

Finance income and costs continued

Finance costs in 2019 were \$1.8 million (2018 \$0.1 million), \$1.7 million of which related to interest on lease liabilities following the implementation of IFRS 16 on 1 January 2019.

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 13.0 per cent in 2019, down from 15.4 per cent in 2018.

Spirent's effective tax rate has benefited from a combination of factors in 2019, including the ratification of a new tax treaty between India and Hong Kong, and an increase in non-taxed income. Additionally, the Group received tax benefits from the United Kingdom Patent Box Scheme, the United States R&D Tax Credit, and a current year recognition of deferred tax assets in the United States.

Going forward it is anticipated that Spirent's effective tax rate will be maintained at around 13-14 per cent, subject to changes in tax legislation.

Earnings per share

Adjusted basic earnings per share was up 23.4 per cent to 13.40 cents (2018 10.86 cents). Basic earnings per share was 12.79 cents (2018 9.14 cents). There were 609.9 million (2018 610.4 million) weighted average Ordinary Shares in issue. See note 11 of Notes to the full year consolidated financial statements on page 142 for the calculation of earnings per share.

Treasury management

The key objective of the Group's treasury department is to manage the financial risks of the business and to ensure that sufficient liquidity is available for the Group. All treasury activity operates within a formal control framework. The Board has approved treasury policies and guidelines and periodically reviews treasury activities. Additionally, it is the Group's policy that speculative treasury transactions are expressly forbidden.

Spirent's financial risk management objectives and policies and its exposure to risks are discussed in note 30 of Notes to the consolidated financial statements.

Financing and cash flow

The Group delivered very strong cash generation in 2019, driven by higher operating profit and effective working

capital management. Changes in working capital, reflected within cash flow from operations, benefited from:

- our continued focus on improving trade receivables collection;
- a reduction in inventory levels due to a high level of shipments at the end of 2019; and
- growth in payables, resulting from the increase in activity levels and emphasis on extending supplier payment terms.

Free cash flow for 2019 almost doubled year-on-year coming in at \$100.1 million, compared to \$50.9 million in 2018, resulting in a free cash flow conversion which represented 123 per cent of adjusted earnings (2018 77 per cent).

Free cash flow is set out below:

\$ million	2019	2018
Cash flow from operations	124.9	65.9
Tax paid	(5.6)	(5.7)
Net cash inflow from operating activities	119.3	60.2
Interest received	2.6	1.3
Net capital expenditure	(11.9)	(10.6)
Payment of lease liabilities, principal and interest ¹	(10.3)	–
Lease payments received from finance leases	0.4	–
Free cash flow	100.1	50.9

Note

1. Spirent adopted IFRS 16 on 1 January 2019; in prior periods operating lease payments were included within cash flow from operations.

Free cash flow includes a net cash outflow in respect of exceptional items in 2018 and 2019 of \$5.5 million (2018 \$3.6 million in respect of exceptional items charged in 2017 and 2018).

Tax payments of \$5.6 million made in 2019 were consistent with the prior year (2018 \$5.7 million). Net capital expenditure of \$11.9 million was also broadly consistent with the prior year (2018 \$10.6 million), with the incremental spend of \$1.3 million primarily related to investment in 5G. We continue to exercise careful management of capital investment to ensure efficient use of capital and maximise return on investment.

Following the adoption of IFRS 16 on 1 January 2019, the payment of lease liabilities, both the principal and interest elements, are shown separately from net cash flow from operating activities. In previous periods they would have been reflected in that number. There is no overall impact in comparing free cash flow year-on-year.

In 2019, the final dividend for 2018 and an interim dividend for 2019 totalling \$28.6 million were paid. This compared to total dividends of \$54.8 million paid in 2018, including a special dividend of \$29.9 million. In addition, 4.0 million shares were purchased and placed into the Employee Share Ownership Trust at a cost of \$8.6 million (2018 1.5 million shares at a net cost of \$2.5 million) and \$1.9 million of cash consideration was paid to acquire the business of a navigation systems company based in the United Kingdom.

Following these payments, cash and cash equivalents closed at \$183.2 million at 31 December 2019, compared with \$121.6 million at 31 December 2018. There continues to be no bank debt.

Defined benefit pension plans

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

The accounting valuation of the funded defined benefit pension plans at 31 December 2019 gave rise to a net surplus of \$11.6 million, compared with a net surplus of \$2.5 million at 31 December 2018. The 31 December 2019 position has benefited from contributions paid to the plans in the year of \$6.6 million (2018 \$6.8 million) together with a return on pension plan assets in excess of the increase in plan liabilities, the latter arising primarily from a reduction in discount rate.

The latest triennial actuarial valuation dated 31 March 2018 indicated a deficit of £22.5 million, calculated on a technical provisions basis using more prudent assumptions