SPIRENT COMMUNICATIONS PLC
FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

London, UK – 8 March 2018: Spirent Communications plc (“Spirent”, the “Company” or the “Group”) (LSE: SPT), a leading communications technology company, today announces its full year results for the financial year ended 31 December 2017.

Strong growth in earnings and cash generation

- During 2017 we established a firm platform to realise Spirent’s potential, focusing on specific growth objectives whilst ensuring our cost base is efficient.
- As expected, revenue level year-on-year, up 2.4 per cent excluding Connected Devices.
- Growth of 100G high-speed Ethernet testing slowed during the year in anticipation of 400G, build up expected in H2 2018.
- We have a market-leading position in 400G with equipment manufacturers and service providers.
- Strong performance from our areas of strategic growth priority – Lifecycle Service Assurance revenue up 10 per cent and Application Security business up more than 20 per cent, improving Group gross margin.
- Connected Devices – robust turnaround delivered, with significantly improved profitability, despite revenue decline.
- Adjusted operating costs reduced by $16.7 million, excluding foreign exchange.
- Adjusted operating profit up 27 per cent to $58.9 million.
- Adjusted operating margin up from 10.2 per cent to 13.0 per cent.
- Strong cash management, free cash flow $56.4 million (2016: $25.9 million).
- Adjusted basic EPS up 43 per cent to 7.55 cents.
- Tax benefits from US reform – 2018 estimated Group effective tax rate of circa 17 per cent.
- Special dividend of 5.00 cents per share, in addition to an increased final dividend of 2.40 cents per share, to be paid May 2018.

Results summary

$ million	**2017**	2016
Revenue	**454.8**	457.9
Adjusted operating profit[1]	**58.9**	46.5
Adjusted operating margin[2] (%)	**13.0**	10.2
Adjusted profit before tax[3]	**59.2**	44.2
Adjusted basic earnings per share[4] (cents)	**7.55**	5.29
Reported operating profit/(loss)	**43.7**	(41.1)
Reported profit/(loss) before tax	**46.6**	(46.0)
Free cash flow[5]	**56.4**	25.9
Closing cash	**128.4**	96.1
Dividend per share[6] (cents)	**4.08**	3.89
Special dividend per share[6] (cents)	**5.00**	-

Divisional highlights

Networks & Security

- Strong growth in our Positioning and Application Security businesses offset some softness in high-speed Ethernet testing as customers transition to new 400G platforms.
- We grew our market share in high-speed Ethernet performance test systems and participated in several first-to-market demonstrations.
- We increased the coverage of our flagship security product (Spirent CyberFlood) with support for ransomware, Internet of Things (IoT), industrial controls and distributed denial of service (DDoS) attacks.
- We remain the world's leading vendor of global navigation satellite simulators and released the GNSS Vulnerabilities and Threats test suite.
- We launched the first Automotive Ethernet protocol conformance and performance test system.

Lifecycle Service Assurance

- Our Lifecycle Service Assurance revenue grew 10 per cent, boosted by winning fifteen $1 million+ deals.
- We expanded our footprint in our three largest Tier 1 mobile operator customers, winning four new Tier 1 deployments, addressing critical challenges in the roll out of virtual networks and business mobile services.
- We participated in high-profile demonstrations at TM Forum Live in Nice in a joint demonstration with AT&T, Orange, TIM, Huawei, IBM, Infosys and Tech Mahindra and at Mobile World Congress in Shanghai with China Mobile Research Institute.

Connected Devices

- We delivered a strong performance turnaround, by materially reducing costs and focusing on our core areas of differentiation, returning to solid profitability.
- We divested Device Intelligence (DI) and Developer Tools (DT) on 30 June 2017 as part of our portfolio review.
- We released our Spirent Elevate IoT Device Test Solution, a cellular test solution designed to support a wide range of IoT applications.
- China Telecom selected our Spirent Umetrix® Voice solution to measure the voice quality of smartphones.

Outlook

Key strategic wins secured in 2017 demonstrated traction in our key focus areas: active test and assurance in operational networks and in cyber security. The demand for high-speed Ethernet, particularly in 400G, is expected to rebound later this year.

We expect that our 2018 results will once again be weighted to the second half, owing to our normal seasonality, but amplified by two additional factors. The first is the expected rebound in Ethernet testing in the second half and the second is the expectation that Lifecycle Service Assurance spending is likely to be second half weighted after the heavy spending flourish at the end of 2017.

The stronger growth anticipated in our areas of strategic focus is expected to drive the performance of Spirent again in 2018. The Board is confident that the Group will show progress in 2018 while continuing to focus on a balanced approach to operational efficiency and investment in product development in its core growth businesses.

Eric Hutchinson, Chief Executive Officer, commented:

"In 2017 we established a firm basis to realise Spirent's full potential delivering strong growth in earnings and in cash generation as we did so. We have taken our expertise in network assurance to deploy innovative new systems, winning new business with well-established and new customers. In doing so, we gained market share with the early adopters in the industry, which should serve Spirent well in 2018 and the long-term."

"Exponential growth in data and the virtualisation of networks continues at pace. We are well positioned for future growth with our leading-edge technology, to enable our customers to accelerate their time to market and increase their quality of service at lower operating costs."

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Notes

1 Adjusted operating profit is before charging exceptional items, acquired intangible asset amortisation, goodwill and acquired intangible asset impairment and share-based payment amounting to $15.2 million in total (2016: $87.6 million).
2 Adjusted operating profit as a percentage of revenue in the period.
3 Before the items set out in note 1, gain on divestment and impairment of investment in associate.
4 Adjusted basic earnings per share is based on adjusted earnings as set out in note 7 of Notes to the full year consolidated financial statements.
5 Operating cash flow after tax, net interest and net capital expenditure.
6 Dividends are determined in US dollars and paid in sterling at the exchange rate prevailing when the dividend is proposed.
- The final dividend proposed for 2017 of 2.40 cents per Ordinary Share is equivalent to 1.73 pence per Ordinary Share.
- The special dividend proposed for 2017 of 5.00 cents per Ordinary Share is equivalent to 3.60 pence per Ordinary Share.

Enquiries

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The Company will host a results presentation today at 9.15am for 9.30am UK time at FTI Consulting, 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 http://corporate.spirent.com/.

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

Overview – realising our potential
In 2017, we established a firm basis to realise Spirent's full potential.

We focused on our core expertise to enable our customers to develop high-performance, high-security systems in a shorter time. We have taken our expertise in service assurance to deploy innovative new systems, winning new business with well-established and new customers. In doing so, we gained market share with the early adopters in the industry, which should serve Spirent well in 2018 and the long-term.

An essential part of realising potential has been to focus on our core strategies and take these into the growth opportunities offered by the global trend to move rapidly from development into operations. A natural consequence is a reduction in expenditure as we cease or scale back activities outside this focus area. This, in turn, has helped to increase profitability of Spirent's operations and to increase cash generation.

Strategy – enabling the data revolution
Spirent enables its customers to deliver data connectivity which is faster, has greater capacity and has resilient security. This is essential to the development and deployment of new technologies worldwide: from smart industrial processes, smart home management, autonomous vehicles, smart enterprise business processes to smart city construction. Add in the digitisation of healthcare, and it is clear that ultra-reliable, fail safe connectivity at hyper-scale is necessary to deliver this vision. Spirent has an important role in enabling its customers to deliver these new smart technologies in an economic, secure and timely manner.

Spirent's core expertise in data technologies – founded on high-speed Ethernet, Wi-Fi, cellular wireless, satellite constellations – combined with automated service assurance and analytics, offers a differentiated and powerful set of solutions to our customers. Vital to our customers' success is our ability to deliver our expertise in test, measurement, validation, assurance and security in automated, scalable systems that are easy to use. This will enable our customers to realise their vision of supplying data connectivity with lower cost, higher reliability and security.

The dominant market trends are underpinned by relentless traffic growth. The business imperative is to enable the industry to reduce operating cost and capital expenditure. Operators cannot afford to match traffic growth with higher and higher levels of investment in new data transport and equipment. They also have to reduce their cost of operations by implementing new network architecture and operating practices. These imperatives underpin this move to software defined networks, network virtualisation and automation. This is why Spirent's strategic focus is to offer enabling technologies, systems and active service assurance so that our customers, existing and new, can meet the challenges in building out virtual networks. Within this broad landscape there are market disrupters: virtual, virtualisation, the Internet of Things, 5G wireless and cyber security.

Network virtualisation is the only way to support the exponential growth in data consumption. Virtualisation allows the radical reduction in the capital cost of networks; it also allows rapid deployment of new services. Spirent provides active test systems to assure performance before deployment, and during operation, to allow real-time response to changing conditions in the network. The existing hybrid networks, with their inherent complexity, will exist for decades to come.

