commercial targets.

Strategic report (continued)

BBC Global News group (continued)

Management uses the following key measures to monitor the performance of BBC Global News:

	2018	2017
	£m	£m
Revenue	**108.7**	110.4
Earnings before financing costs, taxation, depreciation and amortisation (EBITDA)	**17.8**	2.1
Profit/(loss) before taxation	**16.4**	(1.1)
Net debt	**(49.4)**	(50.1)

Global News recorded EBITDA of £17.8 million and profit before taxation of £16.4 million in 2017/18. The significant increases in EBITDA and profit before taxation were driven by substantial foreign exchange gains on the year-end valuation of hedged positions (£15.6 million). Excluding these foreign exchange gains, BBC Global News returned an underlying Profit Before Taxation of £0.8 million in 2017/18, due to a combination of strong revenue performance and a cost reduction programme.

Profit before taxation would have been £13.1 million with a full year of BBC Advertising activity and net debt of £52.7 million.

BBC Studioworks Limited

BBC Studioworks provides studios and post production services to all the major TV broadcasters and production companies including the BBC. In September 2017, the company opened new and refurbished studios and post production facilities at Television Centre (TVC) in West London. This marked a substantial expansion for the company and supplements its existing portfolio in Elstree.

Management uses the following key measures to monitor the performance of BBC Studioworks:

	2018	2017
	£m	£m
Revenue	**30.8**	26.0
Earnings before financing costs, taxation, depreciation and amortisation (EBITDA)	**3.2**	4.3
Profit before financing costs and taxation	**1.7**	3.4
Net funds	**8.6**	14.7

BBC Studioworks delivered a strong financial performance for the year, generating £30.8 million of revenue (2017: £26.0 million) and EBITDA of £3.2 million (2017: £4.3 million). The 18% increase in revenue was driven by the re-introduction of TVC into the company's portfolio, but the high establishment costs of this new facility has resulted in a reduction in EBITDA. Despite these financial challenges, the company still returned profit for the year which surpassed budgetary expectations.

Strategic report (continued)

Other commercial entities

BBC Commercial Holdings Limited, the parent company, operates as a holding company for the Group. A redevelopment project was set up in previous years to deliver the fit-out of certain areas of Television Centre (TVC). This year, further costs were incurred by BBC Commercial Holdings Limited associated with the TVC project, leading to a £1.2 million operating loss.

'Other commercial entities' include special purpose vehicles (SPVs) which exist to optimise production budgets by qualifying for high-end TV programme tax relief. The tax relief is recorded in the tax line in the income statement (which is not captured within operating profit/(loss)), resulting in an operating loss for the SPVs. With the exception of Childrens Productions Limited, these SPV entities now form part of the BBC Studios Group, driving the reduction seen in this segment.

Childrens Productions Limited however has seen a significant increase in revenue (£12.0 million) as more productions have been won.

Dividends of £37.9 million were declared by the Group during the year (2017: £87.2 million).

Strategic report (continued)

Future outlook

While the external commercial environment is expected to remain competitive in 2018, BBC Commercial Holdings Limited is well diversified, both geographically and by business, and this should provide the Group with the resilience to cope with adverse economic conditions.

In November 2017, it was announced that BBC Worldwide would combine with BBC Studios to form a single integrated company, in line with industry practice, combining the BBC's world-renowned television production arm, now a fully commercial subsidiary, with BBC Worldwide's activities across production, channels, sales and ancillaries. The merger, which completed on 3 April 2018, is intended to strengthen IP generation and enhance content supply, helping to secure the future of the BBC as a long-term creator and owner of the highest quality British content.

Risk and uncertainties

The BBC Commercial Holdings Group considers its key risks and uncertainties to be as follows:

Risk	Strategic impacts	Mitigation
Brand, reputation and standards		
Audiences lose confidence in the integrity of the business or its content and editorial values. Failure to represent the values of the BBC to global audiences, or improve workforce diversity, representation and gender pay balance.	Harm to our reputation, our relationship with audiences and to the credibility of the BBC brand.	Leadership, managers and staff embody behaviours consistent with BBC values, supported by internal communications, leadership briefings, and HR processes. Editorial Policy framework supported by specialists, with experienced genre heads and deal approval frameworks. Executive sponsored programme for increasing ethnic and gender diversity. External review of disclosure and transparency.
Joint venture and associate relationships		
Failure to achieve the full potential from an independent production company, joint venture (JV) and associate relationships.	Lower commercial returns for independents and the UK licence fee payer. Curtailing of ambitions and strategy for each invested service or entity.	Defined accountabilities for indie and joint venture relationships with BBC Worldwide's Executive Committee oversight. Business expertise with representation on indie and joint venture Boards. Approvals framework incorporates appropriate safeguards over BBC editorial values and control.
Information and content security		
Risk that information security controls could be compromised and systems disrupted. Significant commercial and reputational damage from any uncontrolled release of content. Sales and margin erosion from piracy.	Loss of confidence in the Group's role as a global distributor. Reduced editorial or commercial value from disclosed assets.	Robust information security infrastructure and controls. Careful supplier management and risk assessment with appropriate contracting. Technical controls include forensic watermarking and content attribution.

Strategic report (continued)

Risk and uncertainties (continued)

Risk	Strategic impacts	Mitigation
Economic climate and trading performance		
Uncertainty in UK and international economic conditions. Advertising sales revenues are the most vulnerable and risk third-party commissioning budgets and UKTV returns. Risk from diverse exchange rate movements.	Adverse impact on cash flows and reported financial results.	Business is diversified as a producer and distributor, and across regions, titles and revenue streams. Central management of budgets, cash flow forecasting and prudent debtor management. Debt headroom with much improved cash conversion and balance sheet strength. Comprehensive quarterly performance review of every region and business.
Business continuity, safety and security		
Disruption to operations, infrastructure and loss of revenue following a major incident. Global terrorism and the continued risk of physical threats.	Potential for injury, death and loss of infrastructure and services with disruption to business operations. Reputational risk if we fail to protect our staff and all others in our care.	Security and safety management arrangements supported by specialists, policy frameworks, forums, communications and risk assessments. Offices and business operations with business continuity leads and up-to-date continuity plans. Travel safety training, terrorism awareness training and a global emergency notification system.
Global distribution competitors and customer risk		
Risk we don't reshape our business and sales strategy to remain global distributor of choice for Independent production companies, secure new programme commissions from third parties, and win competitive tenders for returning series. Risk we are not transforming our business fast enough to keep pace with extraordinary content inflation, ongoing consolidation in the creative sector, and competitors with increasing financial strength.	Lower visibility for BBC content internationally. Fewer commissions and failure to secure tenders for returning series. Overdependence on key customers, lower commercial returns for indies and the UK licence fee payer.	Expertise inherent in the business and in-depth local knowledge of international markets. Sales strategy, sales infrastructure, people skills and business relationships in the best place to respond to challenges and offer a competitive return to the licence fee payer and indies. Business Development teams focused on new opportunities. Growing experience responding to programme tenders. Internal transformation to support margins and growth.
Production working capital requirements		
Increasingly competitive market, competing for access to funding.	Failure to secure sufficient funds to meet editorial ambition and customer requirements.	Management of budgets, production approval process, cash flow forecasting and prudent debt management ensure visibility and management of cash requirements.

Strategic report (continued)

Risk and uncertainties (continued)

Risk	Strategic impacts	Mitigation
Competitive production market		
Increasingly competitive market, with large scale consolidated players competing for talent on and off screen.	Failure to attract talent and deliver high quality content, leading to a reduction in revenue.	Leadership team in place with a clear focus on developing and nurturing talent. The breadth and diversity of the business supports career development and opportunities to work on a range of content.
Regulatory and compliance		
Potential for non-compliance with UK and international laws, especially regulatory changes and legislation with extra-territorial reach.	Civil or criminal challenge. Financial penalties. Reputational damage.	Robust, enforced framework including mandatory training programmes, policies, regular reporting and specialist committees. Group wide Code of Conduct. Oversight by senior management boards and Compliance and Risk Committee. Embedded regional expertise and local compliance champions. Fair Trading framework for compliance with OFCOM trading and separation rules. NAO Value for Money reviews providing transparency.

By order of the Board,

Anthony Corriette
Company Secretary

19 June 2018

Registered Address
BC2 A5, Broadcast Centre
201 Wood Lane
London
W12 7TP

Directors' report

Directors

The Directors, who served during the year and up to the date of this report unless otherwise stated, were as follows:

Tony Hall (appointed 18 September 2017)	Chairman
Anne Bulford (appointed 18 September 2017)	
Tim Davie (appointed 18 September 2017)	
Thomas Fussell (appointed 18 September 2017)	
Sarah Jones (appointed 18 September 2017)	
Mark Linsey (appointed 18 September 2017)	
Anna Mallett (appointed 18 September 2017)	
Dharmash Mistry (appointed 18 September 2017)	
Balraj Samra	
Howard Stringer (appointed 18 September 2017)	
Charlie Villar (resigned 18 September 2017)	

Peter Ranyard resigned as Company Secretary on 18 September 2017 and Anthony Corriette was appointed as Company Secretary with effect from the same date.

Financial instruments

The Group's financial risk management operations are carried out by a BBC Group Treasury function, within parameters defined formally within the policies and procedures manual agreed by the BBC Board. Information about the use of financial instruments by the Company and its subsidiaries is given in Note 26 to the financial statements.

Directors' interests and indemnities

No Director had any interest in the share capital of the Group at 1 April 2017 or 31 March 2018. No rights to subscribe for shares in or debentures of the Company or any other group company were granted to any of the Directors or their immediate families, or exercised by them, during the financial year. Directors' and Officers' liability insurance cover was in place throughout the financial year as appropriate.

Employee participation

The Group participates in a range of approaches in ensuring employee participation and involvement. Employee feedback, thoughts and views are measured and tracked through a range of methods including the pan-BBC survey; which are subsequently used to develop detailed action plans. The Group also has a range of staff leadership and personal development programmes and is committed to fostering constructive relations with our recognised trade unions.

Directors' report (continued)

Diversity
Recruiting and developing a diverse workforce that is representative of contemporary British society is central to the modern BBC and to BBC Commercial Holdings Limited as a subsidiary of the BBC. Creating a diverse workforce is part of the BBC's Diversity Strategy.

This has been developed into a workable framework and mechanisms for systematic action planning and reporting across four key areas:

- corporate strategy and business planning – ensuring equality and diversity are part of all strategic decision-making and business planning;

- audiences – understanding and responding to our diverse audiences, through research, audience engagement and outreach initiatives;

- output – creatively reflecting the diversity of our audiences across all our platforms, and in the development of new services and technology; and

- workforce – a workforce that reflects the diversity of modern Britain and an inclusive work environment.

Training and development
Staff in all areas have opportunities to develop their skills. The Group organises comprehensive in-house and external training programmes, covering job-specific skill enhancement, IT software tuition and management development.

Health and safety
Responsibility for health and safety across the Group is delegated to the boards of each of the Company's subsidiaries.

Disabled persons
Disabled persons are fully and fairly considered for vacancies arising within the Group and are given equal opportunities in relation to training, career development and promotion. Existing employees who become disabled are retained in employment wherever possible, after the provision of any necessary rehabilitation or training.

The environment
The Group does not operate in industries where there is potential for serious industrial pollution, however it recognises its responsibility to be aware of and take steps to control and minimise any damage its business might cause to the environment.

Corporate governance
The 2016 UK Corporate Governance Code, issued by the Financial Reporting Council and setting out principles of good corporate governance is not applicable to BBC Commercial Holdings Limited as a private limited company but the Group voluntarily complies where appropriate. Disclosure of how the BBC complies may be obtained from www.bbc.co.uk/annualreport.

Directors' report (continued)

Political and charitable contributions
The Group made no political donations or contributions to charity during the period.

Dividends
Dividends of £37.9 million were declared by the Group during the year (2017: £87.2 million).

Future developments
See the Strategic Report above for details on the Group's future developments.

Going concern
As set out on page 30, the Directors have a reasonable expectation that the business has adequate resources to continue in operational existence for the foreseeable future, and accordingly the going concern basis continues to be adopted in the preparation of the accounts.

Post balance sheet events
As discused in note 25c, there were no events subsequent to the balance sheet date which require disclosure within the financial statements.

Auditors
The National Audit Office were appointed as Group auditors in the current financial year and served as independent external auditors for the year ended 31 March 2018. Ernst & Young LLP served as external auditors for the year ended 31 March 2017. The National Audit Office have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the next board meeting.

Directors' report (continued)

Statement as to disclosure of information to auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board,

Anthony Corriette
Company Secretary

19 June 2018

Registered Address
BC2 A5
Broadcast Centre
201 Wood Lane
London
W12 7TP

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis until it is inappropriate to presume that the Group and the Company will continue in business;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

Independent auditor's report to the members of BBC Commercial Holdings Limited

Opinion on financial statements

I have audited the financial statements of BBC Commercial Holdings Limited for the year ended 31 March 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and parent balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union for the Group and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) for the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In my opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Basis of opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of BBC Commercial Holdings Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the group's and the parent company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of BBC Commercial Holdings Limited (continued)

Auditors responsibiltiies for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and BBC Commercial Holdings Limited's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the BBC Commercial Holdings Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Independent auditor's report to the members of BBC Commercial Holdings Limited (continued)

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other information

Directors are responsible for the other information. The other information comprises information included in annual report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- in light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and

- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Stephen Smith

Stephen Smith **(Senior Statutory Auditor)**
19 June 2018

for and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

Consolidated income statement

for the year ended 31 March 2018

	Note	2018 £m	2017^ £m
Revenue including share of joint ventures' revenue*		1,555.2	1,245.9
Less: share of joint ventures revenue		(175.7)	(183.6)
Revenue	1a	1,379.5	1,062.3
Total operating costs	1d	(1,320.6)	(1,066.8)
Share of profit of associates and joint ventures	14	35.8	48.1
Operating profit		94.7	43.6
Analysed as:			
Operating profit before specific items**		86.5	154.9
Restructuring costs	3a	(0.5)	(1.8)
Interest and taxation on profits of associates and joint ventures	3b	(15.8)	(16.4)
Other specific items	3c	24.5	(93.1)
		94.7	43.6
Gain on disposal of non-current assets	10	4.8	7.7
Financing income	7a	21.1	22.5
Financing costs	7b	(23.4)	(32.8)
Profit before taxation		97.2	41.0
Taxation	8a	8.8	(2.1)
Profit for the year		106.0	38.9
Attributable to:			
Equity shareholder of the parent company		104.7	38.9
Non-controlling interests		1.3	-
Profit for the year		106.0	38.9

^ Comparatives have been restated as described within the Statement of Group Accounting Policies, Basis of preparation.

* The non-GAAP measure of 'Revenue including share of joint ventures' revenue' is explained in more detail in the Statement of Group Accounting Policies.

