SPIRENT®

News Release

SPIRENT COMMUNICATIONS PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

London, UK – 27 February 2014: Spirent Communications plc ("Spirent", the "Company" or the "Group") (LSE: SPT), a leading communications technology company, today announces its preliminary results for the financial year ended 31 December 2013.

Results summary - Continuing operations

$ million	**2013**	2012
Reported		
Revenue	**413.5**	472.4
Operating profit	**39.1**	108.1
Profit before tax	**39.1**	108.4
Basic earnings per share (cents)	**5.10**	12.11
Total dividend per share[1] (cents)	**3.54**	3.22
Free cash flow[2]	**43.9**	84.0
Adjusted		
Operating profit[3]	**50.1**	118.3
Adjusted basic earnings per share[4] (cents)	**5.71**	13.02

Notes
1 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 2013 of 2.01 cents per Ordinary Share is equivalent to 1.20 pence per Ordinary Share.
2 Operating cash flow after tax, net interest and net capital expenditure.
3 Adjusted operating profit is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.
4 Adjusted basic earnings per share is based on adjusted earnings as set out in note 8 of Notes to the preliminary consolidated financial statements.

Financial highlights

- Group revenue of $413.5 million (2012: $472.4 million); with a sequential improvement of 17% in the second half-year compared with the first half of 2013.
- Book to bill ratio was 105 (2012: 97) reflecting the improving market dynamics in the second half of 2013 and Spirent's key product launches.
- Group adjusted operating profit of $50.1 million (2012: $118.3 million) on lower revenue and after increased investment in product development and sales and marketing of $19.3 million compared to the prior year.
- Dividend increased by 10%. Final dividend proposed of 2.01 cents per Ordinary Share, giving a full year dividend of 3.54 cents per Ordinary Share.
- Free cash flow of $43.9 million (2012: $84.0 million); cash closed at $216.2 million after share buyback and dividends totalling $76.9 million.

Operational and strategic highlights

There were strong headwinds in certain market segments and geographies exacerbated by historical under investment in certain parts of the business given the significant changes in the industry:

- Intense competition in the data center market and spending shifting to virtual and cloud based services.
- Wireless device vendors experienced lower profitability and a lull in new technology and service launches.
- Adverse macro-economic conditions in Europe coupled with spending caution by Chinese customers earlier in the year.

In spite of these challenges there were areas of progress:

- Structural reorganisation of the Group into business units to create maximum focus on meeting customers' changing needs as reported in January 2014.
- Service providers increased infrastructure spending on high density core routers and 100G Ethernet.
- Spirent introduced a family of next-generation high speed Ethernet test solutions, incorporating market leading realism and scale, to address increasing complexity and the explosion of data traffic in service provider and data center networks.
- Launched Avalanche NEXT, a powerful, easy-to-use solution that tests the performance, scalability and security of application-aware network infrastructures with positive feedback from customers.
- Underscored our industry leadership in GNSS testing with the first commercially available support for the Chinese BeiDou satellite navigation system.

Post balance sheet events

- Acquisition of the business of DAX Technologies Corp. ("DAX") for a cash consideration of $37.0 million announced on 18 February 2014. DAX is a leading provider of customer experience management solutions and will be reported within our Service Assurance division.
- Completion of the acquisition of a majority stake of 58% in Testing Technologies IST GmbH for a cash consideration of Euro 2.0 million on 20 February 2014. The company, based in Berlin, Germany, develops and markets standardised and customer-specific software-based testing tools which support the development of mission-critical products and workflow steps. Further information on this acquisition is provided in the Group financial performance section in this press release.

Outlook

The disruption and structural changes experienced in our markets in the first half of 2013 stabilised during the second half-year. The reorganisation of the Group in the fourth quarter of 2013 has released creativity and energy, which is driving a dynamic change in the responsiveness and agility of our businesses. We continue to see opportunities arising through infrastructure investment in the wireless networks worldwide and in the development and rollout of virtual and cloud based services.

In 2014, we anticipate that Spirent's revenue will be linked to recovery in China, growth in the Americas and expected stability in the European market and we look to achieve high single digit organic growth.

This year the Group intends to make an additional investment of around $33.0 million in future growth, in particular through a 15 per cent increase in product development, extending the sales channel to break into new areas, expanding Spirent's capabilities in the core markets that it serves and by entering new markets including automotive and enterprise. Whilst there continue to be near term uncertainties, activity levels at the beginning of 2014 are in line with our expectations. The Board remain confident that progress will be achieved and that the Group will benefit from the investment to create long term strategic value.

Eric Hutchinson, Chief Executive Officer, commented:

"The key objectives in 2014 are to enable agile decision making to unleash the creativity and innovation of Spirent's expert and talented people. We are harnessing this to make us more effective in delivering expert solutions that are easy to use by customers to manage and deploy their complex systems, enabling the Group to return to growth and create long term shareholder value."

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Enquiries

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The Company will host a results presentation today at 9.15am for 9.30am UK time at UBS Limited, Presentation Room, 4th Floor, 100 Liverpool Street, London EC2M 2RH. A simultaneous webcast of the presentation will be available in the Investors section of the Spirent Communications plc website http://corporate.spirent.com/.

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 http://corporate.spirent.com/.

Spirent Communications plc Ordinary Shares are traded on the London Stock Exchange (ticker: SPT). 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/otc-pink/home.

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.

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

CHAIRMAN'S STATEMENT

2013 is a year that marks a turning point for the Company. The impact on the business due to the significant changes in our markets and accelerating shifts in the structure of the industry we serve has been marked. These trends manifested themselves through intense competition in the data center market, wireless device vendors seeing lower profitability combined with a lull in new technology and service launches. In addition, under investment in development of new test systems in some parts of the business in previous years and the lack of expansion of our products into new markets has had a negative impact. In response, we have undertaken a radical reorganisation of the activities within Spirent with the key strategic objective to create long term value by harnessing Spirent's leading capabilities and talent. It will take time to be fully reflected in the financial performance of the Company but it is planned to restore revenue to growth in 2014 which will fund the necessary investment in product development and in the expansion of the sales and marketing activities for the long term growth of the business.

Group revenue reduced to $413.5 million (2012: $472.4 million). This resulted in a considerable fall in reported profit before tax to $39.1 million (2012: $108.4 million). The first half-year saw revenue fall by 19 per cent, but the rate of decline slowed in the second half-year with revenues down by 6 per cent and underlying stability in order intake. The order book increased by $21.4 million in 2013 (2012: a reduction of $14.5 million). Operational highlights included the release of next-generation products for Ethernet test, the launch of our advanced applications and security test system Avalanche NEXT and the delivery of test solutions for China's regional satellite navigation system, BeiDou.

Return on sales based on adjusted operating profit was 12 per cent for the Group, down from 25 per cent last year, reflecting the impact of the fall in revenues and the investment in the business to drive recovery and long term growth. This investment was in the expansion of our operating capabilities: product development expenditure has been increased by $14.4 million and sales and marketing by $4.9 million.

Basic earnings per share for the continuing Group decreased in 2013 to 5.10 cents per share (2012: 12.11 cents). Adjusted basic earnings per share was 5.71 cents (2012: 13.02 cents); this is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payments.

The Group's free cash flow generation was $43.9 million in 2013 (2012: $84.0 million); this is a cash conversion ratio of 1.3 times reported earnings (2012: 1.1 times continuing operations). The Company has no debt and cash balances were $216.2 million at 31 December 2013.

The Board aims to achieve a high return on capital employed in the business. The operating return on capital employed in the continuing Group in 2013 was 16 per cent, excluding cash balances. The target set for return on investment in acquired businesses is 16 per cent. Returns are low to negligible on cash balances, which are retained to allow surety of completion for acquisition negotiations. Whilst the Company continues to expect to invest in acquisitions which are in line with the strategy, it is also committed to returning surplus capital as appropriate. To that end, during 2013 the balance of the proceeds of the divestment of the Systems business, approximately $33 million was applied to the repurchase of Spirent shares in the market for cancellation and the programme extended beyond this. In total 29.2 million shares were repurchased for $55.5 million in 2013. No further buybacks are currently planned.

I am delighted to report the completion of the acquisition of the business of DAX Technologies Corp. ("DAX") for a cash consideration of $37.0 million. The acquisition of DAX will enable Spirent to combine measurements and data from its solutions in the lab and in live networks, delivering high value solutions and expertise that help customers deploy and manage complex new networks and services faster and more effectively.

