

Additional information

Alternative performance measures

Introduction

We assess the performance of the group using a variety of alternative performance measures that are not defined under IFRS and are therefore termed non-GAAP measures. The non-GAAP measures we use are: change in underlying revenue, adjusted revenue, adjusted EBITDA, adjusted earnings per share, normalised free cash flow, and net debt. The rationale for using these measures, along with a reconciliation from the nearest measures prepared in accordance with IFRS, are presented in this Additional Information below.

The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Specific items

The group's income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. This is consistent with the way that financial performance is measured by management and reported to the Board and the *Executive Committee* and assists in providing a meaningful analysis of the trading results of the group.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors, such as the frequency or predictability of occurrence.

Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items.

Reported revenue, reported operating costs, reported operating profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent IFRS measures. A reconciliation from these can be seen in the Group income statement on page 110.

Change in underlying revenue

Change in underlying revenue is a non-GAAP measure that seeks to reflect the underlying performance of the group that will contribute to long-term sustainable growth. As such this excludes the impact of acquisitions or disposals, foreign exchange movements and specific items.

We have also separately included IFRS 15 in the current year to identify the impact of the new revenue standard which was effective from 1 April 2018. This is important to understand the

movement in revenue year on year as comparatives for prior years are reported under the previous standard (IAS 18).

A reconciliation from the movement in reported revenue, the most directly comparable IFRS measures, to the movement in underlying revenue, is set out below.

Year ended 31 March	2019 %	2018 %
Decrease in reported revenue (IAS 18)	(1.2)	(1.4)
Specific items (IAS 18)	–	–
IFRS 15 adjustment	(0.1)	–
Decrease in adjusted revenue (IFRS 15 pro forma)	(1.3)	(1.4)
Transit revenue	–	0.6
Acquisitions and disposals	0.2	0.1
Foreign exchange movements	0.2	(0.3)
Decrease in underlying revenue	(0.9)	(1.0)

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on operating profit, we also measure performance based on EBITDA and adjusted EBITDA. EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector.

We consider EBITDA and adjusted EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments.

A reconciliation of reported profit for the period, the most directly comparable IFRS measure, to EBITDA and adjusted EBITDA is set out below.

Year ended 31 March	2019 £m	2018 £m	2017 £m
Reported profit for the period	2,159	2,032	1,908
Tax	507	584	446
Reported profit before tax	2,666	2,616	2,354
Net interest related finance expense	606	530	580
Depreciation and amortisation	3,546	3,514	3,572
EBITDA	6,818	6,660	6,506
EBITDA specific items ^a	425	610	906
Net other finance expense	150	234	224
Share of post tax losses (profits) of associates and joint ventures	(1)	1	9
Adjusted EBITDA	7,392	7,505	7,645

^a Excludes amortisation specifics of £nil (2017/18: £nil, 2016/17: £62m). Specific items are set out in note 10 to the consolidated financial statements.

Additional information continued

Alternative performance measures continued

Earnings per share

We also measure financial performance based on adjusted earnings per share, which excludes specific items. Basic and adjusted earnings per share, and the per share impact of specific items, are as follows:

Year ended 31 March	2019		2018		2017	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Basic earnings per share/profit	21.8	2,159	20.5	2,032	19.2	1,908
Specific items ^a	4.5	452	7.4	741	9.7	961
Adjusted basic earnings per share/profit	26.3	2,611	27.9	2,773	28.9	2,869

^a Specific items are set out in note 10 to the consolidated financial statements.

We disclose reported earnings per share, both basic and diluted, in note 12 to the consolidated financial statements.

Normalised free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. It is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations.

Normalised free cash flow is defined as free cash flow (net cash inflow from operating after capital expenditure) after net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt.

Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash inflow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

Year ended 31 March	2019 £m	2018 £m	2017 £m
Cash generated from operations	4,687	5,400	6,725
Tax paid	(431)	(473)	(551)
Net cash inflow from operating activities	4,256	4,927	6,174
Net purchase of property, plant and equipment and software	(3,637)	(3,341)	(3,119)
Free cash flow	619	1,586	3,055
Interest received	23	7	7
Interest paid	(531)	(555)	(629)
Add back pension deficit payments	2,024	872	274
Add back net cash flow from specific items	598	828	205
Add back net sale of non-current asset investments	1	19	(20)
Add back payments in respect of acquisition of spectrum licences	–	325	–
Remove refund on acquisition of spectrum licence	(21)	–	–
Remove cash tax benefit of pension deficit payments	(273)	(109)	(110)
Normalised free cash flow	2,440	2,973	2,782

Net debt

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value.

