

## Spirent Communications plc Results for the six months ended 30 June 2018

\$ million	First half 2018	First half 2017
<b>Ongoing businesses<sup>1</sup></b>		
Order intake	<b>205.6</b>	193.2
Revenue	<b>209.2</b>	207.7
Adjusted operating profit <sup>2</sup>	<b>17.8</b>	16.0
<b>Total Group</b>		
Order intake	<b>205.6</b>	198.4
Revenue	<b>209.2</b>	213.6
Adjusted operating profit <sup>2</sup>	<b>17.8</b>	17.4
Reported operating profit	<b>14.6</b>	11.3
Reported profit before tax	<b>17.4</b>	14.4
Adjusted basic earnings per share <sup>3</sup> (cents)	<b>2.49</b>	2.10
Basic earnings per share (cents)	<b>2.38</b>	1.85
Special dividend cash outflow	<b>29.9</b>	-
Closing cash	<b>95.4</b>	110.2
Interim dividend per share (cents)	<b>1.76</b>	1.68

### Notes

1 The Device Intelligence and Developer Tools lines of business, divested 30 June 2017, and therefore excluded in the measures for ongoing businesses, contributed \$5.9 million of revenue and \$1.4 million of adjusted operating profit to the Connected Devices operating segment result in first half 2017.

2 Adjusted operating profit is before charging exceptional items, acquired intangible asset amortisation and share-based payment amounting to \$3.2 million in total (first half 2017: \$6.1 million).

3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 7 of Notes to the half year condensed consolidated financial statements.

### Trading performance in line with our expectations

- In 2017, we created a firm platform to realise Spirent's potential, focusing on specific growth objectives whilst ensuring our cost base is efficient.
- We communicated at the end of 2017 that we expected the first six months' results would be broadly level year-on-year with the seasonal weighting in trading performance to the second half.
- Order intake up 6 per cent from ongoing businesses, including strong growth in our Lifecycle Service Assurance business, and revenue grew 1 per cent.
- Adjusted operating profit from ongoing businesses up 11 per cent.
- Continued strong cost management delivered savings to offset inflation.
- Adjusted basic earnings per share up 19 per cent to 2.49 cents.
- Following a special dividend of 5.00 cents per share and the final dividend for 2017 of 2.40 cents per share, giving a total \$44.2 million paid in May 2018, net cash closed at \$95.4 million.
- Interim dividend increase of 5 per cent to 1.76 cents per share declared.

## Operational highlights

- Key 5G development wins secured and new partnerships formed as momentum builds.
- Sales and marketing effectiveness actions included senior appointments as part of a new Key Account Management programme, launch of new Global Partner Programme and a new 'Promise. Assured' branding initiative.
- US/China trade challenges resulted in supply embargo with ZTE, now lifted, however risk remains.

### *Networks & Security*

- Maintained our leading position in 100G and 400G Ethernet performance test with multiple strategic wins and ramp up in demand across the industry is expected in the second half.
- Enterprise and government wins secured for Application Security business with subscription-based revenue streams, initially delaying revenue recognition, building improved sustainable earnings.
- Positioning business delivered growth benefitting from increased US government spending.

### *Lifecycle Service Assurance*

- Continued expansion of VisionWorks, securing key wins for our VisionWorks solutions.
- Received Light Reading's Leading Lights Award for Outstanding Test and Measurement Vendor in May.

### *Connected Devices*

- Strong profit turnaround.
- Strategic collaboration formed with National Instruments to develop test systems for 5G New Radio devices.

## Outlook

As in previous years, our performance remains weighted to the second half and the Board's expectations for the full year are unchanged. Our confidence is underpinned by the evidence of further take up of our assurance solutions, the resolution of certain trade disputes between the US and China and the ramp up of 400G high-speed Ethernet testing, where we maintain market leadership.

### **Eric Hutchinson, Chief Executive Officer, commented:**

"We continue to focus on core strategies matched to the growth opportunities offered by global trends to move products rapidly from development into network operations and to radically reduce costs. Our Lifecycle Service Assurance solutions are being positively received by our customers and the business is growing. Demand for subscription-based security testing is emerging and we are now securing orders with enterprise and government customers.

Exponential data growth and virtualisation continues at pace and we continue to expand our development business with important partnerships for 5G, including our recently announced collaboration with National Instruments for 5G device testing.

We are well positioned for future growth with leading-edge technology to enable our customers to optimise their infrastructure and accelerate their time to market."

- ends -

## Enquiries

Eric Hutchinson, Chief Executive Officer Paula Bell, Chief Financial Officer	Spirent Communications plc	+44 (0)1293 767676
James Melville Ross/Dwight Burden/ Adam Davidson	FTI Consulting	+44 (0)20 3727 1000

*The Company will host a results presentation today at 9.30am UK time at FTI Consulting Limited, 200 Aldersgate, Aldersgate Street, London EC1A 4HD. A simultaneous webcast of the presentation will be available in the Investors section of the Spirent Communications plc website <https://corporate.spirent.com/>.*

## About Spirent Communications plc

Spirent Communications plc (LSE: SPT) offers test, measurement, analytics and assurance solutions for next-generation devices and networks. Spirent provides products, services and information solutions for high-speed Ethernet, positioning mobile network infrastructure markets, with expanding focus on service assurance, cybersecurity and 5G. Spirent is accelerating the transition of connected devices, network equipment and applications from development labs to the operational network, as it continues to innovate toward fully-automated testing and autonomous service assurance solutions. Further information about Spirent Communications plc can be found at <https://corporate.spirent.com/>.

Spirent Communications plc Ordinary Shares are traded on the London Stock Exchange (ticker: SPT; LEI: 213800HKCUNWP1916L38). The Company operates a Level 1 American Depositary Receipt (ADR) programme with each ADR representing four Spirent Communications plc Ordinary Shares. The ADRs trade in the US over-the-counter (OTC) market under the symbol SPMYY and the CUSIP number is 84856M209. Spirent ADRs are quoted on the Pink OTC Markets electronic quotation service which can be found at <https://www.otcmarkets.com/marketplaces/otc-pink>.

Spirent and the Spirent logo and its related branding, product names and logos are trademarks or registered trademarks of Spirent Communications plc or its subsidiaries. All other trademarks or registered trademarks mentioned herein are held by their respective companies. All rights reserved.

## Cautionary statement regarding forward-looking statements

*This document may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise.*

## Performance Review

In 2017, we established a firm platform to realise Spirent's full potential. Our strategy has been to defend our leadership positions in high-speed Ethernet, positioning and mobile infrastructure, and to focus on target growth opportunities in cybersecurity, lifecycle service assurance and 5G, in particular, accelerating the development and deployment of new products into the operational network.

Through the first half of 2018, relentless traffic growth, security concerns in the market and business imperatives to reduce operating costs and capital expenditure drove our customers' investments and plans.

Spirent has been able to take advantage of some of these critical opportunities across each of our businesses:

- Demand for security testing solutions continues to grow and we have won more key contracts with government and enterprise customers in the first half of 2018. Pipeline build is positive and subscription sales are increasing, which while deferring revenue, creates a more sustainable business.
- High-speed Ethernet/IP test systems help our customers validate their network infrastructure and the progressive transition to 400G continues with build-up expected in the second half of 2018 and into 2019. We remain well positioned strategically, with our market-leading technology.
- We have secured further large contract wins with Tier 1 customers for our VisionWorks solution offerings within our Lifecycle Service Assurance business, building on the success in 2017.

Order intake in the half showed growth of 4 per cent to \$205.6 million (first half 2017: \$198.4 million) and 6 per cent for ongoing businesses year-on-year. By region, the recovery in demand in the Americas during the second quarter resulted in 19 per cent growth in order intake for the half year. EMEA was also positive with 14 per cent growth. The momentum in these regions was offset by the slowdown in Asia Pacific, down 15 per cent. The indicators are more positive for the second half year, as the embargo on ZTE has been lifted and operators and network equipment manufacturers are set to release pent up demand, though the risk from increased US/China trade friction is still present in the second half.

At the outset of the financial year it was clear trading performance would be heavily second half weighted due to the likely timing of customer spending for VisionWorks product sales for Lifecycle Service Assurance, and the ramp up of 400G Ethernet testing. As a result, we expected first half trading to be broadly level compared to the first half of 2017.

Spirent announced an important collaboration with National Instruments (Nasdaq: NATI) to develop performance test systems for 5G New Radio (NR) devices. This collaboration will enable the Connected Devices business to provide test solutions that can validate the performance of 5G NR smartphones

and Internet of Things (IoT) devices in the lab, without requiring access to expensive and complex base stations, while being flexible enough to quickly adapt to standards as they evolve. The first prototype solutions will be available towards the end of the fourth quarter, aligned with the emerging market need for 5G NR device performance testing.

Spirent has won some key deals for 5G development, as 5G momentum builds globally. They included providing the Velocity solution to automate testing in the 5G labs of a major network equipment vendor and the Landslide solution to a major network operator to test its core network elements for 5G NSA New Radio and Control User Plane Separation (CUPS). Spirent also provided the Vertex Channel Emulator to a major chipset vendor for 5G mmWave testing.

In May, Light Reading awarded Spirent the 2018 *Leading Lights Award for Outstanding Test and Measurement Vendor* for its innovative Lifecycle Service Assurance strategy and its improved business performance.

Spirent continues to drive an operational excellence agenda and following the recent sales restructure programme, Spirent is developing the appropriate expertise and talent required to address our customers' requirements, in particular for solution sales.

Senior customer engagement executives have been appointed to build on critical customer relationships at our key accounts. A new Global Partner programme was launched to widen our customer reach.

