BRITISH SKY BROADCASTING GROUP PLC
Unaudited results for the nine months ended 31 March 2011

STRONG THIRD QUARTER

	Adjusted results			Reported results		
Nine months to 31 March	2011	2010	Variance	2011	2010	Variance
Revenue	£4,833m	£4,232m	+14%	£4,833m	£4,232m	+14%
EBITDA	£1,030m	£868m	+19%	£992m	£895m	+11%
Operating profit	£790m	£636m	+24%	£752m	£663m	+13%
Earnings per share (basic)	30.5p	23.4p	+30%	30.3p	32.2p	-6%

All comparatives are restated to reflect continuing operations

Strong demand in a challenging consumer environment

- Total product growth of 801,000 in the quarter
- Over 10.1 million customers with 51,000 net additions in the quarter
- Total HD customers 47% higher than the prior year at 3.7 million
- 543,000 net additions in home communications in the quarter; 3.2 million households now choose our great value broadband
- 26% of customers now take all three of TV, broadband and telephony

Building more value for customers with outstanding content and innovation

- Successful launch of Sky Atlantic and Sky Living
- Secured exclusive, live rights to the Football League and Carling Cup, and an extension to the Champions League contract
- Launch of Sky Anytime+, our video on demand product, with access to hundreds of movies and TV box sets at no extra monthly cost

Excellent financial performance with growth across the board

- Strong revenue growth, up 14% to £4.8 billion
- Adjusted EBITDA of £1,030 million, up 19%
- Adjusted operating profit up 24% to £790 million; operating margin expansion of 130 basis points to 16.3%
- Record adjusted basic EPS of 30.5 pence, up 30%
- Adjusted free cash flow up 60% to £615 million

Results highlights

Customer Metrics (unaudited)

'000s	Closing Base 31-Mar-11	Quarterly Net Additions 31-Mar-11	Quarterly Net Additions 31-Mar-10	9 Month Net Additions 31-Mar-11	9 Month Net Additions 31-Mar-10
Total Product Growth	24,591	801	940	2,994	2,989
Net Customer Additions	10,147	51	62	287	328
Additional products					
Sky+HD	3,686	189	428	747	1,197
Multiroom	2,237	18	63	116	227
Broadband	3,161	155	101	537	302
Telephony	2,916	159	118	549	380
Line rental	2,444	229	168	758	555
Total Additional Product Growth	14,444	750	878	2,707	2,661
Other Metrics					
ARPU (quarterly annualised)		£544	£503		
Churn (quarterly annualised)		10.4%	9.9%		

Business Performance (unaudited) (1)

£'millions	9 months to Mar-11	9 months to Mar-10	% movement
Revenue	4,833	4,232	+14%
Adjusted operating profit	790	636	+24%
% Adjusted Operating Profit Margin	*16.3%*	*15.0%*	
Adjusted EBITDA	1,030	868	+19%
Adjusted free cash flow	615	385	+60%
Adjusted basic earnings per share(2)	30.5p	23.4p	+30%
Net debt as at end of period	817	1,161	-30%

Reported Results (unaudited) (1)

£'millions	9 months to Mar-11	9 months to Mar-10	% movement
Revenue	4,833	4,232	+14%
Operating profit	752	663	+13%
Cash generated from operations	1,126	1,194	-6%
Basic earnings per share	30.3p	32.2p	-6%

[1] All comparatives are restated to reflect continuing operations, excluding the Easynet operations divested on 1 September 2010. A reconciliation of adjusted operating profit and adjusted EBITDA from continuing operations to reported measures and cash generated from continuing operations to adjusted free cash flow from continuing operations is set out in Appendix 3.

[2] Adjusted basic EPS is calculated from adjusted profit for the period from continuing operations. A reconciliation of reported profit to adjusted profit from continuing operations is set out in note 4 to the consolidated financial information.