Our net debt calculation starts from the expected future undiscounted cash flows that should arise when our financial instruments mature. We adjust these cash flows to reflect hedged risks that are re-measured under fair value hedges, as well as for the impact of the effective interest method. Currency-denominated balances within net debt are translated to sterling at swap rates where hedged.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is also a single measure that can be used to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Alternative performance measures continued

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. A reconciliation from loans and other borrowings, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt, is set out below.

At 31 March	2019 £m	2018 £m	2017 £m
Loans and other borrowings ^a	16,876	14,275	12,713
Cash and cash equivalents	(1,666)	(528)	(528)
Current investments	(3,214)	(3,022)	(1,520)
	11,996	10,725	10,665
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged ^b	(701)	(874)	(1,419)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method ^c	(260)	(224)	(314)
Net debt	11,035	9,627	8,932

^a Includes overdrafts of £72m at 31 March 2019 (31 March 2018: £29m, 31 March 2017: £17m).

^b The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

^c Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date.

Additional information continued

Selected financial data

Summary group income statement

Year ended 31 March	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue					
Adjusted	23,459	23,746	24,082	18,879	17,840
Specific items	(31)	(23)	(20)	133	128
	23,428	23,723	24,062	19,012	17,968
Operating costs					
Adjusted	(19,613)	(19,755)	(19,947)	(15,051)	(14,185)
Specific items	(394)	(587)	(948)	(348)	(381)
	(20,007)	(20,342)	(20,895)	(15,399)	(14,566)
Operating profit					
Adjusted	3,846	3,991	4,135	3,828	3,655
Specific items	(425)	(610)	(968)	(215)	(253)
	3,421	3,381	3,167	3,613	3,402
Net finance expense					
Adjusted	(617)	(546)	(594)	(483)	(560)
Specific items	(139)	(218)	(210)	(229)	(299)
	(756)	(764)	(804)	(712)	(859)
Share of post tax (loss) profit of associates and joint ventures					
Adjusted	1	(1)	(9)	6	(1)
Profit (loss) on disposal of interest in associates and joint ventures – specific items	–	–	–	–	25
	1	(1)	(9)	6	24
Profit before taxation					
Adjusted	3,230	3,444	3,532	3,351	3,094
Specific items	(564)	(828)	(1,178)	(444)	(527)
	2,666	2,616	2,354	2,907	2,567
Taxation expense					
Adjusted	(619)	(671)	(663)	(607)	(631)
Specific items	112	87	217	166	121
	(507)	(584)	(446)	(441)	(510)
Profit for the year					
Adjusted	2,611	2,773	2,869	2,744	2,463
Specific items	(452)	(741)	(961)	(278)	(406)
	2,159	2,032	1,908	2,466	2,057
Basic earnings per share					
Adjusted	26.3p	27.9p	28.9p	31.8p	30.6p
Specific items	(4.5)p	(7.4)p	(9.7)p	(3.3)p	(5.1)p
	21.8p	20.5p	19.2p	28.5p	25.5p
Average number of shares used in basic earnings per share (millions)	9,912	9,911	9,938	8,619	8,056
Average number of shares used in diluted earnings per share (millions)	9,975	9,961	9,994	8,714	8,191
Diluted earnings per share	21.6p	20.4p	19.1p	28.2p	25.1p
Dividends per share ^a	15.4p	15.4p	15.4p	14.0p	12.4p
Dividends per share, US cents ^{a,b}	20.1c	21.6c	19.3c	20.1c	18.4c

^a Dividends per share represents the dividend paid and proposed in respect of the relevant financial year. Under IFRS, interim dividends are recognised as a deduction from shareholders' equity when they are paid, final dividends when they are approved.

^b Based on actual dividends paid and/or year end exchange rate on proposed dividends.