Today, we launched our new 'Promise. Assured' branding to highlight our reputation and commitment to work closely with our customers and to develop innovative products and services to enable and assure they fulfil their promises to their customers. Since our founding, Spirent has been recognised by customers for our technical expertise, product quality, consultative sales teams and our approach of working closely with them, helping them and being passionate about their success. We want to leverage and strengthen our reputation as their *trusted advisor*.

### Operating Segment Review

Spirent focuses on three strategic business segments: **Networks & Security**, **Lifecycle Service Assurance** and **Connected Devices**. This strategic focus positions Spirent to meet the needs and expectations of our customers and to capitalise on these business opportunities, as our customers *develop* innovative devices, applications, network equipment and networks and *operate* the networks and services, improving network performance and customer experience that make up our connected world and define our smarter future.

#### **Networks & Security – 60% of Group revenue**

Networks & Security provides functional, performance and security testing products and services to accelerate the development of new devices, networks and applications. Our products generate traffic to simulate real-world conditions in the lab or in networks. Our portfolio covers high-speed IP/Ethernet, cloud, virtualisation, applications, security and Global Navigation Satellite Systems (GNSS), such as GPS.

\$ million	First half 2018	First half 2017
Order intake	<b>128.9</b>	124.7
Revenue	<b>125.3</b>	126.0
Adjusted operating profit <sup>1</sup>	<b>14.8</b>	19.5
Adjusted operating margin <sup>1</sup> (%)	<b>11.8</b>	15.5

Note

1 Before exceptional items of \$1.4 million charged in first half 2017.

Order intake grew by 3 per cent to \$128.9 million mainly driven by cybersecurity and global navigation satellite systems. As expected, revenue of \$125.3 million was level compared to the same period last year, reflecting the anticipated timing of a technology transition to 400G being later in 2018 and into 2019. Gross margin was 70.6 per cent, slightly down from 71.7 per cent for the first half of 2017, impacted by product mix and some foreign exchange movements adversely effecting supply chain costs. Together with some additional business development investment for emerging market opportunities in virtual and automotive, this resulted in adjusted operating profit decreasing by \$4.7 million to \$14.8 million.

### Performance highlights

- Spirent maintained its leadership position in high-speed Ethernet performance testing.
- In the first half, demand for 100G Ethernet testing slowed as some of our key customers shifted their investment to their 400G development, our business with ZTE was restricted and other Chinese customers delayed some investments. The embargo has now been lifted.
- Key strategic wins position Spirent well for high-speed Ethernet (400G) accelerating in the second half of this year. We retain our leading position with 100G and 400G in network equipment manufacturers. Target customers placed initial 400G development orders and Spirent received a 400G order from a Taiwanese white box server vendor.
- Spirent joined the Linux Foundation Networking Fund to support the development of a new open source ecosystem for telecom service assurance as cloud and virtualisation techniques are increasingly adopted.
- Spirent launched the industry's first 25G network emulator for precise network simulation for verification of Ethernet products and networks.
- Spirent demonstrated the world's highest density 400/200/100/50G test system at the Optical Fiber Communication (OFC) Conference & Exhibition in San Diego and was recognised as a finalist in the prestigious 2018 Lightwave Innovation Reviews programme.
- Orders increased for cybersecurity solutions from enterprise and government customers, securing contracts with subscription-based revenue streams which initially delays revenue recognition but will deliver improved sustainable earnings.
- Spirent won important commercial contracts as US government spending on global navigation satellite systems increased.
- The European GNSS Agency and Joint Research Centre (JRC) announced they will test automotive eCall devices, required in new cars from April 2018, using Spirent's GNSS simulators.

- Spirent announced a collaboration with Italdesign, the leading automotive design company, to create an integrated system for testing connected autonomous vehicles (CAVs) during their development.

### **Lifecycle Service Assurance – 23% of Group revenue**

Lifecycle Service Assurance provides active test and analytics solutions for service turn-up, network performance improvement and customer experience management. The business includes leading service assurance products, network and customer analytics systems (VisionWorks), mobile network test systems for labs (Landslide) and test management and automation solutions (Velocity and iTest). Spirent solutions enable network operators to understand their network performance and customer experience through active testing and analytics. Our solutions enable customers to radically reduce costs and time to install new services, provision new subscribers and troubleshoot problems. Spirent enables network operators to rapidly on-board and proactively assure critical virtual, mobile and IoT services.

\$ million	First half 2018	First half 2017
Order intake	<b>41.6</b>	30.5
Revenue	<b>48.0</b>	44.9
Adjusted operating profit <sup>1</sup>	<b>1.4</b>	0.2
Adjusted operating margin <sup>1</sup> (%)	<b>2.9</b>	0.4

Note

1 Before exceptional items of \$0.1 million charged in first half 2017.

In the first half of 2018, order intake for Lifecycle Service Assurance solutions grew by \$11.1 million to \$41.6 million and revenue grew 7 per cent to \$48.0 million, with strong sales of VisionWorks products. Gross margin improvement was driven by increased software sales and adjusted operating profit increased by \$1.2 million to \$1.4 million on the higher revenue.

### **Performance highlights**

- Spirent expanded the deployment of VisionWorks product, winning another multi-million dollar deal from a US-based Tier 1 service provider who is automating service assurance workflows for their enterprise customers.
- Spirent booked significant orders for 10G and 100G probes.
- In May, Light Reading awarded Spirent the 2018 **Leading Lights Award for Outstanding Test and Measurement Vendor** for its innovative Lifecycle Service Assurance strategy.



### **Connected Devices – 17% of Group revenue**

Connected Devices provides automated test systems to accelerate the development of connected devices and to connect them to the network and understand how the device and service performs on the network.

\$ million	First half 2018	Ongoing businesses <sup>1</sup> First half 2017
Order intake	<b>35.1</b>	38.0
Revenue	<b>35.9</b>	36.8
Adjusted operating profit/(loss) <sup>2</sup>	<b>4.0</b>	(0.9)
Adjusted operating margin <sup>2</sup> (%)	<b>11.1</b>	NA

Notes

1 The Device Intelligence and Developer Tools lines of business, divested 30 June 2017, and therefore excluded in the measures for ongoing businesses, contributed \$5.9 million of revenue and \$1.4 million of adjusted operating profit to the Connected Devices operating segment result in first half 2017.

2 Before exceptional items of \$0.3 million charged in first half 2017.

Revenue stabilised for ongoing businesses within Connected Devices and following the recent portfolio streamlining and cost reduction actions, a material profit improvement was delivered compared to the first half of 2017. Adjusted operating margin improved to 11.1 per cent.

### **Performance highlights**

- Spirent announced an important collaboration with National Instruments (Nasdaq: NATI) to develop performance test systems for 5G New Radio (NR) devices. This comes at a time when chipset and device manufacturers are looking to accelerate the development of 5G capable devices. Through our collaboration with National Instruments, we will be able to provide test solutions that can validate the performance of 5G NR smartphones and IoT devices in the lab, without requiring access to expensive and complex base stations, while being flexible enough to quickly adapt to standards as they evolve. We believe this collaboration will allow us to build even stronger, long-term working relationships with industry partners to help them accelerate commercialisation of 5G NR. We will have the first prototype solutions towards the end of the fourth quarter, aligned with the emerging market need for 5G NR device performance testing.
- Spirent won several key deals for Vertex 5G Channel Emulator and collaborated with Huawei and leading Chinese test lab China Academy of Information and Communication Technology (CAICT) to demonstrate the world's first 5G over-the-air Massive MIMO beamforming test bed.
- Spirent announced a partnership with ETS-Lindgren to pursue joint research and development on a complete radiated test system to evaluate the over-the-air (OTA) performance of 5G devices.



## Financial Review

### Group financial performance

Financial highlights in the first half for ongoing businesses include 6 per cent order intake growth with strong demand for VisionWorks products within Lifecycle Service Assurance and revenue growth of 1 per cent. Revenue stabilised within Connected Devices and, with a much reduced cost base, delivered a material increase in profitability and an increase in adjusted operating profit from ongoing businesses of 11 per cent. A strong performance from our Positioning business for satellite navigation systems offset the anticipated slower start to 2018 for high-speed Ethernet testing, resulting in level revenue for Networks & Security. Continued strong cost and cash management remained in key focus and delivered benefits.

As previously communicated, our usual trading performance seasonality is weighted to the second half of the financial year, in particular, for Lifecycle Service Assurance revenue and for key customers to transition to 400G high-speed Ethernet testing.

The following table shows summary financial performance for the Group:

\$ million	First half 2018	First half 2017	Change (%)
<b>Ongoing businesses<sup>1</sup></b>			
Order intake	205.6	193.2	6.4
Revenue	209.2	207.7	0.7
Adjusted operating profit <sup>2</sup>	17.8	16.0	11.3
<b>Total Group</b>			
Order intake	205.6	198.4	3.6
Revenue	209.2	213.6	(2.1)
Gross profit	148.1	151.3	
Gross margin (%)	70.8	70.8	-
Adjusted operating costs <sup>2</sup>	130.3	133.9	
Adjusted operating profit <sup>2</sup>	17.8	17.4	2.3
Adjusted operating margin <sup>2</sup> (%)	8.5	8.1	0.4
Reported operating profit	14.6	11.3	29.2
Reported profit before tax	17.4	14.4	
Adjusted basic earnings per share <sup>3</sup> (cents)	2.49	2.10	18.6
Basic earnings per share (cents)	2.38	1.85	
Net cash	95.4	110.2	

#### Notes

1 The Device Intelligence and Developer Tools lines of business, divested 30 June 2017, and therefore excluded in the measures for ongoing businesses, contributed \$5.9 million of revenue and \$1.4 million of adjusted operating profit to the Connected Devices operating segment result in first half 2017.