Jeremy Darroch, Chief Executive, commented:

"The business has delivered another good performance in what has clearly been a tough consumer environment and we are benefiting from the transition to more broadly based growth. Good progress on multiple fronts is translating into strong financial results with double digit growth in revenue, profit and cash flow.

"At a time of significant pressure on household budgets, we have added over 800,000 subscription products as more customers choose Sky for a greater variety of services. Take-up of high definition remains very strong and we have had another excellent quarter in home communications, with 26% of customers saving money by taking all three of TV, broadband and home phone.

"The strength of our financial performance has been equally broadly based, with good revenue growth across retail, wholesale and advertising. Strong cost control and continued margin expansion has delivered 24% growth in operating profit and free cash flow is up 60%.

"Customers are choosing Sky for a better choice of television and 2011 is shaping up to be our best year yet on screen. Our new channel, Sky Atlantic, has got off to an excellent start with 10 million viewers in the first two months. Alongside Sky 1 and Sky Living, it forms part of an outstanding entertainment line-up that will bring even more value to customers in the months ahead, including a growing commitment to UK drama and comedy.

"We remain cautious on the economic outlook for calendar 2011. Our approach in the current environment will be to stay flexible on costs while delivering for customers through a combination of great value, high-quality content, leading innovation and better service. As these results show, the whole team remains focused on executing our strategy."

OPERATIONAL REVIEW

Operational Performance

In a challenging consumer environment, the business has made a strong start to calendar 2011 and our growth is benefiting from becoming more broadly based. We generated total product growth of 801,000, including a particularly strong performance in home communications. Within total product growth, net DTH additions were 51,000, taking total customers to 10.147 million. Despite the tougher consumer environment we saw good customer loyalty with churn of 10.4% and, as customers continue to respond to the quality and value of our wider product range, ARPU increased 8% to £544 per annum.

Our multi-product strategy achieved continued success in the quarter with good performances in both High Definition (HD) and home communications. While household spending is under pressure, customers continue to save money by switching their home communication services to Sky. We achieved 543,000 additions across broadband, telephony and line rental, 40% higher than the prior year. In particular, we saw good demand for our broadband service with net additions of 155,000, a 53% increase on the prior year. This performance means that over one in four customers now take all three of TV, broadband and telephony.

We closed the quarter with 3.7 million HD customers, an increase of nearly 50% in the last twelve months. Demand for HD continues to be strong, although as expected, net additions of 189,000 were lower than the prior year, in which we experienced exceptionally high demand in response to the launch of our free HD box.

Content

We have delivered a strong quarter on screen, in particular by accelerating the development of our entertainment channels to complement our traditional strengths in sports, news and movies.

Sky Atlantic launched on 1 February with the UK and Ireland premiere of HBO's critically acclaimed 'Boardwalk Empire'. Showcasing a breadth of uncompromising, intelligent and highly valued content, the channel has achieved significant early success, reaching over 10 million viewers in the first two months. When combined with the convenience and flexibility of the Sky+ box, the quality of programming on Sky Atlantic is proving to be event TV, with over half of all viewing to the channel taking place on a time-shifted basis.

Sky Living was re-launched successfully this quarter as part of our expanded portfolio of entertainment channels and is expected to appeal particularly strongly to female viewers. The channel's first ever in-house drama commission, 'Bedlam' starring Will Young, achieved a cumulative audience of just under one million viewers on its debut.

Sky 1 is core to our commitment to bring customers more original UK entertainment, and we delivered that on screen this quarter with the commissioned drama, 'Mad Dogs', which reached a cumulative audience of over two million. 'Got to Dance', Sky 1's nationwide dance competition returned with great success, with 12 shows achieving average audiences of over one million viewers, while Sky 1's latest Martina Cole adaptation, 'The Runaway', achieved a cumulative audience of over 750,000 for its first episode.

