

Performance measures

Background

We assess the financial performance of our businesses using a variety of measures. We believe that certain of these measures are particularly important and have termed them "key performance measures". We refer to these measures throughout the Directors' Report and use them in presentations to investors.

In this section, we explain the relevance of each of the key performance measures and, if they cannot be derived directly from the consolidated financial statements, show how they are calculated. Some of these measures are not explicitly defined under IFRS and are therefore termed "non-GAAP" measures. We present a reconciliation of each non-GAAP measure to the most directly comparable measure defined under IFRS. We do not regard these non-GAAP measures as a substitute for, or superior to, the equivalent measures defined under IFRS. The non-GAAP measures described below may not be directly comparable with similarly-titled measures used by other companies.

We assess the non-financial performance of our businesses using measures that are discussed under the heading "Corporate Social Responsibility" on pages 38 to 39.

Adjusted operating profit

Adjusted operating profit is the measure used by the Board to assess performance and is therefore the measure of segment profit that we present under IFRS. A reconciliation of adjusted operating profit to operating profit is presented in note 5 to the consolidated financial statements.

Adjusted operating profit represents operating profit before specific items that are considered to hinder comparison of operating performance either year on year or between different businesses.

During the periods under review, these items were the amortisation of intangible assets arising on acquisitions, restructuring initiatives (comprising restructuring costs and the net gain or loss on disposals and on the exit of businesses) and impairments.

	2008 \$m	2007 \$m	2006 \$m
Adjusted operating profit			
Continuing operations	403.4	530.5	545.3
Discontinued operations	—	3.7	1.1
Total operations	403.4	534.2	546.4

Adjusted operating margin

Adjusted operating margin represents adjusted operating profit as a percentage of sales.

We use adjusted operating margin at all levels in our business to measure our success in managing the cost base and improving margins.

\$m unless stated otherwise	2008	2007	2006
Continuing operations			
Sales	5,515.9	5,886.1	5,746.1
Adjusted operating profit	403.4	530.5	545.3
Adjusted operating margin	7.3%	9.0%	9.5%

Underlying change in sales and adjusted operating profit

We use the underlying change in sales and adjusted operating profit to measure our success in achieving organic growth and to assist us in assessing our performance relative to the growth of our end markets and the performance of our competitors. In arriving at these underlying measures, we are able to identify clearly the contribution from bolt-on acquisitions and the effect of the disposals made as we reshape our portfolio.

We define the underlying change in a performance measure as the year-on-year change excluding the effect of exchange rate fluctuations on the translation into US dollars of the results of the Group's foreign operations and the contribution before organic growth of businesses that have been acquired or disposed of during the current and prior years. Underlying changes in sales and adjusted operating profit are non-GAAP measures.

Reconciliations identifying the underlying change in sales and adjusted operating profit at Group level and for each of our business groups are presented on page 154.

	2008 %	2007 %
Continuing operations		
Underlying change:		
– Sales	(5.6)	0.9
– Adjusted operating profit	(25.7)	(4.1)

Underlying changes in sales and adjusted operating profit do not reflect the potentially significant effect on the Group's profit or loss of exchange rate fluctuations and recent acquisitions and disposals. Accordingly, management uses these measures in conjunction with, not as substitutes for, sales and adjusted operating profit reported in accordance with IFRS.

Adjusted earnings per share

Adjusted earnings per share is a non-GAAP measure that provides an indicator of the Group's ongoing ability to generate earnings and is useful to investors as a basis for assessing the value of the Company's ordinary shares (for example, by way of price earnings multiples).

Earnings for the purpose of calculating adjusted earnings per share represents earnings from continuing operations adjusted for the specific items excluded in arriving at adjusted operating profit and the tax effects of those items.

We calculate adjusted basic and diluted earnings per share using the average number of ordinary shares that would be used in calculating the equivalent measures under IFRS, as described in note 15 to the consolidated financial statements.