In addition, today we are announcing the completion of the acquisition of a majority stake of 58 per cent of Testing Technologies IST GmbH ("Testing Tech") for a cash consideration of Euro 2.0 million. This acquisition, although small in size, is an important step in the progression of Spirent's strategy to enter the automotive market.

We very much welcome the employees of both these companies into the Spirent Group.

The final dividend recommended is 2.01 cents per share compared with 1.83 cents per share in 2012. This brings the total dividend for 2013 to 3.54 cents per share compared with 3.22 cents for 2012. The increase in total dividend per share is 10 per cent. In sterling terms this represents an increase in the distribution to our shareholders of 5 per cent.

Board changes

September 2013 saw a change in senior management with Bill Burns stepping down as Chief Executive Officer and replaced in the role by Eric Hutchinson. Rachel Whiting, who has extensive financial experience and long service with Spirent, was welcomed to the Board in February 2014 as Chief Financial Officer.

Outlook

The disruption and structural changes experienced in our markets in the first half of 2013 stabilised during the second half-year. The reorganisation of the Group in the fourth quarter of 2013 has released creativity and energy, which is driving a dynamic change in the responsiveness and agility of our businesses. We continue to see opportunities arising through infrastructure investment in the wireless networks worldwide and in the development and rollout of virtual and cloud based services.

In 2014, we anticipate that Spirent's revenue will be linked to recovery in China, growth in the Americas and expected stability in the European market and we look to achieve high single digit organic growth.

This year the Group intends to make an additional investment of around $33.0 million in future growth, in particular through a 15 per cent increase in product development, extending the sales channel to break into new areas, expanding Spirent's capabilities in the core markets that it serves and by entering new markets including automotive and enterprise. Whilst there continue to be near term uncertainties, activity levels at the beginning of 2014 are in line with our expectations. The Board remain confident that progress will be achieved and that the Group will benefit from the investment to create long term strategic value.

CHIEF EXECUTIVE OFFICER'S REVIEW

Market conditions

It has been a challenging year for Spirent; revenues have decreased and profit has been impacted significantly. The Company has lost some market share in its core markets. Technologies have been in a rapid transition and some customers have faced great difficulties, with the business performance of a number of major customers declining markedly, reducing demand for our test systems. There has been a structural change in the shape of the wireless mobile device industry, resulting in a market characterised by a very small number of profitable manufacturers. The rapid shift to deployment of a single global standard for wireless technologies, 4G/LTE, while continuing to represent an opportunity for Spirent, has also eroded the 3G technology niches where Spirent had a high market share. Regionally demand has been weak in Europe, China and in some market segments in North America. The impact of the market challenges described above was exacerbated by historical under investment by Spirent in the development of core technologies, in channels to market and in customer support.

Strategy and organisational structure

The vision for Spirent is to consolidate its position as the leading expert in test and measurement for information technology communications worldwide. In order to achieve this aim, a number of areas are an important focus of Spirent's future investment. These include:

- The development of new product solutions in its core businesses in Networks & Applications, Wireless & Service Experience and Service Assurance;
- The establishment of an enterprise sales channel;
- Enhancements to Spirent's cyber security test offering;
- New solutions directed towards automotive technologies and related connectivity testing.

Furthermore, better alignment of the business internally will allow Spirent to maximise the growth areas that offer the most significant future opportunities. To this end, a number of management changes have been completed to provide a streamlined, decentralised and simplified organisational structure. These internal changes have been made to create a more agile and responsive business that better serves customer needs as well as to sharpen the business' focus on anticipating customers' requirements for the future. The Group is managed as three operating segments: Networks & Applications, Wireless & Service Experience and Service Assurance. Each segment is comprised of business units focused on delivery of particular technology solutions. Each of these business units is led by a management team under a general manager responsible for all the activities required to serve customers.

Networks & Applications

The businesses in Networks & Applications specialise in Ethernet test, applications test and network performance, cyber security, Wi-Fi offload and mobile packet core. The development of virtual test solutions to address the emerging needs of software defined networks (“SDN”) and network functions virtualization (“NFV”) are a key part of the division’s product portfolio. In addition, a new Infrastructure Test Optimization (“ITO”) & Solutions business unit has been created to deliver test automation and professional services. This business unit will address the demands by customers for greater efficiency and effectiveness through providing lab management tools, expert analysis of data from test and measurement systems and testing services. Another new business unit has been established to apply our test technology expertise, including cloud based testing-as-a-service, to enterprise customers.

Wireless & Service Experience

Within this division the wireless business unit serves the test needs of the wireless device ecosystem. This business unit is in transition as the key served market centred on carrier acceptance test for mobile devices, 3G CDMA and UMTS mobile test requirements, has moved into long term decline, being replaced by the development and deployment of 4G/LTE technologies. Solutions now under development in the wireless business unit address the needs of those developing and deploying the next-generation of services enabled by 4G/LTE technologies and which provide for the evaluation of the mobile user’s service level of experience. The positioning test business unit designs the world’s leading satellite navigation simulation systems for use by equipment manufacturers and system developers that utilise the various different global and regional satellite navigation and positioning technologies. The service experience business unit’s focus is on the performance of devices in the live carrier network, providing detailed analysis of the subscriber experience that allows wireless service providers and their suppliers to successfully rollout new devices and services. A new business unit has also been set up to develop solutions for emerging needs in the automotive technology market, including related connectivity challenges.

Service Assurance

For Service Assurance the primary business is the provision of live network monitoring systems for diagnostics and assurance of service levels for wireline, wireless service providers and multi-service cable operators.

The key objectives in reorganising the Group are to enable agile decision making, to unleash the creativity and innovation of Spirent’s expert and talented people and to devolve responsibility and accountability to customer facing management teams. The result will be an organisation that is more effective in delivering expert systems that are easy-to-use by customers to manage and deploy their complex systems. This will enable the Group to return to growth and to enhance the long term value of its business.

Group financial performance

The following table shows the key financial performance indicators monitored by the Board in order to measure the performance of the Group:

	2013	2012[1]	Change (%)
Continuing operations			
Book to bill ratio[2]	**105**	97	
Revenue ($ million)	**413.5**	472.4	(12)
Gross profit margin (%)	**69.4**	71.3	
Operating profit[3] ($ million)	**50.1**	118.3	(58)
Return on sales[3] (%)	**12.1**	25.0	
Adjusted basic earnings per share[4] (cents)	**5.71**	13.02	(56)
Free cash flow[5] ($ million)	**43.9**	84.0	(48)

Notes
1 Restated for the implementation of IAS 19 "Employee Benefits".
2 Ratio of orders booked to revenue billed.
3 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.
4 Adjusted basic earnings per share is based on adjusted earnings as set out in note 8 of Notes to the preliminary consolidated financial statements.
5 Operating cash flow after tax, net interest and net capital expenditure.

A review of the Group's organisational structure has resulted in a change to the segmental reporting in 2013. Spirent is now reporting three operating segments: Networks & Applications, Wireless & Service Experience (previously referred to as Wireless & Positioning in our 2013 Half-Year Report) and Service Assurance. Comparatives have been restated accordingly.

Revenue

Group revenue was down 12 per cent compared to the prior year at $413.5 million (2012: $472.4 million). Although trading was mixed as a consequence of structural changes in Spirent's markets, there were some bright spots, namely an improvement in the mobility testing market and also for our GNSS products, driven by a recovery in government spending, new high end testing needs and the BeiDou Chinese satellite system. Spirent's professional services and support revenues also grew year-on-year by 15 per cent and now represents 31 per cent of Group revenue. Market conditions are described in the operational review which follows. After a poor first half of 2013, in which revenue was down 19 per cent, trading improved in the second half-year as customers began to increase their investment in new technologies and Spirent launched some key new products.

Geographically, the United States is our largest market and accounts for 52 per cent of Group revenue. Revenue decreased 10 per cent period-on-period in this region. Asia Pacific is a major market for Spirent, and one which has seen significant growth in previous years. Revenue in this region declined 12 per cent, being particularly weak in both China and India. Asia Pacific represents

32 per cent of Group revenue. Europe represents 12 per cent of Group revenue and was 24 per cent lower compared with 2012 as difficult macro-economic conditions persisted in this region, although there was some improvement towards the end of the year. The rest of the world represents the remaining 4 per cent.

$ million	**2013**	**%**	2012	%
United States	**215.8**	**52**	239.2	51
Asia Pacific, Rest of World	**146.9**	**36**	166.0	35
Europe	**50.8**	**12**	67.2	14
	413.5	**100**	472.4	100

Order intake was 5 per cent lower overall for the continuing Group compared with 2012. Order intake from several of our major customers increased, whilst others did not repeat the high levels of spend seen in 2012 or deferred projects until 2014. The resulting book to bill ratio was 105 compared with 97 for 2012, with order book growing by $21.4 million over the position at 31 December 2012.

