SPIRENT COMMUNICATIONS PLC

Full year results for the year ended 31 December 2024

Good momentum building in the second half of the year despite challenging environment

$ million	2024	2023	Change (%)
Orderbook[1]	**312.1**	293.7	6.3
Order intake[2]	**479.0**	477.0	0.4
Revenue	**460.2**	474.3	(3.0)
Gross margin (%)	**72.0**	72.4	(0.4pp)
Adjusted operating profit[3]	**46.2**	45.2	2.2
Adjusted profit before tax[4]	**49.7**	49.7	-
Adjusted basic earnings per share[5] (cents)	**7.75**	7.55	2.6
Reported operating profit	**10.3**	18.4	(44.0)
Reported profit before tax	**13.8**	22.9	(39.7)
Basic earnings per share (cents)	**2.25**	4.30	(47.7)
Closing cash	**141.8**	108.1	31.2

Commenting on today's announcement, Eric Updyke, Chief Executive Officer, said:
"The results in 2024 speak to the dedication of the whole global Spirent team who have yet again demonstrated their commitment and operational resilience in the face of a challenging market environment, while also working with Keysight to conclude their acquisition of the Group. It has been a very busy year, in which we delivered a good performance, and I would like to personally thank all of Spirent staff for their hard work."

"Despite ongoing challenging market conditions, momentum picked up in the latter part of the financial year. Our continuing investment in product development has meant that we have been able to support our customers as they progress their 5G related roll out programmes. Good progress was made in customer diversification, and the recent launch of new products has started to achieve traction. We are well positioned for 2025, with a robust balance sheet, an innovative portfolio and a growing order book."

Outlook
Notwithstanding the challenging market conditions, we are pleased to have started the new financial year with a growing orderbook. We are well positioned to deliver strategic and operational progress, with opportunities emerging across our end customer markets whilst we continue to invest in our leading technology solutions across our portfolio. This will position us well in our key markets as they continue to recover. The Group is well-placed for the year ahead.

Notes
1. Orderbook is an alternative performance measure as defined in the appendix on page 25.
2. Order intake represents commitments from customers in the period to purchase goods and/or services that will ultimately result in recognised revenue.
3. Before acquired intangible asset amortisation, share-based payment and other adjusting items amounting to $35.9 million in total (2023 $26.8 million).
4. Before items set out in note 4.
5. Adjusted basic earnings per share is based on adjusted earnings as set out in note 6.

- ends -

Enquiries

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About Spirent Communications plc
Spirent Communications plc (LSE: SPT) is a leading global provider of automated test and assurance solutions for networks, cybersecurity, and positioning. The Company provides innovative products, services and managed solutions that address the test, assurance, and automation challenges of a new generation of technologies, including 5G, AI, cloud, autonomous vehicles and beyond. From the lab to the real world, Spirent helps companies deliver on their promise to their customers of a new generation of connected devices and technologies. 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.

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.

Operating and financial review

Group overview

Despite the industry-wide slowdown and continued challenging market conditions, we saw early signs of market recovery, particularly in the final quarter of the year which saw a good uptick in order growth.

As previously stated, the telecommunications sector continued to be very challenging in 2024. By continuing to invest in our leading products, we have been able to support our customers as they continue to progress their 5G related roll out programmes focusing on targeted network expansions and improved quality and coverage. We saw good growth in EMEA across the year, and some recovery in North America in the second half, offset by a reduction in China, due to ongoing economic challenges which resulted in full year revenue of $460.2 million, compared to $474.3 million for 2023. Adjusted operating profit grew to $46.2 million from $45.2 million. Effective supply chain management and robust customer pricing meant gross margin was maintained at 72 per cent. The orderbook closed up 6 per cent at $312.1 million (2023 $293.7 million), providing a solid base as we move into 2025.

Other adjusting items were $21.1 million (2023 $14.2 million) comprising mainly of adviser costs of $18.2 million (2023 nil) relating to the acquisition of Spirent, the majority of the remainder being restructuring and strategic evaluation costs of $2.5 million (2023 $13.5 million). Adjusting items are further detailed on page 6.

The effective tax rate remained flat at 10.7 per cent in 2024 (2023 10.8 per cent). Adjusted basic earnings per share increased by 2.6 per cent, up from 7.55 cents last year to 7.75 cents for 2024.

Our approach to strong financial management and focus on our balance sheet remains in place. Cash increased to $141.8 million (2023 $108.1 million).

Revenue

$ million	**2024**	**% of total**	2023	% of total
Revenue by segment				
Lifecycle Service Assurance	**181.0**	**39.3**	199.1	42.0
Networks & Security	**279.2**	**60.7**	275.2	58.0
	460.2	**100.0**	474.3	100.0
Revenue by geography				
Americas	**273.3**	**59.4**	268.1	56.5
Asia Pacific	**126.3**	**27.4**	153.9	32.5
Europe, Middle East and Africa	**60.6**	**13.2**	52.3	11.0
	460.2	**100.0**	474.3	100.0

Overall Group revenue declined by 3 per cent, with Lifecycle Service Assurance down 9 per cent and Networks & Security up 2 per cent, respectively, compared to the prior year.

Revenue in Lifecycle Service Assurance was lower in the first half of the year due to the continued customer spending delays particularly in the telecommunications market. We have a growing orderbook for our test assurance solutions. We experienced decline from legacy products such as the channel emulator whilst we are seeing momentum in new customer segments for our test and assurance solutions. Nonetheless, progress was made in the fourth quarter of the year and Lifecycle Service Assurance has continued to expand its capabilities, allowing a move to adjacent enterprise markets, with multiple new orders from Financial Services organisations.

Networks & Security's growth was boosted by a good performance from our High-Speed Ethernet products and growing order pipeline in Positioning, which was supported by positive take up of a new product line.

Revenue in the regions saw growth in the Americas and EMEA compared to the prior year, and a decline in Asia Pacific, which was principally as a result of macroeconomic factors in China.

Gross margin

$ million	**2024**	**%**	2023	%
Lifecycle Service Assurance	**133.3**	**73.6**	147.8	74.2
Networks & Security	**198.2**	**71.0**	195.8	71.1
	331.5	**72.0**	343.6	72.4

Gross margin remained steady at 72 per cent (2023 72 per cent) driven by effective supply chain management and robust customer pricing.

