

## **PRINCIPAL ACCOUNTING POLICIES**

### **30 September 2002**

#### **1 BASIS OF PREPARATION**

The accounts are prepared under the historical cost convention, modified to include the revaluation of certain investments, and in accordance with the applicable financial reporting and accounting standards. The Group has re-assessed the appropriateness of its accounting policies as prescribed in FRS 18.

Since the previous year end FRS 19 – Deferred Taxation has been adopted. This standard addresses the recognition, on a full provision basis, of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. The change in accounting policy has not given rise to any prior year adjustment.

#### **2 CONSOLIDATION AND GOODWILL**

The consolidated financial statements incorporate the accounts of the Company's subsidiary undertakings prepared to 30 September 2002. The Company has taken advantage of the exemption in Section 230(1)–(4) of the Companies Act 1985 not to present its own profit and loss account.

Goodwill arising on acquisitions is capitalised as an intangible asset and is amortised on a straight line basis over estimated useful economic lives ranging between 10 and 20 years. Companies acquired have been accounted for as acquisitions. Prior to 30 September 1998 goodwill, whether purchased or arising on consolidation, was written off against reserves in the year it arose.

#### **3 IMPAIRMENT**

Impairment reviews are carried out to ensure that goodwill is not carried above its recoverable amount. Any amortisation or impairment write-downs are charged to the profit and loss account.

Goodwill is reviewed for impairment at the completion of the first full year after acquisition and on the occurrence of any event or change in circumstances indicating that there has been a decline in the carrying value or change in useful life.

#### **4 INVESTMENTS**

Associates and joint ventures are accounted for in the Group's accounts under the equity method of accounting, as adjusted, where material to conform to the Group's accounting policies. Other fixed asset investments are stated at cost less amounts written off in respect of any permanent diminution in value.

Current asset investments are held at the lower of cost or net realisable value, or where appropriate, under the alternative accounting rules, at current cost based on a directors' valuation.

#### **5 FOREIGN CURRENCIES**

Foreign currency debtors and creditors covered by forward currency contracts are translated at the contract rates of exchange; other foreign currency denominated assets and liabilities are translated at closing rates of exchange. Gains and losses are taken to the profit and loss account, except that exchange differences on foreign currency net borrowings to finance foreign currency net investments are taken to reserves, in accordance with SSAP20.

Trading results of overseas subsidiaries are translated at weighted average rates of exchange. Differences resulting from the re-translation of opening net assets and results for the year at closing rates are taken to reserves.

#### **6 BORROWINGS AND FINANCE LEASE CREDITORS**

Borrowings are carried at their nominal value with any premium or discount on issue, any pre-issue hedging costs, and any other associated fees offset against the carrying value of the borrowing. Such costs are written off to the profit and loss account over the life of the borrowing if it is dated. The capital element of finance lease creditors is recorded as a liability, with lease rentals split between capital and interest elements. The capital element is applied to reduce the outstanding liability and the interest element is charged against profit.

#### **7 TURNOVER**

Turnover, which excludes value added tax and sales between Group companies, represents the value of products and services sold. More particularly, key classes of revenue are recognised as follows:

- Advertising – on transmission.
- Programme production – on delivery.
- Rights – the point that the right sold is available for exploitation.
- Facilities – on provision of the service.
- Product merchandising – on product delivery.

#### **8 INTANGIBLE FIXED ASSETS**

Libraries acquired are valued at fair value on acquisition on the basis of projected cash flows and written off in equal annual instalments over the estimated economic life of the assets over a period of up to 40 years. The useful economic life has been adopted in view of the classical and ongoing appeal of the library titles. All other research, development and marketing expenditure is written off as incurred, with the exception of certain programme development expenditure (see point 11 below).

## 9 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment. Depreciation is generally provided by equal annual instalments at the following rates:

Freehold property excluding land	2% – 4%
Leasehold property	period of lease
Plant and equipment	10% –33%

Depreciation is not charged on freehold land.

## 10 STOCKS

Stocks and work in progress are valued at the lower of cost and net realisable value.

## 11 PROGRAMME PRODUCTION AND DEVELOPMENT

Programmes in production and acquired programmes are stated at the lower of cost and net realisable value.

Programme material is written off fully on first transmission, except for certain film rights which are written off over a number of transmissions.

## 12 LIQUID FINANCIAL INSTRUMENTS

Liquid financial instruments are stated at the lower of cost and market value. Interest and other income is dealt with in the period in which it arises.

## 13 PENSIONS

The Group maintains a number of defined benefit and defined contribution based pension schemes in the UK. The costs of defined benefit schemes are determined by external actuaries and charged against profits each year under SSAP24. The costs of defined contribution schemes are charged against profits in the year in which they are incurred.

FRS 17 – Retirement Benefits. This standard addresses the measurement and valuation of retirement benefit pension schemes. The Group has continued to adopt the transitional arrangements as prescribed in FRS 17 (see note 3c).

## 14 DEFERRED TAXATION

Full provision is made for deferred tax liabilities arising from timing differences in respect of transactions or events that result in an obligation to pay tax in the future, that have originated but not reversed by the balance sheet date.

A deferred tax asset is not recognised to the extent that recoverability is uncertain. Deferred tax liabilities and assets which are recognised are not discounted.

To the extent that, at the balance sheet date, dividends from overseas undertakings have been accrued as receivable or an overseas undertaking has entered into a binding agreement for the future distribution of its past earnings, appropriate amounts are provided.

## 15 OPERATING LEASES

The rental costs arising from operating leases are charged to the profit and loss account in the year in which they are incurred.

## 16 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates.

The Group does not hold or issue derivative instruments for speculative purposes.

Interest rate swap and option agreements are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods. Gains and losses on early termination of interest rate swaps or on repayment of the borrowing are spread over the life of the original contract or borrowing.