2 Before charging exceptional items, acquired intangible asset amortisation and share-based payment amounting to \$3.2 million in total (first half 2017: \$6.1 million).

3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 7 of Notes to the half year condensed consolidated financial statements.

## Revenue

\$ million	First half 2018	%	First half 2017	%
<b>Revenue by segment</b>				
Networks & Security	<b>125.3</b>	<b>59.9</b>	126.0	59.0
Lifecycle Service Assurance	<b>48.0</b>	<b>22.9</b>	44.9	21.0
Connected Devices	<b>35.9</b>	<b>17.2</b>	42.7	20.0
	<b>209.2</b>	<b>100.0</b>	213.6	100.0
<b>Revenue by geography</b>				
Americas	<b>120.2</b>	<b>57.5</b>	115.8	54.2
Asia Pacific	<b>65.5</b>	<b>31.3</b>	77.3	36.2
Europe, Middle East and Africa	<b>23.5</b>	<b>11.2</b>	20.5	9.6
	<b>209.2</b>	<b>100.0</b>	213.6	100.0

Group revenue for the ongoing businesses increased 1 per cent. Revenue in Networks & Security was flat compared to the same period last year. Although there was strong demand for our satellite simulators from our Positioning business, growth was tempered by the slowdown in Asia Pacific caused by the uncertainty around trading terms with the United States, the impact of the embargo imposed on ZTE, a major Chinese network equipment manufacturer, and the transition of business to subscription licences in cyber security. Lifecycle Service Assurance reported 7 per cent growth in revenue driven by our VisionWorks product. Connected Devices revenue was \$6.8 million lower in the first half of 2018 compared to the first half of 2017, however adjusting for the impact of the divestment of Device Intelligence and Developer Tools at the end of June 2017, Connected Devices revenue was relatively stable.

Revenue from the Americas, our largest market, grew by 4 per cent compared to the same period last year driven primarily by demand from the US government for our satellite simulators supplied by our Positioning business. Revenue in APAC fell both in absolute terms and as a percentage of the total Group, impacted by the uncertainty around trading terms between China and the United States and the embargo imposed on ZTE. In contrast to recent periods we saw strong growth in EMEA, driven by Lifecycle Service Assurance and Positioning product sales within Networks & Security, raising the EMEA contribution to 11 per cent of total Group revenue.

## Gross margin

\$ million	First half 2018	%	First half 2017	%
Networks & Security	<b>88.4</b>	<b>70.6</b>	90.4	71.7
Lifecycle Service Assurance	<b>35.9</b>	<b>74.8</b>	33.1	73.7
Connected Devices	<b>23.8</b>	<b>66.3</b>	27.8	65.1
	<b>148.1</b>	<b>70.8</b>	151.3	70.8

Although there were variations in operating segment gross margin, primarily due to product mix, gross margin for the total Group was maintained at 70.8 per cent.

## Operating costs

\$ million	First half 2018	First half 2017
Product development	48.6	53.8
Selling and marketing	60.5	59.4
Administration <sup>1</sup>	21.2	20.7
<b>Adjusted operating costs<sup>1</sup></b>	<b>130.3</b>	133.9
Networks & Security	73.6	70.9
Lifecycle Service Assurance	34.5	32.9
Connected Devices	19.8	27.3
Corporate	2.4	2.8
<b>Adjusted operating costs<sup>1</sup></b>	<b>130.3</b>	133.9

### Note

1 Before charging exceptional items, acquired intangible asset amortisation and share-based payment amounting to \$3.2 million in total (first half 2017: \$6.1 million).

Operating costs continued to be effectively managed through the first half of 2018, building on the benefits of the recent portfolio review and cost reductions implemented in 2017. The overall investment in product development has been refocused and reduced by \$5.2 million, of which \$1.3 million related to the divested businesses. Selling and marketing costs and administration costs in the first half of 2018 were broadly flat compared to the same period in 2017.

Other items charged in arriving at operating profit, being acquired intangible asset amortisation and share-based payment, amounted to \$3.2 million in total (first half 2017: \$4.3 million). There were no exceptional items in the first half of 2018, compared to \$1.8 million in the first half of 2017.

## Operating profit

\$ million	First half 2018	Adjusted operating margin <sup>1</sup> (%)	First half 2017	Adjusted operating margin <sup>1</sup> (%)
Networks & Security	14.8	11.8	19.5	15.5
Lifecycle Service Assurance	1.4	2.9	0.2	0.4
Connected Devices	4.0	11.1	0.5	1.2
Corporate	(2.4)		(2.8)	
<b>Adjusted operating profit<sup>1</sup></b>	<b>17.8</b>	<b>8.5</b>	17.4	8.1
Exceptional items	-		(1.8)	
Acquired intangible asset amortisation	(1.8)		(4.0)	
Share-based payment	(1.4)		(0.3)	
<b>Reported operating profit</b>	<b>14.6</b>		11.3	

### Note

1 Before charging exceptional items, acquired intangible asset amortisation and share-based payment amounting to \$3.2 million in total (first half 2017: \$6.1 million).

Reported operating profit was up 29 per cent to \$14.6 million, compared with \$11.3 million for the first half of 2017. Adjusted operating profit, before charging the items set out in the above table, which is the measure of profit used by the Group to evaluate performance, increased by \$0.4 million to \$17.8

million (first half 2017: \$17.4 million). Excluding the Device Intelligence and Developer Tools product lines, divested on 30 June 2017, the increase was more pronounced at \$1.8 million.

Adjusted operating margin, based on adjusted operating profit, increased to 8.5 per cent from 8.1 per cent over the same period last year, or 7.7 per cent excluding the divested businesses.

### **Currency impact**

The Group's revenue and costs are primarily denominated in US dollars or US dollar-linked currencies. Currency exposures arise from trading transactions undertaken by the Group in foreign currencies and on the retranslation of the operating results and net assets of overseas subsidiaries.

The most significant currency exposure arises in relation to movements in pound sterling against the US dollar, which the Group seeks to mitigate by entering into forward foreign currency exchange contacts. There are other less significant currency exposures, notably the Euro and Chinese Yuan.

The Group's income statement includes a foreign exchange loss of \$0.5 million, included in administration costs, arising from transactional exposure, compared to a \$0.6 million loss over the same period in 2017.

### **Tax**

The normalised tax charge for the Group, excluding the tax credit on the adjusting items of \$0.2 million, was \$3.1 million for the first half of 2018 resulting in an effective tax rate of 16.9 per cent of adjusted pre-tax profit. This compared with an effective tax rate of 26.4 per cent for the first half of 2017. For the full year 2018 it is expected that the effective tax rate will be in the region of 17 per cent.

Spirent's effective tax rate has benefited from the Tax Cuts and Jobs Act (the Act) signed into law on 22 December 2017. The Act includes a number of significant changes in the tax law that have implications for Spirent. The most significant change was a reduction in the corporate income tax rate from 35 per cent to 21 per cent with effect from 1 January 2018. Other changes that impact the Group include the repeal of the Domestic Production Activity Deduction (DPAD) and the enactment of a new deduction, the Foreign-Derived Intangible Income (FDII) deduction. The impact of the US tax rate reduction together with the repeal of the DPAD and the addition of the FDII deduction has been to decrease the Group's effective tax rate to circa 17 per cent. The precise impact is still to be determined as we are awaiting further guidance from the US government.

### **Earnings per share**

Adjusted basic earnings per share was 2.49 cents compared with 2.10 cents for the first half of 2017, reflecting the change in tax rate described above. There were 610.2 million weighted average shares in issue (first half 2017: 610.6 million). Basic earnings per share was 2.38 cents compared with 1.85 cents for the first half of 2017. See note 7 to Notes to the half year condensed consolidated financial statements on page 26 for the calculation of earnings per share.

### Financing and cash flow

Cash generated from operations in the first half year was \$21.3 million compared to \$43.3 million in the first half of 2017. The first half of 2017 benefited from a one-time reduction in working capital achieved by specific actions, mainly targeted at improving our debt collection process.

Free cash flow is set out below:

\$ million	First half 2018	First half 2017
Cash flow from operations	<b>21.3</b>	43.3
Tax paid	<b>(4.2)</b>	(5.3)
Cash inflow from operating activities	<b>17.1</b>	38.0
Interest received	<b>0.6</b>	0.2
Net capital expenditure	<b>(4.5)</b>	(9.5)
	<b>13.2</b>	28.7

Tax payments of \$4.2 million were made during the period (first half 2017: \$5.3 million). Net capital expenditure of \$4.5 million was \$5.0 million lower than in the first half of 2017, which included a facilities move in APAC and equipment replacement at a US engineering lab.

In the first half of 2018, total dividends of \$44.2 million were paid, being the final dividend for 2017 of \$14.3 million (first half 2017: \$14.2 million) and the special dividend of \$29.9 million (first half 2017: nil). Additionally, 1.5 million shares were purchased and placed into the Employee Share Ownership Trust (ESOT) at a cost of \$2.5 million, and 1.2 million shares were transferred from the ESOT to satisfy options exercised under the Spirent employee share plans, raising proceeds of \$0.1 million.

Following these payments, cash and cash equivalents closed at \$95.4 million at 30 June 2018 compared with \$128.4 million at 31 December 2017. There continues to be no debt.

### Defined benefit pension plans

The Group operates two funded defined benefit pension plans which are in the United Kingdom. Both of these schemes were closed some time ago to new entrants.