We had a strong quarter in sports with Premier League and Champions League viewing up year on year. Looking ahead, we secured more high quality sports content for customers, improving on existing arrangements in winning exclusive, live rights to the Football League and Carling Cup and extending our Champions League contract; both at attractive rates.

Innovation

We continue to innovate to add value for our customers. This quarter we enhanced our mobile content proposition with the launch of Sky News for iPad. The ground breaking app offers users bespoke content with access to live and on-demand video, expert analysis and rich interactive graphics. The app achieved over 100,000 downloads in the first week, making it the most downloaded free app on iTunes. Currently available free for a limited period, Sky News for iPad will remain free to Sky TV customers as part of their regular subscription, with other customers paying a monthly fee for access.

In April, we began a major new marketing campaign to launch our video on demand product, Sky Anytime+, which combines the power of our satellite and broadband platforms to bring customers greater flexibility and convenience at no extra monthly cost. The on-demand service houses a constantly updating library of over 600 movies as well as documentaries, sports and children's programming. We expanded the content offering to include HBO material such as 'Treme', 'Game of Thrones' and 'Boardwalk Empire' as well as box sets from some of the most talked about TV series including 'The Sopranos', '24', and 'Lie To Me'.

We continue to develop the Sky 3D channel with the expansion of our content offering across a wide range of genres. In March, we broadcast our 100th live 3D sporting event and have now shown nine different sports in 3D, including the Masters from Augusta for the first time. In a further demonstration of the breadth of 3D content now available, we broadcast the 'Toy Story' trilogy, the world's first 3D opera, the final of 'Got To Dance', and the season finale of Sky Arts' music programme 'Songbook'. We are also working with partner channels to expand further our range of 3D content, adding to our content syndication relationship with ESPN to broadcast its coverage of the 2011 FA Cup Final on Sky 3D.

The Bigger Picture

During the quarter, we continued to make a positive contribution to the community through our Bigger Picture programme.

Building on our work to open up the arts to more people, this quarter saw the start of Sky Arts' Books on Tour season, with live programmes, performances and workshops at the Bath Literature Festival in February and Cumbria Literature Festival in March. As part of our drive to encourage participation in sport, we continued to roll out our Sky Sports Living for Sport initiative to secondary schools across the UK. During the quarter, the number of young people who have taken part in the programme passed 30,000, and independent research has shown improved self-confidence and higher than average attainment in English and Maths among pupils involved. Sky Rainforest Rescue, our campaign with WWF to combat deforestation in Brazil's Amazon rainforest, maintained its momentum with £800,000 raised to date, which Sky is matching pound for pound. According to independent research, the campaign has achieved among the highest levels of awareness of any corporate charity partnership in the UK.

FINANCIAL SUMMARY

The strong operating performance translated into excellent financial results for the nine months to 31 March 2011 (the period). Broadly based revenue growth across retail, wholesale and advertising contributed to a strong increase in group revenue. At the same time, our continued focus on operating efficiency contributed to higher operating profit, margin expansion and earnings growth.

The results for the period include the acquisition of Living TV, which completed on 12 July 2010. In the period, Living TV contributed £84 million in revenue and £68 million of costs.

Unless otherwise stated, all figures and growth rates exclude exceptional items and are from continuing operations (including Living TV in the current year and excluding Easynet from both the current year and the prior year comparative).

Revenue

Group revenue increased by 14% to £4,833 million (2010: £4,232 million) with growth in all major business areas.

Retail subscription revenue grew by 14% to £3,997 million (2010: £3,518 million) reflecting the success of our multi-product strategy and a larger customer base.

Wholesale subscription revenue was 34% higher at £236 million (2010: £176 million) as a result of increased take-up of our premium channels on cable as well as the acquisition of Living TV.

Advertising revenue of £348 million (2010: £247 million) was 41% higher, benefiting from our increased share of the TV advertising sector and the consolidation of the sale of airtime on Living TV. We maintained our outperformance of the overall sector, which we estimate grew by 12% year on year, reflecting our greater share and continued growth in pay TV customers. Advertising revenue now includes revenue related to our online properties and Sky Magazine; of which £15 million (2010: £15 million) was reclassified from 'other revenue'.