Operating costs

$ million	**Adjusted[1] 2024**	**Reported 2024**	Adjusted[1] 2023	Reported 2023
Product development	**99.0**	**99.0**	102.4	102.4
Selling and marketing	**126.3**	**126.3**	133.9	133.9
Administration	**60.0**	**95.9**	62.1	88.9
Operating costs	**285.3**	**321.2**	298.4	325.2
Lifecycle Service Assurance	**118.7**	**119.9**	130.8	136.9
Networks & Security	**153.3**	**154.6**	156.9	164.2
Corporate	**13.3**	**46.7**	10.7	24.1
Operating costs	**285.3**	**321.2**	298.4	325.2

Note
1. Before acquired intangible asset amortisation, share-based payment and other adjusting items amounting to $35.9 million in total (2023 $26.8 million).

The continued close management of our cost base, and the result of initiatives implemented at the end of 2023, resulted in adjusted operating costs savings which was offset by higher incentive accruals (2023 nil). Actual reported costs increased in 2024 due to acquisition related costs.

We have continued to protect our technical leadership and ongoing investment in product development. Costs decreased year-on-year from $102.4 million to $99.0 million, driven by initiatives mainly taken in late 2023 as we transferred activities to lower-cost regions. Our investment has led to promising new launches – a new PNT X solution has been welcomed by new customers and our Wi-Fi 7 solution is seeing early momentum. Our new AI High-Speed Ethernet solution and a new Automation solution are winning new customers in Communications and Financial Services.

Sales and marketing costs decreased by $7.6 million, from $133.9 million to $126.3 million, due to a successful reorganisation of our EMEA sales model which now includes more channel partners and less staff. The reorganisation drove increased orders from this region.

Operating profit

$ million	**2024**	**Adjusted operating margin[1, 2] %**	2023	Adjusted operating margin[1, 2] %
Lifecycle Service Assurance	**14.6**	**8.1**	16.9	8.5
Networks & Security	**44.9**	**16.1**	39.0	14.2
Corporate	**(13.3)**		(10.7)	
Adjusted operating profit[1]	**46.2**	**10.0**	45.2	9.5
Adjusting items:				
Acquired intangible asset amortisation	**(5.2)**		(5.0)	
Share-based payment	**(9.6)**		(7.6)	
Other adjusting items	**(21.1)**		(14.2)	
Reported operating profit	**10.3**		18.4	

Notes
1. Before acquired intangible asset amortisation, share-based payment and other adjusting items amounting to $35.9 million in total (2023 $26.8 million).
2. Adjusted operating profit as a percentage of revenue in the period.

Adjusted operating profit increased to $46.2 million (2023 $45.2 million).

Total adjusting items of $35.9 million in 2024 increased from $26.8 million in 2023, mainly due to the increase in acquisition related transaction costs relating to the acquisition of the Group by Keysight.

Therefore, reported operating profit declined to $10.3 million (2023 $18.4 million), reflecting the adviser costs relating to the acquisition of Spirent.

Acquired intangible asset amortisation and share-based payment

The acquired intangible asset amortisation charge increased slightly over the prior year to $5.2 million (2023 $5.0 million) due to the amortisation of the intangible assets recognised on the acquisition of the NetScout business carve-out in September 2023.

Share-based payment increased to $10.1 million in 2024 (2023 $7.7 million), of which $9.6 million (2023 $7.6 million) has been treated as an adjusting item.

Other adjusting items

$ million	2024	2023
Restructuring	**2.5**	13.5
Acquisition related costs	**18.6**	0.7
	21.1	14.2

Restructuring

$ million	2024	2023
R&D engineering plan	**-**	0.7
Finance transformation	**1.2**	1.1
Organisational restructure	**0.8**	8.8
Facilities downsize	**0.5**	2.9
	2.5	13.5

Restructuring
We concluded our R&D engineering site plan to relocate activities from North America to lower cost regions for our High-Speed Ethernet business in 2023. No further significant costs are expected in relation to this project.

In 2023, to embed standardised global finance processes, we moved certain accounting activities from North America to the UK, incurring $1.1 million of costs including $0.5 million of consultancy costs. In 2024, we moved into the next phase of the initiative, incorporating the review of key global process and/or control enhancements, incurring further consultancy costs of $0.9 million.

Strategic actions were taken to review the cost base and facility footprint in the second half of 2023 and we exited and downsized three of our North American facilities which gave rise to a non-cash $2.9 million impairment of assets in 2023. The 2024 amounts relate to moving, relocating and downsizing costs directly attributable to this project.

Acquisition related costs
In March 2024, Keysight announced its intention to purchase Spirent. Therefore, the costs of $18.2 million recognised in 2024 relate mainly to professional advisory charges due to this acquisition. We expect further deal related charges, the majority of which are expected to be incurred when the deal is closed.

On 8 September 2023, the Group completed the asset purchase of a small Test Lab Automation business carve-out from NetScout Inc. Retention costs of $0.4 million were incurred during 2024 (2023 $0.7 million).

The tax effect of other adjusting items is a credit of $0.8 million (2023 $2.5 million).

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

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 $0.5 million (2023 $0.9 million loss) arising from transacting in foreign currencies, primarily US Dollars, in the United Kingdom, and the translation of foreign currency cash balances.

Forward foreign currency exchange contracts are entered into to manage the exposure arising from transacting in currencies other than US Dollars.

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

Interest income of $4.1 million was earned from bank interest (2023 $4.8 million) and $0.4 million (2023 $0.6 million) of interest income was recognised in relation to the UK defined benefit pension plans. Surplus funds are held principally in the United Kingdom and United States on short-term or overnight deposits and earn market rates of interest.

Finance costs in 2024 were $1.0 million (2023 $0.9 million), relating to interest on lease liabilities.

Tax

The adjusted effective tax rate, being the adjusted tax charge expressed as a percentage of adjusted profit before tax shown on the face of the consolidated income statement, was 10.7 per cent in 2024, compared with 10.8 per cent in 2023.

Spirent's effective tax rate continues to benefit from the United Kingdom Patent Box Scheme, the United States R&D Tax Credit, and the US foreign-derived intangible income deduction.

