Inspired Innovation

News Release

SPIRENT COMMUNICATIONS PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

LONDON, UK – 28 February 2008: Spirent Communications plc ("Spirent" or the "Group") (LSE: SPT), a leading communications technology company, today announces its preliminary results for the financial year ended 31 December 2007.

Group highlights

- Adjusted earnings per share from continuing operations up 141 per cent at 3.57 pence (2006: 1.48 pence) after charging 0.38 pence (2006: 0.62 pence) for share-based payment and amortisation of intangibles.
- Earnings per share up 220 per cent in the second half of 2007 at 2.72 pence (second half 2006: 0.83 pence) after share-based payment and amortisation of intangibles of 0.22 pence, due to restructuring actions implemented in the first half.
- Strategic Review completed delivering expected annualised cost savings of £29.0 million, ahead of initial £21.5 million target.
- Adjusted operating profit from continuing operations up over 200 per cent at £25.5 million (2006: £8.4 million).
- Strong free cash generation of £50.2 million (2006: outflow of £6.4 million) with closing net cash of £79.0 million.
- Total of £75.0 million returned through share repurchases since 1 January 2007, including £8.7 million returned since the year end.
- At this stage the outlook for 2008 is encouraging.

Divisional highlights

- Performance Analysis: strong second half profit growth with adjusted operating return on sales increased to 20 per cent.
  - Contributed 87 per cent of Group operating profit before exceptionals for the year; adjusted operating profit of £22.3 million (2006: £10.6 million).
  - Returned to revenue growth in constant currencies in the second half of 5 per cent over the second half of 2006, with growth across all major product areas.

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  - Passed key inflection point with new broadband products' order intake growth of £14.3 million in the second half of 2007 now outpacing the decline in that for legacy products of £11.0 million.
  - Order book increased substantially compared to 2006 resulting in enhanced sales visibility.
- Service Assurance: stabilised with marked improvement in profitability in the second half.
- Systems: gradually diversifying while continuing to generate 11 per cent return on sales.

Edward Bramson, Chairman, commented:

"It is very pleasing to see that Spirent has delivered on all our stated objectives, including increasing the Group's profitability and predictability, as well as its financial flexibility.

"We finished the year with the Group restructuring completed, having exceeded our initial cost saving targets. However, these strong results, with the performance in the second half ahead of original expectations, reflect more than a successful restructuring and cost reduction exercise. Operationally, the business is in a much better position with new products, improved manufacturing processes and a clear focus on key areas such as the wireless market which offer significant potential opportunities.

"The year also saw an increasing trend of winning orders, enhancing visibility and in turn providing additional confidence around the prospects for the Group. In addition, our strong free cash flow performance has enabled us to continue our share repurchase programme, reaching a total of 12 per cent of the opening issued Ordinary share capital during the year.

"At this stage the outlook for 2008 is encouraging."

Results summary

£ million	**2007**	2006	Change (%)	Underlying change at constant currency (%)
Reported				
Continuing operations				
Revenue	**237.0**	258.9	(8)	(2)
Profit/(loss) before tax	**17.8**	(22.3)		
Basic earnings/(loss) per share (pence)	**2.97**	(2.45)		
Adjusted				
Continuing operations				
Operating profit[1]	**25.5**	8.4	204	260
Profit before tax[2]	**32.2**	14.4	124	157
Adjusted earnings[3] per share (pence)	**3.57**	1.48	141	177

Notes
1 Before exceptional items and goodwill impairment.
2 Before exceptional items, goodwill impairment and costs associated with the repayment of loan notes.
3 Adjusted earnings per share is based on adjusted earnings as set out in note 6.

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About Spirent Communications plc

Spirent Communications plc is a leading communications technology company focused on delivering innovative systems and services to meet the needs of customers worldwide. We are a global provider of performance analysis and service assurance solutions that enable the development and deployment of next-generation networking technologies such as broadband services, Internet telephony, 3G wireless and web applications and security testing. The Systems group develops power control systems for specialist electrical vehicles in the mobility and industrial markets. Further information about Spirent Communications plc can be found at www.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.

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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 2007

EXECUTIVE CHAIRMAN'S STATEMENT

I am pleased to report that Spirent's adjusted earnings per share increased by 141 per cent in 2007 to 3.57 pence, before exceptional items, from 1.48 pence in the prior year. This was after charging 0.38 pence for share-based payment and intangible amortisation, down from 0.62 pence in 2006. The restructuring programme announced by the Board in April yielded greater benefits than originally expected, allowing Spirent to substantially exceed its original earnings expectations for the year. Due to the timing of the restructuring actions, almost all of the improvements were realised after June, so the majority of the earnings increase for the year occurred in the second half of the year when adjusted earnings per share increased to 2.72 pence (after share-based payment and intangible amortisation of 0.22 pence), an increase of 228 per cent over the second half of last year.

The largest component of Spirent's revenue and profit is our Performance Analysis business, which supplies telecommunications test and measurement equipment and software, principally to manufacturers of telecommunications network products. Performance Analysis sales returned to growth in the second half of the year on a constant currency basis. This growth was driven primarily by next-generation broadband and wireless products. Wireless products grew by 21 per cent in 2007. The overall growth of Performance Analysis sales was substantially less than this as we still have a number of mature or declining legacy items in our portfolio. Our second half sales increases are indicative of the fact that the growth of our new products is now overtaking the decline of older ones, a trend that we expect to continue in 2008.

Future prospects for the Performance Analysis business are encouraging as the increasing data intensity of services such as IPTV and evolving wireless technologies challenge our customers to respond by continuously investing in developing new products, which is a key driver of the test and measurement markets. Market conditions at the end of last year were reasonably good for most of the major test and measurement suppliers and 2008 has started out in line with our expectations.

Spirent's Service Assurance and Systems businesses, representing 15 per cent and 14 per cent, respectively, of our sales, performed slightly better than expectations against a market backdrop that was relatively flat. At present, the markets for these businesses in 2008 appear to be similar to those experienced in 2007.