** Specific items are defined in the Statement of Group Accounting Policies.

Consolidated statement of comprehensive income

for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Profit for the year		106.0	38.9
Items that may be reclassified to the income statement in the future:			
Deferred tax on financial instruments		(4.9)	1.8
Exchange differences on translation of foreign operations	23	(28.6)	30.4
Recognition and transfer of cash flow hedges	23	25.9	(10.1)
Other comprehensive (loss)/income for the year (net of tax)		(7.6)	22.1
Total comprehensive income for the year		98.4	61.0
Attributable to:			
Equity holders of the parent company		97.1	61.0
Non-controlling interests		1.3	-
		98.4	61.0

Consolidated balance sheet

as at 31 March 2018

	Note	2018 £m	2017^ £m
Non-current assets			
Intangible assets (including goodwill excluding programme rights)	12	**66.8**	61.5
Distribution rights	12	**110.5**	156.8
Property, plant and equipment	13	**41.6**	36.3
Interests in associates and joint ventures	14	**226.0**	245.0
Trade and other receivables	17a	**46.5**	72.8
Available for sale investments	15	**0.6**	7.9
Derivative financial instruments	26d	**9.3**	27.9
Deferred tax assets	8d	**5.8**	11.2
		507.1	619.4
Current assets			
Programme related assets and other inventories	16	**174.6**	80.9
Trade and other receivables	17b	**414.9**	433.0
Current tax assets	8e	**29.6**	31.8
Derivative financial instruments	26d	**8.3**	0.5
Cash and cash equivalents	19	**83.1**	64.1
		710.5	610.3
Current liabilities			
Trade and other payables	18a	**(459.9)**	(591.6)
Borrowings	20a	**(1.0)**	-
Provisions	21	**(9.1)**	(5.6)
Derivatives financial instruments	26d	**(2.4)**	(33.8)
Current tax liabilities	8e	**(10.0)**	(10.5)
		(482.4)	(641.5)
Non-current liabilities			
Trade and other payables	18b	**(70.9)**	(39.7)
Borrowings	20b	**(181.8)**	(201.2)
Provisions	21	**(1.4)**	(1.1)
Derivative financial instruments	26d	**(0.6)**	(8.1)
Deferred tax liabilities	8d	**(13.6)**	(31.4)
		(268.3)	(281.5)
Net assets		**466.9**	306.7
Attributable to equity shareholders of the parent company			
Share capital	22	**0.1**	1.3
Retained earnings	23	**471.0**	278.5
Other reserve	23	**(26.8)**	(2.1)
Hedging reserve	23	**(0.3)**	(21.3)
Translation reserve	23	**21.3**	49.9
		465.3	306.3
Non-controlling interests		**1.6**	0.4
Total equity		**466.9**	306.7

^ Comparatives have been restated as described within the Statement of Group Accounting Policies, Basis of preparation.

The financial statements of BBC Commercial Holdings Limited, registered number 04463534, were approved by the directors and authorised for issue on 19 June 2018 and signed on their behalf by:

Anne Bulford

Anne Bulford
Director

Consolidated statement of changes in equity

for the year ended 31 March 2018

	Share capital £m	Retained earnings £m	Other reserve £m	Hedging reserve £m	Translation reserve £m	Total £m	Non-controlling interests £m	Total £m
At 31 March 2016	1.3	326.6	1.3	(13.0)	19.5	335.7	0.1	335.8
Profit for the year	-	38.9	-	-	-	38.9	-	38.9
Exchange differences on translation of foreign operations (note 23)	-	-	-	-	30.4	30.4	-	30.4
Deferred tax on financial instruments	-	-	-	1.8	-	1.8	-	1.8
Recognition and transfer of cash flow hedges (note 23)	-	-	-	(10.1)	-	(10.1)	-	(10.1)
Total comprehensive income/(loss) for the year	-	38.9	-	(8.3)	30.4	61.0	-	61.0
Dividends declared in year (note 9)	-	(87.0)	-	-	-	(87.0)	(0.2)	(87.2)
Acquisition of subsidiaries	-	-	(3.4)	-	-	(3.4)	0.5	(2.9)
At 31 March 2017	1.3	278.5	(2.1)	(21.3)	49.9	306.3	0.4	306.7
Profit for the year	-	104.7	-	-	-	104.7	1.3	106.0
Exchange differences on translation of foreign operations (note 23)	-	-	-	-	(28.6)	(28.6)	-	(28.6)
Deferred tax on financial instruments	-	-	-	(4.9)	-	(4.9)	-	(4.9)
Recognition and transfer of cash flow hedges (note 23)	-	-	-	25.9	-	25.9	-	25.9
Total comprehensive income/(loss) for the year	-	104.7	-	21.0	(28.6)	97.1	1.3	98.4
Issue of share capital (note 22)	124.5	-	-	-	-	124.5	-	124.5
Share capital reduction (note 22)	(125.7)	125.7	-	-	-	-	-	-
Dividends declared in year (note 9)	-	(37.9)	-	-	-	(37.9)	-	(37.9)
Release of available for sale reserve	-	-	(2.9)	-	-	(2.9)	-	(2.9)
Changes in non-controlling interest	-	-	(21.8)	-	-	(21.8)	(0.1)	(21.9)
At 31 March 2018	**0.1**	**471.0**	**(26.8)**	**(0.3)**	**21.3**	**465.3**	**1.6**	**466.9**

Consolidated cash flow statement

for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Operating activities			
Cash generated from operations	24	**200.7**	246.2
Tax paid/(received)		**11.3**	(18.4)
Net cash from operations		**212.0**	227.8
Investing activities			
Interest received	7a	**1.4**	5.0
Dividends received from associates and joint ventures		**39.3**	24.8
Proceeds from sale of operations		**-**	2.7
Acquisition of investments		**-**	(0.3)
Proceeds from disposal of available for sale investments		**8.8**	-
Proceeds from disposal of associates and joint ventures		**1.9**	-
Proceeds from the issue of shares		**75.0**	-
Acquisition of subsidiary net of cash aquired		**(8.2)**	-
Acquisition of interests in associates and joint ventures		**(11.8)**	(14.6)
Purchases of other intangible assets		**(128.8)**	(167.4)
Purchases or property, plant and equipment		**(13.9)**	(10.1)
Net cash used in investing activities		**(36.3)**	(159.9)
Financing activities			
Interest paid		**(4.5)**	(9.4)
Repayments of borrowings		**(3.7)**	(54.0)
Payments of obligations under finance leases		**(0.1)**	-
Equity dividends paid		**(148.7)**	(0.9)
Net cash used in financing activities		**(157.0)**	(64.3)
Net increase in cash and cash equivalents		**18.7**	3.6
Cash and cash equivalents at beginning of the year		**64.1**	61.0
Effect on foreign exchange rate changes on cash and cash equivalents		**0.3**	(0.5)
Cash and cash equivalents at the end of the year		**83.1**	64.1

Statement of Group accounting policies

BBC Commercial Holdings Limited (the 'Company') is a company domiciled and incorporated in the United Kingdom, and its registered address is BC2 A5, Broadcast Centre, 201 Wood Lane, London, W12 7TP. The consolidated financial statements of the Company for the year ended 31 March 2018 comprise the Company and its subsidiary undertakings (together the 'Group') and the Group's interest in joint ventures and associated undertakings.

This section explains the Group's main accounting policies, which have been applied consistently throughout the year and in the preceding year.

Basis of preparation
These consolidated financial statements for the BBC Commercial Holdings Group have been prepared in accordance with IFRS as adopted by the EU and the Companies Act 2006.

The financial statements are principally prepared on the historical cost basis. Areas where other bases are applied are identified in the accounting policies below. The results and financial position of each group company are expressed in pounds sterling to the nearest £100,000, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Group's financial performance. Such items are typically gains or losses and will be shown separately in the income statement.

The consolidated financial statements have been prepared on the going concern basis.

Following an alignment of the Group's revenue recognition policies as a result of work undertaken in preparation in the adoption of IFRS 15, comparatives have been restated to ensure that revenue is recognised consistently upon delivery of a programme to the commissioner (opposed to recognition based upon percentage of completion). The impact of this change was to decrease both revenue and costs by £1.16 million, increase work in progress by £14.4 million, increase deferred income by £13.5 million, reduce accrued income by £1.2 million, reduce programme rights by £4.2 million and reduce accruals by £4.5 million. No third balance sheet was included because of the immateriality of the impact on the 2016/17 opening balances (£16.4 million increase in Work in Progress and £16.4 million increase in deferred income). The comparatives have also been restated to consolidate the gross revenue and costs of two subsidiaries where previously the net results had been recognised. The impact of this change was to increase both revenue and costs by £50.7 million.

Non-statutory financial performance measures
The Group believes that 'Gross revenue including joint ventures' (gross revenue earned by the Group including the Group's share of income from its joint ventures) and "Operating profit before specific items" (as identified in note 3) are additional non-statutory measures of financial performance that provide additional guidance to help understand the performance of the business on a comparable basis year on year.

The Group's income statement separately identifies significant items affecting operating profit (termed "specific items") which in the Directors' judgement are highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Statement of Group accounting policies (continued)

Non-statutory financial performance measures (continued)
Specific items are not defined under IFRS and may not be comparable to similarly titled measures used by other companies. Items which have been highlighted for consideration include the Group's share of the interest and tax of associates and joint ventures, pension deficit reduction payments and other non-recurring items which are considered important in understanding the results of the Group.

Going concern
The Board remains satisfied with the Group's funding and liquidity position.

At the balance sheet date, the Groups primary source of funding is a US Private Placement consisting of US$216.0 million, fixed through foreign exchange swap transactions at £143.0 million, and £28.0 million facilities, both expiring in June 2020. The Group also have access to a £210.0 million facility with a group of international banks expiring in July 2019. As at the year-end the Group had drawn down £181.3 million (£171.0 million net of the impact of foreign exchange swap transactions) of the facilities available (2017: £201.2 million). The Group has to comply with both interest cover and leverage covenants. There have been no defaults or breaches of covenants during the year and none are expected during the period under review for going concern. Covenants are also in place that could require a repayment of the loan facilities and loan notes as follows:

- BBC ceasing to control the Group;
- a loss of the Charter or Agreement that has a material adverse effect on the Group; or
- if any material company ceases to be licensed to use the BBC trademark and such a loss has a material adverse effect.

There have been no such events this year and none are expected for the foreseeable future.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate with the levels of its existing facilities for a period of no less than 12 months from the date of signing these financial statements.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation
The Group accounts include the results of BBC Commercial Holdings Limited and its subsidiaries, associates and joint ventures. Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Unrealised gains from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Statement of Group accounting policies (continued)

Subsidiaries and non-controlling interests
Subsidiaries are entities controlled by the Group. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The results of subsidiaries are included in the financial statements from the date that control commences to the date that control ceases.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders are initially measured at their proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is increased or decreased in proportion to the non-controlling interests' share of any subsequent changes in equity.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of non-controlling interests are adjusted to reflect any changes in their, and the Group's, relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the BBC.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest (net of disposal costs) and (ii) the previous carrying amount of the net assets of the subsidiary (including attributable goodwill) and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to the income statement or transferred directly to retained earnings as appropriate. The fair value of any interest retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate or joint venture.

Associates and joint ventures
Investments in associates and joint ventures are initially recognised at cost. The carrying amount is increased or decreased in subsequent periods to recognise the share of total comprehensive income.

The Group accounts for its share of the results and net assets of its associates and joint ventures using information as of 31 March with the exception of Children's Character Books Limited, Woodlands Books Limited, Educational Publishers LLP and JV Programmes LLC which have been included using information from unaudited accounts drawn up to 31 December. The impact of these non-coterminous year ends is not considered material.

Where the Group's share of losses exceeds the carrying amount of the joint venture or associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Statement of Group accounting policies (continued)

Segmental analysis

In accordance with IFRS 8 *Operating Segments* , the Group's operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Commercial Holdings Board. The Commercial Holdings Board comprises executive directors and is responsible for making strategic decisions.

Revenue

Revenue excludes value added tax and trade discounts and is recognised at the fair value of consideration receivable. Sales of promotional merchandise and publishing are stated after deduction of the sales value of actual and estimated returned goods. The Group's main sources of revenue are recognised as follows:

- licence fees from programme content and programme formats – once a contract has been signed, licence fees are recognised on the later of the start of the licence period or when the associated programme is available for delivery;
- production fees and participation royalties – recognised as earned. Production fees are recognised on delivery of the related programme or on a stage of completion process basis, depending on the nature of the contract with the customer. Royalties are recognised on receipt or on an accruals basis where sufficient reliable information is available;
- *distribution and other sales commission income – recognised on provision or delivery of service;*
- advertising revenue – on transmission or publication of the advertisement;
- subscription fees on pay channel platforms and from subscriptions to print and online publications and services – recognised as earned, pro rata over the subscription period;
- revenue generated from the sale of physical and digital products – recognised at time of delivery. Revenue from the sale of goods is stated net of deductions for actual and expected returns based on management judgement and historical experience;
- revenue from the provision of equipment, facilities and services for use primarily in programme production – recognised on the provision of service; and
- revenue generated from construction - when the outcome of a construction contract can be estimated reliably, revenue is recognised on delivery of the programme in accordance with the nature of the contract with the customer.

Statement of Group accounting policies (continued)

Revenue (continued)

- Revenue from long term contract - where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on the estimated proportion of the total contract costs which have been incurred to date. If a contract is expected to be loss-making, a provision is recognised for the entire loss.

Foreign currencies

Transactions in foreign currencies are translated into the functional currency of each entity of the Group at an average exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling on that date. Foreign exchange differences which arise on translation are recognised in the income statement.

The Group's presentational currency is sterling. The income statements and cash flows of foreign operations are translated into sterling at the weighted average rates for the year. The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net assets of foreign operations are taken directly to other comprehensive income, together with the differences arising when income statements are translated at average rates compared with rates ruling at the balance sheet date. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that operation is recognised in the income statement as part of the gain or loss on sale.

Lease payments

Assets held under finance leases, whereby the Group assumes substantially all the risks and rewards of ownership, are capitalised and depreciation is charged accordingly. Assets are capitalised at lease commencement at the lower of their fair value and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. The lease expense arising from operating leases is charged to the income statement on a straight line basis over the term of the lease. Any incentives to enter into operating leases are recognised as a reduction of the lease expense and recorded on a straight line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use.

All finance income and other borrowing costs are recognised in income and expense in the period in which they are incurred.

Statement of Group accounting policies (continued)

Taxation

Current tax is based on taxable profit for the year, and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expenditure which are not taxable or deductible or which are taxable or deductible in other years.

Current tax assets and current tax liabilities are offset if, and only if, there is a legally enforceable right to set off the recognised amounts; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is the tax expected to be payable or recoverable in future periods and is recognised using the balance sheet liability method. This method provides for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The amount of deferred tax provided is based on the manner in which tax is expected to arise and using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items recorded within other comprehensive income, in which case the deferred tax is also recorded within other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only where there is a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Statement of Group accounting policies (continued)

Intangible fixed assets

Programme rights for distribution

Distribution rights represent rights to programmes and associated intellectual property acquired with the primary intention of exploiting the rights commercially as part of the Group's long-term operations.

Distribution rights acquired by the group are either purchased, generated internally or licensed following the payment of an advance on royalties. Where the Group controls the respective assets and the risks and rewards attached to them, rights are initially recognised at acquisition cost or production cost. The carrying amount is stated at cost less accumulated amortisation and provision for impairment.

Amortisation of distribution rights is charged to the income statement to match the average revenue profile over its estimated average marketable life. The Group reviewed the amortisation profile of distribution rights during the 2016/17 financial year and updated it in line with the overall revenue profile based on experience. The review resulted in a change in the expected average marketable life of investments to be over a three year period, instead of the previous range of one to ten years. This resulted in an amortisation charge in the 2016/2017 financial year as a result of the change in estimates.

Where the carrying value of any individual set of rights exceeds management's best estimate of future exploitation revenues, a provision for impairment is recorded in the income statement immediately.

For self-produced content, distribution rights exclude co-production costs borne by third parties. These costs are deferred within current assets and expensed upon recognition of the associated production income. Production income is recognised in accordance with the Group's revenue recognition policies.

Statement of Group accounting policies (continued)

Intangible fixed assets (continued)
Business combinations and goodwill
Acquisitions on or after 1 April 2007 – on initial recognition goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired.

Acquisitions prior to 1 April 2007 – as part of the adoption of IFRS, in accordance with IFRS 1 'First-time adoption of IFRS', the Group elected to restate only those business combinations that occurred on or after 1 April 2007. In respect of acquisitions prior to 1 April 2007, goodwill is recognised at deemed cost being the amount previously recognised under UK Accounting Standards, subject to being tested for impairment at that date. Goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve, as was permitted by UK GAAP at the time.

Goodwill arising on the acquisition of associates and joint ventures – this is included in the carrying amount of the associate or joint venture and is tested for impairment as part of the overall balance.

Subsequent measurement of separately recognised goodwill – goodwill is tested annually for impairment and is measured at cost less any accumulated impairment losses. For the purposes of impairment testing the goodwill is allocated to cash-generating units on the basis of those expected to benefit from the relevant business combination.

