

BBC Pension Scheme

The year '2011' is rendered in a large, stylized font. The '2' is light green, the '0' is light blue with a darker blue oval inside, and the '1's are light green and light blue. The numbers are positioned above a dark blue horizontal bar that spans the width of the page.

ANNUAL REPORT

**FOR THE YEAR ENDED
31 MARCH 2011**

BBC Pension Scheme

Annual Report for the year ended 31 March 2011

	Page
Summary of the Year	1
Trustee and Advisers to the Scheme	2
Trustees' Report	4
Consolidated Statement of Net Assets	21
Consolidated Fund Account	22
Notes to the Financial Statements	23
Independent Auditors' Report	41
Independent Auditors' Statement about Contributions	42
Summary of Contributions Payable	43
Actuarial Certificates	44
Summary of Funding Statement	Appendix I

Summary of the Year

Membership

The membership of the Scheme rose slightly during the year. As at 31 March 2011 the total membership was 60,399; 1.4% more than last year, and 5.4% more than five years ago.

The Scheme closed to new entrants on 1 December 2010.

Details of the breakdown of membership are on page 11.

Fund

The value of the Scheme's investments (including AVC investments) rose by 8.3% from £8.2 billion last year to £8.9 billion as at 31 March 2011.

In the five years since 2006 the Scheme's investments have risen by 12.6% from £7.9 billion.

Details of the distribution of investments are on page 17 and 18.

Performance

The Scheme's assets produced a return of 8.6% in the year ended 31 March 2011.

Over the last five years the Scheme's investments have generated an annualised return of 3.7%.

More details are on page 12.

Valuation

The Scheme undertook a full valuation as at 1 April 2010. The Scheme had a deficit. Details are on page 9. The next full valuation is as at 1 April 2013.

Movement of the Fund

The Consolidated Fund Account on page 22 shows that income from contributions and transfers in was £317.9m and outgoings were £332.5m, giving a net outflow from dealings with members of £14.6m. Included in contributions is a deficit recovery payment of £110m received from the BBC in March 2011. Income from investments, net of expenses and minority interest, was £163.5m; providing a total net inflow of £148.9m.

The market value of the Scheme's assets rose during the year by £536.6m.

Trustee and Advisers to the Scheme as at 31 March 2011

Trustee	BBC Pension Trust Ltd, Broadcasting House, London W1A 1AA
Secretary to the Trustee	Sandra Phillips Pension and Benefits Centre, Broadcasting House, Cardiff CF5 2YQ
Actuary	Alison Blay, Towers Watson Ltd
Auditors	PricewaterhouseCoopers LLP
Solicitor	Sacker & Partners LLP
Investment Consultants	Towers Watson Ltd David Gamble Kevin Carter Richard L. Greene (USA property)
Investment Managers	Artemis Investment Management Ltd Baillie Gifford & Co BlackRock Investment Management (UK) Ltd Cambridge Associates Ltd Goldman Sachs & Co Henderson Equity Partners Ltd Hg Pooled Management Hony Capital Invesco Asset Management Ltd Lazard Asset Management Ltd M&G Investment Management Ltd Nephila Capital Ltd NewSmith Asset Management LLP NewSmith UK Hedge Fund Ltd PGSFIII GP Ltd (investment adviser: Pantheon Ventures Ltd) Pimco Europe Ltd Prisma Capital Partners Rogge Global Partners Plc State Street Global Advisors Ltd Sun Capital Partners, Inc The Carlyle Group Trilogy Global Advisors, LLC Uberior Fund Manager Ltd Warburg Pincus LLC

Cash Manager	BlackRock Advisors (UK) Ltd
Engagement Manager	Hermes Equity Ownership Services Ltd
Property Managers	Grosvenor Americas Ltd (USA) CB Richard Ellis (UK) CB Richard Ellis Investors (UK) PanEuropean Property Unit Trust
Property Valuer	GVA Grimley Ltd (Chartered Surveyors)
Custodian	HSBC Bank plc
Property Solicitors	Brodies LLP (Scotland) Greene, Radovsky, Maloney & Share (USA) Nabarro LLP
Banker	The Royal Bank of Scotland plc
Covenant adviser	Ernst & Young LLP

Trustees' report

This report for the year ended 31 March 2011 is presented in compliance with the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. The financial statements have been prepared and audited in accordance with the regulations made under sections 41(1) and 41(6) of the Pensions Act 1995.

How the Scheme is run

The BBC Pension Scheme (the Scheme) is a defined benefit scheme. It provides benefits for employees of the British Broadcasting Corporation (BBC) and other participating employers.

The Scheme is established and governed by a Trust Deed and Rules. Members of the Scheme (other than members of the Career Average Benefits sections) are contracted out of the State Second Pension. The Scheme is registered with HM Revenue & Customs under Chapter 2, Part 4 of the Finance Act 2004.

The Scheme is registered with the Pensions Regulator, Registration number: 10149485.

Participating employers

On 31 March 2011 the participating employers were:

- BBC
- 2 Entertain Management Ltd
- 2 Entertain Video Ltd
- 3SIXTYMEDIA Ltd
- BBC Children in Need
- BBC Studios and Post Production Ltd
- BBC World News Ltd
- BBC Worldwide Ltd.

BBC Audiobooks Ltd ceased to participate on 13 July 2010.

The Corporate Trustee

BBC Pension Trust Ltd exists only for the purpose of acting as corporate trustee of the Scheme. The Board of Directors corresponds exactly with how the Board of Trustees would otherwise be composed and is referred to as 'the Trustees' throughout this report.

On 31 March 2011 the Trustees comprised:

Name	Category of Trustee	Attendance at Board meetings	Membership of sub-committee	Attendance at sub-committee meetings
Jeremy Peat	BBC Trust	5/6	Committee of Directors	10/10
			Governance	2/2
			Journey plan/funding	6/6
Helen Boaden	BBC	5/6	Committee of Directors	9/10
			Finance, Risk and Audit	3/3
			Benefits	4/4
Grant Cassidy	Member	6/6	Committee of Directors	10/10
			Investment	5/6
Dan Cooke	Member	6/6	Committee of Directors	9/10
			Benefits	4/4
			Journey plan/funding	5/6
Andy Griffee	BBC	6/6	Committee of Directors	10/10
			Investment	5/6
			Journey Plan/funding	5/6
Geoff Jones	Pensioner	6/6	Committee of Directors	10/10
			Finance, Risk and Audit	3/3
			Governance	2/2
			Journey plan/funding	5/6
Rhodri Lewis	Member	6/6	Committee of Directors	9/10
			Benefits	4/4
Zarin Patel	BBC	6/6	Investment	6/6
Caroline Thomson	BBC	4/6	Finance, Risk and Audit	2/3
			Governance	2/2

Changes to the Trustee Board

There were no changes to the Board during the year.

Appointment and nomination of Trustees

The power to appoint and remove the BBC Trust Trustee is vested in the BBC Trust. The BBC Trust nominates one of the Trustees to be the Chair of the Trustees.

The power to appoint and remove the BBC Trustees is vested in the BBC. All BBC Trustees are active members. Member Trustees are nominated from and by the active members. They hold office for six years and retire in rotation. If the number of nominations exceeds the number of vacancies, a ballot of the active members is held.

The Pensioner Trustee is nominated from and by the pensioners. He or she holds office for four years. If there is more than one nomination, a ballot of the pensioners is held.

The Trustees have a duty to act in the best interests of all beneficiaries. As a group and as individuals they represent all members equally, rather than sectional interests.

Advisers

During the year:

- the bond mandates with Aviva Investors Global Services Ltd, Henderson Global Investors Ltd and Western Asset Management Company Ltd were terminated;
- BlackRock Investment Management (UK) Ltd and Pimco Europe Ltd were appointed to manage bond portfolios;
- a currency mandate with Alliance Bernstein LP was terminated;
- the equity mandate with Marvin & Palmer Associates Inc was terminated;
- Prisma Capital Partners and Cambridge Associates Ltd were appointed to manage a portfolio of hedge funds on a discretionary basis;
- Nephila Capital Ltd was appointed to manage a portfolio of insurance linked securities; and
- Rogge Global Partners Plc was appointed to manage a portfolio of emerging market currencies.

Governance

The Trustees have adopted a governance policy intended to reassure members that the Scheme is well run and provide a means of monitoring the effectiveness of the arrangements put in place to manage the Scheme.

The principal responsibility of the Trustee Board is to ensure that the Scheme is able to pay pensions to beneficiaries as they fall due. It discusses sub-committee reports; sets investments strategy; approves the Scheme accounts, the annual budget and the business plan and the appointment of Scheme advisers. It met six times during the year.

During the year, it also:

- received training on the statutory funding objective in preparation for the 2010 actuarial valuation;
- approved an updated Statement of Investment Principles;
- agreed a Trustee remuneration policy;
- executed the 44th Deed of variation to close the Scheme to new entrants;
- re-appointed PricewaterhouseCoopers LLP as auditors to the Scheme;
- considered the impact of the change in state pension age on the Scheme's levelling option and decided to consult with members about removing the option; and

- agreed a detailed business plan for the year ahead and approved three year plans for each sub-committee.

The Board recognised that some members may have a conflict of interest when discussing funding matters. Therefore these matters were discussed by a Committee of Directors which Zarin Patel, Chief Financial Officer and Caroline Thomson, Chief Operating Officer elected not to be part of.

The Committee of Directors met ten times.

During the year, it:

- considered the impact of BBC Audiobooks Ltd ceasing to participate in the light of Section 75 of the Pensions act 1995;
- considered the BBC's financial position;
- looked at valuation assumptions and valuation results;
- received legal advice on the BBC's proposals to reform the Scheme;
- received advice on the BBC's covenant from Ernst and Young;
- received training on asset liability modelling; and
- attended an Active Members meeting.

The Investment Committee's objective is to ensure that the assets are sufficient to meet the liabilities as they fall due and are managed in accordance with the investment strategy set by the Trustees. It met six times. During the year it:

- reviewed the Scheme's investment performance;
- debated investment strategy and assessed opportunities in the financial markets in light of the investment strategy;
- assessed new investment opportunities as they arose and approved new investments within the strategic framework set by the Board;
- approved both new investment mandates and termination of managers;
- monitored the Investment Committee budget; and
- agreed a three year plan.

