INSPIRED INNOVATION

Spirent plc Annual Report 2005

Spirent 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.

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Spirent plc is a public limited company registered in England. Its Ordinary shares are traded on the London Stock Exchange and, in the form of American Depositary Shares, on the New York Stock Exchange.

This report is the Annual Report of Spirent plc for the year to 31 December 2005 and complies with UK regulations. The Annual Report is available on Spirent's website at www.spirent.com.

A separate Annual Report on Form 20-F is being prepared to meet US regulations and will be filed with the US Securities and Exchange Commission by 30 June 2006.

Our business at a glance

WE HELP THE WORLD COMMUNICATE FASTER, BETTER AND MORE EFFICIENTLY

PERFORMANCE ANALYSIS

Spirent's performance analysis solutions include instruments and systems that measure and analyse the performance of network equipment, particularly the devices that route voice and data messages to their destination. Our solutions accelerate the profitable development and deployment of network equipment and services by emulating real-world conditions in the lab and assuring end-to-end performance of large-scale networks. These solutions lower development costs and minimise risks while improving interoperability and scalability.

SERVICE ASSURANCE

Our service assurance solutions include remote test, fault and service management systems that help service providers diagnose problems and determine the action required to fix them. Spirent's service assurance solutions make sure revenue-generating services are provided or repaired efficiently and effectively. Customers using Spirent's service assurance solutions benefit through reduced operating costs, improved operations performance metrics and improved customer experience.

SYSTEMS

PG Drives Technology is a leading supplier of sophisticated electronic control systems for specialist electrically powered vehicles in the mobility and industrial markets. These include medical vehicles such as powered wheelchairs and mobility scooters as well as small industrial vehicles such as floor cleaning vehicles and aerial access platforms. Our systems allow the user to control the direction and speed of the vehicle as well as other vehicle functions, including seating or platform position, lights, turn indicators and vehicle diagnostics.

Summary of results

£ million	2005	2004	Change %
Continuing Group			
Revenue	259.3	287.2	(10)
Operating profit[1]	11.5	22.9	(50)
Adjusted profit before tax[2]	4.9	15.4	(68)
Reported (loss)/profit before tax	(41.7)	11.2	–
Basic (loss)/earnings per share (pence)	(3.97)	0.98	–
Total Group			
Adjusted earnings per share[3] (pence)	2.30	3.14	(27)

The HellermannTyton Division has been treated as a discontinued operation in accordance with International Financial Reporting Standards. The table above and the text below relate to continuing operations only, unless otherwise stated.

Strategic progress

- The disposal of the HellermannTyton Division for £288.9 million, announced on 15 December 2005, was completed on 15 February 2006. Proceeds are being used to repay debt, substantially fund the pension scheme, buy back up to £50 million of shares and make selective acquisitions.
- We have transformed Spirent into a focused communications company with a significantly improved financial position.
- The acquisitions of SwissQual and QuadTex in 2006 will enhance Spirent's market presence and enable our entry into new and growing markets.

Overview of results

- We took firm actions to address the losses in Service Assurance that negatively impacted the first half, which resulted in recovery in the second half.

Performance Analysis

- Overall revenues and operating profit[1] were slightly ahead of 2004.
- Activity levels in the fourth quarter recovered somewhat following a weaker third quarter.
- Our wireless activities had a record year, with sales growing by 17 per cent.
- Launch of the new unified platform, Spirent TestCenter™, has resulted in competitive wins with new and existing customers in the second half. Further progress will be made through the addition of greater functionality and automation over the next 18 months.

Service Assurance

- The division stabilised in the second half reporting a significantly reduced operating loss[1] of £0.6 million (first half operating loss[1] £9.0 million).
- We are concentrating on the development of new solutions for triple play and advanced business services.

Systems

- The group grew revenue by 20 per cent to £37.7 million and operating profit[1] by 29 per cent to £4.4 million.

Notes
1 Before material one-time items, goodwill impairment and share-based payment.
2 Before material one-time items, goodwill impairment, share-based payment, profit on the disposal of operations and costs associated with the part prepayment of loan notes.
3 Adjusted earnings per share is based on adjusted earnings as set out in note 13 to the consolidated financial statements.

Chairman's statement

In 2005 Spirent was transformed into a focused communications business.

John Weston CBE
Chairman

In 2005 Spirent was transformed into a focused communications business. In the first half of the year, we carried out major restructuring within the Service Assurance division. In December we announced the proposed disposal of the HellermannTyton Division and our share of its associated companies to funds controlled by Doughty Hanson & Co Limited. We believe the consideration of approximately £288.9 million, at a cash free/debt free equivalent value represents fair value for the business and reflects its strong performance under our management. As a result of this sale, the Group's financial position has been significantly strengthened.

Following approval by shareholders at an Extraordinary General Meeting held on 24 January 2006, the disposal was completed on 15 February 2006. As previously indicated, the proceeds have been used to repay the outstanding loan notes of £71.5 million together with the make whole amount of £7.4 million and associated swap break fees of £2.3 million. In addition, a special contribution of £47.0 million has been made to substantially fund the UK final salary pension scheme and the Board intends to return up to £50 million to shareholders through an on-market share repurchase programme over the coming year.

To reflect the transformation of the Group, a proposal will be made at the forthcoming Annual General Meeting to rename Spirent plc as Spirent Communications plc.

James Wyness will retire from the Board with effect from the date of the 2006 Annual General Meeting and we would like to thank him for his valuable contribution during his long service as a non-executive director. Marcus Beresford will assume the responsibilities of the senior independent director on Mr Wyness' retirement.

I would like to take this opportunity to thank all of our employees for their contribution during this year of transformation. We wish the employees of HellermannTyton success under their new ownership and thank them for their contribution over many years.

Operating profit/(loss) and return on sales are used by the Group as key measures of operating performance and are stated in the text before the effect of material one-time items, goodwill impairment and share-based payment so that period-on-period comparisons are not distorted.

The HellermannTyton Division for the purposes of these results has been presented as a discontinued operation and our financial results are presented and discussed for the continuing Spirent Group, unless otherwise stated.

Chief Executive's overview

Since joining Spirent as Chief Executive I have set out to transform the Group into a focused communications company. During 2005 we have been busy reshaping and restructuring the business culminating in the disposal of HellermannTyton, as well as starting in 2006 to make selective acquisitions.

Anders Gustafsson
Chief Executive

Introduction and strategy

Since joining Spirent as Chief Executive I have set out to transform the Group into a focused communications company. During 2005 we have been busy reshaping and restructuring the business culminating in the disposal of HellermannTyton, as well as starting in 2006 to make selective acquisitions.

The decision to focus on communications reflects our view that the sector offers Spirent the best top and bottom line growth opportunities in the mid and long term, leveraging our leading market positions in our key product segments.

We are therefore continuing to invest in organic growth opportunities through research and development and sales and marketing activities and the launch of new products such as the Spirent TestCenter™.

We will also continue to make selective acquisitions. These acquisitions will be a good strategic fit with our existing activities as well as expanding our customer base, broadening our geographic coverage or enabling entry into new markets. The principal strategic drivers for acquisition are to expand our market position and our competitive offering into markets where we see strong growth opportunities. This will ensure that we remain a core supplier to our customers, whilst at the same time accelerating our development plans to keep ahead of competition.

We will shortly establish our operational headquarters in Sunnyvale, California, in the centre of Silicon Valley where we have the highest concentration of customers. I will relocate in the spring, but we will maintain a small corporate headquarters in the UK.

Results overview

The Group's 2005 results were principally affected by the operating losses incurred by the Service Assurance division, which were described in detail at the time of the interim results in August 2005. These losses were substantially reduced in the second half as a result of the actions we took in the first half.

Material one-time items of £8.4 million have been expensed in the year. Of this, £3.9 million is in relation to restructuring actions in the Service Assurance division and £1.4 million for inventory write-downs again in this division. Other material one-time items of £3.1 million have been taken in relation to supply chain initiatives and other restructuring actions within the Group. This was reported in our interim results.

In the first half we took a goodwill impairment charge of £37.0 million due to the drop in activity in the Service Assurance division.

Performance Analysis

Revenue and operating profit in the Performance Analysis division for 2005 were slightly up on 2004. In this division several of our end markets were weaker than had been anticipated earlier in the year, particularly so in the third quarter, although activity in the fourth quarter did recover somewhat. In addition, we are in a product transition phase as we progressively introduce new and improved products and solutions. Encouragingly, sales to some of our largest customers in the equipment manufacturing sector grew by more than 30 per cent and the division's wireless and position location test activities experienced their best year ever.

Service Assurance

Revenue in the Service Assurance division was down 43 per cent compared with 2004 and as a result the division reported an operating loss of £9.6 million of which £9.0 million was incurred in the first half. In the first quarter of 2005 our major customers, the US service providers, had delayed the release of their full

capital spending budgets partly due to merger activity, with a larger proportion of these budgets shifting towards next-generation rather than existing networks. As these trends became apparent we undertook significant restructuring actions in the division, including changing senior management, reducing headcount by around 260 (approximately 40 per cent of the total workforce), which resulted in a much reduced loss for the second half of £0.6 million. During 2005 we have refocused our product development efforts to generate new solutions for triple play and advanced business services; this will continue through 2006.

Systems

Our Systems group grew revenue and operating profit by 20 per cent and 29 per cent respectively, benefiting from the launch of two new wheelchair control systems.

Acquisitions in 2006

On 23 January 2006, we announced the acquisition of SwissQual Holding AG ("SwissQual") for an initial consideration of £27.7 million paid in cash, with up to a further £12.4 million payable depending on revenue growth and various technical and financial milestones. SwissQual provides world class products and talent in the development of voice and video solutions that analyse, recognise and improve the quality of experience for users of wireless applications and services.

We also announced on 13 February 2006 the acquisition of QuadTex Systems, Inc ("QuadTex") for an initial consideration of £4.2 million with a further consideration of up to £0.9 million. QuadTex is a fast growing US based provider of innovative and leading test tools for internet protocol multimedia subsystems ("IMS") and voice over IP ("VoIP") testing.

SwissQual and QuadTex will enhance Spirent's product offerings, capabilities and customer base in the wireless, triple play (voice, video, data) and IMS markets.

Outlook

The disposal of the HellermannTyton Division has transformed Spirent into a focused communications company, as well as having significantly improved our financial position. Spirent is well placed to grow organically from its established market-leading positions. We also have the potential to expand through selective acquisitions, such as SwissQual and QuadTex, announced in 2006.

The variable market conditions seen in 2005 have continued through the beginning of the first quarter, which is usually our quietest. As 2006 progresses, the year will be a period of product transition as the increased capability of our new products and solutions will enable us to gain market share. As a result, we anticipate that the Group's performance for 2006 will show recovery over last year, with a more pronounced seasonal increase in activity in the second half.

Operating profit/(loss) and return on sales are used by the Group as key measures of operating performance and are stated in the text before the effect of material one-time items, goodwill impairment and share-based payment so that period-on-period comparisons are not distorted.

The HellermannTyton Division for the purposes of these results has been presented as a discontinued operation and our financial results are presented and discussed for the continuing Spirent Group, unless otherwise stated.

Operating review

Communications

£ million	2005	2004	Change %
Revenue			
Performance Analysis	178.8	176.8	1
Service Assurance	42.8	74.7	(43)
Communications group	221.6	251.5	(12)
Operating profit/(loss)			
Performance Analysis	22.0	21.7	1
Service Assurance	(9.6)	2.5	–
Communications group	12.4	24.2	(49)
Return on sales (%)			
Performance Analysis	12.3	12.3	
Service Assurance	–	3.3	
Communications group	5.6	9.6	

Our Communications group, Spirent Communications, works behind the scenes to help the world communicate faster, better and more efficiently. The world's leading communications companies use Spirent solutions to conduct performance analysis tests in labs on their latest technologies. As new communications services are introduced Spirent provides the tools to facilitate troubleshooting and improve the quality of these new networks and services.

Revenue and operating profit in the Performance Analysis division was slightly up. In this division we experienced variability in terms of end customer demand principally in the third quarter and in the broadband test activities, with the division's wireless and position location test activities experiencing good growth.

In 2005 the operating loss in the Service Assurance division, although substantially reduced in the second half year, affected the performance of the Communications group as a whole.

Indeed, revenue in the Service Assurance division was down 43 per cent compared with 2004 and the division reported an operating loss of £9.6 million. The reduced revenues were principally a result of the decline in leased line monitoring and the delay in installation of next-generation assurance solutions. Firm and significant actions were taken in this division in the first half year to reduce the rate of loss.

Performance Analysis

Our Performance Analysis division addresses the needs of service providers, equipment manufacturers, large enterprises and government to test the equipment developed and deployed for telecommunications networks. Our solutions test the performance, functionality and conformance of telecoms devices. We provide effective and efficient test and measurement capabilities to meet the needs of voice, video, data and mobile testing to reduce risk in deploying new products in the next-generation fixed line and wireless networks. We achieve this by simulating real-world conditions in the laboratories of our customers, subjecting the equipment under test to impairment and stress to establish their true capability. The increasing scale and complexity of devices combined with the necessity to increase the efficiency of our customers' engineers, drives demand for more innovative test solutions. Our emphasis on customer support and professional services are important differentiators, giving Spirent Communications a leading reputation in the market and distinct competitive advantage.

Revenue and operating profit in the Performance Analysis division grew by 1 per cent in 2005. We invested £42.1 million, representing 24 per cent of sales (2004 £43.2 million and 24 per cent), into product development to increase the capabilities of our existing products and develop innovative products for launch in 2005 and 2006.

The market proved to be volatile and highly competitive during 2005. At the interim stage we reported that market conditions were variable due to lower spending by the US government and certain US service providers. As expected the variable conditions continued through the second half year.

As announced in December, revenue for the third quarter was lower than previously expected, although this was partly offset by improved trading in the fourth quarter. We experienced slower demand in 2005 due to activity levels with US service providers being markedly lower, a result of the impact of merger activity in the sector, and the fact that other customers were absorbing the high levels of equipment they purchased in 2004. In addition there was a notable slowdown in the demand for ATM test equipment, whilst the US government also shifted its spending to other priorities. Finally, some major equipment manufacturers continue to work their way through strategic reviews, resulting in further cutting back of their research and development programmes.

In contrast, more favourable conditions were seen in the demand for: security testing across all market segments, high speed Ethernet devices, Gig E and 10 Gig E, requirements for increased scale and the emerging needs for triple play testing and video quality testing. The transition of access and metro networks to Ethernet, saw expansion in demand, particularly in the first half year. Wireless infrastructure testing has expanded from functional test to performance test, stimulating demand for our products. The emergence of IMS is also creating new opportunities for Spirent Communications.

Despite the strength of demand for Ethernet test equipment aggressive actions by competition resulted in some loss of market share in this sector. We have responded by establishing a major customer support team, to offer both additional services and to launch new leading-edge product solutions during the second half year. Internally we are progressing our initiatives to increase our own product development efficiency and effectiveness to improve our product realisation process. The launch of Spirent TestCenter™, our unified platform for Ethernet testing, has resulted in key competitive wins with major existing as well as new customers. Our development plans for Spirent TestCenter™ throughout the next 18 months will deliver increased functionality, scale, ease of use and automation, making it an industry leading platform.

Total revenues from our top 20 customers grew year-on-year and account for approximately 40 per cent of revenues; growth rates for a number of these accounts exceeded 30 per cent. No one customer represented more than 10 per cent of the total divisional revenues. Our revenues by customer type maintained a similar profile. Sales to network equipment manufacturers represented 49 per cent of the total; sales to service providers of 17 per cent; government accounted for 8 per cent (down compared to 2004). The remainder includes chip manufacturers and enterprise customers.

On a geographic basis there was growth in revenue in Europe for all test solutions, but notably for VoIP, web applications and wireless handset test systems. The US market was flat, for the reasons described above. Activity in the Asia Pacific region grew, building on a remarkable growth rate, particularly in China in 2004. We maintained revenue levels in Japan, despite difficult market conditions. We enjoyed strong growth in the Indian market.

Our wireless and positioning test products had a record year and sales now represent 27 per cent of the division's turnover. All product lines achieved strong growth: CDMA, W-CDMA and GPS. We gained market share in the important W-CDMA performance test market and made further strong progress in the sale of GPS emulation systems. Revenues grew in the most important markets in Asia, namely China, Korea and Japan and we also made good progress in Europe. We have established and opened wireless service centres in China, Korea, Japan and UK, offering higher levels of customer service and support. We specified, developed and launched a new HSDPA-capable network emulator for the W-CDMA market. Spirent's navigation and positioning test division has been selected to supply key test equipment to support the joint EU and European Space Agency Galileo project. Galileo is a major new global navigation system. Spirent is a leader in navigation and positioning test.

As we look forward into 2006 and the future, we feel increased confidence that our Performance Analysis solutions, in the form of new products such as Spirent TestCenter™ and our wireless handset test solutions, offer leading-edge test capabilities. We expect to see the benefit from market growth as our customers increase their investment in latest technologies. 2006 will be a period of product transition as the increased capability of our new products enable us to gain market share against a background of continued variable market conditions.

Service Assurance

Our Service Assurance division is focused on the development of network monitoring systems to enable telecom service providers to test and assure broadband leased line, DSL and IP services.

Our products include operations support systems software, remote test probes, network access systems and consulting and technical services. We also supply portable systems for fault identification and test of copper telephone lines in the field. Our systems help service providers reduce their operational costs by automating and centralising their network testing and service assurance processes, reducing the need for expensive engineering intervention and facilitating faster responses to customers' problems.

Our product solutions are based on a solid business case which offers carriers increased operational efficiencies whilst ensuring the quality of the voice, video and data services they provide.

The global telecoms sector continues to migrate from legacy networks towards IP-based networks and services, which will result in substantial new investment. The shift in carriers' capital expenditure has been slower than expected for service assurance solutions for the deployment of triple play services. We believe that the service assurance market opportunity will develop once the build out has taken place and these new services are launched.

Following a very tough first six months of 2005, when we reported a fall in the division's revenues of over half and an operating loss of £9.0 million, we achieved stability during the second half, having realised the substantial cost savings announced in the first half. We have developed a new strategy for growth to meet the needs of service providers for their new triple play networks and services. In addition, we have developed a new generation of handheld test equipment, which will enable field test engineers to access the power of the central office test and monitoring systems in the field.

The revenue profile by customer has remained comparable with 2004, with over half of the activity being with US Incumbent Local Exchange Carriers. The provision of leased line assurance products accounted for approximately 70 per cent of sales throughout the year, whilst the provision of service maintenance and support accounted for 15 per cent. The second half operating loss of £0.6 million reduced significantly from the first half loss

Operating review continued

of £9.0 million. This was due to higher revenue of £2.4 million, a gross profit improvement from a favourable product mix as we shipped software at higher margins in the second half, and the realisation of cost savings.

Sales opportunities for this division were constrained in 2005 partly as a result of the major acquisitions made by our customers, which has delayed the sourcing of service assurance solutions as they integrated their businesses. In the long term, this industry consolidation is likely to be beneficial as we aim to extend our embedded solutions and sell new solutions for triple play, field test and advanced business services into these enlarged customers. In addition, sales decreased due to a rapid shift in technology, whilst customers were not yet ready to install next-generation assurance solutions.

We were awarded our first triple play contract with TELUS, a major Canadian telecoms company, our first customer win outside the US for DSL and for advanced broadband service assurance solutions.

We have concentrated on developing new solutions for triple play and advanced business services. Whilst we remain cautious about the timing of the full scale deployment of advanced services by carriers worldwide, we believe that, due to the actions taken in 2005, we are well placed to serve the market requirements as they develop.

Systems

£ million	2005	2004	Change %
Revenue	37.7	31.3	20
Operating profit	4.4	3.4	29
Return on sales (%)	11.7	10.9	

Figures in the above table relate to PG Drives Technology only. Divested businesses contributed £4.4 million of revenue and £0.6 million of operating profit in 2004.

The Systems group comprises PG Drives Technology, a leading supplier of control systems for electrically powered medical and small industrial vehicles. Revenue and operating profit were up 20 per cent and 29 per cent, respectively. Return on sales increased to 11.7 per cent compared with 10.9 per cent in 2004.

During 2005 we launched two new wheelchair control systems: the VR2, low cost, mainstream wheelchair control system, and the R-net, a highly sophisticated wheelchair system, designed for the rehab market that can incorporate a wide variety of input and output devices to suit many different disabilities. Due to the competitiveness of these systems and of our established VSI, S-Drive and TRIO+ products, we were successful in increasing customer penetration in both the mobility and industrial vehicles markets during the year. This was achieved in spite of continuing constraints in US government healthcare funding for powered wheelchairs. We also moved some more of our production to China to reduce the logistical costs of supporting our activities in the Asia Pacific region. In 2006 we are planning further new product launches that will enable us to strengthen our position in both our addressed markets.

Discontinued operations

Network Products

£ million	2005	2004	Change %
Revenue	205.5	187.8	9
Operating profit	25.3	21.3	19
Return on sales (%)	12.3	11.3	

Discontinued operations relate to the HellermannTyton Division, comprising the Network Products group and the investment in associated companies.

We announced in December that we had entered into an agreement to dispose of the HellermannTyton Division to funds controlled by Doughty Hanson & Co Limited and this disposal was completed on 15 February 2006.

The Network Products group delivered a strong performance in 2005, with revenue of £205.5 million, up 9 per cent compared with 2004. Operating profit of £25.3 million was ahead by 19 per cent over 2004, and return on sales improved to 12.3 per cent from 11.3 per cent.