Other intangible assets
Intangible assets acquired as part of a business acquisition are capitalised at fair value at the date of acquisition. The fair value of such intangible assets is valued by reference to external market values or income based methods. Income based methods estimate the future economic benefits to be derived from ownership of the asset by identifying, quantifying and separating cash flows attributable to the asset and capitalising their present value. Purchased intangible assets acquired separately are capitalised at cost. After initial recognition, all intangible fixed assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

An internally-generated intangible asset arising from the Group's development, including software and website development, is recognised when the asset is technically and commercially feasible, sufficient resources exist to complete the development and it is probable that the asset will generate future economic benefits. Any expenditure on research activities, or development activities that do not meet the aforementioned criteria, is recognised as an expense in the period in which it is incurred.

Statement of Group accounting policies (continued)

Intangible fixed assets (continued)

Amortisation

With the exception of goodwill, which is not amortised, amortisation is charged on assets with finite lives on a systematic basis over the asset's useful life and disclosed within total operating costs in the income statement.

The useful lives and amortisation methods are as follows:

Carrier agreements	*Straight line*	*unexpired term of agreement*
Software (including internally-generated software)	Straight line	1-5 years
Other	Straight line	3-8 years

Useful lives are examined every year and adjustments are made, where applicable, on a prospective basis.

Impairment of assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Non-financial assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount; the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and for which goodwill is monitored for management purposes.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

The comparatives for intangible assets have been restated as described in the basis of preparation section above.

Property, plant and equipment

Owned assets

Other than as noted on the following page, items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Statement of Group accounting policies (continued)

Property, plant and equipment (continued)

Depreciation

Depreciation is provided to write off the cost of each item of property, plant and equipment, less its estimated residual value, on a straight line basis over its estimated useful life. The major categories of property, plant and equipment are depreciated as follows:

- Land and buildings
  - Freehold land – not depreciated
  - Freehold buildings – 50 years
  - Freehold building improvements – 10 to 50 years
  - Long leasehold buildings – shorter of 50 years or life of lease
  - Long leasehold building improvements – 10 to 50 years
- Plant and machinery
  - Computer equipment – 3 to 5 years
  - Electrical and mechanical infrastructure – 10 to 25 years
  - Other – 3 to 10 years
- Furniture and fittings – 3 to 10 years

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale in their present condition and a sale is highly probable. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Once classified as held for sale, non-current assets or disposal groups are measured at the lower of carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale.

Statement of Group accounting policies (continued)

Programme rights and other inventories
Programme rights in this context refers to the programme rights acquired for the primary purpose of broadcasting through the regional channels operations. The carrying amount is stated at cost less accumulated amortisation and provision for impairment. The Group's estimate of the benefits received from these rights is determined to be most appropriately aligned with a straight-line amortisation profile for the majority of the programme inventory held. The cost is recognised in the income statement on a straight-line basis over the period of the licence, which is usually three years.

Other inventories, comprising CDs, DVDs, raw materials and work in progress are stated at the lower of cost (determined on a first-in-first-out basis) and net realisable value.

Work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the assets to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturity of less than three months.

Financial instruments
The Group holds various derivative and non-derivative financial instruments (including assets such as trade investments and liabilities such as borrowings). The accounting policy for major categories of financial instruments is set out below.

Classification and measurement
Financial assets and liabilities are classified into the following categories specified by IAS 39 Financial Instruments: *Recognition and Measurement.*

- Loans and receivables - trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Any allowance for impairment is based on objective evidence that the Group will not be able to recover all amounts due. Changes in the carrying amount of the allowance are recognised in the income statement.

- Available for sale financial assets - listed and unlisted shares stated at fair value that are either traded in an active market or for which a fair value can otherwise be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the income statement.

Statement of Group accounting policies (continued)

Financial instruments (continued)

Classification and measurement (continued)

- Held to maturity investments - the Group does not currently carry any financial instruments classified as held to maturity. Such instruments might include bills of exchange and debentures with fixed or determinable payments and fixed maturity dates and would be measured at amortised cost using the effective interest method less any impairment.

- Financial assets/liabilities at fair value through profit or loss ("FVTPL") - assets and liabilities which are held for trading. An asset or liability is classified as held for trading if: (i) it has been acquired principally for the purpose of selling or repurchasing in the near term; or (ii) on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument. Financial assets and liabilities at FVTPL are stated at fair value, with any gains and losses arising on remeasurement recognised in the income statement.

- Other financial liabilities - financial liabilities, including trade payables and borrowings, which are not classified as financial liabilities at FVTPL are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the instrument to the net carrying amount on initial recognition.

Derivative financial instruments

The Group does not enter into speculative derivative contracts, however some derivative financial instruments are used to manage the BBC's exposure to fluctuations in interest rates (interest rate swaps, caps and collars) and foreign currency exchange rates (foreign currency forward contracts and currency options).

Derivative financial instruments, excluding derivatives held as qualifying hedges, are initially recognised at fair value and are subsequently remeasured to fair value at the balance sheet date with movements recorded in the income statement.

The fair value of interest rate swaps, caps and collars is the estimated amount that the Group would receive or pay to terminate the swap, cap or collar at the balance sheet date, taking into account current interest rates, the current creditworthiness of swap, cap or collar counterparties and the creditworthiness of the BBC.

The fair value of foreign currency forward contract rates is determined by using forward exchange rates at the balance sheet date.

Statement of Group accounting policies (continued)

Financial instruments (continued)

Hedge accounting

The Group designates certain derivatives as cash flow hedges by documenting the relationship between the hedging instrument and the hedged item along with the risk management objectives and its strategy for undertaking various hedge transactions. Where the hedge is deemed to have been effective, the effective portion of any changes in the fair value of the derivatives that are designated in the hedge are recognised in other comprehensive income. Any ineffective portion is recognised immediately in the Consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the Consolidated income statement in the periods in which the hedged items are recognised in the Consolidated income statement, in the same line of the Consolidated income statement as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group de-designates the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when the relationship no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income upon discontinuation of hedge accounting is either recognised in the Consolidated income statement at the same time as the forecast transaction affects profit or loss, or is recognised in the Consolidated income statement immediately if the forecast transaction is no longer expected to occur.

Embedded derivatives

Derivatives which are embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not carried at fair value. Embedded derivatives are carried on the balance sheet at fair value from inception of the host contract. Unrealised changes in fair value are recognised as gains/losses within the income statement during the period in which they arise.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from past events, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions, other than deferred tax, that are payable over a number of years are discounted to net present value at the balance sheet date using a discount rate appropriate to the particular provision concerned.

Retirement benefit plans
Employees of the Company also participate in defined benefit schemes operated by the Company's ultimate parent, the British Broadcasting Corporation. The defined benefit schemes provide benefits based on pensionable pay. The assets of the BBC's main pension scheme, the BBC Pension Scheme, to which the majority of employees belong, are held separately from those of the BBC Group.

The BBC Pension Scheme is a group-wide scheme and there is no contractual agreement or stated policy for charging the net defined benefit cost to scheme participants. The contribution rates are set by the pension scheme trustees based on valuations which take a longer-term view of the assets required to fund the scheme's liabilities. Valuations of the scheme are performed by Willis Towers Watson, consulting actuaries, with formal valuations undertaken at least every three years. Accordingly, the Company accounts for contributions payable to the scheme as if the schemes were defined contribution schemes, as is required by IAS 19 Employee Benefits.

Termination benefits
Termination benefits are a component of restructuring provisions and are payable when employment is terminated before the normal retirement date. They are recognised as an expense when the Group is demonstrably committed to termination being when there is a detailed formal plan to terminate employment without possibility of withdrawal.

Other employee benefits
Other short and long term employee benefits, including holiday pay and long service leave, are recognised as an expense over the period in which they accrue.

Dividends on shares presented within equity
Dividends are recognised through equity in the period in which they are declared. Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Group. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Use of estimates and judgements
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions, and requires management to exercise its judgement and to make estimates in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below:

Revenue recognition
The timing of revenue recognition requires judgement, as does the amount to be recognised. This may involve estimating the fair value of consideration before it is received. In making these judgements, the Group considers the revenue recognition criteria set out in IAS 18 *Revenue* and, in particular, whether the Group had transferred the significant risks and rewards of the goods/services to the customer.

Statement of Group accounting policies (continued)

Use of estimates and judgements (continued)

Carrying value of goodwill

The determination of whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate that reflects current market assessments of the risks specific to the asset and the time value of money, in order to calculate present value. Please refer to note 12 for further details.

Basis of consolidation

Judgement is required in determining whether certain entities in which the Group has an economic interest should be considered to be subsidiaries, associates or joint ventures. In such circumstances, the Group has assessed its ability to control or influence those entities. The Group controls an investee if, and only if, the Group has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. Where such policies are reserved such that an economic partner has the power to veto key strategic financial and operating decisions, the entity is considered to be a joint venture or associated undertaking.

Fair value of financial instruments

Certain financial instruments are carried on the balance sheet at fair value, with changes in fair value reflected in the income statement. Fair values are estimated by reference in part to published price quotations and in part by using valuation techniques.

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

Distribution rights and programme rights

The assessment of the appropriate profile over which to recognise the amortisation of distribution rights and programme rights involves a certain degree of judgement. Amortisation is charged to the income statement to match the average revenue profile of the programme genre over its estimated average marketable life.

Statement of Group accounting policies (continued)

Adoption of new and revised accounting standards

The following new and revised standards and Interpretations have been adopted for the first time, as they became effective for this financial year. They have been applied since 1 April 2017 and have not had a significant impact on the results or financial position of the Group:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (effective for periods commencing on or after 1 January 2017)
- Disclosure Initiative (Amendments to IAS 7) (effective for periods commencing on or after 1 January 2017)
- Annual Improvements to IFRS 2014-16 (Amendments to IFRS 12 Disclosure of Interests in Other Entities) (effecitve for periods commencing on or after 1 January 2017)

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers (including Clarifications to IFRS 15 Revenue from Contracts with Customers)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Transfers of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IAS 28)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Statement of Group accounting policies (continued)

New standards and interpretations not yet adopted (continued)
The directors do not expect that the adoption of the standards and interpretations above would have a material impact on the financial statements of the Group in future periods, except for the following:

IFRS 9 Financial Instruments (date of adoption: 1 April 2018) replaces the existing guidance in IAS 39. It includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. Other than new disclosure requirements, the most significant impact on the Group is expected to relate to the impairment of financial assets. The three stage expected credit loss model is likely to result in earlier recognition of credit losses as it is no longer necessary for an impairment event to have occurred before a credit loss is recognised. The Group has performed an initial review of its material financial assets to determine the scope of IFRS 9. No material changes are currently expected as a result of adopting IFRS 9.

IFRS 15 Revenue from Contracts with Customers (date of adoption: 1 April 2018) replaces IAS 18 and IAS 11. IFRS 15 requires the identification of distinct promises within contracts with customers in order to determine the "performance obligations" that exist. The transaction price receivable from customers is subsequently allocated between the identified performance obligations. In order to apply IFRS 15, entities are required to follow the five-step model below:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when the entity satisfies each performance obligation

An assessment of the impact on the Group has been undertaken with specific revenue streams identified where revenue recognition could change. Revenue recognition under IFRS 15 is expected to be consistent with current practice with the exception of certain programme production contracts and certain commercial licencing agreements, where the timing of revenue recognition will change. The only material impact is expected within BBC Worldwide where, had IFRS 15 been adopted for the 2017/18 financial statements, content sales revenues would have been £13.9 million higher.

Statement of Group accounting policies (continued)

New standards and interpretations not yet adopted (continued)
IFRS 16 Leases (date of adoption: 1 April 2019) replaces IAS 17. IFRS 16 will impact the accounting for lessees. For applicable lease agreements IFRS 16 will require the recognition of lease assets and lease liabilities, representing the right to use the leased item and the respective future lease payments. The rental expense previously recognised within the income statement will be replaced by a depreciation charge and a finance charge. This will apply to all leases unless the term is less than 12 months or the underlying asset has a low value.

A significant number of lease transactions will be impacted by IFRS 16, with a number of judgements being required to both identify and account for leases. Work is ongoing to ensure completeness of leases; collate all necessary data; and implement system changes. The application of certain practical expedients allowed for upon adoption is also being considered by the Group.

Lessor accounting, relating to the Group's investment property portfolio, is deemed to be similar to IAS 17 and, given the size of the Group's investment property portfolio, is not expected to have a material impact on the Group.

The impact of IFRS 16 on the group is being assessed by the group and cannot currently be reasonably estimated, given the number of lease arrangements entered into the Group requirement assessment. However, given the value of the Groups lease commitments (see note 25b), the changes will have a material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.

When IFRS 9, 15 and 16 are adopted they can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods, or with the cumulative impact of the new standard applied as an adjustment to reserves on the date of adoption. The Group is expected to apply the latter approach, which will also require the disclosure of the impact of the relevant accounting standard change on each line item in the financial statements in the reporting period.

Notes to the financial statements

1 Segmental reporting

The Commercial Holdings Board, the Group's chief operating decision maker (CODM), has determined the reportable segments based upon the reports it regularly reviews and uses to make strategic decisions and allocate resources.

Segmental information provided to the Board is based on the Group's primary revenue sources. The reportable segments are:

- BBC Worldwide group - The revenue is primarily generated by worldwide television channels, sales and distribution, production & formats and consumer products;

- BBC Studios group - On 1 April 2017, BBC Studios Limited became a wholly-owned commercial subsidiary (see note 25c). Together with the special purpose vehicles Grafton House Limited, Comedy Productions Limited and Natural History & Factual Productions Limited (which were previously grouped within the 'Holding companies & other commercial entities' segment) a new BBC Studios reporting segment was formed. This group generates revenue from the production of programme content across factual, drama, comedy and entertainment genres;

- BBC Global News group – Incorporates BBC World Distribution Limited, BBC Global News Limited and bbc.com. The group generates its revenue through the commercial exploitation of global news through the BBC World News television channel and bbc.com website. Revenue is also generated through video news on demand available to channel operators and through mobile devices; and

- BBC Studioworks Limited - The revenue is generated by the provision of equipment, facilities and services for use in programme production.

The results of the holding Company and other commercial entities are reported to the Board at the same time as other segments.

Group adjustments reflect eliminations required for trading activity between the segments detailed above.

Inter-segment pricing is determined on an arm's length price.

Information regarding reportable segment assets and liabilities is not reported to the Board.

1a Analysis of revenue

2018	Note	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Holding companies & other commercial entities £m	Group adjustments £m	Group £m
Joint venture revenue		175.7	-	-	-	-	-	175.7
Revenue		819.4	432.0	108.7	30.8	24.3	(84.6)	1,330.6
Royalties		48.9	-	-	-	-	-	48.9
		1,044.0	432.0	108.7	30.8	24.3	(84.6)	1,555.2
Less joint venture revenue		(175.7)	-	-	-	-	-	(175.7)
Total revenue	1b	868.3	432.0	108.7	30.8	24.3	(84.6)	1,379.5

1 Segmental reporting (continued)

1a Analysis of revenue (continued)

2017	Note	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Holding companies & other commercial entities* £m	Group adjustments* £m	Group £m
Joint venture revenue		183.6	-	-	-	-	-	183.6
Revenue		829.7	-	110.4	26.0	55.5	(5.9)	1,015.7
Royalties		46.6	-	-	-	-	-	46.6
		1,059.9	-	110.4	26.0	55.5	(5.9)	1,245.9
Less joint venture revenue		(183.6)	-	-	-	-	-	(183.6)
Total revenue	1b	876.3	-	110.4	26.0	55.5	(5.9)	1,062.3

* Comparatives have been restated as described within the Statement of Group Accounting Policies, Basis of preparation.