Installation, hardware and service revenue was £89 million (2010: £139 million), reflecting our decision to reduce the upfront cost of our Sky+HD box in January 2010. Other revenue of £163 million (2010: £152 million) was 7% higher, benefiting from higher Sky Bet revenues.

Direct Costs

Programming costs were 14% higher at £1,621 million (2010: £1,421 million) as we continue to bring customers high-quality, differentiated content. Sports contributed the largest increase reflecting the acquisition of the fifth Premier League pack and both the Ashes and the Ryder Cup earlier in the year. Entertainment costs increased as we launched Sky Atlantic and continued to invest in more top quality drama on Sky 1. Movie costs were lower year on year, benefiting from improved terms on contract renewals. Third party channel costs were slightly higher, due to an additional 13 HD channels on the platform supplied by third party providers.

Direct network costs increased by 31% to £418 million (2010: £319 million) as a result of continued strong growth in our home communications business, with 8.5 million broadband, telephony and line rental products, 37% higher than the prior year.

Other Operating Costs

Marketing costs increased by £69 million to £893 million (2010: £824 million) reflecting the upfront expense associated with strong product sales in the period and the successful above-the-line marketing campaigns promoting home communications, Sky Sports and the launch of Sky Atlantic.

Subscriber management and supply chain costs were £41 million lower (2010: £473 million) benefiting from the continued success of our efficiency programmes.

Transmission, technology and fixed network costs were up by 29% to £293 million (2010: £227 million) and 23% excluding the Living TV acquisition. Increases resulted from higher network infrastructure costs as our fixed line business gains scale and also from the inclusion of costs for network services previously accounted for within the Group by Easynet.

Administration costs, excluding exceptional items, were £386 million (2010: £332 million) reflecting the acquisition of Living TV and a higher non-cash IFRS 2 'Share-based payment' charge and associated National Insurance costs. The phasing of the Group's share-based compensation schemes and gains in the share price when compared to the prior year contributed to a £31 million increase in the period, despite the volumes of awards made remaining broadly constant. Excluding this amount and the integration of Living TV, administration costs as a percentage of sales were down 50 basis points year on year. The IFRS 2 charge and related National Insurance costs for the year are expected to be around £86 million, an increase of £41 million.

Earnings

Adjusted profit before tax from continuing operations of £727 million (2010: £557 million) includes the Group's share of joint ventures and associates' profits of £26 million (2010: £21 million) and a net interest charge of £89 million (2010: £100 million).

Adjusted taxation from continuing operations was £195 million (2010: £150 million). We expect the adjusted tax rate on continuing operations to be approximately 27% for the full year (2010: 27%). The reduced corporation tax rate announced in the budget statement comes into effect in the final quarter of our financial year and therefore has only a modest positive effect in the current year.

Adjusted profit for the period from continuing operations was £532 million (2010: £407 million), generating an adjusted basic earnings per share of 30.5 pence (2010: 23.4 pence).

Reported profit for the period from continuing operations was £528 million (2010: £561 million) generating basic earnings per share of 30.3 pence (2010: 32.2 pence). Reported profit for the period including discontinued operations was £581 million (2010: £542 million) resulting in reported basic earnings per share of 33.3 pence (2010: 31.1 pence).

Cash Flow and Financial Position

Adjusted free cash flow was 60% higher at £615 million (2010: £385 million). Net debt at the end of the period was £817 million, consisting of £2,111 million gross debt and £1,294 million cash and cash equivalents.

Reported cash generated from continuing operations was 6% lower at £1,126 million (2010: £1,194 million) as a result of a receipt for the EDS settlement in the comparative period. Excluding this impact, cash from operations was up 21% reflecting strong EBITDA growth and improved working capital.