Spirent's strategic direction is to take our deep expertise in test and assurance in data networking to provide leading-edge solutions and services that enable the realisation of smart connectivity at an economic cost, achieved through automation and lower cost operation. We will extend on our leadership positions in high-speed Ethernet and in satellite navigation. We will deliver solutions to meet the challenges of virtualisation and cyber security. We will deploy systems in live production networks for active test and management to lower the cost of operations. We will develop new solutions for this growth in 5G wireless technology and to meet the requirements for autonomous vehicles.

FINANCIAL REVIEW

Group overview

Strong earnings growth and improved cash generation were delivered following the implementation of our improvement programmes, which included a portfolio review of our business and targeted cost and working capital management initiatives.

The Group delivered a strong increase in both adjusted basic earnings per share, up by 43 per cent and free cash flow, up by 118 per cent. Adjusted operating profit increased by $12.4 million or 27 per cent, on slightly reduced revenue. The highlights were a robust performance from Lifecycle Service Assurance, with 10 per cent revenue growth and adjusted operating margin increased to 16.4 per cent, and the profitability turnaround of Connected Devices, which delivered an improvement in adjusted operating profit of $9.6 million on lower revenue. Within Networks & Security, there were strong performances from our Positioning and Application Security lines of business but this was tempered by some softness for high-speed Ethernet testing, as we have previously noted, which is expected to rebound in the second half of 2018.

The adjusted operating cost base of the Group reduced by $16.7 million, excluding foreign exchange and despite inflation, as the cost saving actions from the portfolio review programme and restructuring of the sales organisation which commenced in late 2016, began to deliver benefits. These change programmes concluded at the end of 2017, with $6.7 million of in year exceptional costs with a very fast cash pay back.

Adjusted basic earnings per share increased by 43 per cent to 7.55 cents reflecting the growth in adjusted operating profit and reduced tax charge in 2017.

Cash at bank closed at $128.4 million, an increase of $32.3 million on the position at 31 December 2016. Free cash flow more than doubled as a result of increased profit and a reduced level of working capital. Free cash flow represented 122 per cent of adjusted earnings.

Following US tax reform, we expect the Group’s effective tax rate to decrease from 22 per cent in 2017 to an estimated 17 per cent from 2018 onwards. Further clarification of some of the new legislation is awaited which may impact this estimate.

As a result of improved financial performance and a review of our capital allocation policy, we propose a 5 per cent increase to the full year dividend per share, from 3.89 cents to 4.08 cents, and a further special dividend of 5.00 cents per share.

The following table shows summary financial performance for the Group:

$ million	**2017**	2016
Order intake	**447.8**	471.7
Revenue	**454.8**	457.9
Gross profit	**325.0**	324.3
Gross margin %	**71.5**	70.8
Adjusted operating costs[1]	**266.1**	277.8
Adjusted operating profit[1]	**58.9**	46.5
Adjusted operating margin[2] %	**13.0**	10.2
Reported operating profit/(loss)	**43.7**	(41.1)
Reported profit/(loss) before tax	**46.6**	(46.0)
Adjusted basic earnings per share[3] (cents)	**7.55**	5.29
Basic earnings/(loss) per share (cents)	**4.75**	(6.93)
Free cash flow[4]	**56.4**	25.9
Closing cash	**128.4**	96.1
Final dividend per share[5] (cents)	**2.40**	2.21
Special dividend per share[5] (cents)	**5.00**	-

Notes
1 Before exceptional items, acquired intangible asset amortisation, goodwill and acquired intangible asset impairment and share-based payment amounting to $15.2 million in total (2016: $87.6 million).
2 Adjusted operating profit as a percentage of revenue in the period.
3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 7 of Notes to the full year consolidated financial statements.
4 Operating cash flow after tax, net interest and net capital expenditure.
5 Dividends are determined in US dollars and paid in sterling at the exchange rate prevailing when the dividend is proposed.
- The final dividend proposed for 2017 of 2.40 cents per Ordinary Share is equivalent to 1.73 pence per Ordinary Share.
- The special dividend proposed for 2017 of 5.00 cents per Ordinary Share is equivalent to 3.60 pence per Ordinary Share.

Revenue

$ million	**2017**	**% of total**	2016[1]	% of total
Revenue by segment				
Networks & Security	**261.0**	**57.4**	262.2	57.3
Lifecycle Service Assurance	**109.2**	**24.0**	99.2	21.6
Connected Devices	**84.6**	**18.6**	96.5	21.1
	454.8	**100.0**	457.9	100.0
Revenue by geography				
Americas	**248.6**	**54.7**	254.1	55.5
Asia Pacific	**160.2**	**35.2**	149.3	32.6
Europe, Middle East and Africa	**46.0**	**10.1**	54.5	11.9
	454.8	**100.0**	457.9	100.0

Note
1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.

Overall, Group revenue was broadly level compared to last year and up 2.4 per cent excluding Connected Devices, which continues to be managed carefully during the decline of the wireless device testing market.

On 30 June 2017, we divested both the Device Intelligence (DI) and Developer Tools (DT) lines of business from Connected Devices which together generated revenue of $12.9 million in 2016 and $5.9 million for the first six months of 2017.

Continuing Group revenue, excluding the DI and DT businesses divested at the end of the first half of 2017, increased by $3.9 million or 1 per cent. Lifecycle Service Assurance had a particularly robust finish to the year increasing revenue by 10 per cent, $10.0 million ahead of last year, Networks & Security was essentially level after a strong 2016 and Connected Devices experienced a decline of $11.9 million ($4.9 million excluding DI and DT), in line with our expectations.

Within Networks & Security, our Positioning and Application Security test lines of business saw strong demand and good growth but this was offset by lower demand for high-speed Ethernet performance test solutions as some customers delayed expenditure as they transitioned to new technology platforms, and also 2016 represented a strong comparator year. All of our lines of business within Lifecycle Service Assurance experienced growth on last year; particular highlights were Mobility Infrastructure and Customer Experience Management. Connected Devices included our DI and DT lines of business, which were divested on 30 June 2017. Excluding these businesses, the operating segment’s revenue decline slowed to 6 per cent in 2017, from 25 per cent in 2016.

Geographically, the trends we have experienced in recent years continued into 2017 with growth in Asia Pacific and decline in EMEA. Americas remained our largest regional market constituting 55 per cent of total Group revenue but was down marginally in absolute terms on last year impacted by Cloud and IP, Connected Devices and the divestment of DI and DT. Asia Pacific again increased its share of Group revenue, to 35 per cent from 33 per cent, an increase of $10.9 million. China drove much of the growth in the Asia Pacific region, contributing $7.3 million of the increase, being 9 per cent growth. The decline in EMEA reflected continuing softness in service provider and network equipment manufacturer investment in the region, as well as the divestment of DI and DT; excluding these businesses the decrease was $5.4 million or 11 per cent.

Gross margin

$ million	**2017**	**%**	2016[1]	%
Networks & Security	**186.7**	**71.5**	184.9	70.5
Lifecycle Service Assurance	**84.7**	**77.6**	77.7	78.3
Connected Devices	**53.6**	**63.4**	61.7	63.9
	325.0	**71.5**	324.3	70.8

Note
1 Restated for changes to the Group’s operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.

Gross margin increased by 0.7 percentage points to 71.5 per cent (2016: 70.8 per cent) benefitting from a robust performance from the Positioning business and growth in our Application Security business, both reported within the Networks & Security operating segment.

Operating costs

$ million	2017	2016[1]
Product development	**103.0**	111.7
Selling and marketing	**116.8**	125.4
Administration[2]	**46.3**	40.7
Adjusted operating costs[2]	**266.1**	277.8
Networks & Security	**142.8**	137.7
Lifecycle Service Assurance	**66.8**	66.5
Connected Devices	**48.4**	66.1
Corporate	**8.1**	7.5
Adjusted operating costs[2]	**266.1**	277.8

Notes

1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.

2 Before exceptional items, acquired intangible asset amortisation, goodwill and acquired intangible asset impairment and share-based payment amounting to $15.2 million in total (2016: $87.6 million).

As in 2016, 2017 was another year of material cost reductions. Despite inflation and excluding foreign exchange charges, total Group adjusted operating costs reduced by $16.7 million or 6 per cent compared to 2016, as a result of the cost reduction actions implemented under the portfolio review programme and sales reorganisation, and to a lesser extent, the divestment of DI and DT on 30 June 2017. This follows a similar level of cost reduction in 2016 and reflects management's continuing focus on effective resource allocation and cost control. Investment is being focused on high-growth, high-margin areas and this is apparent from the segmental analysis of operating costs, with the reduction in costs targeted in Connected Devices and the level of investment maintained and increased in Lifecycle Service Assurance and Networks & Security, respectively.

Compared to 2016, the year-on-year movement in foreign exchange charged in the income statement was a negative impact of $5.0 million. The net change in total operating costs before adjusting items was therefore $11.7 million.