The Benefits Committee met four times. The Committee's objective is to ensure that all beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme. It implements all aspects of Scheme administration; monitors compliance and discretions exercised on behalf of the Trustees. During the year it made a number of decisions, including:

- the retention of Fidelity as provider of AVCs, in conjunction with the Investment Committee;
- with the editor of Prospero standing down, that Pension and Benefits Centre (P&BC) should take the opportunity to review the options for producing and editing Prospero;
- the contract with Hewlett Packard to provide backup services from a remote location, as part of the business continuity plan should continue with a further review in 2013;
- agreeing changing actuarial factors which used statutory revaluation and cash equivalent transfer values for Old and New Benefits members, should be calculated using an assumption based on CPI instead of RPI in line with changes made to the statutory revaluation by the Government;

- agreeing the threshold in net pension payment changes for issuing pension payslips should be increased from £1 to £10;
- monitored the Benefits Committee budget; and
- agreed a three year plan.

The Finance, Risk and Audit Committee met three times during the year. The Committee's objective is to ensure that the Scheme has an appropriate control and risk framework in place. It monitors the effectiveness of the Scheme's financial management and internal controls.

During the year, it:

- reviewed and approved the Scheme's annual budgets and quarterly accounts;
- agreed the Scheme's financial authorities;
- commissioned an internal audit review of property expenditure;
- reviewed a survey benchmarking the Scheme's services and administration costs;
- reviewed the Scheme's risk register and agreed a facilitated review should be undertaken in the autumn;
- recommended the re-appointment of the Royal Bank of Scotland as the Scheme's banker; and
- monitored the Finance, Risk and Audit Committee budget; and
- agreed a three year plan.

The Governance Committee met twice. The Committee's objective is to ensure that the Scheme operates within an appropriate governance framework. It considers the systems and processes concerned with the management of the Scheme. During the year it:

- reviewed the updated Regulator's code of practice on Trustee Knowledge and Understanding and updated its accreditation procedure accordingly;
- discussed the arrangements in place for a Member Trustee election and concluded that in future:
 - Scheme members should be asked to express an interest in becoming a Trustee;
 - those who expressed an interest should be invited to a half day's session with Scheme officers and the legal adviser where the role and the duties would be explained;
 - nominations would be called only from that group; and
 - the Scheme should operate a 'single transferable vote method' rather than the current 'first past the post method' ; and
- agreed an external assessment of the Board's effectiveness should be undertaken during 2011.

The Journey Plan Committee's objective is to look at the long term funding objective of the Scheme. It met with the BBC to discuss funding issues.

Disputes

The Scheme has a two stage internal dispute resolution procedure (IDRP). The first stage is determined by the Pension Operations Manager or the Pension Accountant. If a matter is not resolved to a member's satisfaction it can be referred to a committee of Trustees who will consider the matter.

The Pension and Benefits Centre (P&BC) dealt with four disputes during the year. One of these was settled under the first stage of the IDRP. Three were taken to the second stage of the IDRP. In two cases the first stage decision was upheld. In the third case, after careful consideration and recognising that a precedent would not be set, the first stage decision was overturned.

Actuarial Valuation

The actuarial valuation of the Scheme as at 1 April 2010 revealed a funding shortfall (technical provisions minus value of assets) of £1,131 million.

To eliminate this funding shortfall, the Trustees have agreed with the BBC that additional contributions will be paid to the Scheme by the participating employers in accordance with the table shown in note 14 in the financial statements on page 36.

The funding shortfall is expected to be eliminated within 11 years of the valuation date, which is by April 2021

Benefit changes during the year

The Scheme closed to new members on 30 November 2010. A new section of the Scheme, Career Average Benefits 2011 (CAB 2011) was introduced from 1 April 2011. Details of CAB 2011 can be found by visiting bbc.co.uk/my pension

Employees who are currently active members of the Scheme will continue to build up benefits under the current structure. However, from 1 April 2011, the BBC will limit future increases in pensionable salary to a maximum of 1% per annum.

Active Scheme members have three options for future pension benefits. These are:

- To remain in the current section of the Scheme with a 1% limit on future pensionable salary increases from April 2011.
- To join the new career average benefits arrangement, CAB 2011 between April 2011 and December 2011.
- To join LifePlan, the BBC's defined contribution plan, at any point in the future.

If a member does not take any action they will, by default, remain in their current section of the Scheme.

Increases in pensions and deferred pensions

Pensions in payment increase on 1 April each year.

For Old Benefits members, pensions in payment increase by the rise in the Retail Prices Index (RPI) during the twelve months ending 31 December last, up to a maximum of 10%.

For New Benefits members, pensions in payment increase by the rise in the Retail Prices Index (RPI) during the twelve months ending 31 December last, up to a maximum of 5%.

Old and New Benefits deferred pensions receive the same increases as pensions in payment. Pensions in deferment and in payment for less than a year for Old and New Benefits members are increased pro rata.

The increase paid on 1 April 2010 was 2.4% and the increase paid on 1 April 2011 was 4.8% for Old and New Benefits members.

For Career Average Benefits 2006 (CAB 2006) members, pensions in payment increase by the rise in Retail Prices Index (RPI) during the twelve months ending 31 December last, up to a maximum of 2.5%. The increase paid on 1 April 2011 was 2.5%

The discretionary revaluation of CAB 2006 benefits built up for active and deferred members was 2.4% on 1 April 2010 and 4.8% on 1 April 2011.

Additional Voluntary Contributions (AVCs)

A total of 1,692 members paid AVCs during the year (2010: 1,788). The contributions are invested with Santander UK plc or Fidelity Pensions Management in accordance with the members' elections. At 31 March 2011 2,808 members were buying added years (2010: 2,963).

The Trustees voted in favour of accepting the Norwich Union/Aviva reattribution offer. Payments were made to members in 2010.

Contributions

During the year the BBC's contributions rate (inclusive of AVC Plus contributions) was 18.15% of Pensionable Salaries. The BBC also reimbursed the Scheme the cost of the PPF Levy (£1.8m). Old and New Benefits members paid 7.5% and Career Average Benefits 2006 members paid 4.0%. These contributions were paid by salary sacrifice (Smart Pensions).

Transfer values

Payments made in respect of employees or deferred pensioners to other pension arrangements have been calculated in accordance with the provisions of Section 97 of the Pension Schemes Act 1993, using tables supplied by the Actuary. Payments made during the year fully reflected the value of the Members' accrued benefit rights. Allowance is made for all discretionary benefits calculated on actuarial advice.

Administration

BBC Pension Trust Ltd is the Scheme Administrator. The management and staff involved in running the Scheme (including the Secretary to the Trustees) are employed by the BBC. The Scheme bears all costs of investment, direct staff and system costs, stationery and postage, together with accommodation and other administrative overheads.

Data protection

There is a formal agreement in place between the Trustees and the BBC for the transfer of data. This is necessary to ensure that the Scheme complies with the data protection principles detailed in Part 1 of Schedule 1 of the Data Protection Act 1998.

Membership

31 March

2011

2010

Total membership

Contributing members	18,032	17,883
Deferred pensioners	19,591	18,971
Pensioners	22,776	22,696
	60,399	59,550

Contributing members

At 1 April 2010	17,883
New members	1,776
Leavers	(1,411)
Retired with pension (normal health)	(191)
Retired with pension (ill health)	(11)
Died in service	(14)
At 31 March 2011	18,032

Deferred pensioners

At 1 April 2010	18,971
Leavers from active status	1,002
Subsequently transferred	(39)
Pensions becoming payable	(280)
Deaths	(15)
Surrendered, commuted or refunded	(48)
At 31 March 2011	19,591

Pensioners	Former contributors	Spouses and dependants	Total
At 1 April 2010	18,776	3,920	22,696
Contributing members who retired	202	0	202
Deferred pensions becoming payable	286	0	286
Spouses and dependants	0	287	287
Cessations	(459)	(236)	(695)
At 31 March 2011	18,805	3,971	22,776

Investment Report (forming part of the Trustees' annual report)

Investment performance

Following the financial crisis of 2007-2009 investment markets have recovered strongly over the last two years. In the year to 31 March 2010 the Scheme produced a return of 28.2% and this has been followed by a very solid 8.6% in the year to 31 March 2011.

The table below gives the performance of the Scheme over the last 1, 3 and 5 years, and compares those figures with the Scheme's internally set benchmark as well as WM's UK Pension Fund Benchmark which measures the performance of a large sample of UK pension schemes.

	Year to 31 March 2011	3 years to 31 March 2011	5 years to 31 March 2011
BBC Pension Scheme	8.6%	4.3%	3.7%
WM UK Pension Fund	7.9%	5.4%	4.0%
Benchmark	8.3%	6.3%	5.0%

Over the last five years the actual Scheme's return was broadly in line with the average pension fund, as measured by WM's UK Pension Fund Benchmark. Over that same period the Scheme's bond managers have performed in line with the Scheme's internal benchmark and the Scheme's equity managers have lagged slightly by 0.5%.

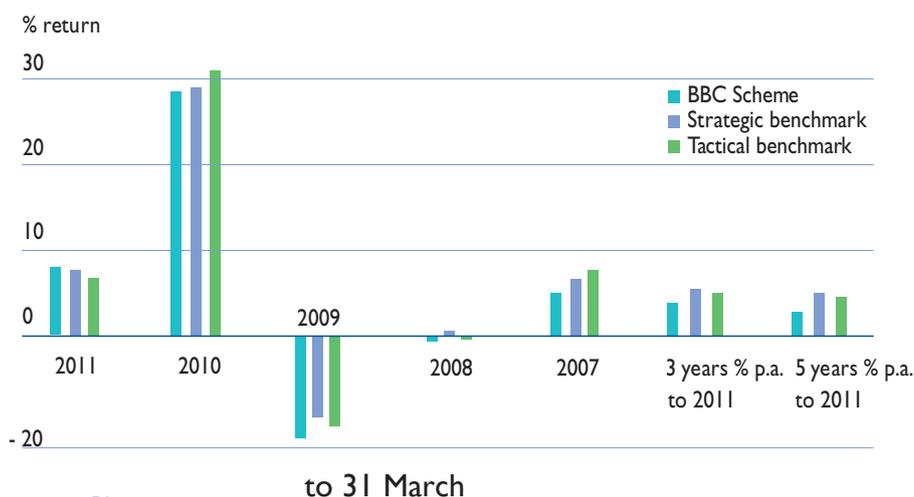
The bigger source of underperformance against our internal benchmark has come from the alternative assets. Investment in alternative assets is seen as a method of diversifying the Scheme's sources of return and producing much less variable returns than quoted equity. Alternative assets include a very broad range of different investments ranging from unquoted equity through to low risk investments where the objective is to make more modest returns but on a consistent basis (for example infrastructure, unquoted loans, insurance and hedge funds). The theme that is common to all these investments is that they take time to invest and harvest and are relatively illiquid.

The Scheme set a very ambitious internal benchmark of 10% p.a. on alternatives which was reasonable at a time when interest rates were much higher, but given turbulent markets and the very low interest rate environment of recent years this has not been achievable. However alternatives have produced a return similar to equities and bonds but with much lower volatility as expected.