Restructuring has reduced Spirent's costs and lowered the break-even level of sales, but it has also resulted in improvement in important areas of operating performance that will be of continuing benefit in the future. For example, our success in completing new product developments on time. Similarly, inventory turnover in Performance Analysis has improved to 3.7 times in 2007 versus 2.6

times in the prior year, releasing capital employed and, more importantly, reducing our exposure to charges for excess or obsolete inventory which have been costly in the past.

The programmes implemented by the Board last year also contributed to a major increase in cash generation. Free cash flow increased to £50.2 million in 2007 compared with a negative cash flow in the prior year. We are optimistic that a full year of restructuring benefits in 2008 and the reduced capital requirements resulting from our further outsourcing of manufacturing should generate significant free cash in 2008 as well. The financial flexibility afforded by our improved cash generation enabled us to return £75.0 million from January 2007 to date to our investors through share repurchases. The anticipated free cash flow in 2008 will be available for further distributions to shareholders and to fund expansion of the Company's businesses.

The outlook for increasing volumes of data traffic and evolving wireless technologies is encouraging. As outlined in the Board's November Strategic Review, we are investing significant amounts in research and development to address these opportunities and to transform the exceptional breadth of capabilities that Spirent possesses into a sustainable competitive advantage. To facilitate this, we have created a new position, Chief Executive of the Communications businesses, to bring the Communications businesses into strategic alignment. William Burns, who joined the Group in 2004 and has substantial industry experience, assumed this role from January of this year.

We anticipate that the effect of a full year of restructuring benefits in 2008 compared to only six months in 2007 will support a significant growth in earnings and free cash flow. Although we are cognisant of the uncertainty in the service provider marketplace, our current expectation is for Performance Analysis sales to increase in constant currency terms. Encouragingly, reinvigorated sales and marketing teams and a strong new product portfolio enabled us to end the year with a Performance Analysis order book that has increased substantially over that at the end of 2006. Allowing the order book to build in this way is a goal that we set for ourselves as part of the change in setting operational targets instituted by the Board earlier in the year. As a result, we have more visibility into future sales levels than at the same time last year and are able to manage our operations more effectively.

Inevitably, given its significant size and the amount of change in the business, we have primarily dwelt on Performance Analysis in this year's results. However, our other business units, Service Assurance and Systems have each performed well relative to expectations and have some interesting opportunities to focus on in the coming year.

Spirent now has in place a highly competent, motivated and stable management team, which merits our sincere thanks and congratulations.

I look forward to updating you on our progress at the Annual General Meeting.

BUSINESS REVIEW

Introduction

The Company performed well in 2007, due in large part to the talents of its employees, its strong base of technology and its customer relationships. The strong balance sheet and cash generation both support the development of the business and reflect the achievements realised in the year. As indicated at the beginning of the year, the successful outcome of the Board's review has come through the focus of resources, increased efficiency and effectiveness of the business in its leading markets.

Business portfolio

In 2007 the Board's focus has been on developing the Performance Analysis business, which has an exceptional product breadth and comprises 71 per cent of overall Group revenue. Performance Analysis generated a 20 per cent return on sales for the second half of 2007 compared with 6 per cent in the first half, as a result of the cost containment actions and operating changes set out in the Operating and Strategic Reviews. During the period the division has reallocated significant development resources to expand its wireless and positioning product offerings.

In Service Assurance, although the expected adoption of 'Triple Play' service assurance solutions did not progress to any great extent, the outlook for the business stabilised and the decline in legacy product revenues has slowed compared to past years.

In Systems revenues were impacted, as expected, by changes in the US government healthcare funding for powered wheelchairs, although the business is successfully diversifying its product range into new industrial products. In addition, the weakness in the US dollar exchange rate impacted the results. Increased outsourcing of production has been and continues to be undertaken to mitigate currency impact.

Restructuring

The cost savings objective of £21.5 million announced in April was achieved and exceeded, as previously communicated in the Strategic Review at the beginning of November. Total realised savings of £29.0 million resulted in a significant improvement in second half profits. Revenues also increased during the second half in US dollar terms. Restructuring has been achieved with minimal effect on trading, as demonstrated by our stronger second half result, and with no delay in our product development programme. Restructuring actions have concentrated on eliminating duplicated activities and processes, consolidating manufacturing and reducing general overheads. We have made significant progress in outsourcing our manufacturing activities across the entire Group.

On-market share repurchase programme

Substantial returns of cash were made to shareholders through the on-market share repurchase programme during 2007. Shares in issue were reduced by 103.4 million, being 12 per cent of the opening issued Ordinary share capital, resulting in a £66.8 million return of cash to the market. This in itself represents a meaningful enhancement to future earnings per share.

Share-based payment

In addition, the potential and real dilution through the issue of share incentives has been addressed. Share incentives granted in the year amounted to 1.1 million share options compared to 25.8 million share options in 2006.

The charge for share-based payment was £2.5 million, less than half of the £5.2 million for 2006, the charge in 2008 is expected to be about £1.5 million.

Business performance

The business improved in 2007 with the book to bill ratio growing to 1.05 from 0.97, resulting in an increased order book compared to the prior year. Revenue was lower by 2 per cent at constant currencies affected by the expected decline in legacy product revenue in Service Assurance. Adjusted pre-tax profits grew to £32.2 million in 2007 from £14.4 million in 2006, with profit before tax for the second half year of £24.1 million compared to £7.9 million for the second half of 2006.

The resulting adjusted earnings per share for continuing operations was 3.57 pence compared to 1.48 pence for 2006. The marked improvement primarily occurred in the second half year, generating earnings of 2.72 pence for 2007 compared to 0.83 pence for 2006.

Board

As reported at the interim, the addition of two new independent non-executive directors to the Board, Duncan Lewis in July and Tom Maxwell in October, has enabled the composition of the Board and its Committees to become fully compliant with the Combined Code in terms of independent non-executive directors.

In addition, it is intended that the role of Chairman and that of Chief Executive will be separated before the 2009 Annual General Meeting.

