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, 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 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 an additional analysis of the reporting 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. We have also included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. The impact of Covid-19 on underlying trading is recognised in our adjusted results and not as a specific item.

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 124.

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 post-tax 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	**2020[a] £m**	2019[a] £m	2018[a] £m
Reported profit for the period	**1,734**	**2,159**	**2,032**
Tax	619	507	584
Reported profit before tax	**2,353**	**2,666**	**2,616**
Net interest related finance expense	750	606	530
Depreciation and amortisation	4,274	3,546	3,514
EBITDA	**7,377**	**6,818**	**6,660**
EBITDA specific items	350	425	610
Net other finance expense	147	150	234
Share of post tax losses (profits) of associates and joint ventures	33	(1)	1
Adjusted EBITDA	**7,907**	**7,392**	**7,505**

[a] Following adoption of IFRS16 on 1 April 2019, operating lease charges previously included within EBITDA and adjusted EBITDA have been replaced with depreciation on right-of-use assets and interest expense on lease liabilities. See note 1 for further information.

Net debt

Net debt consists of loans and other borrowings, lease liabilities and net liabilities held for sale, 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.

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 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 debt is considered to be an alternative performance measure as it is 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, is set out below.

At 31 March	2020 £m	2019 £m	2018 £m
Loans and other borrowings[a]	19,334	16,876	14,275
Lease liabilities[b]	6,560	–	–
Net liabilities classified as held for sale[c]	19	–	–
Cash and cash equivalents	(1,549)	(1,666)	(528)
Current investments	(5,092)	(3,214)	(3,022)
	19,272	**11,996**	**10,725**
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged[d]	(1,049)	(701)	(874)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[e]	(254)	(260)	(224)
Net debt	**17,969**	**11,035**	**9,627**
Lease liabilities	(6,560)	–	–
Lease liabilities classified as held for sale[c]	(62)	–	–
Net financial debt[f]	**11,347**	**11,035**	**9,627**

a Includes overdrafts of £183m at 31 March 2020 (31 March 2019: £72m, 31 March 2018: £29m).
b Lease liabilities recognised on adoption of IFRS 16 on 1 April 2019. See note 1 for further information.
c Net liabilities classified as held for sale comprise cash and cash equivalents of £43m and lease liabilities of £62m. See note 23 for further information.
d The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.
e Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date.
f Net financial debt includes finance leases of £206m in 2018/19 and £223m in 2017/18. These have been reclassified to lease liabilities on adoption of IFRS 16 on 1 April 2019.

Additional Information continued

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 and payment of lease liabilities, 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	**2020 £m**	2019 £m	2018 £m
Cash generated from operations	**6,481**	**4,687**	**5,400**
Tax paid	(210)	(431)	(473)
Net cash inflow from operating activities	**6,271**	**4,256**	**4,927**
Net purchase of property, plant and equipment and software	(3,889)	(3,637)	(3,341)
Free cash flow	**2,382**	**619**	**1,586**
Interest received	30	23	7
Interest paid	(736)	(531)	(555)
Add back pension deficit payments	1,274	2,024	872
Dividends from associates	1	–	–
Add back net cash flow from specific items	112	598	828
Add back net sale of non-current asset investments	33	1	19
Add back payments in respect of acquisition of spectrum licences	–	–	325
Remove refund on acquisition of spectrum licence	–	(21)	–
Remove payment of lease liabilities[a]	(651)	–	–
Remove cash tax benefit of pension deficit payments	(434)	(273)	(109)
Normalised free cash flow	**2,011**	**2,440**	**2,973**

[a] Payments relating to lease liabilities recognised on adoption of IFRS16 on 1 April 2019, see note 1 for further information.

Summary group balance sheet

At 31 March[a]	**2020 £m**	2019 £m	2018 £m	2017 £m	2016 £m
Intangible assets	13,889	14,385	14,447	15,029	15,450
Property, plant and equipment	18,474	17,835	17,000	16,498	15,971
Other non-current assets	8,712	3,623	3,046	3,970	2,997
Total non-current assets	**41,075**	**35,843**	**34,493**	**35,497**	**34,418**
Current assets less current liabilities	1,006	842	(1,836)	(4,050)	(3,103)
Total assets less current liabilities	**42,081**	**36,685**	**32,657**	**31,447**	**31,315**
Non-current loans and other borrowings	(16,492)	(14,776)	(11,994)	(10,081)	(11,025)
Retirement benefit obligations	(1,140)	(7,182)	(6,847)	(9,088)	(6,382)
Other non-current liabilities	(9,686)	(4,560)	(3,905)	(3,943)	(3,796)
Total assets less liabilities	**14,763**	**10,167**	**9,911**	**8,335**	**10,112**
Ordinary shares	499	499	499	499	499
Share premium account	1,051	1,051	1,051	1,051	1,051
Own shares	(237)	(167)	(186)	(96)	(115)
Merger reserve	2,572	4,147	6,647	6,647	8,422
Other reserves	1,119	718	534	884	685
Retained loss	9,759	3,919	1,366	(650)	(430)
Total equity	**14,763**	**10,167**	**9,911**	**8,335**	**10,112**

[a] Certain measures may not be comparable due to the modified retrospective adoption of IFRS 16 from 1 April 2019 and IFRS 15 and 9 from 1 April 2018.