Earnings per share

Adjusted basic earnings per share was up 2.6 per cent to 7.75 cents (2023 7.55 cents). Basic earnings per share was 2.25 cents (2023 4.30 cents). There were 574.6 million (2023 586.7 million) weighted average Ordinary Shares in issue. See note 6 for the calculation of earnings per share.

Financing and cash flow
Cash flow from operations was $57.0 million in 2024 (2023 $45.8 million) driven by strong focus on working capital, which saw reductions in our inventory levels partially offset by an increase in receivables arising from our strong fourth quarter trading. Cash flow from operations is detailed in note 9 (page 23). An explanation on free cash flow as an alternative performance measure can be found on page 26.

Free cash flow is set out below:

$ million	**2024**	2023
Cash flow from operations	**57.0**	45.8
Tax paid	**(5.1)**	(13.9)
Net cash inflow from operating activities	**51.9**	31.9
Interest received	**4.5**	5.4
Net capital expenditure	**(7.3)**	(6.1)
Capitalised development costs	**(4.5)**	-
Payment of lease liabilities, principal and interest	**(9.2)**	(8.8)
Lease payments received from finance leases	**0.3**	0.6
Acquisition related other adjusting items (*note 4*)	**18.6**	0.7
Free cash flow	**54.3**	23.7

Net capital expenditure of $7.3 million was broadly similar to the same period last year (2023 $6.1 million) and was predominantly related to equipment and leasehold improvements.

No dividend was paid in 2024 (2023 $46.5 million) and no shares were purchased or placed into the Employee Share Ownership Trust (ESOT) in 2024 and 2023.

Cash closed at $141.8 million at year end (2023 $108.1 million). There continues to be no bank debt.

Defined benefit pension plans
The Group operates two funded defined benefit pension plans in the United Kingdom which are closed to new entrants.

In October 2022, the Trustees of the Staff Plan, with the Group's support, purchased a bulk annuity insurance (buy-in) policy from the UK insurer Pension Insurance Corporation (PIC) covering all members. The premium was paid from the plan's assets, and sufficient assets remain to meet the plan's ongoing costs. This buy-in effectively transferred the investment, inflation, longevity and demographic risks to PIC, meaning the Group no longer bears these risks. Following the buy-in, the Group does not expect to make any further cash contributions to the Staff Plan. Cash contributions for 2024 were nil (2023 nil).

Following a detailed data cleansing process and payment of the final top-up premium to PIC, the wind-up of the Staff Plan was initiated in November 2024. The Group has determined that following this step it no longer has an unequivocal right to the surplus, as the Trustees have discretion to use part, or all, of the surplus to enhance members' benefits without requiring Group approval. As a result, for the purposes of these disclosures, the Staff Plan surplus has been restricted to nil at the year-end (2023 $6.7 million). The Trustees are currently in the process of informing members of the wind up and the Group's expectation is that the Trustees will pay the bulk of the surplus to the Group, net of any tax due, once all wind-up expenses have been met.

The accounting valuation of the funded defined benefit pension plans at 31 December 2024 was a net surplus of $0.5 million (31 December 2023 net surplus of $6.7 million).

There is also a liability for an unfunded plan in the UK of $0.5 million (31 December 2023 $0.5 million).

The Group operates an unfunded deferred compensation plan for employees in the United States. At 31 December 2024, the deficit on this deferred compensation plan amounted to $10.5 million (31 December 2023 $9.2 million).

Balance sheet
The consolidated balance sheet is set out on page 12.

Net assets increased by $16.7 million to $392.5 million at 31 December 2024, from $375.8 million at 31 December 2023.

Overall, the increase in net assets is a result of positive levels of cash generated from operations, offset by the reduction in pension surplus of $7.3 million (due to the initiation of the wind-up of the Staff Plan) and an increase in trade and other payables of $12.8 million, primarily due to increase in incentive accruals compared to the previous year.

Liquidity and dividend policy
The Board's intention is 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.

The cash generation of the Group allows continued investment into R&D to maintain our market-leading positions and inorganic investments where opportunities support growth plans. If and when it is considered 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 organic and inorganic 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.

Dividend
As indicated in the Scheme Document published on 25 April 2024 in relation to the offer for the Company by Keysight, the Board intends and expects to declare a dividend of 2.5 pence per share, payable prior to the Effective Date (as defined in the Scheme Document). Payment of this dividend is not conditional upon the Effective Date occurring.

In addition, if the Effective Date has not occurred by 30 June 2025, the Board will be entitled to declare and approve the payment of a further dividend of up to 1.0 pence per share. If declared, this additional dividend will be payable at any time thereafter and before the Effective Date.

Consolidated income statement

		Year ended 31 December 2024			Year ended 31 December 2023		
$ million	Notes	**Adjusted**	**Adjusting items[1]**	**Reported**	Adjusted	Adjusting items[1]	Reported
Revenue	3	**460.2**	**-**	**460.2**	474.3	-	474.3
Cost of sales		**(128.7)**	**-**	**(128.7)**	(130.7)	-	(130.7)
Gross profit		**331.5**	**-**	**331.5**	343.6	-	343.6
Product development	3	**(99.0)**	**-**	**(99.0)**	(102.4)	-	(102.4)
Selling and marketing		**(126.3)**	**-**	**(126.3)**	(133.9)	-	(133.9)
Administration		**(60.0)**	**(35.9)**	**(95.9)**	(62.1)	(26.8)	(88.9)
Operating profit		**46.2**	**(35.9)**	**10.3**	45.2	(26.8)	18.4
Adjusting items:							
Acquired intangible asset amortisation		**-**	**(5.2)**	**(5.2)**	-	(5.0)	(5.0)
Share-based payment		**-**	**(9.6)**	**(9.6)**	-	(7.6)	(7.6)
Other adjusting items	4	**-**	**(21.1)**	**(21.1)**	-	(14.2)	(14.2)
		-	**(35.9)**	**(35.9)**	-	(26.8)	(26.8)
Finance income		**4.5**	**-**	**4.5**	5.4	-	5.4
Finance costs		**(1.0)**	**-**	**(1.0)**	(0.9)	-	(0.9)
Profit before tax		**49.7**	**(35.9)**	**13.8**	49.7	(26.8)	22.9
Tax (charge)/credit	5	**(5.2)**	**4.3**	**(0.9)**	(5.4)	7.7	2.3
Profit for the year attributable to owners of the parent Company		**44.5**	**(31.6)**	**12.9**	44.3	(19.1)	25.2
Earnings per share (cents)	6						
Basic		**7.75**		**2.25**	7.55		4.30
Diluted		**7.67**		**2.22**	7.50		4.26

Note
1. Adjusting items comprise amortisation of acquired intangible assets, share-based payment, other adjusting items, tax on adjusting items and any over/under provision in respect of prior year tax.