Organic growth was achieved in all regions and also through the associated company in Japan. The business continued to increase its automotive sales despite flattening production levels by the European car manufacturers, and to achieve strong growth through its initiatives in North America in automatic application systems, particularly in automotive and through the success of its pre-terminated structured cabling system, RapidNet.

Profit after tax from discontinued operations was £13.2 million after charging £6.7 million of costs related to the disposal of this business, compared with £17.3 million in 2004.

Operating profit/(loss) and return on sales are used by the Group as key measures of operating performance and are stated in the text before the effect of material one-time items, goodwill impairment and share-based payment so that period-on-period comparisons are not distorted.

The HellermannTyton Division for the purposes of these results has been presented as a discontinued operation and our financial results are presented and discussed for the continuing Spirent Group, unless otherwise stated.

Financial review

Operating profit was impacted by the weakness in the Service Assurance division in the first half, this division reported a loss of £9.0 million for that period. In the second half year the loss in this division was much reduced to £0.6 million, mainly as a result of the firm actions we took.

Eric Hutchinson
Finance Director

Reporting format

The format of the consolidated results for the Spirent Group has been significantly altered in this year's report as a result of two factors: first the conversion from UK Generally Accepted Accounting Practice ("UK GAAP") to International Financial Reporting Standards ("IFRS"); second, the reclassification of the results of the HellermannTyton Division comprising the Network Products group and the investment in associated companies to discontinued operations. The table below sets out revenue and operating profit for the total Group for 2005 and 2004.

£ million	First half 2005	Second half 2005	2005	2004	Change %
Revenue					
Continuing	126.5	132.8	259.3	287.2	(10)
Discontinued	103.9	101.6	205.5	187.8	9
Total	230.4	234.4	464.8	475.0	(2)
Operating profit					
Continuing	1.8	9.7	11.5	22.9	(50)
Discontinued	12.3	13.0	25.3	21.3	19
Total	14.1	22.7	36.8	44.2	(17)
Return on sales (%)					
Continuing	1.4	7.3	4.4	8.0	
Discontinued	11.8	12.8	12.3	11.3	
Total	6.1	9.7	7.9	9.3	

As our results are reported for the first time in accordance with IFRS, comparative data has been restated. All amounts referred to below relate to continuing operations unless otherwise stated.

Results

Reported revenue from continuing businesses for 2005 of £259.3 million was down 10 per cent and operating profit of £11.5 million was down 50 per cent compared with 2004. Return on sales for the continuing Group reduced to 4.4 per cent from 8.0 per cent in 2004.

Revenue by market grew in the Asia Pacific region by 4 per cent but was down in Europe and North America, having been affected by the performance of the Service Assurance division in both regions.

Operating profit was impacted by the weakness in the Service Assurance division in the first half, this division reported a loss of £9.0 million for that period. In the second half year the loss in this division was much reduced to £0.6 million, mainly as a result of the firm actions we took. Revenue and operating profit in the Performance Analysis division were up 1 per cent compared with 2004. Profitability in the Performance Analysis division was slightly lower in the third quarter of 2005 recovering somewhat in the fourth. The ongoing business in the Systems group reported good growth in 2005 over 2004.

Non-segmental costs, which are those that cannot be directly attributed to the operating segments were £5.3 million excluding material one-time items and share-based payment (2004 £5.3 million). These costs include the costs of our Board, costs in relation to our dual listings and compliance costs, including those in relation to the Sarbanes-Oxley Act of 2002.

Currency impact

In 2005 the effects of currency translation were less marked than in 2004. Currency translation increased revenue from continuing operations by £1.7 million, and increased profit before tax, goodwill impairment and material one-time items by £0.2 million.

Cost of sales and operating expenses

Product development spend for 2005 was £58.4 million, or 23 per cent of revenue (2004 £63.2 million and 22 per cent respectively). Of this amount £42.1 million (2004 £43.2 million) was spent in the Performance Analysis division and £14.0 million (2004 £17.2 million) in the Service Assurance division. Product development is included in the cost of sales on the income statement.

Gross profit decreased to £106.2 million, 41 per cent of sales from £122.0 million, 42 per cent of sales in 2004. This was a result of the decrease in revenue in Service Assurance, the low levels of activity in the first half resulting in unrecovered manufacturing overheads and to the relative increase in product development spending as a percentage of sales as noted above.

Financial review continued

Administration costs of £74.3 million for 2005 (2004 £34.0 million) include a goodwill impairment charge of £37.0 million made in the first half.

A share-based payment charge of £5.1 million has been reported in accordance with IFRS 2 'Share-based Payment' for the continuing Group. This charge represents the expense for share options and other share-based incentives calculated using an option pricing model. On transition to IFRS Spirent has applied IFRS 2 only to awards made after 7 November 2002 and not fully vested at 1 January 2005. We anticipate that the charge for 2006 will be in the region of £6 million based on current share price and volatility.

Material one-time items of £8.4 million have been charged in 2005 that relate to restructuring costs and inventory write-downs within our businesses.

Disposal of operations

A one-time profit on the disposal of operations of £3.9 million has been reported, this relates to the sale of certain non-trading companies.

Finance charges

Net interest expense for 2005 was £6.6 million, being £8.1 million cost less £1.5 million income, compared with £6.8 million in 2004 (excluding a make whole amount in 2004 of £0.5 million). Net interest includes a charge of £1.1 million in respect of the UK final salary pension scheme in accordance with IAS 19 'Employee Benefits'. The deficit in this scheme has been reduced by the special contribution of £47.0 million in February 2006 and as a result it is estimated that net interest income in respect of the pension scheme will be approximately £1.5 million for 2006. For 2006, and following repayment of the senior loan notes, Spirent expects to earn current market rates of interest on the net cash balance remaining from the disposal of the HellermannTyton Division.

(Loss)/profit before tax

Reported loss before tax was £41.7 million compared with a profit of £11.2 million for 2004.

Profit before tax, material one-time items, goodwill impairment, share-based payment, profit on disposal of operations and costs associated with the part prepayment of loan notes is set out below:

£ million	2005	2004
Reported (loss)/profit before tax	(41.7)	11.2
Material one-time items	8.4	2.9
Goodwill impairment	37.0	–
Share-based payment	5.1	4.8
Profit on disposal of operations	(3.9)	(4.0)
Costs associated with the part prepayment of loan notes	–	0.5
Adjusted profit before tax	4.9	15.4

Tax

There was a tax credit of £4.0 million in 2005 compared with a charge of £2.0 million in 2004, due to the release of provisions. We anticipate that the effective tax rate for 2006 will be approximately 25 per cent.

Discontinued operations

Discontinued operations contributed profit after tax of £13.2 million compared with £17.3 million in 2004. This result is after charging £6.7 million of costs in relation to the disposal that were incurred and expensed during 2005.

Earnings per share

We are presenting an adjusted earnings per share measure that adds back the effect of material one-time items, goodwill impairment, share-based payment, profit on the disposal of operations and any related tax as well as prior year tax adjustments. The adjusted earnings per share measure for the Group as a whole is 2.30 pence for 2005 compared with 3.14 pence in 2004, a decrease of 27 per cent. The weighted average number of shares outstanding at the period end was 950.4 million (2004 939.2 million). Basic loss per share from continuing operations was 3.97 pence compared with basic earnings per share of 0.98 pence in 2004.

Financing and cash flow

At 31 December the Group held cash of £49.2 million compared with £51.7 million at 31 December 2004. Borrowings of the continuing Group at the year end were £75.1 million and borrowings of the discontinued operations were £9.7 million. Total borrowings of the Group at 31 December 2005 were £84.8 million compared with £78.1 million at 31 December 2004. The effect of translation increased borrowings in 2005 by £7.7 million due to the strengthening of the US dollar during the year.

Our major borrowings in 2005 continued to be the senior loan notes of $124.8 million (£72.6 million) which were repaid in February 2006 out of the proceeds of the sale of the HellermannTyton Division (see post balance sheet events below). During 2005 our £30 million bank facility remained nil drawn, this facility was cancelled in February 2006.

Total Group net cash from operating activities for 2005 was down by 49 per cent at £29.4 million compared with £57.2 million in 2004 due to the deterioration in Service Assurance and absorption of working capital. As reported at the interim stage, working capital increased due to a significant reduction in payables of about £12 million, a result of the settlement of liabilities in respect of 2004. For continuing operations there was a cash outflow from operating activities of £1.1 million for the year, this includes £4.0 million in respect of restructuring actions (2004 inflow £31.0 million).

Free cash flow, being cash flow before disposals, acquisitions and financing for 2005 for the Group as a whole was an outflow of £6.8 million compared with an inflow of £23.0 million in 2004.

Net capital expenditure increased to £29.9 million, as planned, compared with £24.8 million in 2004. We expect capital expenditure to be much reduced in 2006 as the HellermannTyton Division comprised the major part of this. Capital expenditure for the continuing Group for 2005 was £14.8 million and we expect it to be around £13 million in 2006.

The depreciation charge was £11.4 million for 2005 compared with £14.8 million in 2004. We expect the charge for 2006 to be in the region of £13 million.

Net tax payments for the Group of £4.6 million were made in 2005 compared with £3.1 million in 2004. We have, and expect to continue to benefit from the utilisation of carried forward tax losses in the UK and the US. We expect tax payments for 2006 to be approximately £4 million.

In 2005 we made our second additional annual cash contribution of £3.5 million to our UK final salary pension scheme. The Company is not expected to make a further such payment in 2006 having instead made a special contribution of £47.0 million out of the proceeds of the sale of the HellermannTyton Division in February 2006.

Net interest payments of £6.5 million in 2005 were below the £7.2 million paid in 2004. In addition in 2004 we paid make whole amounts of £2.3 million.

Pension fund

At the end of 2005 the deficit in the UK final salary pension scheme under IAS 19 had increased to £51.5 million (31 December 2004 £38.1 million). The assets have grown during the year by £21.9 million as a result of the positive performance of equity markets and additional Company contributions made. However, the liabilities have grown by £35.3 million due to falling bond rates together with changes in longevity assumptions. In February 2006 the Company made a special contribution of £47.0 million into the UK final salary pension scheme as had been announced in December 2005.

We have reassessed the recognition of the deferred tax asset in relation to the pension scheme. The funding of the scheme will crystallise a tax loss in 2006 that may not be recoverable in the foreseeable future as the Company has significant accumulated tax losses in the UK. Consequently, the deferred tax asset of £11.1 million, which had been recognised at 31 December 2004, has been written off through reserves.

Dividend

No dividend is being declared in respect of 2005.

Post balance sheet events

On 23 January 2006 Spirent announced that it had entered into an agreement to acquire SwissQual for an initial consideration of CHF 62.5 million (£27.7 million). The initial consideration was paid in cash on completion on 23 January 2006 out of cash resources and utilisation of a new bank facility that was set up specifically for the purpose. A further CHF 28.0 million (£12.4 million) is payable in 2007 depending on revenue growth and various technical milestones.

We also announced on 13 February 2006 the acquisition of QuadTex for $7.5 million (£4.2 million), payable in cash on completion with a further $1.5 million (£0.9 million) payable depending on certain technical milestones and the retention of key employees.

The disposal of the HellermannTyton Division was completed on 15 February 2006 when proceeds of £288.9 million (for a cash free/debt free equivalent value) were received. These proceeds have been applied as follows:

- Repayment of the senior loan notes of $124.8 million (£71.5 million).
- Payment of the make whole amount (an amount which becomes payable on the early redemption of the senior loan notes) of $12.9 million (£7.4 million).
- Break fees of £2.3 million in respect of interest rate swaps taken out in connection with the senior loan notes.
- Special contribution of £47.0 million to the UK final salary pension scheme.
- Repayment and cancellation of the bank facility in connection with the acquisition of SwissQual.

Taking these transactions into account the pro forma cash balance is approximately £150 million, of this, up to £50 million has been earmarked to fund the on-market share repurchase programme. The programme is expected to begin in the second quarter, following the completion of certain actions: establishing distributable reserves in the parent Company, clearance from the Pension Regulator and the approval from shareholders to make on-market share repurchases of up to 14.99 per cent of our issued Ordinary share capital.

Following the disposal of the HellermannTyton Division the Company issued notices of cancellation in respect of all its borrowing facilities.

Adoption of International Financial Reporting Standards

Spirent has applied IFRS, as adopted by the European Union, for the first time with effect from 1 January 2005. The effect of the transition to IFRS on the financial information now being presented, including restatement of comparatives and the accounting policies adopted, has not materially changed from the information provided in the document issued by Spirent on 15 July 2005 and entitled 'Transition to International Financial Reporting Standards'.

The most significant impacts have been in relation to:

- The elimination of the charge for goodwill amortisation.
- The change in the profit or loss on the disposal of operations.
- An increase in the charge for share-based payment.

Overall, this has had a net beneficial effect on Spirent's historic reported earnings for 2003 and 2004, however the adoption of IFRS has no impact on the cash generation of the Group.

Operating profit/(loss) and return on sales are used by the Group as key measures of operating performance and are stated in the text before the effect of material one-time items, goodwill impairment and share-based payment so that period-on-period comparisons are not distorted.

The HellermannTyton Division for the purposes of these results has been presented as a discontinued operation and our financial results are presented and discussed for the continuing Spirent Group, unless otherwise stated.

Board of directors

Executive directors

1. Anders Gustafsson, Chief Executive (45) ○

Anders Gustafsson was appointed Chief Executive in August 2004. Prior to joining the Company he was the Senior Executive Vice President – Global Business Operations of Tellabs, Inc.

2. Eric Hutchinson, Finance Director (50)

Eric Hutchinson was appointed Finance Director in 2000, having previously been responsible for all financial reporting and control within the Group. He is also a non-executive director and Chairman of the audit committee of Trifast plc.

Non-executive directors

3. John Weston CBE, Chairman (54) ● ○

John Weston CBE was appointed non-executive Chairman in 2002 and is Chairman of the Nomination Committee. He was Chief Executive of BAE SYSTEMS plc from 1998 to 2002. He is also non-executive Chairman of iSOFT Group plc, Acra Controls and learndirect – the University for Industry.

4. James Wyness (68) ● ● ○

James Wyness was appointed to the Board in 1979 and is the senior independent director. He was previously Managing Partner then Senior Partner of Linklaters. He is a non-executive director and was previously Chairman of Saracens Limited. He will retire from the Board with effect from the date of the 2006 Annual General Meeting.

5. Marcus Beresford CBE (63) ● ● ○

Marcus Beresford CBE was appointed to the Board in 1999 and is Chairman of the Remuneration Committee. He was previously Chief Executive of GKN plc. He is also non-executive Chairman of Ricardo plc and a non-executive director of Cobham plc.

6. Frederick D'Alessio (57) ● ○

Frederick D'Alessio was appointed to the Board in January 2004. He was previously President of Advanced Services at Verizon Communications Inc. He is a general partner and founder of Capitol Management Partners and sits on the boards of SS8 Networks, Inc., Aware, Inc., Hatteras Networks, Inc. and Network Equipment Technologies, Inc.

7. Göran Ennerfelt (65) ○

Göran Ennerfelt was appointed to the Board in 2000. He is President and Chief Executive Officer of Axel Johnson Gruppen AB, a member of the Axel Johnson Group. He is also Vice Chairman of the Confederation of Swedish Enterprise, as well as a non-executive director of Svenska Handelsbanken and the Swedish National Committee of the International Chamber of Commerce.

8. Andrew Given (58) ● ● ○

Andrew Given was appointed to the Board in 2003 and is Chairman of the Audit Committee. He was formerly Deputy Chief Executive of Logica plc. He is also the senior independent non-executive director and Chairman of the audit committees of both VT Group plc and Spectris plc.

9. Kurt Hellström (62) ● ○

Kurt Hellström was appointed to the Board in December 2004. He was formerly President and Chief Executive Officer of Ericsson. He is also a member of the board of directors of Atlas Copco AB, Bharti Tele-Ventures Limited, Kineto Wireless, Gemplus International S.A., VTI, Far EasTone Telecommunications, Symsoft AB and EQT.

● Audit Committee
● Remuneration Committee
○ Nomination Committee

All the directors are considered independent of the management of the Company with the exception of Anders Gustafsson, Eric Hutchinson and Göran Ennerfelt.

Further biographical details of the directors can be found on the Company's website at www.spirent.com. The executive directors are supported by a team of senior management and their biographies can also be found on the Company's website.

Corporate social responsibility statement

We recognise that our social, environmental and ethical conduct has an impact on our reputation. We therefore take our corporate social responsibilities ("CSR") seriously and are committed to advancing our policies and systems across the Group to ensure we address and monitor all aspects of CSR that are relevant to our business. These include good ethical behaviour, concern for employee health and safety, care for the environment and community involvement.

We strive to maintain a productive and open dialogue with all parties who may have an interest in our activities including shareholders, customers, suppliers and employees. We have an established investor relations programme, conduct regular customer satisfaction surveys, monitor supplier performance and actively encourage feedback from our employees using a variety of methods including employee surveys. We maintain our website as one of the main routes for providing information to interested parties and for contacting us.

The Board takes ultimate responsibility for CSR and is committed to developing and implementing appropriate policies while adhering to a fundamental commitment to create and sustain long term value for shareholders. As a Group driven largely by technological innovation, our main assets are the talents and skills of the people we employ. The Board does not believe that, to date, the activities of the Group present any significant environmental risks. We have established a committee to coordinate Group-wide CSR efforts.

Ethics

Spirent expects that all of its business is conducted in compliance with high ethical standards of business practice. We apply these standards to all dealings with employees, customers, suppliers and other stakeholders.

The Group's Ethics Policy, which has been approved by the Board, is available on our website at www.spirent.com. Our Ethics Policy has been developed to ensure that the Group's business is conducted in adherence with high ethical and legal principles and sets standards of professionalism and integrity for all employees and operations worldwide. The following is a summary of the Ethics Policy:

– all employees have the right and responsibility to ensure that Spirent's business is conducted with high ethical and legal principles;

– our policy is to operate within applicable laws;

– discrimination or harassment of any kind will not be tolerated;

– as a matter of policy, we do not make political donations;

– no bribes shall be given or received;

– conflicts of interest must be avoided;

– we aim to be a responsible partner within our local communities; and

– employees are encouraged and supported to report, in confidence, any suspected wrongdoings ("whistleblowing").

Appropriate ethical behaviour is reviewed as part of the Group's internal control process.

Employees

The Group aims to attract, retain and motivate the highest calibre of employees within the context of an operating structure that encourages their contribution and development.

An environment that fosters innovation and supports a culture of entrepreneurship and partnership are critical to Spirent's success. Appropriate career paths and internal recognition programmes are developed for both technical and management staff.

Employees are provided with numerous learning and development opportunities to fulfil their potential. A wide variety of both technical and managerial courses and training materials are available to employees, as are local undergraduate and postgraduate educational opportunities to help them to enhance their careers. These employment development opportunities are structured to align with both the Group and Business Units' goals and objectives.

Spirent demonstrates that it values its employees through several reward and recognition programmes. The Engineering Fellowship Programme honours the top technical talent within the organisation, connecting the best and the brightest of Spirent's technical expertise. The Spirit of Spirent programme tracks outstanding service using Spirent's core values – customer focus, innovation, collaboration, contribution, continuous learning and ethics. This programme is implemented across the Communications group to encourage and reward significant contributions to Spirent by employees. Furthermore, the annual Innovation Awards programme recognises all facets of contributions to Spirent, including outstanding sales, technical innovations and general business innovations.

Similarly, the importance of two-way communication is recognised particularly as it relates to the business and its performance. Business Unit management is responsible for developing and implementing arrangements for employee information, consultation, communication and involvement which best meet their own particular needs within the context of a Group cascade process. A variety of tools are utilised to foster two-way communications, including senior management meetings, 'all-hands' employee meetings, the regular distribution of an employee newsletter, and the intranet. In addition, in 2005 Spirent undertook its first all-employee survey in its Communications group in an effort to better understand the needs of its employee base. Actions from the survey will be implemented throughout 2006 and beyond.

Leadership development and succession planning are processes which are also critical to the success of the business. These plans are regularly discussed and updated as the competition for talented employees increases and the leadership needs of our business grow. Formal performance reviews are conducted and are linked to the values of the organisation.

The Group is committed to providing equality of opportunity to all existing and prospective employees without unlawful or unfair discrimination. Full support is given to the employment and advancement of disabled persons and this is reinforced through the Group's Ethics Policy.

Health and safety

The Chief Executive is the director appointed by the Board to have responsibility for the health and safety and environmental performance of the Group.

The Group Health and Safety Policy places responsibility for the management of health and safety on the local Business Unit management, who are supported by the Group internal control team and local external advisers, where necessary.

Corporate social responsibility statement continued

Each Business Unit has a senior individual designated as being responsible for ensuring the Business Unit conforms to local statutory health and safety regulations as well as Group policy. All Business Units provide employees with a written health and safety policy.

Spirent's 'Operational Excellence Programme' which is further described in the Directors' statement on corporate governance on pages 17 to 19, continues to further the corporate objective of continuous improvement in the area of health and safety. An annual internal report on our health and safety performance is collated from a questionnaire completed by all our Business Units. The highlights of this report in respect of 2005 are:

– we had 422 incidents that required on-site First Aid, a small increase from 2004 but eight down compared with 2003;

– we saw a decrease in ill health/long term sickness levels with three cases reported compared with five in 2004 and three in 2003;

– we saw a reduction in accident frequency and severity; and

– we had three accidents that required short term hospitalisation compared with two in 2004 and one in 2003.

Independent external reviews of the Company's health and safety performance are conducted annually. Regular designated health and safety awareness training programmes, particularly at our manufacturing sites, are also carried out.