\$m unless stated otherwise	2008	2007	2006
Continuing operations			
(Loss)/earnings for basic EPS	(64.1)	360.5	362.5
Adjusted for:			
– Impairments	342.4	0.8	2.9
– Restructuring initiatives	(17.0)	(63.8)	18.2
– Amortisation of intangibles arising on acquisitions	10.6	7.2	5.0
– Tax effect of above adjustments	(42.4)	22.4	(7.5)
Earnings for adjusted basic EPS	229.5	327.1	381.1
Dividends payable on preference shares	–	1.2	9.9
Earnings for adjusted diluted EPS	229.5	328.3	391.0
Adjusted EPS			
– Basic	26.09c	37.58c	45.43c
– Diluted	26.02c	37.14c	44.24c

Adjusted earnings per share measures do not reflect items that can have a significant effect on the Group's profit or loss and should therefore be used in conjunction with, not as substitutes for, the earnings per share measures defined under IFRS.

Net debt

We define net debt as bank overdrafts, bank and other loans, finance lease obligations and the carrying amount of derivatives used to hedge translational exposures, less cash and cash equivalents and collateralised cash (included in trade and other receivables).

Management considers net debt to be a component of the Group's capital. An analysis of net debt is therefore presented in note 43 to the consolidated financial statements.

For the purpose of managing the Group's liquidity, management focuses on net debt, rather than on the narrower measure of cash and cash equivalents which forms the basis for the consolidated cash flow statement. On page 153, we therefore present an analysis of the movement in net debt that, for ease of reconciliation, shows the effect on net debt of each of the items presented in the consolidated cash flow statement.

Cash conversion

Cash conversion is a non-GAAP measure that we use to assess the performance of each of the Group's businesses in converting their operating results into cash flows.

Cash conversion represents adjusted operating cash flow as a percentage of adjusted operating profit.

Operating cash flow represents cash generated from operations less net capital expenditure (cash outflows on the purchase of property, plant and equipment and non-integral computer software, less proceeds on the disposal of property, plant and equipment). Operating cash flow represents cash flow from operations, the similarly-titled GAAP measure, before the payment and receipt of income taxes.

A reconciliation of cash generated from operations to operating cash flow is presented in the analysis of the movement in net debt on page 153.

Adjusted operating cash flow represents operating cash flow before the cash outflow on restructuring costs.

Performance measures (continued)

Cash conversion (continued)

\$m unless stated otherwise	2008	2007	2006
Total operations			
Operating cash flow	442.8	441.8	401.6
Adjusted for:			
– Cash outflow on restructuring costs	16.3	1.2	19.3
Adjusted operating cash flow	459.1	443.0	420.9
Adjusted operating profit	403.4	534.2	546.4
Cash conversion	113.8%	82.9%	77.0%

Cash conversion reflects net capital expenditure which may fluctuate considerably and therefore affect comparison of cash conversion from one year to another and between businesses. Management therefore uses cash conversion in conjunction with, not as a substitute for, cash generated from operations in assessing the performance of the Group's businesses.

Net capital expenditure : depreciation

We use the ratio of net capital expenditure to depreciation of property, plant and equipment and non-integral computer software to monitor the level of replacement of the Group's productive assets in accordance with our capital allocation strategy.

\$m unless stated otherwise	2008	2007	2006
Total operations			
Capital expenditure	193.8	236.5	232.1
Disposal proceeds	(7.9)	(39.6)	(25.9)
Net capital expenditure	185.9	196.9	206.2
Depreciation	218.3	229.1	227.6
Net capital expenditure : depreciation	0.9x	0.9x	0.9x

Free cash flow

Free cash flow is a non-GAAP measure of the cash generated from the Group's operations that is available to return to shareholders (through dividends or share buy-backs), to fund strategic acquisitions or to reduce borrowings.

Free cash flow represents operating cash flow net of cash flows in relation to tax, interest and other items (principally dividends received from associates and cash flows involving minority shareholders).

A reconciliation of cash generated from operations to free cash flow is presented in the analysis of the movement in net debt on page 153.

	2008 \$m	2007 \$m	2006 \$m
Free cash flow	300.9	290.0	183.9

Free cash flow does not reflect any restrictions on the transfer of cash and cash equivalents within the Group or any requirement to repay the Group's borrowings and does not take into account cash flows that are available from disposals or the issue of shares. Management therefore takes such factors into account in addition to free cash flow when determining the resources available for acquisitions and for distribution to shareholders.