The accounting valuation of the funded defined benefit pension plans at 30 June 2018 gave rise to a net surplus of \$9.1 million compared with a net deficit of \$2.2 million at 31 December 2017. The basis of the assumptions used for the purposes of the valuation at 30 June 2018 were consistent with those used at 31 December 2017. The accounting valuation has benefited from an increase in the discount rate used to discount plan liabilities of 0.2 percentage points. In addition, contributions to the plans paid in the period were \$3.4 million.

The valuation at 30 June 2018 was based on the triennial actuarial valuation dated 31 March 2015. The latest triennial valuation as at 31 March 2018 is in progress. The Company is currently paying an annual contribution of £5.0 million (c. \$6.6 million), which commenced 1 July 2016 for a period of seven years, under a deficit reduction plan agreed with the Trustees following the 2015 triennial valuation.

In addition, there is a liability for an unfunded plan of \$0.6 million (31 December 2017: \$0.6 million).

### **Balance sheet and dividend**

The Board currently intends to maintain a cash positive balance sheet over the medium to long-term. This should allow the Company to maintain a strong capital position in the face of business risks, trading fluctuations and working capital demands. In addition, the Board wishes to maintain flexibility to invest in the business organically and inorganically. Where appropriate, the Company may take on modest gearing to fund inorganic investments.

The Board will regularly review the Company's balance sheet in light of current and expected trading performance and cash generation, working capital requirements and expected investments. To the extent the Company has excess cash, it will consider returning such cash to shareholders. The Board will consider from time to time the appropriate mechanism for returning surplus cash to shareholders.

A special dividend of 5.00 cents per share, declared in March was paid in May 2018.

The Board has declared an interim dividend of 1.76 cents per Ordinary Share, a 5 per cent increase over the dividend declared for the first half 2017 of 1.68 cents. This is equivalent to 1.34 pence per Ordinary Share at an exchange rate of \$1.31:£1 (first half 2017: 1.27 pence). The payment will be approximately \$10.7 million. The dividend will be paid to Ordinary shareholders on 7 September 2018 and to ADR holders on 14 September 2018. The dividend is payable to all shareholders on the Register of Members at the close of business on 10 August 2018.

The Board is pursuing a progressive dividend policy targeting cover of 2 to 2.5 times adjusted earnings.

### **Future reporting**

The Company has reviewed its approach to scheduled trading updates. The Board has concluded that, in line with developing market practice and given the phasing of trading in the year, in future it will no longer provide financial information in respect of the first and third quarters of the financial year. However, the Company currently intends to continue to provide qualitative trading updates in early May and early November each year.

## Risks and uncertainties

The principal risks and uncertainties affecting the Spirent Communications Group in respect of the remaining six months of the year to 31 December 2018 remain those as identified on pages 28 to 31 of the Annual Report 2017. A copy of the Annual Report 2017 is available on the Company's website at <https://corporate.spirent.com/>.

In summary, the principal risks and uncertainties are as follows:

Risk	Description
Macro-economic change	<p>Spirent is a global business exposed to current world economic conditions and political uncertainties over which it has no control. The business is also exposed to government spending priorities, principally in the United States.</p>
Technology change	<p>Spirent sells complex solutions in industries that can be subject to rapid technological changes. Testing new technologies drives our business, but the opportunity also brings high risk since keeping at the forefront of these key future technologies is critical to our success and to ensuring that we remain competitive in our markets.</p> <p>It is critical that our product development investment is directed at the right areas in order to deliver the solutions that our customers need, when they need them.</p> <p>Spirent's success is dependent in part on proprietary technology which may be infringed by others.</p> <p>Protecting the Group's proprietary technology is important to enable Spirent to compete successfully.</p>
Customer dependence / customer investment plans	<p>The Group sells its products and services to a wide range of companies and continually seeks to expand its customer base. In 2017, no one customer accounted for more than ten per cent of Group revenue, although the top ten customers represented 41 per cent of Group revenue (2016: 40 per cent).</p> <p>In some of our markets certain customers have a dominant market share, which makes doing business with these customers and their suppliers critical to the success of our business.</p> <p>In addition, many of the companies with which we do business are some of the largest global telecommunications corporations. Therefore meeting our development obligations, producing high quality products, and being on time are vital to Spirent's reputation and success.</p> <p>Changes in our major customers' priorities in technology investments can also have a significant impact on their spending on Spirent products and on those in the customers' supply chain.</p> <p>The industry continues to experience consolidation which does disrupt the spending patterns of affected customers.</p>



**Risks and uncertainties** continued

Risk	Description
Business continuity	<p>Operational risks are present in the Group’s businesses, including the risk of failed internal and external processes and systems, human error and external events, such as a natural disaster or cyber security attacks. For example, a significant portion of our communications operations are located in California which has in the past experienced natural disasters, including earthquakes and wildfires.</p> <p>Contract manufacturers are used for the manufacture of a substantial amount of Spirent’s products. Spirent’s major contract manufacturer is located in Thailand.</p> <p>The incidence of cyber-crime continues to rise. Spirent is dependent on its information technology systems for both internal and external communications as well as for its day-to-day operations.</p>
Competition	<p>Spirent operates in a range of highly competitive niche markets which experience rapid technological change. In order to compete effectively, it is necessary to establish and maintain technological differentiation in our solutions.</p> <p>The Group faces competition from new market start-ups as well as more established and well-resourced companies.</p> <p>Industry consolidation amongst our direct competitors may bring about a shift in competitive advantage.</p>
Acquisitions	<p>A key element of Spirent’s strategy is to develop new capabilities and technologies, sometimes through acquisition.</p> <p>Integration of acquisitions can be a complex process and the results expected from acquisitions may not be achieved due to problems encountered in integration, changes in market conditions, the rate of adoption of new technologies, or sometimes deficiencies arising in the due diligence processes.</p>
Employee skillbase	<p>Spirent is its employees. Attracting and retaining highly qualified and skilled employees is essential to enable the Group to deliver on its strategy and to the success of the business.</p>

**Condensed consolidated income statement**

\$ million	Notes	First half 2018			First half 2017		
		Adjusted	Adjusting items <sup>1</sup>	Reported	Adjusted	Adjusting items <sup>1</sup>	Reported
<b>Revenue</b>	3,4	<b>209.2</b>	-	<b>209.2</b>	213.6	-	213.6
Cost of sales		<b>(61.1)</b>	-	<b>(61.1)</b>	(62.3)	-	(62.3)
<b>Gross profit</b>		<b>148.1</b>	-	<b>148.1</b>	151.3	-	151.3
Product development	3	<b>(48.6)</b>	-	<b>(48.6)</b>	(53.8)	-	(53.8)
Selling and marketing		<b>(60.5)</b>	-	<b>(60.5)</b>	(59.4)	-	(59.4)
Administration		<b>(21.2)</b>	-	<b>(21.2)</b>	(20.7)	-	(20.7)
Other items		-	<b>(3.2)</b>	<b>(3.2)</b>	-	(6.1)	(6.1)
<b>Operating profit</b>	3	<b>17.8</b>	<b>(3.2)</b>	<b>14.6</b>	17.4	(6.1)	11.3
<b>Other items charged in arriving at operating profit:</b>							
Exceptional items	5	-	-	-	-	(1.8)	(1.8)
Acquired intangible asset amortisation		-	<b>(1.8)</b>	<b>(1.8)</b>	-	(4.0)	(4.0)
Share-based payment		-	<b>(1.4)</b>	<b>(1.4)</b>	-	(0.3)	(0.3)
Finance income		<b>0.5</b>	-	<b>0.5</b>	0.3	-	0.3
Finance costs		-	-	-	(0.3)	-	(0.3)
Gain on divestments	10	-	<b>2.3</b>	<b>2.3</b>	-	3.1	3.1
<b>Profit before tax</b>	3	<b>18.3</b>	<b>(0.9)</b>	<b>17.4</b>	17.4	(3.0)	14.4
Tax	6	<b>(3.1)</b>	<b>0.2</b>	<b>(2.9)</b>	(4.6)	1.5	(3.1)
<b>Profit for the period attributable to owners of the parent Company</b>		<b>15.2</b>	<b>(0.7)</b>	<b>14.5</b>	12.8	(1.5)	11.3
<b>Earnings per share (cents)</b>	7						
Basic		<b>2.49</b>		<b>2.38</b>	2.10		1.85
Diluted		<b>2.47</b>		<b>2.36</b>	2.08		1.84

Note

1 Adjusting items comprise exceptional items, acquired intangible asset amortisation, share-based payment, gain on divestments, tax on adjusting items and prior year tax.