Exceptional Items

Reported operating profit from continuing operations of £752 million included £26 million of restructuring costs from Living TV and costs of £12 million relating to the News Corporation proposal. Both amounts were classified as administration costs.

Reported profit after tax also included a £34 million exceptional gain, of which £16 million were mark to market gains relating to derivative financial instruments not qualifying for hedge accounting and gains and losses arising from designated fair value hedge accounting relationships, and a £15 million non-cash tax credit for a tax settlement relating to the network operations retained from the Easynet business. The related tax effects on exceptional items was a £3 million gain. Exceptional items in the prior period amounted to a gain of £154 million.

Corporate

News Corporation Proposal

On 3 March the Secretary of State for Culture, Media and Sport published undertakings in lieu offered by News Corporation to address the concerns raised by Ofcom's report on public interest considerations in respect of media plurality. The undertakings, intended to ensure the continued editorial independence and integrity of Sky News, were subject to a public consultation period ending on 21 March. To date, there has been no further announcement on the outcome of the public consultation.

BSkyB will continue to co-operate with the ongoing regulatory process.

Shine Disposal

On 5 April, the Group sold its stake in the Shine Group for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow. The expected profit on disposal that will arise from the sale is £10 million.

ECJ Ruling on Import Duty

On 14 April, the Group won an appeal in the Court of Justice of the European Union (ECJ) in relation to the import duty charged on our set top boxes. The ECJ agreed that the primary purpose of our set top boxes, for the purposes of import duty, was to act as a television receiver such that no customs duty is payable.

The Group has paid £53 million of duty on set top boxes from 30 June 2008 to 14 April 2011, £51 million of which has been expensed through the income statement. In the coming period we will begin the process of recovering the over-paid duty.

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A conference call for UK and European analysts and investors will be held at 08:30 a.m. (BST) today. Participants must register by contacting Emily Dimmock or Yasmin Charabati on +44 20 7251 3801 or at bskyb@finsbury.com. In addition, a live webcast of this presentation to UK/European analysts and investors will be available via http://www.sky.com/investors and subsequently available for replay.

There will be a separate conference call for US analysts and investors at 10.00 a.m. (EST) today. Details of this call have been sent to US institutions and can be obtained from Dana Diver at Taylor Rafferty on +1 212 889 4350. A live conference call and supporting materials will be available on Sky's corporate website, http://www.sky.com/corporate. A replay will be subsequently available.

Use of measures not defined under IFRS

This press release contains certain information on the Group's financial position, results and cash flows that have been derived from measures calculated in accordance with IFRS. This information should not be read in isolation of the related IFRS measures.

Forward-looking statements

This document contains certain forward-looking statements with respect to our financial condition, results of operations and business, and our strategy, plans and objectives. These statements include, without limitation, those that express forecasts, expectations and projections, such as forecasts, expectations and projections with respect to the potential for growth of free-to-air and pay television, fixed line telephony, broadband and bandwidth requirements, advertising growth, Direct-to-Home ("DTH") customer growth, Multiroom, Sky+, Sky+HD and other services' penetration, churn, DTH and other revenue, profitability and margin growth, cash flow generation, programming costs, subscriber management and supply chain costs, administration costs and other costs, marketing expenditure, capital expenditure programmes, and proposals for returning capital to shareholders.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, these statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward-looking statements. Information on the significant risks and uncertainties are described in the "Principal risks and uncertainties" section of Sky's Annual Report for the full year ended 30 June 2010 (as updated in Sky's results for the six months ended 31 December 2010). Copies of the Annual Report and 31 December 2010 results are available from the British Sky Broadcasting Group plc web page at www.sky.com/corporate.