1b Analysis of revenue, profit/(loss) by activity

2018	Note	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Holding companies & other commercial entities £m	Group adjustments £m	Group £m
Total revenue	1a	**868.3**	**432.0**	**108.7**	**30.8**	**24.3**	**(84.6)**	**1,379.5**
Depreciation and amortisation	2a	**(184.1)**	**(0.6)**	**(0.1)**	**(1.5)**	-	-	**(186.3)**
Other operating (costs)/income		**(626.3)**	**(438.9)**	**(91.2)**	**(27.6)**	**(30.3)**	**80.0**	**(1,134.3)**
Share of profit of associates and joint ventures	14	**35.8**	-	-	-	-	-	**35.8**
Operating profit/(loss)		93.7	(7.5)	17.4	1.7	(6.0)	(4.6)	94.7
Analysed as:								
Operating profit/(loss) before specific items		100.6	(7.3)	2.1	1.7	(6.0)	(4.6)	86.5
Share of depreciation, amortisation, interest and taxation of associates and joint ventures	3	(15.8)	-	-	-	-	-	(15.8)
Restructuring costs	3	-	(0.2)	(0.3)	-	-	-	(0.5)
Other specific items	3	8.9	-	15.6	-	-	-	24.5
Operating profit/(loss)		93.7	(7.5)	17.4	1.7	(6.0)	(4.6)	94.7
Gain on disposal of non-current assets	10							4.8
Financing income	7a							21.1
Financing costs	7b							(23.4)
Profit before taxation								97.2
Taxation	8a							8.8
Profit for the year								106.0

1 Segmental reporting (continued)

1b Analysis of revenue, profit/(loss) by activity (continued)

2017	Note	BBC Worldwide group £m	BBC Studios group** £m	BBC Global News group £m	BBC Studioworks £m	Holding companies & other commercial entities* £m	Group adjustments* £m	Group £m
Total revenue	1a	876.3	-	110.4	26.0	55.5	(5.9)	1,062.3
Depreciation and amortisation	2a	(218.9)	-	-	(0.9)	-	-	(219.8)
Other operating (costs)/income		(656.6)	-	(108.3)	(21.7)	(70.7)	10.3	(847.0)
Share of profit of associates and joint ventures	14	48.1	-	-	-	-	-	48.1
Operating profit/(loss)		48.9	-	2.1	3.4	(15.2)	4.4	43.6
Analysed as:								
Operating profit/(loss) before specific items		158.9	-	2.5	4.3	(15.2)	4.4	154.9
Share of depreciation, amortisation, interest and taxation of associates and joint ventures	3	(16.4)	-	-	-	-	-	(16.4)
Restructuring costs	3	(1.5)	-	(0.1)	(0.2)	-	-	(1.8)
Other specific items	3	(92.1)	-	(0.3)	(0.7)	-	-	(93.1)
Operating profit/(loss)		48.9	-	2.1	3.4	(15.2)	4.4	43.6
Gain on disposal of non-current assets	10							7.7
Financing income	7a							22.5
Financing costs	7b							(32.8)
Profit before taxation								41.0
Taxation	8a							(2.1)
Profit for the year								38.9

* Comparatives have been restated as described within the Statement of Group Accounting Policies, Basis of preparation.

** On 1 April 2017, BBC Studios became a wholly owned commercial subsidiary of the BBC. This activity was therefore recognised within the PSB Group segment during 2016/17. Several production companies previously recognised within the Holding companies & other commercial entities segments were also transfered into this group on that date.

1 Segmental reporting (continued)

1c Geographical location of revenue and non-current assets

The Group's geographical reportable segments reflect management reporting lines and do not solely correspond to the country or region after which they are named. The Group's revenue by country of destination was as follows:

2018	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Holding companies & other commercial entities £m	Group adjustments £m	Group £m
Non-current assets excluding deferred tax and derivative financial instruments:							
UK	296.4	1.5	0.7	15.2	510.9	(542.4)	282.3
Rest of world	209.5	-	0.2	-	-	-	209.7
	505.9	1.5	0.9	15.2	510.9	(542.4)	492.0
Additions included in non-current assets	179.0	2.1	0.6	8.7	136.8	(137.8)	189.4
External revenue:							
UK	199.4	432.0	-	30.8	22.2	(84.6)	599.8
Rest of World:							
America	255.6	-	33.3	-	-	-	288.9
Australia	76.1	-	2.5	-	-	-	78.6
Other	337.2	-	72.9	-	2.1	-	412.2
	868.3	432.0	108.7	30.8	24.3	(84.6)	1,379.5

1 Segmental reporting (continued)

1c Geographical location of revenue and non-current assets (continued)

2017	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group** £m	BBC Studioworks £m	Holding companies & other commercial entities* £m	Group adjustments* £m	Group £m
Non-current assets excluding deferred tax and derivative financial instruments:							
UK	332.2	-	0.4	8.1	411.9	(417.1)	335.5
Rest of world	244.5	-	0.3	-	-	-	244.8
	576.7	-	0.7	8.1	411.9	(417.1)	580.3
Additions included in non-current assets	203.4		0.1	5.2	-	-	208.7
External revenue:							
UK	206.8	-	-	26.0	55.5	(5.9)	282.4
Rest of World:							
America	273.5	-	32.6	-	-	-	306.1
Australia	79.5	-	2.9	-	-	-	82.4
Other	316.5	-	74.9	-	-	-	391.4
	876.3	-	110.4	26.0	55.5	(5.9)	1,062.3

* A presentational adjustment has been made between these two segments for the comparatives to fully reflect the Group's eliminations.

** A presentational adjustment has been made between the split of external revenue to more accurately reflect the results.

The allocation of revenue to geographic segments is based upon the business region in which the sales are generated.

1 Segmental reporting (continued)

1d Analysis of total operating costs by activity

2018	BBC Worldwide group £m	BBC Studios group £m	BBC Global News group £m	BBC Studioworks £m	Holding companies & other commercial entities £m	Group adjustments £m	Group £m
Cost of sales	603.4	432.7	74.8	25.7	27.4	(80.0)	1,084.0
Distribution costs	52.3	-	-	-	-	-	52.3
Administration expenses	154.7	6.8	16.5	3.4	2.9	-	184.3
	810.4	439.5	91.3	29.1	30.3	(80.0)	1,320.6

2017	BBC Worldwide Group £m	BBC Studios Group £m	BBC Global News Group £m	BBC Studioworks £m	Holding companies & other commercial entities* £m	Group adjustments* £m	Group £m
Cost of sales	653.8	-	93.4	20.4	67.7	(10.3)	825.0
Distribution costs	69.8	-	-	-	-	-	69.8
Administration expenses	151.9	-	14.9	2.2	3.0	-	172.0
	875.5	-	108.3	22.6	70.7	(10.3)	1,066.8

* A presentational adjustment has been made between these two segments for the comparatives to fully reflect the Group's eliminations.

2 Total operating costs

2a Total operating costs

Profit is stated after charging/(crediting):

	Note	2018 £m	2017 £m
Intangible fixed assets and property, plant and equipment			
Depreciation - owned assets	13	**6.8**	7.5
Amortisation of intangible fixed assets	12	**179.5**	212.3
Impairment of investments in joint ventures and associates		**0.4**	0.5
Impairment intangible fixed assets	12	**0.5**	14.1
Inventories			
Included in cost of sales		**59.3**	44.8
Write-downs		**4.4**	7.1
Other operating costs			
Rentals on operating leases and similar arrangements		**37.2**	18.5
Sub-lease rentals received on operating leases		**(3.0)**	(1.7)
Net exchange differences on settled transactions		**24.5**	(10.3)
Impairment of trade receivables	17	**1.7**	5.3
Staff costs	4b	**225.0**	158.2

2b Auditor's remuneration

The National Audit Office were appointed as Group auditors in the current financial year and served as independent external auditors for the year ended 31 March 2018. Ernst & Young LLP served as external auditors for the year ended 31 March 2017. The external auditors are subject to reappointment at the Annual General Meeting.

The audit fee was £10,000 (2017: £10,000) for the audit of the Company's annual accounts. Fees payable for services provided across the Group are shown below.

	2018 £m	2017 £m
Audit services with the National Audit Office (2017: Ernst & Young LLP)	**0.9**	0.7
Audit services with other auditors	**0.2**	0.1
Total audit services	**1.1**	0.8
Tax services with other auditors	**0.2**	0.1
Total non-audit services with other auditors	**0.2**	0.1
Total fees paid	**1.3**	0.9

Notes to the financial statements (continued)

3 Specific items

	Note	2018 £m	2017 £m
Redundancy costs	3a	**(0.5)**	(1.8)
Share of depreciation, amortisation, interest and tax of joint ventures and associates	3b	**(15.8)**	(16.4)
Other specific items:			
Gain/(loss) in fair valuation of derivative financial instruments	3c	**25.0**	(8.2)
Impairments	3c	**(0.5)**	(17.0)
Changes in accounting estimates	3c	**-**	*(67.9)*
Total other specific items		**24.5**	(93.1)
		8.2	(111.3)

3a Redundancy costs
Redundancy costs reflect the costs incurred as a result of changes to organisation structures.

3b Interest and taxation on profits of associates and joint ventures
The Group views its investments as being a fundamental part of its ongoing operations. IFRS requires the Group to report its share of profit of associates and joint ventures on an after-tax, after-interest basis. The interest and taxation on profits of associates and joint ventures is therefore added back as a specific item in order to present an operating profit measure which more appropriately represents the way in which the business is reviewed and assessed internally.

3c Other specific items
The impact of fair value changes of derivative financial instruments is a gain of £25.0 million (2017: £8.2million loss) on operating profit. These derivative financial instruments comprise forwards and currency options, including embedded derivatives which have been identified and separated from their host contract for valuation. Fair value changes on interest rate swaps are recognised within net financing costs.

In 2017/18 £0.5 million of goodwill relating to the South African production business was impaired. In 2016/17 the assets relating to BBC Store (£12.5 million) were impaired following a full review. A number of smaller impairments were also recognised that year in relation to various investments (£4.5 million).

The Group accounting policy is to review the amortisation profile of distribution rights every three years, with the review last performed at 31 March 2017. This review resulted in a new amortisation profile for distribution rights which amortises the original cost of investments over a three year period (previously a range from one to ten years) to match an overall revenue profile updated for recent experience. This change in estimates results in a material charge of £67.9 million in the prior year.

4 Staff numbers and costs

4a Persons employed

	2018 Number	2017 Number
BBC Studioworks	**94**	90
BBC Studios	**1,601**	-
BBC Worldwide	**1,514**	1,706
BBC Global News	**164**	118
Total	**3,373**	1,914

Within the averages above, 273 (2017: 141) part-time employees have been included at their full-time equivalent of 188 (2017: 94).

In addition, the Group employed an average full-time equivalent of 397 (2017: 36) persons on a casual basis.

4b Staff costs (including directors)

	2018 £m	2017 £m
Salaries and wages	**189.4**	132.2
Social security costs	**20.1**	12.9
Pension costs	**15.0**	11.3
Restructuring costs	**0.5**	1.8
Total	**225.0**	158.2

The restructuring costs comprise of costs incurred as part of a review process aimed at achieving more efficient operations within the Group businesses.

5 Pensions

5a Defined benefit pension scheme

The Group accounts for the BBC Pension 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 consistent and reasonable basis. The pension cost for this scheme therefore represents contributions payable by the Group to the scheme and the costs amounted to £8.6 million in the year (2017: £4.9 million).

Information about the scheme deficit that may affect the amount of future contributions, including the basis used to determine that deficit and the implications, can be found within notes C7 and C8 of the BBC Annual Report and Accounts.

5b Defined contribution pension scheme

The BBC also operates its own defined contribution pension schemes. The pension cost represents contributions payable by the Group to the funds and this amounted to £6.4 million in the year (2017: £6.4 million).

6 Key management personnel compensation

Key management personnel are those people who have authority and responsibility for planning, directing and controlling the activities of the Group. The Board of Directors for Commercial Holdings Limited have been identified as the key management for this Group based on their responsibilities and influence for spending money and overseeing the Group's services and operations.

Only six of the eleven (2017: one of three) key management individuals who served during the year receive remuneration by the Commercial Holdings Group in respect of their professional services or duties to this Group. The disclosures in this note refer to these individuals.

The remaining individuals are remunerated separately within the BBC Group in relation to their wider professional duties to the BBC.

Key management personnel compensation is as follows:

	2018 £m	2017 £m
Emoluments	**1.0**	0.5
Defined benefit pension scheme contributions	**0.1**	0.1
Performance related	**0.6**	0.2
Total key management personnel compensation	**1.7**	0.8

Retirement benefits accrue to key management under the following schemes:

	2018 Number	2017 Number
Defined benefit schemes	**3**	1

The highest paid director's emoluments were as follows:

	2018 £'000	2017 £'000
Emoluments	**400**	400
Defined benefit pension scheme contributions	**41**	40
Performance related	**248**	240
Other benefits	**2**	2
	691	682

The highest paid director is a member of the BBC defined benefit pension scheme and had accrued entitlements of £15,000 (2017: £12,000) under the scheme at the end of the year.

7 Net financing costs

7a Financing income

	2018 £m	2017 £m
Other interest receivable	1.4	5.0
Exchange gain on borrowings	19.7	-
Fair value gains on interest rate swaps and caps	-	17.5
Total financing income	21.1	22.5

7b Financing costs

	2018 £m	2017 £m
Interest on bank loans	4.2	4.6
Fair value loss on interest rate swaps and caps	19.2	-
Exchange loss on borrowings	-	23.4
Other interest payable	-	4.8
Total financing costs	23.4	32.8

8 Taxation

8a Taxation recognised in the income statement

	Note	2018 £m	2017 £m
Current tax			
UK corporation tax		(17.4)	(10.2)
Group relief receivable		0.1	(6.6)
Double tax relief		(1.9)	(1.8)
Adjustments in respect of prior years		0.4	(10.1)
UK current taxation		(18.8)	(28.7)
Foreign tax		24.0	22.5
Total current tax		5.2	(6.2)
Deferred tax			
Origination and reversal of temporary differences		(5.0)	(1.4)
Reduction in tax rate		(7.7)	0.7
Adjustments in respect of prior years		(1.3)	9.0
Total deferred tax	8d	(14.0)	8.3
Total (credit)/charge for the year		(8.8)	2.1

Corporation tax is calculated at 19% (2017: 20%) of the estimated assessable UK profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

8b Reconciliation of effective tax rate

The effective rate of tax for the year ended 31 March 2018 was different from the standard rate of tax in the UK of 19% (2017: 20%) as a result of the following:

	2018 £m	2017 £m
Group profit before taxation	97.2	41.0
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	18.5	8.2
Effects of		
Disallowed expenditure (includes goodwill impairment)	(4.4)	(0.7)
High-end television tax relief	(20.8)	(9.5)
Tax exempt capital gain	(0.9)	-
Tax differential on wholly owned overseas earnings	12.9	11.9
Tax differential in associates and joint ventures	(5.5)	(7.6)
Other differences		
Tax rate (decrease)/increase	(7.7)	0.9
Adjustments in respect of prior years	(0.9)	(1.1)
Total tax (credit)/charge for the year	(8.8)	2.1

8 Taxation (continued)

8c Factors that may affect future tax charges

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017.

The Finance Bill 2016 was enacted on 6 September 2016. This reduced the corporation tax rate to 17% from April 2020. As this reduction to the rate has been substantively enacted at the balance sheet date, the deferred tax assets have been calculated at 17% in line with when the company anticipates temporary differences to unwind.

As part of the 2016 Budget the Chancellor announced the Business Tax Road Map, which included measures to limit the utilisation of brought forward losses and interest deductions. These were included in Finance (No. 2) Act 2017, which was substantially enacted on 31 October 2017, and apply from 1 April 2017.

There are many future changes to worldwide taxation systems as a result of the potential adoption by the UK and individual territories of measures relating to the OECD Base Erosion and Profit Shifting Actions. The Group continues to actively monitor any developments and evaluate their potential impact. The Group does not expect the future tax rate to be materially impacted by these changes to the international tax landscape.