The performance of the Group is assessed using a variety of non-GAAP alternative performance measures which are presented to provide additional financial information that is regularly reviewed by management. Adjusting items are identified and excluded by virtue of their size, nature or incidence as they do not reflect management's evaluation of the underlying trading performance of the Group. The alternative performance measures are presented in the appendix. The reported GAAP measures give the complete measure of financial performance.

Consolidated statement of comprehensive income

		Year ended 31 December	
$ million	Note	**2024**	2023
Profit for the year attributable to owners of the parent Company		**12.9**	25.2
Other comprehensive (loss)/income			
Items that may subsequently be reclassified to profit or loss:			
– Exchange differences on retranslation on foreign operations		**(2.7)**	2.8
Items that will not subsequently be reclassified to profit or loss:			
– Re-measurement of the net defined benefit pension asset	8	**(4.5)**	(4.1)
– Income tax effect of re-measurement of the net defined benefit pension asset		**(0.6)**	(0.1)
– Re-measurement of the deferred compensation liability	8	**-**	(0.6)
		(5.1)	(4.8)
Other comprehensive loss		**(7.8)**	(2.0)
Total comprehensive income for the year attributable to owners of the parent Company		**5.1**	23.2

Consolidated balance sheet

$ million	Notes	At 31 December 2024	2023
Assets			
Non-current assets			
Intangible assets		**203.5**	206.6
Property, plant and equipment		**14.7**	15.8
Right-of-use assets		**17.5**	17.2
Trade and other receivables		**6.7**	5.0
Assets recognised from costs to obtain a contract		**0.7**	0.3
Defined benefit pension plan surplus	8	**0.5**	8.4
Deferred tax asset		**54.7**	43.2
		298.3	296.5
Current assets			
Inventories		**35.5**	43.5
Trade and other receivables		**134.9**	133.7
Assets recognised from costs to obtain a contract		**1.9**	1.0
Current tax asset		**1.8**	1.0
Cash and cash equivalents		**141.8**	108.1
		315.9	287.3
Total assets		**614.2**	583.8
Liabilities			
Current liabilities			
Trade and other payables		**(78.7)**	(65.9)
Contract liabilities		**(68.7)**	(66.6)
Lease liabilities		**(7.6)**	(10.7)
Other financial liabilities		**(0.1)**	-
Current tax liability		**(6.5)**	(0.8)
Provisions		**(3.7)**	(5.0)
		(165.3)	(149.0)
Non-current liabilities			
Trade and other payables		**(0.2)**	(0.2)
Contract liabilities		**(29.2)**	(33.7)
Lease liabilities		**(12.7)**	(10.7)
Defined benefit pension plan deficit	8	**(11.0)**	(11.4)
Provisions		**(3.3)**	(3.0)
		(56.4)	(59.0)
Total liabilities		**(221.7)**	(208.0)
Net assets		**392.5**	375.8
Capital and reserves			
Share capital		**24.2**	24.6
Share premium account		**25.3**	25.7
Capital redemption reserve		**17.9**	18.2
Other reserves		**18.6**	17.5
Translation reserve		**2.8**	5.5
Retained earnings		**303.7**	284.3
Total equity attributable to owners of the parent Company		**392.5**	375.8

Consolidated statement of changes in equity

		Attributable to the equity holders of the parent Company						
$ million	Notes	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total equity
At 1 January 2023 (audited)		24.7	24.4	16.0	20.9	2.6	376.6	465.2
Profit for the year		-	-	-	-	-	25.2	25.2
Other comprehensive income/(loss)[1]		-	-	-	-	2.8	(4.8)	(2.0)
Total comprehensive income		-	-	-	-	2.8	20.4	23.2
Share-based payment		-	-	-	-	-	6.8	6.8
Tax credit on share incentives		-	-	-	-	-	(1.7)	(1.7)
Equity dividends	7	-	-	-	-	-	(46.5)	(46.5)
Share repurchase	13	(1.4)	-	1.4	-	-	(71.6)	(71.6)
Exchange adjustment		1.3	1.3	0.8	(3.4)	0.1	0.3	0.4
At 1 January 2024		**24.6**	**25.7**	**18.2**	**17.5**	**5.5**	**284.3**	**375.8**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**12.9**	**12.9**
Other comprehensive income/(loss)[2]		**-**	**-**	**-**	**-**	**(2.7)**	**(5.1)**	**(7.8)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(2.7)**	**7.8**	**5.1**
Share-based payment		**-**	**-**	**-**	**-**	**-**	**10.3**	**10.3**
Tax charge on share incentives		**-**	**-**	**-**	**-**	**-**	**1.3**	**1.3**
Equity dividends	7	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange adjustment		**(0.4)**	**(0.4)**	**(0.3)**	**1.1**	**-**	**-**	**-**
At 31 December 2024		**24.2**	**25.3**	**17.9**	**18.6**	**2.8**	**303.7**	**392.5**

Notes
1. The amount included in other comprehensive income/(loss) for 2023 of $4.8 million represents re-measurement losses on the net defined benefit pension asset of $4.1 million, a tax charge of $0.1 million and re-measurement losses on the deferred compensation liability of $0.6 million. The amount included in the translation reserve of $2.8 million represents other comprehensive gain related to the translation of foreign operations.
2. The amount included in other comprehensive loss for 2024 of $5.1 million represents re-measurement losses on the net defined benefit pension asset of $4.5 million, and a tax charge of $0.6 million. The amount included in the translation reserve of $2.7 million represents other comprehensive loss related to the translation of foreign operations.