**Condensed consolidated statement of comprehensive income**

\$ million	Notes	First half 2018	First half 2017
<b>Profit for the period attributable to owners of the parent Company</b>		<b>14.5</b>	11.3
<b>Other comprehensive income/(loss)</b>			
Items reclassified to profit or loss:			
Reclassification of foreign exchange on overseas divestments	10	-	(3.1)
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on retranslation of foreign operations		<b>(2.7)</b>	2.1
		<b>(2.7)</b>	(1.0)
Items that will not subsequently be reclassified to profit or loss:			
Re-measurement of the net defined benefit pension asset/liability		<b>8.6</b>	(1.6)
Income tax effect of re-measurement of the net defined benefit pension asset/liability		<b>(1.5)</b>	0.3
Re-measurement of the deferred compensation liability		<b>0.3</b>	-
Income tax effect of re-measurement of the deferred compensation liability		<b>(0.1)</b>	-
		<b>7.3</b>	(1.3)
<b>Other comprehensive income/(loss)</b>		<b>4.6</b>	(2.3)
<b>Total comprehensive income for the period attributable to owners of the parent Company</b>		<b>19.1</b>	9.0

**Condensed consolidated balance sheet**

\$ million	Notes	30 June 2018	30 June 2017 (restated) <sup>1</sup>	Audited 31 December 2017 (restated) <sup>1</sup>
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		160.6	165.9	163.6
Property, plant and equipment		38.2	47.2	42.3
Trade and other receivables		4.5	4.3	4.1
Assets recognised from costs to obtain a contract		0.3	0.4	0.4
Defined benefit pension plan surplus	9	9.1	1.1	1.2
Deferred tax asset		19.0	33.7	23.2
		<b>231.7</b>	252.6	234.8
<b>Current assets</b>				
Inventories		26.6	25.3	23.6
Trade and other receivables		109.1	101.6	130.1
Assets recognised from costs to obtain a contract		0.5	0.6	0.6
Other financial assets		-	-	0.1
Current tax asset		3.4	3.0	1.0
Cash and cash equivalents		95.4	110.2	128.4
		<b>235.0</b>	240.7	283.8
<b>Total assets</b>		<b>466.7</b>	493.3	518.6
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(51.9)	(54.2)	(71.4)
Deferred income		(60.2)	(59.2)	(60.5)
Other financial liabilities		(0.3)	-	-
Current tax liability		(0.3)	(1.6)	(1.4)
Provisions		(2.0)	(4.0)	(3.6)
		<b>(114.7)</b>	(119.0)	(136.9)
<b>Non-current liabilities</b>				
Trade and other payables		(10.2)	(8.2)	(10.5)
Deferred income		(9.9)	(11.3)	(9.6)
Deferred tax liability		-	(0.2)	(0.3)
Defined benefit pension plan deficit	9	(0.6)	(14.1)	(4.0)
Provisions		(3.2)	(2.6)	(3.2)
		<b>(23.9)</b>	(36.4)	(27.6)
<b>Total liabilities</b>		<b>(138.6)</b>	(155.4)	(164.5)
<b>Net assets</b>		<b>328.1</b>	337.9	354.1
<b>Capital and reserves</b>				
Share capital		26.9	26.5	27.5
Share premium account		26.7	26.3	27.3
Capital redemption reserve		17.4	17.1	17.8
Other reserves		15.0	16.1	13.4
Translation reserve		8.6	9.3	11.3
Retained earnings		233.5	242.6	256.8
<b>Total equity attributable to owners of the parent Company</b>		<b>328.1</b>	337.9	354.1

Note

1 Restated for the adoption of IFRS 15 on 1 January 2018, as per note 2. The restatement of the 31 December 2017 balance sheet for the adoption of IFRS 15 is unaudited.

**Condensed consolidated cash flow statement**

\$ million	Notes	First half 2018	First half 2017
<b>Cash flows from operating activities</b>			
Cash flow from operations	11	<b>21.3</b>	43.3
Tax paid		<b>(4.2)</b>	(5.3)
<b>Net cash inflow from operating activities</b>		<b>17.1</b>	38.0
<b>Cash flows from investing activities</b>			
Interest received		<b>0.6</b>	0.2
Purchase of intangible assets		-	(0.4)
Purchase of property, plant and equipment		<b>(5.0)</b>	(9.2)
Proceeds from sale of property, plant and equipment		<b>0.5</b>	0.1
Net expenses of divestments	10	<b>(0.1)</b>	(0.1)
Repayment/(advancement) of loan to divested subsidiaries	10	<b>2.0</b>	(2.0)
<b>Net cash used in investing activities</b>		<b>(2.0)</b>	(11.4)
<b>Cash flows from financing activities</b>			
Dividends paid	8	<b>(44.2)</b>	(14.2)
Share purchase into Employee Share Ownership Trust		<b>(2.4)</b>	-
<b>Net cash used in financing activities</b>		<b>(46.6)</b>	(14.2)
Net (decrease)/increase in cash and cash equivalents		<b>(31.5)</b>	12.4
Cash and cash equivalents at the beginning of the period		<b>128.4</b>	96.1
Effect of foreign exchange rate changes		<b>(1.5)</b>	1.7
<b>Cash and cash equivalents at the end of the period</b>		<b>95.4</b>	110.2

**Condensed consolidated statement of changes in equity**

\$ million	Notes	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total equity
<b>At 1 January 2017 (audited), as reported</b>		25.3	25.0	16.3	19.4	10.3	245.3	341.6
Impact of change in accounting standards – IFRS 15	2	-	-	-	-	-	0.8	0.8
<b>At 1 January 2017, restated</b>		25.3	25.0	16.3	19.4	10.3	246.1	342.4
Profit for the period		-	-	-	-	-	11.3	11.3
Other comprehensive loss		-	-	-	-	(1.0)	(1.3)	(2.3)
<b>Total comprehensive (loss)/income</b>		-	-	-	-	(1.0)	10.0	9.0
Share-based payment		-	-	-	-	-	0.3	0.3
Tax credit on share incentives		-	-	-	-	-	0.4	0.4
Equity dividends	8	-	-	-	-	-	(14.2)	(14.2)
Exchange adjustment		1.2	1.3	0.8	(3.3)	-	-	-
<b>At 30 June 2017, restated</b>		26.5	26.3	17.1	16.1	9.3	242.6	337.9
<b>At 1 January 2018 (audited), as reported</b>		27.5	27.3	17.8	13.4	11.3	256.0	353.3
Impact of change in accounting standards – IFRS 15	2	-	-	-	-	-	0.8	0.8
<b>At 1 January 2018, restated</b>		27.5	27.3	17.8	13.4	11.3	256.8	354.1
Profit for the period		-	-	-	-	-	14.5	14.5
Other comprehensive (loss)/income		-	-	-	-	(2.7)	7.3	4.6
<b>Total comprehensive (loss)/income</b>		-	-	-	-	(2.7)	21.8	19.1
Share-based payment		-	-	-	-	-	1.4	1.4
Tax credit on share incentives		-	-	-	-	-	0.1	0.1
Equity dividends	8	-	-	-	-	-	(44.2)	(44.2)
Employee Share Ownership Trust	13	-	-	-	-	-	(2.4)	(2.4)
Exchange adjustment		(0.6)	(0.6)	(0.4)	1.6	-	-	-
<b>At 30 June 2018</b>		26.9	26.7	17.4	15.0	8.6	233.5	328.1

## **Notes to the half year condensed consolidated financial statements**

### **1 General information**

The half year condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006. The comparative financial information for the year to 31 December 2017 is based on the statutory accounts for that period, which have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The half year condensed consolidated financial statements are unaudited but have been reviewed by the auditor. A copy of their review report is included at the end of this report.

The half year condensed consolidated financial statements for the period ended 30 June 2018 were approved by the directors on 2 August 2018.

### **2 Accounting policies**

The accounting policies adopted and methods of computation used are consistent with those applied in the consolidated financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', both effective 1 January 2018. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

#### **Basis of preparation**

The half year condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board and endorsed by and adopted for use in the EU. This condensed set of half year financial statements has also been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

#### **Critical accounting estimates and judgements**

The preparation of the half year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half year condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, other than those additional areas which have arisen as a result of the adoption of IFRS 15 'Revenue from Contracts with Customers'.

#### **Going concern**

At 30 June 2018 the Group had cash balances of \$95.4 million and no debt.

The directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, and having assessed the principal risks faced by the Group, the going concern basis of accounting continues to be used in the preparation of the condensed financial statements.

#### **New standards and interpretations**

Other than in relation to IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', there have been no new standards or amendments to existing standards effective from 1 January 2018 that are applicable to the Group or that has any material impact on the financial statements and related notes as at 30 June 2018.



## 2 Accounting policies continued

### IFRS 9 Financial Instruments

IFRS 9 'Financial Instruments' is effective from 1 January 2018 and replaces the existing standard, IAS 39 'Financial Instruments: Recognition and Measurement'. The consolidated financial statements for the interim period ending 30 June 2018 are the first financial statements presented under IFRS 9. There is no material impact to the financial statements on transition to IFRS 9, other than classification effects which have not impacted the measurement or carrying amount of financial instruments.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' is effective from 1 January 2018 and replaces all existing revenue requirements in IFRS. The consolidated financial statements for the interim period ending 30 June 2018 are the first financial statements presented under IFRS 15.

IFRS 15 applies to all revenue arising from contracts with customers unless the contracts are in scope of other standards.

The standard establishes a new five-step model that applies to revenue from contracts with customers. Under IFRS 15, the core principle is that revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of the model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has applied IFRS 15 fully retrospectively in accordance with paragraph C3 (a) of the standard, restating the prior period comparatives and electing to use the following practical expedients:

- in respect of completed contracts, the Group will not restate contracts that (i) begin and end within the same annual reporting period; or (ii) are completed contracts at the beginning of the earliest period presented (para. C5(a));
- for all reporting periods presented before the date of initial application, the Group will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue (para C5(c)).

Details of the change in the Group's accounting policy in respect of revenue recognition, related matters consequent upon the adoption of IFRS 15 and an explanation of the impact on the Group's prior period financial statements is set out in appendix 1.

The directors do not anticipate that the adoption of any of the new standards and interpretations issued by the IASB and IFRIC with an effective date for the Group after the date of these interim financial statements will have a material impact on the Group's interim financial statements in the period of initial application other than in relation to IFRS 16 which is discussed below.

### IFRS 16 Leases

IFRS 16 'Leases' was issued in January 2016 to replace IAS 17 'Leases' and is effective for accounting periods beginning on or after 1 January 2019. The Group will first adopt this standard in the financial year ending 31 December 2019.

The Group has undertaken work on the impact assessment of IFRS 16 and this will continue through the second half of the year. It is currently anticipated that the application of the standard will have a material impact on both gross assets and gross liabilities, offsetting to lessen the impact on net assets.