The Group's health and safety performance and significant risk exposures are reviewed regularly by management, twice a year by the Audit Committee and annually by the Board.

Environmental

Good environmental practice and the impact that our operations have on the environment are of great importance to Spirent. The main aim of Spirent's Environmental Policy is to comply with local, state and national environmental legislation in all jurisdictions in which we operate and to adopt responsible environmental practices. The full text of our Environmental Policy is available on our website at www.spirent.com.

Business Units are required to comply with Group policy and local statutory regulations and are encouraged to set their own environmental targets. An annual environmental questionnaire is completed by each Business Unit which highlights their environmental performance.

Our Network Products group's manufacturing sites worldwide operate ISO 14001 accredited environmental management systems. In addition, various sales and distribution locations worldwide have achieved ISO 14001 accreditation and a number are working towards achieving this accreditation. The Communications group's businesses are also introducing formal environmental management systems, with a number having already achieved ISO 14001 accreditation.

The majority of Spirent Group manufacturing sites have ISO 9001 accreditation and, in the case of the Service Assurance division, also TL-9000 accreditation.

Business units closely monitor energy consumption and where possible have introduced energy efficient measures, such as replacing existing equipment with more energy efficient machinery, installing light sensors and fitting temperature control devices.

A large proportion of our products are designed and manufactured to take account of the recycling and disposal of the product at the end of its life cycle. Our businesses comply with The Waste Electrical and Electronic Equipment Regulations ("the WEEE Regulations") and are working towards full compliance with The Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2004 ("the RoHS Regulations").

The environmental performance of the Group continues to improve with Business Units meeting goals for reducing energy consumption, reducing waste and greater recycling. There are also programmes in place aimed at reducing the amount of waste sent to landfill by increasing the volume of recycling and also training and education initiatives to promote and improve environmental performance.

The vacant site where historic activity had led to minor land contamination is continuing to be remedied with full cooperation of the local statutory body.

Group performance and risk exposure reviews are undertaken in parallel with those for health and safety as described above.

Community

Spirent recognises the significance of local communities and through our Charitable Donations Policy we strive to be a responsible partner in the communities in which we operate. We encourage all our businesses to support the particular needs of their communities by contributing to local charities and community initiatives. Support takes the form of employee time and skills, gifts in kind and cash donations. In 2005, Spirent made charitable cash donations of £96,000 (2004 £63,000).

In support of relief efforts following Hurricane Katrina in the United States, the Company matched employee donations. Spirent also took actions to help customers that were affected by the hurricane by offering equipment and personnel to assist them in restoring their networks.

In 2005, we continued to support education in our local communities by offering internships and work experience programmes. In the US we participated in a programme which introduces local high school students to jobs related to engineering. Through Junior Achievement, an organisation which educates young people about business, economics and free enterprise, we are involved in an annual 'job shadow' day which pairs a student to an employee in many aspects of the business.

Our employees help the communities in which we operate by volunteering their time to various programmes including Habitat for Humanity, an organisation working to eliminate poverty housing. We continue to donate materials and equipment to local causes throughout the world. During 2005, donations included computers to those affected by the Asian tsunami, computer screens and furniture to local schools and mobile phones to a women's shelter. We encourage our employees to become involved in fund raising activities for local concerns and community initiatives. Through activities such as 'food drives', collections and sponsored events our businesses help organisations which provide food and clothing to people around the world.

Spirent continues to support and encourage all our employees and businesses to find new ways of helping their communities.

Report of the directors

The directors present their Report, the audited consolidated financial statements and the parent Company financial statements for the year to 31 December 2005.

Principal activities, business review and results

The principal activities, review and results for the year (inclusive of financial performance, likely future developments and prospects) are set out on pages 2 to 11. Principal divisions, subsidiaries and associates are listed on page 114.

Dividends

No interim dividend was paid during the year (2004 nil) and the directors do not recommend the payment of a final dividend (2004 nil).

Research and development

Product development and innovation are considered key strategies to maintain and improve the Group's competitive position and therefore continue to receive high priority. This commitment is highlighted by the £62.8 million research and development spend during the year, equivalent to 14 per cent of sales (2004 £67.3 million and 14 per cent). The Company will continue to commit resources as appropriate to research and development.

Major transactions

On 19 September 2005, the Company announced that it had started the formal process that was expected to result in the sale of its HellermannTyton Division. On 15 February 2006, the sale of the division to funds controlled by Doughty Hanson & Co Limited for a cash free/debt free equivalent value of approximately £288.9 million was completed. Further details of the transaction are set out in notes 37 and 40 to the consolidated financial statements and note 23 to the parent Company financial statements.

On 23 January 2006, the Company announced the acquisition of SwissQual Holding AG for an initial consideration of £27.7 million paid in cash, with up to a further £12.4 million payable depending on revenue growth and various technical and financial milestones. On 13 February 2006 the Company announced the acquisition of QuadTex Systems, Inc for an initial consideration of £4.2 million with further consideration of up to £0.9 million.

Share capital

Changes in the Company's share capital during the period are given in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements.

Substantial shareholdings

At the date of this Report, the Company had been notified of the following interests in 3 per cent or more of its issued Ordinary share capital:

	% held
Barclays plc	13.2
Lexa BV	12.4
Fidelity Investments	8.0
Prudential plc	3.4
Legal & General Group plc	3.1
Sun Life Assurance of Canada	3.1

Additional shareholder information, including a profile of shareholdings, appears on page 118.

Share listings

The primary listing for the Company's Ordinary shares is on the London Stock Exchange. The Company's Ordinary shares are also traded on the New York Stock Exchange in the form of American Depositary Shares and these are evidenced by American Depositary Receipts ("ADRs"), each one of which represents four Ordinary shares. The Bank of New York is the authorised Depositary bank for the Company's ADR programme.

Directors

The names and brief biographical details of the current directors are shown on page 12. All held office throughout the year and up to the date of this Report. James Wyness will retire from the Board with effect from the date of the 2006 Annual General Meeting ("AGM").

Retirement and election of directors

Pursuant to the Company's Articles of Association and the revised Combined Code on Corporate Governance (see the Directors' statement on corporate governance on pages 17 to 19), John Weston will retire at the AGM on 3 May 2006 and, being eligible, offers himself for re-election. He does not have a service contract with the Company.

Directors' interests

Göran Ennerfelt has a connected notifiable interest in the Spirent Ordinary shares held by Lexa BV (see Substantial shareholdings on this page) which, for statutory purposes, is also deemed to be an interest of the director.

The directors' interests (including those of their immediate families and any connected persons) in the share capital of the Company are set out in the Report on directors' remuneration on pages 20 to 26.

Save as disclosed, no contracts or arrangements have been entered into during the year or subsisted at the year end in which any director had, directly or indirectly, a material interest which was significant in relation to the Group's business.

Employees

The Group's and the Company's employment policies regarding disabled persons and further information on employee training, development and involvement is explained in the Corporate social responsibility statement on pages 13 and 14.

Employee share schemes

The Company operates a number of share incentive schemes, details of which can be found in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements.

Social responsibility and donations

The Group's Corporate social responsibility statement appears on pages 13 and 14. Charitable donations of £96,000 were made in the year (2004 £63,000). This amount excludes operating units' support and participation in local community activities. No political donations were made in the year (2004 nil).

Report of the directors continued

Creditor payment policy
Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted and it is Group policy to comply with those terms and to make suppliers aware of them.

At 31 December 2005, the Company had an average of 48 days purchases outstanding in trade creditors (2004 54 days).

Corporate governance
The Directors' statement on corporate governance is set out on pages 17 to 19. The Statement of directors' responsibilities in respect of preparing the financial statements appears below.

Going concern
After making enquiries, the directors confirm that they have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Annual General Meeting
The AGM will be held at 10.30am on Wednesday 3 May 2006 at The Copthorne Hotel (London Gatwick), Copthorne Way, Copthorne, Crawley, West Sussex RH10 3PG, United Kingdom.

Auditors
A resolution to re-appoint Ernst & Young LLP as auditors and authorising the directors to determine their remuneration will be proposed at the forthcoming AGM.

By Order of the Board

Paul Eardley
Company Secretary
23 February 2006

Statement of directors' responsibilities in respect of the financial statements

The Companies Act 1985 requires directors to prepare financial statements for each accounting period which give a true and fair view of the state of affairs of the Company and the Group at the end of the accounting period and of the profit or loss of the Group for that period. In preparing the financial statements the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are both reasonable and prudent;

– state whether applicable accounting standards, International Financial Reporting Standards as adopted by the European Union or UK Generally Accepted Accounting Practice, as appropriate, have been followed, subject to any material departures being disclosed and explained in the notes to the financial statements; and

– provide additional disclosures when compliance with the specific requirements is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance of the entity.

The directors are responsible for:

– keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and, for the Group, Article 4 of the International Accounting Standards Regulation; and

– taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Financial information published on the website is based on legislation in the UK governing the preparation and dissemination of financial statements that may be different from comparable legislation in other jurisdictions.

Directors' statement on corporate governance

The Board is committed to maintaining high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured. The Board considers that it has complied throughout the year under review with the requirements of the Combined Code on Corporate Governance ("the Code") which was issued in 2003. This statement describes how the principles and provisions of corporate governance set out in the Code have been applied within the Group.

The Board

The Board comprises a non-executive Chairman, six further non-executive directors and two executive directors, details of whom are given on page 12. The roles of Chairman and Chief Executive are separate with a clear division of responsibility between them which is set out in writing and agreed by the Board.

The size, balance and composition of the Board supports the Board's role, which is to determine the long term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives, ensure that good corporate governance is practised and to ensure that the Group meets its other responsibilities to its shareholders, customers and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

The non-executive directors (each appointed for an initial three year term) have a wide range of skills and experience which helps to ensure that independent judgement is exercised on issues such as strategy and performance and also that a proper balance of power is maintained for full and effective control. The non-executive directors (in particular the Chairman) devote sufficient time and attention as necessary in order to perform their duties. Other professional commitments of the non-executive directors are provided in their biographies on page 12.

The Board requires that all non-executive directors are independent in character and judgement and the independence of each director is reviewed at least annually. As Göran Ennerfelt has a material notifiable interest in the share capital of the Company (see the Report of the directors on pages 15 and 16), the Board has concluded that he is not to be considered as independent of the management of the Company. In accordance with the Code, the Board has reviewed the independence of James Wyness, who has served on the Board in excess of nine years. The review concluded that James Wyness is independent in character and in the exercise of his judgement, and for these reasons the Board considers him to be independent.

The senior independent director is available to meet shareholders upon request if they have concerns which contact through the normal channels of the Chairman or executive directors has failed to resolve, or for which such contact is inappropriate. James Wyness served as the senior independent director during 2005 and will continue to do so until he retires from the Board at the date of the 2006 Annual General Meeting. Marcus Beresford will serve as the senior independent director thereafter.

It is the policy of the Board to hold at least six Board meetings a year, including a meeting to review and approve long term strategy. There were nine Board meetings during 2005. Full attendance of the Board is expected at meetings and in 2005 all directors attended except for the following absences: Marcus Beresford (1), Frederick D'Alessio (1), Andrew Given (2), Göran Ennerfelt (3) and Kurt Hellström (3). The reasons for the absences were due to either unavoidable changes in the Board meeting calendar at short notice, the director being ill or the director having to be elsewhere for other urgent business. Where the director was absent, full documentation for the meeting was issued and briefings were provided as appropriate.

A schedule of matters specifically reserved for the Board's decision has been adopted whilst certain other responsibilities have been delegated to four standing Committees with clearly defined terms of reference which, together with the composition of each Committee, are reviewed annually. Each Committee is provided with sufficient resources so that it may undertake its duties. The terms of reference for the Audit, Remuneration and Nomination Committees are available upon request to the Company Secretary and are also available on the Company's website.

The executive directors are supported by senior managers who are responsible for assisting in the development and achievement of the Group's corporate strategy, business plans, budgets and for reviewing operational and financial performance. The team, together with the executive directors, are responsible for agreeing and monitoring policies and other matters not reserved for the Board. Further details of the senior management team can be found on the Company's website.

To ensure good communication between the Board and each Committee, the Company Secretary is the appointed Secretary to all standing Board Committees.

All directors receive appropriate training and induction upon appointment and subsequently as necessary. Non-executive directors enhance their understanding of the Group through regular business sector presentations, the receipt of monthly reports from the Chief Executive and site visits. The Chairman and the executive directors are responsible for ensuring that the Board receives accurate and clear information in a timely manner for Board meetings and on other occasions.

The Board has established a process to evaluate the performance of the Board, its Committees and individual directors. The evaluation process includes self-assessment by the Board and key processes include assessments of the:

- relevant contribution of the Board, each Committee, each director and the overall composition of the Board;
- effectiveness of the leadership of the Company Chairman;
- effectiveness of relationships and communications with key management and other stakeholders; and
- quality of information provided to the Board to enable it to perform its duties.

Key outputs of the process are used to further improve areas which are working well and to address any weaknesses.

In addition to the evaluation process, the Chairman holds regular meetings with the other non-executive directors at which executive directors are not present. The senior independent director also holds, at least annually, a meeting of the other non-executive directors at which the Chairman is not present to appraise the Chairman's performance.

Directors' statement on corporate governance continued

The Company has arranged insurance cover in respect of legal action against its directors and certain other officers. The directors also have access to the advice and services of the Company Secretary (and if necessary, access to further independent advice, at the Company's expense), who advises the Board and its Committees in respect of their procedures, directors' duties and responsibilities, corporate governance and all compliance matters. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Board appointments

The Company's Articles of Association require that all directors seek election by shareholders at the first Annual General Meeting ("AGM") following their appointment. They also require that all directors seek re-election at least every three years.

Board Committees

Acquisitions and Divestments Committee

Chairman, Anders Gustafsson

The Acquisitions and Divestments Committee comprises the executive directors and any two non-executive directors. The Committee is primarily concerned with the evaluation and approval of any acquisitions and divestments delegated to it by the Board.

Audit Committee

Chairman, Andrew Given

The Audit Committee comprises three independent non-executive directors. The Code requires that the Audit Committee includes a member who has recent, significant and relevant financial experience and the Board believes that Andrew Given provides such experience.

During 2005, the Committee held five meetings at which there was full attendance by all Committee members. At all meetings the external auditors, the Chief Executive, the Chairman, the Finance Director, the Head of Internal Control and the Head of Financial Reporting are in attendance. Other directors who are not members may attend at the invitation of the Committee Chairman. The Committee also meets with the external auditors in private for part of each meeting.

The Committee reviews all published financial statements and post audit findings before their presentation to the Board, focusing in particular on accounting policies, compliance, management judgement and estimates. It also monitors the Group's internal control and risk management regime (including the effectiveness of the internal audit function) and financial reporting. Any significant findings or identified weaknesses are closely examined so that appropriate action can be taken, monitored and reported to the Board.

The Audit Committee also advises the Board on the appointment of external auditors and on the scope, results and cost effectiveness of both audit and non-audit work. The Committee has adopted a policy which prohibits certain types of non-audit work from being performed by the Company's auditors, particularly where auditor objectivity and independence would be at risk. Other non-audit work which may be provided by the auditor is put to tender where considered appropriate. Prior to any non-audit work being awarded to the auditors, consideration is also given to costs, quality of service and efficiency. The Audit Committee also assesses the overall objectivity of the auditors' services so that an independent professional relationship is maintained. Details of the auditors' remuneration for 2005 appear in note 5 to the consolidated financial statements.

Nomination Committee

Chairman, John Weston

The Nomination Committee comprises all the non-executive directors and the Chief Executive and meets at least once a year. During 2005, the Committee held three meetings at which there was full attendance by all Committee members. The Committee is responsible for reviewing the composition and structure of the Board and for identifying and recommending candidates for executive and non-executive positions, based on the required role and capabilities which have been specified for the appointment. Executive search consultants are used by the Committee to assist this process as appropriate.

Remuneration Committee

Chairman, Marcus Beresford

The Remuneration Committee consists exclusively of independent non-executive directors. During 2005, the Committee held four meetings at which there was full attendance by all Committee members. Other directors who are not members may attend at the invitation of the Committee Chairman.

No director is involved in determining his own remuneration. The Remuneration Committee has delegated responsibility for setting remuneration for all executive directors and the Chairman, whilst the Board is responsible for setting the remuneration of the other non-executive directors.

Further details on the Remuneration Committee are included in the Report on directors' remuneration on pages 20 to 26.

Relations with shareholders

The Board attaches considerable importance to its relationships and communication with shareholders. Communication is facilitated by full year and interim reports issued to shareholders. Further information and services available to shareholders are described on page 118.

A valuable dialogue has been established with principal institutional investors through a programme of investor relations events throughout the year. During the year, the Company also discussed major remuneration and long term incentive proposals with principal investors prior to the required shareholder approval. In addition to a dialogue with principal shareholders, the Board also commissions external advisers to undertake investor perception reviews, the results of which are reported to the Board. All contact with institutional investors, financial analysts, fund managers, brokers and the media is controlled by written guidelines to ensure the protection of inside information during such dialogue.

It is the Company's practice to issue the Notice convening the AGM at least 20 working days before the meeting and to propose separate resolutions on each substantially separate issue. All directors are expected to attend the AGM to take any relevant questions. A report showing the number of proxy votes cast for, against and withheld for each resolution is available for shareholders attending the AGM in respect of resolutions which have been voted on by a show of hands. These results are also posted on the Company's website.

Internal control

Introduction

The Board has overall responsibility for the Group's system of internal control, which comprises a process for identifying, evaluating and managing the risks faced by the Group and for regularly reviewing its effectiveness in accordance with the Guidance for Directors on Internal Control ("Turnbull"). The Board confirms that this process was in place throughout the year under review and up to the date of approval of these financial statements. The primary aim is to operate a system which is appropriate to the business and which can, over time, increase shareholder value whilst safeguarding the Group's assets. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Process

The Group's 'Operational Excellence Programme' ensures that internal control and risk management processes continue to become embedded in the organisation. Day-to-day responsibility for effective internal control and risk monitoring rests with senior management at operating group and business unit level.

Spirent operates corporate internal control and risk management functions which report into the Head of Internal Control. The functions operate on a global basis and play a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems throughout the Group to operating management, the Audit Committee and the Board. The work programme of the functions is focused on the areas perceived to be of greatest risk to the Group and is agreed annually in advance by the Audit Committee.

The Group's system of internal control and risk management comprises an integrated risk management strategy consisting of regular self-assessment encompassing all operating units and preparation of a remedial action plan, as appropriate. This system is coordinated by Spirent's corporate internal control and risk management functions. Significant risks are also regularly reviewed by the Audit Committee and by the Board.

In addition to this process, the following key elements are critical to the overall internal control environment:

- an organisational structure with clear operating procedures, defined lines of responsibility and delegated levels of authority;
- an Ethics Policy (which has been approved by the Board), which sets standards of professionalism and integrity for all employees and operations. The Ethics Policy also includes "whistleblowing" procedures whereby employees may report, in confidence, suspected wrongdoings;
- a comprehensive strategic planning, financial control and budgeting system which is properly documented and regularly reviewed; and
- a disciplined acquisitions and divestments due diligence process and post acquisition integration programme.

Review of effectiveness

The Board, assisted by the Audit Committee, has reviewed the effectiveness of the system of internal controls for the period under review, taking account of material developments since that date using the process set out above.

US corporate governance compliance

As the Company has a secondary listing on the New York Stock Exchange ("NYSE"), it is subject to certain US legislation. Following the introduction of the Sarbanes-Oxley Act of 2002 in the US, NYSE introduced new corporate governance standards. Companies which do not have their primary listing on NYSE (such as Spirent) are generally permitted to follow home country practice (ie the UK Listing Rules and the Code) in lieu of NYSE's standards. Generally, NYSE's corporate governance standards do not vary significantly from those adopted in the UK, however, NYSE rules require any such significant variances to be disclosed. Following a review of NYSE corporate governance standards, the following are considered significant variances to home country practice:

- NYSE rules provide that nomination committees should consist entirely of independent directors. Spirent's Nomination Committee (whose constitution is in accordance with the Code) includes Anders Gustafsson and Göran Ennerfelt, neither of whom are independent;
- NYSE rules provide that nomination/corporate governance committees are responsible for developing and recommending to the Board a set of corporate governance principles applicable to the Company. Spirent, however, reserves these responsibilities for the whole Board (in accordance with the Code); and
- NYSE rules require audit committees to be directly responsible for the appointment and retention of the Company's external auditor. Spirent's Audit Committee, however, in accordance with the Code, is responsible for making recommendations to the Board on the appointment and retention of the auditor.

In accordance with NYSE requirements, the above summary of significant variances in corporate governance practices can be found on the Company's website at www.spirent.com.

Pensions governance

The Group's principal pension and retirement schemes exist in the UK and the US. Scheme funds are held separately from those of the Group and are administered by Trustees (which include employees and independent members). The schemes do not lend money or lease any assets to the Group. Following completion of the disposal of the HellermannTyton Division on 15 February 2006, the Company made a special contribution of £47.0 million into the UK final salary pension scheme, which substantially funds the scheme.

Reporting

The Statement of directors' responsibilities in respect of preparing the financial statements is set out on page 16. A report by the auditors, Ernst & Young LLP, which includes details of their responsibilities in respect of the Group's compliance with the Code, is set out on page 27.

Report on directors' remuneration

1. Introduction and compliance

This Report has been prepared by the Remuneration Committee ("the Committee") and approved by the Board in compliance with statutory requirements and the Combined Code on Corporate Governance ("the Code") issued in 2003.

