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: adjusted revenue, adjusted operating costs, adjusted finance expense, adjusted EBITDA, adjusted operating profit, adjusted profit before tax, adjusted earnings per share, return on capital employed, normalised free cash flow and net debt. We also reference adjusted revenue and adjusted EBITDA on a Sports JV pro forma basis. The rationale for using these measures, along with a reconciliation from the nearest measures prepared in accordance with IFRS, is presented below.

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

Specific items
Our 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 presentation 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 an additional analysis of our reporting trading results.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. 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 significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, acquisitions and disposals of businesses and investments, impairment of goodwill, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, historical property-related provisions, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

Movements relating to the sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), such as fair value gains or losses on the A and C preference shares or impairment charges on the equity-accounted investment as specific. Refer to note 24 for further detail.

Details of items meeting the definition of specific items in the current and prior year are set out in note 9.

Reported revenue, reported operating costs, reported operating profit, reported net finance expense, reported profit before tax and reported earnings per share are the equivalent IFRS measures. A reconciliation from these can be seen in the group income statement on page 145.

Net debt and net financial debt
Net debt consists of loans and other borrowings, lease liabilities (both current and non-current) less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet.

Amounts due to joint ventures, loans and borrowings recognised in relation to monies received from the sale of cash flows of contract assets and as prepayment for the forward sale of redundant copper are excluded.

Currency-denominated balances within net debt are translated to sterling at swap rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is a key indicator used by management 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.

As aligned with our normalised free cash flow metric, from FY24 onwards we exclude loans and borrowings recognised in relation to:

- Asset monetisation programmes, in which monies received from the sale of cash flows of contract assets are recorded as liabilities (and the contract asset is not derecognised) until certain performance obligations in the contract are fulfilled and the right to consideration becomes unconditional. Excluding these liabilities is considered to improve the relevance of the net debt metric as it is consistent with the treatment of related cash flows in normalised free cash flow as noted above; and aligns with the underlying rationale and management's view that substantially all the risks and rewards associated with ownership of these assets have been transferred to the end buyer. These liabilities do not reflect the group's indebtedness as they will be extinguished upon the transfer of ringfenced operational cash flows from end customers which management are confident will be received.
- Monies received as prepayment for the forward sale of redundant copper, which are recognised as liabilities until there is physical delivery of the copper (further details in note 26). Excluding these liabilities is again considered to improve the relevance of the net debt metric by aligning with the treatment of related cash flows in normalised free cash flow and the fact that balances are not representative of the group's true indebtedness given that they will be settled by the physical delivery of copper, rather than cash or any other financial asset.

Net financial debt is net debt excluding lease liabilities. It allows for the comparison to net debt measures reported before the introduction of IFRS 16 on 1 April 2019, and reflects a view that lease liabilities are operational debt in substance, rather than financing transactions.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. A reconciliation from loans and other borrowings, lease liabilities, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt and net financial debt, is set out in note 26.

Additional information continued

Return on Capital Employed

We use a return on capital employed (ROCE) measure that serves as an indicator of how efficiently we generate returns from the capital invested in the business. It is a group KPI that is directly relatable to the outcome of investment decisions.

ROCE represents the group's returns as percentage of capital employed.

Returns are defined as adjusted earnings before interest and tax. We use an adjusted measure (before specific items) for the reasons explained in the 'specific items' section above.

Capital employed represents equity, debt and debt-like liabilities. We net the derivative financial instruments and cash and cash equivalent balances that we use to manage financial risk against gross debt, and exclude current and deferred tax balances as the measure is determined on a pre-tax basis.

From FY24 we also exclude amounts due to joint ventures, loans and borrowings recognised in relation to monies received from the sale of cash flows of contract assets and as prepayment for the forward sale of redundant copper. In line with the net debt definition on page 231. In the table below we have restated the FY23 comparative to align with the updated definition and excluded £11m net loans from joint ventures, however it has not changed the ROCE metric from the previously reported 8.3%.

While our long-term capital investment programmes such as our full fibre rollout deliver value-creating long-term returns, they suppress ROCE in the short- to medium-term.

The following table sets out the calculation of our ROCE measure. In doing so it reconciles returns to operating profit, the most directly comparable IFRS measure, and presents the components of capital employed.

Year ended 31 March	**2024 £m**	2023 (restated) £m
Reported operating profit for the period	2,214	2,619
Share of post tax profits (losses) of associates and joint ventures	(21)	(59)
Specific items (non-finance and tax)	987	556
Return for the period	**3,180**	**3,116**
Equity, debt and debt-like liabilities		
Loans and other borrowings	18,526	18,521
Lease liabilities	4,955	5,359
Retirement benefit obligations	4,882	3,139
BDUK grant funding deferral	228	427
Total equity	12,518	14,514
Adjust for balances used to hedge financial risk		
Cash and cash equivalents	(414)	(392)
Investments	(2,395)	(3,577)
Net derivative financial instruments	(531)	(1,096)
Adjust for tax balances		
Net deferred tax liabilities	485	911
Net current tax receivable	(331)	(349)
Adjust in line with net debt definition		
Net loans with joint ventures	(11)	(11)
Loans related to sale of contract assets	(318)	—
Loans related to the forward sale of redundant copper	(106)	—
Capital employed	**37,488**	**37,446**
Return on capital employed	**8.5%**	**8.3%**

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on adjusted operating profit, we also measure performance based on adjusted EBITDA. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

We consider adjusted EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Adjusted EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs 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 adjusted EBITDA, is set out below.