Summary and outlook

The year ended with the Group restructuring completed, having exceeded the initial cost saving targets. However, these strong results, with the performance in the second half ahead of original expectations, reflect more than a successful restructuring and cost reduction exercise. Operationally, the business is in a much better position with new products, improved manufacturing processes and a clear focus on key areas such as the wireless market which offer significant potential opportunities.

The year also saw an increasing trend of winning orders, enhancing visibility and in turn providing additional confidence around the prospects for the Group. In addition, the strong free cash flow performance has enabled the Company to continue the share repurchase programme, reaching a total of 12 per cent of the opening issued Ordinary share capital during the year.

At this stage the outlook for 2008 is encouraging.

Business group development and performance

Communications

£ million	**First half 2007**	**Second half 2007**	**Full year 2007**	Restated 2006[1]	Change (%)	Underlying change at constant currencies (%)
Revenue						
Performance Analysis	**80.6**	**88.7**	**169.3**	179.5	(6)	1
Service Assurance	**16.5**	**17.8**	**34.3**	43.6	(21)	(16)
Communications group	**97.1**	**106.5**	**203.6**	223.1	(9)	(2)
Adjusted operating profit/(loss)[2]						
Performance Analysis	**4.5**	**17.8**	**22.3**	10.6	110	140
Service Assurance	**0.9**	**2.4**	**3.3**	(1.1)	>100	>100
Communications group	**5.4**	**20.2**	**25.6**	9.5	169	205
Return on sales (%)[2]						
Performance Analysis	**5.6**	**20.1**	**13.2**	5.9		
Service Assurance	**5.5**	**13.5**	**9.6**	(2.5)		
Communications group	**5.6**	**19.0**	**12.6**	4.3		

Notes
1 Restated to reflect the presentation of SwissQual as a discontinued operation.
2 Before exceptional items and goodwill impairment.

Performance Analysis

Market conditions

Market conditions in 2007 were variable; after a subdued start to the first half, demand increased in the second half year. For the Broadband business, this was stimulated by the release of the flagship test product Spirent TestCenter™ 2.0 in the second quarter. This provided a catalyst for demand as customer confidence grew based on positive results after deployment in their labs. The first half was characterised by capital spending delays by major customers, whereas the second half saw increased spending on testing for developing IP requirements, such as integrated layer testing, multimedia applications and services. Application and mobility testing solutions achieved strong growth levels. Wireless test products saw growth across the product range. Demand was driven by intense competition between wireless service providers to provide increasingly high levels of data transmission rates. Service providers are seeking to retain customers through increased reliability and provision of new applications. Multimedia capabilities on high-end mobile devices are setting new benchmarks and new content providers are entering the wireless market. However, during 2007 the rate of deployment of video services across networks was lower than expected.

CDMA test demand grew with enhanced data service development ("EV-DOrA").

In the WCDMA and physical layer wireless test markets opportunities for growth are increasing, particularly driven by Location Based Services ("LBS") and Radio Frequency Channel emulation. 4G technologies are in the early stage of deployment, but we expect that 3G deployments will continue until 2010 and other technologies, such as WiMax, will also be deployed.

Revenue

Performance Analysis revenues were flat in constant currencies year-on-year. The rate of underlying growth in the second half was 5 per cent, following a 3 per cent decline in the first half.

The growth in the second half of 2007 was a result of many factors, including the introduction of Spirent TestCenter 2.0 in the second quarter, and the switch over from legacy products to the new platform reaching the critical inflection point during the second half, with new broadband products' order intake growing by £14.3 million, which outpaced the decline in that for legacy products of £11.0 million. There was an increase in demand for wireless and positioning products. Business was won with new and existing customers through the advantages of Spirent's overall system performance and new features able to support customers' product innovations. The increasing pressure on customers for a faster time to market has created a need for a reduction in testing cycle times. The focus on test automation and professional services support is helping customers to speed up their test processes to simplify and to automate their lab environment. This has been evidenced in the growth of Spirent's services business. Wireless and positioning products' underlying sales growth was 21 per cent year-on-year. These revenues now account for 32 per cent of total Performance Analysis revenues. Growth was achieved across all major product areas with WCDMA-based systems, particularly location test systems, increasing strongly through new customers being won. CDMA test product revenues grew strongly in Asia and North America, whilst physical layer test product revenues saw a strong performance in Europe, Middle East and Africa ("EMEA") driven by WiMax investments. Support services grew with the business and a new service centre was opened in India. Positioning products' revenue was stimulated by growth in GPS as a result of the continued take-up of new signals and the modernisation programme. Due to government funding problems, activity levels fell in 2007 in the European positioning satellite programme, Galileo; however, recent events have increased optimism of generating revenues from this programme in the future. The divisional revenues are broad-based, with no single customer accounting for more than 10 per cent of sales and the top ten customers accounting for 30 per cent of the total.

Profitability

The profitability of the Performance Analysis division improved markedly, mainly due to the cost reductions and operating changes made as a result of the Operating and Strategic Reviews. As a result the gross profit margin improved in the second half of 2007 by 5.3 percentage points compared to that for the first half year. The cost reductions and operating improvements were primarily based in our Broadband business, but all operations have benefited from the lower shared service overheads across the Group.

Product development

The development of the Performance Analysis business builds on its expertise in test and measurement of the performance of devices in real-world conditions. A key objective is to emulate and test the quality of experience for end users, which is increasingly important in multimedia telecommunications. The Company continues to build on its switching and routing test expertise through future enhancements to Spirent TestCenter. Achievements are evidenced by the expansion of the customer base for Spirent TestCenter from 200 customers at the beginning of 2007 to 340 at the end of the year. Additional application and mobility testing capabilities were and continue to be expanded, driving further growth in our professional services and support business. Spirent's Broadband applications test capabilities are being utilised in the testing of devices utilised in the convergence of technologies and in the expansion of mobile communications. These address the needs of new wireless technologies and will enable Spirent to increase its market share in the future.