The Board considers that it has complied throughout the year under review with the requirements of the Code. The Directors' statement on corporate governance and this Report describe how the principles of corporate governance set out in the Code have been applied within the Group.

2. Role and remit of the Remuneration Committee

The composition of the Committee, made up wholly of independent non-executive directors, is given on page 12. The Committee makes recommendations to the Board on the Company's policy and framework of executive remuneration and its cost. The Committee also determines the remuneration of each executive director and certain other senior executives. In addition, the Committee is responsible on behalf of the Board for monitoring and managing shareholder dilution arising from share incentive plans.

In order to assist the Committee in carrying out its duties, during the year the Committee consulted on a regular basis with its independent external remuneration advisers. During the year the Committee retained Watson Wyatt (who are also consultant actuaries to the Company on pension matters) as advisers. Other advisers during the year were as follows (additional services provided, all by appointment of the Company, are shown alongside in brackets):

- JPMorgan Cazenove Limited (who are one of the Company's brokers);
- Kepler Associates; and
- Linklaters (who are one of the Company's legal advisers).

The Committee also consulted with the Company's Senior Vice President of Human Resources, Head of Compensation and Benefits and the Company Secretary regarding remuneration and related corporate governance issues. In addition, with respect to the remuneration of senior executives (for whom the Company's remuneration policy also applies, see below), the Committee also consulted with the Chief Executive.

3. Remuneration policy

The Company's remuneration policy, which has not changed during the year and will apply for the following financial year, is to:

- attract, retain and motivate the high calibre professional, managerial and technological expertise necessary to realise the Group's business objectives without paying excessively;
- ensure that the remuneration framework and its constituent reward elements are competitive and, where appropriate, reflect the international nature of the Group's business and the markets within which it operates; and
- maintain the correct balance and linkage between individual and business performance so as to align the interests of the executive with those of shareholders, particularly that of enhancing shareholder value.

The Committee has developed remuneration packages that fit this policy on an integrated and total reward basis. This is achieved by providing base salary plus benefits, pension benefits, an annual short term incentive bonus and discretionary awards under the Company's share incentive plans, the latter two elements of which are performance-related. In normal circumstances, it is the Committee's policy that at least 50 per cent of an executive director's target total annual remuneration package is based on performance-related elements. The recent history of the Company's share price volatility and its consequent impact on the 'value' of the long term incentive component of the total remuneration package means in practice that the actual balance of performance versus non-performance elements can vary from year to year. In designing the performance-related elements of remuneration, the Committee has followed the provisions set out in Schedule A to the Code.

The Committee continues to monitor and review the level and constituent elements of remuneration packages and will consult with its major institutional shareholders as appropriate with regards to any significant proposed changes.

4. Executive directors' remuneration

a) Base salary and benefits

The level of base salary is reviewed and established annually by reference to both the performance and responsibilities of the individual and prevailing market rates for executives of similar status in comparable companies. When reviewing salaries, the Committee is mindful of and sensitive to the wider scene, especially regarding employees' pay and employment conditions elsewhere in the Group. Following review, in respect of 2005, Anders Gustafsson and Eric Hutchinson were awarded increases in annual base salary of £20,000 and £13,500, respectively, bringing their total annual base salary to £460,000 and £283,500, respectively.

Pension and other benefits have regard to competitor practice. Benefits include a car allowance, healthcare and life insurance coverage. Pension details are given in paragraphs 4(c), 6(b) and 6(c).

As noted above, the Company's remuneration policy applies to senior executives below Board level. In respect of 2005, the total remuneration (ie base salary, bonus and taxable benefits) for the lowest paid and highest paid senior executive was £132,913 and £426,646, respectively. Average pay for these individuals was £202,661.

b) Annual and other incentive bonus schemes

The Committee reviews annual incentive bonus scheme targets and performance conditions each year to incentivise the executive to meet the short term strategic objectives of the Company.

In respect of 2005, Anders Gustafsson and Eric Hutchinson participated in an annual cash bonus scheme which, consistent with UK market practice and levels, was structured around a formula providing for an on-target performance bonus of 50 per cent of base salary with a maximum of 100 per cent of base salary for exceptional performance. Performance was measured against targets in the Company's adjusted earnings per share ("EPS") and cash flow, accounting for 80 per cent and 20 per cent of any bonus, respectively. As the threshold targets for 2005 were not achieved, neither executive director earned a bonus under the annual scheme.

In order to facilitate the Group's stated strategy of focusing on growing its Communications group whilst maximising the value of its other businesses, both executive directors were also eligible to receive a cash bonus which was payable dependent upon the disposal price of the HellermannTyton Division. The bonus was structured around a formula providing for an award of up to 25 per cent of base salary. The disposal was completed on 15 February 2006 for a consideration of approximately £288.9 million, at a cash free/debt free equivalent value, which exceeded the maximum bonus target set by the Committee. Anders Gustafsson and Eric Hutchinson therefore received bonuses of £115,000 and £70,875 respectively, equivalent to 25 per cent of their base salary.

c) Directors' pensions

Both executive directors participate in pension plans operated by the Company. Eric Hutchinson participates in the non-contributory funded senior executive level of the Spirent Group Staff Pension and Life Assurance Plan ("the Staff Plan"). This defined benefit arrangement will provide him at normal retirement age of 60, and dependent on length of service, with a pension of up to two-thirds of salary, subject to HM Revenue & Customs limits and other statutory conditions. It also provides for dependants' pensions and a cash lump sum on death. Pensionable salary is the director's base salary only.

Anders Gustafsson receives from the Company, a pension contribution of 30 per cent of basic salary. Subject to statutory limits, the Company makes approved contributions into the executive section of the Spirent Retirement Cash and Life Assurance Plan ("the Cash Plan"). The Executive section of the Cash Plan is non-contributory and provides benefits on a defined contribution basis. Contributions to the Cash Plan are held in an individual account and invested in accordance with member elections. The Cash Plan provides for a dependant's pension and a cash lump sum on death in service. In respect of those contributions which are outside of the statutory limits the Company has established an unfunded unapproved retirement benefit ("UURB") on a defined contribution basis and the UURB balance is credited with interest.

In 2004, the Committee conducted a review of UK executive pension provisions in the light of the Government's tax simplification changes, which are expected to come into effect in April 2006. The Committee concluded that, in principle, it would not be appropriate for the Company to provide additional compensation to executives who would be adversely affected by the change. In respect of existing members of the Company's defined benefit arrangements (which includes Eric Hutchinson), the Committee concluded that no material changes will be made to existing arrangements. In determining arrangements for Anders Gustafsson, the implications of the tax simplification changes were taken into account as part of the Committee's deliberations on an appropriate remuneration package when he joined the Company in 2004.

Further details of pension contributions and payments are given in paragraphs 6(b) and 6(c).

d) Medium and long term incentive plans

The Committee approves the grant of all awards under the Employee Incentive Plan ("EIP") in which executive directors participate (see below). All grants are subject to the prior satisfactory performance of the individual and grant amounts vary in accordance with the individual's potential to add value to the business over the medium to long term.

The executives are also eligible to participate in the Company's all employee share plans (further details of which are provided in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements).

Executive Share Option Scheme

The Executive Share Option Scheme expired during 2005 and no grants were made to directors under this scheme during the year. Further details in respect of this scheme are provided in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements.

Employee Incentive Plan

During the early part of 2005, a detailed international review was carried out by Kepler Associates of long term incentive arrangements in similar companies. As a result of the review and also following discussion with the Company's major institutional shareholders, the EIP was designed.

Details of the EIP, including the proposed grant levels, performance criteria and vesting schedules, were explained in a circular to shareholders in April 2005 ("the 2005 Circular"). The EIP was approved by shareholders in May 2005 and both executive directors participated in this plan during the year. Under the EIP, the Company is able to grant options and share settled stock appreciation rights ("SARs"), the exercise of which will be subject to challenging earnings per share ("EPS") criteria. Performance shares may also be granted, the vesting of which will be subject to challenging total shareholder return ("TSR") criteria. This combination reflects UK market trends in the use of long term incentives and creates a more balanced incentive package for executive directors.

In normal circumstances, SARs/options under the EIP will vest three years following grant provided the Company's EPS growth targets (after excluding inflation) have been met over a three year performance period. The growth targets in respect of the initial award to executive directors during the year require that the Company's EPS increases within a range of 6 per cent per annum (for 25 per cent vesting) and 15 per cent per annum (for 100 per cent vesting) over the performance period, with a sliding scale between these points.

In normal circumstances, performance shares under the EIP will vest three years following grant provided the Company's TSR targets have been met over a three year performance period. TSR is the growth in the value of a share or index, assuming dividends and other distributions are reinvested. The performance conditions require Spirent's TSR to be between the median of a comparator group (for 30 per cent vesting) and in the upper quartile of a comparator group (for 100 per cent vesting) over the performance period, with a sliding scale between these points. The comparator group consists of the 30 largest companies by market capitalisation in the FTSE TechMARK 100 index, excluding those TechMARK companies who are also constituents of the FTSE 100 at the commencement of the performance period. The Committee considers the selected comparator group provides a suitable benchmark for Spirent's TSR.

All EIP awards will be tested once on or shortly following the third anniversary of grant. Any part of an award which does not vest will lapse and there will be no opportunity for retesting.

Report on directors' remuneration continued

The executive directors receive a mix of SARs/options and performance shares, utilising a ratio of two SARs/options to one performance share. At least 25 per cent of each grant is delivered in SARs/options and at least 25 per cent in performance shares, with the balance of the grant delivered through a mix of SARs/options and performance shares as determined by the Committee. In normal circumstances, the maximum combined award under the EIP will be limited to 250 per cent of salary face value in SARs/options. As explained above, grants normally consist partly of SARs/options and partly of performance shares, with the proviso that the performance share element may not exceed a face value of 100 per cent of salary (ie using the ratio of two SARs/options to one performance share, the maximum performance share award would be equivalent to 200 per cent in SARs/options). In determining any award, the Committee will of course have regard to all relevant circumstances.

The Committee is mindful of the need to continue to manage shareholder dilution in a responsible manner. As explained in the 2005 Circular, the current shareholder approved mandate includes an aggregated annual allowance of up to 3.1 per cent of the issued share capital under the EIP and the Spirent Stock Incentive Plan ("SSIP"). As part of the Committee's sustainable dilution strategy, SARs will, wherever possible, be used in lieu of options in the operation of the EIP and SSIP. This SARs approach will help the Company manage its actual dilution more efficiently as only the appreciation value and not the entire share value needs to be funded when an award is exercised.

Further information on the SARs approach, the operation of other share schemes and shareholder dilution is provided in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements.

The Committee believes that the grant structure, performance conditions and grant levels under the EIP represent the most appropriate medium to long term incentive arrangements enabling Spirent to compete for, motivate and retain the highest calibre executives which it needs to drive the business forward and increase shareholder value. As explained in the 2005 Circular, the Committee proposed that the performance conditions and award criteria in respect of the EIP will operate for two annual award cycles (ie for 2005 and 2006) and that the Company will revert to shareholders in 2007 if it wishes to propose any material changes.

In order to assist further in aligning the interests of executives and shareholders, shareholding guidelines are in place which encourage executive directors and certain senior executives to build up a meaningful level of shareholding of up to two times salary through the retention of shares following exercise. Attainment of these guidelines will be taken into account by the Committee in determining future awards for executive directors and senior executives.

As a result of the transition to International Financial Reporting Standards and the disposal of the HellermannTyton Division, the Committee has resolved that it will adjust as necessary EPS performance condition measurements in respect of outstanding SARs/options to ensure that performance is measured on a consistent basis.

e) Service contracts

The Committee's policy is to offer service contracts which provide for no more than 12 months' notice from the Company in normal circumstances. Anders Gustafsson entered into a service contract on 1 August 2004 which currently has an unexpired term of 172 months and is terminable by the Company on 12 months' notice and by him on six months' notice. Eric Hutchinson entered into a service contract on 13 December 1999 which currently has an unexpired term of 111 months and is terminable at any time by either party on 12 months' notice.

All contracts contain provisions for the Company to make payment in lieu of notice and for removal of the director for poor performance or misconduct without compensation. The Company will seek to apply practical mitigation measures to any payment of compensation on termination, taking into account all relevant circumstances. All service contracts contain appropriate provisions to protect the legitimate interests of the Company with respect to preventing any terminated director from working in a business which competes against the Company. Service contracts do not contain any compensation rights which could be increased on a change of control in the Company.

f) External appointments

Spirent recognises the mutual benefit for executive directors to serve as non-executive directors of companies in other industries outside the Group. Such appointments are subject to prior Board approval and any related fee entitlements are for the account of the executive director concerned. During 2005, Eric Hutchinson served on the board of Trifast plc as a non-executive director and received fees of £27,500 arising from this appointment.

5. Non-executive directors' remuneration

The remuneration of the Chairman is determined by the Committee and the remuneration of the other non-executive directors is determined by the Board. The remuneration of all non-executive directors is reviewed following a recommendation by the Chief Executive and after consultation with independent external advisers concerning competitive market practice. The Company's remuneration policy (which has not changed during the year and will apply for the following financial year) with regards to non-executive directors is to pay fees which are in line with market practice.

For 2005, the non-executive directors (apart from John Weston) were awarded increases in basic fees of £3,000, bringing their basic fees to £33,000 per annum. No remuneration increase was awarded to John Weston in respect his duties as Chairman.

Non-executive directors are not eligible to participate in bonus or share incentive arrangements and their service does not qualify for pension purposes or other benefits. No element of their fees is performance-related. Non-executive directors do not have service contracts and are normally appointed, subject to the Company's Articles of Association, for an initial three year term. Any subsequent extension to the term by the Board is not automatic and is subject to prior recommendation of the Nomination Committee.

Further information on non-executive directors' fees is provided in paragraph 6(a) below.

6. Directors' remuneration[1]

a) Individual and total remuneration of the directors holding office during 2005

	Salary £000	Fees[2] £000	Taxable benefits[3] £000	Bonus[4] £000	Total[5] 2005 £000	Total[5] 2004 £000
Executive directors						
N Brookes	–	–	–	–	–	295.5
M Chung	–	–	–	–	–	443.9
A Gustafsson	460.0	–	104.7	115.0	679.7	583.6
E Hutchinson[6]	283.5	0.5	20.7	70.9	375.6	585.7
Non-executive directors						
M Beresford	–	40.0	–	–	40.0	37.0
F D'Alessio	–	38.0	–	–	38.0	32.6
G Ennerfelt	–	33.0	–	–	33.0	30.0
A Given	–	40.0	–	–	40.0	37.0
K Hellström	–	33.0	–	–	33.0	1.9
R Moley	–	13.0	–	–	13.0	35.0
J Weston	–	150.0	–	–	150.0	150.0
J Wyness	–	40.0	–	–	40.0	37.0
Total 2005	743.5	387.5	125.4	185.9	1,442.3	2,269.2
Total 2004	1,040.3	361.1	176.3	691.5	2,269.2	

Notes
1 Information relating to directors' remuneration in 6(a), 6(b) and 6(c) has been audited by the Company's auditors.
2 Eric Hutchinson earned these fees in respect of his services to the Board and its Committees. The non-executive directors receive a basic annual fee of £33,000 in respect of their services. John Weston receives an annual fee of £150,000 which covers both his basic annual fee and his additional duties as Chairman. Andrew Given and Marcus Beresford each received an additional £7,000 per annum in recognition of their extra responsibilities as Chairmen of the Audit Committee and Remuneration Committee, respectively. An additional annual fee, equivalent to that paid to the Chairman of the Audit or Remuneration Committee, is paid to the senior independent director (currently James Wyness). Frederick D'Alessio and Richard Moley received an additional £5,000 per annum in recognition of the extensive international travelling commitment required to perform their duties.
3 Taxable benefits include a car allowance, healthcare, personal tax advice, personal pensions advice and premiums for life assurance. In accordance with the Company's normal policy it was agreed to meet the costs, subject to a cap, of Anders Gustafsson relocating from the US to the UK in order to commence his appointment in 2004 and applicable costs are included in his taxable benefits.
4 Further details of the annual bonuses earned by the executive directors are provided in paragraph 4(b) above.
5 The figures relate to the period of each director's Board membership. Frederick D'Alessio, Anders Gustafsson and Kurt Hellström were appointed to the Board in January 2004, August 2004 and December 2004, respectively. Nicholas Brookes, My Chung and Richard Moley ceased being directors of the Company in June 2004, September 2004 and May 2005 respectively.
6 Remuneration as shown above excludes fees received as a result of external appointments (see paragraph 4(f) above).

b) Directors' pensions

The pensions earned from the non-contributory defined benefit arrangements in place for the participating executive directors during 2005 were as follows:

	Age at 31 December 2005	Years of pensionable service	Increase in accrued pension during the year £000	Increase, before inflation, in accrued pension during the year £000	Accumulated total accrued pension At 31 December 2005[1] £000	Accumulated total accrued pension At 31 December 2004 £000
E Hutchinson	50	20	9.0	5.0	189.0	180.0

	Transfer value of the increase in accrued pension[2] £000	Transfer value, before inflation, of the increase in accrued pension[2] £000	Total transfer value of pension[2] At 31 December 2005 £000	Total transfer value of pension[2] At 1 January 2005 £000	Increase in total transfer value of pension during the year £000	Increase, before inflation, in total transfer value of pension during the year £000
E Hutchinson	125.5	70.0	2,635	2,213	422	373

Notes
1 The pension entitlements shown are those which would be paid annually from normal retirement age of 60 based on service to 31 December 2005. Eric Hutchinson's total accrued pension is restricted to 20 years' service.
2 The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and represents a liability of the Company (in respect of unfunded arrangements) and of the Staff Plan (in respect of funded arrangements), not a sum paid or due to the individual. The transfer value cannot therefore be meaningfully added to annual remuneration.
3 No additional voluntary contributions have been included in the above table.

Report on directors' remuneration continued

c) Directors' remuneration and payments to former directors – summary

	2005[1] £000	2004[1] £000
Total emoluments of all directors	1,442	2,269
Gains made on exercise of share options[2]	–	8
Company contribution to 401(k) Retirement and Profit Share Plan[2]	–	11
Company contribution to the Cash Plan in respect of pensions[3]	23	11
Ex gratia pension to former director[4]	5	5
	1,470	2,304

Notes
1 Figures relate to the period of each director's Board membership.
2 An average conversion rate of £1 = $1.83 was used for 2004. This related to My Chung.
3 These payments relate to approved contributions made by the Company in respect of Anders Gustafsson's participation in the Cash Plan. In respect of those contributions which are outside of the statutory limits, the Company has established an unfunded unapproved retirement benefit ("UURB"), which had a transfer value of approximately £166,500 at 31 December 2005 (31 December 2004 approximately £44,400). The transfer value represents a notional accumulation of the Company's contributions. See paragraph 4(c) above for further information on directors' pensions.
4 This relates to an annual ex gratia pension to Geoff Bastians, who retired from the Board in 1984.

7. Directors' interests[1]

a) Summary of interests in Ordinary share capital

The beneficial and non-beneficial interests of the directors (and their immediate families and any connected persons) in the Ordinary share capital of the Company at the beginning and end of the year are set out below. The Company's statutory register of directors' interests contains full details of directors' shareholdings and options over shares and is available for inspection at the registered office during normal business hours on any business day.