The total Group investment in product development was reduced by $8.7 million, despite cost inflation, which reflects our focused approach to concentrate resources on specific higher growth potential areas.

Selling and marketing costs decreased by $8.6 million, being the full year effect of the cost reduction actions commenced at the end of 2016 following the review of the sales organisation and remuneration structure undertaken by external consultants. This programme has continued through 2017 with further actions and exceptional implementation costs.

Administration costs in 2016 benefitted from $3.4 million of foreign exchange gains, related to exchange rate volatility between the US dollar and pound sterling, whereas 2017 includes a foreign exchange loss of $1.6 million. Therefore the majority of the movement in administration costs year-on-year is due to foreign exchange. The current year level of administration costs is considered more typical.

Looking forward into 2018, we will focus on driving improved productivity in product development.

Operating profit

$ million	**2017**	**Adjusted operating margin[2] %**	2016[1]	Adjusted operating margin[2] %
Networks & Security	**43.9**	**16.8**	47.2	18.0
Lifecycle Service Assurance	**17.9**	**16.4**	11.2	11.3
Connected Devices	**5.2**	**6.1**	(4.4)	NA
Corporate	**(8.1)**		(7.5)	
Adjusted operating profit[2]	**58.9**	**13.0**	46.5	10.2
Exceptional items	**(6.7)**		(4.8)	
Acquired intangible asset amortisation	**(6.3)**		(12.9)	
Goodwill and acquired intangible asset impairment	**-**		(69.1)	
Share-based payment	**(2.2)**		(0.8)	
Reported operating profit/(loss)	**43.7**		(41.1)	

Notes
1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.
2 Before exceptional items, acquired intangible asset amortisation, goodwill and acquired intangible asset impairment and share-based payment amounting to $15.2 million in total (2016: $87.6 million).

Adjusted operating profit increased by 27 per cent to $58.9 million, compared with $46.5 million in 2016, and adjusted operating margin increased to 13.0 per cent from 10.2 per cent in 2016.

Notwithstanding the ongoing reduction in the operating cost base, we have continued to invest in key growth areas identified from the portfolio review.

Exceptional items

During the second half of 2016, the Group commenced a portfolio review with the objective of focusing Spirent's lines of business on those test technologies and services which will best drive sustainable earnings growth. In addition, external consultants were engaged to benchmark the sales organisation and a programme was implemented to increase our effectiveness and efficiency in this area. These initiatives resulted in cost reduction actions which commenced at the end of 2016 and continued throughout 2017, concluding at the end of the year. In addition, in 2017, the Group undertook a strategic review of the Connected Devices operating segment. In total, $6.7 million of exceptional costs were incurred in the year, including $5.4 million of portfolio review and sales organisation restructuring costs (2016: $4.8 million) and $1.3 million of costs related to the strategic review of Connected Devices.

Acquired intangible asset amortisation, impairment and share-based payment
In 2016, the Group took a total impairment charge of $69.1 million in relation to goodwill and acquired intangible assets within the DI and DT lines of business and the Connected Devices cash generating unit. As a result, acquired intangible asset amortisation has decreased significantly in 2017, from $12.9 million in 2016, to $6.3 million.

Share-based payment has increased to $2.2 million in 2017 (2016: $0.8 million) reflecting the expected vesting of awards and the cost associated with the 2017 grant.

Divestments
A consequence of the portfolio review was the decision to not invest further in the DI and DT lines of business within Connected Devices and this necessitated the impairment in full of the goodwill and acquired intangible assets in these businesses in 2016. At 30 June 2017, these businesses were divested to an Israeli company established by the former General Manager of the business units, for a total cash consideration of $1. As part of the sale, Spirent made a $2.0 million interest bearing loan to the divested subsidiaries to fund working capital requirements. This loan has been fully provided for by the Group and expensed in the calculation of the gain on divestments, which amounted to $2.6 million. The businesses combined contributed $12.9 million revenue in 2016 and $5.9 million for the first six months of 2017.

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 Group's income statement includes a foreign exchange loss, included in administration costs, of $1.6 million (2016: $3.4 million gain) arising from:

1) transacting in foreign currencies, primarily US dollars in the United Kingdom, of $0.9 million (2016: $2.3 million gain); and
2) translation of foreign currency cash balances of $0.7 million (2016: $1.1 million gain).

Forward foreign currency exchange contracts are entered into to manage the exposure arising from transacting in US dollars in the United Kingdom.

Although the most significant currency exposure arises in relation to movements in pound sterling against the US dollar, there are other less significant currency exposures, notably the Euro and Chinese Yuan.

Finance income and costs
Finance income of $0.6 million was earned from cash held on deposit (2016: $0.3 million). Surplus funds are held principally in the United Kingdom and United States on short-term deposit and earn market rates of interest which remain relatively low. Finance costs of $0.3 million (2016: $0.7 million) comprised mainly of the interest cost on the defined benefit pension plan.

Share of result of associated company

Spirent's share of the loss incurred by its associate, Jolata, Inc. (Jolata), was nil in 2017 following the impairment of the full value of Spirent's investment in Jolata taken at 31 December 2016 (2016: $4.5 million loss, including an impairment charge of $2.6 million).

Tax

The adjusted effective tax rate for 2017 was 22.1 per cent, down from 26.9 per cent in 2016, primarily reflecting benefits achieved from the successful introduction of UK Patent Box and a positive impact from the divestment of the DI and DT lines of business, which had unrelieved losses.

On 22 December 2017, the US President signed the Tax Cuts and Jobs Act (the Act) into law. The Act includes a number of significant changes in the tax law that will have implications for Spirent. The most significant change is a permanent reduction in the corporate income tax rate from 35 per cent to 21 per cent with effect from 1 January 2018. Other changes that will 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. It is estimated that the impact of the US tax rate reduction together with the repeal of the DPAD and the addition of the FDII deduction will decrease the Group's 2018 effective tax rate to circa 17 per cent and deliver increased earnings and cash benefits. The precise impact is still to be determined as we are awaiting further guidance from the US government. We also expect to see cash savings resulting from the Act's changes.

While the changes highlighted above impact Spirent from 1 January 2018 going forward, there is an adverse impact to the Group's US deferred tax assets (DTA). These assets have been previously booked with the expectation of a future US tax benefit at the pre-2018 35 per cent statutory tax rate. Our 2017 financial statements reflect a revaluation of these DTA using the new 21 per cent statutory tax rate. The resulting decrease in the value of DTA on our balance sheet of $7.9 million is reflected as a corresponding deferred tax expense in the income statement, classified as an adjusting item in the year.

Earnings per share

Adjusted basic earnings per share was up 43 per cent at 7.55 cents (2016: 5.29 cents). There were 610.6 million (2016: 610.6 million) weighted average Ordinary shares in issue. Basic earnings per share was 4.75 cents compared with a loss per share of 6.93 cents for 2016. See note 7 of Notes to the full year consolidated financial statements on page 32 for the calculation of earnings per share.

Financing and cash flow

The Group was highly cash generative in 2017. Following a refreshed focus on working capital management, we were able to more than double the free cash flow from $25.9 million in 2016 to $56.4 million in 2017, resulting in a free cash flow conversion which represented 122 per cent of adjusted earnings (2016: 80 per cent). Working capital levels reduced in the year driven by lower inventory levels and higher payables. Cash and cash equivalents were $128.4 million at 31 December 2017, compared with $96.1 million at 31 December 2016, an increase of $32.3 million. There was no debt.

Free cash flow is set out below:

$ million	**2017**	2016
Cash flow from operations	**77.7**	47.4
Tax paid	**(8.4)**	(4.7)
Net cash inflow from operating activities	**69.3**	42.7
Interest received	**0.6**	0.3
Net capital expenditure	**(13.5)**	(17.1)
Free cash flow	**56.4**	25.9

Net capital expenditure of $13.5 million was $3.6 million lower than last year due to the refit of an engineering lab in the United States in 2016. The Group exercised careful management of capital investment to ensure efficient use of capital and maximise return on investment.

In 2017, the final dividend for 2016 and an interim dividend for 2017 totalling $24.6 million were paid (2016: $24.2 million).

Defined benefit pension plans

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

The accounting valuation of these plans at the end of 2017 showed a net deficit of $2.2 million, a marked improvement on the net deficit of $12.8 million at 31 December 2016. The deficit has reduced because of contributions paid in the year, stronger asset returns and a beneficial change to the mortality assumption underpinning the value placed on liabilities, offset to some extent by a change to commutation factors and a decrease in the discount rate, both of which increase the value placed on liabilities. In addition, movements in the US dollar to sterling exchange rate impacts the deficit expressed in US dollars. The accounting valuation is based on the actuarial valuation dated 31 March 2015.

The Group has also reported a liability of $0.6 million (31 December 2016: $0.7 million) in respect of UK unfunded plan liabilities.

