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, adjusted UK service revenue, return on capital employed, 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, 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, impairment on remeasurement of the disposal groups to be held for sale, impairment charges in our portfolio businesses, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, out of period balance sheet adjustments, 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 143.

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, in line with ROCE definition and consistently with the treatment of related cash flows in normalised free cash flow. These liabilities do not reflect the group's indebtedness as amounts due to joint ventures are more than offset by the asset balances due from the JVs, while the remaining liabilities will either be extinguished upon the transfer of ringfenced operational cash flows from end customers which management are confident will be received, or settled by the physical delivery of copper rather than cash or any other financial asset.

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.

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.

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.

We 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 228.

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	**2025 £m**	2024 £m
Reported operating profit for the period	2,492	2,214
Share of post tax profits (losses) of associates and joint ventures	(8)	(21)
Specific items (non-finance and tax)	784	987
Return for the period	**3,268**	**3,180**
Equity, debt and debt-like liabilities		
Loans and other borrowings	18,762	18,526
Lease liabilities	4,571	4,955
Retirement benefit obligations	4,230	4,882
BDUK grant funding deferral	142	228
Total equity	12,908	12,518
Adjust for balances used to hedge financial risk		
Cash and cash equivalents	(216)	(414)
Investments	(2,648)	(2,395)
Net derivative financial instruments	(537)	(531)
Adjust for tax balances		
Net deferred tax liabilities	758	485
Net current tax receivable (payable)	(273)	(331)
Adjust in line with net debt definition		
Net loans with joint ventures	(10)	(11)
Loans related to sale of contract assets	(87)	(318)
Loans related to the forward sale of redundant copper	(93)	(106)
Capital employed	**37,507**	**37,488**
Return on capital employed	**8.7%**	**8.5%**

Adjusted UK service revenue

Adjusted UK service revenue is one of the group's key performance indicators by which our financial performance is measured.

Adjusted UK service revenue excludes revenues from our Global channel and international elements of our Portfolio channel within our Business segment, as they are international in nature.

Adjusted UK service revenue comprises all UK revenue less UK equipment revenue. Some revenue from equipment is included within adjusted UK service revenue where that equipment is sold as part of a managed services contract, or where that equipment cannot be practicably separated from the underlying service.

We consider adjusted UK service revenue to be an important indicator of the successful delivery of our refreshed corporate strategy because it measures the predictable and recurring revenue from our core UK business.

A reconciliation of reported revenue, the most directly comparable IFRS measure, to adjusted UK service revenue, is set out below.

Year ended 31 March	**2025 £m**	2024 £m
Reported revenue	**20,358**	**20,797**
Specific revenue	12	38
Adjusted revenue	**20,370**	**20,835**
Of which non-UK[a] revenue	(2,478)	(2,717)
Adjusted UK revenue	**17,892**	**18,118**
UK equipment[b] revenue	(2,310)	(2,391)
Adjusted UK service revenue	**15,582**	**15,727**

a UK revenue excludes revenue generated from international channels within our Business segment. This is different to the non-UK revenue in Note 4 as it is disaggregated based on revenue from external customers on the basis of customer location.

b This includes Consumer equipment of £1,806m (FY24: £1,918m) and Business equipment of £504m (FY24: £473m), which is different to Note 5 where it is disaggregated based on product and segment.

Below we reconcile Adjusted UK service revenue by unit:

Year ended 31 March	**2025 £m**	2024 £m
Consumer	7,888	7,916
Business	4,861	4,937
Openreach	6,156	6,077
Other	12	11
Intra-group items	(3,335)	(3,214)
Total	**15,582**	**15,727**

Additional information continued

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	**2025 £m**	2024 £m
Reported profit for the period	**1,054**	**855**
Tax	280	331
Reported profit before tax	**1,334**	**1,186**
Net finance expense	1,150	1,007
Depreciation and amortisation, including impairment charges	4,978	5,398
Specific revenue	12	38
Specific operating costs before depreciation and amortisation	727	450
Share of post tax losses (profits) of associates and joint ventures	8	21
Adjusted EBITDA	**8,209**	**8,100**

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.

New for 2025 we have set out the impact of working capital programmes on NFCF and their relative impact.

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	**2025 £m**	2024 £m
Cash generated from operations	**6,954**	**6,012**
Tax paid	35	(59)
Net cash inflow from operating activities	**6,989**	**5,953**
Net purchase of property, plant and equipment and intangible assets	(4,901)	(4,967)
Free cash flow	**2,088**	**986**
Interest received	132	140
Interest paid	(956)	(865)
Payment of lease liabilities	(739)	(748)
Dividends received from joint ventures, associates and investments	4	20
Add back pension deficit payments	803	823
Add back net cash flow from specific items	498	439
Net cash flows from sale of contract assets related to handsets	(251)	305
Cash flows relating to the BDUK demand deposit account	19	75
Prepayment for forward sale of copper	—	105
Normalised free cash flow	**1,598**	**1,280**

Below we reconcile normalised free cash flow by unit:

Year ended 31 March	**2025 £m**	2024 £m
Consumer	1,025	1,023
Business	506	431
Openreach	839	590
Other	(772)	(764)
Normalised free cash flow	**1,598**	**1,280**

The net impact of working capital programmes on normalised free cash flow is set out below.

Year ended 31 March	**2025 £m**	2024 £m	Movement £m
Bills of exchange[a]	(101)	(247)	146
Supply chain programmes[b]	**(101)**	**(247)**	**146**
Net cash flows from sale of contract assets related to handsets[c]	(251)	305	(556)
Sale of receivables[d]	420	76	344
Handset programmes	**169**	**381**	**(212)**
Copper forward sales[e]	—	105	(105)
Net working capital programmes	**68**	**239**	**(171)**

a This supply chain financing programme is used with a limited number of suppliers with short payment terms to extend them to a more typical payment term. See note 17 Trade and other payables.
b There is an additional separate supply chain financing programme, this allows suppliers opportunity to receive funding earlier than the invoice due date to assist the supplier with their cash flows. See note 17 Trade and other payables. This has no impact on Normalised Free Cash Flow.
c Accelerates cash collection from handset sales on bundled contracts. Used to better align the timing of cash receipts with the payments to equipment manufacturers. See note 26 Loans and other borrowings.
d Accelerates cash collection from handset sales on split contracts. Used to better align the timing of cash receipts with the payments to equipment manufacturers. See note 16 Trade and other receivables.
e Forward sale of redundant copper to hedge copper sales and use the legacy copper asset to intensify our full fibre rollout. See note 26 Loans and other borrowings.

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.