The Company's development strategy is to select desirable market areas, with evolving technologies, showing faster than average growth, where there are large markets or market share opportunities that have a stable or expanding customer base. Such opportunities are matched with Spirent's relative strengths. Product development projects are based on realistic engineering objectives that also enable access to greater engineering efficiency. Such new products will be introduced in a way that will involve minimal disruption to existing activities. In addition, the software content of sales is being increased, which will also result in the associated professional service and support business.

Applications being addressed include IPTV, wireless services, IMS and multimedia testing, wireless data services, testing increased entertainment content with integrated voice services.

Given the Performance Analysis division's broad product portfolio, the business is in a position to benefit from the current positive market trends driven by the convergence of wired and wireless technologies in a world that is demanding more and more mobile communication.

Service Assurance

Market conditions

General market conditions remained challenging throughout 2007 for the Service Assurance division. There were continued delays in 'Triple Play' service assurance deployments by most major customers. More positively field test represents a growing market and offers potential opportunities.

Overall the service assurance market remains sluggish with limited growth opportunities in this sector. Demand was limited by delays in procurement of service assurance solutions due to customer reorganisations, consolidations and changes in ownership.

Revenue

The decline in legacy revenues continued, but at a lower rate than in past years. This indicates that carriers will continue to spend on legacy solutions following a period when they cut back spending in these areas dramatically. The cut back in spending was in anticipation of shifting spending to next-generation network architecture, which has created some challenges across customers and potential customers. Service revenues, through professional service engagements, were an area of growth.

Order intake grew year-on-year in constant currencies through customer acceptance of new products and growth in professional service engagements.

As expected, revenue declined in constant currencies by 16 per cent. This reflected recognition of deferred revenue of £4.5 million for prior years in 2006, the decline in legacy revenues and their associated maintenance contracts.

Profitability

Profitability improved markedly in the second half year compared to that for the first half. The improvement was achieved as a result of higher revenue, additional gross profit margin and to the full year benefit of cost savings previously actioned.

Product development

New service assurance solutions were launched for 'Triple Play', including SmartSight Central Software and the IPMax hardware probe. These generated new revenues in 2007. A major new development programme commenced for an in-home field test solution product in the last quarter of 2007.

Whilst the adoption of 'Triple Play' service assurance solutions remain uncertain, the outlook for 2008 appears to be relatively stable. The development of field test solutions offer opportunities for growth and the development of an in-home field test solution offers a capability which is compatible with fibre-to-the-node and fibre-to-the-home network topographies.

Systems

£ million	**2007**	2006	Change (%)	Underlying change at constant currency (%)
Revenue	**33.4**	35.8	(7)	-
Operating profit [1]	**3.8**	4.7	(19)	11
Return on sales (%)	**11.4**	13.1		

Note
1 Before exceptional items and goodwill impairment.

The Systems group comprises PG Drives Technology, a leading supplier of control systems for electrically powered medical and small industrial vehicles. As expected, revenue was impacted in 2007 due to the previously announced changes in US government healthcare funding for powered wheelchairs. This created a shift from premium systems to lower cost solutions. The US dollar exchange rate impacted revenue and profit by £2.3 million and £1.4 million respectively. We continued to place more production into China to support our activities in the Asia Pacific Region and in order to gain product and logistical cost benefits.

During 2007, new products for scooters and rehabilitation wheelchairs were introduced that further strengthen System's position in the medical mobility market. New industrial market segments, such as forklift trucks and golf carts, began to be served by new products, such as Sigma and X30/25. The division continues to generate an 11 per cent operating return on sales whilst the business is being diversified beyond the healthcare sector.

Non-segmental costs

Costs not directly attributable to the operating segments reduced to £3.9 million compared to £5.8 million in 2006. The second half costs were £1.8 million. The cost reductions are a result of the actions implemented in the second quarter of 2007. The actions included consolidating reporting activities and other functions in the business units, enabling a reduction in staff levels. The deregistration in the United States has also reduced overhead costs. Overall there has been a lowering in the cost of the Board of Directors.

Group financial performance

Results

£ million	**First half 2007**	**Second half 2007**	**Full year 2007**	Restated 2006[1]	Change (%)	Underlying change at constant currencies (%)
Revenue	**114.2**	**122.8**	**237.0**	258.9	(8)	(2)
Adjusted operating profit²	**5.0**	**20.5**	**25.5**	8.4	204	260
Return on sales² (%)	**4.4**	**16.7**	**10.8**	3.2		
Adjusted earnings per share (pence)³	**0.85**	**2.72**	**3.57**	1.48	141	177
Free cash flow[4]	**21.3**	**28.9**	**50.2**	(6.4)		

The Group's financial performance is reported in accordance with International Financial Reporting Standards ("IFRS").
All comments below refer to continuing activities only unless otherwise stated.
The Group is reporting an underlying change in revenue and adjusted operating profit given the significant effect the weakness of the US dollar has had on operating results this year compared with the previous year. Underlying change is the change at constant currencies and eliminates the effects of fluctuating exchange rates on the translation of operating results and on the transactions during the year.

Notes
1 Restated to reflect the presentation of SwissQual as a discontinued operation.
2 Before exceptional items and goodwill impairment.
3 Adjusted earnings per share is based on adjusted earnings as set out in note 6.
4 Operating cash flow, net interest and net capital expenditure.

Revenue

Reported revenue in sterling was down 8 per cent compared with 2006. The underlying change was a reduction of 2 per cent. The fall in revenue was largely due to the expected decline in the Service Assurance division's revenue and to the impact of the weak US dollar.

The impact of currency on reported revenue was to reduce the reported figure by £14.0 million on the translation of foreign currency denominated results and by £2.5 million due to the translation impact on exports priced in US dollars.

The geographic profile by market of reported revenues was as follows:

£ million	**2007**	**%**	2006	%
Europe	**43.7**	**18**	43.7	17
North America	**132.2**	**56**	152.1	59
Asia and Rest of the World	**61.1**	**26**	63.1	24
	237.0		258.9	

The geographical revenue profile did not change significantly, although there was a shift away from North America to Europe and Asia. This effect was largely due to the decline in Service Assurance revenue.