Consolidated cash flow statement

$ million	Notes	Year ended 31 December 2024	2023
Cash flows from operating activities			
Cash flow from operations	9	**57.0**	45.8
Tax paid		**(5.1)**	(13.9)
Net cash inflow from operating activities		**51.9**	31.9
Cash flows from investing activities			
Interest received		**4.5**	5.4
Capitalised development costs		**(4.5)**	-
Purchase of property, plant and equipment		**(7.3)**	(6.5)
Proceeds from the sale of property, plant and equipment		**-**	0.4
Lease payments received from finance leases		**0.3**	0.6
Acquisition of subsidiary, net of cash acquired	10	**-**	(7.8)
Net cash used in investing activities		**(7.0)**	(7.9)
Cash flows from financing activities			
Lease liability principal repayments		**(8.2)**	(7.9)
Lease liability interest paid		**(1.0)**	(0.9)
Dividend paid	7	**-**	(46.5)
Share purchase into Employee Share Ownership Trust	12	**-**	-
Share repurchase	13	**-**	(71.6)
Net cash used in financing activities		**(9.2)**	(126.9)
Net increase/(decrease) in cash and cash equivalents		**35.7**	(102.9)
Cash and cash equivalents at the beginning of the year		**108.1**	209.6
Effect of foreign exchange rate changes		**(2.0)**	1.4
Cash and cash equivalents at the end of the year		**141.8**	108.1

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 years ended 31 December 2024 or 2023, but is derived from those accounts. Statutory accounts for the year ended 31 December 2024 will be delivered to the registrar in due course.

The Group financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards. The comparative financial information is based on the statutory accounts for the year ended 31 December 2023 which have been delivered to the Registrar of Companies. The report of the auditors on the 2023 and 2024 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 4 March 2025.

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 2024.

New accounting standards
There have been no applicable new standards, amendments to standards and interpretations effective from 1 January 2024 that have been applied by the Group which have resulted in a significant impact on its consolidated results or financial position.

Going concern
In adopting the going concern basis for preparing the consolidated financial statements, the Directors have considered the Group's principal risks and uncertainties.

The Directors have also considered sensitivities in respect of potential downside scenarios, including stress testing the latest cash flow projections that cover a period of 12 months from the date of approval of these consolidated financial statements. In these scenarios, the Group has more than sufficient headroom in its available resources.

At 31 December 2024, the Group had cash balances of $141.8 million and external debt only in relation to its lease liabilities.

The Directors have reviewed the detailed financial projections for the period ending 31 December 2025, as well as the business plan and cash flows for the three months ending 31 March 2026. The Directors have also considered the period to the end of 2027 which forms part of the Group's longer-term viability assessment. It is the Directors opinion that the most likely scenario is that the Keysight acquisition will conclude within the going concern period. In addition, they have considered the principal risks faced by the Group including the Keysight acquisition, the sensitivity analysis and the Group's significant financial headroom and are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least 12 months from the date of approval of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the consolidated 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's reportable operating segments are Lifecycle Service Assurance and Networks & Security. The Group evaluates adjusted operating profit before acquired intangible asset amortisation, share-based payment and other adjusting items. Finance income and finance costs 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. Information on segment assets and segment liabilities is not regularly provided to the Group's Chief Executive Officer and is therefore not disclosed below. There is no aggregation of operating segments.

The Group disaggregates revenue from contracts with customers by nature of products and services and primary geographical markets as this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors.

				2024 $ million
$ million	**Lifecycle Service Assurance**	**Networks & Security**	**Corporate**	**Total**
2024				
Revenue				
Nature of products and services				
Sale of hardware and software	**78.0**	**205.9**	**-**	**283.9**
Maintenance and support services	**103.0**	**73.3**	**-**	**176.3**
	181.0	**279.2**	**-**	**460.2**
Primary geographical markets				
Americas	**127.6**	**145.7**	**-**	**273.3**
Asia Pacific	**33.8**	**92.5**	**-**	**126.3**
Europe, Middle East and Africa	**19.6**	**41.0**	**-**	**60.6**
	181.0	**279.2**	**-**	**460.2**
Profit before tax				
Adjusted operating profit	**14.6**	**44.9**	**(13.3)**	**46.2**
Other adjusting items *note 4*	**(1.2)**	**(1.3)**	**(18.6)**	**(21.1)**
Total reportable segment profit	**13.4**	**43.6**	**(31.9)**	**25.1**
Unallocated amounts:				
– Acquired intangible asset amortisation				**(5.2)**
– Share-based payment				**(9.6)**
Operating profit				**10.3**
Finance income				**4.5**
Finance costs				**(1.0)**
Profit before tax				**13.8**
Other information				
Product development	**46.5**	**52.5**	**-**	**99.0**
Depreciation of property, plant and equipment	**3.2**	**5.2**	**0.1**	**8.5**
Depreciation of right-of-use assets	**2.5**	**3.9**	**0.3**	**6.7**

3 Operating segments *continued*

$ million	Lifecycle Service Assurance	Networks & Security	Corporate	2023 $ million Total
2023				
Revenue				
Nature of products and services				
Sale of hardware and software	86.7	203.6	-	290.3
Maintenance and support services	112.4	71.6	-	184.0
	199.1	275.2	-	474.3
Primary geographical markets				
Americas	133.1	135.0	-	268.1
Asia Pacific	49.3	104.6	-	153.9
Europe, Middle East and Africa	16.7	35.6	-	52.3
	199.1	275.2	-	474.3
Profit before tax				
Adjusted operating (loss)/profit	16.9	39.0	(10.7)	45.2
Other adjusting items *note 4*	(6.1)	(7.3)	(0.8)	(14.2)
Total reportable segment (loss)/profit	10.8	31.7	(11.5)	31.0
Unallocated amounts:				
– Acquired intangible asset amortisation				(5.0)
– Share-based payment				(7.6)
Operating profit				18.4
Finance income				5.4
Finance costs				(0.9)
Profit before tax				22.9
Other information				
Product development	52.0	50.4	-	102.4
Intangible asset amortisation – other	0.1	-	-	0.1
Depreciation of property, plant and equipment	4.4	6.0	0.1	10.5
Depreciation of right-of-use assets	3.2	3.4	0.3	6.9

3 Operating segments *continued*

Inter-segment revenue is eliminated in the above periods. All of the Group's revenue arose from contracts with customers.