Around one third of the alternative investments are invested in private (unquoted) equity and this was not immune to the sharp falls in equity markets in 2007-9 when equity markets around the world halved. The nature of these investments is that costs are incurred in the early years while the value is created in the latter part of the life of the investment. Having built up exposure to private equity in 2006-9 the Scheme is only now starting to benefit from these investments. The other alternative investments, which were expected to produce steadier but more modest returns, did exactly that.

The other source of underperformance has been our equity managers that have struggled over a number of years to add value. However in 2010/11 our equity managers did outperform their benchmark by 0.6% after fees. The Trustees have been moving more assets away from active management into passive management which provides very cheap access to equity markets. The Trustee Board has carried out a thorough review of the fees that it pays its active equity managers and are confident that they are very competitive compared to market levels.

Investment Performance



Investment policy

Trustees are responsible for setting and reviewing investment policy. In accordance with Section 35 of the Pensions Act 1995, they have adopted the Statement of Investment Principles (SIP), which sets out the principles governing decisions about the Scheme's investments. A copy of the SIP is available on request from the Secretary to the Trustees or as a download at bbc.co.uk/mypension.

The Trustees' overall investment policy is to invest in a wide range of long term assets such as equities, property and bonds and a range of alternative assets (private equity, hedge funds, infrastructure, etc) whilst ensuring that there are sufficient holdings of readily marketable assets that can meet the short term liabilities of the fund.

The Trustees have created a set of investment beliefs which, together with the SIP, are used as foundation blocks for developing investment strategy. The Trustees also use asset/liability modelling to assist with strategic asset allocation and an asset/liability modelling review was undertaken in 2007. The conclusion of the process was that the strategic asset allocation of 25% UK equities, 25% overseas equities, 30% bonds, 10% property and 10% alternative assets should remain unchanged.

Some minor changes have subsequently been made and the table below shows the current asset allocation, target asset allocation and the asset ranges for each asset class as at 31 March 2011.

Asset Class	Current asset allocation	Strategic Benchmark	Permitted Ranges	
	%		%	Minimum
Equities	48.4	47.5	37.5	57.5
Bonds	21.4	30.0	20.0	40.0
Property	12.0	10.0	5.0	15.0
Alternative assets	14.7	12.5	5.0	20.0
Cash	3.8	0.0	0.0	15.0
Derivatives	(0.3)	0.0	n/a	n/a

Following the benefits changes announced at the end of 2010 a further asset/liability modelling project is currently being undertaken to determine what changes should be made to the investment strategy to reflect the changed benefit profile. The results of this project are expected later in the year.

In addition a sub-committee of the Trustee board has been set up (known as the journey plan committee) which is tasked at looking at how investment strategy should be changed in future years as progress towards full funding moves ahead or behind projected levels. For instance if the current deficit declines sharply due to market movements should action be taken to reduce risk (and hence future returns) even though the Scheme at that time will remain in deficit. The outcome from this committee's work is also expected later in the year.

The Scheme has been reducing its exposure to equities for over ten years although care has been taken to avoid selling equity assets at very depressed levels. Equity markets have recovered strongly over the last two years and in the last 12 months further reductions in equity exposure have been made.

As highlighted in previous reports a positive cash flow is important as it means that the Scheme will not need to be a forced seller of assets at low prices. The changes in the benefits structure will have an impact on cash flow and further work will be required to determine the exact impact. However dividends from equity investments are recovering strongly.

Current management arrangements

The Trustees have delegated the management of all investments to external managers who are given a range of different mandates. There are nine quoted equity managers, three bond managers and four property managers. The Scheme has invested in 22 alternative asset mandates. Cash is moved daily from all of the Scheme's sterling bank accounts into an interest bearing fund.

The performance targets for the quoted equity and bond portfolios are based on the relevant equity and bond indices. Both of the UK property portfolios are benchmarked to the IPD Index. For overseas property, local property index benchmarks are used where available. The pooled vehicles in which the Scheme has invested which are aggregated under alternative assets have an absolute return target of 10% at the Scheme level. However the individual vehicles have a range of benchmarks ranging from absolute returns through to different equity indices.

During the year £1,211m of bonds were transferred from bond managers as follows: Aviva Investors Global Services Ltd: £502m, Henderson Global Investors. Ltd: £488m and Western Asset Management Company Ltd: £221m

The funds were allocated to BlackRock Investment Management (UK) Ltd: £778m and Pimco Europe Ltd: £335m – both bond mandates.

The mandate with Marvin and Palmer Associates Inc was terminated during the year resulting in the transfer of £421m in equities and cash to State Street Global Advisors Ltd with a mandate to manage a passive global equity fund.

Funds were also allocated to new mandates during the year as follows: Cambridge Associates Ltd (portfolio of hedge funds): £272m, Prisma Capital Partners (portfolio of hedge funds): £94m, Nephila Capital Ltd (insurance linked securities): £76m, Rogge Global Partners plc (emerging market currencies): £100m and Hg Pooled Management (Renewables): £5m.

The Investment Committee, a sub-committee of the Trustee Board, monitors the performance of the investment managers on a quarterly basis. The in-house executive team meet with the managers quarterly and a Trustee or Investment Committee member joins those meetings from time to time.

Notes of these meetings are distributed to the two external members of the Investment Committee.

Investment managers are remunerated on scales linked to the value of assets under management. In some cases these fees have been reduced and an additional fee agreed related to the performance of the underlying portfolio. Fees payable to UK property managers are related to the value of assets under management, and fees are also paid to these managers for purchases, sales and day to day management of the portfolios.

Responsible investment

The Trustees believe that companies which adopt responsible policies and act in their shareholders' long-term interests are likely to produce superior returns over the long run. They also believe that companies whose shareholders are informed and active in their stewardship are more likely to outperform than those companies whose shareholders are not.

Hermes Equity Ownership Services Limited (Hermes EOS) has been appointed to co-ordinate all voting at company meetings and engagement with companies in which the Scheme is invested on a global basis. They have been delegated responsibility for voting on all resolutions at annual and extraordinary meetings. The Scheme's voting record globally can be accessed through the Pensions website. Hermes EOS also engages with companies through dialogue, discussions and meetings with senior executives and by co-operating with other investors.

Hermes EOS is expected to exercise votes in accordance with Myners' Principles and Institutional Shareholders' Committee (ISC) principles and such higher standards as agreed with the Trustees, unless they believe that doing so would not be in the best financial interests of the Scheme. Hermes EOS is expected to develop policies on socially, ethically and environmentally responsible investing and to encourage these practices in the course of engagements where these will enhance or protect companies' long-term prospects.

In addition to engagement at the company level, Hermes EOS, works on the Scheme's behalf to engage with public, industry and regulatory bodies in the various markets in which the Scheme invests to promote better practices.

In addition to engagement at the company level, Hermes EOS, works on the Scheme's behalf to engage with public, industry and regulatory bodies in the various markets in which the Scheme invests to promote better practices.

The Trustees expect Hermes EOS to:

- monitor various aspects of corporate performance (including Corporate Governance);
- maintain details of their monitoring process;
- maintain a regular dialogue with the management of the companies in which we hold a significant percentage of the issued capital;
- intervene in a company if they believe that such action will enhance value for the Scheme after taking account of the costs involved. Intervention is seriously considered when Hermes EOS has concerns about any aspect of corporate performance and where it believes that shareholder value may be at risk. Intervention may take several forms, according to the circumstances and may include the following:
 - exercising votes;
 - discussion with management;
 - communicating concerns in writing for the attention of the board as a whole;
 - communicating concerns to the company's brokers or advisers;
 - exchanging information with other shareholders;
 - working with other shareholders to requisition a shareholder meeting; and
 - attendance at general meetings, which may involve calling a poll;
- manage conflicts of interest effectively;
- monitor the response of a company during and after the period of intervention, looking for evidence that the company has addressed the concerns and responded accordingly; and
- report back to the Trustees on a quarterly basis where Hermes EOS has taken meaningful steps to intervene in a company.

The Scheme has signed up to the UN Principles for Responsible Investment (UNPRI) and is also a member of the Institutional Investors Group on Climate Change (IIGCC).

Active Old and New Benefits members of the Scheme have the option to contribute to an ethical AVC fund.

Custody

Custody of securities is with HSBC Bank plc (HSBC). Securities are normally registered in the name of the nominee of the custodian or its sub-custodians, but this is subject to local market practice, regulations and law. Through HSBC, UK securities (CREST) are specifically registered in a segregated style allowing clear identification of the Scheme's specific assets. Such designation is a practice recommended in the Myner's report for the Shareholder Voting Working Group, looking at various aspects of Corporate Governance.

The Trustees monitor the administration and processing of investment transactions by the custodian. The controls in place to secure safe custody are subject to both internal and external audit testing, the findings of the latter being published in HSBC's SAS 70 statement for the year ended 31 December 2010.

The deeds for all UK properties are held by the Scheme's property solicitors, Nabarro LLP in England and Wales and Brodies LLP in Scotland.

Updated Myners Principles

The Trustees have assessed their practice against the updated Principles. The Scheme complies with all the Principles.

Distribution of investments – by mandate and manager

The following table gives the distribution of investment assets, including cash, by mandate and manager as at 31 March 2011.