The next Triennial Valuation of the plans is due on 31 March 2018. The technical deficit on 31 March 2015, the date of the last Triennial Valuation was $46.0 million, which is currently being funded over a seven-year period, which commenced 1 July 2016, by an annual contribution of $7.0 million (£5.0 million).

Balance sheet and dividend policies

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.

We aim to build cover for the dividend to 2 to 2.5 times adjusted earnings and follow a progressive dividend policy.

Dividend

The Board is recommending the payment of a final dividend for 2017 of 2.40 cents (1.73 pence) per share which, together with the interim dividend of 1.68 cents (1.27 pence) per share paid in September 2017, brings the full year dividend to 4.08 cents (3.00 pence) per share. This is a 5 per cent increase in the full year dividend for 2017 compared to full year 2016. In sterling terms this represents a decrease of 2 per cent. The dividend is covered 1.9 times by adjusted earnings.

The Board has also considered the Company's cash position in line with the policies outlined above. As a result, it has decided to recommend a special dividend of 5.00 cents (3.60 pence) per share which equates to a cash distribution of circa $30.5 million.

Subject to approval by shareholders at the Annual General Meeting on 2 May 2018, the final and special dividends will be paid on 4 May 2018 to shareholders on the register at 16 March 2018. Payment to ADR holders will be made on 11 May 2018.

Restatement of operating segments

Full year 2016 operating segment information has been restated due to changes to the Group's operating segments which came into effect on 1 January 2017. Further details are disclosed in note 3 of Notes to the full year consolidated financial statements.

BUSINESS REVIEW

Networks & Security – 57% of Group revenue

Networks & Security provides automated 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 the operating networks. Our portfolio covers high-speed IP/Ethernet, cloud, virtualisation, applications, security and global satellite navigation systems.

$ million	**2017**	2016[1]	Change (%)
Revenue	**261.0**	262.2	(0.5)
Operating profit[2]	**43.9**	47.2	(7.0)
Operating margin[2]	**16.8%**	18.0%	(1.2)

Notes
1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.
2 Before exceptional items.

In 2017, Networks & Security reported revenue of $261.0 million, broadly level after a strong prior year (2016: $262.2 million). Within the operating segment, strong growth in our Positioning and Application Security businesses offset some softness in high-speed Ethernet testing as customers transition to new 400G platforms, which is expected to rebound during the second half of 2018. The robust performance from Positioning and growth in Application Security led to an improved gross margin of 71.5 per cent (2016: 70.5 per cent).

As previously reported, demand for high-speed Ethernet testing has been subject to the shifting of major investment plans by our US customers into the fourth quarter of 2017 and into 2018. In order to focus on high-growth, high-margin areas Spirent increased 2017 investment in target areas, subsequently growing its market share in high-speed Ethernet performance test systems and participating in several first-to-market demonstrations.

Performance highlights

- Remained the world's leading vendor of **high-speed Ethernet** performance test systems. We are leading the market for the next-generation of high-speed Ethernet with our highest-density 400G test solution.
  - Collaboration with Chinese key clients for 400G Ethernet technologies.
  - At Interop Tokyo, in June 2017, we received two awards:
    - Wave 2 wireless local area network (WLAN) solution received the 2017 Best of Interop Grand Prize.
    - Our cloud and security solutions received the 2017 Best of Interop Show Special Prize.
- Participated in several high-profile first-to-market demonstrations and global navigation satellite simulators and vulnerability detection and assessment systems.
- Launched the first **Automotive** Ethernet protocol performance test system.
- Delivered strong growth in our **Positioning and Application Security** businesses offset by some softness in high-speed Ethernet testing as customers transition to new platforms.
- Grew our **Application Security** business revenue by more than 20 per cent as we introduced new accounts to our security test products and services.

    - Founding member of NetSecOPEN, an industry group focused on defining a new open standard for testing enterprise network security performance.
    - Achieved global CREST (Council of Registered Ethical Security Testers) accreditation for our security testing services.
    - Expanded the coverage of our flagship security product (Spirent CyberFlood) with support for ransomware, Internet of Things (IoT), industrial controls and distributed denial of service (DDoS) attacks.
- In **Positioning**, we remain the world's leading vendor of global navigation satellite systems (GNSS).
    - Released the GNSS Vulnerabilities and Threats test suite.
    - Early in 2017, we launched Spirent PT TestBench, a testing, analysis and reporting application to help developers build more accurate positioning functions quickly, embodying over 30 years of Spirent GNSS testing expertise, enabling users to setup, run and interpret tests with a single mouse click.
- Continue to support our customers' transition to new 400G technology platforms – well placed for 2018 momentum.

Strategy

Our strategy is to maintain our position as the leading provider of performance testing systems for the development and assessment of Ethernet/IP equipment for data centers and networks, cloud and virtualisation, applications, mobile infrastructure, security and global navigation satellite systems. Using our test systems, test engineers create and transmit complex and high-capacity traffic and can assess the resilience of their products to security threats and vulnerabilities.

As part of our strategy we will seek:

- To lead in high-speed Ethernet/IP performance tests for emerging standards for data centers and wide area networks.
- To invest in software-as-a-service, software-defined networks (SDN) and network functions virtualisation (NFV) test methodologies and tools.
- To expand our Application Security test business footprint in manufacturers, service providers and large enterprises through enhancing, marketing and selling our security test tool (Spirent CyberFlood) and our security consulting services (Spirent SecurityLabs).
- To extend our lead in global navigation satellite system simulation and the detection and assessment of products for security vulnerabilities and threats.

Impact of market dynamics on Spirent business

Accelerate time to market

The primary value we deliver is to accelerate the time to market for developers and manufacturers to launch their new chipsets, modules, devices, equipment and applications and to connect to networks globally, while providing a comprehensive assessment of the performance and security of their products so they can protect and strengthen their brand and reputation.

Meet increasing network performance demands

The growth of cloud services, from bandwidth-hungry content and hosting services and applications to 'always-connected' social media, drives innovation at an accelerating pace. Service providers worldwide are investing in their networks to keep up with these performance demands. We saw strong demand for 100G Ethernet testing by data center and network equipment suppliers as a consequence of their move to four 25G lanes from ten 10G lanes for 100G interface. In 2017, we saw the advent of 200G and 400G development projects. As network equipment manufacturers develop new routers, switches and other network equipment for service providers, network equipment manufacturers and third-party test labs buy our test systems to measure and validate their performance.

Realise virtualised solutions

The internet protocol network industry is amid a revolutionary technology transformation, driven by virtualisation enabling technologies, such as SDN and NFV. As developers and service providers develop their virtualised products, we provide test tools and services to measure and benchmark their performance in a range of operating environments and under different conditions.

Assess resilience against cyber security vulnerabilities and threats

We see strong demand for our security testing solutions across network equipment manufacturers, service providers and enterprise customers. Equipment providers with security capabilities, service providers, enterprises and government organisations contract our Spirent SecurityLabs service, in which we have security experts assess the product or service and provide a report on a one-time basis or periodically. Additionally, these organisations purchase our application and security products as they evaluate the functionality and performance of their products and networks themselves.

High-speed Ethernet/IP, cloud and virtualisation

Our high-speed Ethernet/IP test systems help our customers to validate high-speed network infrastructures, up to 400G, ensuring network functions and services can scale to millions of subscribers and to assess the security of devices, networks and applications. Our target customers are developers of devices, network equipment, applications and data centers, network operators, cloud and service providers, who want to measure the performance of new products and equipment for their network. In 2017, we experienced some softness as customers slowed test spending as they transitioned to new 400G technology platforms. However, we are well positioned with market-leading technology, winning a number of important early stage orders, with momentum building for the second half of 2018.

<u>Lifecycle Service Assurance – 24% of Group revenue</u>

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 (Lumos), network and customer analytics systems (InTouch), mobile network test systems for labs and operational networks (LandSlide), test management and automation solutions (Velocity and iTest) and active mobile network test system (VisionWorks). The 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 opex and capex costs, and reduce the time to deploy new services, provision new subscribers and troubleshoot problems.

$ million	**2017**	2016[1]	Change (%)
Revenue	**109.2**	99.2	10.1
Operating profit[2]	**17.9**	11.2	59.8
Operating margin[2]	**16.4%**	11.3%	5.1

Notes

1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.

2 Before exceptional items.

Lifecycle Service Assurance delivered a robust finish to the year increasing revenue by 10 per cent, $10.0 million ahead of last year, boosted by winning fifteen $1 million+ deals. As a result, operating profit improved by $6.7 million, up 60 per cent, to $17.9 million (2016: $11.2 million). Operating margin improved to 16.4 per cent (2016: 11.3 per cent) and gross margin was marginally down at 77.6 per cent (2016: 78.3 per cent). All of our lines of business within Lifecycle Service Assurance experienced growth on last year, particular highlights were Mobility Infrastructure and Customer Experience Management.