Selected financial data continued

Summary group balance sheet

At 31 March	2019 £m	2018 (Restated) ^a £m	2017 £m	2016 £m	2015 £m
Intangible assets	14,385	14,447	15,029	15,450	3,170
Property, plant and equipment	17,835	17,000	16,498	15,971	13,498
Other non-current assets	3,623	3,046	3,970	2,997	3,040
Total non-current assets	35,843	34,493	35,497	34,418	19,708
Current assets less current liabilities	842	(1,836)	(4,050)	(3,103)	(356)
Total assets less current liabilities	36,685	32,657	31,447	31,315	19,352
Non-current loans and other borrowings	(14,776)	(11,994)	(10,081)	(11,025)	(7,862)
Retirement benefit obligations	(7,182)	(6,847)	(9,088)	(6,382)	(7,583)
Other non-current liabilities	(4,560)	(3,905)	(3,943)	(3,796)	(3,226)
Total assets less liabilities	10,167	9,911	8,335	10,112	681
Ordinary shares	499	499	499	499	419
Share premium account	1,051	1,051	1,051	1,051	1,051
Own shares	(167)	(186)	(96)	(115)	(165)
Merger reserve	4,147	6,647	6,647	8,422	998
Other reserves	718	534	884	685	502
Retained loss	3,919	1,366	(650)	(430)	(2,124)
Total equity	10,167	9,911	8,335	10,112	681

^a Certain results have been restated to reflect the update to the calculation of our IAS19 accounting valuation of retirement benefit obligations. See note 2 to the Condensed consolidated financial statements.

Additional information continued

Cautionary statement regarding forward-looking statements

This Annual Report contains certain forward-looking statements which are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements include, without limitation, those concerning: current and future years' outlook; underlying revenue and revenue trends; EBITDA; free cash flow; capital expenditure; shareholder returns including dividends and share buyback; net debt; credit ratings; our group-wide transformation and restructuring programme, cost transformation plans and restructuring costs; investment in and roll out of our fibre network and its reach, innovations, increased speeds and speed availability; our broadband-based service and strategy; investment in and rollout of 5G; our investment in TV, enhancing our TV service and BT Sport; the investment in converged network; the recovery plan, operating charge, regular cash contributions and interest expense for our defined benefit pension schemes; effective tax rate; growth opportunities in networked IT services, the pay-TV services market, broadband, artificial intelligence and mobility and future voice; growth of, and opportunities available in, the communications industry and BT's positioning to take advantage of those opportunities; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations, including the regulation of the UK fixed wholesale and retail businesses and the impact of the Commitments we gave to Ofcom to provide Openreach with greater strategic and operational independence following Ofcom's Digital Communications Review; BT's possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; adequacy of capital; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; improvements to the control environment; and those statements preceded by, followed by, or that include the words 'aims', 'believes', 'expects', 'anticipates', 'intends', 'will', 'should', 'plans', 'strategy', 'future', 'likely', 'seeks', 'projects', 'estimates' or similar expressions.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to:

market disruptions caused by technological change and/or intensifying competition from established players or new market entrants; unfavourable changes to our business where Ofcom raises competition concerns around market power; unfavourable regulatory changes; disruption to our business caused by an uncertain or adversarial political environment; geopolitical risks; adverse developments in respect of our defined benefit pension schemes; adverse changes in economic conditions in the markets served by BT, including interest rate risk, foreign exchange risk, credit risk, liquidity risk and tax risk; financial controls that may not prevent or detect fraud, financial misstatement or other financial loss; security breaches relating to our customers' and employees' data or breaches of data privacy laws; failures in the protection of the health, safety and wellbeing of our people or members of the public or breaches of health and safety law and regulations; controls and procedures that could fail to detect unethical or inappropriate behaviour by our people or associates; customer experiences that are not brand enhancing nor drive sustainable profitable revenue growth; failure to deliver, and other operational failures, with regard to our complex and high-value national and multinational customer contracts; changes to our customers' needs or businesses that adversely affect our ability to meet contractual commitments or realise expected revenues, profitability or cash flow; termination of customer contracts; natural perils, network and system faults or malicious acts that could cause disruptions or otherwise damage our network; supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages or sabotage that could interrupt our services; attacks on our infrastructure and assets by people inside BT or by external sources like hackers, criminals, terrorists or nation states; disruptions to the integrity and continuity of our supply chain (including any impact of global political developments with respect to Huawei); insufficient engagement from our people; and risks relating to our BT transformation plan. Certain of these factors are discussed in more detail elsewhere in this Annual Report including, without limitation, in **Our approach to risk management** on pages 44 to 54. BT undertakes no obligation to update any forward-looking statements whether written or oral that may be made from time to time, whether as a result of new information, future events or otherwise.

Material contracts

Excluding contracts entered into in the ordinary course of business, no contracts have been entered into in the two years preceding the date of this document by BT or another member of the group which are, or may be, material to the group or contain a provision under which a member of the group has an obligation or entitlement which is, or may be, material to BT or such other member of the group.