Adjusted operating profit improved by £17.1 million compared to 2006. £16.3 million of the improvement was achieved in the second half year. This derived from increased underlying revenues, improved gross profit margin and reduction in overhead cost.

The resulting operating return on sales increased to 10.8 per cent for 2007 compared to 3.2 per cent in 2006, being 16.7 per cent for the second half of 2007.

Currency impact

There was a significant weakening of the US dollar in 2007 compared with 2006, as the average US dollar to sterling exchange rate rose to \$2.00:£1 in 2007 from \$1.85:£1 in 2006. Given that 64 per cent of our revenue arises in North America this had a marked effect on the translation of our revenue and profits, reducing revenue as previously noted. The impact on operating profit was a reduction of £2.3 million due to translation and a reduction of a further £2.4 million due to US dollar priced exports.

The Systems group is exposed to transactional currency risk, but as it had hedged some of the 2007 US dollar exposures by the end of 2006 it did not feel the full effect of the US dollar weakness in 2007. This business has hedged forecast US dollar exposures for 2008 at an average forward rate of \$2.03:£1. These forward contracts have been fair valued based at a closing spot rate of \$1.99:£1, this resulted in an unrealised loss of £0.5 million at the balance sheet date.

Cost of sales and operating expenses

Cost of sales reduced to 37.6 per cent from 39.4 per cent in 2006. This reduction reflects the improvement achieved through the restructuring and outsourcing actions undertaken in the Communications businesses and the benefit of the increased efficiencies achieved as new products were produced in higher volume. The result was a 1.8 percentage point improvement in gross profit margin.

Product development expense reduced from £53.7 million in 2006 to £44.5 million in 2007, or a fall from 20.7 per cent to 18.8 per cent of sales respectively. The second half year run rate was £21.7 million for the Group. The lower expense was achieved by the reduction in the number of sites and through increases in engineering efficiency. The increase in engineering efficiency enabled an increase in on-time delivery of engineering projects. There was a significant investment in new product development, with an increased emphasis on Wireless test products.

Other operating expenses reduced from £94.9 million in 2006 to £77.8 million in 2007, being 36.7 per cent of sales and 32.8 per cent of sales respectively. The second half year operating expense run rate was £37.2 million, or 30.3 per cent of sales. The annual reduction includes the lower expense for share-based payment of £2.7 million and the cost reduction benefit arising from the termination of the Company's reporting obligations under the US Securities Exchange Act.

Exceptional items

The cost containment actions were identified in the Operating and Strategic Reviews. The actions were to eliminate duplicated activities and processes, consolidate manufacturing and business sites and to reduce general overheads.

In total exceptional items of £14.4 million have been charged in 2007 (2006: £8.8 million). This compares with the estimate of £15 million made at the time of the Operating Review. Of this overall cost £5.3 million relates to severance and other reorganisation costs associated with the outsourcing of manufacturing, £3.1 million was charged for asset write-downs in relation to redundant property, plant and equipment as sites were vacated, inventory write-downs of £2.4 million in respect of excess and obsolete inventory, identified as a result of the outsourcing activities, and £3.6 million was in respect of onerous lease obligations on empty properties, net of releases, created by vacated manufacturing facilities and the consolidation of functions. Progress has been made in reducing the obligations on certain empty properties where lease surrender or termination have been negotiated.

Goodwill impairment

There was no goodwill impairment in 2007. In 2006 £19.1 million was charged in respect of the Service Assurance division, this was included in the continuing business results. A further £27.7 million was charged in respect of discontinued businesses.

Intangible amortisation

Operating expense for continuing businesses includes a charge of £0.9 million for the amortisation of intangibles in 2007, compared to £0.5 million in 2006.

Share-based payment

The charge for share-based payment for 2007 was £2.5 million compared to £5.2 million for 2006. The reduction reflects the lower number of share incentives granted in 2007 and the lapsing of prior year awards.

The charge for 2008 is expected to be about £1.5 million.

Net finance income

Net finance income was £6.7 million compared with £6.0 million for 2006. 2006 excludes the exceptional cost associated with the repayment of loan notes of £8.8 million. Net finance income includes £0.9 million in respect of the expected return on pension scheme assets less the interest charge on the unwinding of liabilities (2006: £2.0 million).

The surplus cash is held on deposit earning current market rates of interest.

Profit before tax for continuing operations

Reported profit before tax for continuing operations was £17.8 million compared with a loss of £22.3 million for 2006.

Adjusted profit before tax is set out below:

£ million	**2007**	2006
Reported profit/(loss) before tax	**17.8**	(22.3)
Exceptional items	**14.4**	8.8
Goodwill impairment	**-**	19.1
Cost associated with the repayment of loan notes	**-**	8.8
Adjusted profit before tax	**32.2**	14.4

Tax

There was a net tax credit in 2007 of £7.7 million (2006: £0.4 million charge), which includes a £5.3 million credit in respect of prior years and a tax credit on exceptional items of £3.9 million. This gives an effective current year rate of 4.7 per cent on the adjusted profit before tax. A very low effective tax rate continues to be incurred due to the carry forward of tax losses. Included in the above, a deferred tax asset of £10.5 million has been recognised. Under current conditions it is expected that the low effective tax rates will continue for the foreseeable future.

Discontinued operations

2007 discontinued operations relate to the loss making SwissQual business. The disposal was completed on 5 July 2007 for cash proceeds for $3.0 million (£1.5 million). A loss on disposal of £4.2 million was recorded. In the period SwissQual reported revenue of £3.6 million and an operating loss of £3.4 million.

Discontinued operations in 2006 also include the HellermannTyton Division sold in February 2006.

Earnings per share

Basic earnings per share for the Group was 2.05 pence compared with 11.75 pence for 2006. Earnings in 2006 include the profit on the sale of the HellermannTyton Division of £166.1 million.

Adjusted earnings per share for continuing operations, being before exceptional items, goodwill impairment, costs associated with repayment of loan notes, net of any related tax and prior year tax, was 3.57 pence compared with 1.48 pence for 2006.