8d Analysis of deferred tax balance

	Note	Accelerated capital allowances £m	Provisions £m	Financial instruments £m	Joint ventures and associates £m	Programme rights £m	Other £m	Net deferred tax asset/ (liability) £m
At 1 April 2017		4.8	1.8	2.9	(20.7)	(7.1)	(1.9)	**(20.2)**
Charge to income statement	8a	0.7	0.7	(0.1)	-	-	12.7	**14.0**
Charge to reserves		-	-	(4.9)	-	-	-	**(4.9)**
Exchange differences		-	2.7	-	-	-	-	**2.7**
Disposal of subsidiaries, JV's and Associates		-	-	-	-	-	0.6	**0.6**
At 31 March 2018		5.5	5.2	(2.1)	(20.7)	(7.1)	11.4	**(7.8)**

8 Taxation (continued)

8d Analysis of deferred tax balance (continued)

Deferred tax assets/(liabilities) presented within:	2018 £m	2017 £m
Non-current assets	5.8	11.2
Non-current liabilities	(13.6)	(31.4)
	(7.8)	(20.2)

The Group has unrecognised deferred tax assets arising on capital losses totalling £139.2 million (2017: £137.3 million) and trade losses totalling £28.2 million (2017: nil). These assets have not been recognised on the basis that there is insufficient certainty that future gains or profits will arise against which the Group can utilise these losses. There is no time limit for the utilisation of these losses.

The Group also has unrecognised deferred tax assets arising on excess management expenses totalling £3.7 million and non-trade loan relationship losses totalling £9.3 million. These assets have not been recognised on the basis that there is insufficient certainty that future gains or profits will arise against which the Group can utilise these losses.
There is no time limit for the utilisation of either of these losses.

8e Current tax asset

The current tax assets totalling £29.6 million (2017: £31.8 million) includes £27.8 million (2017: £15.0 million) due in respect of film tax credits outstanding on high-end drama and comedy productions following overprovisions made in 2017/18.

8e Current tax liabilities

The current tax liabilities totalling £10.0 million (2017: £10.5 million) is due in overseas jurisdictions.

9 Dividends

Dividends payable on ordinary equity shares	2018 £m	2017 £m
Dividends were paid/proposed as follows:		
March 2018 of 75,700p per share	37.9	-
March 2017 of 6,973.4p per share	-	87.2
Total dividends	37.9	87.2

10 Gain on disposal of non-current assets

	2018	2017
	£m	£m
Available for sale financial assets	4.4	-
Britbox	-	6.1
Other	0.4	1.6
	4.8	7.7

In November 2016, the Group and ITV plc formed a joint venture, Britbox LLC ("Britbox") to launch an SVOD service in the US. In December 2016, AMC Networks Inc., subscribed for 19% of newly-issued Britbox shares, diluting the Group's stake and crystallising a gain in the Group accounts for a deemed-disposal.

11 Acquisitions

BBC Studios Limited

The Public Service division BBC Studios became a wholly-owned commercial subsidiary of BBC Ventures Group Limited. This represented an opportunity to share creative ideas with new audiences around the world, as, for the first time, BBC Studios was able to make programmes for other broadcasters. The operations of the former BBC Studios Public Service Broadcasting division were transferred, as a going concern, on 1 April 2017. Net assets *transferred totalled £49.5 million, which included £96.5 million of programme related assets and £50.9 million of* trade and other payables. Existing intellectual property rights did not transfer and remain owned by BBC Public Service Broadcasting, while employees employed directly by the former BBC Studios division were subject to Transfer of Undertakings (Protection of Employment) Regulations. The consideration for the transferred assets was ultimately by way of the issue of shares.

Sid Gentle Films Limited

On 25 January 2018, the Group acquired a 51% share of Sid Gentle Films Limited for a consideration of £11.0 million, with further payments depending on performance of the company over the next financial year. The acquisition has been accounted for using the purchase method of accounting in accordance with IFRS 3, *Business Combination*. The full acquisitions note has not been presented as the acquisition is not considered to be material. As part of the acquisition, the non-controlling interest party holds a put option for 49% of the shares. The fair value of the expected consideration for the remaining shares was recognised as a financial liability of £13.5 million, through Other reserves. Until options are exercised or expire, the changes in the fair value of the expected consideration will be recognised in the Consolidated income statement.

11 Acquisitions (continued)

Baby Cow Productions Limited

The Group held a 25% share of Baby Cow Productions Limited ("Baby Cow"), a UK comedy television production company, as at 31 March 2016 and accounted for the investment as an associate. On 1 April 2016, the Group acquired a further 48% of the shares of Baby Cow for a consideration of £1.7 million (net of cash acquired), increasing its shareholding to 73%. The acquisition has been accounted for using the purchase method of accounting in accordance with IFRS 3 *Business Combinations*. The full acquisition note has not been presented as the acquisition is not considered to be material. As part of the acquisition, the non-controlling interest party holds a put option for 25% of the shares. The fair value of the expected consideration for the remaining shares was recognised as a financial liability of £3.4 million, through Other reserves. Until options are exercised or expire, the changes in the fair value of the expected consideration will be recognised in the consolidated income statement.

During the year ended 31 March 2018 the Group increased its shareholding in Baby Cow by a further 2% to 75% by acquiring a portion of the put-options noted above for a consideration of £120,000.

12 Intangible assets

	Goodwill	Distribution Rights*	Software	Other Intangibles	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2016	34.2	747.3	42.4	10.1	**834.0**
Additions	-	149.1	10.4	3.7	**163.2**
Disposals	-	-	(0.4)	(0.2)	**(0.6)**
Exchange differences	1.3	2.8	0.1	1.4	**5.6**
At 31 March 2017	35.5	899.2	52.5	15.0	**1,002.2**
Additions	1.8	123.0	5.1	10.7	**140.6**
Disposals	-	-	(18.0)	-	**(18.0)**
Exchange differences	(1.1)	(2.4)	-	(1.2)	**(4.7)**
At 31 March 2018	**36.2**	**1,019.8**	**39.6**	**24.5**	**1,120.1**
Amortisation and impairment					
At 1 April 2016	-	537.9	11.7	4.8	**554.4**
Charge for the year	-	201.8	8.7	1.8	**212.3**
Impairment	-	-	14.1	-	**14.1**
Disposals	-	-	(0.3)	(0.1)	**(0.4)**
Exchange differences	-	2.7	-	0.8	**3.5**
At 31 March 2017	-	742.4	34.2	7.3	**783.9**
Charge for the year	-	169.4	6.1	4.0	**179.5**
Impairment	0.5	-	-	-	**0.5**
Disposals	-	-	(18.0)	-	**(18.0)**
Exchange differences	-	(2.5)	-	(0.6)	**(3.1)**
At 31 March 2018	**0.5**	**909.3**	**22.3**	**10.7**	**942.8**
Net book value					
At 31 March 2018	**35.7**	**110.5**	**17.3**	**13.8**	**177.3**
At 31 March 2017	35.5	156.8	18.3	7.7	218.3

* Comparatives have been restated as described within the Statement of Group Accounting Policies, Basis of preparation.

Goodwill is allocated by cash generating unit (CGU) and is analysed in the BBC Worldwide Limited results. The applicable cash generating units within BBC Worldwide Limited are as follows:

	2018	2017
	£m	£m
Consumer distribution business	**25.4**	25.4
Australian channels business	**8.5**	9.6
Independent production Company	**1.8**	-
South African production	-	0.5
At 31 March	**35.7**	35.5

12 Intangible assets (continued)

The Group tests goodwill for impairment in the accounting period in which a business combination takes place, thereafter annually, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions used for these calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each CGU.

During 2016/17 no impairments to goodwill were recognised. This year £0.5 million of goodwill relating to the South African production business was impaired.

Consumer distribution business
The goodwill in this CGU arose as a result of the acquisition of 2entertain on 6 August 2009. The cash flow projections used in determining value in use are based on the current business plan approved by management, which covers a five year period after which cash flows have been extrapolated using an expected long term growth rate of -4% (2017: -6%).

A discount rate of 15.3% (2017: 13.9%) has been applied to the cash flows.

Management believes that no reasonable possible change in the key assumptions on which the value in use of this CGU is based would result in an impairment.

Australian channels business
The goodwill in this CGU arose as a result of the acquisition of UKTV on 1 July 2008. Cash flow projections used in the recoverable amount calculation are based on financial budgets approved by management covering a period of five years (2017: five years) and a discount rate of 9.9% (2017: 13.9%). Cash flows beyond the forecast period have been extrapolated using an expected growth rate of nil (2017: 1.0%).

The main assumption on which the forecast cash flows are based is licence fee rates. In forming its assumptions about licence fee rates, the Group has used a combination of long term trends and recently contracted terms.

Management believes that no reasonable possible change in the key assumptions on which the value in use of this CGU is based would result in an impairment.

South African production
The goodwill in this CGU arose as a result of the acquisition of Rapid Blue (Pty) Limited on 28 March 2016. The cash flow projections used in determining value in use are based on the current business plan approved by management, which covers a five year period after which cash flows have been extrapolated using an expected long term growth rate of 2.5% (2017: 5%).

A discount rate of 22.5% (2017: 22.5%) has been applied to the cash flows.

Management made the decision to impair the Goodwill in Rapid Blue by £0.5 million.

12 Intangible assets (continued)

Independent production company

The goodwill in this CGU arose as a result of the acquisition of Sid Gentle Films Limited on 25 January 2018. As the acquisition took place so close to the year end, no impairment tests have been conducted.

13 Property, plant and equipment

	Land and buildings* £m	Plant and machinery £m	Furniture and fittings £m	Assets under construction £m	Total £m
Cost					
At 1 April 2016	16.1	50.2	15.8	2.9	**85.0**
Additions	0.9	2.5	1.7	5.1	**10.2**
Transfers	-	4.6	0.2	(4.8)	**-**
Disposals	-	(3.7)	(2.1)	-	**(5.8)**
Exchange differences	0.8	0.5	0.7	-	**2.0**
At 31 March 2017	17.8	54.1	16.3	3.2	**91.4**
Additions	-	3.4	1.4	9.9	**14.7**
Transfers	-	7.3	3.6	(10.9)	**-**
Disposals	-	(2.6)	(2.1)	-	**(4.7)**
Exchange differences	(0.6)	(0.4)	(0.6)	-	**(1.6)**
At 31 March 2018	**17.2**	**61.8**	**18.6**	**2.2**	**99.8**
Depreciation and impairment					
At 1 April 2016	4.2	35.8	11.3	-	**51.3**
Charge for the year	0.9	5.1	1.5	-	**7.5**
Disposals	-	(3.3)	(2.0)	-	**(5.3)**
Exchange differences	0.7	0.4	0.5	-	**1.6**
At 31 March 2017	5.8	38.0	11.3	-	**55.1**
Charge for the year	0.9	4.6	1.3	-	**6.8**
Disposals	-	(1.1)	(1.7)	-	**(2.8)**
Exchange differences	(0.4)	(0.2)	(0.3)	-	**(0.9)**
At 31 March 2018	**6.3**	**41.3**	**10.6**	**-**	**58.2**
Net book value					
At 31 March 2018	**10.9**	**20.5**	**8.0**	**2.2**	**41.6**
At 31 March 2017	12.0	16.1	5.0	3.2	**36.3**

* Land and buildings are not separable and therefore reported collectively.

14 Group share of associates' and joint ventures' assets and profit

	2018 £m	2017 £m
Interest in associates	191.4	205.1
Interest in joint ventures	34.6	39.9
Total interest in associates and joint ventures	**226.0**	245.0
Share of profit of associates	12.3	14.3
Share of profit of joint ventures	23.5	33.8
Total share of results of associates and joint ventures	**35.8**	48.1

Details of significant associates and joint ventures along with principal subsidiary undertakings, including their activities, are provided in Note 29.

Investments in joint ventures
Investments in joint ventures in the current and previous years included the following material operations:

UKTV
The Group's 100% owned subsidiary, BBC Worldwide has a major partnership deal with Southbank Media Limited for the production, marketing and supply on a wholesale basis of free-to-air and subscription channels in the UK. The partnership operates through the joint venture company UKTV Media Holdings Limited ("UKTV"). Southbank Media limited was ultimately owned by Scipps Networks interactive inc. until 6 March 2018 when ownership transferred to Discovery inc. BBC Worldwide holds a 50% interest in this joint venture.

UKTV was the only material joint venture undertaking held by the Group in both the current and the prior year.

14 Group share of associates' and joint ventures' assets and profit (continued)

Investments in joint ventures (continued)

The following table represents the Group's aggregate share of joint ventures:

2018	UKTV £m	Other £m	Total £m
Non-current assets	8.9	3.0	**11.9**
Current assets	241.3	20.7	**262.0**
Current liabilities	(128.5)	(14.0)	**(142.5)**
Non-current liabilities	(51.2)	(0.1)	**(51.3)**
Net assets of joint ventures	**70.5**	**9.6**	**80.1**
Adjustment to reflect effective obligation*	(35.4)	(5.1)	**(40.5)**
Provision for unrealised profit	(4.2)	(0.8)	**(5.0)**
Interests in joint ventures	**30.9**	**3.7**	**34.6**
Revenue	328.0	24.5	**352.5**
Expenses	(256.0)	(32.3)	**(288.3)**
Interest payable	(3.6)	-	**(3.6)**
Taxation	(14.7)	-	**(14.7)**
Profit/(loss) after taxation	53.7	(7.8)	**45.9**
Adjustment to reflect effective obligation*	(26.9)	4.5	**(22.4)**
Group share of results from joint ventures recognised in consolidated income statement	**26.8**	**(3.3)**	**23.5**

* Under the terms of the agreements with the other investors in certain of the Group's joint ventures the Group has no obligation to fund losses incurred by those entities or to make good their net liabilities. As a result no share of any relevant losses is included in the financial statements. Where the Group has an obligation to settle a share of the net liabilities, the net book value is held within provisions.

14 Group share of associates' and joint ventures' assets and profit (continued)

Investments in joint ventures (continued)

2017	UKTV £m	Other £m	Total £m
Non-current assets	8.9	2.8	11.7
Current assets	261.8	18.6	280.4
Current liabilities	(140.0)	(8.5)	(148.5)
Non-current liabilities	(54.1)	(0.1)	(54.2)
Net assets of joint ventures	76.6	12.8	89.4
Adjustment to reflect effective obligation*	(38.4)	(5.2)	(43.6)
Provision for unrealised profit	(5.1)	(0.8)	(5.9)
Interests in joint ventures	33.1	6.8	39.9
Revenue	348.7	17.7	366.4
Expenses	(256.8)	(22.8)	(279.6)
Interest payable	(3.7)	-	(3.7)
Taxation	(15.7)	-	(15.7)
Profit/(loss) after taxation	72.5	(5.1)	67.4
Adjustment to reflect effective obligation*	(36.3)	2.7	(33.6)
Group share of results from joint ventures recognised in consolidated income statement	36.2	(2.4)	33.8

* Under the terms of the agreements with the other investors in certain of the Group's joint ventures the Group has no obligation to fund losses incurred by those entities or to make good their net liabilities. As a result no share of any relevant losses is included in the financial statements. Where the Group has an obligation to settle a share of the net liabilities, the net book value is held within provisions.

Included within the UKTV balance sheet are cash and cash equivalents of £28.9 million (2017: £21.6 million), financial liabilities of £111.8 million (2017: £140.0 million) and non-current financial liabilities of £51.2 million (2017: £54.3 million). Included within UKTV's expenses for the year is a depreciation charge of £3.1 million (2017: £3.0 million) and an amortisation charge of £114.5 million (2017: £128.9 million).

Where the Group's share of losses exceeds the carrying amount of the associates or joint venture, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

14 Group share of associates' and joint ventures' assets and profit (continued)

Investments in associates

The Group has board representation and participates in policy-making decisions affecting Educational Publishers LLP and Woodlands Books Limited. The Group has concluded that it exerts significant influence over these businesses despite holding only 20% of the voting power. Accordingly, the Group has classified its interest in these entities as associates.