Investments	£m	£m	%	%
Global equities (including UK equities)				
Baillie Gifford & Co	682.6		7.6	
BlackRock Investment Management (UK) Ltd	452.6		5.0	
Lazard Asset Management Ltd	425.4		4.7	
State Street Global Advisors Ltd	434.3		4.8	
Trilogy Global Advisors LLC	558.6	2,553.5	6.2	28.3
UK equities				
Artemis Investment Management Ltd	459.4		5.1	
Invesco Asset Management Ltd	366.8		4.1	
NewSmith Asset Management LLP	470.2		5.2	
State Street Global Advisors Ltd	555.3	1,851.7	6.1	20.5
Bonds				
Blackrock Investment Management (UK) Ltd	1,142.0		12.6	
Pimco Europe Ltd	463.0		5.1	
State Street Global Advisors Ltd	342.4	1,947.4	3.8	21.5
Alternative assets				
Bernstein Currency (held as cash)	50.3		0.6	
Cambridge Associates Ltd	271.9		3.0	
GS & Co Infrastructure	87.4		1.0	
GS & Co Mezzanine	35.6		0.4	
Henderson Equity Partners Ltd	39.7		0.4	
Hg Pooled Management (HG Capital 5 LP)	80.6		0.9	
Hg Pooled Management (HG Capital 6 LP)	46.2		0.5	
Hg Pooled Management (HG Renewable Power Partners LP)	22.0		0.2	
Hg Pooled Management (HG Renewable Power Partners 2 LP)	4.0		0.0	
Hg Pooled (HG SPLP LP)	10.4		0.1	
Hony Capital Fund 2008, L.P.	8.6		0.1	
M&G	159.6		1.8	
Nephila Capital Ltd	72.2		0.8	
NewSmith UK Hedge Fund Ltd	77.0		0.9	
PGSFIII GP Ltd	47.8		0.5	
Prisma Capital Partners LP (held as cash)	93.6		1.0	
Rogge Global Partners Plc	100.0		1.1	
State Street Global Advisors Ltd	(16.1)		-0.2	
Sun Capital Partners, Inc	17.4		0.2	
The Carlyle Group	69.7		0.8	
Uberior Fund Manager Ltd	88.1		1.0	
Warburg Pincus LLC	86.2		1.0	
Total alternative assets		1,452.2		16.1
Property Investments				
UK – CB Richard Ellis	296.1		3.3	
UK – CB Richard Ellis Investors	311.5		3.4	
USA – Grosvenor Americas Ltd	414.0		4.6	
Europe – CB Richard Ellis	14.7		0.2	
Europe – CB Richard Ellis Investors	87.3		1.0	
Europe – Pan European Property Unit Trust	32.8		0.4	
Total Property Investments		1,156.4		12.9
Miscellaneous cash balances		68.5		0.7
Total investments		9,029.7		100.0

Distribution of investments by asset class

Summaries of the investments showing market values at 31 March 2011 and analysed by category, are shown below:

		£m	%
Equities	UK	1,835.4	20.3
	Europe (other than UK)	692.0	7.7
	USA	998.8	11.1
	Japan	153.0	1.7
	Pacific Basin (ex Japan)	284.1	3.1
	Other markets	406.6	4.5
Fixed interest bonds		995.4	11.0
Index-linked government bonds		944.1	10.4
Property		1,079.7	12.0
Alternatives		1,324.4	14.7
Cash		345.2	3.8
Derivatives		(29.0)	(0.3)
		9,029.7	100.0

The direct and indirect investments in quoted securities are considered to be readily marketable, but the investments in property, alternatives and other unquoted investments are generally illiquid investments. It may not be possible to liquidate some of these assets fully and some may require sufficient time to find buyers willing to pay full market value.

Distribution of assets by geographical sector

	£m	%
UK	4,464.9	49.4
USA	2,195.7	24.3
Europe (other than UK)	1,227.6	13.6
Japan	165.6	1.8
Pacific Basin (ex Japan)	510.7	5.7
Other markets	465.2	5.2
	9,029.7	100.0

Twenty largest holdings

The twenty largest individual equity investments of the Scheme are as follows:

	£m
1 GlaxoSmithKline plc	71.4
2 BG Group plc	67.8
3 Vodafone Group plc	64.0
4 Baidu, Inc	60.2
5 Amazon.com Inc	55.4
6 AstraZeneca plc	55.3
7 Rio Tinto plc	48.8
8 BP plc	44.6
9 British American Tobacco plc	42.3
10 BHP Billiton	40.9
11 HSBC Holdings plc	37.1
12 Atlas Copco AB	36.3
13 BT Group plc	33.3
14 Vale S.A.	33.0
15 Imperial Tobacco Group plc	32.2
16 Apple Inc	31.6
17 Google Inc	31.3
18 Deere & Company	30.2
19 Ebay Inc	29.2
20 First Solar Inc	29.1

The total value of the investments shown above is £874.0m, which represents 9.7% of the Scheme's total net investment assets.

Unquoted securities

The Scheme has several portfolios of unquoted securities. By their very nature, the companies in which the investments are held tend to be small and the Scheme's proportionate holdings in these companies are greater than would be the case for quoted companies.

Property

At 31 March 2011 the Scheme owned 76 properties in the UK, with a total market value of £542.6m, 93.5% by value being freehold and the remainder held on leases exceeding 100 years. Tenants' leases were let on leases subject to rent reviews not later than 2020.

Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is also responsible for the maintenance and integrity of the BBC Pension website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Further information

Further information about the Scheme is available from the Secretary at the address shown on page 2 or on bbc.co.uk/mypension.

For and on behalf of BBC Pension Trust Limited



Sandra Phillips
Secretary
7 June 2011

Consolidated Statement of Net Assets as at 31 March 2011

	Notes	2011		As re-stated	
		£m	£m	2010	£m
Investment assets	3	9,199.8		8,490.5	
Investment liabilities	3	(236.2)		(213.6)	
Net investment assets			8,963.6	8,276.9	
Minority interest	10		(48.7)	(46.4)	
Current assets	11		18.0	23.2	
Current liabilities	11		(14.4)	(20.7)	
Total Net Assets			8,918.5	8,233.0	

The comparative figures for the year ended 31 March 2010 have been restated to reflect the amendment to the accounting policy for property portfolios contained within corporate entities in overseas jurisdictions. (See note 2)

The notes on pages 23 to 40 form part of the financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the actuarial certificates on pages 44 to 45 and Summary Funding Statement in Appendix I of the annual report and these financial statements should be read in conjunction with the actuarial certificates and Summary Funding Statement.

The Financial Statements on pages 21 to 40 were approved by the Board of the Trustees on 7 June 2011 and signed on its behalf by:



Director



Director

Consolidated Fund Account for the year ended 31 March 2011

	Notes	2011		As re-stated 2010	
		£m	£m	£m	£m
Contributions and benefits					
Contributions receivable	14	317.4		226.9	
Individual transfers in		0.5		0.0	
			317.9		226.9
Benefits payable	16	318.7		324.7	
Payments to and on account of leavers	17	7.4		8.6	
Administrative expenses	18	6.4		6.1	
			(332.5)		(339.4)
Net withdrawals from dealings with members			(14.6)		(112.5)
Returns on investments					
Investment income	19	214.8		232.3	
Change in market value of investments	20	536.6		1,614.6	
Investment expenses	21	(46.6)		(46.5)	
Net return on investments			704.8		1,800.4
Minority Interest	10		(4.7)		19.5
Net increase in fund during the year			685.5		1,707.4
Opening balance of fund			8,233.0		6,525.6
Closing balance of fund			8,918.5		8,233.0

The comparative figures for the year ended 31 March 2010 have been restated to reflect the amendment to the accounting policy for property portfolios contained within corporate entities in overseas jurisdictions. (See note 2)

Notes to the Financial Statements for the year ended 31 March 2011

1. Basis of preparation

(a) Compliance with SORP

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).

(b) Scope of financial statements

The Financial Statements summarise the transactions and net assets of the Scheme. They do not take account of the liabilities to pay pensions and other benefits in the future. The actuarial position of the fund is dealt with by the Actuary in her Certificates on pages 44 to 45.

2. Accounting policies

Amendment to accounting policies

The Trustees have reassessed the accounting for the property portfolios contained within corporate entities in overseas jurisdictions. Based on this review of best practice, the Trustees have changed the policy in respect of the Scheme's share of the valuation of North American properties.

In the year ended 31 March 2010, the Scheme took advantage of the exemption included in FRS9 (Associates and Joint Ventures) which allowed the Scheme to account for its joint ventures using the net equity method of accounting. This resulted in the Scheme's financial statements including the Scheme's share of the valuation of all its North American properties.

This policy has now been amended such that where the Scheme holds an interest of greater than 50% in the underlying investment vehicle which owns the property, the Scheme has accounted for the underlying properties owned by these vehicles on a consolidated basis, with a minority interest in these properties shown separately in the Net Assets Statement.

This amendment to the accounting policy has not impacted on the Scheme's overall net assets at 31 March 2011 and 31 March 2010, nor on the net increase in the fund during each of those years. This amendment has however resulted in a number of additional disclosures. Comparative figures have been re-stated where appropriate.

The Trustees consider that this basis of presentation more appropriately reflects the nature of the Scheme's interest in the properties underlying each investment vehicle.

The principal accounting policies, which, with the exception of the policy described above regarding the consolidation of the Scheme's share of the valuation of North American properties, have been consistently adopted and applied by the Trustees are as follows:

(a) Consolidation

Subsidiaries are all entities over which the Scheme has the power to govern the financial and operating policies generally accompanying an interest in a limited property partnership or tenancy in common of over fifty percent. Subsidiaries are fully consolidated from the date on which control is transferred to the Scheme.

The Scheme has taken advantage of the exemption included in FRS9 (Associates and Joint Ventures) which allows the Scheme to account for its joint ventures using the net equity method of accounting. This results in the Scheme's

financial statements including the Scheme's net share of the valuation of North American properties held through vehicles in which the Scheme has an interest of 50% or less.

The results of the subsidiary undertakings and related joint ventures incorporated in North America are derived from the latest financial statements of the entities as at 31 December each year unless significant transactions have taken place since that date when adjustments are made to reflect such transactions. The results of all other subsidiary undertakings are derived from their latest unaudited financial statements as at 31 March.

The Scheme's investment in its subsidiary undertaking is re-valued annually on a net assets basis, such that there is no difference between the Scheme's total net assets and those of the Group.

Further information about the subsidiary undertakings and joint ventures is given in note 22 to the financial statements.

(b) Foreign currency translation – group entities

The results and financial position of all entities incorporated in North America are translated into sterling as follows:-

- assets and liabilities are translated at the closing exchange rate on 31 March;
- income and expenses are translated at the average exchange rate; and
- all resulting exchange differences are accounted for as part of the change in market value of investments.

(c) Contributions

- (i) Normal contributions, both from the members and employers, are accounted for as they fall due under the Schedule of Contributions.
- (ii) Additional and special contributions from the employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received. AVCs from the members are accounted for in the month that they are deducted from the payroll.
- (iii) Deficit recovery payments made by the employer are accounted for on the earlier of the due date as stipulated in the Schedule of Contributions or the date of receipt.

(d) Pensions and benefits

Members can choose whether to take their benefits as a pension or as a reduced pension and lump sum. Pensions and lump sums are accounted for on an accruals basis from the later of the date of retirement or the date the option is exercised.