Generally, revenue from the sale of hardware and software is recognised at a point in time and revenue from maintenance and support services is recognised over time.

Europe, Middle East and Africa includes United Kingdom revenue of $14.6 million (2023 $9.1 million).

Americas includes United States revenue of $257.0 million (2023 $250.4 million).

Asia Pacific includes China revenue of $53.5 million (2023 $76.3 million).

Revenues are attributed to regions and countries based on customer location.

No one customer accounted for 10 per cent or more of total Group revenue in either 2024 or 2023.

4 Other adjusting items

$ million	**2024**	2023
Restructuring	**2.5**	13.5
Acquisition related costs	**18.6**	0.7
Total charge in the income statement	**21.1**	14.2

Restructuring

$ million	**2024**	2023
R&D engineering plan	**-**	0.7
Finance transformation	**1.2**	1.1
Organisational restructure	**0.8**	8.8
Facilities downsize	**0.5**	2.9
	2.5	13.5

Restructuring

We concluded our R&D engineering site plan to relocate activities from North America to lower cost regions for our High-Speed Ethernet business in 2023. No further significant costs are expected in relation to this project.

In 2023, to embed standardised global finance processes, we moved certain accounting activities from North America to the UK, incurring $1.1 million of costs including $0.5 million consultancy. In 2024, we moved into the next phase of the initiative, incorporating the review of key global process and/or control enhancements, incurring further consultancy costs of $0.9 million.

Strategic actions were taken to review the cost base and facility footprint in the second half of 2023 and we exited and downsized three of our North American facilities which gave rise to a non-cash $2.9 million impairment of assets in 2023. The 2024 amounts relate to moving, relocating and downsizing costs directly attributable to this project.

4 Other adjusting items *continued*

Acquisition related costs

In March 2024, Keysight announced its intention to purchase Spirent. Therefore, the costs of $18.2 million recognised in 2024 relates mainly to professional advisory charges due to this acquisition. We expect further deal related charges, the majority of which are expected to be incurred when the deal is closed.

On 8 September 2023, the Group completed the asset purchase of a small Test Lab Automation business carve-out from NetScout Inc. Retention costs of $0.4 million were incurred during 2024 (2023 $0.7 million).

The tax effect of other adjusting items is a credit of $0.8 million (2023 $2.5 million).

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

5 Tax

$ million	**2024**	2023
Current income tax		
UK tax	**2.4**	3.9
Foreign tax	**8.7**	6.4
Amounts underprovided in prior years	**0.7**	(0.8)
Total current income tax charge	**11.8**	9.5
Deferred tax		
Recognition of deferred tax assets	**-**	(0.2)
Reversal of temporary differences	**(10.1)**	(10.8)
Adjustments in respect of prior years	**(0.8)**	(0.8)
Total deferred tax credit	**(10.9)**	(11.8)
Tax charge/(credit) in the income statement	**0.9**	(2.3)

The tax charge for the year ended 31 December 2024 was $0.9 million (2023 $2.3 million tax credit). This was after a prior year tax credit of $0.1 million and a tax credit on the adjusting items of $4.3 million (2023 prior year credit of $0.8 million and tax credit on adjusting items of $6.1 million). Excluding the prior year charge and tax credit on adjusting items, the effective tax rate was 10.7 per cent (2023 10.8 per cent).

6 Earnings per share

Basic
Earnings per share is calculated by dividing the profit 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 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.

$ million	**2024**	2023
Profit for the year attributable to owners of the parent Company	**12.9**	25.2

Number million		
Weighted average number of Ordinary Shares in issue – basic	**574.6**	586.7
Dilutive potential of employee share incentives	**5.0**	4.1
Weighted average number of Ordinary Shares in issue – diluted	**579.6**	590.8

Cents		
Earnings per share		
Basic	**2.25**	4.30
Diluted	**2.22**	4.26

Adjusted
The Group is disclosing adjusted earnings per share 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:

- acquired intangible asset amortisation;
- share-based payment;
- other adjusting items; and
- tax effect on the above items.

A reconciliation is provided below:

		2024		2023
	$ million	**EPS cents**	$ million	EPS cents
Profit for the year attributable to owners of the parent Company	**12.9**	**2.25**	25.2	4.30
Acquired intangible asset amortisation	**5.2**		5.0	
Share-based payment	**9.6**		7.6	
Other adjusting items costs *note 4*	**21.1**		14.2	
Tax effect on the above items	**(4.2)**		(6.1)	
Prior year tax (credit)/charge	**(0.1)**		(1.6)	
Adjusted basic	**44.5**	**7.75**	44.3	7.55
Adjusted diluted		**7.67**		7.50

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.

7 Dividends paid and proposed

$ million	**2024**	2023
Equity dividend on Ordinary Shares		
No final or interim dividends declared or paid for 2024	-	31.1
Interim dividend 2023 of 2.76 cents (2.14 pence) per Ordinary Share	-	15.4
	-	46.5
Intended and expected and/or may be declared by the Spirent Board (not recognised as a liability at 31 December) on or before 31 December 2025		
Permitted dividend of 2.50 pence (approximately equivalent to 3.15 cents at current prevailing FX rates) and Additional Dividend of 1.00 pence (approximately equivalent to 1.26 cents at current prevailing FX rates) per Ordinary Share	**25.4**	18.4

As part of the offer for Spirent by Keysight Technologies, a permitted dividend of 2.5 pence (approximately equivalent to 3.15 cents at current prevailing FX rates) per Spirent share is intended and expected to be declared, prior to the Effective Date (as defined in the Scheme Document published on 25 April 2024). The payment of this permitted dividend is not conditional upon the Effective Date occurring and will be payable to Spirent shareholders on the Register of Members at the relevant record date.

In addition to the permitted dividend, the Spirent Board will be entitled (if it sees fit) to declare and approve the payment of a dividend to Spirent shareholders of up to 1.0 pence per Spirent share if the Effective Date has not occurred by 30 June 2025 (the "Additional Dividend"). If declared, the Additional Dividend will be payable at any time thereafter and before the Effective Date.