	At 31 December 2005			At 1 January 2005		
	Ordinary shares beneficial[2]	Ordinary shares non-beneficial	Options and rights to acquire Ordinary shares[3]	Ordinary shares beneficial[2]	Ordinary shares non-beneficial	Options and rights to acquire Ordinary shares[3]
Executive directors[4]						
A Gustafsson	50,000	180,180[5]	3,232,000	–	180,180[5]	1,800,000
E Hutchinson	753,707	–	4,091,733	738,381	–	3,282,447
Non-executive directors						
M Beresford	65,225	–	–	65,225	–	–
F D'Alessio	28,000	–	–	28,000	–	–
G Ennerfelt[6]	120,000,000	–	–	119,000,000	–	–
A Given	–	–	–	–	–	–
K Hellström	–	–	–	–	–	–
J Weston	1,662,000	–	–	1,600,000	–	–
J Wyness	346,037	–	–	346,037	–	–

Notes
1 Information relating to directors' interests in 7(a) and 7(b) has been audited by the Company's auditors.
2 Directors' beneficial holdings do not form part of the remuneration provided by the Company.
3 Options and other rights to acquire shares in respect of the executive directors include share options, share appreciation rights and performance shares.
4 The Company's executive directors, along with other employees of the Group, are potential beneficiaries of certain Ordinary shares held in the Employee Share Ownership Trust ("ESOT"). UK executive directors, with other employees of the Group, are also potential beneficiaries of the Spirent Sharesave Trust ("SST"). As potential beneficiaries of the ESOT and the SST, the respective directors are deemed by the Companies Act 1985 to be interested in some of the Ordinary shares held by those Trusts. At 31 December 2005, the deemed beneficial interests in the ESOT and the SST were 180,180 Ordinary shares and 3,231,940 Ordinary shares, respectively (31 December 2004 259,066 and 3,508,136, respectively). Further details on the Company's share plans are provided in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements.
5 The non-beneficial interests of Anders Gustafsson arises from a conditional award over shares to a value of £100,000. The award was made in 2004 in recognition of his appointment to the Board and the shares which were purchased are held in the ESOT. In normal circumstances, the shares will be released beneficially to him on the third anniversary of his appointment, subject to him still being in the Company's employment at that time.
6 Göran Ennerfelt has a connected notifiable interest in the Spirent Ordinary shares held by Lexa BV (see the Report of the directors on pages 15 and 16), which for statutory purposes, is also deemed to be an interest of the director.

b) Options and rights to acquire Ordinary shares

	Plan type[1]	At 31 December 2005	Exercised/lapsed during the year	Granted during the year	At 1 January 2005	Date of grant	Exercise price per share pence	Market value on date of grant pence	Date first exercisable	Expiry date
A Gustafsson	ESOS	1,800,000	–	–	1,800,000	05 Aug 04	56	56	05 Aug 07	04 Aug 14
	EIP	1,128,300	–	1,128,300	–	25 Aug 05	53	53	25 Aug 08	24 Aug 15
	EIP	303,700	–	303,700	–	25 Aug 05	nil[2]	53	25 Aug 08	25 Aug 08
E Hutchinson	ESOS	–	17,652[3]	–	17,652	27 Apr 95	108	108	27 Apr 98	26 Apr 05
	ESOS	42,928	–	–	42,928	29 Apr 96	140	140	29 Apr 99	28 Apr 06
	ESOS	33,786	–	–	33,786	23 Apr 97	118	118	23 Apr 00	22 Apr 07
	ESOS	29,586	–	–	29,586	27 Apr 98	152	152	27 Apr 01	26 Apr 08
	SRSOS	12,363	–	–	12,363	22 Oct 98	83	83	01 Jan 06	30 Jun 06
	ESOS	75,156	–	–	75,156	01 Apr 99	133	133	01 Apr 02	31 Mar 09
	ESOS	–	55,562[3]	–	55,562	11 May 00	334	334	11 May 03	10 May 05
	ESOS	105,000	–	–	105,000	09 Apr 01	305	305	09 Apr 04	08 Apr 11
	SRSOS	8,693	–	–	8,693	05 Oct 01	93	93	01 Dec 08	31 May 09
	ESOS	234,000	–	–	234,000	02 Apr 02	134	134	02 Apr 05	01 Apr 12
	ESOS	387,000	–	–	387,000	02 May 02	113	113	02 May 05	01 May 12
	ESOS	1,128,000	–	–	1,128,000	25 Mar 03	16	16	25 Mar 06	24 Mar 13
	SRSOS	24,721	–	–	24,721	26 Sep 03	38	38	01 Dec 10	31 May 11
	ESOS	1,128,000	–	–	1,128,000	05 Aug 04	56	56	05 Aug 07	04 Aug 14
	EIP	695,300	–	695,300	–	25 Aug 05	53	53	25 Aug 08	24 Aug 15
	EIP	187,200	–	187,200	–	25 Aug 05	nil[2]	53	25 Aug 08	25 Aug 08

Notes

1 Key to plan type:
EIP – Employee Incentive Plan; ESOS – Executive Share Option Scheme; SRSOS – UK Savings Related Share Option Scheme. An explanation of each plan and its operation is given in note 32 to the consolidated financial statements and note 17 to the parent Company financial statements.

2 This relates to an award of performance shares under the EIP. There is no exercise price payable for a performance share upon vesting. Further details on performance shares are provided in paragraph 4(d) above.

3 This award of options lapsed unexercised during the year.

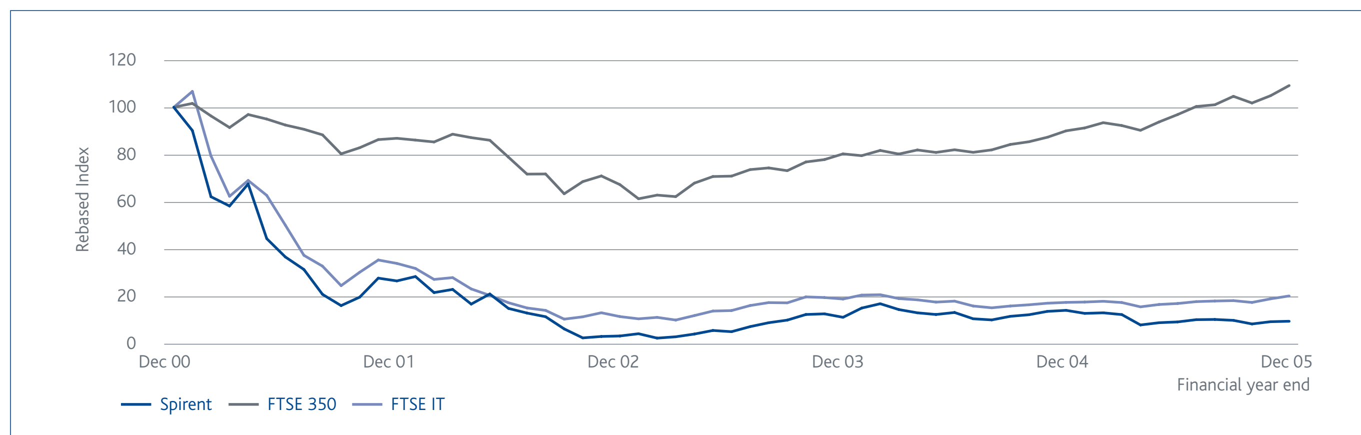
The middle market price of an Ordinary share on 4 January 2005 (being the first day the London Stock Exchange was open for trading in 2005) and 31 December 2005 was 51.5 pence and 49.5 pence, respectively, and during that period ranged between a high of 73.5 pence and a low of 41.25 pence.

Save as disclosed, there have been no changes between the year end and 23 February 2006 (the date on which the financial statements have been signed) in the directors' beneficial or non-beneficial interests in the Ordinary share or loan capital of the Company or any subsidiary.

Report on directors' remuneration continued

8. Total Shareholder Return performance

The graph below shows Total Shareholder Return ("TSR") performance (ie growth in the value of a share or index, assuming dividends and other distributions are reinvested) for the last five financial years of Spirent plc as shown against the FTSE 350 Index ("FTSE 350") and the FTSE Information Technology Index ("FTSE IT"). The Committee believes that both the FTSE 350 and the FTSE IT provide broad equity market indices against which the performance of Spirent can be fairly compared, and that the FTSE IT provides a particularly representative collection of comparator companies.



9. Shareholder advisory resolution in respect of the report on directors' remuneration

In accordance with statutory requirements, an ordinary resolution to approve this Remuneration Report will be proposed at the forthcoming 2006 Annual General Meeting.

Signed on behalf of the Board

Marcus Beresford CBE
Chairman of the Remuneration Committee
23 February 2006

Independent auditors' report to the members of Spirent plc

We have audited the Group financial statements of Spirent plc for the year ended 31 December 2005 which comprise the Consolidated income statement, Consolidated statement of recognised income and expense, Consolidated balance sheet, Consolidated cash flow statement and the related notes 1 to 40. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of Spirent plc for the year ended 31 December 2005 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted by the European Union as set out in the Statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Chief Executive's overview, the Operating review, the Financial review and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion the Group financial statements:

- give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Ernst & Young LLP
Registered auditor
London

23 February 2006

Consolidated income statement

Year to 31 December	Notes	2005 £ million	2004 £ million	2003 £ million
Continuing operations				
Revenue	3, 4	259.3	287.2	291.8
Cost of sales		(153.1)	(165.2)	(174.3)
Gross profit		106.2	122.0	117.5
Selling and distribution		(70.9)	(73.0)	(70.0)
Administration		(74.3)	(34.0)	(36.9)
Other operating income		–	0.2	0.7
Operating (loss)/profit	4	(39.0)	15.2	11.3
Add back:				
Material one-time items	7	8.4	2.9	7.5
Goodwill impairment	14	37.0	–	–
Share-based payment	33	5.1	4.8	0.9
Operating profit before material one-time items, goodwill impairment and share-based payment		11.5	22.9	19.7
(Loss)/profit from interests in joint ventures	18	–	(0.7)	1.4
Operating (loss)/profit of the Group and joint venture		(39.0)	14.5	12.7
Profit on the disposal of operations	37	3.9	4.0	8.6
(Loss)/profit before interest		(35.1)	18.5	21.3
Finance income	8	1.5	1.4	2.9
Finance costs	9	(8.1)	(8.2)	(12.7)
Costs associated with the part prepayment of loan notes	9	–	(0.5)	(16.1)
(Loss)/profit before tax	4, 5	(41.7)	11.2	(4.6)
Tax	12	4.0	(2.0)	4.2
(Loss)/profit for the year from continuing operations after tax		(37.7)	9.2	(0.4)
Discontinued operations				
Profit for the year from discontinued operations	6	13.2	17.3	14.2
(Loss)/profit for the year		(24.5)	26.5	13.8
Attributable to:				
Equity holders of parent		(24.9)	26.2	13.6
Minority shareholders' interests – discontinued operations		0.4	0.3	0.2
(Loss)/profit for the year		(24.5)	26.5	13.8
(Loss)/earnings per share (pence)	13			
Basic (loss)/earnings		(2.62)	2.79	1.46
Basic (loss)/earnings from continuing operations		(3.97)	0.98	(0.04)
Diluted (loss)/earnings		(2.62)	2.74	1.44
Diluted (loss)/earnings from continuing operations		(3.97)	0.96	(0.04)

The notes on pages 32 to 94 and page 114 form part of these financial statements.

Consolidated statement of recognised income and expense

Year to 31 December	Notes	2005 £ million	2004 £ million	2003 £ million
Income and expense recognised directly in equity				
Gains on cash flow hedges taken to equity		1.9	–	–
Exchange differences on retranslation of foreign operations		4.1	(1.5)	5.5
Actuarial (losses)/gains on defined benefit pension plans	11	(16.1)	3.0	0.3
		(10.1)	1.5	5.8
Transfers to income statement				
Exchange gain transferred to profit on sale		–	–	(2.4)
Gains on cash flow hedges		(0.5)	–	–
Transfers to balance sheet				
(Write off)/reinstatement of deferred tax asset on pension liability		(11.1)	–	12.6
Tax on exchange differences		–	–	(0.2)
Tax on actuarial gains/(losses)		–	(0.9)	(0.1)
Net (expense)/income recognised directly in equity		(21.7)	0.6	15.7
(Loss)/profit for the year		(24.5)	26.5	13.8
Total recognised income and expense for the year	34	(46.2)	27.1	29.5
Attributable to:				
Equity holders of parent		(46.8)	26.9	29.4
Minority shareholders' interests – discontinued operations	34	0.6	0.2	0.1
		(46.2)	27.1	29.5
Effects of changes in accounting policy:				
Equity holders of parent				
Net gain on cash flow hedges on first-time application of IAS 39		0.5	–	–
Net loss on fair value hedges on first-time application of IAS 39		(1.0)	–	–
Loan notes at fair value on first-time application of IAS 39		0.4	–	–
		(0.1)	–	–

The notes on pages 32 to 94 and page 114 form part of these financial statements.

Consolidated balance sheet

At 31 December	Notes	2005 £ million	2004 £ million	2003 £ million
Assets				
Non-current assets				
Goodwill	14	71.5	106.5	110.9
Property, plant and equipment	15	30.1	86.3	90.2
Investment in joint venture and associates	18	–	14.3	13.4
Trade and other receivables	20	1.7	1.5	1.7
Deferred tax	24	1.0	11.1	13.0
		104.3	219.7	229.2
Current assets				
Inventories	19	27.0	54.0	55.0
Trade and other receivables	20	56.3	88.4	85.2
Derivative financial instruments	30	2.6	–	–
Cash and cash equivalents	21	49.2	51.7	37.6
		135.1	194.1	177.8
Assets held in disposal group held for sale	6	164.1	–	–
Total assets		403.5	413.8	407.0
Liabilities				
Current liabilities				
Trade and other payables	22	(62.9)	(90.8)	(87.6)
Current tax		(24.7)	(26.2)	(24.7)
Derivative financial instruments	30	(0.7)	–	–
Short term borrowings and overdrafts	23	(3.9)	(1.8)	(1.8)
Provisions and other liabilities	26	(4.1)	(4.2)	(4.6)
		(96.3)	(123.0)	(118.7)
Non-current liabilities				
Trade and other payables	25	(0.7)	(3.9)	(2.3)
Derivative financial instruments	30	(2.0)	–	–
Long term borrowings	27	(71.2)	(76.3)	(93.3)
Defined benefit pension plan deficit	11	(51.5)	(38.1)	(48.2)
Deferred tax	24	(0.8)	(2.5)	(2.9)
Provisions and other liabilities	26	(10.1)	(9.6)	(13.3)
		(136.3)	(130.4)	(160.0)
Liabilities included in disposal group held for sale	6	(48.7)	–	–
Total liabilities		(281.3)	(253.4)	(278.7)
Net assets		122.2	160.4	128.3
Capital and reserves				
Share capital	32, 34	32.2	31.9	31.5
Share premium account	34	4.4	1.3	697.5
Capital reserve	34	10.2	10.9	17.7
Capital redemption reserve	34	–	–	0.7
Translation reserve	34	5.5	1.6	3.0
Net unrealised gains and losses	34	1.9	–	–
Retained earnings	34	66.1	113.4	(624.3)
Equity holders of parent		120.3	159.1	126.1
Minority interests	34	1.9	1.3	2.2
Total equity		122.2	160.4	128.3

The notes on pages 32 to 94 and page 114 form part of these financial statements.

Signed on behalf of the Board

Anders Gustafsson
Director
23 February 2006

Consolidated cash flow statement

Year to 31 December	Notes	2005 £ million	2004 £ million	2003 £ million
Cash flows from operating activities				
Cash generated from operations	35	34.0	60.3	68.2
Tax (paid)/received		(4.6)	(3.1)	8.9
Net cash from operating activities		29.4	57.2	77.1
Cash flows from investing activities				
Dividends received from associates		0.2	0.1	0.1
Interest received		1.4	1.6	3.6
Disposal of operations	37	2.4	2.5	62.0
Purchase of property, plant and equipment	15	(30.5)	(25.3)	(16.7)
Proceeds from the sale of property, plant and equipment		0.6	0.5	0.9
Acquisition of subsidiaries	36	–	(1.1)	(1.1)
Contribution to joint venture		–	(0.2)	(0.5)
Net cash (used in)/from investing activities		(25.9)	(21.9)	48.3
Cash flows from financing activities				
Interest paid		(7.4)	(8.4)	(12.6)
Interest element of finance lease rental payments		(0.5)	(0.4)	(0.5)
Costs associated with the part prepayment of loan notes		–	(2.3)	(13.7)
Proceeds from the issue of share capital		2.7	1.5	0.7
New borrowings		–	–	9.4
Repayments of borrowings		(0.2)	(10.2)	(152.9)
Repayments of capital element of finance lease rentals		(1.4)	(0.8)	(0.8)
Net cash used in financing activities		(6.8)	(20.6)	(170.4)
Net (decrease)/increase in cash and cash equivalents		(3.3)	14.7	(45.0)
Cash and cash equivalents at the beginning of year		51.0	36.9	83.0
Effect of foreign exchange rate changes		1.1	(0.6)	(1.1)
Cash and cash equivalents at the end of the year		48.8	51.0	36.9
Cash and cash equivalents comprise:				
Cash and cash equivalents	21	49.2	51.7	37.6
Overdrafts	23	(0.4)	(0.7)	(0.7)
		48.8	51.0	36.9

The notes on pages 32 to 94 and page 114 form part of these financial statements.

Notes to the consolidated financial statements

1. Corporate information

The Group's consolidated financial statements for the year ended 31 December 2005 were authorised for issue by the Board of directors on 23 February 2006. Spirent plc is a public limited company incorporated and domiciled in England and Wales. The Company's Ordinary shares are traded on the London Stock Exchange and, in the form of American Depositary Shares, on the New York Stock Exchange.

As required by the European Union's IAS Regulation and the Companies Act 1985, the Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board ("IASB"). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to "IFRS" hereafter should be construed as references to IFRS as adopted by the EU. The significant accounting policies adopted by the Group are set out in note 2.

2. Summary of significant accounting policies

Basis of preparation

This is the first year in which the Group has prepared its financial statements under IFRS and the comparatives have been restated from UK Generally Accepted Accounting Practice ("UK GAAP") to comply with IFRS. The Group issued a press release on 15 July 2005 incorporating its preliminary IFRS financial statements for 2003 and 2004. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 39.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2005. Where the Group has applied different policies for part of the period since its transition to IFRS on 1 January 2003, this is explained in note 39.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies.

Results of subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intra Group transactions, balances, income and expenses are eliminated on consolidation.

Interests in associates and joint venture

The consolidated financial statements include the Group's share of profits or losses of associates and joint ventures.

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the operating policy decisions of the investee. Results are based on management accounts to 31 December each year. The investment in associates is accounted for using the equity method and carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate, less any impairment in value.

Jointly controlled entities in which the Group enters into a contractual arrangement to undertake an economic activity with another party or parties that is subject to joint control are treated as joint ventures. The investment in joint ventures is accounted for using the equity method. Results are based on management accounts to 31 December each year.

Goodwill

Goodwill arising on the acquisition of subsidiaries, representing the excess of cost over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised as an intangible asset. Goodwill is carried at cost less any accumulated impairment losses.

Goodwill in each cash-generating unit is tested annually for impairment and more frequently if there is any indication that the current asset value is not recoverable.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit, an operation within a cash-generating unit, an associate or jointly controlled entity is included in the profit or loss on its disposal.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Separately identifiable intangible assets such as patent fees, licence fees and trade marks are capitalised on the balance sheet only when the value can be measured reliably or the intangible asset is purchased as part of the acquisition of a business. Such intangible assets are amortised over their useful economic lives on a straight line basis. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets arising on the Group's various product development projects are recognised only if all of the following conditions are met:
i) an asset is created that can be separately identified (such as software or a new process);
ii) it is probable that the asset created will generate future economic benefits;
iii) the development cost can be measured reliably;
iv) it is intended that the asset is completed and used; and
v) there is adequate financial, technical and other resources to complete, use or sell the asset.

Product development costs are expensed as incurred until the technological feasibility of the product under development has been established. Technological feasibility in Spirent's circumstances occurs when a working model is completed. For software development technological feasibility is not established until the process of developing the software is complete. After technological feasibility is established, additional costs are capitalised and amortised on a straight line basis over the estimated useful life.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Depreciation is not provided on freehold land. Depreciation is provided to write off the cost, less estimated residual value, of all other assets over their estimated useful lives on a straight line basis at rates which take into account commercial conditions at their location. Usual asset lives are as follows:

Freehold buildings	50 years
Properties held under finance leases	Over the lease period
Plant and machinery	3 to 8 years
Fixtures, fittings and equipment	
Building installations	20 years or lease period if less
Fittings and equipment	3 to 8 years
Motor vehicles	3 to 5 years
Business systems software	4 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement of those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Leases

Finance leases, which transfer substantially all the risks and rewards of ownership of the assets concerned, are capitalised on the balance sheet at the lower of fair value of the leased property and net present value of the minimum lease payments at the inception of the lease. The corresponding liabilities are recorded as long term or current liabilities depending on the period when they are due. The interest elements of the rental obligations are charged to the income statement over the periods of the leases as a finance cost. Lease payments are apportioned between the finance cost and the reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over their useful life as above.

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost includes all costs in bringing each product to its present location and condition, being the full manufacturing cost on a first-in-first-out basis, including all attributable overheads based on a normal level of activity and excluding borrowing costs. Net realisable value represents selling price less further costs to be incurred to completion and on sale.

Trade and other receivables

Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recorded when the Group has a present, legal or constructive obligation as a result of a past event which it is probable that the Group will be required to settle by an outflow of resources and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation.

Revenue recognition

Goods and services

Revenue is recognised when it is probable that economic benefits will flow to the Group, the revenue can be reliably measured and when the Group has transferred to the buyer the significant risks and rewards of ownership. In addition, revenue is only recognised when collectibility is probable.

For the sale of services, revenue is recognised in accounting periods in which the service is rendered. Revenue from maintenance contracts is recognised over the period of performance.

Revenue from product sales of hardware and software is recognised at the time of delivery and acceptance and when there are no significant vendor obligations remaining. It is not until acceptance has occurred that the risks and rewards of ownership are transferred to the buyer. Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer.

Contractual arrangements are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other because they are capable of being provided separately from one another and it is possible to attribute reliable fair values to every component. To the extent that a separate component comprises a product sale of hardware or software, revenue is recognised as described above. Revenue is recognised on other components as the Group fulfils its contractual obligations and to the extent that it has earned the right to consideration.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentation currency. The Group determines the functional currency of its foreign operations and items included in the financial statements are measured using that functional currency.

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are measured in terms of historical costs using the exchange rate at the date of the initial transactions.

The functional currencies of the Group's operations are principally US dollar, sterling or euro.

On consolidation the assets and liabilities of the Group's foreign operations are translated into the Group's presentation currency at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated into sterling using average rates.

Equity investments in foreign operations include long term intra group loans, the settlement of which is neither planned nor likely to occur in the foreseeable future. Exchange differences arising from the retranslation of opening net assets of foreign investments and exchange adjustments arising from the translation of the results of foreign operations, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as part of the profit or loss on disposal should an operation be disposed of. The Group has elected to apply the exemption in IFRS 1 'First Time Adoption of International Financial Reporting Standards' which allows the cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IFRS. The gain or loss on the subsequent disposal of any foreign operation therefore excludes translation differences that arose before the date of transition.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rates of exchange. As permitted by IFRS 1 the Group has elected to treat goodwill and fair value adjustments arising on acquisitions prior to the date of transition to IFRS and treated as an asset of the parent, as sterling denominated.

All other exchange profits and losses are taken to the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against the Group's equity investments in foreign operations, which are taken to equity together with the exchange differences on the carrying amount of the related investments.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when it becomes a party to the contractual provisions of the instrument.