(e) Investment and cash deposits

- (i) Listed investments are included at the bid price of the quoted prices at 31 March.
- (ii) Investments held in quoted pooled investment vehicles are valued at the closing bid price at 31 March. The geographical analysis of pooled investment vehicles is shown by reference to the location of the underlying assets. In the opinion of the Trustees this better reflects the underlying risks attached to the securities.
- (iii) Unquoted securities and pooled investment vehicles are valued by the Trustees, based on recommendations by the investment managers. Valuations are as at 31 December, updated for any net subsequent investment and after allowing for estimated investment management fees. Where available, valuations as at 31 March are used.
- (iv) UK freehold and leasehold properties are valued by GVA Grimley Ltd, Chartered Surveyors, at 31 March, and are included at open market value. No depreciation is provided on freehold or long leasehold property. North American properties are valued by Cushman and Wakefield at 31 December on the basis of open market value in accordance with the uniform standards of Professional Appraisal Practice

- (v) Investments and cash deposits in overseas currencies are translated into sterling at the relevant rates of exchange at 31 March.
- (vi) Exchange traded futures contracts are stated at market value. For those contracts which are assets, market value is based on quoted bid prices, for those which are liabilities, market value is based on quoted offer prices.
- (vii) Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- (viii) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- (ix) Swaps are over the counter contracts which are valued at the current value of future expected net cash flows arising from the swap, taking into account the time value of money. The value is normally calculated using discounted cash flow models and using market data as at the reporting date.
- (x) Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.
- (xi) Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees.
- (xii) AVC investments are included at valuations provided by the AVC providers as at 31 March or 31 December. Where valuations are as at 31 December, these are updated for subsequent receipts and payments as indicated by the Scheme's records.
- (xiii) Where stock lending has been carried out the securities 'loaned' have been included in the net assets statement to reflect the Scheme's continuing economic interest of a proprietary nature in those securities.

(f) Income from investments

The different sources of investment income are recognised as follows:

- (i) Dividends on an ex-div. basis.
- (ii) Interest (including that on fixed interest securities) on an accruals basis.
- (iii) Property rents on an accruals basis for the four quarters 25 March 2010 to 24 March 2011.
- (iv) Investment income arising from the underlying investments of the quoted pooled investment vehicles is reinvested within the vehicles and reflected in the unit price. It is therefore reported within "change in market value".

(g) Transfers

Transfer values represent the capital sums either receivable in respect of members from other pension arrangements or payable to the pension arrangements for members who have left the Scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

3. Net investment assets

		2011	As re-stated 2010
	Notes	£m	£m
Investment assets			
Equities	4	3,363.5	3,774.1
Fixed interest securities	4	652.7	797.2
Index linked securities	4	944.1	405.2
Property	4	857.6	741.2
Pooled investment vehicles	4	2,895.6	2,370.2
Derivatives	4	2.7	3.7
		8,716.2	8,091.6
Cash deposits	7	345.2	269.5
Other investment assets	8	55.7	51.2
AVC investments	15	82.7	78.2
Total investment assets		9,199.8	8,490.5
Investment liabilities			
Derivatives	8	(31.7)	(16.2)
Borrowings	8	(117.5)	(123.6)
Other investment liabilities	8	(87.0)	(73.8)
Total investment liabilities		(236.2)	(213.6)
Net investment assets		8,963.6	8,276.9

4. Investment assets

	2011			As re-stated 2010		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Equities						
Quoted	1,269.0	2,094.5	3,363.5	1,278.8	2,495.3	3,774.1
Fixed interest securities						
Quoted – public sector	197.4	11.9	209.3	302.3	58.0	360.3
Quoted – other	46.9	396.5	443.4	211.8	225.1	436.9
Total fixed interest securities	244.3	408.4	652.7	514.1	283.1	797.2
Index linked securities						
Quoted – public sector	944.1	-	944.1	383.8	11.2	395.0
Quoted – other	-	-	-	10.2	-	10.2
Total index linked securities	944.1	-	944.1	394.0	11.2	405.2
Properties						
Directly held	542.6	315.0	857.6	429.2	312.0	741.2
Derivatives	-	2.7	2.7	-	3.7	3.7
Pooled investment vehicles						
Unitised insurance policies – quoted	1,332.1	-	1,332.1	1,422.2	-	1,422.2
Managed funds:						
Quoted – other	11.1	5.9	17.0	-	-	-
Unquoted – other	328.4	995.9	1,324.3	284.4	445.0	729.4
Unquoted – property unit trust	-	14.6	14.6	-	13.3	13.3
Unquoted – other property	-	207.6	207.6	-	205.3	205.3
Total pooled investment vehicles	1,671.6	1,224.0	2,895.6	1,706.6	663.6	2,370.2
Total securities, properties and pooled investment vehicles	4,671.6	4,044.6	8,716.2	4,322.7	3,768.9	8,091.6

(a) Pooled vehicles

At 31 March 2011 the Scheme had £1,709.2m (2010: £1,650.2m) invested in pooled investment vehicles registered in the United Kingdom and £1,186.4m (2010: £720.0m) invested in pooled investment vehicles not registered in the United Kingdom.

4. Investment assets (continued)

(b) Stock lending

The Scheme lends certain fixed interest and equity securities under a Trustee approved stock lending programme operated by the custodian. At the year end the Scheme had lent £383.2m (2010: £118.3m) of fixed interest securities, £29.8m (2010: £51.5m) of UK quoted equities and £38.3m (2010: £75.5m) of overseas quoted equities. The Scheme held collateral in the form of equities and fixed interest securities with a value of 106% (2010: 106%) of stock lent.

5. Property

UK property investments

	2011	As re-stated 2010
	£m	£m
Freehold and long leasehold properties:		
Offices	51.9	58.1
Industrial	165.3	152.9
Shops	132.5	84.9
Retail warehouses	190.6	129.4
Hotels	2.3	3.9
	542.6	429.2
Interests in pooled investments	14.6	13.3
	557.2	442.5
Overseas property investments		
North American directly held	315.0	312.0
North American pooled vehicles	73.0	76.0
European pooled vehicles	134.6	129.3
	522.6	517.3

6. Derivative contracts

Derivatives included in investment assets	2011	As re-stated 2010
	£m	£m
Forward foreign exchange contracts	2.4	3.7
Interest rate swaps	0.3	0.0
	2.7	3.7
Derivatives included in investment liabilities		
Futures contracts – exchange traded	(0.1)	(0.7)
Forward foreign exchange contracts	(30.3)	(15.5)
Credit default swaps	(1.3)	0.0
	(31.7)	(16.2)

The economic exposure value of the credit default swaps at 31 March 2011 was £90.2m (2010: £nil). All of the credit default swaps expire within five years.

Futures

Type of future	Expiry	Economic exposure value £m	Market Value £m
Euro-Bund Future (EUX)	Less than one year	26.8	(0.1)
Long Gilt Future (LIF)	Less than one year	2.0	0.0
Euribor Future (LIF)	Less than one year	21.7	0.0
		50.5	(0.1)

The Scheme enters into exchange traded futures contracts to cost effectively gain or reduce exposure to certain markets.

Forward foreign exchange contracts

Forward foreign exchange contracts are used by some of the Scheme's fund managers to hedge against adverse currency movements and the Scheme operates a currency overlay program to hedge against a fall in the currencies of the countries where it has significant equity and bond investments.

At 31 March 2011, the Scheme's fund managers had 14 open forward exchange contracts with durations all expiring on or before 12 August 2011. The Scheme had bought foreign currencies against sterling with a sterling equivalent value of £0.5m, sold sterling against foreign currencies with a sterling equivalent of £532.4m, and contracts with other currency pairs had a sterling equivalent value of £109.1m.

The principal net exposures in these contracts were the sale of US dollars (sterling equivalent: £426.6m) and Euros (£103.2m).

Additionally, the Scheme operates a currency overlay program within which at 31 March 2011 it had sold the Euro: £276.3m, Japanese Yen: £109.5m and the US Dollar: £742.2m all against sterling. At 31 March 2011 the unrealised gain on positions within the overlay program was £2.2m and the unrealised loss on positions within the program was £18.3m, giving a net unrealised loss of £16.1m

All forward contracts listed above are over the counter (OTC) contracts.

7. Cash

	2011	As re-stated 2010
	£m	£m
Sterling	201.0	241.3
Foreign currency	144.2	28.2
	345.2	269.5

Sterling cash deposits and some US dollar and Euro balances were managed by BlackRock Advisors (UK) Ltd, the Scheme's cash manager. Other foreign currencies were managed by the relevant investment and property managers.

Included in cash is an unrealised gain of £Nil (2010: loss of £0.2m) on open spot foreign exchange contracts.

8. Other investment balances

	2011	As re-stated 2010
	£m	£m
Other investment assets		
Receivable on sales of securities	6.8	4.9
Accrued investment income	25.3	40.1
Tax recoverable	1.4	2.3
Other debtors	22.2	3.9
	55.7	51.2
Other investment liabilities		
Derivatives	(31.7)	(16.2)
Payable on purchases of securities	(20.8)	(13.5)
Tax due	-	(20.5)
Borrowings	(117.5)	(123.6)
Other creditors	(66.2)	(39.8)
	(236.2)	(213.6)

9. Investment borrowings

	2011	As re-stated 2010
	£m	£m
Repayment analysis		
Within one year	55.9	1.3
Between one and two years	0.5	60.1
Between two and five years	61.1	62.2
	117.5	123.6
Analysis of borrowings between fixed and floating rates		
Fixed rates loan		
Mortgage payable	26.8	28.8
Premium on mortgage payable	0.2	0.5
	27.0	29.3
Floating rate loans		
Mortgage payable	89.8	95.8
Interest rate swap valuation	3.1	1.8
Unamortised deferred loan cost	(2.4)	(3.3)
	90.5	94.3
Security analysis		
Secured	117.5	123.6

10. Minority Interest

	2011	As re-stated 2010
	£m	£m
Minority Interest	(48.7)	(46.4)

Minority interest comprise the interests of a co-investor in investment properties in the United States of America. The minority interest includes a profit for the year of £4.7m (2010: loss of £19.5m) comprising both income and change in market value.

II. Current assets and liabilities

	2011	As re-stated 2010
	£m	£m
Current assets		
Other debtors and prepayments	18.0	23.2
Current liabilities		
Tax due	(5.1)	(3.9)
Other creditors	(9.3)	(16.8)
	(14.4)	(20.7)

Other debtors and prepayments includes £Nil (2010: £9.2m) of employer special contributions which were paid in full to the Scheme after the year end in accordance with the Schedule of Contributions.

