CHAIRMAN'S STATEMENT

Significant strategic progress in 2012

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Chairman

Spirent made significant strategic progress in 2012 through organic investment to bring new solutions to market, the acquisition of new technologies for testing the security of application-aware networks and the subscriber experience of mobile devices on live networks, in order to expand the markets it serves, and by the divestment of its last non-core business. A restructuring of the Service Assurance division has returned the business to more satisfactory levels of profitability. These achievements were made against a background of economic uncertainty in all regions, which in turn tempered growth.

Revenue for the continuing Group was similar to last year at $472.4 million (2011 $470.5 million) and reported profit before tax decreased by 3 per cent to $110.7 million (2011 $114.3 million). The strong start to the year was followed by a weak demand environment materialising during the second quarter, which then persisted throughout the remainder of the year. Operational highlights included the growth in new solutions for 4G/LTE wireless

Dividend per share 2012

3.22cents
(2011 2.93 cents)

development testing, the enhancements to new high speed Ethernet test solutions and the renewal of large long term service assurance maintenance contracts.
The one significant area of weakness, other than Service Assurance, was the global navigation satellite system emulation products in the positioning business which experienced a 26 per cent decrease in revenue due to caution in government spending and delays to the commercial rollout of the specifications to a Chinese satellite navigation system. This decrease had a 3 percentage points negative impact on revenue growth for the Performance Analysis division for the year.

Return on sales, based on adjusted operating profit, was maintained at 25 per cent for the continuing Group, which is amongst the best in the test and measurement industry. This was after expanding product development expenditure by $2.8 million and sales and distribution by $1.2 million.

Adjusted basic earnings per share grew by 4 per cent to 13.38 cents (2011 12.92 cents); this is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment. Basic earnings per share for the continuing Group decreased in 2012 by 5 per cent to 12.46 cents per share (2011 13.17 cents).

The Group's free cash flow generation from continuing businesses increased to $84.0 million (2011 $69.3 million) representing a strong increase year-on-year; this is a cash conversion ratio of 105 per cent of reported earnings before non-cash prior year tax (2011 84 per cent). Spirent used its cash resources to fund the acquisitions of Mu Dynamics, Inc. in April for $39.8 million and Metrico Wireless, Inc. in September for $52.2 million. Both businesses have been fully integrated into the Performance Analysis division. The divestment of the Systems division in November for a cash consideration of $63.2 million has enabled the Company to focus on the development of its core business. Of the proceeds, $27.2 million was applied to the repurchase of Spirent shares in the market for cancellation. The Company has no debt and cash balances were $248.6 million at 31 December 2012.

The Board continues to focus on a high return on capital employed in the business. The operating return on capital employed (excluding cash balances) in the continuing Group in 2012 was 52 per cent. The target set for return on investment in acquired businesses is in line with or in excess of the cost of capital. Returns remain low to negligible on cash balances, which are retained to allow surety of completion for acquisition negotiations. While the Company expects to continue to invest in acquisitions which are in line with the strategy, it is also committed to making returns through share buybacks. To that end, during 2012 13.4 million shares were repurchased utilising cash of $30.8 million. The intention is to continue the on market repurchase programme during 2013, envisaged at the time of the divestment of Systems, and to offset the dilutive effect of share-based incentives.

The final dividend recommended is 1.83 cents per share compared with 1.67 cents per share in 2011. This brings the total dividend for 2012 to 3.22 cents per share compared with 2.93 cents for 2011. The increase in total dividend per share is 10 per cent and reflects the strong operating margin and cash generation of the Group. In sterling terms this represents 2.10 pence per share, an increase in the distribution to our shareholders of 15 per cent.