

# Notes to the Consolidated Financial Statements

## *continued*

### 2 Alternative performance measures *continued*

#### Net debt to earnings before interest, tax, depreciation and amortisation (EBITDA)

To assess the size of the net debt balance relative to the size of the earnings for the Group, we analyse net debt as a proportion of EBITDA. EBITDA is calculated by adding back depreciation and amortisation of owned property, plant and equipment, software and development to adjusted operating profit. Net debt excludes IFRS 16 lease liabilities. The net debt to EBITDA ratio is calculated as follows:

	2019 £m	2018 £m
<b>Adjusted operating profit</b>	<b>282.7</b>	264.9
Depreciation and amortisation of property, plant and equipment, software and development	34.3	32.9
<b>Earnings before interest, tax, depreciation and amortisation</b>	<b>317.0</b>	297.8
Net debt	295.2	235.8
<b>Net debt to EBITDA</b>	<b>0.9</b>	0.8

The components of net debt are disclosed in Note 24.

#### Organic measures

As we are a multi-national group of companies, which trade in a large number of foreign currencies and regularly acquire and sometimes dispose of companies, we also refer to organic performance measures throughout the Annual Report. These strip out the effects of the movement of foreign currency exchange rates and of acquisitions and disposals. The Board believes that this allows users of the accounts to gain a further understanding of how the Group has performed.

Exchange translation movements are assessed by re-translating prior period reported values to current period exchange rates. Exchange transaction impacts on operating profit are assessed on the basis of transactions being at constant currency between years.

Any acquisitions and disposals that occurred in either the current period or prior period are excluded from the results of both the prior and current period at current period exchange rates.

The organic percentage movement is calculated as the organic movement divided by the sum of the prior period and exchange.

The organic bps change in adjusted operating margin is the difference between the current period margin excluding acquisitions and disposals and the prior period margin at current period exchange rates excluding acquisitions and disposals.

A reconciliation of the movement in revenue and adjusted operating profit compared to the prior period is given below.

	2018	Exchange	Organic	Acquisitions and disposals	2019	Organic	Reported
Revenue	£1,153.3m	–	£73.9m	£15.2m	<b>£1,242.4m</b>	<b>+6%</b>	<b>+8%</b>
Adjusted operating profit	£264.9m	(£2.0m)	£18.2m	£1.6m	<b>£282.7m</b>	<b>+7%</b>	<b>+7%</b>
Adjusted operating margin	23.0%				<b>22.8%</b>	<b>+10 bps</b>	<b>-20 bps</b>

The reconciliation for each segment is included in the Strategic Report.

### 3 Segmental reporting

As required by IFRS 8 (Operating Segments), the following segmental information is presented in a consistent format with management information considered by the Board.

Following recent material acquisitions into the Group, the composition of the Group's Reportable Segments changed in the financial year ended 31st December 2019 to align with both how the business is now managed alongside how information is now presented to the Board and the Executive Committee. This change results in Steam Specialties being reported as one single consolidated operating segment. In previous years Steam Specialties was an aggregation of three separate operating segments, EMEA, Americas and Asia Pacific, however recent changes to the management structure resulted in the creation of a separate Steam Specialties management team reporting to the Chief Executive and Chief Financial Officer on the consolidated Steam Specialties results. Comparative results have not been restated, as the Steam Specialties total was previously disclosed as a subtotal to the three previous geographic operating segments.

Following the acquisition of Thermocoax in May 2019, the Chromalox operating segment was renamed to Electric Thermal Solutions which now includes the combination of both businesses in 2019. No other changes to the structure of operating segments have been made.