Operating profit

Reported operating profit for continuing operations was $39.1 million compared with $108.1 million in 2012. Operating profit before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment ("adjusted operating profit"), which is the measure of profit used by the Group to evaluate performance, decreased by 58 per cent to $50.1 million compared with $118.3 million in 2012 as a result of the loss of high gross margin on lower turnover as well as a significant increase in product development investment of $14.4 million to drive future growth.

A reconciliation is set out below:

$ million	**2013**	2012
Adjusted operating profit	**50.1**	118.3
Exceptional items:		
Inventory provision – Service Assurance	**-**	(1.4)
Reorganisation costs – Service Assurance	**-**	(1.5)
Review of Group's organisational structure	**(3.4)**	-
Abortive acquisition costs	**(0.4)**	-
Acquisition related costs	**-**	(1.2)
Acquired intangible asset amortisation	**(8.4)**	(4.5)
Share-based payment	**1.2**	(1.6)
Reported operating profit	**39.1**	108.1

Return on sales, based on adjusted operating profit was 12.1 per cent (2012: 25.0 per cent).

Cost of sales and operating expenses

Gross margin reduced to 69.4 per cent (2012: 71.3 per cent) due to lower volumes, product mix and also the effect of a full year's sales contributed by the former Metrico Wireless business, which attract slightly lower margins.

Spirent's strategic priority is to generate growth both organically as well as through acquisitions. Additional investment is critical for Spirent to accelerate the development of its existing capabilities as well as to expand the markets we serve and to ensure that Spirent brings products to market in a timely manner in order to meet the needs of its customers. Investment in product development was increased in 2013 by 17 per cent to $100.5 million, representing 24 per cent of revenue, from $86.1 million and 18 per cent of revenue in 2012.

Other operating expenses were higher at $147.2 million in 2013 compared with $142.5 million in 2012, 36 per cent of sales (2012: 30 per cent). These costs include exceptional items of $3.8 million in 2013 of which $3.4 million relates to a number of management and structural changes which were made in the period. The balance of $0.4 million is in respect of abortive acquisition costs. In 2012 exceptional reorganisation expenses of $1.5 million were charged within Service Assurance.

Other operating expenses also include acquired intangible asset amortisation of $8.4 million (2012: $4.5 million) which reflects a full year charge for the 2012 acquisitions of Mu Dynamics and Metrico Wireless, and in 2012 a charge of $1.2 million for the expenses for these acquisitions. Share-based payment is a credit of $1.2 million (2012: charge $1.6 million) as the expense has been reversed for certain awards which are now not expected to vest.

Excluding exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment, other operating costs were $136.2 million compared with $133.7 million in 2012, an increase of 2 per cent.

In 2014 Spirent plans to make an additional investment of around $33.0 million in future growth. This increase comprises of:

- Product development – up $15 million.
- Sales and marketing – up $12 million.
- Support services – up $6 million.

Of the total increase $16 million will support the core business and $17 million is to fund new initiatives.

The areas where this additional spend will be focused include virtual test systems, software defined networking solutions, expansion of the enterprise channel, enhancements to Spirent's cyber security test offering as well as advancements in automotive software and related connectivity testing.

Corporate costs

Corporate costs are those expenses which cannot be attributed to the Group's operating segments and comprise the costs of the Board and other corporate activities. These costs were $5.9 million (2012: $6.5 million) before exceptional items for the year. Corporate costs for 2012 have been restated for the effect of the revised Accounting Standard IAS 19 "Employee Benefits" which was implemented in 2013. The effect of this standard for Spirent in 2013 has been an increase in corporate costs of $0.7 million and an increase in net interest expense of $1.2 million.

Currency impact

The effect of fluctuating exchange rates is relatively minimal as the Group's revenue and profits are primarily denominated in US dollars or US dollar-linked currencies.

Finance income and costs

Finance income for 2013 was $0.9 million compared with $0.8 million in 2012. Surplus funds are held principally in the United Kingdom and United States and earn market rates of interest which remain negligible.

Finance costs comprise $0.9 million (2012: $0.5 million) of net defined benefit pension plan interest cost.

It is estimated that there will be no net interest expense for the pension plans in 2014.

Tax

For the Group taxable profits principally arise in the United States. The tax charge for the continuing Group in 2013 was $6.4 million (2012: $29.0 million), representing a current year effective tax rate of 25.8 per cent (2012: 28.4 per cent) of pre-tax profit, excluding a prior year tax credit of $3.7 million (2012: $1.8 million). This rate is lower than the prior year principally due to the benefit of 2012 Research and Experimental tax credits in the United States which fall into 2013 and the spread across different territories. At 31 December 2013 deferred tax assets amounting to $18.3 million (31 December 2012: $28.4 million) have been recognised on the balance sheet. At 31 December 2013 there are deferred tax assets amounting to a tax value of $17.7 million (31 December 2012: $16.3 million) which remain unrecognised.

For 2014 it is expected that the effective tax rate will be in the region of 28 per cent.

Earnings per share

Adjusted basic earnings per share was 5.71 cents compared with 13.02 cents for 2012. There were 640.6 million (2012: 655.7 million) weighted average Ordinary Shares in issue. Basic earnings per share was 5.10 cents for 2013 compared with 12.11 cents for 2012.

A reconciliation of adjusted profit is provided below for continuing operations:

$ million	**2013**	2012
Profit for the period attributable to owners of the parent Company	**32.7**	79.4
Exceptional items	**3.8**	2.9
Acquisition related costs	**-**	1.2
Acquired intangible asset amortisation	**8.4**	4.5
Share-based payment	**(1.2)**	1.6
Tax effect on the above items	**(3.4)**	(2.4)
Prior year tax credit	**(3.7)**	(1.8)
Adjusted profit for the period attributable to owners of the parent Company	**36.6**	85.4
Adjusted basic earnings per share	**5.71**	13.02

Financing and cash flow

Cash and cash equivalents were $216.2 million at 31 December 2013 compared with $248.6 million at 31 December 2012. Spirent continues to be debt free. Cash and cash equivalents are held as cash on demand or in short term bank deposits and 84 per cent of the balance was denominated in US dollars.

Spirent remains cash generative, despite the lower revenue in 2013, and this gives Spirent the financial flexibility to invest in organic growth, pursue strategic acquisitions and pay sustainable, progressive dividends to shareholders.

In 2013 operating activities generated $73.5 million (2012: $120.3 million continuing operating activities) of cash during the year. Free cash flow conversion represents 1.3 times (2012: 1.1 times) reported earnings. Working capital reduced by $12.1 million (2012: increased by $6.2 million) during the year.

Free cash flow for continuing operations is set out below:

$ million	**2013**	2012
Cash flow from operations	**73.5**	120.3
Tax paid	**(6.1)**	(23.1)
Cash inflow from operating activities	**67.4**	97.2
Net interest received	**0.8**	0.6
Net capital expenditure	**(24.3)**	(13.8)
Free cash flow	**43.9**	84.0

Net capital expenditure has increased in 2013 to $24.3 million from $13.8 million in 2012 in line with investment plans. In 2012 the net cash outflow from acquisitions and disposal of businesses was $32.1 million. In 2013 there were no acquisitions or disposals.

The cash generated has been utilised to pay dividends to shareholders and for the return of capital through the share buyback programme. In 2013 a final dividend for 2012 and an interim dividend for 2013 totalling $22.2 million (2012: $20.3 million) were paid. Share repurchases during the year have resulted in a cash outflow of $54.7 million (2012: $31.6 million).

Defined benefit pension plans

The Group operates two funded defined benefit pension plans which are in the United Kingdom. Both of these schemes were closed some time ago to new entrants and the main plan now has less than ten active members.

The accounting valuation of these plans at the end of 2013 was a net deficit of $2.5 million compared with a net deficit of $24.8 million at 31 December 2012 and was based on the latest triennial actuarial valuation at 1 April 2012. The improvement in the deficit is a result of changes in the underlying assumptions and a rise in the value of the assets.

The triennial actuarial valuation of the plans at 1 April 2012 was completed in the period. To fund the deficit the Company has agreed to pay additional contributions of £2.8 million ($4.6 million) per annum, which will be paid on a monthly basis together with a one off contribution of £1.0 million ($1.6 million) which was paid in July 2013. A further one-time contribution of £2.5 million ($4.2 million) is also payable no later than 1 July 2016 depending on the funding of the plan at that time.