Weighted average Ordinary share capital was 859.8 million shares compared with 925.9 million for 2006, significantly reduced by the on-market share repurchase programme during 2007.

Financing and cash flow

Cash generation was strong in 2007. Cash and cash equivalents were £79.0 million at 31 December 2007 compared with £97.6 million at 31 December 2006, and this was after an outflow of £66.3 million for the share repurchase programme in 2007, with £0.5 million of share repurchases in 2007 being settled in 2008. Cash flows improved throughout 2007 as the results of the cost containment actions started to take effect. The Group continues to be debt free.

Operating activities generated £49.8 million in the year compared with a cash outflow in 2006 of £43.0 million. In 2006 the Company made a payment of £47.0 million to fund the UK defined benefit pension fund.

Free cash flow is set out below:

£ million	**2007**	2006
Reported operating cash flow before pension	**49.8**	4.0
Net interest income	**5.6**	4.1
Net capital expenditure	**(5.2)**	(14.5)
Free cash flow	**50.2**	(6.4)

Tax payments are low as the Group benefits from tax losses carried forward and in 2007 there was a net tax refund of £6.0 million compared with a net payment of £2.3 million in 2006. In addition, in 2007 tax obligations of £6.8 million due in respect of the sale of the HellermannTyton Division were settled.

Net capital expenditure for the Group was reduced to £5.2 million of cash outflow in 2007 (2006: £14.5 million). This was well below the depreciation charge of £9.5 million. With the outsourcing of production there is a lower requirement to make new capital investment, in addition the reduction in the number of sites and increased engineering efficiency has also had a beneficial impact.

Net proceeds of £0.6 million were received from the sale of SwissQual and £5.5 million of deferred consideration was incurred in respect of acquisitions made in 2006.

Pension fund

The accounting valuation of the UK defined benefit pension plans at the end of 2007 was based on the results of the triennial valuation of the plans at 1 April 2006. This valuation was completed during 2007. The surplus in the plans rose from £2.4 million at 31 December 2006 to £7.7 million at

31 December 2007 with the improvement in funding being a result of the rising equity markets and a change to the assumptions underlying the calculation of the liabilities, namely the rate of return on corporate bonds. The accounting rules however limit the surplus that may be recognised by the Company and, due to this, the surplus recognised on the balance sheet at 31 December 2007 was restricted to £3.0 million. The Group has also reported a liability of £0.7 million in respect of the UK unfunded plan.

Capital structure, on-market share repurchase programme and dividend

In 2007 £66.8 million of cash was returned to shareholders, representing 103.4 million Ordinary shares. Including monies returned since May 2006, the total return of cash to shareholders to 31 December 2007 was £108.7 million, representing 193.7 million Ordinary shares.

The share repurchase programme has continued into 2008 and has now returned £75.0 million of cash in total since the start of 2007.

At the end of February 2008, there were 777.6 million Ordinary shares in issue. This excludes treasury shares.

Dividend policy is under review by the Board, however no dividend is being paid in respect of 2007.

US listing and SEC registration

On 5 June 2007 Spirent filed an application to delist its American Depositary Shares (“ADS”) from the New York Stock Exchange and to terminate the US registration of its ADS and Ordinary shares from the US Securities and Exchange Commission. The Company’s US Securities Exchange Act reporting obligations have now ceased and the termination of registration occurred after the statutory 90 day review period.

Consolidated income statement

Year to 31 December	Notes		**2007 £ million**				2006 (restated)[1] £ million
		Before exceptional items	**Exceptional items** note 5	**Total**	Before exceptional items and goodwill impairment	Exceptional items and goodwill impairment note 5	Total
Continuing operations							
Revenue	2,3	**237.0**	**-**	**237.0**	258.9	-	258.9
Cost of sales		**(89.2)**	**(2.4)**	**(91.6)**	(101.9)	-	(101.9)
Gross profit		**147.8**	**(2.4)**	**145.4**	157.0	-	157.0
Product development		**(44.5)**	**-**	**(44.5)**	(53.7)	-	(53.7)
Selling and distribution		**(47.1)**	**-**	**(47.1)**	(55.8)	-	(55.8)
Administration		**(30.7)**	**(12.0)**	**(42.7)**	(39.1)	(27.9)	(67.0)
Operating profit/(loss)		**25.5**	**(14.4)**	**11.1**	8.4	(27.9)	(19.5)
Finance income		**7.0**	**-**	**7.0**	7.6	-	7.6
Finance costs		**(0.3)**	**-**	**(0.3)**	(1.6)	-	(1.6)
Costs associated with the repayment of loan notes		**-**	**-**	**-**	-	(8.8)	(8.8)
Profit/(loss) before tax		**32.2**	**(14.4)**	**17.8**	14.4	(36.7)	(22.3)
Tax		**3.8**	**3.9**	**7.7**	(0.4)	-	(0.4)
Profit/(loss) for the year from continuing operations after tax		**36.0**	**(10.5)**	**25.5**	14.0	(36.7)	(22.7)
Discontinued operations	4						
Profit/(loss) for the year from discontinued operations		**(3.7)**	**(4.2)**	**(7.9)**	2.3	129.2	131.5
Profit/(loss) for the year attributable to equity holders of parent		**32.3**	**(14.7)**	**17.6**	16.3	92.5	108.8
Earnings/(loss) per share (pence)	6						
Basic earnings				**2.05**			11.75
Basic earnings/(loss) from continuing operations				**2.97**			(2.45)
Diluted earnings				**2.03**			11.75
Diluted earnings/(loss) from continuing operations				**2.94**			(2.45)

Note
1 2006 has been restated to reflect the presentation of SwissQual as a discontinued operation, the reclassification of product development out of cost of sales and the reclassification of costs of customer service operations to cost of sales from selling and distribution expense.