12. Changes in investment assets

Manager	As re-stated Market value at 1 April 2010	Purchases at cost	Sale Proceeds	Change in market value	Transfers In	Transfers Out	Market value at 31 March 2011
	£m	£m	£m	£m	£m	£m	£m
Global equities (including UK equities)							
Baillie Gifford & Co	577.2	69.9	(70.9)	97.5	-	-	673.7
BlackRock Invest't Man'g't (UK) Ltd	676.0	7.9	(239.2)	6.8	-	-	451.5
Lazard Asset Management Ltd	389.1	58.1	(40.8)	14.5	-	-	420.9
Marvin & Palmer Associates, Inc	400.4	222.1	(214.1)	(0.4)	-	(408.0)	-
State Street Global Advisors Ltd	-	80.8	(24.2)	28.9	348.8	-	434.3
Trilogy Global Advisors, LLC	500.4	468.9	(469.4)	47.7	-	-	547.6
Total: Global equities	2,543.1	907.7	(1,058.6)	195.0	348.8	(408.0)	2,528.0
UK equities							
Artemis Investment Man'g't Ltd	422.4	177.8	(162.6)	17.3	-	-	454.9
Invesco Asset Management Ltd	356.6	63.0	(69.8)	17.0	-	-	366.8
NewSmith Asset Management LLP	453.1	227.1	(231.4)	16.2	-	-	465.0
State Street Global Advisors Ltd	798.4	-	(290.8)	47.8	-	-	555.4
Total: UK equities	2,030.5	467.9	(754.6)	98.3	-	-	1,842.1
Transitions							
BlackRock Invest't Man'g't (UK) Ltd	-	471.4	(566.4)	(3.1)	433.3	(335.2)	-
BlackRock Invest't Man'g't (UK) Ltd	-	355.0	(420.7)	6.5	408.0	(348.8)	-
Total: Transitions		826.4	(987.1)	3.4	841.3	(684.0)	-
Bonds							
BlackRock Invest't Man'g't (UK) Ltd	-	782.7	(733.5)	28.1	1,064.2	-	1,141.5
Henderson Global Investors Ltd	470.5	143.2	(130.0)	4.4	-	(488.1)	-
Aviva Investors Global Services Ltd	488.7	291.9	(283.7)	5.2	-	(502.1)	-
Pimco Europe Ltd	-	139.2	(27.7)	7.2	335.2	-	453.9
State Street Global Advisors Ltd	623.8	-	(21.4)	26.3	-	(286.3)	342.4
Western Asset Man'g't Co. Ltd	241.4	106.6	(127.0)	0.3	-	(221.0)	0.3
Total: Bonds	1,824.4	1,463.6	(1,323.3)	71.5	1,399.4	(1,497.5)	1,938.1
Total Securities	6,398.0	3,665.6	(4,123.6)	368.2	2,589.5	(2,589.5)	6,308.2

12. Changes in investment assets (continued)

	As re-stated Market value at 1 April 2010 £m	Purchases at cost £m	Sale Proceeds £m	Change in market value £m	Transfers In £m	Transfers Out £m	Market value at 31 March 2011 £m
Alternative assets	51.4	-	-	(1.1)	-	(50.3)	-
Alliance Bernstein Currency	-	272.0	-	(0.1)	-	-	271.9
Cambridge Associates Ltd	95.8	2.1	(3.4)	(7.1)	-	-	87.4
G S & Co Infrastructure	47.4	4.6	(19.7)	3.2	-	-	35.5
G S & Co Mezzanine Partners V, L.P.	20.5	-	-	19.2	-	-	39.7
Henderson Equity Partners Ltd	20.7	4.9	(1.3)	(2.3)	-	-	22.0
HG Renewable Power Partners	-	4.5	-	(0.5)	-	-	4.0
HG Renewable Power Partners 2	2.4	4.9	-	1.4	-	-	8.7
Hony Capital	56.3	3.5	(22.7)	43.6	-	-	80.7
Hg Capital 5, L.P.	10.9	33.6	-	1.7	-	-	46.2
Hg Capital 6, L.P.	28.1	0.5	(27.6)	9.4	-	-	10.4
Hg Pooled Management (SPLP)	155.0	-	(5.5)	10.0	-	-	159.5
M&G Investment Management Ltd	-	76.0	-	(3.8)	-	-	72.2
Nephila Capital Ltd	73.4	-	-	3.6	-	-	77.0
NewSmith UK Hedge Fund Ltd	43.1	9.5	(6.1)	1.3	-	-	47.8
PGSFIII GP Ltd	-	100.0	-	-	-	-	100.0
Rogge Global Partners plc	(10.4)	13.2	(48.4)	29.5	-	-	(16.1)
State Street Currency Overlay	9.3	6.1	(1.0)	3.0	-	-	17.4
Sun Capital Partners, Inc	23.7	30.8	(0.9)	16.0	-	-	69.6
The Carlyle Group	43.9	40.8	(2.9)	6.3	-	-	88.1
Uberior Fund Manager Ltd	47.5	34.4	(4.5)	8.9	-	-	86.3
Warburg Pincus LLC	719.0	641.4	(144.0)	142.2	-	(50.3)	1,308.3
Total Alternative Assets							

12. Changes in investment assets

	As re-stated Market value at 1 April 2010	Purchases at cost	Sale Proceeds	Change in market value	Transfers In	Transfers Out	Market value at 31 March 2011
Property							
CB Richard Ellis (UK)	216.2	28.1	-	15.8	-	-	260.1
CB Richard Ellis Investors (UK)	226.2	55.0	-	15.9	-	-	297.1
CB Richard Ellis (Euro)	13.8	1.4	-	(0.5)	-	-	14.7
CB Richard Ellis Investors (Euro)	78.8	7.1	-	1.1	-	-	87.0
Property – overseas	424.8	-	(3.4)	(0.6)	-	-	420.8
AVC Investments	78.2	5.5	(4.9)	4.0	-	-	82.8
Total Property Assets	1,038.0	97.1	(8.3)	35.7	-	-	1,162.5
Total Cash	249.6	1,492.4	(1,449.7)	(9.5)	179.6	(129.3)	333.2
Total Assets	8,404.6	5,896.5	(5,725.6)	536.6	2,769.1	(2,769.1)	9,112.1

Included in the above are the following:-

Futures derivative contracts	(1.1)	5408	(546.7)	(4.7)	-	-	(11.7)
Forward foreign exchange contracts	(0.7)	6.0	(0.6)	(4.7)	-	-	-
Interest rate swaps	-	-	(0.3)	0.6	-	-	0.3
Credit default swaps	-	-	(1.7)	0.3	-	-	(1.4)

Included in cash above are forward foreign exchange contracts held by equity and bond managers for the purposes of hedging. These contracts are included in derivative contracts in note 6 and excluded from cash in note 7.

13. Transaction costs

Transaction costs incurred in the year amounted to £7.3m (2010: £7.5m). In addition to these transaction costs, indirect costs were incurred through the bid-offer spreads on investments.

14. Contributions Receivable

In accordance with the Actuary's recommendation, the employer's contribution for the year was 18.15% of pensionable salaries, inclusive of contributions under the matching provisions of the AVC Plus arrangement.

	2011	2010
	£m	£m
Members - normal	7.0	5.2
- added years	0.1	2.0
- additional voluntary	0.6	0.3
Employers - normal	171.8	173.9
- deficit recovery payment	110.0	-
- special contribution	1.0	-
- augmentations	20.0	39.0
- additional voluntary	5.1	5.1
- PPF levy	1.8	1.4
	317.4	226.9

The Employer augmentation contributions were additional payments made by the employers to augment the pensions of those employees made redundant.

During the year a recovery plan was prepared by the Trustees to satisfy the requirements of s226 of the Pensions Act 2004, after taking account of the advice of the Scheme Actuary.

To eliminate the funding shortfall of £1,131m revealed by the actuarial valuation of the Scheme as at 1 April 2010 the Trustees have agreed with the BBC that additional contributions will be paid to the Scheme by participating employers on or before the due dates shown below.

Due date	Amount	Due date	Amount
1 April 2011	£ 110m	1 April 2017	£ 75m
1 April 2012	£ 60m	1 April 2018	£ 75m
1 April 2013	£ 60m	1 April 2019	£ 75m
1 April 2014	£ 100m	1 April 2020	£ 75m
1 April 2015	£ 100m	1 April 2021	£ 75m
1 April 2016	£ 100m		

The additional contribution of £110m with a due date of 1 April 2011 was received on 30 March 2011 and has been included in these financial statements.

In addition, £1m was received in respect of the sale of BBC Audio Books Ltd, a participating employer, as a contribution towards funding the Scheme's deficit.

15. Additional voluntary contributions

Additional voluntary contributions are paid over to Santander UK plc and Fidelity Pensions Management, in accordance with the members' elections. Members participating in this arrangement each receive an annual statement made up to 31 March (1 April for Equitable Life Assurance Society) confirming the amounts held in their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

	2011	2010
	£m	£m
Santander UK plc	20.3	20.6
Equitable Life Assurance Society	5.4	5.4
Fidelity Pensions Management	40.0	35.3
Aviva	17.0	16.9
	82.7	78.2

The movements in the year are as follows:

	£m
Value at 1 April 2010	78.2
Purchases at cost	5.5
Sale proceeds	(4.9)
Interest and bonuses	3.9
Value at 31 March 2011	82.7

16. Benefits payable

	2011	2010
	£m	£m
Pensions	295.9	279.9
Lump sum retirement benefits	14.3	31.6
Lump sum death benefits	3.7	1.3
Lump sum AVC benefits	4.8	11.9
	318.7	324.7

17. Payments to and on account of leavers

	2011	2010
	£m	£m
Refunds of contributions	1.4	2.8
Bulk Transfer	0.6	-
Individual transfers out to other schemes	5.4	5.8
	7.4	8.6

18. Administrative Expenses

	2011	As re-stated 2010
	£m	£m
Administration - staff costs	1.9	2.0
Administration - other costs	1.8	2.1
Actuarial fees	0.6	0.4
Audit fees	0.2	0.2
Pension Protection Fund levy	1.9	1.4
	6.4	6.1

19. Investment income

	2011	As re-stated 2010
	£m	£m
Fixed interest	35.5	42.5
Index linked	9.6	8.0
Equities	99.2	108.7
Property	79.7	41.9
Interest on cash deposits	1.0	1.2
Other income	4.0	4.7
Sub-total	229.0	207.0
Recoverable tax	-	34.3
Irrecoverable taxation	(14.2)	(9.0)
	214.8	232.3

20. Change in market value of Investments

	2011	As re-stated 2010
	£m	£m
Unrealised profit on investments	95.3	1,582.7
Gain / (loss) realised on disposals	459.6	(0.8)
(Loss) / gain on foreign currency translation	(22.3)	19.4
Interest & bonuses on AVCs invested (Note 14)	4.0	13.3
	536.6	1,614.6

21. Investment expenses

The following amounts were payable in respect of investment services:

	2011	As re-stated 2010
	£m	£m
Investment management – stocks and shares	15.4	15.2
Investment management – property	1.6	1.8
Custody	0.3	0.4
Other investment expenses	29.3	29.1
	46.6	46.5

22. Subsidiary companies, joint ventures and other interests

The names of the subsidiary undertakings (directly and indirectly owned) of the Scheme are shown below together with the percentage of equity capital or voting rights held by the Scheme, the year-end date of the companies and their activities:

Name of company and country of registration	Percentage held directly	Percentage held indirectly	Year-end date	Activity
BBCAF Inc (USA)	100%		31 December	Investment Holding
Grosvenor Urban Retail LP		75%	31 December	Investment Property
1900 Duke Street LP		75%	31 December	Investment Property
Rice Lake Square		75%	31 December	Investment Property
830 North Michigan TIC		75%	31 December	Investment Property

In addition, at 31 December 2011 BBCAF Inc was a general partner with a 50% interest in one general partnership, a 50% limited partner in two limited partnerships, and a Member with a 50% interest in three limited liability companies. BBCAF Inc also has a 50% interest in three Tenancies in Common.