The exchange rate used to determine the approximate equivalent amount of the permitted and additional dividends referred to above was $1.26: £1.

8 Defined benefit pension plans

The Group operates two funded defined benefit pension plans in the United Kingdom which are closed to new entrants.

In October 2022, the Trustees of the Staff Plan, with the Group's support, purchased a bulk annuity insurance (buy-in) policy from the UK insurer Pension Insurance Corporation (PIC) covering all members. The premium was paid from the plan's assets, and sufficient assets remain to meet the plan's ongoing costs. This buy-in effectively transferred the investment, inflation, longevity and demographic risks to PIC, meaning the Group no longer bears these risks. Following the buy-in, the Group does not expect to make any further cash contributions to the Staff Plan. Cash contributions for 2024 were nil (2023 nil).

Following a detailed data cleansing process and payment of the final top-up premium to PIC, the wind-up of the Staff Plan was initiated in November 2024. The Group has determined that following this step it no longer has an unequivocal right to the surplus, as the Trustees have discretion to use part, or all, of the surplus to enhance members' benefits without requiring Group approval. As a result, for the purposes of these disclosures, the Staff Plan surplus has been restricted to nil at the year-end. The Trustees are currently in the process of informing members of the wind up and the Group's expectation is that the Trustees will pay the bulk of the surplus to the Group, net of any tax due, once all wind-up expenses have been met.

8 Defined benefit pension plans *continued*

There is also a liability for an unfunded plan in the United Kingdom and a deferred compensation plan in the United States.

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

$ million	**2024**	2023
Schemes in net asset position		
UK defined benefit pension plan – Cash Plan	**0.5**	-
UK defined benefit pension plan – Staff Plan	**-**	12.9
Withholding tax payable	**-**	(4.5)
	0.5	8.4
Schemes in net liability position		
UK defined benefit pension plan – Cash Plan	**-**	(1.7)
UK unfunded plan	**(0.5)**	(0.5)
US deferred compensation plan	**(10.5)**	(9.2)
	(11.0)	(11.4)
Net pension plan deficit on the balance sheet	**(10.5)**	(3.0)

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

$ million	**2024**	2023
Fair value of defined benefit pension plans' assets	**177.7**	187.2
Present value of defined benefit pension plans' obligations	**(167.8)**	(174.3)
Surplus in the plans	**9.9**	12.9
Impact of asset ceiling	**(9.4)**	-
Withholding tax payable	**-**	(4.5)
Net UK funded defined benefit pension plan surplus on the balance sheet	**0.5**	8.4

The key financial assumptions in respect of the funded plans are as follows:

%	**2024**	2023
Inflation – RPI	**3.2**	3.1
Inflation – CPI (pre-2030)	**RPI less 1.0% pa**	RPI less 1.0% pa
Inflation – CPI (post-2030)	**RPI less 0.1% pa**	RPI less 0.1% pa
Rate of increase in pensionable salaries	**CPI**	CPI
Rate of increase for pensions in payment:		
– Pre-2001 service	**3.7**	3.6
– 2001 to 5 April 2005 service	**3.1**	3.0
– Post-5 April 2005 service	**2.1**	2.1
Rate of increase in deferred pensions	**CPI**	CPI
Rate used to discount plan liabilities	**5.4**	4.5

There was no service cost charged to operating costs (2023 nil) and finance income of $0.4 million (2023 $0.6 million) has been recognised.

8 Defined benefit pension plans *continued*

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 31 December 2024, the deferred compensation deficit amounted to $10.5 million (2023 $9.2 million). During the year, there was nil re-measurement gain or loss recognised (2023 $0.6 million re-measurement loss recognised directly in the statement of other comprehensive income).

9 Reconciliation of profit before tax to cash generated from operations

$ million	**2024**	2023
Profit before tax	**13.8**	22.9
Adjustments for:		
Finance income	**(4.5)**	(5.4)
Finance costs	**1.0**	0.9
Intangible asset amortisation	**5.2**	5.1
Depreciation of property, plant and equipment	**8.5**	10.5
Depreciation of right-of-use assets	**6.7**	6.9
Impairment of property, plant and equipment	**-**	0.4
Impairment of right-of-use assets	**-**	2.5
Share-based payment	**10.1**	7.7
Changes in working capital:		
Decrease/(increase) in inventories	**7.8**	(2.0)
(Increase)/decrease in receivables	**(5.2)**	27.7
Increase/(decrease) in payables	**16.2**	(29.9)
(Decrease)/increase in contract liabilities	**(1.8)**	(0.7)
(Decrease)/increase in provisions	**(1.0)**	(0.4)
Defined benefit pension plan employer contributions net of plan administration expenses paid by the plan	**0.9**	(1.7)
Deferred compensation plan	**0.8**	1.9
Non-cash movements	**(1.5)**	(0.6)
Cash flow from operations	**57.0**	45.8

10 Business combinations

There were no business combinations in 2024.

On 8 September 2023, the Group completed the asset purchase of a small test lab automation business carve-out from NetScout Inc. for a final cash consideration of $7.8 million. The transaction was funded by surplus cash in the Group. The business carve-out from NetScout acquired by Spirent is a US-based technology business that develops and manufactures Layer-1 switches and control software.

10 Business combinations *continued*

$ million			2023
	Book value	**Fair value adjustment**	**Fair value**
Intangible assets	-	4.3	4.3
Property, plant and equipment	0.2	-	0.2
Inventories	1.4	-	1.4
Contract liabilities	(2.0)	-	(2.0)
Total identifiable net assets	(0.4)	4.3	3.9
Goodwill acquired on acquisition			3.9
Total consideration			7.8
Satisfied by			
Cash consideration			7.8
Cash flows			
Cash consideration			7.8

The fair values of the identifiable net assets acquired are set out in the table above. The fair value adjustments arose in relation to the recognition of acquired intangible assets. The intangible assets acquired represent current technology and customer relationships. These intangible assets have been assigned a useful life of six years. The goodwill arising of $3.9 million consists largely of the synergies and commercial opportunities expected from the combination, together with intangible assets not qualifying for separate recognition, such as workforce in place. Direct acquisition related costs of $0.4 million and $0.3 million of integration costs have been expensed to other adjusting items within the income statement in 2023 (note 4). From the date of acquisition to 31 December 2023, NetScout acquired business contributed $4.1 million of revenue and $2.1 million of profit before tax to the results of the Group before charging $0.4 million of direct acquisition related costs, $0.3 million of integration costs and $0.2 million of acquired intangible asset amortisation.