Interest-bearing loans and borrowings

Loans and overdrafts are initially recognised at fair value of the consideration received, net of issue costs. Issue costs are amortised over the expected life of the instrument.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

From 1 January 2005, hedge accounting is adopted where derivatives such as 'fixed to floating' interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in the fair value attributable to the interest rate risk being hedged.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. The Group's policy is not to undertake any trading activity in financial instruments. Such derivative financial instruments are stated at fair value with effect from 1 January 2005.

From 1 January 2005, such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Interest rate swaps are used to hedge the Group's exposure to movements in interest rates. The fair value of interest rate swaps is determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to the variability in cash flows that is due to the risk associated with a recognised asset or liability or a forecast transaction. The Group discontinues hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

In relation to these fair value hedges (interest rate swaps) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised in the income statement and any gain or loss on the item that is being hedged is adjusted against its carrying amount and recognised in the income statement.

In relation to cash flow hedges (forward foreign exchange contracts) to hedge firm commitments or highly probable forecast transactions and which meet the conditions for hedge accounting, the proportion of the gain or loss on the remeasurement of the fair value of the hedging instrument that is deemed to be effective is recognised in equity and the ineffective portion is recognised in the income statement.

When the firm commitment or highly probable forecast transaction results in the recognition of an asset or liability, the associated gains and losses that have previously been recognised in equity are included in the initial measurement of the carrying amount of the asset or liability at the time the asset or liability is recognised.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken to the income statement.

Gains or losses arising on hedging instruments, which are cancelled due to termination of the underlying exposure, are taken to the income statement immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts.

Pension contributions

In the UK, the Group operates two defined benefit pension schemes for the benefit of employees. These schemes require contributions to be made to separately administered funds, based on triennial actuarial valuations. Other schemes are defined contribution in nature.

The cost of providing benefits under the defined benefit pension schemes is determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related scheme assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on scheme assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of scheme assets of contributions received and benefits paid during the year. The difference between the expected return on scheme assets and the interest cost is recognised in the income statement.

Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each scheme of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of scheme assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the scheme or reductions in the future contributions.

Contributions payable to the defined contribution schemes are charged to the income statement in the year for which they are due.

Employee benefits

When an employee has rendered services to the Group during an accounting period, short term benefits expected to be paid in exchange for those services are recognised in the same accounting period.

Share-based payment

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in the opinion of the directors of the Company at that date and based on the best available estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected in the computation of diluted earnings per share.

The Group has an employee share trust for the granting of certain options to employees. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity.

The Group has taken advantage of the transitional provisions of IFRS 1 in respect of equity-settled awards and has applied IFRS 2 'Share-based Payment' only to equity-settled awards granted after 7 November 2002 which were unvested at 1 January 2005.

Tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

– where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

– deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards ("IAS/IFRS")		Effective date
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 21	Amendment to IAS 21 – The effects of change in foreign exchange rates: Net Investment in a Foreign Operation	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
International Financial Reporting Interpretations Committee ("IFRIC")		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Applying the Restatement Approach under IAS 39 Financial Reporting in Hyperinflationary Economies	1 March 2006

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically, the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

3. Revenue

	2005 £ million	2004 £ million	2003 £ million
Sales of goods	228.8	250.9	251.8
Maintenance and support services	30.5	36.3	40.0
Total revenue from continuing operations	259.3	287.2	291.8

Revenues for discontinued operations principally relate to sales of goods.

4. Segmental analysis

The Group's primary reporting format is business segments and its secondary format is geographical segments.

Business segments

For management purposes, the Group is currently organised on a worldwide basis into three operating groups: Communications, Network Products and Systems. Communications is further subdivided into two divisions: Performance Analysis and Service Assurance. These four operating segments are the basis on which the Group reports its primary segment information.

The principal activities of each segment are as follows:

- Performance Analysis division of the Communications group develops testing solutions for a broad range of Communications technologies critical to the development of next-generation network equipment and devices;
- Service Assurance division of the Communications group provides network monitoring and management systems for service providers to assure the quality of their high bandwidth data services. Sales include hardware and software products as well as maintenance and support services;
- Network Products group develops and manufactures innovative solutions for fastening, identification, protection and connectivity in electrical and communications networks marketed under the global brand HellermannTyton; and

– Systems group comprises PG Drives Technology, which develops power control systems for specialist electrical vehicles in the mobility and industrial markets and, until August 2003, an aerospace business that provided ground-based logistics support software systems for the aviation market.

As described in note 6, the Network Products group and the investment in associated companies ("HellermannTyton Division") has been classified as a discontinued operation.

Non-segmental costs represent corporate expenses, non-segmental assets comprise cash held for central treasury purposes and other corporate assets and non-segmental liabilities represent senior unsecured loan notes, defined benefit pension fund deficit and other corporate liabilities.

2005
£ million

	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total	Discontinued operations Network Products	Total operations
Revenue								
External sales	178.8	42.8	221.6	37.7	–	259.3	205.5	464.8
Inter-segment sales	–	0.1	0.1	–	–	0.1	–	0.1
Segment revenue	178.8	42.9	221.7	37.7	–	259.4	205.5	464.9
Inter-segment sales are charged at prevailing market rates.								
Profit/(loss)								
Operating profit/(loss) before material one-time items, goodwill impairment and share-based payment	22.0	(9.6)	12.4	4.4	(5.3)	11.5	25.3	36.8
Material one-time items	(2.5)	(5.4)	(7.9)	–	(0.5)	(8.4)	(0.4)	(8.8)
Goodwill impairment	–	(37.0)	(37.0)	–	–	(37.0)	–	(37.0)
Share-based payment	(3.6)	(1.2)	(4.8)	(0.1)	(0.2)	(5.1)	(0.5)	(5.6)
Operating (loss)/profit	15.9	(53.2)	(37.3)	4.3	(6.0)	(39.0)	24.4	(14.6)
Share of profit of associates	–	–	–	–	–	–	2.7	2.7
Operating (loss)/profit of the Group and associates	15.9	(53.2)	(37.3)	4.3	(6.0)	(39.0)	27.1	(11.9)
Profit/(loss) on the disposal of operations						3.9	(6.7)	(2.8)
Finance income						1.5	0.1	1.6
Finance costs						(8.1)	(1.2)	(9.3)
(Loss)/profit before tax						(41.7)	19.3	(22.4)
Tax						4.0	(6.1)	(2.1)
(Loss)/profit after tax for the year						(37.7)	13.2	(24.5)
Other information								
Product development	42.1	14.0	56.1	2.3	–	58.4	4.4	62.8
Capital expenditure *note 15*	12.1	1.9	14.0	0.7	0.1	14.8	18.2	33.0
Depreciation *note 15*	9.0	1.6	10.6	0.5	0.3	11.4	11.2	22.6
Assets								
Segment assets	139.0	32.4	171.4	13.7	54.3	239.4	148.0	387.4
Investment in associates	–	–	–	–	–	–	16.1	16.1
Total assets	139.0	32.4	171.4	13.7	54.3	239.4	164.1	403.5
Liabilities								
Segment liabilities	(41.0)	(12.9)	(53.9)	(4.9)	(177.6)	(236.4)	(44.9)	(281.3)
Net assets	98.0	19.5	117.5	8.8	(123.3)	3.0	119.2	122.2

Notes to the consolidated financial statements continued

4. Segmental analysis continued

2004
£ million

	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total	Discontinued operations Network Products	Total operations
Revenue								
External sales	176.8	74.7	251.5	35.7	–	287.2	187.8	475.0
Inter-segment sales	–	0.1	0.1	–	–	0.1	–	0.1
Segment revenue	176.8	74.8	251.6	35.7	–	287.3	187.8	475.1
Inter-segment sales are charged at prevailing market rates.								
Profit/(loss)								
Operating profit/(loss) before material one-time items and share-based payment	21.7	2.5	24.2	4.0	(5.3)	22.9	21.3	44.2
Material one-time items	1.3	(1.9)	(0.6)	–	(2.3)	(2.9)	–	(2.9)
Share-based payment	(3.2)	(1.4)	(4.6)	(0.1)	(0.1)	(4.8)	(0.4)	(5.2)
Operating profit/(loss)	19.8	(0.8)	19.0	3.9	(7.7)	15.2	20.9	36.1
Loss from interest in joint venture	–	(0.7)	(0.7)	–	–	(0.7)	–	(0.7)
Share of profit of associates	–	–	–	–	–	–	1.8	1.8
Operating profit/(loss) of the Group, joint venture and associates	19.8	(1.5)	18.3	3.9	(7.7)	14.5	22.7	37.2
Profit on the disposal of operations						4.0	–	4.0
Finance income						1.4	0.2	1.6
Finance costs						(8.2)	(0.9)	(9.1)
Costs associated with the part prepayment of loan notes						(0.5)	–	(0.5)
Profit before tax						11.2	22.0	33.2
Tax						(2.0)	(4.7)	(6.7)
Profit after tax for the year						9.2	17.3	26.5
Other information								
Product development	43.2	17.2	60.4	2.8	–	63.2	4.1	67.3
Capital expenditure *note 15*	10.0	1.4	11.4	0.6	0.1	12.1	13.5	25.6
Depreciation *note 15*	11.9	2.0	13.9	0.4	0.5	14.8	10.6	25.4
Impairment of property, plant and equipment	0.6	–	0.6	–	–	0.6	–	0.6
Assets								
Assets	118.2	73.0	191.2	11.8	54.1	257.1	142.4	399.5
Investment in joint venture and associates	–	(0.3)	(0.3)	–	–	(0.3)	14.6	14.3
Total assets	118.2	72.7	190.9	11.8	54.1	256.8	157.0	413.8
Liabilities								
Segment liabilities	(44.8)	(11.5)	(56.3)	(4.9)	(149.7)	(210.9)	(42.5)	(253.4)
Net assets	73.4	61.2	134.6	6.9	(95.6)	45.9	114.5	160.4

2003
£ million

	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total	Discontinued operations Network Products	Total operations
Revenue								
External sales	148.7	91.7	240.4	51.4	–	291.8	174.4	466.2
Inter-segment sales	–	0.2	0.2	–	–	0.2	–	0.2
Segment revenue	148.7	91.9	240.6	51.4	–	292.0	174.4	466.4
Inter-segment sales are charged at prevailing market rates.								
Profit/(loss)								
Operating profit/(loss) before material one-time items and share-based payment	5.2	13.4	18.6	6.2	(5.1)	19.7	16.9	36.6
Material one-time items	(5.1)	(0.1)	(5.2)	–	(2.3)	(7.5)	–	(7.5)
Share-based payment	(0.8)	(0.1)	(0.9)	–	–	(0.9)	(0.1)	(1.0)
Operating profit/(loss)	(0.7)	13.2	12.5	6.2	(7.4)	11.3	16.8	28.1
Income from interests in joint ventures	–	(0.2)	(0.2)	–	1.6	1.4	–	1.4
Share of profit of associates	–	–	–	–	–	–	1.1	1.1
Operating profit/(loss) of the Group, joint ventures and associates	(0.7)	13.0	12.3	6.2	(5.8)	12.7	17.9	30.6
Profit on the disposal of operations						8.6	–	8.6
Finance income						2.9	0.2	3.1
Finance costs						(12.7)	(1.0)	(13.7)
Costs associated with the part prepayment of loan notes						(16.1)	–	(16.1)
(Loss)/profit before tax						(4.6)	17.1	12.5
Tax						4.2	(2.9)	1.3
(Loss)/profit after tax for the year						(0.4)	14.2	13.8
Other information								
Product development	39.4	18.4	57.8	4.4	–	62.2	3.8	66.0
Capital expenditure *note 15*	6.1	1.0	7.1	0.5	0.1	7.7	9.3	17.0
Depreciation *note 15*	12.9	3.0	15.9	0.7	0.9	17.5	11.8	29.3
Impairment of property, plant and equipment *note 15*	3.2	–	3.2	–	–	3.2	–	3.2
Assets								
Assets	121.4	76.0	197.4	18.0	43.8	259.2	134.4	393.6
Investment in joint venture and associates	–	(0.2)	(0.2)	–	–	(0.2)	13.6	13.4
Total assets	121.4	75.8	197.2	18.0	43.8	259.0	148.0	407.0
Liabilities								
Segment liabilities	(40.0)	(10.7)	(50.7)	(11.3)	(177.2)	(239.2)	(39.5)	(278.7)
Net assets	81.4	65.1	146.5	6.7	(133.4)	19.8	108.5	128.3

Notes to the consolidated financial statements continued

4. Segmental analysis continued

Geographical segments

The Group manages its business segments on a global basis and the operations are based in three main geographical areas. The following table presents revenue and other information regarding the Group's geographical segments and is based on the location of the customer and the geographical area in which the assets are located.

	2005 £ million	2004 £ million	2003 £ million
Revenue by market			
Continuing operations			
Europe	43.0	49.3	39.7
North America	158.2	182.0	190.2
Asia Pacific, Rest of Americas, Africa	58.1	55.9	61.9
	259.3	287.2	291.8
Discontinued operations			
Europe	122.8	118.1	109.9
North America	42.0	35.0	33.6
Asia Pacific, Rest of Americas, Africa	40.7	34.7	30.9
	205.5	187.8	174.4
	464.8	475.0	466.2

2004 and 2003 comparatives have been restated to reflect the geographic location for the customer where sales are made through distributors and the end customer is known.

	2005 £ million	2004 £ million	2003 £ million
Revenue by source			
Continuing operations			
Europe	61.2	59.9	52.0
North America	180.9	209.7	230.0
Asia Pacific, Rest of Americas, Africa	17.2	17.6	9.8
	259.3	287.2	291.8
Discontinued operations			
Europe	131.0	125.0	116.2
North America	40.3	33.7	32.1
Asia Pacific, Rest of Americas, Africa	34.2	29.1	26.1
	205.5	187.8	174.4
	464.8	475.0	466.2
Geographical assets			
Continuing operations			
Europe	76.6	75.1	49.6
North America	156.5	176.4	209.6
Asia Pacific, Rest of Americas, Africa	6.3	5.3	(0.2)
	239.4	256.8	259.0
Discontinued operations			
Europe	92.3	94.6	88.6
North America	32.1	25.5	25.4
Asia Pacific, Rest of Americas, Africa	39.7	36.9	34.0
	164.1	157.0	148.0
	403.5	413.8	407.0

	2005 £ million	2004 £ million	2003 £ million
Capital expenditure			
Continuing operations			
Europe	1.9	1.2	0.8
North America	12.6	10.4	6.9
Asia Pacific, Rest of Americas, Africa	0.3	0.5	–
	14.8	12.1	7.7
Discontinued operations			
Europe	11.1	7.9	5.7
North America	3.2	3.5	1.8
Asia Pacific, Rest of Americas, Africa	3.9	2.1	1.8
	18.2	13.5	9.3
	33.0	25.6	17.0

5. (Loss)/profit before tax

The following items have been included in arriving at (loss)/profit before tax and are disclosed for continuing and discontinued operations:

	2005 £ million	2004 £ million	2003 £ million
Employee benefit costs *note 10*	176.7	188.4	179.2
Costs of inventories recognised as an expense	133.9	129.7	139.2
Write-down of inventories to net realisable value	2.8	0.4	0.1
Depreciation of property, plant and equipment *note 15*			
Owned assets	22.3	25.2	29.0
Under finance leases	0.3	0.2	0.3
Loss/(profit) on disposal of property, plant and equipment	–	0.4	(0.1)
Operating leases			
Minimum lease payments	8.5	11.6	11.7
Sublease income	1.4	1.1	0.5
Product development costs	62.8	67.3	66.0
Net foreign exchange credit	(0.1)	(0.3)	(0.5)
Services provided to all of the operations of the Group by the auditor, Ernst & Young LLP, and its associates			
Audit services			
Statutory audit	1.0	1.4	1.2
Non-audit services			
Further assurance services	0.5	0.2	0.1
Tax services	0.3	0.4	0.6
	0.8	0.6	0.7
	1.8	2.0	1.9

Fees for further assurance services principally comprise amounts in respect of SEC Compliance, the IFRS conversion project, the disposal of the HellermannTyton Division and other advice.

For 2005 Ernst and Young LLP were not the auditors of the Group's pension schemes. In 2004 Ernst and Young LLP received fees of £15,740 for the audit of the Group's pension schemes. A description of the work of the Audit Committee is set out in the Directors' statement on corporate governance and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Notes to the consolidated financial statements continued

6. Discontinued operations

On 19 September 2005, Spirent plc announced that it had commenced a formal process that was expected to result in the disposal of all of the HellermannTyton Division. This decision was consistent with the stated strategy of focusing on growing the Communications group. This process has progressed and on 15 December 2005 the Board accepted a formal offer from funds controlled by Doughty Hanson & Co Limited for this division for £288.9 million at a cash free/debt free equivalent value. This transaction was subject to shareholder approval at an Extraordinary General Meeting held on 24 January 2006 on which date the disposal was approved. The disposal was completed on 15 February 2006. At 31 December 2005 the HellermannTyton Division was classified as a disposal group and was held for sale.

The results for discontinued operations are presented below:

	2005 £ million	2004 £ million	2003 £ million
Revenue	205.5	187.8	174.4
Cost of sales	(120.7)	(109.7)	(105.5)
Gross profit	84.8	78.1	68.9
Expenses	(60.4)	(57.2)	(52.1)
Operating profit	24.4	20.9	16.8
Share of profit of associates *note 18*	2.7	1.8	1.1
Expenses incurred in relation to the disposal *note 37*	(6.7)	–	–
Finance income *note 8*	0.1	0.2	0.2
Finance costs *note 9*	(1.2)	(0.9)	(1.0)
Profit before tax from discontinued operations	19.3	22.0	17.1
Tax *note 12*	(6.1)	(4.7)	(2.9)
Profit for the year from discontinued operations	13.2	17.3	14.2

Expenses include £0.4 million (2004 and 2003 nil) in respect of material one-time items for restructuring.

The major classes of assets and liabilities of the discontinued operations measured at the lower of carrying amount and fair value less costs to sell are as follows:

	2005 £ million	2004 £ million	2003 £ million
Assets			
Goodwill *note 14*	5.5	–	–
Property, plant and equipment *note 15*	70.9	–	–
Investment in associates *note 18*	16.1	–	–
Inventories	33.7	–	–
Trade and other receivables	37.9	–	–
Assets held in disposal group held for sale	164.1	–	–
Liabilities			
Trade and other payables	(35.2)	–	–
Current tax	(1.9)	–	–
Short term borrowings – finance lease obligations	(0.9)	–	–
Long term borrowings – finance lease obligations £8.1 million, other loans £0.7 million	(8.8)	–	–
Deferred tax	(1.9)	–	–
Liabilities included in disposal group held for sale	(48.7)	–	–
Net assets attributable to discontinued operations	115.4	–	–

The net cash flows after tax of the Network Products group are as follows:

	2005 £ million	2004 £ million	2003 £ million
Operating	31.2	26.2	28.5
Investing	(15.1)	(13.6)	(8.0)
Financing	(2.4)	(1.7)	(2.0)
Net cash inflow	13.7	10.9	18.5

7. Material one-time items

	2005 £ million	2004 £ million	2003 £ million
Finance renegotiation costs	–	–	2.3
Inventory provisions	1.4	–	–
Restructuring costs (including impairment of property, plant and equipment and lease provisions)	6.9	1.6	5.2
Exit from joint venture	0.1	1.3	–
	8.4	2.9	7.5

The Group defines material one-time items as those items which, by their size or nature, would distort the comparability of the Group's result from year to year.

Material one-time items relating to discontinued operations are shown in note 6.

8. Finance income

	2005 £ million	2004 £ million	2003 £ million
Continuing operations			
Bank interest receivable	1.5	1.4	2.9
Discontinued operations *note 6*			
Bank interest receivable	0.1	0.2	0.2
	1.6	1.6	3.1

9. Finance costs

	2005 £ million	2004 £ million	2003 £ million
Continuing operations			
Bank loans and overdrafts	0.1	0.6	2.4
Senior unsecured loan notes	6.6	6.7	8.8
Defined benefit pension schemes	1.1	0.7	1.5
Leasehold provisions discount adjustment	0.3	0.2	–
Finance cost before costs associated with the part prepayment of loan notes	8.1	8.2	12.7
Costs associated with the part prepayment of loan notes	–	0.5	16.1
	8.1	8.7	28.8
Discontinued operations *note 6*			
Bank loans and overdrafts	0.4	0.5	0.5
Finance leases	0.5	0.4	0.5
Other	0.3	–	–
	9.3	9.6	29.8

The costs associated with the part prepayment of loan notes in the amount of £0.5 million in 2004 and £16.1 million in 2003 comprised the make whole amount payable to the senior unsecured loan note holders, due on early repayment.

Notes to the consolidated financial statements continued

10. Employees

The average number of people employed by the Group during the year was:

	2005 Number	2004 Number	2003 Number
Manufacturing	2,504	2,705	2,768
Selling and distribution	1,436	1,394	1,310
Administration	438	422	420
	4,378	4,521	4,498

Employee benefit costs were:

	£ million	£ million	£ million
Remuneration	148.1	160.7	154.5
Social security costs	16.9	17.4	17.3
Pension and other related costs	6.1	5.1	6.4
Expense of share-based payment *note 33*	5.6	5.2	1.0
	176.7	188.4	179.2

Employee numbers and costs include discontinued operations.

Please refer to the Report on directors' remuneration on pages 20 to 26 for disclosures relating to the emoluments, share option and long term incentive interests and pensions of the directors.