Consolidated statement of recognised income and expense

£ million	Year to 31 December 2007	2006
Income and expense recognised directly in equity		
Gains/(losses) on cash flow hedges taken to equity	**(0.5)**	-
Exchange differences on retranslation of foreign operations	**(0.6)**	(10.3)
Actuarial gains/(losses) on defined benefit pension plans	**(0.6)**	1.6
Deferred tax liability on pension plans	**(0.8)**	-
	(2.5)	(8.7)
Transfers to income statement		
Exchange gain transferred to profit on sale	**-**	(1.3)
Gains on cash flow hedges	**-**	(1.9)
Net income/(expense) recognised directly in equity	**(2.5)**	(11.9)
Profit for the year	**17.6**	108.8
Total recognised income and expense for the year attributable to equity holders of parent	**15.1**	96.9

Consolidated balance sheet

£ million	At 31 December 2007	2006
Assets		
Non-current assets		
Intangible assets	**58.6**	63.3
Property, plant and equipment	**16.2**	25.3
Trade and other receivables	**1.4**	1.4
Cash on deposit	**3.7**	8.5
Defined benefit pension plan surplus	**3.0**	2.4
Deferred tax	**10.5**	1.2
	93.4	102.1
Current assets		
Inventories	**17.8**	25.4
Trade and other receivables	**50.2**	63.8
Derivative financial instruments	**-**	0.1
Cash and cash equivalents	**79.0**	97.6
	147.0	186.9
Total assets	**240.4**	289.0
Liabilities		
Current liabilities		
Trade and other payables	**(54.6)**	(61.8)
Current tax	**(32.7)**	(30.5)
Derivative financial instruments	**(0.5)**	-
Provisions and other liabilities	**(5.1)**	(5.9)
	(92.9)	(98.2)
Non-current liabilities		
Trade and other payables	**(1.1)**	(0.5)
Defined benefit pension plan deficit	**(0.7)**	(1.4)
Provisions and other liabilities	**(7.6)**	(6.1)
	(9.4)	(8.0)
Total liabilities	**(102.3)**	(106.2)
Net assets	**138.1**	182.8
Capital and reserves		
Share capital	**28.0**	32.5
Share premium account	**15.5**	10.6
Capital redemption reserve	**4.8**	-
Capital reserve	**3.6**	5.5
Translation reserve	**(6.7)**	(6.1)
Net unrealised gains and losses	**(0.5)**	-
Retained earnings	**93.4**	140.3
Total equity	**138.1**	182.8

Consolidated cash flow statement

£ million	Note	Year to 31 December 2007	2006
Cash flows from operating activities			
Cash flows from operations	7	**43.8**	(40.7)
Tax received/(paid)		**6.0**	(2.3)
Net cash inflow/(outflow) from operating activities		**49.8**	(43.0)
Cash flows from investing activities			
Interest received		**5.7**	5.5
Transfer from/(to) long term deposit		**4.8**	(8.5)
Disposal of operations		**0.6**	278.2
Tax paid on the disposal of operations		**(6.8)**	-
Purchase of intangible assets		**(0.3)**	(0.8)
Purchase of property, plant and equipment		**(5.1)**	(14.1)
Proceeds from the sale of property, plant and equipment		**0.2**	0.4
Acquisition of subsidiaries		**(5.5)**	(44.4)
Net cash from/(used in) investing activities		**(6.4)**	216.3
Cash flows from financing activities			
Interest paid		**(0.1)**	(1.4)
Costs associated with the repayment of loan notes		**-**	(9.5)
Proceeds from the issue of share capital and employee share ownership trust		**4.4**	2.4
On-market share repurchase		**(66.3)**	(41.9)
New borrowings		**-**	23.0
Repayments of borrowings		**-**	(95.7)
Net cash used in financing activities		**(62.0)**	(123.1)
Net increase/(decrease) in cash and cash equivalents		**(18.6)**	50.2
Cash and cash equivalents at the beginning of the year		**97.6**	48.8
Effect of foreign exchange rate changes		**-**	(1.4)
Cash and cash equivalents at the end of the year		**79.0**	97.6

Notes

1 Financial information presented

The financial information contained in this document does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

As required by the European Union's IAS Regulation and the Companies Act 1985 the Group has prepared its consolidated financial statements for the year to 31 December 2007 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The comparative financial information is based on the statutory accounts to 31 December 2006 apart from as stated below. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

The Group has reclassified product development costs out of cost of sales and is disclosing these costs separately in the income statement. The change has been made to improve the transparency of the Group's results.

The costs of customer service operations have been reclassified from selling and distribution expense to cost of sales. This change reflects the increasing proportion of revenues derived from the provision of value added services, and the Board has concluded that this classification is a fairer representation of the commercial operations and the gross profit of the Group.

Comparatives have been restated accordingly. In addition comparative numbers have been restated to reflect the presentation of SwissQual as a discontinued operation.

2 Segmental analysis

£ million	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total
2007						
Revenue	**169.3**	**34.3**	**203.6**	**33.4**	**-**	**237.0**
Operating profit/(loss) before exceptional items	**22.3**	**3.3**	**25.6**	**3.8**	**(3.9)**	**25.5**
Exceptional items	**(10.0)**	**(2.6)**	**(12.6)**	**-**	**(1.8)**	**(14.4)**
Operating profit/(loss)	**12.3**	**0.7**	**13.0**	**3.8**	**(5.7)**	**11.1**
Finance income						**7.0**
Finance costs						**(0.3)**
Profit before tax						**17.8**
Tax						**3.8**
Tax on exceptional items						**3.9**
Profit after tax for the year						**25.5**
Other information						
Product development	**36.9**	**5.3**	**42.2**	**2.3**	**-**	**44.5**
Share-based payment	**1.7**	**0.5**	**2.2**	**0.1**	**0.2**	**2.5**
Intangible amortisation	**0.9**	**-**	**0.9**	**-**	**-**	**0.9**

2 Segmental analysis continued

£ million	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations (restated) Total
2006						
Revenue	179.5	43.6	223.1	35.8	-	258.9
Operating profit/(loss) before exceptional items and goodwill impairment	10.6	(1.1)	9.5	4.7	(5.8)	8.4
Exceptional items	(3.8)	(5.3)	(9.1)	-	0.3	(8.8)
Goodwill impairment	-	(19.1)	(19.1)	-	-	(19.1)
Operating profit/(loss)	6.8	(25.5)	(18.7)	4.7	(5.5)	(19.5)
Finance income						7.6
Finance costs						(1.6)
Costs associated with the repayment of loan notes						(8.8)
Loss before tax						(22.3)
Tax						(0.4)
Loss after tax for the year						(22.7)
Other information						
Product development	41.9	9.5	51.4	2.3	-	53.7
Share-based payment	3.6	1.2	4.8	0.1	0.3	5.2
Intangible amortisation	0.5	-	0.5	-	-	0.5

Revenue and operating profit for discontinued operations are disclosed in note 4.