The Group has also reported a liability of $0.8 million (31 December 2012: $0.8 million) in respect of United Kingdom unfunded plan liabilities.

Capital structure

Spirent's policy on capital structure is to maintain a strong balance sheet to support operational flexibility and fund investment for long term growth.

During 2013 the balance of the proceeds from the divestment of the Systems business, approximately $33 million, were applied to the repurchase of Spirent shares in the market for cancellation and the programme extended beyond this. In total during 2013 the Company repurchased 29.2 million shares at a cost of $55.5 million (2012: 13.4 million at a cost of $30.8 million) of which $0.8 million was settled in 2014. Shares were repurchased at an average share price of 119 pence per share. All shares repurchased were cancelled. Since the period end a further 10 million shares have been repurchased at a cost of $16 million. No further buybacks are currently planned.

Dividend

The Board are recommending the payment of a final dividend for 2013 of 2.01 cents (1.20 pence) per Ordinary Share which, with the interim dividend of 1.53 cents (1.01 pence) per Ordinary Share paid in September 2013, brings the full year dividend to 3.54 cents (2.21 pence) per Ordinary Share. The dividend is covered 1.6 times by adjusted earnings. This is an increase of 10 per cent over the full year dividend for 2012 of 3.22 cents per Ordinary Share.

Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 25 April 2014 to Ordinary shareholders on the register at 7 March 2014. Payment to ADR holders will be made on 2 May 2014.

Events after the balance sheet date

On 19 February 2014 Spirent completed the acquisition of the business of DAX Technologies Corp. ("DAX"), privately held by Dragos Alexe and others, for a cash consideration of $37.0 million. Based in Matawan, New Jersey, DAX is a leading provider of customer experience management solution software that enables mobile and wireline service providers to understand and quantify services as experienced by their customers.

The addition of DAX positions Spirent well to help service providers with the unprecedented challenges they face when developing and managing new services in mobile and wireline network environments of rapidly increasing complexity. This acquisition will enable us to strengthen our Service Assurance portfolio, expanding Spirent's addressable market in the live network.

On 20 February 2014 Spirent completed the acquisition of 58 per cent of the share capital of Testing Technologies IST GmbH ("Testing Tech") which was in private ownership, for a cash consideration of Euro 2.0 million. The company develops and markets standardised and customer-specific software-based testing tools which support the development of mission-critical products and workflow steps. Testing Tech also participates in the connected vehicle market which will facilitate Spirent's progress in this market. The minority stake of 42 per cent of the share capital is the subject of a put and call option which expires on 31 March 2016. The consideration is based on the 2015 performance of Testing Tech and set at a minimum amount of Euro 1.4 million. Testing Tech will be reported within our Wireless and Service Experience division.

As both acquisitions have only very recently completed neither the fair values of the assets and liabilities acquired, nor the consideration, have yet been determined.

Principal risks and uncertainties

Principal risks and uncertainties affecting the Spirent Communications Group will be detailed within the Annual Report for the year ended 31 December 2013, a copy of which will be made available on the Company's website at http://corporate.spirent.com/.

OPERATIONAL REVIEW

Networks & Applications – 52% of Group revenue

$ million	**2013**	2012	Change (%)
Revenue	**213.4**	259.5	(18)
Operating profit	**11.6**	59.7	(81)
Operating profit before exceptional items	**13.2**	59.7	(78)
Return on sales before exceptional items (%)	**6.2**	23.0	

Market conditions

- Intense competition in data center
- 4G/LTE driving mobile data and signalling growth
- Virtualization on the rise everywhere
- Intense interest in cyber security, SDN and NFV

In 2013, 4G/LTE network rollouts drove continued rapid growth in mobile data as well as in signalling traffic, due to the proliferation of "chatty" applications. We saw access networks evolving to accommodate the growth, employing small cells and Wi-Fi offload, which led to new mobility testing needs. Mobile also played a role in driving service provider infrastructure spending growth, with intense competition amongst multiple players for next-generation high density core router and 100G Ethernet optical transport network ("OTN") business. In the cloud and data center market we saw the rise of software-defined networking ("SDN") and of cloud service providers with innovative business models, while virtualization and intense competition led to price erosion in the traditional switch market. In the applications and security space, cyber security and bring your own device to work ("BYOD") continued to grab headlines, leading to intense interest in the enterprise, government and large service provider space and to advances in next-generation firewalls. Virtualization continues to be a major trend across all our markets, with the move to network virtualization and strong service provider interest in network functions virtualization ("NFV").

Performance

- Growth in mobility revenue offset by decline in data center
- Built leadership in SDN and NFV
- Regional challenges in APAC and EMEA
- Historical under investment in parts of the business

Revenue

On the back of the mobile trends identified above, we saw growth in our mobility solutions in 2013. Service provider infrastructure business was also up modestly, while revenue in our application and security market was flat. However, the growth was more than offset by a sharp fall in data center revenue, with customer investments shifting to virtual and intense competition. From a regional perspective, revenue was flat in North America, slightly down in APAC and considerably down in EMEA, although we saw a modest rebound in APAC and EMEA during the fourth quarter. Under investment in new test systems and lack of expansion into new markets in prior years also had an effect on the results of this business in 2013. Our Infrastructure Test Optimization ("ITO") business saw growth on the back of Spirent professional services and large service providers standardising on our iTest® solution. Revenue was down at $213.4 million from $259.5 million in 2012, while we built the order book with a book to bill ratio of 105 (2012: 94).

Profitability

Operating profit before exceptional items was down to $13.2 million from $59.7 million in 2012 on the reduced revenue and with an increased investment in product development of $5.3 million compared with the previous year. Exceptional items of $1.6 million were charged in relation to reorganisation expenses in the fourth quarter.

Product development

In January 2013 Spirent launched Axon, a new solution for the enterprise market that enables new applications and services to be deployed more quickly and with greater confidence. In May, we launched a family of next-generation high speed Ethernet test solutions, with new high density 10/40/100G test modules to address increasing complexity and exploding data traffic in service provider and data center networks with market-leading realism and scale. In September we launched Spirent Avalanche NEXT, a powerful, easy-to-use solution that tests the performance, scalability and security of today's application-aware network infrastructures by generating realistic traffic and attacks. We also built a leadership position in SDN/OpenFlow, which included hosting the Open Networking Foundation PlugFest at our Sunnyvale, California facility in November.

Strategy

- Invest in mobility, especially VoLTE and Wi-Fi
- Increase investment in application and cyber security testing
- Gain leadership in virtual, SDN and NFV

For 2014, we plan to shift our investment focus to better align with that of our customers. For mobility, we will address new opportunities presented by VoLTE and Wi-Fi. We also plan to increase our investment in applications and security, building out our Avalanche NEXT solution, focusing on cyber security and critical infrastructure, developing the government market, and growing cloud based testing-as-a-service offerings. Our service provider infrastructure focus will be on next-generation core routers and SDN/NFV rollouts, with leadership in coverage and scale. We also plan to play a key role in technology and standards definition for 400G Ethernet. In cloud and data center we will target the fast growing cloud service provider space, and gain leadership in virtual and SDN. We have established a focused ITO & Solutions business to address key service provider ecosystems and align with market trends including lab consolidation and agile development. Our Enterprise business will build out its channels to market and develop customer demand.

Wireless & Service Experience – 40% of Group revenue

$ million	**2013**	2012	Change (%)
Revenue	**167.7**	174.5	(4)
Operating profit	**33.8**	56.7	(40)
Return on sales (%)	**20.2**	32.5	

Market conditions

- Many smartphone vendors experiencing business challenges
- New 4G voice services poised for widespread deployment
- BeiDou and vulnerability concerns drive Positioning markets

In our Wireless and Service Experience markets, the focus of smartphone growth shifted to more price sensitive regions which, coupled with the increasing dominance of a few manufacturers, led to profitability challenges for many vendors. 2013 saw initial deployments of important new 4G services and technologies, including VoLTE and LTE-Advanced, with large scale rollouts expected in 2014. China awarded its 4G licenses in December, mandating the use of TD-LTE technology. Wireless machine-to-machine ("M2M") connectivity continued to expand into everything from domestic appliances to medical and vehicle applications. In our Positioning markets, the application of multi-GNSS technologies grew, with the Chinese BeiDou system joining established GPS and GLONASS. Another market driver was the growing concern over the vulnerability of GNSS receivers to jamming and other attacks.