11. Pensions

Defined benefit schemes

The only significant defined benefit pension schemes are in the United Kingdom and comprise the Staff Pension Plan and the Retirement Cash Plan. These schemes have been combined for the purposes of the following disclosures.

The most recent actuarial valuation of schemes' assets and the present value of the defined benefit schemes' obligations using the projected unit credit method at 1 April 2003 have been used and updated by our independent actuaries.

i) The key financial assumptions used were:

	2005 %	2004 %	2003 %
Inflation	2.9	2.9	2.8
Rate of increase in pensionable salaries	3.6	3.6	3.5
Rate of increase for pensions in payment pre 2001 service	3.5	3.0	3.0
Rate of increase for pensions in payment post 2001 pre April 2005 service	2.8	2.7	2.7
Rate of increase for pensions post April 2005 service	2.1	–	–
Rate of increase in deferred pensions	2.9	2.9	2.8
Rate used to discount scheme liabilities	4.7	5.3	5.4
Expected rate of return on scheme assets	6.4	6.5	6.8

The expected long term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long term asset allocation strategy adopted for the schemes.

The demographic assumptions are as follows:
- for future pensioners, that men and women aged 65 will live on average for a further 22 and 24 years, respectively; and
- for current pensioners, that men and women aged 65 will live on average for a further 21 and 24 years, respectively.

ii) The assets and the liabilities in the schemes were as follows:

	Long term rate of return expected %	2005 £ million	Long term rate of return expected %	2004 £ million	Long term rate of return expected %	2003 £ million
Equities	7.6	77.2	7.5	62.2	7.8	61.3
Government bonds	4.1	22.1	4.5	11.9	4.8	15.3
Corporate bonds	4.5	13.4	5.0	18.8	5.1	9.6
Cash	4.8	2.1	5.0	2.6	4.3	4.5
Property	6.6	5.5	6.5	4.6	6.8	1.8
Other	5.2	8.5	5.6	6.8	5.6	6.3
Fair value of schemes' assets	6.4	128.8	6.5	106.9	6.8	98.8
Present value of defined benefit pension schemes' obligations		(179.6)		(144.2)		(142.2)
Net deficit in the schemes		(50.8)		(37.3)		(43.4)
Present value of unfunded obligations		(0.7)		(0.8)		(4.8)
Defined benefit pension plan deficit		(51.5)		(38.1)		(48.2)

No deferred tax asset has been recognised (2004 £11.1 million; 2003 £13.0 million) in respect of the net deficit in the schemes. The schemes are prohibited from investing in Spirent's own financial instruments.

iii) Analysis of the amounts charged to the income statement:

	2005 £ million	2004 £ million	2003 £ million
Analysis of amount charged to operating costs:			
Current service cost	2.0	1.8	2.2
Total operating charge	2.0	1.8	2.2
Analysis of amount charged to finance costs:			
Expected return on pension schemes' assets	(6.5)	(6.6)	(5.7)
Interest on pension schemes' liabilities	7.6	7.3	7.2
Finance costs	1.1	0.7	1.5
Net charge	3.1	2.5	3.7

iv) Analysis of amount recognised directly in the statement of recognised income and expense:

	2005 £ million	2004 £ million	2003 £ million
Actual return on pension schemes' assets	21.1	10.2	12.3
Expected return on pension schemes' assets	(6.5)	(6.6)	(5.7)
Experience gains on the schemes' assets	14.6	3.6	6.6
Experience gains arising on the schemes' liabilities	4.8	2.4	6.8
Changes in assumptions underlying the present value of the schemes' liabilities	(35.5)	(3.0)	(13.1)
Actuarial (loss)/gain recognised directly in equity	(16.1)	3.0	0.3

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the Group's statement of recognised income and expense is £12.8 million loss (2004 £3.3 million gain; 2003 £0.3 million gain). The directors are unable to determine how much of the pension scheme deficit recognised on 1 January 2003 and taken directly to equity of £41.9 million in the Group is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group's statement of recognised income and expense before 1 January 2003.

Notes to the consolidated financial statements continued

11. Pensions continued

v) Movements in the present value of defined benefit obligations in the current period were as follows:

	2005 £ million	2004 £ million	2003 £ million
At 1 January	144.2	142.2	130.9
Current service cost	2.0	1.8	2.2
Interest cost	7.6	7.3	7.2
Employee contributions	0.6	0.5	0.6
Benefit payments	(5.5)	(8.2)	(5.0)
Actuarial loss	30.7	0.6	6.3
Present value of defined benefit pension schemes' obligations	179.6	144.2	142.2

vi) Movements in the present value of fair value of schemes' assets in the current period were as follows:

	2005 £ million	2004 £ million	2003 £ million
At 1 January	106.9	98.8	89.0
Expected return on schemes' assets	6.5	6.6	5.7
Employer contributions	5.7	5.6	1.9
Employee contributions	0.6	0.5	0.6
Benefit payments	(5.5)	(8.2)	(5.0)
Actuarial gain	14.6	3.6	6.6
Fair value of schemes' assets	128.8	106.9	98.8

vii) History of experience gains and losses

	2005 £ million	2004 £ million	2003 £ million	2002 £ million
Present value of defined benefit pension schemes' obligations	(179.6)	(144.2)	(142.2)	(130.9)
Fair value of schemes' assets	128.8	106.9	98.8	89.0
Net deficit in schemes	(50.8)	(37.3)	(43.4)	(41.9)
Experience gains and losses on schemes' liabilities				
Amount (£ million)	4.8	2.4	6.8	(0.9)
Percentage of schemes' liabilities (%)	2.7	1.7	4.8	(0.7)
Experience gains and losses on schemes' assets				
Amount (£ million)	14.6	3.6	6.6	(20.3)
Percentage of schemes' assets (%)	11.3	3.4	6.7	(22.8)

The above schemes are funded and have full UK HM Revenue & Customs tax-exempt approval by which benefits are limited due to the statutory earnings cap (a HM Revenue & Customs limit on the amount of earnings that can be made pensionable under the schemes for members who joined after May 1989). Certain members, whose salaries are in excess of this cap, have had their benefits increased through unapproved, unfunded arrangements, to the level that would otherwise have applied in respect of the basic salary only. The Group has contractually agreed to pay the additional retirement benefits itself and a provision is made in respect of this obligation in the balance sheet at 31 December 2005 of £0.7 million (2004 £0.8 million; 2003 £4.8 million). This represents the actuarial value as confirmed by the Group's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a Market Value basis in line with the Main Plan Valuation and adjusted each year by the charge for the year (equivalent to a contribution to a funded scheme) of £0.1 million (2004 £0.1 million; 2003 £0.2 million) and interest of nil on the unfunded liability (2004 nil; 2003 £0.3 million). The additional death-in-service benefits over the statutory cap are separately insured by the Group under an unapproved scheme.

On 1 July 2004, Nicholas Brooks was paid a lump sum of £3.7 million to commute all of his unfunded unapproved pension entitlement which stood at £4.5 million at 31 December 2003.

The Group contributed £47.0 million to its UK final salary scheme in February 2006 from the proceeds of the sale of the HellermannTyton Division (see note 40).

Defined contribution schemes

United Kingdom
The Group maintains defined contribution pension schemes for employees in the UK. These schemes are known as "Cash Builder", "Pension Builder" and "Executive Section". Employer contributions into these schemes for 2005 were £0.3 million (2004 £0.1 million; 2003 £0.1 million).

United States
The Group maintains defined contribution pension benefit schemes for employees of its US subsidiaries. These schemes, also known as 401(k) Plans, allow employees to defer a percentage of their salary for retirement. There are four different 401(k) Plans within the US businesses and each of these schemes has different features regarding Group contributions, maximum deferral percentages and investment choices. The investment choices offered are among a selection of diversified mutual funds offering a broad mix of investment return potential with varying levels of risk.

In aggregate, the Group contributions to the various US schemes totalled $4.6 million for 2005 (2004 $4.6 million; 2003 $4.4 million). Total assets in the defined contribution schemes at the end of 2005 were $129.2 million (2004 $116.8 million; 2003 $103.1 million). There were no defined benefit schemes in the US as at 31 December 2005, 2004 or 2003.

Other jurisdictions
Outside the United Kingdom and the United States employees are provided with pension arrangements determined in accordance with approved local practice and regulations and these arrangements are defined contribution schemes. Total contributions for 2005, in respect of these schemes amounted to £0.3 million (2004 £0.3 million; 2003 £0.2 million).

Total contributions to defined contribution schemes were £3.1 million (2004 £2.9 million; 2003 £3.0 million).

Notes to the consolidated financial statements continued

12. Tax

Tax on the profit on ordinary activities

	2005 £ million	2004 £ million	2003 £ million
Tax charge in the income statement			
Current income tax			
Foreign tax			
continuing operations	1.9	2.8	2.3
discontinued operations	6.5	4.6	2.6
Current income tax charge	8.4	7.4	4.9
Amounts overprovided in previous years			
UK tax	(1.6)	–	1.1
Foreign tax	(4.3)	(1.3)	(7.1)
Total current income tax	2.5	6.1	(1.1)
Deferred tax			
Origination and reversal of timing differences	(0.4)	1.7	(0.2)
Reversal of deferred tax assets	–	(1.1)	–
Total deferred tax	(0.4)	0.6	(0.2)
Tax charge in the income statement	2.1	6.7	(1.3)
The tax charge in the income statement is disclosed as follows:			
Income tax (credit)/expense on continuing operations	(4.0)	2.0	(4.2)
Income tax expense on discontinued operations *note 6*	6.1	4.7	2.9
	2.1	6.7	(1.3)
Tax relating to items charged or credited to equity			
Deferred tax			
Actuarial gains and losses on defined benefit pension plans	–	(0.9)	(0.1)
(Write off)/reinstatement of deferred tax asset on pension liability	(11.1)	–	12.6
Tax on exchange differences	–	–	(0.2)
Tax (charge)/credit in the statement of recognised income and expense	(11.1)	(0.9)	12.3

There was no tax effect in respect of material one-time items (2004 and 2003 nil).

A deferred tax asset has not been recognised in relation to the defined benefit pension fund deficit in 2005 as its future recovery is uncertain (2004 £11.1 million asset; 2003 £13.0 million asset). This results in a charge of £11.1 million to the statement of recognised income and expense (2004 nil; 2003 £12.6 million credit).

Reconciliation of the total tax charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 30 per cent (2004 and 2003 30 per cent).

The differences are reconciled below:

	2005 £ million	2004 £ million	2003 £ million
(Loss)/profit before tax from continuing operations	(41.7)	11.2	(4.6)
Profit before tax from discontinued operations *note 6*	19.3	22.0	17.1
Accounting (loss)/profit before tax	(22.4)	33.2	12.5
Accounting (loss)/profit multiplied by the UK standard rate of corporation tax of 30 per cent (2004 and 2003 30 per cent)	(6.7)	10.0	3.7
Expenses not deductible for tax purposes:			
Material one-time items not given credit	2.6	0.9	5.4
Intangible assets	10.6	(1.1)	–
Tax relief on share-based payment	1.2	1.6	0.3
Disposals	0.8	(1.2)	(2.6)
Differences in overseas rates and other adjustments	0.2	(1.7)	(1.3)
Tax overprovided in previous years	(5.9)	(1.3)	(6.0)
Other	(0.7)	(0.5)	(0.8)
Total tax expense/(credit) reported in the income statement	2.1	6.7	(1.3)

13. (Loss)/earnings per share

	2005 pence	2004 pence	2003 pence
Basic (loss)/earnings per share	(2.62)	2.79	1.46
Basic (loss)/earnings per share from continuing operations	(3.97)	0.98	(0.04)
Basic earnings per share from discontinued operations	1.35	1.81	1.50
Diluted (loss)/earnings per share	(2.62)	2.74	1.44
Diluted (loss)/earnings per share from continuing operations	(3.97)	0.96	(0.04)
Diluted earnings per share from discontinued operations	1.33	1.78	1.48
Adjusted earnings per share	2.30	3.14	2.36
Adjusted earnings per share from continuing operations	0.32	1.29	0.84
Adjusted earnings per share from discontinued operations	1.98	1.85	1.52

The Group discloses adjusted earnings per share attributable to equity shareholders in order to provide a measure to enable period-on-period comparisons to be made of its performance.

(Loss)/earnings per share is calculated by reference to the (loss)/profit for the year and the number of Ordinary shares in issue during the year as follows:

			2005 £ million
	Continuing operations	Discontinued operations	Total operations
(Loss)/profit for the year	(37.7)	13.2	(24.5)
Less: minority shareholders' interests	–	(0.4)	(0.4)
(Loss)/profit for the year attributable to equity holders of parent	(37.7)	12.8	(24.9)
Material one-time items	8.4	0.4	8.8
Goodwill impairment	37.0	–	37.0
Share-based payment	5.1	0.5	5.6
(Profit)/loss on the disposal of operations	(3.9)	6.7	2.8
Prior year tax credit	(5.9)	–	(5.9)
Prior year tax credit on associate	–	(1.5)	(1.5)
Adjusted earnings attributable to equity holders of parent	3.0	18.9	21.9

Notes to the consolidated financial statements continued

13. (Loss)/earnings per share continued

2004 £ million	Continuing operations	Discontinued operations	Total operations
Profit for the year	9.2	17.3	26.5
Less: minority shareholders' interests	–	(0.3)	(0.3)
Profit for the year attributable to equity holders of parent	9.2	17.0	26.2
Material one-time items	2.9	–	2.9
Share-based payment	4.8	0.4	5.2
Profit on the disposal of operations	(4.0)	–	(4.0)
Costs associated with the part prepayment of loan notes	0.5	–	0.5
Prior year tax credit	(1.3)	–	(1.3)
Adjusted earnings attributable to equity holders of parent	12.1	17.4	29.5

2003 £ million	Continuing operations	Discontinued operations	Total operations
Profit/(loss) for the year	(0.4)	14.2	13.8
Less: minority shareholders' interests	–	(0.2)	(0.2)
Profit/(loss) for the year attributable to equity holders of parent	(0.4)	14.0	13.6
Material one-time items	7.5	–	7.5
Share-based payment	0.9	0.1	1.0
Profit on the disposal of operations	(8.6)	–	(8.6)
Costs associated with the part prepayment of loan notes	16.1	–	16.1
Attributable tax on material one-time items	(1.7)	–	(1.7)
Prior year tax credit	(6.0)	–	(6.0)
Adjusted earnings attributable to equity holders of parent	7.8	14.1	21.9

	2005 Number million	2004 Number million	2003 Number million
Weighted average number of shares in issue – basic and adjusted	950.4	939.2	929.3
Dilutive potential of employee share options	10.2	18.1	17.1
Weighted average number of shares in issue – diluted	960.6	957.3	946.4

The shares in issue used to calculate basic and adjusted (loss)/earnings per share exclude the shares held by Spirent Sharesave Trust and the Employee Share Ownership Trust in accordance with IAS 33 'Earnings per Share'.

14. Goodwill

	£ million
Cost net of accumulated impairment losses	
At 1 January 2003	113.6
Increase during the year	2.7
Disposal of operations *note 37*	(0.6)
Exchange adjustment	(4.8)
At 31 December 2003	110.9
Exchange adjustment	(4.4)
At 31 December 2004	106.5
Attributable to discontinued operation *note 6*	(5.5)
Impairment	(37.0)
Exchange adjustment	7.5
At 31 December 2005	71.5
At 31 December 2003	
Cost (gross carrying amount)	1,785.5
Accumulated impairment losses	(1,674.6)
Net carrying amount	110.9
At 31 December 2004	
Cost (gross carrying amount)	1,745.3
Accumulated impairment losses	(1,638.8)
Net carrying amount	106.5
At 31 December 2005	
Cost (gross carrying amount)	1,777.3
Accumulated impairment losses	(1,705.8)
Net carrying amount	71.5

Goodwill acquired through business combinations has been allocated for impairment testing purposes to two cash-generating units, Performance Analysis which is also a reportable segment and the Service Assurance Broadband business unit, which together with the Field Test business unit, constitutes the Service Assurance reportable segment.

The carrying amounts of goodwill at 31 December 2005 by cash-generating unit are as follows:

£ million

	Performance Analysis	Service Assurance Broadband	Total
Europe	5.5	–	5.5
North America	45.4	20.6	66.0
	50.9	20.6	71.5

Impairment of Service Assurance Broadband

IAS 36 'Impairment of Assets' requires that a cash-generating unit to which goodwill has been allocated should be tested whenever there is an indication that the unit may be impaired. As a result of the substantial drop in activity levels in Service Assurance Broadband during the first half of 2005 this unit was tested for impairment. The recoverable amount of this unit was determined based on a value in use calculation using a pre-tax discount rate of 14.5 per cent. Following the impairment test, a goodwill charge of £37.0 million was recognised through administration expenses in the first half of 2005.

Notes to the consolidated financial statements continued

14. Goodwill continued

Annual impairment test

The recoverable amounts of the Performance Analysis and Service Assurance Broadband cash-generating units at 30 November 2005, the annual impairment testing date, have been calculated based on a value in use calculation using cash flow projections over a five year period. These were based on financial budgets approved by the Board for the next year and on approved strategic plans for the following two years. Cash flows in years four and five have been extrapolated using a 4.0 per cent growth rate which approximates to the average long term growth rate for the industries in which these units operate. The cash flows were discounted using a pre-tax discount rate of 15.9 per cent (2004 16.9 per cent; 2003 18.4 per cent) and 17.2 per cent (2004 15.6 per cent; 2003 15.0 per cent) respectively. In both cases the recoverable amounts of these units were in excess of their carrying values and no further impairment arose in the second half of 2005.

The key assumptions in these value in use calculations were:

- Revenue growth rates used in the budget and strategic plans.
- Gross margin.
- Operating expenses.
- Discount rate.
- Growth rate used to extrapolate cash flows beyond the strategic plan period.

Revenue growth rates used in the budget and strategic plans are based on management's estimate of growth in the markets served, taking into account products yet to be launched and which are in the development pipeline. They are consistent with external sources of information including comparable companies operating in the same markets and analysts' forecasts.

Gross margins are based on historical values achieved by the respective cash-generating units.

Operating expenses are based upon historical levels suitably adjusted for increases in activity levels over the term of the cash flow projections.

The discount rates are based on the Group's weighted average cost of capital adjusted to reflect management's estimate of the specific risk profile associated with the cash flow projections for each cash-generating unit.

Long term growth rates are based upon industry analysis and are consistent with analysts' forecasts.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the Performance Analysis unit, management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

For the Service Assurance Broadband unit, there are reasonable possible changes in key assumptions which would cause the carrying value of the unit to exceed its recoverable amount. In particular, the revenue growth assumptions in the strategic plan are based upon the successful execution of a new strategy for growth to meet the needs of service providers for their new triple play networks and services. The strategic plan assumes a significant increase in revenues in 2007, being the full year effect of new products expected to be launched in the second half of 2006. Should management fail to execute this strategy, such that the anticipated increase in revenue is not realised by 50 per cent or more in that year, and assuming growth is maintained at planned rates thereafter, albeit off a lower base, then value in use would be reduced to a value equal to the carrying amount for this unit.

15. Property, plant and equipment

£ million

	Land and buildings	Plant and machinery	Fixtures fittings and equipment	Total
Cost, net of accumulated depreciation and accumulated impairment				
At 1 January 2003	43.4	37.0	29.6	110.0
Additions				
owned assets	0.5	11.6	4.6	16.7
leased assets	–	–	0.3	0.3
Disposals	(0.2)	(0.4)	(0.2)	(0.8)
Disposal of operations *note 37*	(0.4)	(0.1)	(0.2)	(0.7)
Impairment of property, plant and equipment	(3.2)	–	–	(3.2)
Depreciation charge for the year	(2.7)	(14.6)	(12.0)	(29.3)
Exchange adjustment	(0.8)	(1.3)	(0.7)	(2.8)
At 1 January 2004	36.6	32.2	21.4	90.2
Additions				
owned assets	0.8	16.5	8.0	25.3
leased assets	–	–	0.3	0.3
Inter-class transfers	–	(0.3)	0.3	–
Disposals	–	(0.6)	(0.3)	(0.9)
Disposal of operations *note 37*	–	–	(0.1)	(0.1)
Impairment of property, plant and equipment	(0.5)	–	(0.1)	(0.6)
Depreciation charge for the year	(2.3)	(14.0)	(9.1)	(25.4)
Exchange adjustment	(0.8)	(1.1)	(0.6)	(2.5)
At 1 January 2005	33.8	32.7	19.8	86.3
Additions				
owned assets	1.7	16.3	12.5	30.5
leased assets	2.2	–	0.3	2.5
Inter-class transfers	0.2	(0.8)	0.6	–
Disposals	–	–	(0.6)	(0.6)
Attributable to discontinued operation *note 6*	(31.0)	(27.3)	(12.6)	(70.9)
Depreciation charge for the year	(2.1)	(12.3)	(8.2)	(22.6)
Exchange adjustment	1.4	2.4	1.1	4.9
At 31 December 2005	6.2	11.0	12.9	30.1
At 31 December 2003				
Cost	49.8	120.7	66.6	237.1
Accumulated depreciation and accumulated impairment	(13.2)	(88.5)	(45.2)	(146.9)
Net carrying amount	36.6	32.2	21.4	90.2
At 31 December 2004				
Cost	48.8	129.3	65.9	244.0
Accumulated depreciation and accumulated impairment	(15.0)	(96.6)	(46.1)	(157.7)
Net carrying amount	33.8	32.7	19.8	86.3
At 31 December 2005				
Cost	16.7	41.0	50.0	107.7
Accumulated depreciation and accumulated impairment	(10.5)	(30.0)	(37.1)	(77.6)
Net carrying amount	6.2	11.0	12.9	30.1

Notes to the consolidated financial statements continued

15. Property, plant and equipment continued

Property, plant and equipment include assets held under finance leases as follows:

£ million

	Plant and machinery	Fixtures fittings and equipment	Total
Net book value at 31 December 2003	0.4	0.6	1.0
Net book value at 31 December 2004	0.3	0.5	0.8
Net book value at 31 December 2005	0.3	–	0.3

16. Capital commitments and contingent liabilities

	2005 £ million	2004 £ million	2003 £ million
Capital expenditure commitments:			
Contracted but not provided	0.4	1.0	1.5

For 2005 capital expenditure commitments are for the continuing Group.