For this operating segment, we expected order intake and resulting revenue to be second half weighted as we built momentum. At the first half we said that customers were planning to increase the development of live operation service assurance systems during the second half of 2017. Securing recent notable Lifecycle Service Assurance contracts is evidence that our strategy is working and the transition is underway. Spirent has continued to invest in this area of the business as the prospects for active test are significant with the switch to live development moving at pace. Spirent is benefiting from the investments made and is well positioned to transition customers from lab testing to active testing in the live network.

Performance highlights

- Successfully secured fifteen deals over $1 million, totalling about $50 million in 2017, as evidence our strategy is working.
- Expanded our footprint in our three largest Tier 1 mobile operator customers, winning four new Tier 1 deployments, addressing critical challenges in the roll out of virtual networks and business mobile services.
- Remained the leading global provider of mobile test systems for development and system testing.
- Revenue grew by 10 per cent.

- Operating profit up $6.7 million or 60 per cent and operating margin improved to 16.4 per cent.
- Participated in high-profile demonstrations at TM Forum Live in Nice and Mobile World Congress in Shanghai with complementary industry-leading companies.
- Positive momentum into 2018.

Strategy
Our strategy focuses on radically reducing the time and cost to turn-up new services and to diagnose, troubleshoot and resolve issues with production networks and services. We enable our customers to radically reduce time to characterise network performance and to identify and resolve user experience problems through automation, visibility and analytics. We will continue to develop new solutions that capitalise on the benefits that virtualisation enables. This improves customer satisfaction and retention while reducing the cost and complexity of operating and managing the network. We will provide systems to enable 4G/LTE, IoT and 5G devices and applications to connect to the network seamlessly, reducing the time and cost of pre-deployment qualification, and using analytics to manage the on-boarding and scaling of devices and applications on the network.

As part of our strategy we will:
- Develop active service assurance systems for Ethernet business services and mobile network turn-up, troubleshooting and optimisation, enhancing our ability to win business at Tier 1 carriers.
- Expand our footprint in our installed-base and in new service providers.
- Continue to develop new capabilities for mobile infrastructure tests in the lab to meet emerging requirements in labs and, as applicable, in the networks.
- Develop and deploy our test creation, management and automation platform.

Impact of market dynamics on Spirent business
We compete in the service assurance market, estimated size of about $3.0 billion in 2017 and forecast to grow at a compound annual rate of 1.7 per cent from 2016 to 2021[1].

Our current business depends on service providers' investment in Ethernet/IP services, virtualisation, in-home data services, carrier Wi-Fi and mobile technologies, such as long-term evolution (LTE), voice over long-term evolution (VoLTE), and IP multimedia subsystem (IMS). The current market dynamics and outlook are favourable for our business. The investment in mobile networks and their operation and management remains a priority for network operators. As 4G LTE rolls out globally, there is wider commercial deployment of VoLTE, more 3G and LTE connected vehicles and an increase in IoT applications. GSA[2] reported there are 814 operators investing in LTE; 644 operators have commercially launched LTE or LTE-Advanced networks. There are 125 commercial VoLTE networks, and 205 operators investing in VoLTE.

Network operators are reducing operating expenses. We reduce operating costs by accelerating service turn-up, reducing the time to diagnose problems and helping our customers understand and improve their network performance and customer experience.

Continued growth in the complexity of networks and services, coupled with intense competition between service providers and the fear of customer churn, has led to greater emphasis on customer experience management. Many operators are evolving from network-centric to customer-centric operations, and need to support new technologies, such as VoLTE, voice over Wi-Fi (VoWi-Fi), 5G, IoT and virtualisation.

Service providers remain cautious as they continue their shift from legacy networks to virtualisation and as they determine how best to realise the potential benefits. To manage network functional virtualisation (NFV) in a complex hybrid network and to manage new services, network operators require active performance test systems for service turn-up and troubleshooting. Active test system can be combined with analytics to measure network performance and customer experience periodically and to quickly isolate and diagnose detected or reported network performance and customer experience problems.

Sources
1 Analysys Mason, “Service Assurance Systems: Worldwide Forecast 2017–2021” (June 2016)
2 GSA, “Evolution from LTE to 5G Update” (October 2017)

Connected Devices – 19% 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	**2017**	2016[1]	Change (%)
Revenue	**84.6**	96.5	(12.3)
Operating profit/(loss)[2]	**5.2**	(4.4)	NA
Operating margin[2]	**6.1%**	NA	NA

Notes
1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out in note 3 of Notes to the full year consolidated financial statements.
2 Before exceptional items.

The ongoing decline in smartphone testing in Connected Devices, as previously highlighted, has been managed well with a decline in revenue of $4.9 million on continuing operations, in line with our expectations. Spirent took action to reduce costs in this operating segment and exited non-performing business lines. Excluding our DI and DT lines of business, divested at 30 June 2017, revenue decline slowed in 2017, now at 6 per cent from 25 per cent in 2016 ($7.0 million year-on-year revenue impact).

A strong turnaround was delivered in 2017, returning the operating segment to profitability with an operating profit of $5.2 million, an improvement of $9.6 million on last year (2016: $4.4 million loss). Gross margin was broadly flat at 63.4 per cent (2016: 63.9 per cent).

Performance highlights

- Strong performance turnaround, operating profit improved by $9.6 million.
- Exited non-performing businesses, and made further operating cost reductions.
- Won key deals with our new channel emulator (Spirent Vertex) with its unprecedented scalability and modularity for wireless radio frequency (RF) testing and supports future technologies such as 5G.
- Released Spirent Elevate IoT Device Test solution, a new cellular test solution designed to support a wide range of IoT applications, including end-to-end cloud server connectivity, security vulnerability assessment and battery life measurement.
- Demonstrated enhanced voice services (EVS) with China Mobile at the GSMA Mobile World Congress in Shanghai.
- China Telecom Corporation Limited selected our Spirent Umetrix® Voice solution for handset call quality testing, making a higher quality and lower cost service possible.
- Spirent Umetrix Voice voted "VoLTE Innovation of the Year" at Telecom Asia Readers' Choice & Innovation Awards 2017 held in Singapore.
- The Signals Research Group completed the first study of a commercial video broadcast service over an LTE network, as operators worldwide are exploring enhanced multimedia broadcast multicast service (eMBMS) as an advanced method of delivering video content.

Strategy

Our strategy focuses on accelerating time to market and reducing cost to develop and launch new devices and services, while helping to ensure the highest service quality and user experience. Developers seek to accelerate the development of connected devices and to test and qualify devices to ensure they can connect to networks and operate reliably.

Looking ahead, as part of our strategy we will look:

- To invest in wireless device test products for development, location and carrier acceptance, while adapting those products and offering new services to meet the emerging requirements and changing customer expectations for video services, 5G and IoT.
- To provide products and services to test the service experience on different networks or to benchmark a variety of devices on the same network.

Impact of market dynamics on Spirent business

Economic pressure and consolidation in smartphone supply chain

Economic pressure and consolidation of top-tier global smartphone, chipset and network equipment vendors has led to a fiercely challenging, competitive and shrinking market. We anticipate the wireless device test market will transition as wireless component, module and network equipment manufacturers' spending changes in the market shift between ongoing 4G enhancements and the early days of 5G. Spirent continues to manage this transition.

5G development

The standardisation work for 5G has been accelerated. The standard as specified in 3GPP Release 15 was finalised in 2017 for non-standalone 5G new radio (NR) and will be set by mid-2018 for standalone 5G NR. Early 5G deployments are anticipated in several markets, including the US, South Korea, Japan and China. The first commercial networks based on standalone 5G NR are expected to go live in 2019, with major network deployments from 2020. By the end of 2023, over one billion 5G subscriptions for enhanced mobile broadband[1] are forecasted. Spirent is starting to see opportunities for 5G NR.

Growing opportunities and challenges in the Internet of Things (IoT)

The importance of wireless IoT connectivity continues to rise in a variety of segments from connected vehicles, homes and industry to smart cities. This results in challenges in developing, connecting and operating IoT devices and applications on mobile and non-cellular networks, resulting in an attractive new market opportunity for Spirent. The number of IoT connected devices worldwide was 11.1 billion in 2015 and is forecasted to reach 32.5 billion by 2020, increasing at a CAGR of 39 per cent[2].

Sources
1 Ericsson, "Ericsson Mobility Report" (November 2017)
2 Technavio, "GLOBAL 5G EQUIPMENT MARKET 2016-2020" (October 2016)

About Spirent Communications plc

Spirent Communications plc is a global leader in test and measurement inspiring innovation within development labs, communication networks and IT organisations. We enable today's communication ecosystem as well as tomorrow's emerging enterprises to deploy life enriching communications networks, devices, services and applications. 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 http://www.otcmarkets.com/marketplaces/otc-pink.