2018	NVCA £m	Other £m	Total £m
Non-current assets	145.1	24.6	**169.7**
Current assets	89.6	68.3	**157.9**
Current liabilities	(28.4)	(38.1)	**(66.5)**
Non-current liabilities	(8.2)	(14.8)	**(23.0)**
Net assets of associates	**198.1**	**40.0**	**238.1**
Group share of net assets	99.2	7.6	**106.8**
Provision for unrealised profit	(4.7)	(0.3)	**(5.0)**
Goodwill	61.7	27.9	**89.6**
Interest in associates	**156.2**	**35.2**	**191.4**
Revenue	130.5	89.0	**219.5**
Profit/(loss) after taxation	24.0	(2.3)	**21.7**
Adjustment to reflect effective obligation	(11.8)	2.4	**(9.4)**
Group share of results of associates	**12.2**	**0.1**	**12.3**

New Video Channel America LLC (NVCA)

On 23 October 2014, the Group sold a 49.9% stake in NVCA, formerly a wholly-owned subsidiary of BBC Worldwide Americas Inc., and retained an investment of 50.1% in NVCA. Whilst the Group retains significant influence over NVCA, and has the right to variable returns, it no longer has control as the Group has limited power over the operational activities, holding responsibility for voting only on activities outside the normal course of business. Therefore the Group has deconsolidated NVCA from the date of the sale and accounts for its retained interest since that date as an associate.

14 Group share of associates' and joint ventures' assets and profit (continued)

Investments in associates (continued)

2017	NVCA £m	Other £m	Total £m
Non-current assets	162.9	7.1	170.0
Current assets	92.1	67.6	159.7
Current liabilities	(28.0)	(31.8)	(59.8)
Non-current liabilities	(13.5)	(16.8)	(30.3)
Net assets of associates	213.5	26.1	239.6
Group share of net assets	107.0	6.3	113.3
Provision for unrealised profit	(3.8)	(0.3)	(4.1)
Goodwill	69.6	26.3	95.9
Interest in associates	172.8	32.3	205.1
Revenue	128.9	60.6	189.5
Profit/(loss) after taxation	26.3	(0.7)	25.6
Adjustment to reflect effective obligation	(12.7)	1.4	(11.3)
Group share of results of associates	13.6	0.7	14.3

15 Available for sale investments

	Note	2018 £m	2017 £m
Unquoted equities	26c	**0.6**	7.9

16 Programme related assets and other inventories

	2018 £m	2017 £m
Rights to broadcast acquired programmes and films	**37.4**	43.3
Raw materials and consumables	**-**	1.0
Work in progress	**130.4**	27.9
Finished goods and goods for resale	**6.8**	8.7
Total programme related assets and other inventories	**174.6**	80.9

17 Trade and other receivables

17a Trade and other receivables due after more than one year

	2018 £m	2017 £m
Trade receivables	44.3	66.9
Amounts owed by associates and joint ventures	2.2	5.9
	46.5	72.8

The carrying value of trade and other receivables approximates to their fair value.

17b Trade and other receivables due within one year

	2018 £m	2017 £m
Trade receivables	224.5	257.5
Amounts owed by parent undertaking	21.3	17.4
Amounts owed by associates and joint ventures	32.1	29.4
Prepayments	26.3	27.0
Accrued income	97.0	91.4
Other receivables	13.7	10.3
	414.9	433.0

Included in the Group's trade and other receivables at 31 March 2018 are balances of £39.3 million (2017: £20.8 million) which are past due at the reporting date but not impaired because the Group expects to recover these balances in full, and has historical analysis to support the recovery profile. The aged analysis of these balances is as follows:

	2018 £m	2017 £m
Up to 3 months	28.6	15.4
3 to 6 months	4.7	1.6
Over 6 months	6.0	3.8
	39.3	20.8

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Trade receivables are provided for based on estimated irrecoverable amounts, determined by reference to past default experience of the counterparty and an analysis of the counterparty's financial situation.

17 Trade and other receivables (continued)

17b Trade and other receivables due within one year (continued)

There are no significant impairment provisions relating to the balance of any individual debtor. Amounts charged to the impairment provision are written off when there is no expectation of recovery. Subsequent recoveries of amounts previously written off are credited to the income statement. The impairment provision stands at £4.4 million at 31 March 2018 (2017: £6.1 million).

The movement in the allowance for doubtful debts is set out below:

	2018 £m	2017 £m
Balance at the beginning of the year	6.1	3.8
Impairment losses recognised	1.7	5.3
Amounts recovered during the year	(1.9)	(1.0)
Amounts written off as uncollectible	(1.5)	(2.0)
Balance at the end of the year	4.4	6.1

No significant amount has been provided for items that are not yet due for payment.

18 Trade and other payables

18a Trade and other payables due within one year

	2018 £m	2017 £m
Trade payables	43.5	44.9
Salaries and wages creditors	40.4	37.1
Rights creditors	156.2	170.7
Amounts owed to parent company	44.7	167.3
Amounts owed to fellow BBC Group subsidiaries	2.0	4.2
Amounts owed to associates and joint ventures	1.2	8.2
Accruals	80.8	66.1
Deferred income	58.5	69.1
Other payables	32.6	24.0
	459.9	591.6

18b Trade and other payables due after more than one year

	2018 £m	2017 £m
Rights creditors	39.3	20.2
Other payables	31.6	19.5
	70.9	39.7

Other payables includes the fair value of put option liabilities of £25.6m (2017: £4.7m) and nil relating to contingent considerations (2017: £1.9m).

19 Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank available on demand and cash in hand	52.2	64.1
Short term deposits	30.9	-
	83.1	64.1

20 Borrowings

20a Borrowings due within one year

	2018 £m	2017 £m
Bank loans	0.9	-
Obligations under finance leases	0.1	-
	1.0	-

20b Borrowings due after more than one year

	2018 £m	2017 £m
Bank loan	181.3	201.2
Obligations under finance leases	0.5	-
	181.8	201.2

See note 26f for further details on borrowing facilities in place.

Finance lease liabilities are payable as follows:

	2018 £m	2017 £m
Not later than one year	0.1	-
Later than one year but not later than five years	0.5	-
	0.6	-

21 Provisions and contingent liabilities

	At 1 April 2017 £m	Charge for the year £m	Utilised during the year £m	Released during the year £m	At 31 March 2018 £m
Restructuring	0.3	14.2	(12.4)	-	**2.1**
Other	6.4	7.6	(4.0)	(1.6)	**8.4**
Total	6.7	21.8	(16.4)	(1.6)	**10.5**
Included in current liabilities	5.6				**9.1**
Included in non-current liabilities	1.1				**1.4**
Total	6.7				**10.5**

Other provisions comprise legal claims and property lease obligations.

The Group has a number of contingent liabilities arising from litigation and from the rights of customers and suppliers to undertake routine audits. These arise from trading activities undertaken in the ordinary course of business. The Group makes specific provision for the best estimate of any amounts which might be awarded as a result of these. A provision is only made to the extent that the directors consider it probable that there will be an outflow of economic benefits and the amount can be reliably estimated.

The Group occasionally enters into contracts with other equity shareholders of its joint ventures and associates to purchase additional equity. In some cases, these contracts place an obligation on the Group to acquire further shares at the option of the counterparty to the contract. The Group has not recorded a liability in respect of most of these contracts as the amounts payable in the event of exercise are based on a proxy for the market value of those shares. Amounts payable under such contracts are not expected to be material to the Group as a whole.

22 Share capital

	2018 £m	2017 £m
Issued, allotted, called up and fully paid		
At 1 April	**1.3**	1.3
Share issue	**124.5**	-
Share capital reduction	**(125.7)**	-
At 31 March	**0.1**	1.3

The Company has one class of ordinary shares, which carry no right to fixed income.

BBC Commercial Holdings limited resolved to reduce its share capital to £50,000 by means of the solvency statement procedure (in accordance with sections 644 & 649 Companies Act 2006).

23 Equity shareholder's funds and reserves (continued)

Retained earnings

At 31 March 2018, the cumulative goodwill written off to reserves on acquisitions prior to 1 April 1998 amounted to £14.2 million. This amount is unchanged from the prior year, and remains in equity upon transition to IFRS as permitted by IFRS 1 First time adoption of IFRS.

Translation reserve

The translation reserve comprises all foreign exchange differences arising since the transition to IFRS, from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Group's net investment in foreign subsidiaries. In the prior period, £2.1 million of exchange losses on foreign currency borrowings were offset in reserves against exchange gains on the related investment in overseas subsidiaries. Since 1 April 2017 this net investment in foreign subsidiaries has been reclassified as a loan under repayment and as such is no longer offset in reserves but revalued through profit and loss.

Other reserve

Other reserve includes the revaluation of available-for-sale financial assets and the fair value of put option liabilities arising on acquisition of subsidiaries. There has been a decrease in the fair value of the available-for-sale assets of £2.9 million due to a disposal during the period. An additional put option liability of £21.8 million has been recognised during the year in relation to the acquisition of Sid Gentle and Clerkenwell.

Hedging reserve

The hedging reserve is used to record the effective portion of cumulative net changes in the fair value of cash flow hedging instruments, related to hedged transactions that have not yet occurred (net of tax). During the current year, losses of £17.4 million were removed from the hedging reserve and recognised in revenue in the income statement (2017: losses of £28.1 million).

24 Reconciliation of Group profit before tax to cash generated from operations

	2018 £m	2017 £m
Group profit before tax	97.2	41.0
Depreciation, amortisation and impairment	187.2	234.4
Loss on derivatives associated with loans	19.2	20.2
Profit on disposal of fixed asset	1.8	0.5
Gains on other derivatives	(26.3)	(36.3)
Share of profits in associates and joint ventures	(35.8)	(48.1)
Loss on disposal of available for sale investment	(4.4)	-
Loss on disposal of associates and joint ventures	(0.4)	-
Other gains	-	(13.8)
Financing income	(21.1)	(22.5)
Financing costs (excluding fair value swaps)	4.2	32.8
Increase in inventories	(93.7)	(13.6)
Decrease/(increase) in debtors	101.2	(46.7)
(Decrease)/increase in creditors	(32.2)	94.6
Increase in provisions	3.8	3.7
Cash generated from operations	**200.7**	246.2

25 Off balance sheet items

25a Contracts placed for future expenditure

2018	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after five years £m	Total £m
Programme rights for distribution	93.8	20.0	-	**113.8**
Other commitments	30.7	24.6	-	**55.3**
2017				
Programme rights for distribution	63.3	52.8	-	116.1
Other commitments	16.5	17.0	0.4	33.9

Included in Other commitments is £16.0m of commitments to Joint Ventures and £22.2m to Associates.

25b Operating leases

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 £m	2017 £m
Within one year	**30.0**	19.2
In two to five years	**53.0**	52.0
After five years	**85.3**	95.5
	168.3	166.7

The majority of operating leases relate to property. The rent payable under these leases is subject to renegotiation at the various intervals specified in the agreements.

25c Post balance sheet events

On 3 April 2018 BBC Ventures Group Limited was renamed to BBC Studios Group Limited, which acts as the holding company for BBC Studios Limited and BBC Worldwide Limited. As a result, BBC Studios Group is a global content group, embodying the very best of bold British creativity, and investing in quality content across premium genres including factual, scripted and entertainment. Its profits contribute to significant financial returns that are reinvested into the BBC for the benefit of the UK licence fee payer.

On 1 April 2018 the Global News Group began a restructure programme to simplify their legal structure and better align it with the way the business operates.

Although the former represents a significant operational change and the latter a legal restructure, no material impact is expected to the BBC Commercial Holdings Limited group financial statements.

26 Financial Instruments

26a Financial risk management

The Group's financial risk management operations are carried out by a BBC Group Treasury function, within parameters defined formally within the policies and procedures manual agreed by the BBC. The BBC Group Treasury's activity is routinely reported and is subject to review by the internal and external auditors.

The BBC Group Treasury function uses financial instruments to raise finance and to manage financial risk arising from the BBC's operations in accordance with its objectives which are:

- to ensure the business of the BBC, both public services and commercial, is funded in the most efficient manner and remains compliant with borrowing ceilings;
- to protect the value of the BBC's assets, liabilities and cash flows from the effects of adverse interest rates and foreign exchange fluctuations; and
- to maximise the return on surplus funds, whilst ensuring sufficient cash is retained to meet foreseeable liquidity requirements.

The Commercial Holding Group's financial instruments, other than those used for treasury risk management purposes, comprise cash and liquid resources, borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Company finances its operations from these financial instruments. Commercial Holdings does not undertake any speculative treasury transactions.

Currency risk: Foreign exchange transaction risk arises from forecast future commercial transactions that are denominated in a currency that is not the entity's functional currency. Foreign exchange translation risk arises from the retranslation of overseas subsidiaries' income statements and balance sheets into sterling. The Group is a global organisation with the majority of revenues generated outside the UK. BBC Worldwide Limited inparticular has significant overseas operations and as a result is exposed to foreign exchange risk arising from various currency exposures, principally in relation to the US dollar, the Euro and the Australian dollar. Due to movements in exchange rates over time, the amount the Group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction.

The Group takes a risk averse approach to the management of foreign currency trading and has implemented a clear economic hedging policy to minimise volatility in the financial results. A substantial proportion of the Group's material net foreign currency exposures are economically hedged. Forward currency contracts are used by the Group to allow settlement of transactions at known exchange rates, thereby eliminating much of this uncertainty.

A number of the forward foreign currency contracts entered into by the Group were designated as hedging instruments in effective cash flow hedges. Corresponding fair value movements have, accordingly, been recorded within other comprehensive income. For forward foreign currency contracts not designated as hedging instruments, movements in fair value are recorded directly in the income statement within operating costs.

26 Financial Instruments (continued)

26a Financial risk management (continued)

Currency risk continued: Based on the net forward contracts outstanding at 31 March 2018, if the pound had moved adversely by 5% with all other variables being constant, the profit or loss impact would have been an increased loss of £6.9 million (2017: of £3.1million) and the comprehensive income impact would have been £2.8 million (2017: £11.2million).

Some contracts may contain clauses whereby changes in currency rates outside an agreed range impact on the contract price; in the majority of cases the value of the individual contracts and other features within the contract limit the currency risk exposure to a level that is not significant to the Group. The fair value of contracts with these clauses have been recorded as embedded derivatives at 31 March 2018.

Foreign exchange translation risk arises from the translation of overseas subsidiaries' income statements and balance sheets into sterling. This translation currency risk may be hedged by funding overseas investments with loans in the same functional currency as the overseas investment. No such net investment hedges were in place at 31 March 2018 or 31 March 2017.

Interest rate risk: the Group's main exposure to interest rate fluctuations arises on external borrowings. The 2013 private placement included a tranche of fixed rate sterling debt alongside a tranche of fixed rate US dollar debt, with the latter swapped to fixed rate sterling to eliminate the associated interest rate risk throughout the period of the instrument. Since March 2003 the Group has been borrowing under its revolving credit facilities at floating rates of interest and then using interest rate swaps, caps and collars to manage the Group's exposure to interest rate fluctuations and provide greater certainty of cash flows. Interest rate swaps, caps and collars are taken out based on projected borrowing requirements, therefore differences will occur between the notional amount of the swaps, caps and collars and the actual borrowing requirements. The effect of taking out the interest rate swaps, caps and collars is that in the longer term the Group has no significant underlying sensitivity to interest rate fluctuations and hence no sensitivity analysis has been presented.

Other price risk of financial assets: the Group invests surplus cash in money market funds and money market deposits; therefore it is not subject to other price risks, such as market price risk.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments, available-for-sale financial assets and trade and other receivables.

Cash and cash equivalents and derivative financial instruments are held only with banks of A+ to BBB rating. The Group limits its exposure to credit risk by only investing in liquid securities with counterparties that have a minimum credit rating of A-, with a higher minimum rating up to AA- required depending upon duration and amount. Given these high credit ratings, the BBC considers it has appropriately mitigated the risk of any counterparty failing to meet its obligations.

26 Financial Instruments (continued)

26a Financial risk management (continued)

Credit risk continued: The Group's credit risk management policy in relation to trade receivables involves regularly assessing the financial reliability of customers, taking into account several factors such as their financial position and historical performance. The carrying amount of financial assets included in the financial statements represents the Group's maximum exposure to credit risk in relation to these assets.

The Group's other classes of financial assets do not contain impaired assets and are not past due.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is subject to ceilings imposed on its borrowings by the BBC Group, which in turn is subject to limits set by the Secretary of State in accordance with the Agreement between the BBC and Department of Culture, Media and Sport. At 31 March 2018 the net debt limit imposed was £350 million (2017: £350 million).