Through the impact assessment, the Group has determined there are a small number of transactions that will be impacted by the new standard, and the most significant of these relate to the lease of land and buildings. There are several significant judgement areas in relation to the application of the standard, the most significant of these being the determination of the incremental borrowing rate, and the consideration of options to extend or terminate leases.

### 3 Operating segments

The Group is organised into three reportable operating segments; Networks & Security, Lifecycle Service Assurance and Connected Devices. The Group evaluates adjusted operating profit before exceptional items, acquired intangible asset amortisation and share-based payment.

\$ million	Networks & Security	Lifecycle Service Assurance	Connected Devices	Corporate	Total
<b>First half 2018</b>					
<b>Revenue</b>					
External revenue	125.3	48.0	35.9	-	209.2
<b>Profit before tax</b>					
Adjusted operating profit/(loss)	14.8	1.4	4.0	(2.4)	17.8
Total reportable segment profit/(loss)	14.8	1.4	4.0	(2.4)	17.8
Acquired intangible asset amortisation					(1.8)
Share-based payment					(1.4)
<b>Operating profit</b>					
Finance income					0.5
Gain on divestments					2.3
<b>Profit before tax</b>					
					17.4
<b>Other information</b>					
Product development	26.8	14.8	7.0	-	48.6
Intangible asset amortisation – other	-	-	0.4	-	0.4
Depreciation	4.9	1.6	1.8	0.1	8.4
Inventory write-down	0.1	0.1	0.2	-	0.4
<b>First half 2017</b>					
<b>Revenue</b>					
External revenue	126.0	44.9	42.7	-	213.6
<b>Profit before tax</b>					
Adjusted operating profit/(loss)	19.5	0.2	0.5	(2.8)	17.4
Exceptional items	(1.4)	(0.1)	(0.3)	-	(1.8)
Total reportable segment profit/(loss)	18.1	0.1	0.2	(2.8)	15.6
Acquired intangible asset amortisation					(4.0)
Share-based payment					(0.3)
<b>Operating profit</b>					
Finance income					0.3
Finance costs					(0.3)
Gain on divestments					3.1
<b>Profit before tax</b>					
					14.4
<b>Other information</b>					
Product development	26.9	15.6	11.3	-	53.8
Intangible asset amortisation – other	-	-	0.3	-	0.3
Depreciation	5.2	1.4	2.3	0.1	9.0
Inventory write-down	0.1	0.3	0.8	-	1.2

Inter-segment revenue is eliminated in the above periods.

#### 4 Revenue

The Group disaggregates revenue from contracts with customers by nature of products and services and geographic location, as this depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

\$ million	First half 2018	First half 2017
<b>Revenue by nature</b>		
Sale of goods	145.6	148.4
Maintenance and support services	63.6	65.2
	<b>209.2</b>	213.6
<b>Revenue by market*</b>		
Americas	120.2	115.8
Asia Pacific	65.5	77.3
Europe, Middle East and Africa	23.5	20.5
	<b>209.2</b>	213.6

\*First half 2017 restated.

Europe, Middle East and Africa includes United Kingdom revenue of \$3.6 million (first half 2017: \$3.7 million).

Americas includes United States revenue of \$114.6 million (first half 2017: \$109.9 million).

Asia Pacific includes China revenue of \$33.1 million (first half 2017: \$39.1 million).

#### 5 Exceptional Items

During 2016 and 2017, Spirent undertook a fundamental review of the lines of business in order to bring more focus to certain product lines and to combine planning efforts in other product lines. In addition, Spirent reviewed the sales organisation and compensation structure. The total cost of these items in the first half of 2017 was \$1.8 million. There were no exceptional items in the first half of 2018.

The cash outflow in the first half of 2018 in respect of exceptional items charged in 2017 was \$2.3 million (first half 2017: \$2.0 million).

The total cash outflow in respect of exceptional items charged in 2017 is reported within cash flows from operating activities in the consolidated cash flow statement.

## 6 Tax

\$ million	First half 2018	First half 2017
<b>Current income tax</b>		
UK tax	-	0.4
Overseas tax	0.7	2.5
Amounts overprovided in previous years – overseas tax	-	(0.1)
<b>Total income tax</b>	<b>0.7</b>	<b>2.8</b>
<b>Deferred tax</b>		
Recognition of deferred tax assets	(0.8)	-
Reversal/(origination) of temporary differences	3.0	(0.4)
Prior year charge	-	0.7
<b>Total deferred tax</b>	<b>2.2</b>	<b>0.3</b>
<b>Tax charge in the income statement</b>	<b>2.9</b>	<b>3.1</b>

The effective tax rate for the first half year is 16.9 per cent (first half 2017: 26.4 per cent), being the current period tax charge, excluding any prior year adjustment and tax on adjusting items, as a percentage of adjusted profit before tax.

## 7 Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the parent Company by the weighted average number of Ordinary Shares outstanding during the period.

### Diluted

Diluted earnings per share is calculated by dividing the profit for the period attributable to owners of the parent Company by the weighted average number of Ordinary Shares outstanding during the period plus the weighted average number of Ordinary Shares that would be issued on the conversion of all dilutive potential Ordinary Shares into Ordinary Shares.

\$ million	First half 2018	First half 2017
<b>Profit for the period attributable to owners of the parent Company</b>	<b>14.5</b>	<b>11.3</b>
Number million		
<b>Weighted average number of shares in issue – basic</b>	<b>610.2</b>	610.6
Dilutive potential of employee share incentives	5.5	4.0
<b>Weighted average number of shares in issue – diluted</b>	<b>615.7</b>	614.6
Cents		
<b>Earnings per share</b>		
Basic	<b>2.38</b>	1.85
Diluted	<b>2.36</b>	1.84

## 7 Earnings per share continued

The Group is disclosing adjusted earnings per share for continuing operations attributable to owners of the parent Company in order to provide a measure to enable period-on-period comparisons to be made of its performance. The following items are excluded from adjusted earnings:

- Exceptional items
- Acquired intangible asset amortisation
- Share-based payment
- Gain on divestments
- Tax effect on the above items
- Prior year tax (adjustments made to provisions in respect of prior years)

	First half 2018		First half 2017	
	\$ million	EPS cents	\$ million	EPS cents
<b>Profit for the period attributable to owners of the parent Company</b>	<b>14.5</b>	<b>2.38</b>	11.3	1.85
Exceptional items	-		1.8	
Acquired intangible asset amortisation	1.8		4.0	
Share-based payment	1.4		0.3	
Gain on divestments	(2.3)		(3.1)	
Tax effect on the above items	(0.2)		(2.1)	
Prior year tax	-		0.6	
Adjusted basic	15.2	2.49	12.8	2.10
Adjusted diluted		2.47		2.08

## 8 Dividends paid and proposed

	First half 2018		First half 2017	
	Cents per Ordinary Share	\$ million	Cents per Ordinary Share	\$ million
<b>Amounts recognised as distributions to equity in the period</b>				
Final dividend paid for previous year	2.40	14.3	2.21	14.2
Special dividend paid for previous year	5.00	29.9	-	-
<b>Amounts approved by the directors (not recognised as a liability at the balance sheet date)</b>	<b>1.76</b>	<b>10.7</b>	1.68	10.2

An interim dividend of 1.76 cents per Ordinary Share (2017: 1.68 cents per Ordinary Share) was declared by the Board on 2 August 2018 and will be paid to Ordinary shareholders on 7 September 2018 and to ADR holders on 14 September 2018. This dividend has not been included as a liability in these financial statements. The dividend is payable to all shareholders on the Register of Members at the close of business on 10 August 2018.

Dividends are declared or proposed in US dollars but will be paid in pounds sterling at the exchange rate prevailing when the dividend is declared or proposed. The exchange rate used for determining the amount of interim dividend to be paid was \$1.31:£1.

## 9 Defined benefit pension plans

The funded defined benefit pension plans are in the United Kingdom. In addition, there is a United Kingdom unfunded plan.

The most recent actuarial valuations, at 31 March 2015, of the plans' assets and the present value of the plans' obligations, using the projected unit credit method, have been used and updated at 30 June 2018.

The key financial assumptions are as follows:

%	First half 2018	First half 2017	Year 2017
Inflation - RPI	3.1	3.1	3.1
Inflation - CPI	2.0	2.0	2.0
Rate of increase in pensionable salaries	2.0	2.0	2.0
Rate of increase for pensions in payment			
Pre 2001 service	3.6	3.6	3.6
2001 to 5 April 2005 service	3.0	3.0	3.0
Post 5 April 2005 service	2.1	2.1	2.1
Rate of increase in deferred pensions	2.0	2.0	2.0
Rate used to discount plan liabilities	2.7	2.7	2.5

An operating charge of \$0.2 million (first half 2017: \$0.2 million) and finance costs of nil (first half 2017: \$0.3 million) have been recognised.

The assets and liabilities in the funded defined benefit pension plans were as follows:

\$ million	First half 2018	First half 2017	Year 2017
Fair value of defined benefit pension plans' assets	270.8	263.4	282.6
Present value of defined benefit pension plans' obligations	(261.7)	(275.6)	(284.8)
Net UK funded defined benefit pension plan surplus/(deficit) on the balance sheet	9.1	(12.2)	(2.2)

The assets and liabilities on the balance sheet are as follows:

\$ million	First half 2018	First half 2017	Year 2017
<b>Assets</b>			
UK funded defined benefit pension plan surplus	9.1	1.1	1.2
<b>Liabilities</b>			
UK funded defined benefit pension plan deficit	-	(13.3)	(3.4)
UK unfunded plan	(0.6)	(0.8)	(0.6)
	(0.6)	(14.1)	(4.0)
	8.5	(13.0)	(2.8)

The Group also operates a deferred compensation plan for employees in the United States. The plan has elements of a defined benefit pension retirement obligation and therefore is required to be valued in accordance with IAS 19 'Employee Benefits'. At 30 June 2018, the deferred compensation deficit amounted to \$3.8 million (31 December 2017: \$3.7 million) and is included within non-current trade and other payables. A re-measurement gain of \$0.3 million (31 December 2017: \$0.9 million loss) was recognised directly in the statement of comprehensive income. The key financial assumptions include a discount rate used to discount plan liabilities of 4.1 per cent and an investment yield of 7.5 per cent (31 December 2017: 3.4 per cent discount rate and 7.5 per cent investment yield). In the first half of 2017, no net investment yield growth was assumed for the plan.