Consolidated income statement

		Year ended 31 December 2017			Year ended 31 December 2016		
$ million	Notes	Adjusted	Adjusting items[1]	Reported	Adjusted	Adjusting items[1]	Reported
Revenue	3,4	**454.8**	**-**	**454.8**	457.9	-	457.9
Cost of sales		**(129.8)**	**-**	**(129.8)**	(133.6)	-	(133.6)
Gross profit		**325.0**	**-**	**325.0**	324.3	-	324.3
Product development	3	**(103.0)**	**-**	**(103.0)**	(111.7)	-	(111.7)
Selling and marketing		**(116.8)**	**-**	**(116.8)**	(125.4)	-	(125.4)
Administration		**(46.3)**	**-**	**(46.3)**	(40.7)	-	(40.7)
Other items		**-**	**(15.2)**	**(15.2)**	-	(87.6)	(87.6)
Operating profit/(loss)		**58.9**	**(15.2)**	**43.7**	46.5	(87.6)	(41.1)
Other items charged in arriving at operating profit/(loss):							
Exceptional items	5	**-**	**(6.7)**	**(6.7)**	-	(4.8)	(4.8)
Acquired intangible asset amortisation		**-**	**(6.3)**	**(6.3)**	-	(12.9)	(12.9)
Goodwill and acquired intangible asset impairment		**-**	**-**	**-**	-	(69.1)	(69.1)
Share-based payment		**-**	**(2.2)**	**(2.2)**	-	(0.8)	(0.8)
Finance income		**0.6**	**-**	**0.6**	0.3	-	0.3
Finance costs		**(0.3)**	**-**	**(0.3)**	(0.7)	-	(0.7)
Share of loss of associate		**-**	**-**	**-**	(1.9)	(2.6)	(4.5)
Gain on divestment	11	**-**	**2.6**	**2.6**	-	-	-
Profit/(loss) before tax	3	**59.2**	**(12.6)**	**46.6**	44.2	(90.2)	(46.0)
Tax	6	**(13.1)**	**(4.5)**	**(17.6)**	(11.9)	15.6	3.7
Profit/(loss) for the year attributable to owners of the parent Company		**46.1**	**(17.1)**	**29.0**	32.3	(74.6)	(42.3)
Earnings/(loss) per share (cents)	7						
Basic		**7.55**		**4.75**	5.29		(6.93)
Diluted		**7.48**		**4.71**	5.29		(6.93)

Note
1 Adjusting items comprise exceptional items, amortisation of acquired intangible assets, goodwill and acquired intangible asset impairment, share-based payment, gain on divestment, impairment of associate, tax on adjusting items, revaluation of deferred tax assets due to US tax reform and prior year tax.

Consolidated statement of comprehensive income

$ million	Year ended 31 December 2017	2016
Profit/(loss) for the year attributable to owners of the parent Company	**29.0**	(42.3)
Other comprehensive income/(loss)		
Items reclassified to profit or loss:		
Reclassification of foreign exchange on overseas divestments *note 11*	**(3.1)**	-
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on retranslation on foreign operations	**4.1**	(2.9)
	1.0	(2.9)
Items that will not subsequently be reclassified to profit or loss:		
Re-measurement of the net defined benefit pension liability	**5.5**	(2.2)
Income tax effect of re-measurement of defined benefit pension liability	**(1.0)**	0.4
Re-measurement of the deferred compensation liability	**(0.9)**	-
Income tax effect of re-measurement of the deferred compensation liability	**0.2**	-
	3.8	(1.8)
Other comprehensive income/(loss)	**4.8**	(4.7)
Total comprehensive income/(loss) for the year attributable to owners of the parent Company	**33.8**	(47.0)

Consolidated balance sheet

$ million	Notes	At 31 December 2017	2016
Assets			
Non-current assets			
Intangible assets		**163.6**	169.8
Property, plant and equipment		**42.3**	47.3
Trade and other receivables		**4.1**	4.6
Cash on deposit		**-**	0.1
Defined benefit pension plan surplus		**1.2**	0.9
Deferred tax asset	10	**23.2**	33.1
		234.4	255.8
Current assets			
Inventories		**23.6**	27.4
Trade and other receivables		**130.1**	128.9
Other financial assets		**0.1**	-
Current tax asset		**1.0**	0.4
Cash and cash equivalents		**128.4**	96.1
		283.2	252.8
Total assets		**517.6**	508.6
Liabilities			
Current liabilities			
Trade and other payables		**(131.9)**	(127.2)
Other financial liabilities		**-**	(0.1)
Current tax liability		**(1.4)**	(1.5)
Provisions		**(3.6)**	(4.2)
		(136.9)	(133.0)
Non-current liabilities			
Trade and other payables		**(20.1)**	(16.9)
Deferred tax liability	10	**(0.1)**	(0.1)
Defined benefit pension plan deficit		**(4.0)**	(14.4)
Provisions		**(3.2)**	(2.6)
		(27.4)	(34.0)
Total liabilities		**(164.3)**	(167.0)
Net assets		**353.3**	341.6
Capital and reserves			
Share capital		**27.5**	25.3
Share premium account		**27.3**	25.0
Capital redemption reserve		**17.8**	16.3
Other reserves		**13.4**	19.4
Translation reserve		**11.3**	10.3
Retained earnings		**256.0**	245.3
Total equity attributable to owners of the parent Company		**353.3**	341.6

Consolidated cash flow statement

$ million	Notes	Year ended 31 December 2017	2016
Cash flows from operating activities			
Cash flow from operations	9	**77.7**	47.4
Tax paid		**(8.4)**	(4.7)
Net cash inflow from operating activities		**69.3**	42.7
Cash flows from investing activities			
Interest received		**0.6**	0.3
Purchase of intangible assets		**(0.4)**	(1.1)
Purchase of property, plant and equipment		**(14.9)**	(17.5)
Proceeds from the sale of property, plant and equipment		**1.8**	1.5
Net expenses of divestments	11	**(0.7)**	-
Loan to divested subsidiaries	11	**(2.0)**	-
Acquisition of subsidiaries and businesses net of cash acquired		**-**	(0.1)
Net cash used in investing activities		**(15.6)**	(16.9)
Cash flows from financing activities			
Dividend paid	8	**(24.6)**	(24.2)
Acquisition of non-controlling interest		**-**	(2.6)
Net cash used in financing activities		**(24.6)**	(26.8)
Net increase/(decrease) in cash and cash equivalents		**29.1**	(1.0)
Cash and cash equivalents at the beginning of the year		**96.1**	102.0
Effect of foreign exchange rate changes		**3.2**	(4.9)
Cash and cash equivalents at the end of the year		**128.4**	96.1

Consolidated statement of changes in equity

$ million	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to the equity holders of the parent Company								
At 1 January 2016	30.2	29.9	19.5	6.4	13.2	312.6	411.8	0.3	412.1
Loss for the year	-	-	-	-	-	(42.3)	(42.3)	-	(42.3)
Other comprehensive loss	-	-	-	-	(2.9)	(1.8)	(4.7)	-	(4.7)
Total comprehensive loss	-	-	-	-	(2.9)	(44.1)	(47.0)	-	(47.0)
Share-based payment	-	-	-	-	-	0.8	0.8	-	0.8
Tax charge on share incentives	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Acquisition of non-controlling interest	-	-	-	-	-	0.3	0.3	(0.3)	-
Equity dividends	-	-	-	-	-	(24.2)	(24.2)	-	(24.2)
Exchange adjustment	(4.9)	(4.9)	(3.2)	13.0	-	-	-	-	-
At 1 January 2017	**25.3**	**25.0**	**16.3**	**19.4**	**10.3**	**245.3**	**341.6**	**-**	**341.6**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**29.0**	**29.0**	**-**	**29.0**
Other comprehensive income	**-**	**-**	**-**	**-**	**1.0**	**3.8**	**4.8**	**-**	**4.8**
Total comprehensive income	**-**	**-**	**-**	**-**	**1.0**	**32.8**	**33.8**	**-**	**33.8**
Share-based payment	**-**	**-**	**-**	**-**	**-**	**2.2**	**2.2**	**-**	**2.2**
Tax credit on share incentives	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**	**-**	**0.3**
Equity dividends	**-**	**-**	**-**	**-**	**-**	**(24.6)**	**(24.6)**	**-**	**(24.6)**
Exchange adjustment	**2.2**	**2.3**	**1.5**	**(6.0)**	**-**	**-**	**-**	**-**	**-**
At 31 December 2017	**27.5**	**27.3**	**17.8**	**13.4**	**11.3**	**256.0**	**353.3**	**-**	**353.3**

Notes to the full year consolidated financial statements

1 Financial information presented

The financial information contained in this document does not constitute the Group's statutory accounts for the year ended 31 December 2017.