The Group bank loans are subject to debt covenants based on the Group's earnings before interest and taxation. The covenants are in respect of net borrowings and net interest coverage.

In order to comply with these ceilings together with the terms of any individual debt instruments, the Group manages its liquidity through a number of measures, including regular cash flow reporting, forecasting, hedging against foreign exchange fluctuations and proactively managing working capital. The Company is also active in the monitoring of its debt covenants which have been met during 2017/18.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows and will therefore not reconcile to the amounts disclosed on balance sheet for borrowings, derivative financial instruments and trade and other payables.

26 Financial Instruments (continued)

26a Financial risk management (continued)

	Amounts due in less than one year £m	Amounts due between two and five years £m	Amounts due after five years £m	Total £m
2018 - Liquidity risk analysis				
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	2.4	-	-	**2.4**
Embedded derivatives	-	0.6	-	**0.6**
Other creditors	-	37.8	-	**37.8**
Financial liabilities measures at amortised cost				
Loans and overdrafts	0.9	181.3	-	**182.2**
Trade and other payables	280.4	77.3	0.5	**358.2**
2017 - Liquidity risk analysis				
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	33.9	6.7	-	40.6
Embedded derivatives	-	0.6	1.2	1.8
Other creditors	1.4	0.6	8.5	10.5
Financial liabilities measures at amortised cost				
Loans and overdrafts	-	201.2	-	201.2
Trade and other payables	352.5	-	-	352.5

26b Capital management

The Group delivers long term value to its shareholder, the BBC Group, through cash returned in the form of dividends as a share of the Group's profits, acquisition of BBC content or intellectual property, direct investment in BBC programming and growth in the capital value of the BBC's equity in the Group. Accordingly it is appropriate that the targets set for the Group and the incentives placed on the management team are aligned with these goals.

The dividend policy of the Group is therefore set to achieve the optimum balance between annual cash returns to the BBC, which are an essential part of the BBC's funding stream, and investing for growth to build value over the long term.

The Group applies strict compliance with the BBC's four Commercial Criteria: fit with the BBC's public purposes, brand reputation and brand values, commercial efficiency and fair trading policy. The Group's policy in making investment decisions is governed by these principles and the commercial efficiency of the investment. The commercial efficiency of an investment is determined on a case-by-case basis, with respect to financial metrics such as net present value, internal rate of return, payback period and profit margin. In line with current best practice, the Group operates a framework for calculating investment discount rates that are tailored to each investment. This framework applies appropriate risk premiums to the discount rate in order to ensure all risks relating to the investment are taken into account and that the required rate of return is commensurate with this level of risk.

26 Financial Instruments (continued)

26c Fair value of financial instruments

IFRS 7 *Financial Instruments* : Disclosures require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2018:

	Level 2 £m	Level 3 £m	Total £m
Fair value as at 31 March 2018			
Financial assets at fair value			
Derivative financial instruments	17.2	-	17.2
Embedded derivatives	0.4	-	0.4
Available for sale investments	-	0.6	0.6
Total assets	17.6	0.6	18.2
Financial liabilities at fair value			
Derivative financial instruments	(2.4)	-	(2.4)
Embedded derivatives	(0.6)	-	(0.6)
Other payables	-	(25.8)	(25.8)
Total liabilities	(3.0)	(25.8)	(28.8)
Fair value as at 31 March 2017			
Financial assets at fair value			
Derivative financial instruments	28.4	-	28.4
Available for sale investments	-	7.9	7.9
Total assets	28.4	7.9	36.3
Financial liabilities at fair value			
Derivative financial instruments	(40.1)	-	(40.1)
Embedded derivatives	(1.8)	-	(1.8)
Other payables	-	(9.0)	(9.0)
Total liabilities	(41.9)	(9.0)	(50.9)

There were no transfers between levels during the year.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

26 Financial Instruments (continued)

26c Fair value of financial instruments (continued)

The fair values of level 2 derivative financial instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Level 3 financial liabilities recorded at fair value and included within other payables relate to written put options issued to non-controlling interests in the Group's subsidiaries. The fair value of such instruments is calculated based on the strike price of the options and management's best estimate of the date at which options may be exercised. Embedded derivatives were also assessed as a level 3 financial liability.

The change in fair value of Level 3 financial instruments is reconciled as follows:

	2018		2017	
	Financial asset £m	Financial liability £m	Financial asset £m	Financial liability £m
Opening balance	7.9	(9.0)	7.5	(6.6)
Settlements	-	1.7	-	0.2
Unwinding of discount recorded in finance expense	-	(0.6)	-	(1.0)
Additions	-	(21.8)	0.4	(3.4)
Disposals	(7.3)	-	-	-
Foreign exchange losses	-	-	-	(0.5)
Change in fair value recorded in operating costs	-	3.9	-	2.3
Total impact on statement of comprehensive income	0.6	(25.8)	7.9	(9.0)

26 Financial Instruments (continued)

26d Derivative financial instruments

The following table presents the Group's derivative assets and liabilities by category of instrument at 31 March:

	Fair value hierarchy level	Assets £m	Liabilities £m
2018			
Greater than one year			
Derivatives held for trading:			
Forward foreign currency contracts	1	1.4	-
Interest rate swaps	1	7.6	-
Embedded derivatives	2	0.3	(0.6)
		9.3	(0.6)
Less than one year			
Derivatives that are designated in effective hedges:			
Forward foreign currency contracts	1	1.2	(1.7)
Derivatives held for trading:			
Forward foreign currency contracts	1	7.0	(0.7)
Embedded derivatives	2	0.1	-
		8.3	(2.4)
2017			
Greater than one year			
Derivatives that are designated in effective hedges:			
Forward foreign currency contracts	1	0.1	(5.0)
Derivatives held for trading:			
Forward foreign currency contracts	1	-	(1.3)
Interest rate swaps, caps and collars	1	27.8	-
Embedded derivatives	2	-	(1.8)
		27.9	(8.1)
Less than one year			
Derivatives that are designated in effective hedges:			
Forward foreign currency contracts	1	0.1	(21.5)
Derivatives held for trading:			
Forward foreign currency contracts	1	0.4	(12.3)
		0.5	(33.8)

At 31 March 2018 the Group had entered into a net commitment to sell foreign currencies amounting to £192.2 million (2017: £369.2 million) that mature in the period through to 2019 in order to fix the sterling cost of commitments through this period (mainly Euros and US dollars). After taking into account the effects of these forward foreign exchange contracts, the Group had no significant currency exposure.

26 Financial Instruments (continued)

26d Derivative financial instruments (continued)

The Group applies cash flow hedge accounting for trades taken out in respect of its forecast foreign currency transactions. Hedge accounting is only applied where appropriate designation and documentation and trades with parties external to the Group exist. Net losses (after tax and non-controlling interests) recognised in the hedging reserve on forward foreign exchange contracts in cash flow hedge relationships at 31 March 2018 were £25.8 million (2017: £10.2 million net losses). These amounts will be recognised in the income statement in the period when the hedged forecast transaction affects the income statement, at various dates over the next three years.

Interest rate risk is managed by the use of interest rate swaps, caps and collars. Sterling fixed rate borrowings are achieved by entering into interest rate swap transactions; all outstanding swaps mature by June 2020. The impact of a change in interest rates can also be limited by entering into interest rate cap and collar transactions; there are no outstanding caps and collars as at 31 March 2018. In total, £153.6 million of swaps were entered during the year *(2017: £173.2 million). All swaps were effective at 31 March 2018 to ensure borrowings are suitably covered for the* foreseeable future. This is £27.7 million lower (2017: £28.0 million lower) than the current level of borrowings of £181.3 million (2017: £201.2 million).

In accordance with IAS 39, the Group has reviewed contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. Any such embedded derivatives have been recognised at fair value.

26e Liquidity risk

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay:

	Cash flow £m	Interest £m	Principal £m
2018			
Fixed rate instruments			
Not later than one year	**5.8**	**4.8**	**1.0**
Later than one year but not later than five years	**196.3**	**14.5**	**181.8**
	202.1	**19.3**	**182.8**
2017			
Fixed rate instruments			
Not later than one year	5.4	5.4	-
Later than one year but not later than five years	219.9	18.7	201.2
	225.3	24.1	201.2

26 Financial Instruments (continued)

26f Borrowing facilities

Facility	Interest rate	Total available 31 March 2018 £m	Drawn down at 31 March 2018 £m	Total available 31 March 2017 £m	Drawn down at 31 March 2017 £m	Expiry or review date
BBC Commercial Holdings Limited						
Multicurrency, revolving credit facility agreement for loans	LIBOR* plus 0.6% rising to LIBOR plus 0.15% on utilisations over 1/3 and LIBOR* plus 0.15% on utilisations over 2/3.	210	-	210	-	July 2019
Overdraft or money market lines	Money market line - margin of 1.0% (2017: 1.0%)	20	-	20	-	Reviewed annually
US Private Placement	Fixed interest at 2.36%	28	**28**	28	28	June 2020
US Private Placement**	Fixed interest at 2.71%	153	**153**	173	173	June 2020
BBC Worldwide Limited						
Overdraft	Bank base rate plus 1% if drawn down in sterling. Bank currency overdraft rate plus a 1% margin if drawn down in other currencies.	2	-	2	-	Reviewed annually
Bank loan	3 month GBP LIBOR + 1%	9	**1**	-	-	31 Auguest 2018
Overdraft or workings capital loan for Indian Rupees	Not in place at 31 march 2018 (2017: market rate at drawdown)	1	-	1	-	Reviewed annually

* The base rate used varies according to the currency drawn. GBP drawings are linked to LIBOR.

** The $216 million US placement has been hedged to a sterling value of £143 million, valued at the time of the facility being placed.

There have been no defaults or breaches of covenants on the facilities above during the year (2017: none).

27 Parent undertaking and controlling party

The Company's parent undertaking and controlling party is the British Broadcasting Corporation (BBC) which is incorporated in the United Kingdom by Royal Charter. The largest Group in which the results of the Company are consolidated is that headed by the BBC. Copies of the financial statements of the BBC can be obtained from www.bbc.co.uk/annualreport.

28 Related party transactions

The related party transactions of the Group have been presented in accordance with IAS 24 *Related Party Disclosures*. Related parties of BBC Commercial Holdings Limited include its subsidiary, associate and joint venture undertakings, its parent undertaking and fellow subsidiaries and key management personnel of the Group and their close family members. Transactions between the BBC Pension Scheme and BBC Commercial Holdings are detailed in note 5.

Transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note. Amounts owed by and to the BBC and fellow subsidiary undertakings within the BBC Group are reported in notes 17 and 18 respectively. In addition to the above, BBC Commercial Holdings Group also received less than £100,000 of income from BBC Children in Need (2017: nil), which is the level of rounding used in these financial statements.

The following table illustrates transactions with the BBC and fellow subsidiary undertakings:

	Parent company		Other BBC subsidiaries	
	2018	2017*	**2018**	2017
	£m	£m	**£m**	£m
Investment in BBC programme rights	**(80.8)**	(73.2)	-	-
Dividends proposed	**(37.9)**	(87.0)	-	-
Other income	**367.3**	67.4	-	-
Other expense	**(110.4)**	(105.0)	**(0.6)**	(0.5)
	138.2	(197.8)	**(0.6)**	(0.5)

* Comparatives have been restated as described within the Statement of Group Accounting Policies, Basis of preparation.

In all transactions, the terms of trade were negotiated on an arm's length basis.

The value of transactions with significant associates and joint ventures are as follows:

Name of related party	**Income 2018**	**Expenditure 2018**	**Dividends received 2018 £m**	Income 2017 £m	Expenditure 2017 £m	Dividends received 2017 £m
Joint ventures:						
UKTV Media Holdings Limited	**54.8**	-	**30.0**	54.9	-	15.4
Other joint ventures	**3.4**	**3.4**	**0.1**	0.2	4.8	0.2
Associates:						
New Video Channel America LLC	**29.0**	**(5.9)**	**7.7**	22.0	(9.1)	8.0
Other associates	**2.4**	**(27.1)**	**1.5**	2.3	(16.9)	1.2
	89.6	**(29.6)**	**39.3**	79.4	(21.2)	24.8

28 Related party transactions (continued)

The following amounts were outstanding at the balance sheet date:

Name of related party	Receivables 2018	Payables 2018	Net balance 2018 £m	Receivables 2017 £m	Payables 2017 £m	Net balance 2017 £m
Joint ventures:						
UKTV Media Holdings Limited	**19.5**	**-**	**19.5**	20.8	-	20.8
Other joint ventures	**3.4**	**-**	**3.4**	2.9	-	2.9
Associates:						
New Video Channel America LLC	**2.5**	**(1.2)**	**1.3**	3.6	(2.9)	0.7
Other associates	**8.9**	**-**	**8.9**	8.0	(5.3)	2.7
Other	**-**	**(1.0)**	**(1.0)**	-	-	-
	34.3	**(2.2)**	**32.1**	35.3	(8.2)	27.1

At 31 March 2018, the Group also had an outstanding balance of £1.0 million (2017: £1.0 million) payable to a joint venture of the Group's ultimate parent in respect of group relief. This balance is included within other payables.

29 Interests in associates, joint ventures and subsidiaries

29a Significant joint ventures and their activities

The Group has a 50% equity interest in the following significant joint ventures:

Name of entity	Place of incorporation and principle place of business	Activity
UKTV Media Holdings Limited	England and Wales	TV channel operator

29b Significant associates and their activities

The Group holds interests in the following significant associates:

Name of entity	Place of incorporation and principle place of business	Holding of issued ordinary shares %	Activity
New Video Channel America LLC*	United States	50.1	TV channel operator
3sixtymedia Limited**	England and Wales	10.0	Production

* Whilst BBC Worldwide Limited retains a significant influence over New Video Channel America LLC and has the rights to variable returns, it is not deemed to have control and is therefore recognised as an associate undertaking.

** The BBC holds 10% holding of the total share capital of 3sixtymedia Limited but 20% of the Class A ordinary shares which gives it significant influence.