All forward-looking statements in this document are based on information known to the Group on the date hereof. The Group undertakes no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Appendix 1 - Glossary

Useful definitions	Description
Adjusted earnings per share (EPS)	Adjusted profit for the period divided by the weighted average number of ordinary shares during the period.
Adjusted operating profit and margin	Operating profit excluding exceptional items. Adjusted operating margin is stated as a percentage of adjusted revenue.
Adjusted profit for the period	Profit for the period adjusted to remove exceptional items and related tax effects
ARPU	Average Revenue Per User: the amount spent by the Group's residential subscribers in the quarter, divided by the average number of residential subscribers in the quarter, annualised.
Churn	The number of customers over a given period that terminate their subscription in its entirety, net of former customers who reinstated their subscription in that period (where such reinstatement is within a 12 month period of the termination of their original subscription), expressed as an annualised percentage of total average customers for the period.
Customer	A subscriber to a DTH service.
DSL	Digital Subscriber Line
DTH	Direct-to-Home: the transmission of satellite services and functionality with reception through a mini dish. The Group also retails certain Sky Channels to a limited number of DSL subscribers and Sky Player subscribers (references throughout to “DTH subscribers” include DSL and Sky Player subscribers)
EBITDA	Earnings before joint ventures, interest, taxation, depreciation and amortisation is calculated as operating profit before depreciation, amortisation and impairment of property, plant and equipment and intangible assets.
Exceptional Items	Items that arise from events or transactions that fall within the ordinary activities of the Group, but which management believes should be separately identified to help explain underlying performance.
Free cash flow	The amount of cash generated by Sky after meeting obligations for interest and tax, after all capital expenditure and net cash flows relating to joint ventures and associates.
HD	High Definition television.
Multiroom	Installation of an additional set-top box in the household of an existing customer.
Net debt	Borrowings net of cash and cash-equivalents, short-term deposits, and borrowings related derivative financial instruments
Sky Broadband and Talk	Residential Sky Broadband and Sky Talk customers. UK Online customers are excluded from quoted subscriber figures.
Sky Player customer	A non DTH customer on the Sky Player platform, purchasing Sky Player retailed packages via a broadband connection.
Sky^{+}	Sky's fully-integrated Personal Video Recorder (PVR) and satellite decoder. This includes Sky^{+}HD decoders.
Viewing share	Number of people viewing a channel as a percentage of total viewing audience.

Appendix 2 - Consolidated Financial Information

Consolidated Income Statement for the three months ended 31 March 2011

	2010/11 Three months ended 31 March £m (unaudited)	2009/10 Three months ended 31 March £m (unaudited)
Continuing operations		
Revenue	**1,647**	1,459
Operating expense	**(1,386)**	(1,238)
Litigation settlement income	**-**	28
EBITDA	**344**	327
Depreciation and amortisation	**(83)**	(78)
Operating profit	**261**	249
Share of results of joint ventures and associates	**9**	7
Profit on disposal of available-for-sale investment	**-**	115
Investment income	**2**	9
Finance costs	**(34)**	(26)
Profit before tax	**238**	354
Taxation	**(64)**	(62)
Profit for the period from continuing operations	**174**	292
Discontinued operations		
Loss for the period from discontinued operations	**-**	(6)
Profit for the period	**174**	286
Earnings (loss) per share from profit (loss) for the period (in pence)		
Basic		
Continuing operations	**10.0p**	16.8p
Discontinued operations	**-**	(0.4)p
Total	**10.0p**	16.4p
Diluted		
Continuing operations	**9.9p**	16.7p
Discontinued operations	**-**	(0.3)p
Total	**9.9p**	16.4p
Adjusted earnings per share from adjusted profit for the period from continuing operations (in pence)		
Basic	**10.5p**	8.2p
Diluted	**10.5p**	8.1p