## 10 Divestments

During the prior year, the Group divested of certain assets and liabilities of Epiteiro Group Limited (Epiteiro) for consideration of \$0.3 million. Epiteiro was reported within the Lifecycle Service Assurance operating segment.

During the prior year, the Group also divested the entire issued share capital of its subsidiaries, Spirent Communications Israel Limited, its Developer Tools (DT) line of business, and Spirent Holdings Denmark ApS and its subsidiaries, its Device Intelligence (DI) line of business, to Dorfi Limited, an Israeli entity established by the General Manager of the business units, for a total cash consideration of \$1. Both DI and DT were reported within the Connected Devices operating segment.

The gain on the divestments during the period was as follows:

\$ million	First half 2018	First half 2017
Gross consideration	-	0.3
Net liabilities at date of divestment	-	2.4
Provision against loan to divested subsidiaries	-	(2.0)
Loan repaid	2.0	-
Expenses of sale	(0.1)	(0.7)
Provision release	0.4	-
Foreign exchange adjustments	-	3.1
Net gain on divestments before and after tax	2.3	3.1

In the prior year, accumulated foreign exchange gains of \$3.1 million were recycled to profit or loss on divestment of DI and DT.

As part of the sale of DI and DT in the prior year, Spirent made a \$2.0 million interest bearing loan to the divested subsidiaries to fund working capital requirements. This loan was fully provided for by the Group and expensed in the calculation of the gain on divestments. In 2018, the loan was repaid in full to Spirent.

During the year, a provision relating to a disposal in 2012, which was classified as a discontinued operation, was released.

The net cash impact of divestments in the period was as follows:

\$ million	First half 2018	First half 2017
Cash consideration	-	0.3
Repayment/(advancement) of loan to divested subsidiaries	2.0	(2.0)
Expenses of sale	(0.1)	(0.4)
Net cash impact from divestments in current period	1.9	(2.1)



## 11 Reconciliation of profit before tax to cash generated from operations

\$ million	First half 2018	First half 2017
<b>Profit before tax</b>	<b>17.4</b>	14.4
Adjustments for:		
Finance income	<b>(0.5)</b>	(0.3)
Finance expense	-	0.3
Intangible asset amortisation	<b>2.2</b>	4.3
Depreciation of property, plant and equipment	<b>8.4</b>	9.0
Loss on the disposal of property, plant and equipment	-	0.1
Gain on divestments	<b>(2.3)</b>	(3.1)
Share-based payment	<b>1.4</b>	0.3
Changes in working capital		
Deferred income received	<b>0.3</b>	1.6
Decrease in receivables	<b>20.3</b>	25.8
(Increase)/decrease in inventories	<b>(3.0)</b>	2.0
Decrease in payables	<b>(18.3)</b>	(7.4)
Decrease in provisions	<b>(1.2)</b>	(0.6)
Defined benefit pension plan	<b>(3.4)</b>	(3.1)
<b>Cash flow from operations</b>	<b>21.3</b>	43.3

## 12 Fair value

The directors consider that the carrying amounts of trade and other receivables and trade and other payables approximates their fair value.

## 13 Employee Share Ownership Trust

During the first half of 2018, 1.5 million shares were purchased and placed into the Employee Share Ownership Trust (ESOT) at a cost of \$2.5 million, and 1.2 million shares were transferred from the ESOT to satisfy options exercised under the Spirent employee share plans, raising proceeds of \$0.1 million. At 30 June 2018, the ESOT held 0.9 million Ordinary Shares (31 December 2017: 0.6 million Ordinary Shares).

## 14 Related party transactions

There have been no related party transactions in the first half of 2018 which have materially affected the financial position or the performance of the Group.

Related parties are consistent with those disclosed in the Group's Annual Report for the year ended 31 December 2017.

## 15 Capital commitments and contingent liabilities

There are no material capital commitments. There have been no material changes since 31 December 2017 to the Group's indemnities and contingencies.

The Group has received enquiries from the Direction Générale des Douanes et Droits Indirects (French Customs) in relation to the valuation and classification of imports into France but has not received a formal demand for unpaid duty and it is unclear whether a formal demand will be received. Spirent has adopted a duty tariff based on World Customs Organisation guidelines that potentially conflicts with European Union import regulations, resulting in a possible liability to the French authorities.

There is uncertainty with regard to not only the legitimacy of any potential claim, but also the appropriate tariff classification, the period in question and both the population and valuation of goods potentially subject to duty. The determination of the amount of any liability in respect of unpaid duty and associated penalties and interest is therefore dependent on a number of significant inter-related uncertainties and therefore the Group cannot reasonably make an assessment of the quantum of that contingent liability at the date of these condensed financial statements. It is not practicable to state the timing of the payment due, if any, since no formal demand for unpaid duty has been made.

Due to the aforementioned uncertainties, the Group considers it possible, but not probable, that a settlement will be required.

### **Statement of directors' responsibilities**

The directors confirm that to the best of their knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the IASB and endorsed and adopted by the EU.

The half year management report includes a fair review of the information required by:

- (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the 2017 Annual Report.

The directors of Spirent Communications plc are listed below and are unchanged from the Spirent Communications plc Annual Report for 31 December 2017.

Bill Thomas  
Eric Hutchinson  
Paula Bell  
Jonathan Silver  
Gary Bullard  
Wendy Koh  
Edgar Masri

By order of the Board of Spirent Communications plc.

**E G Hutchinson**  
**Chief Executive Officer**  
**2 August 2018**

## **Independent review report to Spirent Communications plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2018 which comprises Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated balance sheet, Condensed consolidated cash flow statement, Condensed consolidated statement of changes in equity, and related notes 1 to 15. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

### **Directors' Responsibilities**

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Ernst & Young LLP**  
**London**  
**2 August 2018**

### **Appendix 1 – Impact of IFRS 15**

The Group adopted IFRS 15 'Revenue from Contracts with Customers' on 1 January 2018 using the fully retrospective transition method, requiring restated comparatives. This appendix details the Group's accounting policy for revenue from 1 January 2018 and presents the impact of the adoption of IFRS 15 on the Group's financial statements.

The cumulative effect of the adoption of IFRS 15 has resulted in an increase in net assets of \$0.8 million as at 1 January 2017 (31 December 2017: \$0.8 million). This reflects the capitalisation of incremental costs incurred to obtain a contract, being sales commissions previously expensed as incurred, net of the associated deferred tax impact. The adoption of IFRS 15 has not impacted revenue previously reported.

#### **New accounting policy for revenue**

Revenue represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from product sales of hardware and perpetual software licenses is recognised at the point in time when the customer has obtained control of the goods sold. This is usually when the products have been delivered in accordance with the contractual terms. In most instances it is not until acceptance has occurred that control of the asset is transferred to the customer. Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer. If it can be objectively determined that control has been transferred to the customer in accordance with the agreed contract specifications, customer acceptance is a formality that would not affect the determination of when the customer has obtained control of the products. However, if it cannot be objectively determined that the goods delivered are in accordance with the agreed-upon contract specifications, revenue would not be recognised until customer acceptance has been granted.

For the sale of services, revenue is recognised over time with reference to when or as the performance obligations are satisfied by transferring the service to the customer. Revenue from support and maintenance service contracts is recognised over the period of performance on a straight-line basis. Other services are recognised based on a measure of progress towards complete satisfaction of the performance obligation. Progress is measured with reference to the actual cost of services provided as a proportion of the total cost of services expected to be provided under the contract.

#### **Critical accounting assumptions and judgements**

To determine the appropriate revenue recognition for contracts containing multiple elements or complex solutions that include both services and goods, we evaluate whether the contract should be accounted for as a single or multiple performance obligation. This evaluation requires significant judgement. For revenue recognition purposes contractual arrangements are accounted for as two or more separate performance obligations only where the commercial substance is that the individual components operate independently of each other, because they are capable of being distinct and are separately identifiable from other promises in the context of the contract with the customer. Management exercises a degree of judgement in setting the criteria used for determining when revenue which involves several elements should be recognised and the stand alone selling prices of each element. The Group generally determines the stand-alone selling prices of individual elements based on prices at which the deliverable is typically sold.

For professional services revenue recognised over time, the selection of the method to measure progress towards completion requires judgement and is based on the nature of the services to be provided.

Certain subscription contracts contain variable price elements depending on the number of subscribers. Variable consideration is estimated at the most likely amount to which the Group will be entitled. Estimated amounts are included in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognised will not occur when the certainty associated with the variable consideration is resolved.

Estimates of variable consideration are largely based on anticipated number of users advised by the customer and information available to the Group.

Contracts are sometimes modified to account for changes in customer requirements. Contract modifications are considered to exist when the modification either creates new, or changes the existing, enforceable rights and obligations. Most of the Group's contract modifications are for goods and services that are distinct from existing performance obligations and are made prior to the transfer of the goods or services to the customer. Accordingly, these are included in the goods and services to be transferred and are included in the accounting of the contract on a prospective basis or as a separate performance obligation as appropriate.