3 Geographical analysis

£ million	**2007**	2006 (restated)
Revenue by market		
Continuing operations		
Europe	**43.7**	43.7
North America	**132.2**	152.1
Asia Pacific, Rest of Americas, Africa	**61.1**	63.1
	237.0	258.9
Revenue by source		
Continuing operations		
Europe	**64.2**	63.8
North America	**151.8**	175.9
Asia Pacific, Rest of Americas, Africa	**21.0**	19.2
	237.0	258.9

4 Discontinued operations

£ million	**2007**	2006 (restated)
Revenue	**3.6**	40.7
Operating loss	**(3.4)**	(24.8)
Share of profit of associates	**-**	0.1
Profit/(loss) on the disposal of operations	**(4.2)**	166.1
Net finance costs	**-**	(0.1)
Profit/(loss) before tax	**(7.6)**	141.3
Tax	**(0.3)**	(0.6)
Tax on the disposal of operations	**-**	(9.2)
Profit/loss for the year	**(7.9)**	131.5

Discontinued operations relate to the HellermannTyton Division, which was sold on 15 February 2006, and SwissQual, which was sold on 5 July 2007. In 2006 expenses include goodwill impairment of £27.7 million in respect of SwissQual.

5 Exceptional items and goodwill impairment

£ million	**2007**	2006
Goodwill impairment	**-**	19.1
Inventory provisions	**2.4**	-
Restructuring costs	**12.0**	9.1
EGM costs	**-**	2.0
Curtailment and settlement gain on defined benefit pension plan	**-**	(1.7)
Release of provision for prior year disposals	**-**	(0.6)
	14.4	27.9

6 Earnings/(loss) per share

£ million	**Continuing operations**	**Discontinued operations**	**Total operations**
2007			
Profit/(loss) for the year attributable to equity holders of parent	**25.5**	**(7.9)**	**17.6**
Exceptional items	**14.4**	**-**	**14.4**
Loss on the disposal of operations	**-**	**4.2**	**4.2**
Tax on exceptional items	**(3.9)**	**-**	**(3.9)**
Prior year tax credit	**(5.3)**	**-**	**(5.3)**
Adjusted earnings attributable to equity holders of parent	**30.7**	**(3.7)**	**27.0**
2006 restated			
Profit/(loss) for the year attributable to equity holders of parent	(22.7)	131.5	108.8
Exceptional items	8.8	-	8.8
Goodwill impairment	19.1	27.7	46.8
Profit on the disposal of operations	-	(156.9)	(156.9)
Costs associated with the repayment of loan notes	8.8	-	8.8
Prior year tax credit	(0.3)	-	(0.3)
Adjusted earnings attributable to equity holders of parent	13.7	2.3	16.0

	2007	2006 (restated)
Earnings/(loss) per share (pence)		
Basic	**2.05**	11.75
Basic from continuing operations	**2.97**	(2.45)
Diluted	**2.03**	11.75
Diluted from continuing operations	**2.94**	(2.45)
Adjusted basic	**3.14**	1.73
Adjusted basic from continuing operations	**3.57**	1.48
Weighted average number of shares in issue (million)		
Basic and adjusted	**859.8**	925.9
Dilutive potential of employee share options	**8.8**	3.8
Weighted average number of shares in issue - diluted	**868.6**	929.7

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

£ million	**2007**	2006 (restated)
Continuing operations		
Profit/(loss) before tax	**17.8**	(22.3)
Adjustments for:		
Finance income	**(7.0)**	(7.6)
Finance costs	**0.3**	1.6
Costs associated with the repayment of loan notes	**-**	8.8
Goodwill impairment	**-**	19.1
Intangible asset amortisation	**0.9**	0.5
Depreciation of property, plant and equipment	**9.3**	11.5
Loss on the disposal of property, plant and equipment	**0.8**	0.6
Impairment of property, plant and equipment	**3.1**	0.8
Share-based payment	**2.5**	5.2
Settlement and curtailment of pension fund	**(0.8)**	(1.7)
Changes in working capital:		
Deferred income released	**(0.4)**	(0.7)
Decrease/(increase) in receivables	**7.7**	(4.8)
Decrease in inventories	**6.1**	0.2
Increase/(decrease) in payables	**4.9**	(2.9)
Decrease in provisions	**(0.9)**	(1.0)
Defined benefit pension fund	**0.5**	(47.0)
Cash flows from continuing operations	**44.8**	(39.7)
Discontinued operations		
Profit/(loss) before tax	**(7.6)**	141.3
Adjustments for:		
Share of profit of associates	**-**	(0.1)
(Profit)/loss on the sale of discontinued operations	**4.2**	(166.1)
Finance costs	**-**	0.1
Intangible asset amortisation	**0.6**	1.1
Goodwill impairment	**-**	27.7
Depreciation of property, plant and equipment	**0.2**	1.9
Profit on the disposal of property, plant and equipment	**-**	(0.1)
Share-based payment	**-**	0.4
Changes in working capital:		
Deferred income released	**-**	(0.6)
Decrease/(increase) in receivables	**3.0**	(4.2)
Increase in inventories	**(0.2)**	(0.1)
Decrease in payables	**(1.2)**	(2.3)
Cash flows from discontinued operations	**(1.0)**	(1.0)
Cash flows from operating activities	**43.8**	(40.7)