Performance

- Wireless revenue declines on weak carrier driven business
- Service Experience flat in an integration year
- Positioning benefits from government spending

Revenue

Wireless experienced a sharp decline in its mobile device test markets as a result of device vendors' profitability challenges, a lull in new technology and service launches, fierce competition and continued investment shift from 3G to 4G/LTE technologies. Service Experience had a flat year as we focused on integrating the Metrico business, acquired in September 2012. Positioning experienced growth in its markets as a result of US government business recovery, new high end testing needs from applications and the BeiDou Chinese satellite navigation system. Including a full year contribution from the Metrico business of $25.8 million (2012: $6.4 million), overall revenue was down by $6.8 million to $167.7 million from $174.5 million in 2012. Book to bill ratio grew to 101 from 97 at the end of 2012.

Profitability

Operating profit was $33.8 million compared with $56.7 million in 2012 due to loss of high gross margin on the reduced revenue together with an increase in investment in product development of $8.3 million. The resulting operating margin reduced to 20.2 per cent compared with 32.5 per cent in 2012.

Product development

Our Wireless and Service Experience businesses invested to address the industry's needs as it prepared for large scale deployment of 4G/LTE-enabled services such as VoLTE. We released lab-based test solutions for VoLTE and other IMS services, as well as tools and services for both the lab and live networks that measure audio quality (including HD voice and VoLTE), video performance and battery life as experienced by mobile subscribers. Other new solutions addressed E911 emergency requirements for VoLTE in the US, and the TD-LTE technology testing needs of markets such as China and India. Our Positioning business underscored its industry leadership with the first commercial release of test solution support for the Chinese BeiDou satellite navigation system.

Strategy

- Invest in M2M market opportunities
- Expand our offerings that ensure performance of new devices and services
- Focus on new positioning technologies and high end applications

Our Wireless business will focus on enabling our customers to improve both the realisation and management of their mobility services through application of technology, expertise, and analytics. We will also apply the wireless and application expertise gained in the smartphone cellular market to the M2M connectivity market. Our Service Experience business will add more analytics to its portfolio of services and solutions that help network operators ensure the performance of new devices and services as they come to market, as well as focusing on business development in Asia Pacific and Europe. Our Positioning business will focus on the expanding high end, leading edge technologies that lead to new applications, as well as on the challenges surrounding the vulnerability of GNSS in critical infrastructure.

Service Assurance – 8% of Group revenue

$ million	2013	2012	Change (%)
Revenue	**32.4**	38.4	(16)
Operating profit	**9.0**	5.5	64
Operating profit before exceptional items	**9.0**	8.4	7
Return on sales before exceptional items (%)	**27.8**	21.9	

Market conditions

- Continued caution by service providers around legacy spending
- In-home complexity drives more field testing needs
- Downward pressure on support contract renewals

Service providers remain cautious with their spending, particularly around legacy technologies, and are also applying greater pricing pressure on support contract renewals. The growth in mobile data subscribers and 4G/LTE technology is driving Ethernet speeds ever higher and requiring better data analytics. Increasing in-home complexity for triple play services resulted in a need for better tools to manage this, one of the most challenging parts of the distribution network. The rapid evolution of cloud services, data center virtualization, SDN and NFV is greatly increasing the importance of in-network testing.

Performance

- Revenue down due to legacy and service contract pressure
- Strong growth in Ethernet space
- New field test solution attracts large order, $12.0 million revenue delayed until 2014

Revenue

Overall revenue was down, primarily due to continued carrier caution in their legacy TDM, triple play in-network probes and support contract spend. Ethernet was a strong growth area for Service Assurance in 2013, particularly in the intelligent software areas. Although field test revenue fell, 2013 saw a large order from a major North American service provider for a new version of our Tech-X Flex product, for which revenue will not be recognised until 2014. Overall revenue fell $6.0 million to $32.4 million in 2013, compared with $38.4 million in 2012. The book-to-bill was 127 due to large revenue deferrals around field test and Ethernet solutions, hence the outlook for Service Assurance revenue heading into 2014 is positive.

Profitability

Operating profit increased in Service Assurance to $9.0 million from $8.4 million in the prior year despite the lower revenue in 2013. The increase in profit is mainly due to abnormally high gross margin as a result of a higher proportion of service revenue, as well as lower overhead costs. Gross margin for 2014 is likely to be in the region of 75 per cent. Our investment in product development has increased in this division by $0.8 million compared to 2012.

Product development

Development focus remained on Ethernet service assurance as well as expansion of our field test solutions and an entry into the service provider data center market. The capabilities of Spirent TestCenter Live, our Ethernet Service Assurance solution, are expanding to include performance monitoring for LTE and VoLTE, as well as a new 100G Ethernet probe and software to enable testing further up the protocol stack. We developed a greatly enhanced version of our Tech-X Flex field test unit which will ship to customers early in 2014. We also invested in the development of Data Center Live, our comprehensive virtual network monitoring and troubleshooting solution aimed at the latest highly complex and versatile data center networks, building on Spirent's wide ranging expertise to test every aspect of a data center cloud, which we will also bring to market in 2014.

Strategy

- Invest in solutions for mobile and enterprise services
- Launch new field test tool to address in-home issues
- Enter the service provider data center market

Spirent will invest in our customers' most pressing operational issues in the core of the Ethernet network, in the field and with emerging cloud/data center networks. Spirent TestCenter Live will continue to benefit from service provider investments that remain focused on growth areas such as 4G/LTE mobile and higher bandwidth enterprise business services. We will go to market with our enhanced field test tool to greatly improve the efficiency and effectiveness of installation and maintenance teams when addressing in-home network issues. Lastly, as service providers ramp up their investments in their cloud services and associated data centers we will introduce a solution that allows them to dissect problems inside and outside the data center simultaneously.

Consolidated income statement

$ million	Notes	Year to 31 December 2013	2012[1]
Continuing operations			
Revenue	3, 4	**413.5**	472.4
Cost of sales		**(126.7)**	(135.7)
Gross profit		**286.8**	336.7
Product development	3	**(100.5)**	(86.1)
Selling and distribution		**(96.6)**	(91.7)
Administration		**(50.6)**	(50.8)
Operating profit	3	**39.1**	108.1
Finance income		**0.9**	0.8
Finance costs		**(0.9)**	(0.5)
Profit before tax	3	**39.1**	108.4
Tax	6	**(6.4)**	(29.0)
Profit for the year after tax for continuing operations		**32.7**	79.4
Discontinued operations	7	**-**	47.1
Profit for the year attributable to owners of the parent Company		**32.7**	126.5
Earnings per share (cents)	8		
Continuing operations			
Basic		**5.10**	12.11
Diluted		**5.09**	12.07
Discontinued operations			
Basic		**-**	7.18
Diluted		**-**	7.15
Total Group			
Basic		**5.10**	19.29
Diluted		**5.09**	19.22

Note
1 2012 has been restated for the implementation of IAS 19 "Employee Benefits".

Consolidated statement of comprehensive income

	Year to 31 December	
$ million	**2013**	2012[1]
Profit for the year attributable to owners of the parent Company	**32.7**	126.5
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on retranslation of foreign operations	**(0.7)**	3.2
Exchange differences recycled on disposal	**-**	1.2
	(0.7)	4.4
Items that will not subsequently be reclassified to profit or loss:		
Re-measurement of the net defined benefit pension liability	**17.8**	(11.7)
Income tax effect	**(4.2)**	2.5
	13.6	(9.2)
Other comprehensive income	**12.9**	(4.8)
Total comprehensive income for the year attributable to owners of the parent Company	**45.6**	121.7

Note
1 2012 has been restated for the implementation of IAS 19 "Employee Benefits".