Year ended 31 March	**2024 £m**	2023 £m
Reported profit for the period	**855**	**1,905**
Tax	331	(176)
Reported profit before tax	**1,186**	**1,729**
Net finance expense	1,007	831
Depreciation and amortisation, including impairment charges	5,398	4,818
Specific revenue	38	(12)
Specific operating costs before depreciation and amortisation	450	503
Share of post tax losses (profits) of associates and joint ventures	21	59
Adjusted EBITDA	**8,100**	**7,928**

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 activities after net capital expenditure) after net interest paid, payment of lease liabilities, net cash flows from the sale of cash flows related to contract assets, monies received as prepayment for the sale of redundant copper, dividends received from non-current asset investments, associates and joint ventures, and net purchase or disposal of non-current asset investments, before pension deficit payments (including their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, repayment and raising of debt, cash flows relating to short-term funding arrangements with joint ventures, and cash flows relating to the Building Digital UK demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.

As reflected above and communicated in our FY23 annual report, from FY24 we have updated our normalised free cash flow metric to reflect the ongoing evolution of the business:

– We include the sale of cash flows of contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer. This is a financing cash flow in the cash flow statement as certain performance obligations in the contract need to be fulfilled before the right to consideration is unconditional. The underlying rationale for entering into these transactions is however for the purpose of working capital management as handset costs are incurred up front but recovered throughout the customer contract term. We therefore view the related cash flows as equivalent to working capital cash flows internally, and consider that they should be treated in the same way as operating cash inflows in our external normalised free cash flow metric in order to provide the most relevant information to the users of the financial statements. The corresponding operating cash inflow received from customers is excluded from normalised free cash flow if it has previously been included at the time of the sale of the contract assets.

– We include monies received as prepayment for the forward sale of future redundant copper. In the cash flow statement this will be recorded within cash flows from investing activities as a separate line item, and will be the only cash flow recognised in respect of the transaction. We therefore consider it necessary to include the inflow within normalised free cash flow to align with the treatment of cash flows from all other purchases and disposals of property, plant and equipment.

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	**2024 £m**	2023 £m
Cash generated from operations[a]	**6,012**	**6,588**
Tax paid	(59)	136
Net cash inflow from operating activities	**5,953**	**6,724**
Net purchase of property, plant and equipment and intangible assets	(4,967)	(5,307)
Free cash flow	**986**	**1,417**
Interest received	140	41
Interest paid	(865)	(709)
Payment of lease liabilities	(748)	(727)
Dividends received from joint ventures, associates and investments	20	9
Net purchase of non-current asset investments	—	(5)
Add back pension deficit payments	823	994
Add back net cash flow from specific items	439	404
Net cashflows from sale of contract assets related to handsets	305	—
Cash flows relating to the BDUK demand deposit account	75	(96)
Prepayment for forward sale of copper	105	—
Normalised free cash flow	**1,280**	**1,328**

a Includes £247m outflow (FY23: £259m inflow) related to utilisation of a supply chain financing programme; year on year cash outflow of £506m.

Below we reconcile normalised free cash flow by unit:

Year ended 31 March	**2024 £m**	2023 (re-presented)[a] £m
Consumer	1,023	963
Business	431	648
Openreach	590	219
Other	(764)	(502)
Normalised free cash flow	**1,280**	**1,328**

a Comparatives for the year ended 31 March 2023 have been re-presented for the impact of the creation of our Business customer-facing unit and a change in the methodology used to allocate shared central costs. For more information see note 1, and for a bridge to prior period published financial information see note 32.

Sports JV pro forma basis

On 3 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 sports joint venture (Sports JV) combining the assets of BT Sport and Eurosport UK. On 18 October 2022 we published unaudited pro forma financial information estimating the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the Sports JV being in place historically.

Within this annual report we reference pro forma information relating to the prior year ended 31 March 2023. The table below provides a bridge between financial information on a reported basis and a Sports JV pro forma basis (reported basis re-presented, see note 32).

	Reported basis (re-presented, see note 32)	**Sports JV pro forma adjustment**	**Sports JV pro forma basis**
Year ended 31 March	**2023 £m**	**2023 £m**	**2023 £m**
Adjusted revenue			
Consumer	9,737	(238)	9,499
BT Group	20,669	(238)	20,431
Adjusted EBITDA			
Consumer	2,469	71	2,540
BT Group	7,928	71	7,999
Normalised free cash flow			
Consumer	963	123	1,086
BT Group	1,328	—	1,328

Cautionary statement regarding forward-looking statements

Certain information included in this Annual Report and Accounts is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this Annual Report and Accounts are not guarantees of future performance. All forward looking statements in this Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.