Consolidated Income Statement for the nine months ended 31 March 2011

	Notes	**2010/11 Nine months ended 31 March £m (unaudited)**	2009/10 Nine months ended 31 March £m (unaudited)
Continuing operations			
Revenue	1	**4,833**	4,232
Operating expense	2	**(4,081)**	(3,597)
Litigation settlement income		**-**	28
EBITDA		**992**	895
Depreciation and amortisation		**(240)**	(232)
Operating profit		**752**	663
Share of results of joint ventures and associates		**26**	21
Profit on disposal of available-for-sale investment		**-**	115
Investment income		**6**	11
Finance costs		**(79)**	(85)
Profit before tax		**705**	725
Taxation		**(177)**	(164)
Profit for the period from continuing operations		**528**	561
Discontinued operations			
Profit (loss) for the period from discontinued operations	3	**53**	(19)
Profit for the period		**581**	542
Earnings (loss) per share from profit (loss) for the period (in pence)			
Basic	4		
Continuing operations		**30.3p**	32.2p
Discontinued operations		**3.0p**	(1.1)p
Total		**33.3p**	31.1p
Diluted	4		
Continuing operations		**30.1p**	32.0p
Discontinued operations		**3.0p**	(1.0)p
Total		**33.1p**	31.0p
Adjusted earnings per share from adjusted profit for the period from continuing operations (in pence)			
Basic	4	**30.5p**	23.4p
Diluted	4	**30.3p**	23.2p

Notes:

1. Revenue

	2010/11 Nine months ended 31 March £m (unaudited)	2009/10 Nine months ended 31 March £m (unaudited)
Continuing operations		
Retail subscription	**3,997**	3,518
Wholesale subscription	**236**	176
Advertising	**348**	247
Installation, hardware and service	**89**	139
Other	**163**	152
	4,833	4,232

To provide a more relevant presentation, management has reclassified online properties and Sky Magazine advertising revenue from "Other" to "Advertising" in both the current period and the comparative period.

2. Operating expense

	2010/11 Nine months ended 31 March £m (unaudited)	2009/10 Nine months ended 31 March £m (unaudited)
Continuing operations		
Programming	**1,621**	1,421
Direct networks	**418**	319
Transmission, technology and fixed networks	**293**	227
Marketing	**893**	824
Subscriber management and supply chain	**432**	473
Administration	**424**	333
	4,081	3,597

3. Discontinued operations

On 1 September 2010, the Group completed the sale of its business-to-business telecommunications operation, Easynet Global Services ("Easynet"), to Lloyds Development Capital ("LDC") for £100 million. Subsequent to this an agreed working capital adjustment reduced total net consideration to £94 million.

The Group retains the UK network assets that it acquired as part of the original acquisition of Easynet Group in 2005. As part of the sale, the Group and LDC entered into a long-term supply agreement to grant Easynet continued access to the Group's fibre network and Easynet continues to be a key supplier of data network and hosting services to the Group.

Easynet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the nine months ended 31 March 2011 and the nine months ended 31 March 2010. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation.

A pre-tax profit of £63 million arose on the disposal of Easynet being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

During the period, cash flows attributable to Easynet comprised a net operating cash outflow of £9 million (2010: outflow of £8 million) and a cash inflow in respect of investing activities of £78 million (2010: outflow of £9 million).

4. Earnings per share

	2010/11 Nine months ended 31 March Shares (millions)	2009/10 Nine months ended 31 March Shares (millions)
The weighted average number of shares for the period was:		
Ordinary shares	**1,753**	1,753
ESOP trust ordinary shares	**(9)**	(10)
Basic shares	**1,744**	1,743
Dilutive ordinary shares from share options	**11**	8
Diluted shares	**1,755**	1,751

Basic and diluted earnings per share are calculated by dividing profit or loss for the period into the weighted average number of shares for the period. In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the period which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

	2010/11 Nine months ended 31 March £m (unaudited)	2009/10 Nine months ended 31 March £m (unaudited)
Reconciliation from profit for the period from continuing operations to adjusted profit for the period from continuing operations:		
Profit for the period from continuing operations	**528**	561
Living TV restructuring costs (i)	**26**	-
Costs in relation to News Corporation proposal(ii)	**12**	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	**(16)**	(17)
Litigation settlement income	**-**	(28)
Interest receivable on litigation settlement	**-**	(9)
Legal costs relating to claim against EDS	**-**	1
Profit on disposal of available-for-sale investment	**-**	(115)
Tax credit on settlement of liability (iii)	**(15)**	-
Tax effect of above items	**(3)**	14
Adjusted profit for the period from continuing operations	**532**	407

(i) Restructuring costs arising on the acquisition of Living TV which comprise principally redundancy payments and costs related to the early termination of an existing contract.