Consolidated balance sheet

$ million	At 31 December 2013	2012
Assets		
Non-current assets		
Intangible assets	**198.8**	207.4
Property, plant and equipment	**39.6**	34.1
Trade and other receivables	**4.4**	4.9
Cash on deposit	**0.1**	0.4
Defined benefit pension plan surplus	**0.6**	-
Deferred tax	**18.3**	28.4
	261.8	275.2
Current assets		
Inventories	**31.6**	34.0
Trade and other receivables	**102.7**	95.6
Cash and cash equivalents	**216.2**	248.6
	350.5	378.2
Total assets	**612.3**	653.4
Liabilities		
Current liabilities		
Trade and other payables	**(130.7)**	(107.3)
Current tax	**(3.6)**	(8.5)
Provisions and other liabilities	**(6.0)**	(4.4)
	(140.3)	(120.2)
Non-current liabilities		
Trade and other payables	**(15.2)**	(11.4)
Defined benefit pension plan deficit	**(3.9)**	(25.6)
Provisions and other liabilities	**(0.5)**	(0.6)
	(19.6)	(37.6)
Total liabilities	**(159.9)**	(157.8)
Net assets	**452.4**	495.6
Capital and reserves		
Share capital	**34.4**	35.3
Share premium account	**33.5**	32.9
Capital redemption reserve	**21.3**	19.4
Other reserves	**(3.2)**	(1.6)
Translation reserve	**23.3**	24.0
Retained earnings	**343.1**	385.6
Total equity attributable to owners of the parent Company	**452.4**	495.6

Consolidated cash flow statement

		Year to 31 December	
$ million	Notes	**2013**	2012
Cash flows from operating activities			
Cash flow from operations	10	**73.5**	128.2
Tax paid		**(6.1)**	(23.1)
Net cash inflow from operating activities		**67.4**	105.1
Cash flows from investing activities			
Interest received		**0.8**	0.9
Transfer from long term deposit		**0.3**	0.3
Purchase of intangible assets		**(2.4)**	-
Purchase of property, plant and equipment		**(22.9)**	(16.4)
Proceeds from the sale of property, plant and equipment		**1.0**	2.1
Acquisition of subsidiaries and businesses		**-**	(92.0)
Net proceeds from the disposal of operations		**-**	59.9
Net cash used in investing activities		**(23.2)**	(45.2)
Cash flows from financing activities			
Interest paid		**-**	(0.3)
Dividend paid		**(22.2)**	(20.3)
Proceeds from the issue of share capital and employee share ownership trust		**0.2**	2.2
Share repurchase		**(54.7)**	(31.6)
Net cash used in financing activities		**(76.7)**	(50.0)
Net (decrease)/increase in cash and cash equivalents		**(32.5)**	9.9
Cash and cash equivalents at the beginning of the year		**248.6**	236.5
Effect of foreign exchange rate changes		**0.1**	2.2
Cash and cash equivalents at the end of the year		**216.2**	248.6

Consolidated statement of changes in equity

$ million	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total equity
At 1 January 2012	34.3	31.3	17.7	2.7	19.6	316.6	422.2
Profit for the year[1]	-	-	-	-	-	126.5	126.5
Other comprehensive income[1]	-	-	-	-	4.4	(9.2)	(4.8)
Total comprehensive income	-	-	-	-	4.4	117.3	121.7
Share-based payment	-	-	-	-	-	1.6	1.6
Tax on share incentives	-	-	-	-	-	(1.0)	(1.0)
Employee share ownership trust	-	-	-	-	-	2.2	2.2
Share cancellation	(0.7)	-	0.7	-	-	-	-
Share repurchase	-	-	-	-	-	(30.8)	(30.8)
Equity dividends	-	-	-	-	-	(20.3)	(20.3)
Exchange adjustment	1.7	1.6	1.0	(4.3)	-	-	-
At 1 January 2013	**35.3**	**32.9**	**19.4**	**(1.6)**	**24.0**	**385.6**	**495.6**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**32.7**	**32.7**
Other comprehensive income	**-**	**-**	**-**	**-**	**(0.7)**	**13.6**	**12.9**
Total comprehensive income	**-**	**-**	**-**	**-**	**(0.7)**	**46.3**	**45.6**
Share-based payment	**-**	**-**	**-**	**-**	**-**	**(1.2)**	**(1.2)**
Employee share ownership trust	**-**	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Share cancellation	**(1.5)**	**-**	**1.5**	**-**	**-**	**-**	**-**
Share repurchase	**-**	**-**	**-**	**-**	**-**	**(55.5)**	**(55.5)**
Share buyback obligation	**-**	**-**	**-**	**-**	**-**	**(10.1)**	**(10.1)**
Equity dividends	**-**	**-**	**-**	**-**	**-**	**(22.2)**	**(22.2)**
Exchange adjustment	**0.6**	**0.6**	**0.4**	**(1.6)**	**-**	**-**	**-**
At 31 December 2013	**34.4**	**33.5**	**21.3**	**(3.2)**	**23.3**	**343.1**	**452.4**

Note
1 2012 has been restated for the implementation of IAS 19 "Employee Benefits".

Notes to the preliminary 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 2013.

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 to 31 December 2013 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 to 31 December 2012 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 preliminary announcement was approved by the Board of Directors on 27 February 2014.

The financial information for the year to 31 December 2013 has been extracted from the statutory accounts on which an unqualified audit report, which did not contain a statement under Section 498 of the Companies Act 2006, has been issued. These accounts are yet to be delivered to the Registrar of Companies.

2 Accounting policies

The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2012 other than in relation to IAS 19 "Employee Benefits" discussed below.

Change to segmental reporting
IFRS 8 "Operating Segments" requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been determined, in Spirent's case, to be the Chief Executive Officer, as he is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments.

A review of the Group's organisational structure, which was completed in 2013, has resulted in a change to the segmental information provided to the Chief Operating Decision Maker and this has required a change to Spirent's segmental reporting structure. Spirent is now reporting three operating segments: Networks & Applications; Wireless & Service Experience; and Service Assurance. Previously, Networks & Applications and Wireless & Service Experience were reported as one segment, Performance Analysis. Comparatives have been restated accordingly.

Adoption of new and current standards
The following new standards, amendments to standards and interpretations are mandatory for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position apart from IAS 19 which is discussed below.

International Accounting Standards ("IAS/IFRS")	
IAS 1	Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
IAS 1	Amendments to IAS 1 – Clarification of the Requirements for Comparative Information
IAS 16	Amendments to IAS 16 – Classification of Servicing Equipment
IAS 19	Employee Benefits
IAS 32	Amendments to IAS 32 – Tax Effect of Distribution to Holders of Equity Instruments
IAS 36	Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
IFRS 1	Amendments to IFRS 1 – Borrowing Costs
IFRS 1	Amendments to IFRS 1 – Government Loans
IFRS 7	Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
Annual Improvements 2009-2011 Cycle	

IAS 19 Employee Benefits

With effect from 1 January 2013 the Group has implemented the amendments to the accounting standard IAS 19 "Employee Benefits" in relation to its United Kingdom defined benefit pension plans. Comparative numbers have been restated accordingly.

Under the revised accounting standard, the principal change is that the expected returns on defined benefit pension plan assets are not recognised in profit or loss. Instead, interest on the net defined benefit obligation is recognised in profit or loss, calculated using the discount rate used to measure the pension obligation. For Spirent this change has caused net interest income on the defined benefit pension plans, under the previous standard, to become a net finance cost, under the revised standard. In addition, certain administrative expenses of running the plans are expensed to operating costs, having been deducted from the return on assets under the previous standard. Plan asset administration costs are recognised as re-measurement adjustments in other comprehensive income.

The implementation of IAS 19 has had no effect on the prior year consolidated balance sheets or consolidated cash flow statement.

Impact on total comprehensive income for the year of application:

$ million	**2013**	2012
Impact on profit for the year		
Increase in administration costs	**(0.7)**	(1.1)
Decrease in finance income	**(0.3)**	(0.7)
Increase in finance expense	**(0.9)**	(0.5)
Tax	**0.4**	-
	(1.5)	(2.3)
Impact on other comprehensive income		
Increase in re-measurement of defined benefit pension obligation	**1.9**	2.3
Income tax effect	**(0.4)**	-
Increase/(decrease) in total comprehensive income for the year	**-**	-
Impact on earnings per share (cents)		
Basic earnings per share	**(0.23)**	(0.35)
Diluted earnings per share	**(0.23)**	(0.35)

Going concern

At 31 December 2013 the Group had cash balances of $216.2 million and no debt.

Having reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance, the directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly the going concern basis 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's continuing reportable operating segments are Networks & Applications, Wireless & Service Experience and Service Assurance. Its Systems segment was sold during 2012 and is disclosed as a discontinued operation in note 7 of these financial statements. The Group evaluates segment operating profit before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment. 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.