As required by the European Union's IAS Regulation and the Companies Act 2006, the Group has prepared its consolidated financial statements for the year ended 31 December 2017 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and issued by the International Accounting Standards Board. The comparative financial information is based on the statutory accounts for the year ended 31 December 2016 which have been delivered to the Registrar of Companies. The report of the auditors 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 of the Companies Act 2006.

The full year announcement was approved by the Board of Directors on 8 March 2018.

2 Accounting policies

The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2016.

New accounting standards
No new standards, amendments to standards and interpretations have been applied by the Group which have resulted in a significant impact on its consolidated results or financial position.

Going concern
At 31 December 2017, the Group had cash balances of $128.4 million and no debt.

The directors have reviewed the detailed financial projections for a period of 12 months from the date of this report and the business plans for the 2019 and 2020 financial years. They have also considered the principal risks and uncertainties that the Group faces and its current financial position and 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, the going concern basis of accounting continues to be used in the preparation of the financial statements.

3 Operating segments

The Group's organisational structure is based on differences in the products and services offered by each segment and information regularly reviewed by the Group's Chief Executive Officer, its chief operating decision maker, is presented on this basis. The Group's operating segments follow this structure.

The Group is organised into three reportable operating segments; Networks & Security, Lifecycle Service Assurance and Connected Devices. The Group evaluates segment operating profit/(loss) before exceptional items, acquired intangible asset amortisation, goodwill and acquired intangible asset impairment and share-based payment. Finance income, finance costs, gain on divestment and share of loss of associate are not allocated to the reportable segments. Corporate is not an operating segment and costs are separately reported and not allocated to the reportable segments.

$ million	Networks & Security	Lifecycle Service Assurance	Connected Devices	Corporate	Total
2017					
Revenue					
External revenue	**261.0**	**109.2**	**84.6**	**-**	**454.8**
Profit before tax					
Total reportable segment profit/(loss) before exceptional items	**43.9**	**17.9**	**5.2**	**(8.1)**	**58.9**
Exceptional items *note 5*	**(3.9)**	**(0.1)**	**(1.4)**	**(1.3)**	**(6.7)**
Total reportable segment profit/(loss)	**40.0**	**17.8**	**3.8**	**(9.4)**	**52.2**
Unallocated amounts					
Acquired intangible asset amortisation					**(6.3)**
Share-based payment					**(2.2)**
Operating profit					**43.7**
Finance income					**0.6**
Finance costs					**(0.3)**
Gain on divestment *note 11*					**2.6**
Profit before tax					**46.6**
Other information					
Product development	**53.6**	**30.9**	**18.5**	**-**	**103.0**
Intangible asset amortisation – other	**-**	**-**	**0.8**	**-**	**0.8**
Depreciation	**9.6**	**3.5**	**4.8**	**0.1**	**18.0**

3 Operating segments *continued*

2016 operating segment information has been restated for the following changes to the Group's operating segments which came into effect on 1 January 2017:

The operating segments were reorganised to focus certain product lines and to combine resources and planning efforts in other product lines. The following changes were made to the former operating segments:

- The Networks & Applications operating segment was divided into five distinct lines of business; Cloud and IP, Application Security, Automation Platform Technologies, Mobility Infrastructure and Spirent Technologies.
- The Service Assurance Broadband line of business was split by product offering between the core Service Assurance business and Service Experience line of business.

From 1 January 2017, the new operating segments were as follows:

- Networks & Security comprising our Cloud and IP, Application Security and Positioning lines of business with the aim of addressing the needs of the lab test market for Ethernet, Virtual, Data Centre, applications test and timing for critical infrastructure.
- Lifecycle Service Assurance comprising our Mobility Infrastructure, Customer Experience Management, Service Assurance and Automation Platform Technologies lines of business. All businesses in this segment target wireless service providers production networks aimed at reducing operating costs, increasing service quality and providing real-time analytics to trigger automatic tests and fixes to network degradation.
- Connected Devices comprising our Wireless and Service Experience lines of business together with Device Intelligence and Developer Tools. Device Intelligence and Developer Tools were divested by the Group on 30 June 2017 (see note 11). The future opportunities for this segment are centred around 5G wireless development, performance and security of connected devices and the challenges to network providers coming from the Internet of Things.

$ million	Networks & Security[1]	Lifecycle Service Assurance[1]	Connected Devices[1]	Corporate	Total
2016					
Revenue					
External revenue	262.2	99.2	96.5	-	457.9
Loss before tax					
Total reportable segment profit/(loss) before exceptional items	47.2	11.2	(4.4)	(7.5)	46.5
Exceptional items *note 5*	(0.9)	(1.1)	(2.8)	-	(4.8)
Total reportable segment profit/(loss)	46.3	10.1	(7.2)	(7.5)	41.7
Unallocated amounts					
Acquired intangible asset amortisation					(12.9)
Goodwill and acquired intangible asset impairment					(69.1)
Share-based payment					(0.8)
Operating loss					(41.1)
Finance income					0.3
Finance costs					(0.7)
Share of loss of associate					(4.5)
Loss before tax					(46.0)
Other information					
Product development	53.0	31.7	27.0	-	111.7
Intangible asset amortisation – other	-	-	0.9	-	0.9
Depreciation	9.4	2.9	6.5	0.3	19.1

Note
1 Restated for changes to the Group's operating segments effective 1 January 2017 as set out above.

Inter-segment revenue is eliminated in the above periods.

4 Geographical information

$ million	2017	2016
Revenue by market		
Americas	**248.6**	254.1
Asia Pacific	**160.2**	149.3
Europe, Middle East and Africa	**46.0**	54.5
	454.8	457.9

Europe, Middle East and Africa includes United Kingdom revenue of $8.1 million (2016: $7.9 million).

Americas includes United States revenue of $237.8 million (2016: $244.4 million).

Asia Pacific includes China revenue of $88.3 million (2016: $81.0 million).

Revenues are attributed to countries based on customer location.

No one customer accounted for 10 per cent or more of total Group revenue in either 2017 or 2016.

5 Exceptional items

$ million	2017	2016
Portfolio review and sales organisation restructuring	**5.4**	4.8
Strategic review of Connected Devices	**1.3**	-
	6.7	4.8

In 2016, Spirent undertook a fundamental review of the lines of business in order to bring more focus to certain product lines and to combine resources and planning efforts in other product lines. This resulted in a change to the Group's reported operating segments. In addition, Spirent reviewed the sales organisation and compensation structure. The change in product line emphasis and organisational review resulted in exceptional restructuring costs. In 2017, the portfolio and sales organisation reviews were continued and concluded, which resulted in further headcount reductions, an onerous lease provision and associated other costs. The Group also incurred a contract amendment fee in relation to outsourced research and development services. In addition, in 2017 the Group undertook a strategic review of the Connected Devices operating segment incurring advisors' fees of $1.3 million.

The tax effect of exceptional items is a credit of $1.9 million (2016: $1.1 million). The total cash outflow in respect of exceptional items charged in 2017 is anticipated to be $6.8 million, with $3.4 million paid in the year (2016: $3.9 million with $1.4 million paid in the year). The cash outflow in 2017 in respect of exceptional items charged in 2016 was $2.5 million (2016: $7.0 million).

6 Tax

$ million	2017	2016
Current income tax		
UK tax	**0.1**	0.1
Foreign tax	**7.4**	5.3
Amounts underprovided/(overprovided) in previous years	**0.1**	(0.2)
Total current income tax charge	**7.6**	5.2
Deferred tax		
Recognition of deferred tax assets – US Research and Experimental tax credit	**(1.5)**	(3.0)
Recognition of deferred tax assets – other	**(0.8)**	(0.2)
Write-off of previously recognised tax assets including rate changes	**8.0**	0.1
Reversal of temporary differences	**3.0**	(5.0)
Adjustments in respect of prior years	**1.3**	(0.8)
Total deferred tax charge/(credit)	**10.0**	(8.9)
Tax charge/(credit) in the income statement	**17.6**	(3.7)

The tax charge for the year ended 31 December 2017 was $17.6 million (2016: $3.7 million credit). This was after a prior year tax credit of $1.4 million and a tax charge on the adjusting items of $3.1 million (2016: prior year credit of $1.0 million and tax credit on adjusting items of $14.6 million). Excluding the prior year and tax charge on adjusting items, the effective tax rate was 22.1 per cent (2016: 26.9 per cent).

US tax reform and future changes in tax rates

On 22 December 2017, the US Government enacted 'The Tax Cuts and Jobs Act' (the Act). The Act has significant tax implications for the Group. The most significant change made is the reduction in the statutory corporate tax rate from 35 per cent to 21 per cent with effect from 1 January 2018. Other changes that will 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. It is estimated that the impact of the US tax rate reduction together with the repeal of the DPAD and the addition of the FDII deduction will decrease the Group's 2018 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. We also expect to see cash savings resulting from the Act's changes.