(ii) Costs in relation to News Corporation proposal exclude any benefit from reimbursement by News Corporation. If merger clearance is not granted or granted subject to a material remedy which News Corporation is not willing to accept, then News Corporation will reimburse the Company for costs incurred up to a maximum of £20 million. If News Corporation either receives merger clearance unconditionally or subject to non-material remedies prior to 31 December 2011 and fails to make a firm offer within five months thereafter, or announces prior to obtaining merger clearance that it does not intend to make a firm offer, then News Corporation will pay the company a fee of £38.5 million.

(iii) Tax credit arising on the settlement of the pre-acquisition tax liabilities of a subsidiary of the Group.

5. Events after the reporting period

On 5 April 2011, the Group sold its available-for-sale investment in Shine Limited for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow. The maximum profit on disposal that will arise from the sale is £10 million.

On 7 May 2008 the Combined Nomenclature Committee of the European Commission issued an Explanatory Note imposing a 13.9% ad valorem customs duty to the importation of set-top boxes incorporating a hard disk drive. The Group appealed this decision to the First Tier Tribunal (Tax Chamber) ("Tribunal"). On 6 July 2009 the Tribunal referred the matter to the Court of Justice of the European Union ("ECJ"). On 14 April 2011 the ECJ gave judgment agreeing with our analysis that the primary purpose of such set-top boxes was to act as a television receiver such that no customs duty is payable.

The matter will now be referred back by the ECJ to the Tribunal for them to apply the ECJ's decision to the facts of the Group's appeal. The Group has paid £53 million of duty on set-top boxes from 30 June 2008 to 14 April 2011, £51 million of which has been expensed through the income statement. In the coming period we will begin the process of recovering the over-paid duty.

Appendix 3 – Non-GAAP measures (all continuing operations)

Reconciliation of operating profit to adjusted operating profit and adjusted EBITDA
for the nine months ended 31 March 2011

	2010/11 Nine months ended 31 March £m	2009/10 Nine months ended 31 March £m
Operating profit	**752**	663
Living TV restructuring costs	**26**	-
Costs in relation to News Corporation proposal	**12**	-
Litigation settlement income	**-**	(28)
Legal costs relating to claim against EDS	**-**	1
Adjusted EBITDA	**1,030**	868
Depreciation and amortisation	**(240)**	(232)
Adjusted operating profit	**790**	636

Reconciliation of cash generated from operations to adjusted free cash flow
for the nine months ended 31 March 2011

	2010/11 Nine months ended 31 March £m	2009/10 Nine months ended 31 March £m
Cash generated from operations	**1,126**	1,194
Interest received	**5**	11
Taxation paid	**(155)**	(168)
Dividends received from joint ventures and associates	**15**	13
Net funding to joint ventures and associates	**(4)**	(1)
Purchase of property, plant and equipment	**(147)**	(201)
Purchase of intangible assets	**(175)**	(144)
Interest paid	**(76)**	(107)
Free cash flow	**589**	597
Living TV restructuring costs	**19**	-
Costs in relation to News Corporation proposal	**2**	-
Costs related to restructuring exercise	**5**	-
Litigation settlement income relating to claim against EDS	**-**	(270)
Legal costs relating to claim against EDS	**-**	1
Purchase of freehold land	**-**	57
Adjusted free cash flow	**615**	385