$ million	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Total
2013					
Revenue					
External revenue	**213.4**	**167.7**	**32.4**	**-**	**413.5**
Profit before tax					
Total reportable segment profit/(loss) before exceptional items	**13.2**	**33.8**	**9.0**	**(5.9)**	**50.1**
Exceptional items *note 5*	**(1.6)**	**-**	**-**	**(2.2)**	**(3.8)**
Total reportable segment profit/(loss)	**11.6**	**33.8**	**9.0**	**(8.1)**	**46.3**
Acquired intangible asset amortisation					**(8.4)**
Share-based payment					**1.2**
Operating profit					**39.1**
Finance income					**0.9**
Finance costs					**(0.9)**
Profit before tax					**39.1**
Other information					
Product development	**55.1**	**37.6**	**7.8**	**-**	**100.5**
Intangible asset additions	**-**	**2.4**	**-**	**-**	**2.4**
Property, plant and equipment additions	**10.7**	**11.2**	**1.0**	**-**	**22.9**
Intangible asset amortisation – other	**-**	**1.5**	**-**	**-**	**1.5**
Depreciation	**8.7**	**6.6**	**1.0**	**0.2**	**16.5**

3 Operating segments continued

$ million	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Restated Total
2012					
Revenue					
External revenue	259.5	174.5	38.4	-	472.4
Profit before tax					
Total reportable segment profit/(loss) before exceptional items	59.7	56.7	8.4	(6.5)	118.3
Exceptional items *note 5*	-	-	(2.9)	-	(2.9)
Total reportable segment profit/(loss)	59.7	56.7	5.5	(6.5)	115.4
Acquisition related costs					(1.2)
Acquired intangible asset amortisation					(4.5)
Share-based payment					(1.6)
Operating profit					108.1
Finance income					0.8
Finance costs					(0.5)
Profit before tax					108.4
Other information					
Product development	49.8	29.3	7.0	-	86.1
Intangible asset additions	38.6	51.4	-	-	90.0
Property, plant and equipment additions	9.5	6.2	0.1	0.1	15.9
Intangible asset amortisation – other	-	1.6	-	-	1.6
Depreciation	8.4	5.0	1.1	0.1	14.6

There was no inter-segment revenue in any of the above periods.

4 Geographical information

$ million	**2013**	2012
Revenue by market		
Continuing operations		
United States	**215.8**	239.2
Asia Pacific, Rest of World	**146.9**	166.0
Europe	**50.8**	67.2
	413.5	472.4

Europe includes United Kingdom revenue of $9.8 million (2012: $13.4 million).

Revenues are attributed to countries based on customer location.

5 Exceptional items

$ million	**2013**	2012
Reorganisation expenses – Service Assurance	**-**	1.5
Excess inventory provision – Service Assurance	**-**	1.4
Review of Group's organisational structure	**3.4**	-
Abortive acquisition costs	**0.4**	-
	3.8	2.9

In the fourth quarter of 2013 the Group undertook a review of its organisational structure. This resulted in a number of management and structural changes being made in order to deliver a streamlined, decentralised and more simplified business. These internal changes have been made to create a more agile and responsive organisation to better serve Spirent's customers as well as sharpen the business's focus on anticipating customers' requirements for the future.

The tax effect of exceptional items is a credit of $0.8 million (2012: $1.0 million).

6 Tax

$ million	**2013**	2012
Current income tax		
UK tax	**-**	0.5
Foreign tax	**5.1**	23.5
Amounts overprovided in previous years – foreign tax credit	**(3.7)**	(1.8)
Total current income tax charge	**1.4**	22.2
Deferred tax		
Recognition of deferred tax assets	**-**	(1.4)
Reversal of temporary differences	**5.0**	9.9
Total deferred tax charge	**5.0**	8.5
Tax charge in the income statement	**6.4**	30.7

Attributable to:

$ million	**2013**	2012
Continuing operations	**6.4**	29.0
Discontinued operations	**-**	1.7
	6.4	30.7

The effective tax rate for 2013 is 25.8 per cent (2012: 28.4 per cent) for continuing operations, being the current year tax charge excluding any prior year tax, as a percentage of profit before tax.

7 Discontinued operations

The assets and liabilities of the Systems division were sold to Curtiss-Wright Corporation on 1 November 2012 for a cash consideration of $63.2 million.

$ million	**2013**	2012
Revenue	-	43.9
Cost of sales	-	(27.6)
Gross profit	-	16.3
Expenses	-	(12.0)
Operating profit	-	4.3
Profit on sale of operations	-	44.5
Profit before tax	-	48.8
Tax *note 6*	-	(1.7)
Profit for the year after tax for discontinued operations	-	47.1

The net cash flows after tax for the discontinued operations were as follows:

$ million	**2013**	2012
Operating	-	7.9
Investing	-	(0.5)
Net cash inflow	-	7.4

8 Earnings per share

Basic

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.

	2013			2012 restated
	Total and continuing	Continuing operations	Discontinued operations	Total
Profit for the year attributable to owners of the parent Company ($ million)	**32.7**	79.4	47.1	126.5
Weighted average number of Ordinary Shares in issue (number million)	**640.6**	655.7	655.7	655.7
Basic earnings per share (cents)	**5.10**	12.11	7.18	19.29

8 Earnings per share continued

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.

	2013			2012 restated
	Total and continuing	Continuing operations	Discontinued operations	Total
Profit for the year attributable to owners of the parent Company ($ million)	**32.7**	79.4	47.1	126.5
Weighted average number of Ordinary Shares in issue (number million)	**642.0**	658.1	658.1	658.1
Diluted earnings per share (cents)	**5.09**	12.07	7.15	19.22

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
- Acquisition related costs
- Acquired intangible asset amortisation
- Share-based payment
- Tax effect on the above items
- Prior year tax

A reconciliation is provided below:

		2013		2012 restated
	$ million	**EPS cents**	$ million	EPS cents
Continuing operations				
Profit for the year attributable to owners of the parent Company	**32.7**	**5.10**	79.4	12.11
Exceptional items *note 5*	**3.8**		2.9	
Acquisition related costs	**-**		1.2	
Acquired intangible asset amortisation	**8.4**		4.5	
Share-based payment	**(1.2)**		1.6	
Tax effect on the above items	**(3.4)**		(2.4)	
Prior year tax credit *note 6*	**(3.7)**		(1.8)	
Adjusted basic	**36.6**	**5.71**	85.4	13.02
Adjusted diluted		**5.70**		12.97

9 Dividends paid and proposed

$ million	2013	2012
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend paid for the year ended 31 December 2012 of 1.83 cents per Ordinary Share (31 December 2011: 1.67 cents)	**12.0**	10.9
Interim dividend 2013 1.53 cents per Ordinary Share (2012: 1.39 cents)	**10.2**	9.4
	22.2	20.3
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2013 2.01 cents per Ordinary Share (2012: 1.83 cents)	**12.3**	11.9

The directors are proposing a final dividend in respect of the financial year ended 31 December 2013 of 2.01 cents per share (2012: 1.83 cents), which will absorb an estimated $12.3 million of shareholders' funds (2012: $11.9 million). It will be paid on 25 April 2014 to Ordinary shareholders who are on the Register of Members at close of business on 7 March 2014. Payment will be made to ADR holders on 2 May 2014. No liability is recorded in the financial statements in respect of this final dividend.

Dividends are determined in US dollars and paid in sterling at the exchange rate prevailing when the dividend is proposed. The exchange rate used for determining the amount of the final dividend to be paid was $1.67:£1.

10 Reconciliation of profit to cash generated from operations

$ million	2013	2012 restated
Profit for the year	**32.7**	126.5
Adjustments for:		
Tax	**6.4**	30.7
Profit on the sale of operations	**-**	(44.5)
Finance income	**(0.9)**	(0.8)
Finance costs	**0.9**	0.5
Intangible asset amortisation	**9.9**	6.1
Depreciation of property, plant and equipment	**16.5**	15.2
Loss on the disposal of property, plant and equipment	**-**	0.1
Share-based payment	**(1.2)**	1.6
Changes in working capital:		
Deferred income received/(released)	**12.9**	(3.4)
(Increase)/decrease in receivables	**(6.0)**	7.0
Decrease in inventories	**2.4**	1.6
Increase/(decrease) in payables	**2.8**	(11.4)
Increase in provisions	**1.5**	0.4
Defined benefit pension plan	**(4.4)**	(1.4)
Cash flow from operations	**73.5**	128.2

$ million	2013	2012
Cash flow from operations comprises:		
Continuing operating activities	**73.5**	120.3
Discontinued operating activities	**-**	7.9
Cash flow from operations	**73.5**	128.2

11 Post balance sheet events

On 19 February 2014 Spirent completed the acquisition of the business of DAX Technologies Corp. ("DAX"), privately held by Dragos Alexe and others, for a cash consideration of $37.0 million. Based in Matawan, New Jersey, DAX is a leading provider of customer experience management solution software that enables mobile and wireline service providers to understand and quantify services as experienced by their customers.

The addition of DAX positions Spirent well to help service providers with the unprecedented challenges they face when developing and managing new services in mobile and wireline network environments of rapidly increasing complexity. This acquisition will enable us to strengthen our Service Assurance portfolio, expanding Spirent's addressable market in the live network.

