Key performance indicators

We hit our financial guidance set in May 2017 for adjusted EBITDA and exceeded it for normalised free cash flow. We fell short of our target for underlying revenue excluding transit due to demanding market conditions and actions we have taken to exit lower margin business in our enterprise divisions. We've achieved our customer experience goal for the year, but want to go further.

Progress against our KPIs

We use four key performance indicators (KPIs) to measure how we're doing against our strategy. Our financial KPIs include: the trend in underlying revenue excluding transit; our adjusted earnings per share; and normalised free cash flow. Customer service improvement is the key non-financial KPI for us.

Our KPIs are chosen because they reflect the key elements of our strategy. We use these to measure the variable elements of our senior executives' pay each year, as we've explained in the Report on Directors' Remuneration (see page 156).

We've outlined our performance against each KPI here, together with an explanation of how we define each measure.

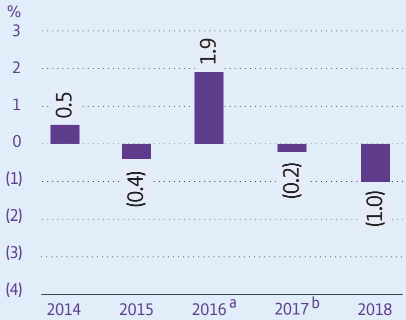
You can find reconciliations of the financial measures to the closest IFRS measure in the Additional information section on pages 288 to 290.

Underlying revenue excluding transit

Underlying revenue reflects the overall performance of the group that will contribute to sustainable profitable revenue growth. We exclude the impact of specific items, foreign exchange movements, acquisitions and disposals. We focus on the trend in underlying revenue excluding transit because transit traffic is low margin and is affected by reductions in mobile termination rates, which are outside our control.

Our key measure of the group's revenue trend, underlying revenue excluding transit was down 1.0% (2016/17: down 0.2%) which is below our outlook of broadly flat.

Trend in underlying revenue excluding transit
Year ended 31 March



-1.0%
2018 trend in underlying revenue excluding transit

Performance

Our revenue performance has been impacted by challenges in our enterprise businesses, particularly in Global Services where revenue declined due to ongoing demanding market conditions and lower IP Exchange volumes and equipment sales in line with our strategy to reduce low margin business. We explain more about the performance of our customer-facing units from page 72.

[a] Calculated as though EE was not part of the group until 1 April 2016.
[b] Calculated as though EE had been part of the group from 1 April 2015.

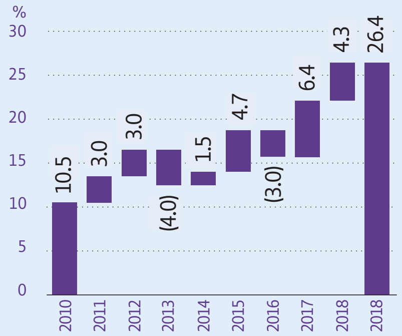
Customer service measure

Right First Time is our key measure of customer service. This tracks how often we keep the promises we make to our customers. This could be about keeping to appointment times, completing orders when we agreed or fixing faults within an agreed period. As well as improving service and the customer experience, keeping our promises should mean that there is less work to do to correct our mistakes, and so reduces our costs.

Our customer service measure Right First Time was up 4.3% compared with up 6.4% last year.

+4.3%
2018 customer service measure

Customer service improvement[a]
At 31 March



Performance

Improving the service we deliver is key. Our Right First Time measure was up 4.3% (2016/17: up 6.4%). We're making good progress in some areas and every customer-facing unit has improved its Right First Time scores. Despite these improvements, we're looking ahead at improving customer experience further. You can read more about our customer service on page 21.

[a] Cumulative improvement from 1 April 2009.

Adjusted earnings per share

Adjusted earnings per share is the adjusted profit after tax attributable to our shareholders, divided by the weighted average number of shares in issue. Being an 'adjusted' measure, it excludes the impact of specific items and as such it is a comparable consistent way to measure the performance of our business over time.

Adjusted earnings per share decreased 3% to 27.9p compared with down 9% last year.

27.9p
2018 adjusted earnings per share

Adjusted earnings per share
Year ended 31 March

Performance

Adjusted profit after tax decreased 3% to £2,773m this year reflecting our investment in mobile devices and customer experience, along with higher business rates and pension costs, partly offset by cost savings.

Adjusted earnings per share decreased 3% to 27.9p.

The weighted average number of shares in the market was in line with the previous year.

Normalised free cash flow

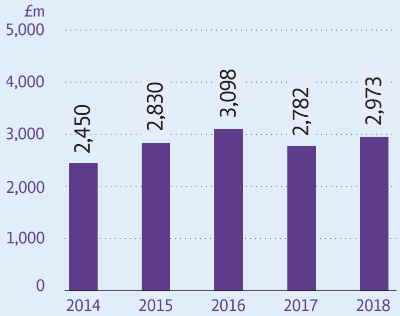
Free cash flow is the cash we generate from our operations, less capital expenditure and finance costs. It represents the cash available to invest in the business, repay debt, support the pension scheme and pay dividends to our shareholders.

Normalised free cash flow excludes significant non-operational payments and receipts that distort the trend in our cash flow. So in calculating normalised free cash flow we take out the impact of specific items, purchases of telecommunications licences, pension deficit payments and the tax benefit from pension deficit payments.

We generated normalised free cash flow of £2,973m. This was up £191m compared with last year and is above our outlook of £2.7bn to £2.9bn due to favourable working capital movements.

£2,973m
2018 normalised free cash flow

Normalised free cash flow
Year ended 31 March



Performance

The increase of £191m or 7% in our normalised free cash flow primarily reflects favourable working capital movements.