#### **Costs to obtain a contract**

The incremental costs of obtaining a contract with a customer are capitalised as an asset if the Group expects to recover them. The Group incurs costs such as sales commissions when it enters into a new contract. Such costs are presented in the consolidated balance sheet as assets recognised from costs to obtain a contract where the related revenue is recognised over time, usually in relation to support and subscription agreements. These assets are amortised on a systematic basis consistent with how the related revenue is recognised. The amortisation is recognised in selling costs within the income statement.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group would otherwise have recognised is one year or less.

Management is required to determine the recoverability of assets recognised from costs to obtain a contract. At each reporting date, the Group determines whether or not the assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. No assets were impaired as at 30 June 2018 or 30 June 2017 (31 December 2017: nil).

#### **Deferred income**

Revenue from product sales of hardware and perpetual software licenses is recognised at the point in time when the customer has obtained control of the goods sold. In the instances where revenue from hardware or perpetual software licences is unable to be recognised but consideration has been received, revenue would not be recognised until control has passed, resulting in deferred income.

Support services and software subscription agreements are generally billed at commencement of the support or subscription contract, while revenue is recognised over the period of the support or subscription agreement, resulting in deferred income.

Professional services are generally billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or based on a measure of progress.

The Group occasionally receives advance payments from customers on account, before goods or services are delivered and revenue is recognised, resulting in liabilities. These liabilities are reported on the consolidated balance sheet within trade and other payables on a contract-by-contract basis at the end of each reporting period.

**Consolidated balance sheet restatement under IFRS 15**

\$ million	Notes	As reported 1 Jan 2017	Impact of IFRS 15	Restated 1 Jan 2017	As reported 30 Jun 2017	Impact of IFRS 15	Restated 30 Jun 2017	As reported 31 Dec 2017	Impact of IFRS 15	Restated 31 Dec 2017
<b>Assets</b>										
<b>Non-current assets</b>										
Intangible assets		169.8	-	169.8	165.9	-	165.9	163.6	-	163.6
Property, plant and equipment		47.3	-	47.3	47.2	-	47.2	42.3	-	42.3
Trade and trade receivables		4.6	-	4.6	4.3	-	4.3	4.1	-	4.1
Assets recognised from costs to obtain a contract	A	-	0.4	0.4	-	0.4	0.4	-	0.4	0.4
Cash on deposit		0.1	-	0.1	-	-	-	-	-	-
Defined benefit pension plan surplus		0.9	-	0.9	1.1	-	1.1	1.2	-	1.2
Deferred tax asset		33.1	-	33.1	33.7	-	33.7	23.2	-	23.2
		<b>255.8</b>	<b>0.4</b>	<b>256.2</b>	<b>252.2</b>	<b>0.4</b>	<b>252.6</b>	<b>234.4</b>	<b>0.4</b>	<b>234.8</b>
<b>Current assets</b>										
Inventories		27.4	-	27.4	25.3	-	25.3	23.6	-	23.6
Trade and other receivables		128.9	-	128.9	101.6	-	101.6	130.1	-	130.1
Assets recognised from costs to obtain a contract	A	-	0.6	0.6	-	0.6	0.6	-	0.6	0.6
Other financial assets		-	-	-	-	-	-	0.1	-	0.1
Current tax asset		0.4	-	0.4	3.0	-	3.0	1.0	-	1.0
Cash and cash equivalents		96.1	-	96.1	110.2	-	110.2	128.4	-	128.4
		<b>252.8</b>	<b>0.6</b>	<b>253.4</b>	<b>240.1</b>	<b>0.6</b>	<b>240.7</b>	<b>283.2</b>	<b>0.6</b>	<b>283.8</b>
<b>Total assets</b>		<b>508.6</b>	<b>1.0</b>	<b>509.6</b>	<b>492.3</b>	<b>1.0</b>	<b>493.3</b>	<b>517.6</b>	<b>1.0</b>	<b>518.6</b>
<b>Liabilities</b>										
<b>Current liabilities</b>										
Trade and other payables	B	(127.2)	57.0	(70.2)	(113.4)	59.2	(54.2)	(131.9)	60.5	(71.4)
Deferred income	B	-	(57.0)	(57.0)	-	(59.2)	(59.2)	-	(60.5)	(60.5)
Other financial liabilities		(0.1)	-	(0.1)	-	-	-	-	-	-
Current tax liability		(1.5)	-	(1.5)	(1.6)	-	(1.6)	(1.4)	-	(1.4)
Provisions		(4.2)	-	(4.2)	(4.0)	-	(4.0)	(3.6)	-	(3.6)
		<b>(133.0)</b>	<b>-</b>	<b>(133.0)</b>	<b>(119.0)</b>	<b>-</b>	<b>(119.0)</b>	<b>(136.9)</b>	<b>-</b>	<b>(136.9)</b>
<b>Non-current liabilities</b>										
Trade and other payables	B	(16.9)	11.2	(5.7)	(19.5)	11.3	(8.2)	(20.1)	9.6	(10.5)
Deferred income	B	-	(11.2)	(11.2)	-	(11.3)	(11.3)	-	(9.6)	(9.6)
Deferred tax liability	C	(0.1)	(0.2)	(0.3)	-	(0.2)	(0.2)	(0.1)	(0.2)	(0.3)
Defined benefit pension plan deficit		(14.4)	-	(14.4)	(14.1)	-	(14.1)	(4.0)	-	(4.0)
Provisions		(2.6)	-	(2.6)	(2.6)	-	(2.6)	(3.2)	-	(3.2)
		<b>(34.0)</b>	<b>(0.2)</b>	<b>(34.2)</b>	<b>(36.2)</b>	<b>(0.2)</b>	<b>(36.4)</b>	<b>(27.4)</b>	<b>(0.2)</b>	<b>(27.6)</b>
<b>Total liabilities</b>		<b>(167.0)</b>	<b>(0.2)</b>	<b>(167.2)</b>	<b>(155.2)</b>	<b>(0.2)</b>	<b>(155.4)</b>	<b>(164.3)</b>	<b>(0.2)</b>	<b>(164.5)</b>
<b>Net assets</b>		<b>341.6</b>	<b>0.8</b>	<b>342.4</b>	<b>337.1</b>	<b>0.8</b>	<b>337.9</b>	<b>353.3</b>	<b>0.8</b>	<b>354.1</b>
<b>Capital and reserves</b>										
Share capital		25.3	-	25.3	26.5	-	26.5	27.5	-	27.5
Share premium account		25.0	-	25.0	26.3	-	26.3	27.3	-	27.3
Capital redemption reserve		16.3	-	16.3	17.1	-	17.1	17.8	-	17.8
Other reserves		19.4	-	19.4	16.1	-	16.1	13.4	-	13.4
Translation reserve		10.3	-	10.3	9.3	-	9.3	11.3	-	11.3
Retained earnings	A, C	245.3	0.8	246.1	241.8	0.8	242.6	256.0	0.8	256.8
<b>Total equity attributable to owners of the parent Company</b>		<b>341.6</b>	<b>0.8</b>	<b>342.4</b>	<b>337.1</b>	<b>0.8</b>	<b>337.9</b>	<b>353.3</b>	<b>0.8</b>	<b>354.1</b>

## Notes

### **A. Recognition and utilisation of assets recognised from costs to obtain a contract**

IFRS 15 specifies that the incremental costs of obtaining a contract are capitalised if the entity expects to recover them.

At 1 January 2017, the Group has capitalised sales commissions amounting to \$1.0 million that were previously expensed as incurred. These assets are amortised on a systematic basis through selling costs in the income statement consistent with how the related revenue is recognised. At 30 June 2017 and 31 December 2017, the assets capitalised also amounted to \$1.0 million.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group would otherwise have recognised is one year or less.

### **B. Reclassification of trade and other payables**

Deferred income has been reclassified from trade and other payables to its own line item in the balance sheet as required by IFRS 15 reflecting the materiality and nature of this balance in the context of the Group's business.

### **C. Deferred tax**

The recognition of assets recognised from costs to obtain a contract on the balance sheet from 1 January 2017 as stated above resulted in a deferred tax liability of \$0.2 million. There was an immaterial adjustment to deferred tax in the period ended 30 June 2017 and the year ended 31 December 2017.

### **Consolidated income statement restatement under IFRS 15**

There is no material impact to the consolidated income statement on transition to IFRS 15.

### **Consolidated cash flow statement restatement under IFRS 15**

As a result of the adoption of IFRS 15, certain reclassifications are required in relation to the following cash flow movements between relevant balance sheet accounts. There has been no change in the net cash generated from operations as a result of these reclassifications or restatement of these balance sheet accounts.

- As identified in adjustment A, on transition to IFRS 15 on 1 January 2018, the Group has recognised assets from costs to obtain a contract. Movements in the operating cash flow note reflect the relevant movements in assets, which have been included within the movement in receivables
- As identified in adjustment B, the Group has reclassified deferred income in the balance sheet. This reclassification has not impacted the consolidated cash flow statement.

### **Consolidated statement of changes in equity restatement under IFRS 15**

No reconciliation of the restated consolidated statement of changes in equity is presented as the only changes for the relevant period are presented as follows:

- **Consolidated statement of changes in equity as at 1 January 2017:** recognition of the restated retained earnings figure as presented in the restated consolidated balance sheet at this date
- **Consolidated statement of changes in equity as at 30 June 2017:** recognition of the restated retained earnings figure as presented in the restated consolidated balance sheet at this date
- **Consolidated statement of changes in equity as at 31 December 2017:** recognition of the restated retained earnings figure as presented in the restated consolidated balance sheet at this date