On 20 February 2014 Spirent completed the acquisition of 58 per cent of the share capital of Testing Technologies IST GmbH ("Testing Tech") which was in private ownership, for a cash consideration of Euro 2.0 million. The company develops and markets standardised and customer-specific software-based testing tools which support the development of mission-critical products and workflow steps. Testing Tech also participates in the connected vehicle market which will facilitate Spirent's progress in this market. The minority stake of 42 per cent of the share capital is the subject of a put and call option which expires on 31 March 2016. The consideration is based on the 2015 performance of Testing Tech and set at a minimum amount of Euro 1.4 million. Testing Tech will be reported within our Wireless and Service Experience division.

As both acquisitions have only very recently completed neither the fair values of the assets and liabilities acquired, nor the consideration, have yet been determined.

Glossary

2G (Second Generation)	Second generation remains the most common type of wireless cellular communication in use globally. Although its primary focus has been voice service and short message service ("SMS"), it has also been enhanced to allow low rate data communication.
3G (Third Generation)	Third generation of mobile communications that delivers data rates of hundreds of kilobits per second to tens of megabits per second.
3GPP (Third Generation Partnership Project)	A collaboration between groups of telecommunications associations from around the world, the scope of which is primarily to establish globally applicable third generation and beyond mobile phone system specifications.
4G (Fourth Generation)	Fourth generation of mobile communications that delivers data rates of tens to hundreds of megabits per second. Future 4G technologies promise data rates in excess of one gigabit per second.
Application	A software programme designed to perform a specific function for the end user which uses the services of the computer's operating system and other supporting programmes. Applications include database programmes, spreadsheets, web browsers, graphics programmes and word processors.
Attacks	Attempts to damage, disrupt, or gain unauthorised access to a computer, computer system, or electronic communications network.
BeiDou (formerly Compass)	China's second generation global satellite navigation system, which is under construction but eventually planned to consist of 35 satellites. Service was launched in China during 2011, with plans to provide service globally by 2020.
Cloud	A variety of computing concepts that involve a large number of computers connected through a real-time communication network such as the internet. Often used in reference to network-based services served up by virtual hardware, simulated by software running on one or more physical machines.
Code Division Multiple Access ("CDMA")	A digital cellular technology standard which allows numerous signals to occupy a single transmission channel, thus increasing network capacity; used in 2G and 3G radio communications.
Core Router	A router designed to operate in the internet backbone, able to support multiple telecommunications interfaces of the highest speed in use in the core internet, and to forward IP packets at full speed on all of them. It must also support the routing protocols being used in the core.
Cyber Security (aka IT Security)	The body of technologies, processes and practices designed to protect networks, computers, programmes and data from attack, damage or unauthorised access. In an IT context, the term security implies cyber security.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
Ethernet	A family of networking technologies originally developed for local area networks, which migrated to metro area networks and eventually became the dominant standard in wireline networks worldwide.
Gigabit Ethernet ("GbE")	A transmission technology based on the Ethernet frame format and protocol used in local area networks that provides a data rate of 1 billion bits per second (one gigabit) and which is used as the backbone in many enterprise networks.
Global Navigation Satellite Systems ("GNSS")	The standard generic term for satellite navigation systems that provide autonomous geo-spatial positioning with global coverage. GNSS allows users' receivers to determine their location to within a few metres by employing a triangulation technique that uses information from multiple satellites.
Global Positioning System ("GPS")	A global navigation satellite system operated by the United States government for determining a user's location and height at any point on the earth's surface. A receiver uses minute differences in measured time signals from clocks on satellites to calculate these positions and altitudes.

Glossary continued

GLONASS (The Russian Global Navigation Satellite System)	A global navigation satellite system operated by the Russian Federation. Deployment began in 1976 and, although the system fell into disrepair in the 1990s, full global service was restored in 2011.
High Definition Voice ("HD Voice")	A technology, based on standards from the International Telecommunication Union ("ITU"), that delivers high definition voice quality compared to standard digital telephony.
Infrastructure Test Optimization ("ITO")	The practices required to ensure that infrastructures meet a defined quality of service and quality of experience that are necessary to meet strategic business objectives.
Internet Protocol ("IP")	The primary network protocol used on the internet and on other network devices to facilitate and control the flow of data.
Internet Protocol Multimedia Subsystem ("IMS")	A standardised next-generation architecture for telecoms operators who want to provide mobile and fixed multimedia services.
Intrusion Detection/Prevention	A technology that gathers and analyses information across gateways, servers and desktops to identify possible security breaches that can occur from within or outside an organisation.
Load Balancer	A piece of hardware (or virtual hardware) for distributing network and/or application traffic across multiple computing resources, with the aim of optimizing resource use, maximising throughout and improving overall reliability of applications.
Long Term Evolution ("LTE")	An advanced wireless data communications technology standard (sometimes called "4G") which is an evolution of 3G UMTS standards. In addition to a new wireless interface specification, LTE uses a simplified flat IP-based network architecture.
LTE-Advanced	An evolution of LTE technology, specified in 3GPP Release 10 and later specifications, regarded by some as the first true 4G technology.
Machine-to-Machine ("M2M")	A technology that enables automated wireless (or wired) communication between mechanical or electronic devices.
Mobile Packet Core	An integrated IP-based mobile transport network with the ability to support 2G, 3G and LTE coexistence.
Network Functions Virtualization ("NFV")	An initiative to provide a new network production environment which lowers cost, raises efficiency and increases agility by hosting network functions previously carried out by proprietary, dedicated hardware on virtual machines running on industry-standard commodity hardware.
OpenFlow	An open standard network protocol from the Open Network Foundation ("ONF"). OpenFlow enables software-defined networking for programmable networks.
Open Networking Foundation ("ONF")	A non-profit, mutually beneficial trade organisation to improve networking through software-defined networking ("SDN") and standardising the OpenFlow protocol and related technologies.
Optical Transport Network ("OTN")	An efficient and globally-accepted approach, standardised by the ITU, to multiplexing communication services onto optical light paths, which can provide significant cost benefits to carriers.
Small Cells	A generic term for microcells, picocells and femtocells. Small cells provide network coverage in dead zones within a macrocell (the coverage area of a traditional cellular base station) and extra network capacity by offloading mobile data traffic from macrocells.
Software-Defined Network ("SDN")	An approach to networking in which control is decoupled from hardware and given to a software application called a controller.
Switch	A computer networking device used to connect many devices together on a computer network. Switches manage the flow of data across a network by only transmitting a received message to the device for which the message was intended.

Glossary continued

Testing as a Service ("TaaS")	An outsourcing model in which testing activities associated with some of an organisation's business activities are performed by a test service provider rather than employees. Services suited to a TaaS model include automated regression testing, performance testing, security testing, and monitoring/testing of cloud-based applications.
Time Division LTE ("TD-LTE")	LTE standards accommodate cellular network and subscriber transmissions in different frequency bands (Frequency Division Duplex), as well as in the same frequency band (Time Division Duplex, often referred to as "TD-LTE"). TD-LTE is expected to be widely deployed in major Asian markets such as China, India and Japan, as well as parts of the United States and Europe.
Time Division Multiplexing ("TDM")	A digital transmission method that combines signals from multiple sources on a common path increasing capacity.
Triple Play	Voice, video and data transmitted over a single transport medium.
Universal Mobile Telecommunications System ("UMTS")	The most common 3G wireless technology globally, which uses WCDMA on its underlying air interface and offers support for data transfer rates from hundreds of kilobits per second to tens of megabits per second.
Virtualization	Technologies designed to provide a layer of abstraction from the physical characteristics of computing resources to simplify the way in which other systems, applications, or end users interact with those resources.
Voice over LTE ("VoLTE")	A standards-based scheme adopted by the GSMA, the cellular industry's association, to provide voice service over data-only LTE networks. VoLTE's use of an IP Media Subsystem enables voice to be offered as part of a rich communications solution, integrated with services such as messaging, live video sharing and file transfer.
Wideband CDMA ("WCDMA")	An International Telecommunication Union standard derived from CDMA which is used globally in 3G mobile communications.
Wi-Fi	A mechanism that enables devices such as personal computers, video game consoles, smartphones or digital audio players to exchange data wirelessly over a computer network and connect to network resources, such as the internet. Coverage ranges from a few rooms to several square miles, depending on the number of access points used.
Wireless Backhaul	The portion of a mobile network that provides connectivity between cellular base stations and the core network over wireline, fibre or radio links.
Wireline	Communication services provided over a physical connection, which may be copper or fibre.