29 Interests in associates, joint ventures and subsidiaries (continued)

29c Subsidiary undertakings

BBC Commercial Holdings Limited owns 100% of the issued share capital of the following companies which are incorporated in Great Britain and registered in England and Wales:

Directly owned subsidiaries	Registered Address	Holding of ordinary shares %
BBC Global News Holdings Limited	Broadcasting House, Portland Place, London W1A 1AA	100
BBC Studios Group Limited*	1 Television Centre, 101 Wood Lane, London W12 7FA	100
BBC Children's Productions Limited	Broadcast Centre, Media Village, 201 Wood Lane, London W12 7TP	100
BBC Store Limited		100
BBC Studioworks Limited	Neptune House, BBC Elstree Centre, Clarendon Road, Borehamwood, Hertfordshire WD6 1JF	100

Indirectly owned subsidiaries	Registered Address	Holding of ordinary shares %
BBC Global News Limited	Lindsey North, Broadcasting House, Portland Place, London, United Kingdom, W1A 1AA	100
BBC.com Limited		100
BBC World Distribution Limited		100
BBC Studios Limited	Bc3 D4 Broadcast Centre Media Village 201 Wood Lane London W12 7TP	100
BBC Worldwide Limited	1 Television Centre, 101 Wood Lane, London, England, United Kingdom, W12 7FA	100
BBC Grafton House Productions Limited	Bc2 A5 Broadcast Centre Media Village 201 Wood Lane, London, W12 7TP	100
BBC Comedy Productions Limited		100
BBC Natural History and Factual Productions Limited		100
Mortimer Productions Limited	1 Television Centre, 101 Wood Lane, London, England, United Kingdom, W12 7FA	100
2 Entertain Limited		100
2 entertain Management Limited		100
2 entertain Video Limited		100
BBC Video Limited		100
MCI Music Publishing Limited		100
Demon Music Group Limited		100
Crimson Productions Limited		100
F-Beat Records Limited		100
Demon Records Limited		100
BBC Earth MD (WWD) Limited		100
BBC Earth Productions (Africa) Limited		100
BBC Earth Productions (Life) Limited		100
BBC Earth Productions Limited		100
BBC Earth Productions (Giant Films) Limited		100
Earth Film Productions Limited		100

* Previously BBC Ventures Group Limited

29 Interests in associates, joint ventures and subsidiaries (continued)

29c Subsidiary undertakings (continued)

Indirectly owned subsidiaries (continued)	Registered Address	Holdings of ordinary shares %
BBC Magazine Holdings Limited	1 Television Centre, 101 Wood Lane, London, England, United Kingdom, W12 7FA	100
BBC Worldwide Corporate Services Limited		100
BBC Worldwide Investments Limited		100
BBC Worldwide Productions (UK) Limited		100
Tonto Films and Television Limited		100
DVDS3 Limited		100
Worldwide Channel Investments Limited		100
UK Programme Distribution Limited		93
BEEB Rights Limited		88
Baby Cow Productions Limited	Ground Floor Charles House, 5-11 Regent Street, St James's Way, London SW1Y 4LR	73
Baby Cow Manchester Limited		100
Baby Cow Pictures Limited		80
Baby Cow Productions (Hunderby) Limited		100
Baby Cow Productions (Partridge) Limited	1 Television Centre, 101 Wood Lane, London, England, United Kingdom, W12 7FA	100
Baby Cow Productions (Red Dward) Limited	Charles House, 5-11 Regent Street, St James's Way, London SW1Y 4LR	100
Baby Cow Films Limited	Ground Floor Charles House, 5-11 Regent Street, St James's Way, London SW1Y 4LR	100
Alan Partridge Limited	Charles House, 5-11 Regent Street, St James's Way, London SW1Y 4LR	100
Baby Cow Animation (Warren) Limited		100
Baby Cow Animation (Wussywat) Limited		100
Baby Cow Animation Limited		100
Baby Cow Films (Zoe) Limited		100
The Last Holiday Limited		100
Sid Gentle Films Limited		51
Lookout Point Limited	4 Daventry Road, Dunchurch, Rugby, CV22 6NS	42
BBC Worldwide Canada Limited	409 King Street West, 5th Floor, Toronto, ON, M5V 1K1, Canada	100
BBC Worldwide Channels (Singapore) Pte. Limited	3 Anson Road, #17-03 Springleaf Tower, Singapore 079909	100
BBC Worldwide Japan Limited	Tokyo Club Bldg., 10F, 3-2-6 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013, Japan	100
BBC Worldwide Productions Nordics ApS	Mosedalvej 14 , 2500 Valby, Denmark	100
BBC.com US, Inc	c/o Corporation Trust Centre, 1209 Orange Street, Wilmington 19801, United States	100
Nine Productions1 Inc	650-699 Howe Street Vancouver, British Columbia, V6 0B4, Canada	100
BBC Worldwide France Sarl	18-20 Quai du Point du Jour, Bat. A, 92100 Boulogne-Billancourt, France	100
Worldwide Channel Investments (Ontario) Limited	Toronto Dominion Bank Tower, Toronto Dominion Center, Toronto, ON M5K 1E6, Canada	100
2004370 Inc	66 Wellington Street West 470, Toronto Dominion Bank Tower, Toronto M5k 1EG, Canada	100

29 Interests in associates, joint ventures and subsidiaries (continued)

29c Subsidiary undertakings (continued)

Indirectly owned subsidiaries (continued)	Registered Address	Holdings of ordinary shares %
BBC Worldwide Americas Inc	1120 Avenue of the Americas, 5th Floor, New York, NY 10036-6700, United States	100
Adjacent Productions, LLC	10351 Santa Monica Boulevard, Los Angeles, CA 90025, United States	100
Bad Wolf Productions LLC		100
BBC Worldwide Reality Productions LLC		100
Global Hybrid Productions LLC		100
Lime Grove Productions LLC		100
Sun Never Sets Productions LLC		100
Worldwide Competition Productions LLC		100
Worldwide Americas Investments Inc	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington 19801, United States	100
BBC Worldwide Australia Holdings Pty Limited (WAH)	Level 1, 35-51 Mitchell Street, McMahons Point NSW 2060, Australia	100
BBC Worldwide Australia Pty Limited (WAU)		100
BBC Worldwide Productions Australia Pty Limited		100
BBC Worldwide Germany GmbH	Kaiser-Wilhelm-Ring 17-21, 50672 Köln, Germany	100
Erste Weltweit Medien GmbH		100
BBC Worldwide Holdings B.V	Prins Bernhardplein 200, 1097 JB Amsterdam, Netherlands	100
BBC Worldwide Media Private Limited	Construction House A Wing, 401- 4th Floor, Off Linking Road, 24th Road, Khar (W), Mumbai 400 052 India	100
BBC Worldwide (Africa) Proprietary Limited	Office 003H3 Ground Floor, 10 Melrose Boulevard, Melrose Arch, Melrose North 2196, SA	100
BBC Worldwide Intermediadora de Programadora Estangeira Limited	Rua Ferreira de Araujo, 741, Andar 1, Pinheiros, São Paulo SP 05.428-002 Brazil	100
BBC Worldwide Polska	Pl. Bankowy 1, 00-139 Warszawa, Poland	100
BBC Worldwide Mexico S.A de C.V	Avenida Paseo de la Reforma No 115, Piso 4 Lomas de Chapultepec, Distrito Federal 11000 Mexico	100
BBC Worldwide Channels Mexico S.A de C.V		100
Worldwide Knowledge (Beijing) Business Consulting Company Ltd	Unit 7, Floor 9, West Tower, Genesis Building, 8 Xinyuan South Road, Chaoyang District, Beijing 100027	100
BBC Worldwide Productions (Africa) (Pty) Limited	24 18th Street, Menlo Park 0081, Maxars House, 5 ST Davids Place, Parktown 2193, SA	100
Rapid Blue	263 Oak Avenue, Ferndale, Randburg, 2194, South Africa	100
BBC World (Japan) Limited (Incorporated in Japan)	Tokyo Club Bldg., 3-2-6, Kasumigaseki, Chiyoda-ku, Tokyo, 100-0013, Japan	100
BBC World (Singapore) Private Limited (Incorporated in Singapore)	#12-08/08 Shaw Tower, 100 Beach Road Singapore 189702, Singapore	100
BBC Global News (India) Private Limited (Incorporated in India)	Unit No. 301, 3rd Floor, D-2, Southern Park, District Centre, Saket, New Delhi, 110017	100
BBC Global News US LLC (incorporated in America)	Corporation Service Company, 80 State Street, Albany, New York, 12207-2543	100

Company Financial Statements

Balance sheet
as at 31 March 2018

	Note	Company 2018 £m	Company 2017 £m
Fixed assets			
Investment in subsidiaries	A	**344.1**	256.8
Derivative financial instruments		**7.6**	26.8
		351.7	283.6
Current assets			
Debtors			
- due within one year	B	**236.3**	274.9
Cash and cash equivalents		**31.8**	0.7
		268.1	275.6
Creditors: amounts falling due within one year			
Trade and other payables	C1	**(14.5)**	(125.9)
		(14.5)	(125.9)
Net current assets		**253.6**	149.7
Total assets less current liabilities		**605.3**	433.3
Creditors: amounts falling due after more than one year			
Borrowings	C2	**(181.3)**	(201.2)
Deferred tax liabilities	C2	**(1.3)**	(2.7)
		(182.6)	(203.9)
Net assets		**422.7**	229.4
Represented by			
Share capital	D	**0.1**	1.3
Retained earnings	D	**422.6**	228.1
Total equity shareholder's funds		**422.7**	229.4

The financial statements were approved by the directors on 19 June 2018 and signed on their behalf by:

Anne Bulford
Director

BBC Commercial Holdings Limited
Registered number 04463534

Company Financial Statements (continued)

Statement of accounting policies

This section explains the Company's main accounting policies, which have been applied consistently throughout the year and in the preceding year except where stated.

Basis of accounting

The financial statements have been prepared under the historical cost accounting convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

Basis of preparation

The Company financial statements have been prepared on the going concern basis. The Board remains satisfied with the Company's funding and liquidity position. At the balance sheet date, the primary source of funding is a US Private Placement consisting of US$216.0 million, fixed through foreign exchange swap transactions at £143.0 million, and £28.0 million facilities, both expiring in June 2020. The Company also has access to a £210.0 million facility with a group of international banks expiring in July 2019. As at the year-end the Company had drawn down £181.3 million (£171.0 million net of the impact of foreign exchange swap transactions) of the facilities available (2017: £201.2 million). The financial covenants associated with the facilities are unchanged. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility for a period of no less than 12 months from the date of signing these accounts. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council, for all periods presented.

As permitted by FRS 101, the company has taken advantage of the following disclosure exemptions under FRS101:

- IFRS 2 Share based payments
- IFRS 3 Business combinations
- IFRS 5 Non-current assets held for sale and discontinued operations
- IFRS 7 Financial instruments
- IFRS 13 Fair value measurement
- IAS 1 Presentation of financial statements
- IAS 7 Statement of cashflows
- IAS 8 Accounting policies, changes in accounting estimates and errors
- IAS 24 Related party disclosures
- IAS 36 Impairment of assets

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account reflecting the results of BBC Commercial Holdings Limited has not been presented. The Company's profit after taxation for the financial year was £106.7 million (2017: £82.9 million). The Company did not have any other comprehensive income and consequently no statement of other comprehensive income has been presented either.

Company Financial Statements (continued)

Statement of accounting policies (continued)

Investment in subsidiaries
In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Impairment losses are allocated firstly against goodwill, secondly against other intangibles and thirdly to the tangible assets of the unit, on a pro-rata or more appropriate basis.

BBC Studioworks Limited was transferred at cost from the Company's 100% owned subsidiary, BBC Ventures Group Limited, during the year.

Taxation
The taxation charge represents the sum of current tax payable and deferred tax. The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using rates that have been enacted or substantively enacted by the balance sheet dates.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Certain temporary differences do not lead to the recognition of deferred tax, for example, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax provided is based on the tax rates expected to apply in the period when the liability is settled or the asset is realised using tax rates enacted or substantively enacted at the balance sheet date.

Cash and cash equivalents
Cash comprises cash in hand and deposits repayable within three months. Liquid resources are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values. They comprise money market deposits and liquidity funds with a notice period in excess of one working day.

Finance costs
Finance costs of the Company's loans, are recognised in the profit and loss account over the term of the loan at a constant rate on the carrying amount.

Financial instruments
Derivative financial instruments are initially recognised at fair value and are subsequently remeasured to fair value at the balance sheet date with movements recorded in the profit and loss account.

At each balance sheet date, the Company assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on balance sheet when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised from the balance sheet when the Company's contractual rights to the cash flows expire or there has been a substantial transfer of the risks and rewards of the financial asset. Financial liabilities are derecognised from the Company's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

Statement of accounting policies (continued)

Financial instruments (continued)
Gains and losses on foreign currency and interest rate hedges are recognised in the profit and loss account on maturity of the underlying transaction.

Interest bearing borrowings
Interest bearing loans and overdrafts are recognised initially at fair value, less transaction costs. Such borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Trade and other debtors
These are recognised at fair value plus directly attributable transaction costs less an allowance for estimated impairment. The allowance is based on objective evidence that the Group will not be able to recover all amounts due, through a review of all accounts and prior experience collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the profit and loss account.

Long-term contracts
Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on the estimated proportion of the total contract costs which have been incurred to date. If a contract is expected to be loss-making, a provision is recognised for the entire loss.

Dividends on shares presented within shareholder's funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Foreign currencies
Transactions in foreign currencies are translated into the functional currency of each entity of the Group at an average exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling on that date. Foreign exchange differences which arise on translation are recognised in the income statement.

Company Financial Statements (continued)

Statement of accounting policies (continued)

Judgements and key sources of estimation uncertainty
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Impairment of investments in subsidiaries
Determining whether the company's investments in subsidiaries have been impaired required estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present value. The carrying amount of investments in subsidiaries at the balance sheet date was £344.1 million (2017: £256.8 million) with no impairment loss recognised in 2018 or 2017.

Company Financial Statements (continued)

Notes to the financial statements

A Investment in subsidiary undertakings

	Company shares in subsidiaries £m
Cost	
At 31 March 2017	256.8
Additions	87.3
At 31 March 2018	**344.1**
Net book value	
At 31 March 2018	**344.1**
At 31 March 2017	256.8

BBC Studioworks Limited was transferred from BBC Ventures Group Limited to BBC Commercial Holdings Limited in the year at net book value. Additional shares were also acquired within BBC Ventures Group Limited increasing the investment.

BBC Commercial Holdings Limited owns 100% of the issued share capital of the following companies which are incorporated in Great Britain and registered in England and Wales:

Name of entity	Place of incorporation and principle place of business	Nature of business
BBC Global News Holdings Limited	England and Wales	Holding Company
BBC Studios Group Limited*	England and Wales	Holding Company
BBC Studioworks Limited	England and Wales	Programme making
BBC Children's Productions Limited	England and Wales	Programme making
BBC Store Limited	England and Wales	Broadcasting

* Formerly BBC Ventures Group Limited

B Debtors

	Company 2018 £m	Company 2017 £m
Amounts falling due within one year:		
Trade debtors	1.5	-
Amounts owed by subsidiaries	227.8	264.5
Amounts owed by parent undertaking	6.9	9.4
Other debtors	0.1	1.0
Total debtors due within one year	**236.3**	274.9

C Creditors

C1 Amounts falling due within one year

	Company 2018 £m	Company 2017 £m
Amounts owed to parent	2.0	110.8
Amounts owed to fellow subsidiaries	12.2	14.7
Accruals and deferred income	0.1	0.4
Other taxation and social security	0.2	-
	14.5	125.9

C2 Amounts falling due after more than one year

	Company 2018 £m	Company 2017 £m
Borrowings	181.3	201.2
Deferred tax liability	1.3	2.7
	182.6	203.9

C3 Maturity of financial liabilities

The Company arranges its borrowings to meet forecast cash flows such that is has access to sufficient funds to meet its commitments. The maturity profile of the Company's financial liabilities, other than short-term creditors, at 31 March was:

	Bank loans and overdrafts £m	Total £m
2018		
Between two and five years	181.3	**181.3**
	181.3	**181.3**
2017		
Between two and five years	201.2	201.2
	201.2	201.2

C Creditors (continued)

C4 Borrowing facilities

Facility	Interest rate	Total available 31 March 2018 £m	Drawn down at 31 March 2018 £m	Total available 31 March 2017 £m	Drawn down at 31 March 2017 £m	Expiry or review date
BBC Commercial Holdings Limited						
Multicurrency, revolving credit facility agreement for loans	LIBOR* plus 0.6% rising to LIBOR plus 0.15% on utilisations over 1/3 and LIBOR* plus 0.15% on utilisations over 2/3.	210	-	210	-	July 2019
Overdraft or money market lines	Money market line - margin of 1.0% (2016: 1.0%)	20	-	20	-	Reviewed annually
US Private Placement	Fixed interest at 2.36%	28	**28**	28	28	June 2020
US Private Placement**	Fixed interest at 2.71%	153	**153**	173	173	June 2020

* The base rate used varies according to the currency drawn. GBP drawings are linked to LIBOR.

** The $216 million US placement has been hedged to a sterling value of £143 million, valued at the time of the facility being placed.

There have been no defaults or breaches of covenants on the facilities above during the year (2017: none).

D Reconciliation of movements in equity shareholder's funds and reserves

The movement in reserves during the year was as follows:

Company	Share capital £m	Retained earnings £m	Total £m
At 1 April 2017	1.3	228.1	**229.4**
Issue of share capital	124.5	-	**124.5**
Share capital reduction	(125.7)	125.7	**-**
Profit for the financial year	-	106.7	**106.7**
Dividends declared in year	-	(37.9)	**(37.9)**
At 31 March 2018	**0.1**	**422.6**	**422.7**

Share were issued during the year to fund the carve out of the BBC's Public Service Broadcasting television production divisions (BBC Studios).

The Company resolved to reduce its share capital to £50,000 by means of the solvency statement procedure (in accordance with sections 644 & 649 Companies Act 2006).

E Auditor's remuneration

The audit fee of £10,000 was incurred by the Company (2017: £10,000 borne by another Group company).