23. Capital and contractual commitments

As at 31 March 2011 the Scheme was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £423.5m (2010: £497.5m).

24. Contingent liabilities

Other than the liability to pay future benefits, there are no material contingent liabilities of the Scheme at 31 March 2011 (2010: £Nil).

25. Related party transactions

Related parties are referred to in the Trustees' Report as follows:

Page 4 - participating employers; Page 5 - BBC management on the Trustee Board and Scheme membership of the Trustees; and Page 10 - administration of the Scheme, and costs thereof.

Of the Trustees noted on page 5, the BBC Trust Trustee was not a member. The remaining Trustees were members of the Scheme during the past year. All transactions with these parties were in accordance with the Scheme rules. The Pensioner Trustee was a pensioner of the Scheme in receipt of a pension.

Jeremy Peat received a fee for his services as a Trustee and as Chair of the Trustees of £17,614 (2010: £10,152). Geoff Jones receives an annual fee for his services as Pensioner Trustee of £6,000 (2010: £6,000).

The co-investor in each of the investment properties in the United States of America is Grosvenor Americas Limited, a wholly owned subsidiary of Grosvenor Group Limited.

The Partnerships, LLCs and TICs in which the Scheme's subsidiary BBCAF Inc is an investor, have entered into various management agreements (the "Agreements") with certain affiliates of Grosvenor (the "Manager"), whereby the Manager will earn asset management and development fees as stated in the Agreements. Total asset management fees earned by the Manager were approximately £4.1 million and £4.5 million during the years ended December 31, 2010 and 2009, respectively. BBCAF Inc's share of asset management fees incurred amounted to approximately £2.7 million and £3.0 million in 2010 and 2009, respectively.

Development fees earned by the Manager were £139,931 and £610,835 during the years ended December 31, 2010 and 2009, respectively. BBCAF Inc's share of development fees incurred amounted to approximately £104,806 and £458,171 in 2010 and 2009 respectively.

The Scheme also holds an interest in a pooled investment vehicle where Grosvenor Group Limited is the investment manager. The value of this interest at 31 March 2011 was £9.5 million (2010: £ 7.7 million). The Scheme's share of investment management fees payable to Grosvenor Group Limited was £21,000 (2010: £20,000).

Except as disclosed above, there are no transactions, balances or relationships that require disclosure under Financial Reporting Standard 8.

26. Self investment

There were no employer related investments during the year.

Independent Auditors' report

To the Trustee of the BBC Pension Scheme

We have audited the accounts of the BBC Pension Scheme for the year ended 31 March 2011 which comprise the Consolidated Fund account, the Consolidated Statement of Net Assets, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Trustee and Auditors

As explained more fully in the Statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the accounts and being satisfied that they show a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the accounts

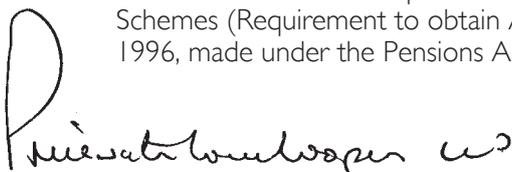
An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the accounts.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the accounts

In our opinion the accounts:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

7 June 2011

Independent Auditors' statement about contributions

To the Trustee of the BBC Pension Scheme

We have examined the summary of contributions to the BBC Pension Scheme for the Scheme year ended 31 March 2011 which is set out on the following page.

Respective responsibilities of the Trustee and auditors

As explained more fully in the Statement of Trustee's responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised schedules of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

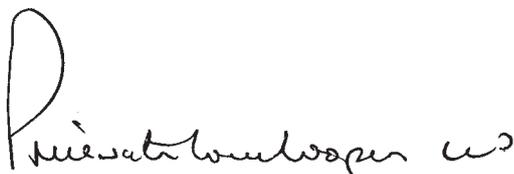
This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of work on the statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedules of contributions and the timing of those payments.

Statement about contributions

In our opinion, the contributions required by the schedules of contributions for the Scheme year ended 31 March 2011 as reported in the summary of contributions have in all material respects been paid in accordance with the schedules of contributions certified by the Scheme actuary on 3 June 2008 and 23 March 2011.



PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

7 June 2011

Summary of Contributions payable in the year ended 31 March 2011

During the year the contributions payable to the Scheme were as follows:

	Employee £m	Employer £m
Required by the Schedules of Contributions		
Normal contributions	7.0	171.8
Deficit recovery payment	0.0	110.0
Matching AVCs	0.0	1.4
PPF levy	0.0	1.8
Total required by the Schedules of Contributions	7.0	285.0
Other contributions payable		
Additional Voluntary	0.6	3.7
Waiver payments	0.0	14.6
Added years	0.1	0.0
Augmentation of benefits	0.0	5.4
Special Contribution	0.0	1.0
Total	7.7	309.7
Total as per Fund Account		317.4

Signed on behalf of the Board of Trustees on 7 June 2011:



Director



Director

Actuary's certification of the Schedule of Contributions

BBC Pension Scheme

Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 23 March 2011.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Adherence to paragraph 9(6) of Schedule 2 to the Scheme Funding Regulations 2005

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any recovery plan.

A J Blay
Fellow of the Institute of Actuaries

Date 23 March 2011

Towers Watson Limited
Watson House,
London Road,
Reigate,
Surrey RH2 9PQ

Actuarial certification for the purposes of regulation 7(4)(a) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: BBC Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 1 April 2010 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Scheme and set out in the Statement of Funding Principles dated 23 March 2011.

A J Blay
Fellow of the Institute of Actuaries

Date 23 March 2011

Towers Watson Limited
Watson House,
London Road,
Reigate,
Surrey RH2 9PQ

NEWS FROM THE TRUSTEES

Valuation report incorporating the summary funding statement for 31 March 2010

What size was the deficit at 1 April 2010?

See page 3 – for more about funding, including how it has developed in the last three years.



Security for your pension
 • A message from Jeremy Peat, Chairman of the Trustees – see page 2

Funding – in more detail
 • Main factors affecting funding were lower than expected investment returns between 2007 and 2010 and, looking forward, higher forecasts for inflation with lower forecasts for investment returns in real terms – see page 3

What are the BBC and the Trustees doing about the deficit?
 • Recovery plan agreed • BBC deficit contributions of £0.9 billion over 11 years • BBC future service contributions for active members of £100 million a year – see page 4

Taking account of the BBC's changes for the future
 • Impact of the BBC's changes and member choices on funding, and future contribution rates – see page 5

2 security

Security for your pension

The BBC Pension Scheme has an open ended commitment to pay a pension until you or your dependants die. Our core task as Trustees is to make sure the Scheme can do so. As I feared when I wrote to you last year, the 2010 valuation has revealed a sizeable deficit. The Trustees and their advisers have been considering carefully the implications of the deficit and have agreed with the BBC how it should be made good. They have also taken into account the changes the BBC announced last summer. As promised this newsletter sets out the level of the deficit on 1 April 2010, both before and after the BBC's changes are factored in.



Why is there a deficit?

The deficit has grown over the last two years because the Scheme's investment returns have been less than previously anticipated, in large part due to the 2008/9 credit crisis. The longer term trends for low investment returns and increases in life expectancy have added to the cost of providing pensions.

What are the Trustees doing about the deficit?

The Trustees have agreed a recovery plan with the BBC, which is projected to make good the deficit over the next 11 years, and the BBC has signed up to a legally binding 'schedule of contributions'. The BBC's deficit contributions will start at £110 million this year – see the full schedule on page 4.

Also, the Trustees have been moving the Scheme's investments toward more stable assets. This will give the Scheme greater certainty about its investment income, to tie in with the shift in its membership towards more pensioners and deferred members.

What about the Scheme's long-term future now it's closed to new joiners?

Since the Scheme was set up, all of our horizons for retirement in terms of both health and wealth have widened enormously. No longer offering new BBC employees membership of the Scheme marks the end of an era, but in the longer term it may improve the security of benefits. The Scheme, with the support of the BBC, is committed to pay pensions until the last pensioner or dependant dies or leaves the Scheme. This is not likely to happen until around the end of this century.

Spotlight on the Trustees and the pensions team

I have stayed on as Chairman of the Trustees to see through the completion of the 2010 valuation. Since the BBC announced its benefit changes in 2010, the Trustees have been following developments closely and kept members informed through Ariel and Prospero. I can speak for all of the Trustees in saying that our prime consideration throughout has been the security of members' benefits. I would like to pay tribute to all the Trustees and our advisers, and to the pensions team in Cardiff, for their dedication to the Scheme and its members during these challenging times.

Jeremy A Peat
Chairman of the Trustees

funding

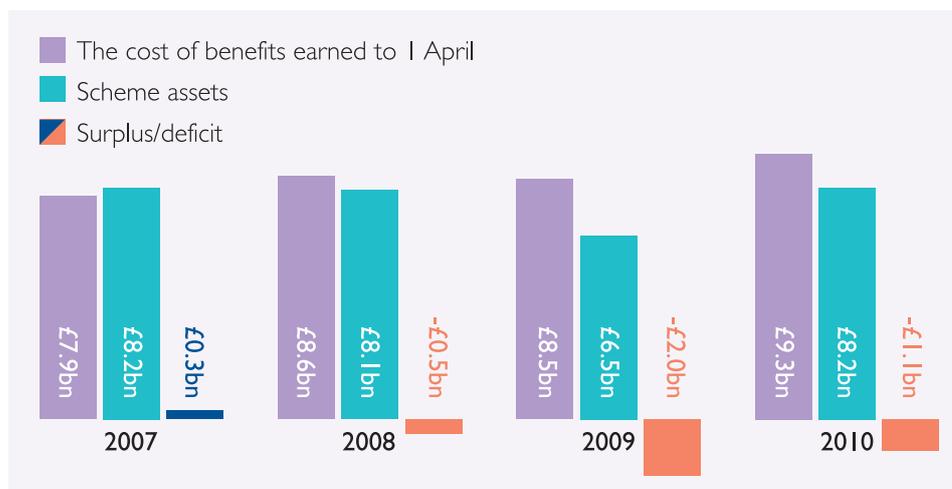
Funding – in more detail

So what has happened to funding since 2007?