7 Earnings per share

Basic

Earnings per share is calculated by dividing the profit/(loss) for the year attributable to owners of the parent Company by the weighted average number of Ordinary Shares outstanding during the year.

Diluted

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

7 Earnings per share *continued*

$ million	2017	2016
Profit/(loss) for the year attributable to owners of the parent Company	**29.0**	(42.3)

Number million		
Weighted average number of Ordinary Shares in issue – basic	**610.6**	610.6
Dilutive potential of employee share incentives[1]	**5.5**	-
Weighted average number of Ordinary Shares in issue – diluted	**616.1**	610.6

Note
1 The effect of dilutive employee share incentives was anti-dilutive in 2016 and was therefore ignored in calculating diluted EPS. The dilutive potential of employee share incentives was 2.4 million in 2016.

Cents		
Earnings/(loss) per share		
Basic	**4.75**	(6.93)
Diluted	**4.71**	(6.93)

Adjusted
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
- goodwill and acquired intangible asset impairment
- share-based payment
- gain on divestment
- impairment of investment in associate
- tax effect on the above items
- revaluation of deferred tax assets due to US tax reform
- prior year tax (adjustments made to provisions in respect of prior years)

7 Earnings per share *continued*

A reconciliation is provided below:

		2017		2016
	$ million	**EPS cents**	$ million	EPS cents
Profit/(loss) for the year attributable to owners of the parent Company	**29.0**	**4.75**	(42.3)	(6.93)
Exceptional items *note 5*	**6.7**		4.8	
Acquired intangible asset amortisation	**6.3**		12.9	
Goodwill and acquired intangible asset impairment	**-**		69.1	
Impairment of investment in associate	**-**		2.6	
Share-based payment	**2.2**		0.8	
Gain on divestment	**(2.6)**		-	
Tax effect on the above items	**(4.8)**		(14.6)	
Revaluation of deferred tax assets due to US tax reform	**7.9**		-	
Prior year tax	**1.4**		(1.0)	
Adjusted basic	**46.1**	**7.55**	32.3	5.29
Adjusted diluted		**7.48**		5.29

There were no Ordinary Share transactions that occurred after 31 December that would have significantly changed the number of Ordinary Shares or potential Ordinary Shares outstanding at the period end if those transactions had occurred before the end of the reporting period in either year.

8 Dividends paid and proposed

$ million	**2017**	2016
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend 2016 of 2.21 cents per Ordinary Share (2015: 2.21 cents)	**14.2**	14.1
Interim dividend 2017 of 1.68 cents per Ordinary Share (2016: 1.68 cents)	**10.4**	10.1
	24.6	24.2
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2017 of 2.40 cents per Ordinary Share (2016: 2.21 cents)	**14.7**	13.5
Special dividend 2017 of 5.00 cents per Ordinary Share	**30.5**	-
	45.2	13.5

The directors are proposing a final dividend in respect of the financial year ended 31 December 2017 of 2.40 cents per Ordinary Share (2016: 2.21 cents), which will absorb an estimated $14.7 million of shareholders' funds (2016: $13.5 million). The directors are also proposing a special dividend of 5.00 cents per Ordinary Share, which will absorb an additional circa $30.5 million of shareholders' funds. The final dividend and special dividend will be paid on 4 May 2018 to Ordinary shareholders who are on the Register of Members at close of business on 16 March 2018. Payment will be made to ADR holders on 11 May 2018. No liability is recorded in the financial statements in respect of these dividends.

Dividends are determined in US dollars and paid in pounds sterling. The exchange rate for determining the amount of the final and special dividends to be paid for 2017 was $1.39: £1 (2016: $1.23: £1).

9 Reconciliation of profit/(loss) before tax to cash generated from operations

$ million	**2017**	2016
Profit/(loss) before tax	**46.6**	(46.0)
Adjustments for:		
Finance income	**(0.6)**	(0.3)
Finance costs	**0.3**	0.7
Share of loss of associate	**-**	4.5
Intangible asset amortisation	**7.1**	13.8
Goodwill and acquired intangible asset impairment	**-**	69.1
Depreciation of property, plant and equipment	**18.0**	19.1
Loss on the disposal of property, plant and equipment	**0.2**	0.2
Gain on divestment	**(2.6)**	-
Share-based payment	**2.2**	0.8
Changes in working capital:		
Deferred income received/(released)	**4.1**	(2.6)
Increase in receivables	**(2.3)**	(1.7)
Decrease/(increase) in inventories	**3.7**	(4.5)
Increase in payables	**7.0**	4.9
Increase/(decrease) in provisions	**0.1**	(4.5)
Defined benefit pension plan	**(6.1)**	(6.1)
Cash flow from operations	**77.7**	47.4

10 Deferred tax

The movements in the deferred tax assets/(liabilities) are as follows:

$ million	Temporary differences	Tax losses	Tax credits	UK pension plans	Total
At 1 January 2016	6.0	13.0	2.0	4.0	25.0
Charged/(credited) in the year	12.7	(4.5)	1.9	(1.2)	8.9
Deferred tax on defined benefit pension plan	-	-	-	0.4	0.4
Deferred tax on share incentives recognised in equity	(0.1)	-	-	-	(0.1)
Exchange adjustment	(0.3)	(0.3)	-	(0.6)	(1.2)
At 1 January 2017	**18.3**	**8.2**	**3.9**	**2.6**	**33.0**
Credited in the year	**(5.3)**	**(1.3)**	**(2.3)**	**(1.1)**	**(10.0)**
Deferred tax on defined benefit pension plan	**-**	**-**	**-**	**(1.0)**	**(1.0)**
Deferred tax on deferred compensation plan	**0.2**	**-**	**-**	**-**	**0.2**
Deferred tax on share incentives recognised in equity	**0.3**	**-**	**-**	**-**	**0.3**
Exchange adjustment	**0.1**	**0.5**	**-**	**-**	**0.6**
At 31 December 2017	**13.6**	**7.4**	**1.6**	**0.5**	**23.1**
Amounts on the balance sheet:					
At 31 December 2016					
Deferred tax asset	18.5	8.1	3.9	2.6	33.1
Deferred tax liability	(0.2)	0.1	-	-	(0.1)
	18.3	8.2	3.9	2.6	33.0
At 31 December 2017					
Deferred tax asset	**13.7**	**7.4**	**1.6**	**0.5**	**23.2**
Deferred tax liability	**(0.1)**	**-**	**-**	**-**	**(0.1)**
	13.6	**7.4**	**1.6**	**0.5**	**23.1**

A deferred tax asset of $23.2 million and a liability of $0.1 million have been recognised at 31 December 2017 (2016: $33.1 million and $0.1 million, respectively).

The enactment of the lower tax rate in the United States prior to the balance sheet date results in a re-measurement of the Group's US deferred tax assets. As a result, the Group's US deferred tax assets were written-down by $7.9 million with a corresponding deferred tax charge to the income statement. This charge is reflected in the tax on adjusting items.

The Finance Bill 2016 was enacted 15 September 2016 and reduced the UK rate of corporation tax from 20 per cent as of 1 April 2017 to 19 per cent and by a further 2 per cent to 17 per cent from April 2020. In line with these rate changes, deferred tax assets and liabilities being realised or settled before 2020 have been based on a rate of 19 per cent. Those being realised or settled after 2020 have been based on a rate of 17 per cent.

11 Divestments

On 16 February 2017, the Group divested of certain assets and liabilities of Epitiro Group Limited (Epitiro) for consideration of $0.4 million. Epitiro was reported within the Lifecycle Service Assurance operating segment.

On 30 June 2017, the Group 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 former 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.

In 2016, DI and DT reported combined revenue of $12.9 million, made an adjusted operating loss of $2.1 million and a loss before tax of $6.8 million (after exceptional items of $1.1 million and acquired intangible asset amortisation of $3.6 million). In 2017, DI and DT reported combined revenue of $5.9 million and made an adjusted operating profit and profit before tax of $1.4 million.

These divestments do not constitute discontinued operations under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The gain on divestments during the year was as follows:

$ million	DI/DT	Epitiro	2017 Total
Gross consideration	-	0.4	0.4
Net liabilities/(assets) at date of divestment	2.9	(0.5)	2.4
Provision against loan to divested subsidiaries	(2.0)	-	(2.0)
Expenses of sale	(0.8)	(0.5)	(1.3)
Foreign exchange adjustments	3.1	-	3.1
Net gain/(loss) on divestments before and after tax	3.2	(0.6)	2.6

Accumulated foreign exchange gains of $3.1 million were recycled to profit or loss on divestment of DI/DT.

As part of the sale of DI and DT, Spirent made a $2.0 million interest bearing loan to the divested subsidiaries to fund working capital requirements. This loan has been fully provided for by the Group and expensed in the calculation of the gain on divestments.

The net cash impact of divestments in the year was $2.1 million.

The net liabilities divested in the year were $2.4 million.