Summary group income statement

Year ended 31 March[a]	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue					
Adjusted	22,824	23,459	23,746	24,082	18,879
Specific items	81	(31)	(23)	(20)	133
	22,905	**23,428**	**23,723**	**24,062**	**19,012**
Operating costs					
Adjusted	(19,213)	(19,613)	(19,755)	(19,947)	(15,051)
Specific items	(409)	(394)	(587)	(948)	(348)
	(19,622)	**(20,007)**	**(20,342)**	**(20,895)**	**(15,399)**
Operating profit					
Adjusted	3,611	3,846	3,991	4,135	3,828
Specific items	(328)	(425)	(610)	(968)	(215)
	3,283	**3,421**	**3,381**	**3,167**	**3,613**
Net finance expense					
Adjusted	(757)	(617)	(546)	(594)	(483)
Specific items	(140)	(139)	(218)	(210)	(229)
	(897)	**(756)**	**(764)**	**(804)**	**(712)**
Share of post tax (loss) profit of associates and joint ventures					
Adjusted	6	1	(1)	(9)	6
Profit (loss) on disposal of interest in associates and joint ventures – specific items	(39)	–	–	–	–
	(33)	**1**	**(1)**	**(9)**	**6**
Profit before taxation					
Adjusted	2,860	3,230	3,444	3,532	3,351
Specific items	(507)	(564)	(828)	(1,178)	(444)
	2,353	**2,666**	**2,616**	**2,354**	**2,907**
Taxation expense					
Adjusted	(536)	(619)	(671)	(663)	(607)
Specific items	(83)	112	87	217	166
	(619)	**(507)**	**(584)**	**(446)**	**(441)**
Profit for the year					
Adjusted	2,324	2,611	2,773	2,869	2,744
Specific items	(590)	(452)	(741)	(961)	(278)
	1,734	**2,159**	**2,032**	**1,908**	**2,466**
Basic earnings per share					
Adjusted	23.5p	26.3p	27.9p	28.9p	31.8p
Specific items	(6.0)p	(4.5)p	(7.4)p	(9.7)p	(3.3)p
	17.5p	**21.8p**	**20.5p**	**19.2p**	**28.5p**
Average number of shares used in basic earnings per share (millions)	9,885	9,912	9,911	9,938	8,619
Average number of shares used in diluted earnings per share (millions)	9,965	9,975	9,961	9,994	8,714
Diluted earnings per share	17.4p	21.6p	20.4p	19.1p	28.2p
Dividends per share[b]	4.62p	15.4p	15.4p	15.4p	14.0p
Dividends per share, US cents[b,c]	5.73c	20.1c	21.6c	19.3c	20.1c

a Certain measures may not be comparable due to the modified retrospective adoption of IFRS 16 from 1 April 2019 and IFRS 15 and 9 from 1 April 2018.
b 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.
c Based on actual dividends paid and/or year end exchange rate on proposed dividends.

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: the potential impact of Covid-19 on our people, operations, suppliers and customers; current and future years' outlook; revenue and revenue trends; EBITDA and profitability; free cash flow; capital expenditure; return on capital employed; 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 rollout 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; the investment in converged network; improvements to the customer experience; our investment in TV, enhancing our TV service and BT Sport; 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; 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: the duration and severity of Covid-19 impacts on our people, operations, suppliers and customers; failure to respond effectively to intensifying competition and technology developments; failure to address the lingering perception of slow pace and connectivity in broadband and mobile coverage, which continues to be raised at a UK parliamentary level; undermining of our strategy and investor confidence caused by an adversarial political environment; challenges presented by Covid-19 around network resilience, support for staff and customers, data sharing and cyber security defence; unfavourable regulatory changes; attacks on our infrastructure and assets by people inside BT or by external sources like hacktivists, criminals, terrorists or nation states; a failure in the supplier selection process or in the ongoing management of a third-party supplier in our supply chain, including failures arising as a result of Covid-19; risks relating to our BT transformation plan; failure to successfully manage our large, complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Building Digital UK (BDUK) programme) and deliver the anticipated benefits; changes to our customers' needs, budgets or strategies that adversely affect our ability to meet contractual commitments or realise expected revenues, profitability or cash generation; customer experiences that are not brand enhancing nor drive sustainable profitable revenue growth; pandemics, natural perils, network and system faults, malicious acts, supply chain failure, software changes or infrastructure outages that could cause disruptions or otherwise damage the continuity of end-to-end customer services including network connectivity, network performance, IT systems and service platforms; insufficient engagement from our people; adverse developments in respect of our defined benefit pension schemes; risks related to funding and liquidity, interest rates, foreign exchange, counterparties and tax; failures in the protection of the health, safety and wellbeing of our employees or members of the public or breaches of health and safety law and regulations; 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; failure to recognise or promptly report wrongdoing by our people or those working for us or on our behalf (including a failure to comply with our internal policies and procedures or the laws to which we are subject); and the potential impacts of climate change on our business. 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 52 to 63. 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 provision under which a member of the group has an obligation entitlement which is, or may be, material to BT or such other member of the group.