The following factors have affected Scheme funding:

- To begin with, lower than expected investment returns since 2007 changed the surplus of £0.3 billion to a deficit of £0.7 billion at 2010.
- To maintain the same degree of caution in the funding as in 2007, assumptions have been made for higher future inflation and lower investment returns in real terms (ie, in excess of inflation); this has increased the amount of money the Scheme needs to fund benefits and hence contributed a further £0.8 billion to the deficit.
- Further strengthening of the assumptions has increased the deficit by an additional £0.4 billion (of which £0.1 billion relates to increasing life expectancy).
- The new early retirement terms and the BBC's changes to benefits have offset the deficit by £0.3 billion and £0.5 billion respectively.

The chart below shows how the balance between the Schemes' assets and its liabilities has changed since the last valuation.



What were the main changes in the assumptions for 2010?

We have assumed:

- Future inflation of 3.7% a year in 2010 compared to 3.0% in 2007.
- Future investment returns in excess of inflation of 3.0% a year before retirement and 1.4% after retirement, compared to 3.6% and 2.25% in 2007.
- Life expectancy at age 60 of 28.2 years for men and 28.8 years for women compared to 26.5 years and 29.1 years in 2007. This reflects the Scheme's actual experience and the latest life expectancy tables used by the actuarial profession. Overall, the assumptions for life expectancy are stronger than anticipated in 2007.

Who assesses the Scheme's financial health?

The Actuary is appointed by the Trustees to assess the Scheme's financial health. The Actuary is an independent pension funding professional, who took part in discussions between the Trustees and the BBC to choose the assumptions.

The valuation

Step 1

The Trustees choose provisional assumptions for the Scheme. Assumptions are made about uncertain future events such as inflation, how long members will live, and investment returns. The law requires the assumptions to be 'prudent'.

Step 2

The liabilities (all pensions and benefits to be paid) need to be valued. To do this the Actuary uses the assumptions to project the pension payments for each member. The projected future payments are then converted back to amounts in current money terms. This technique is called 'discounting' – the opposite of adding interest from one year to the next.

Step 3

The Actuary compares the value of the Scheme's investments with its liabilities.

Step 4

With the help of the Actuary, the Trustees and the BBC agree the final assumptions to use in the valuation. The Actuary then calculates the final results and recommends the future contributions needed to provide a reasonable degree of confidence that the Scheme will have enough money to pay members' benefits.

Step 5

The Trustees and the BBC agree the valuation paperwork and send a copy to the Pensions Regulator.



in more detail

What are the BBC and the Trustees doing about the deficit?

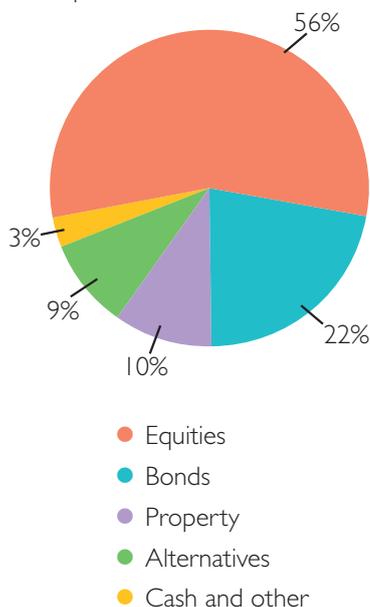
The Trustees have agreed a recovery plan with the BBC to make good the deficit over 11 years. The agreed deficit contributions are:



The recovery plan allows for the possibility that investments will perform slightly better in practice than the cautious assumptions used to calculate the deficit. The contributions being made in the first few years recognise that whilst the BBC had been putting money aside to fund additional contributions, it will face particular budgetary constraints in 2012 and 2013. The Trustees need to strike a balance between doing what is appropriate for members and ensuring that the BBC's relationship with licence fee payers is not damaged, as this could affect the BBC's covenant and ultimately members' interests. The schedule of contributions will be reviewed at the next valuation in 2013.

What is the Trustees' investment strategy?

The Scheme's spread of investments on 1 April 2010 was:



Has the funding position improved since March 2010?

At 31 December 2010 the Scheme's assets had increased by £0.5 billion to £8.7 billion. Although this is a positive development, liabilities have also increased in relation to the build up of additional pension for active members. Furthermore, the underlying cost of providing pensions has continued to increase, and financial markets remain uncertain. An annual funding check will be carried out in 2011.

Will the Trustees be reviewing their investment strategy in light of the valuation and the BBC's changes?

The Trustees are currently reviewing their investment strategy. As stated in the last summary report in 2010, they believe that index-linked bonds provide a good match for pension liabilities.

Bonds provide greater certainty in the long term but come at the cost of lower returns. As the Scheme equity (or share) investments grow in value, the Trustees will look to invest more in bonds and less in equities, to reduce volatility in investments and provide more certainty that benefits already earned could be met by the Scheme without having to call on the BBC for more support.

How strongly does the BBC stand behind the Scheme?

The Trustees believe the BBC is strongly committed to the Scheme, but they do not take the BBC's support and financial health (its 'covenant') for granted. Ernst & Young have helped them form an independent view of the BBC's covenant, which was used when setting the financial assumptions for the valuation.

Taking into account the licence fee settlement, Ernst & Young assessed the BBC's covenant as slightly less strong than at the 2007 valuation. This has led the Trustees to adopt a slightly higher level of prudence when setting the financial assumptions for the valuation, which contributed to the strengthened assumptions mentioned on page 3. The Trustees, however, also recognise that the BBC Charter, together with the latest licence fee settlement, give the BBC a level of stability and security of income that is not available to most employers.

5 the future

Taking account of the BBC's changes for the future

The BBC announced proposed changes to the Scheme at the end of June 2010. Consultation with affected members and unions then continued until November 2010. The Trustees appreciate that this has been a worrying time for active members. Pensioners and deferred members may also have found the BBC's initial proposals unsettling, although their benefits are not affected by the changes.

What is the impact of the BBC's changes on funding?

The original proposal was to limit increases in pensionable salary used to calculate benefits to 1% a year from 1 April 2011. Following consultation with active members, from April 2011 the BBC is offering a choice between membership of:

- the current section, with the 1% a year limit;
- a new Career Average Benefits section (CAB 2011); or
- LifePlan, which is the BBC's defined contribution plan.

As you can see from the graphic on the front page, the changes are estimated to have reduced the deficit by approximately £0.5 billion. They also affect the level of pension that members will build up in future, and therefore can be said to limit some of the risks to which the BBC and the Scheme are exposed.

These are complex and important issues for active members. The Trustees strongly encourage active members to take advantage of the seminars and individual consultation meetings being provided by the BBC over the next few months. If you are still unsure of your decision, you should seriously consider speaking to an independent financial adviser.

What will be the future contribution rate for the BBC?

The BBC's contribution rate for future service will be 15.5% of pensionable salary, reducing to 14.5% from 1 January 2012. This rate can be reviewed after members have made their choices for future service.

For the record, we are required to confirm that no payments have been made to the BBC out of the Scheme's assets in the previous 12 months.

Will members choosing to join CAB 2011 affect funding?

Members have until 31 December 2011 to decide whether or not to remain in their current section, or switch to CAB 2011 or to LifePlan. Members will be able to switch to LifePlan at any time.

As part of the 2010 valuation, the Trustees have assumed that 60% of members will stay in their current section, 30% will switch to CAB 2011 and 10% will switch to LifePlan.

If more than 60% of members stay in their current section, this would tend to reduce the deficit, and vice versa. The interim funding check in 2012 will take account of members' choices.

The Trustees

BBC Pension Trust Limited is the sole Trustee of the Scheme. Its board, generally referred to as 'the Trustees', consists of nine directors:

- one appointed by the BBC Trust;
- four appointed by the BBC;
- three elected by active members;
- one elected by the pensioners.

The Trustees are responsible for running the Scheme and regularly attend Board meetings. The Trustees have five sub committees which help run the Scheme effectively. The current Trustees are:

Jeremy Peat, Chairman
Helen Boaden
Dan Cooke
Grant Cassidy
Andy Griffie
Geoff Jones
Rhodri Lewis
Zarin Patel
Caroline Thomson

The Actuary
Alison Blay FIA
Towers Watson Ltd

More information about how the Scheme is run is set out in the Governance booklet, which is available on request from the Pension and Benefits Centre or download it from:

bbc.co.uk/mypension

If you would like to write to the Trustees, the address is:

**Pension and Benefits Centre,
Broadcasting House,
Cardiff CF5 2YQ**

funding

More about funding

Are there other ways of valuing the Scheme?

There are several different ways of assessing the Scheme's finances, based on a number of financial and legal methodologies. For example, changes in pension scheme funding that you may see in the media are often based on valuations for company accounts rather than the funding valuations that are used to decide contribution rates.

Also, regulations require the Actuary to assess the Scheme on the basis that its benefits would be bought from an insurance company if it had been wound up. As at 1 April 2010, the estimated amount of money needed to buy Scheme benefits from an insurance company was £13.3 billion. The Scheme is 62% funded on this 'buy-out' basis. We have included this figure for information only. The BBC has no intention of winding up the Scheme.

What would happen to the Scheme if the BBC no longer supported it?

Any shortfall on the 'buy-out' basis would become a debt on the BBC. It is unlikely that the BBC would be able to pay this amount in full. It is possible that the Trustees would not be able to buy sufficient annuities from an insurance company because of the Scheme's size. The Trustees could continue to run the Scheme as a 'closed fund'. So long as there were sufficient funds, the Trustees would continue to pay out the benefits. However, it is possible that not all members would receive the full level of pension that they have built up, even if the Scheme were fully funded on an ongoing basis.

In addition, if the BBC itself was not in existence, the Pension Protection Fund (PPF) provides a safety net for members of salary-related pension schemes and might step in. The PPF provides members with some compensation when an employer becomes insolvent and their pension scheme does not have enough money to pay member benefits. More information about the PPF is available at: pensionprotectionfund.org.uk or write to the PPF at: Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.



Want to know more?

This document is based on the actuarial valuation report for 1 April 2010. You can download copies of this report and the interim funding checks, along with other Scheme documents from the website: bbc.co.uk/mypension

The Pension and Benefits Centre can help with general questions about the Scheme and its benefits, and also any questions you may have about your own benefits.

You can speak to the pension service line between 08.30 and 17.30, Monday to Friday. The number to call is:

- External: **029 2032 2811**
- Internal: **01 22811**

If you would like to write, the address is:

**Pension and Benefits Centre,
Broadcasting House,
Cardiff CF5 2YQ**

Or email:
mypension@bbc.co.uk

Produced by: Pension and Benefits Centre
Telephone: 029 2032 2811
Fax: 029 2032 2408
Email: myPension@bbc.co.uk
Website: bbc.co.uk/mypension

June 2011

find out more at bbc.co.uk/mypension