11 Fair value

The Directors consider that the carrying amounts of the financial instruments included within trade and other receivables, trade and other payables and contractual provisions approximates their fair value.

12 Employee Share Ownership Trust

No shares were purchased and placed into the Employee Share Ownership Trust in 2024 and 2023. 4.3 million shares were transferred from the Employee Share Ownership Trust in the year to satisfy options exercised under the Spirent employee share plans (2023 2.7 million shares transferred).

13 Share Buyback Programme

On 3 April 2023, the Company commenced a Share Buyback Programme of $71.6 million (£56.0 million) which was successfully completed on 24 August 2023. These 33 million shares, representing circa 5.4 per cent of the Company’s issued share capital, have been cancelled as at 31 December 2023.

Appendix

Alternative Performance Measures

The performance of the Group is assessed using a variety of alternative performance measures (APMs) which are presented to provide users with additional financial information that is regularly reviewed by management. The APMs presented are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

In management's view, the APMs reflect the underlying performance of the Group and provide an alternative basis for evaluating how the Group is managed and measured on a day-to-day basis. Such APMs are non-GAAP measures and should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

The APMs and key performance indicators are aligned to the Group's strategy and collectively are used to measure the performance of the Group and form the basis of the metrics for Director and management remuneration. The Group's key performance indicators are presented within the Strategic Report of its 2024 Annual Report.

Order intake

Order intake represents commitments from customers to purchase goods and/or services from Spirent that will ultimately result in recognised revenue. Where there can reasonably be changes to the scope or duration of an order, the Group exercises judgement on the amount of the order that is booked.

Order intake is a measure of operating performance used by management to assess whether future activity levels are increasing or slowing and therefore how effective we have been in the execution of our strategy. Order intake is a key performance indicator used to measure Group, operating segment and regional performance for internal reporting purposes.

Orderbook

Orderbook comprises the value of all unsatisfied orders from customers and provides an indication of the amount of revenue that has been secured and will be recognised in future periods. Orderbook represents the transaction price allocated to wholly and partially unsatisfied performance obligations, including amounts held in contract liabilities at the period end. There is no comparable IFRS measure.

Adjusted operating profit

Adjusted operating profit is reported operating profit excluding amortisation of acquired intangible assets, share-based payment and other adjusting items, including restructuring. Management uses adjusted operating profit, in conjunction with other GAAP and non-GAAP financial measures, to evaluate the overall operating performance of the Group as well as each of the operating segments and believes that this measure is relevant to understanding the Group's financial performance, as specific items (adjusting items) are identified and excluded by virtue of their size, nature or incidence, as they are not considered part of the Group's normal ongoing operations and therefore can lead to period-on-period fluctuations that can make it difficult to assess financial performance.

Specifically, items are excluded from adjusted operating profit if they are acquisition related in nature, including acquired intangible asset amortisation which is dependent on being able to identify intangible assets and assessing their useful economic lives, or if their exclusion allows for more meaningful comparisons with peer companies such as share-based payment which can fluctuate from period to period. The exclusion of adjusting items from adjusted operating profit is consistent from period to period.

Adjusted operating profit is also used in setting Director and management remuneration targets and in discussions with the investment analyst community.

Adjusted operating margin
Adjusted operating margin is adjusted operating profit as a percentage of revenue. It is a measure of the Group's overall profitability and how successful we are in executing on our overall strategy, and demonstrates our ability to improve margin through efficient operations and cost management, whilst being mindful of the need to invest for the future.

Effective tax rate
Effective tax rate is the adjusted tax charge, before tax on adjusting items, expressed as a percentage of adjusted profit before tax. The adjusted tax charge is the reported tax charge excluding the tax effect on adjusting items and adjustments made to provisions in respect of prior year tax.

Adjusted basic earnings per share
Adjusted basic earnings per share (EPS) is adjusted earnings attributable to owners of the parent Company divided by the weighted average number of Ordinary Shares outstanding during the year. Adjusted earnings is reported profit before tax excluding amortisation of acquired intangible assets, share-based payment, other adjusting items, tax on adjusting items and over/under provisions in respect of prior year tax.

Adjusted basic EPS is a measure of how successful we are in executing on our strategy and ultimately delivering increased value for shareholders. Adjusted basic EPS is also used in setting Director and management remuneration targets and in discussions with the investment analyst community. The Group sets out the calculation of adjusted basic EPS in note 6 of Notes to the consolidated financial statements.

Product development costs as a percentage of revenue
Product development as a percentage of revenue in the year. It is a measure of how much the Group is investing to support further organic growth initiatives in line with the strategic objectives, whilst driving improved productivity and effectiveness.

Free cash flow
Free cash flow is cash flow generated from operations, less tax and net capital expenditure, lease liability principal repayments and lease liability interest paid, add interest received and lease payments received from finance leases, excluding acquisition related other adjusting items and one-off employer contributions to the UK pension scheme.

Free cash flow is a measure of the quality of the Group's earnings and reflects the ability to convert profits into cash and ultimately to generate funds for future investment. It gives us financial strength and flexibility and the ability to pay sustainable dividends to our shareholders. Free cash flow is an important indicator of overall operating performance as it reflects the cash generated from operations after capital expenditure, financing and tax which are significant ongoing cash flows associated with investing in the business and financing operations.

Free cash flow excludes corporate level cash flows that are independent of ongoing trading operations such as dividends, acquisitions and disposals and share repurchases and therefore is not a measure of the funds that are available for distribution to shareholders.

A reconciliation of cash generated from operations, the closest equivalent GAAP measure, to free cash flow is provided within the Financial review on page 8.

Free cash flow conversion
Free cash flow conversion is the ratio of free cash flow to adjusted earnings, presented as a percentage.

Free cash flow conversion is a measure used in conjunction with free cash flow to assess the Group's ability to convert profit into cash and ultimately to generate funds for future investment.