The Group has provided indemnities of £1.0 million (2004 £0.5 million; 2003 £1.0 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

17. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 114 of these financial statements.

18. Investments in joint venture and associates

	2005 £ million	2004 £ million	2003 £ million
Investments in associates	–	14.3	13.1
Investment in joint venture	–	–	0.3
Investments accounted for using the equity method	–	14.3	13.4

	2005 £ million	2004 £ million	2003 £ million
Joint venture			
At 1 January	–	0.3	50.1
Share of retained (loss)/profit	–	(0.7)	1.4
Additions	–	0.2	0.5
Disposal	–	–	(54.3)
Exchange adjustment	–	–	2.6
Accrued contribution to joint venture	–	0.2	–
At 31 December	–	–	0.3
Share of joint venture's revenue and profit			
Revenue	–	–	22.4
Expenses	–	(0.7)	(19.9)
(Loss)/profit before tax	–	(0.7)	2.5
Tax	–	–	(1.1)
Share of results from joint ventures after tax	–	(0.7)	1.4

The joint venture company as at 31 December 2004 and 2003 was:

	Location	% holding	Nature of business
Spirent DM Ltd	China	40%	Communications

During 2004, the Group exited from the Spirent DM joint venture. Until exit, the Group accounted for its interests in the joint venture using the equity method.

Associates

	2005 £ million	2004 £ million	2003 £ million
At 1 January	14.3	13.1	11.9
Exchange adjustment	(0.7)	(0.5)	0.2
Share of associates' net profit – discontinued operations *note 6*	2.7	1.8	1.1
Dividend	(0.2)	(0.1)	(0.1)
Attributable to discontinued operations *note 6*	(16.1)	–	–
At 31 December	–	14.3	13.1
Gross assets	–	16.2	14.7
Gross liabilities	–	(1.9)	(1.6)
	–	14.3	13.1

Gross assets and gross liabilities of the associates are estimated based on the latest audited financial statements.

The share of associates net profit includes a prior year tax credit of £1.5 million in 2005 in respect of tax on the unremitted earnings.

The associated companies at 31 December 2005, 2004 and 2003 were as follows:

	% holding	Nature of business
Tyton Company of Japan	49	Cable management products
3M/ECC	20	Cable management products

Tyton Company of Japan has a reporting date of 31 March being the date of preparation of statutory financial statements.

At 31 December 2005, the investment in associates has been included in assets held in disposal group held for sale, as these investments form part of the HellermannTyton Division (note 6).

19. Inventories

	2005 £ million	2004 £ million	2003 £ million
Raw materials	5.8	12.1	12.6
Work in progress	2.2	6.2	5.0
Finished goods	19.0	35.7	37.4
	27.0	54.0	55.0

An expense of £2.8 million (2004 £0.4 million; 2003 £0.1 million) has been recognised in the period for inventory write-downs.

Notes to the consolidated financial statements continued

20. Trade and other receivables

	2005 £ million	2004 £ million	2003 £ million
Non-current assets			
Other receivables	–	0.2	0.2
Prepayments	1.7	1.3	1.5
	1.7	1.5	1.7
Current assets			
Trade receivables	45.8	74.6	69.5
Owed by associates	–	0.3	0.2
Other receivables	2.3	6.3	8.2
Prepayments and accrued income	8.2	7.2	7.3
	56.3	88.4	85.2
	58.0	89.9	86.9

Trade and other receivables relating to discontinued operations are disclosed in note 6 for 2005.

Trade and other receivables are non-interest bearing and are generally on 60 day settlement terms. Trade receivables are presented net of allowances for estimated irrecoverable amounts of £0.5 million (2004 £1.3 million; 2003 £1.6 million), which have been estimated by the Group's management based on prior experience and their assessment of the current economic environment. Other receivables are non-interest bearing.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's credit risk is primarily attributable to its trade receivables, although the Group has no significant concentration of credit risk with exposure spread over a large number of customers.

21. Cash and cash equivalents

	2005 £ million	2004 £ million	2003 £ million
Cash at bank and in hand	22.3	20.4	33.6
Short term bank deposits	26.9	31.3	4.0
	49.2	51.7	37.6

22. Trade and other payables – current

	2005 £ million	2004 £ million	2003 £ million
Trade payables	11.1	28.0	27.6
Payments received on account	6.9	0.1	–
Owed to associates	–	0.8	0.8
Other taxes and social security costs	2.7	5.1	5.3
Other payables	4.4	7.1	10.0
Accruals and deferred income	37.8	49.7	43.9
	62.9	90.8	87.6

Trade and other payables relating to discontinued operations are disclosed in note 6 for 2005.

Trade payables are non-interest bearing and are normally settled on 60 day terms. Other payables are non-interest bearing.

The directors consider that the carrying amount of trade payables approximates to their fair value.

23. Short term borrowings and overdrafts

	2005 £ million	2004 £ million	2003 £ million
Senior unsecured loan notes *note 28*	3.2	–	–
Bank overdrafts (secured)	0.4	0.7	0.7
Bank loans due within one year	0.2	0.2	0.4
Finance lease obligations due within one year *note 27*	0.1	0.9	0.7
	3.9	1.8	1.8

Bank overdrafts are repayable on demand. Overdrafts are secured either by mortgages on the freehold properties or by floating charges on the assets of the borrowing subsidiaries.

24. Deferred tax

The movement in the deferred tax liabilities are as follows:

	Accelerated tax depreciation £ million	Other short term temporary differences £ million	Total £ million
At 1 January 2003	1.7	1.1	2.8
Exchange adjustment	–	(0.2)	(0.2)
Movement in respect of pension liability	–	0.5	0.5
Charge for the year *note 12*	(0.3)	0.1	(0.2)
At 1 January 2004	1.4	1.5	2.9
Movement in respect of pension liability	–	(1.0)	(1.0)
Charge for the year *note 12*	–	0.6	0.6
At 1 January 2005	1.4	1.1	2.5
Attributed to discontinued operations *note 6*	(1.3)	(0.6)	(1.9)
Exchange adjustment	–	(0.4)	(0.4)
Charge during the year *note 12*	0.7	(0.1)	0.6
At 31 December 2005	0.8	–	0.8

The movement in the deferred tax assets are as follows:

	Other £ million	Retirement benefit obligations £ million	Total £ million
At 1 January 2003	–	–	–
Movement in respect of pension liability	–	0.5	0.5
Reinstatement of deferred tax asset on pension scheme *note 12*	–	12.6	12.6
Tax on actuarial gain *note 12*	–	(0.1)	(0.1)
At 1 January 2004	–	13.0	13.0
Tax on actuarial gain *note 12*	–	(0.9)	(0.9)
Movement in respect of pension liability	–	(1.0)	(1.0)
At 1 January 2005	–	11.1	11.1
Write off of deferred tax asset *note 12*	–	(11.1)	(11.1)
Recognised during the year *note 12*	1.0	–	1.0
At 31 December 2005	1.0	–	1.0

Deferred tax assets of £13.3 million (2004 £13.3 million; 2003 £18.3 million) arising principally on timing differences in the US and UK have not been recognised. These assets can only be realised when they reverse against suitable taxable profits. Although the directors ultimately expect to realise these assets, there is currently insufficient evidence under IAS 12 'Income Taxes' to recognise a deferred tax asset in respect of these timing differences.

Notes to the consolidated financial statements continued

24. Deferred tax continued

A deferred tax asset of £15.2 million in respect of the UK final salary pension scheme has not been recognised in 2005. In 2004 and 2003 an asset was recognised.

In addition, the Group has tax losses arising in the US of £79.6 million (2004 £70.6 million; 2003 £70.1 million) and in the UK of £42.2 million (2004 £39.6 million; 2003 £24.8 million) that are available for offset against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. US tax losses can be carried forward for 20 years and UK losses can be carried forward indefinitely.

In total deferred taxes assets amounting to £74.2 million (2004 £52.6 million; 2003 £50.3 million) have not been recognised on unutilised losses and timing differences.

£0.1 million of deferred tax (2004 £2.1 million; 2003 £2.1 million) is recognised on the unremitted earnings of overseas subsidiaries, associates and the joint venture.

No deferred tax asset has been recognised in respect of the tax deduction which may be available on the future exercise of stock options.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

25. Trade and other payables – non-current

	2005 £ million	2004 £ million	2003 £ million
Other payables	0.2	1.1	1.3
Deferred income	0.4	2.5	0.4
Pension	0.1	0.3	0.6
	0.7	3.9	2.3

26. Provisions and other liabilities

£ million

	Restructuring provisions	Lease provisions	Total
At 1 January 2005	1.3	12.5	13.8
Charged during the year	4.0	3.0	7.0
Discount on unwind of lease provision	–	0.3	0.3
Utilised in the year	(4.9)	(3.0)	(7.9)
Exchange adjustment	0.1	0.9	1.0
At 31 December 2005	0.5	13.7	14.2

Provisions have been analysed as follows:

	2005 £ million	2004 £ million	2003 £ million
Current	4.1	4.2	4.6
Non-current	10.1	9.6	13.3
	14.2	13.8	17.9

The lease provisions are for the continuing obligations under leases in respect of properties which have been vacated by the Group. Where material, lease obligations are discounted. The Group expects these provisions to be utilised over the next ten years.

The restructuring costs relate to our exit from the Spirent DM joint venture.

27. Long term borrowings

	2005 £ million	2004 £ million	2003 £ million
Senior unsecured loan notes *note 28*	67.7	64.8	80.8
Bank loans	2.2	2.2	3.3
Other loans	–	0.6	0.7
Finance lease obligations	1.3	8.7	8.5
	71.2	76.3	93.3

Finance lease obligations

	2005 £ million	2004 £ million	2003 £ million	2005 £ million	2004 £ million	2003 £ million
	Minimum lease payments			Present value of minimum lease payments		
Amounts payable under finance leases:						
Within one year	0.2	1.4	1.2	0.1	0.9	0.7
Between one and five years	0.7	4.0	3.8	0.4	2.5	2.2
After five years	1.0	7.0	7.2	0.9	6.2	6.3
	1.9	12.4	12.2	1.4	9.6	9.2
Less: amounts representing future finance charges	(0.5)	(2.8)	(3.0)			
Present value of lease obligations	1.4	9.6	9.2			

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

Notes to the consolidated financial statements continued

28. Senior unsecured loan notes

	2005 £ million	2004 £ million	2003 £ million
Due within one year *note 23*			
Senior unsecured loan notes 2006	3.2	–	–
Due after more than one year *note 27*			
Senior unsecured loan notes 2006	–	2.8	3.6
Senior unsecured loan notes 2009	67.7	62.0	77.2
	67.7	64.8	80.8
	70.9	64.8	80.8

At 31 December 2005, 2004 and 2003, the following loan notes were in issue:

a) $5.5 million (2004 $5.5 million; 2003 $6.4 million) bearing interest at 8.94 per cent (2004 and 2003 9.19 per cent) repayable on 23 November 2006;
b) $36.2 million (2004 $36.2 million; 2003 $41.9 million) bearing interest at 9.06 per cent (2004 and 2003 9.31 per cent) repayable on 23 November 2009;
c) $65.9 million (2004 $65.9 million; 2003 $76.1 million) bearing interest at 9.16 per cent (2004 and 2003 9.41 per cent) repayable on 23 November 2009; and
d) $17.2 million (2004 $17.2 million; 2003 $19.8 million) bearing interest at 9.75 per cent (2004 and 2003 10.00 per cent) repayable on 23 November 2009. An interest rate derivative was entered into in 1999 to reduce the effective interest rate to 9.28 per cent (2004 and 2003 9.53 per cent).

Loan notes are repayable:

i) at maturity; or
ii) at any time at the Company's option in an amount of not less than 5 per cent of the aggregate principal amount then outstanding plus a make whole amount.

The loan note agreement provides for half yearly covenant ratio testing. The covenants ratios are as follows:

a) Net interest cover – greater than or equal to 3.0 times;
b) Net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA") – less than or equal to 3.0 times; and
c) Net worth – greater than £100 million.

Covenant ratios are calculated using UK GAAP as applied at 31 December 2002. As the loan notes were repaid in February 2006 covenant testing is not required for 31 December 2005.

If the Group repaid at its option the total principal amount of the loan notes at 31 December 2005, a make whole amount of $14.3 million (£8.3 million) would become payable.

On 15 February 2006 the loan notes were repaid out of the proceeds of sale of the HellermannTyton Division. A make whole amount of $13.9 million (£7.4 million) was also paid (see note 40).

29. Financial risk management

The Group's principal financial instruments, other than derivatives, comprise trade receivables, trade payables, bank and other loans, loan notes, finance leases, bank overdrafts, cash and short term deposits. The main purpose of these financial instruments, other than trade receivables and trade payables, is to raise finance for the Group's operations.

The Group enters into derivative transactions, principally interest rate swaps and forward foreign exchange contracts, for the management of the Group's interest rate and currency risks and other exposures when deemed appropriate.

The key objective of the Group Treasury department is to manage the financial risks of the business and to ensure that sufficient liquidity is available to 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.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations. The objective of the Group's interest rate management policy is to reduce the volatility of the interest charge. Interest rate exposure is managed through an optimum mix of fixed and floating rate debt and the use of interest rate swaps. At 31 December 2005, after taking into account the effect of interest rate swaps, approximately 42 per cent (2004 51 per cent; 2003 57 per cent) of the Group's borrowings are at a fixed rate of interest. As discussed in note 40, Post balance sheet events, the Group's senior unsecured loan notes were repaid in February 2006.

Foreign currency risk

Currency exposures arise from trading transactions undertaken by the Group in foreign currencies and on the translation of the operating results and net assets of overseas subsidiaries. As a result of the Group having significant operations in the United States, its results can be affected significantly by movements in the US dollar exchange rate. During the year, sterling weakened against the US dollar.

Group Treasury, by means of forward foreign exchange contracts, carries out the majority of the transaction hedging activity. The Group does not enter into instruments to hedge the translation exposure of the operating results or net assets of its overseas subsidiaries since these are accounting and not cash exposures. However, to provide a partial hedge, net investment hedges are entered into to match, as far as possible, the currency of borrowings with the currency profile of the operating results and net assets.

Credit risk

The Group has no significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence. Financial instrument counterparties are subject to pre-approval by the Group Audit Committee and such approval is limited to financial institutions with a rating of Standard & Poors A or Moodys A-2 or better. The amount of exposure to any individual counterparty is subject to a limit.

Liquidity risk

The Group's objective is to ensure that there are sufficient sources of funding to meet projected requirements. Its operations are financed through a combination of retained earnings and external financing. Financing is raised principally by the the parent Company and lent to subsidiaries on commercial terms. Debt is largely sourced from the syndicated bank market and the US private placement market.

30. Financial instruments

a) Interest rate risk

The interest rate profile of the Group's financial assets and liabilities at 31 December was as follows:

			2005 £ million
	At floating interest rates	Non-interest bearing	Total
Financial assets			
Sterling	21.4	3.9	25.3
US dollar	10.6	2.9	13.5
Euro	4.4	2.0	6.4
Other	5.5	1.1	6.6
	41.9	9.9	51.8

Trade receivables for the continuing and discontinued operations have been excluded from the above table as they are all due in less than one year and are non-interest bearing.

Notes to the consolidated financial statements continued

30. Financial instruments continued

2004 £ million	At floating interest rates	Non-interest bearing	Total
Financial assets			
Sterling	29.1	0.2	29.3
US dollar	9.1	1.8	10.9
Euro	5.8	0.4	6.2
Other	4.3	1.2	5.5
	48.3	3.6	51.9

2003 £ million	At floating interest rates	Non-interest bearing	Total
Financial assets			
Sterling	8.5	0.4	8.9
US dollar	17.2	1.1	18.3
Euro	4.0	0.6	4.6
Other	4.3	1.7	6.0
	34.0	3.8	37.8

The financial assets of the Group comprise:

	2005 £ million	2004 £ million	2003 £ million
Receivables due after more than one year (excluding prepayments) *note 20*	–	0.2	0.2
Cash and cash equivalents *note 21*	49.2	51.7	37.6
Derivative financial instruments *see below*	2.6	–	–
	51.8	51.9	37.8

Floating rate financial assets comprise cash deposits at call, seven day and monthly rates.

2005 £ million	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
Sterling	–	–	2.8	2.8
US dollar	31.4	44.6	6.0	82.0
Euro	1.4	0.4	0.8	2.6
Other	–	–	4.8	4.8
	32.8	45.0	14.4	92.2

Trade payables for the continuing and discontinued operations have been excluded from the above table as they are all due in less than one year and are non-interest bearing.

2004 £ million

	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
Sterling	–	–	3.0	3.0
US dollar	30.2	37.5	11.1	78.8
Euro	9.7	0.5	0.8	11.0
Other	–	0.2	–	0.2
	39.9	38.2	14.9	93.0

2003 £ million

	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
Sterling	–	–	1.3	1.3
US dollar	43.7	40.4	16.1	100.2
Euro	10.0	0.4	1.8	12.2
Other	0.2	0.4	–	0.6
	53.9	41.2	19.2	114.3

The financial liabilities of the Group comprise:

	2005 £ million	2004 £ million	2003 £ million
Short term borrowings and overdrafts *note 23*	3.9	1.8	1.8
Long term senior unsecured loan notes *note 27*	67.7	64.8	80.8
Long term bank loans *note 27*	2.2	2.2	3.3
Long term other loans and finance lease obligations *note 27*	1.3	9.3	9.2
Non-current other payables *note 25*	0.2	1.1	1.3
Provisions *note 26*	14.2	13.8	17.9
Derivative financial instruments *see below*	2.7	–	–
	92.2	93.0	114.3

The floating rate liabilities at 31 December 2005 comprise primarily $72.1 million (2004 and 2003 $72.1 million) of the senior unsecured loan notes for which an interest rate swap is in place. Other floating rate liabilities bear interest at various rates set with reference to the prevailing LIBOR or equivalent for the time period and country.

Finance lease obligations of the discontinued operations of £9.0 million and other loans of £0.7 million have not been included in the tables for 2005, see note 6.

Notes to the consolidated financial statements continued

30. Financial instruments continued

The interest rate risk profile at 31 December 2005 of financial assets and liabilities is as follows:

2005 £ million	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rate							
Senior unsecured loan notes	(3.2)	–	–	(25.8)	–	–	(29.0)
Obligations under finance leases and hire purchase contracts	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.9)	(1.4)
US dollar bank loan $4.2 million at 7 per cent interest	(0.2)	(0.2)	(2.0)	–	–	–	(2.4)
	(3.5)	(0.3)	(2.1)	(25.9)	(0.1)	(0.9)	(32.8)
Floating rate							
Cash at bank and in hand	39.3	–	–	–	–	–	39.3
Bank overdrafts	(0.4)	–	–	–	–	–	(0.4)
Senior unsecured loan notes	–	–	–	(41.9)	–	–	(41.9)
Interest rate swap (see 30(e) below)	–	–	–	(2.0)	–	–	(2.0)
Foreign currency contracts	1.9	–	–	–	–	–	1.9
	40.8	–	–	(43.9)	–	–	(3.1)

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

	2004			2003		
	Average interest rates of fixed rate liabilities %	Weighted average period to maturity of fixed rate liabilities years	Weighted average period to maturity of non-interest bearing liabilities years	Average interest rates of fixed rate liabilities %	Weighted average period to maturity of fixed rate liabilities years	Weighted average period to maturity of non-interest bearing liabilities years
Financial liabilities						
Sterling	–	–	5.0	11.5	2.3	4.7
US dollar	9.2	4.6	2.9	9.2	5.6	3.1
Euro	4.9	12.1	8.4	5.7	12.8	6.5
Other	–	–	–	11.2	2.1	–
Group	8.1	6.4	3.6	8.6	6.9	3.5

b) Undrawn committed borrowing facilities

The undrawn committed borrowing facilities at 31 December were as follows:

	2005 £ million	2004 £ million	2003 £ million
Expiring in one year or less	30.1	31.6	61.5

The committed borrowing facilities at 31 December 2005 comprise primarily of a £30 million working capital facility. This facility was cancelled in February 2006 on completion of the sale of the HellermannTyton Division.

c) Currency exposure of financial assets and liabilities

The table shows the net unhedged monetary assets and liabilities of the Group at 31 December. These monetary assets and liabilities are not denominated in their functional currency and therefore give rise to exchange gains and losses in the income statement.

	Net foreign currency monetary assets/(liabilities)				2005 £ million
	Sterling	US dollar	Euro	Other	Total
Functional currency of Group operation					
Sterling	–	3.4	0.1	0.6	4.1
US dollar	(0.6)	–	(0.5)	–	(1.1)
Euro	(0.5)	0.8	–	(0.4)	(0.1)
Other	(0.5)	0.5	(1.2)	(0.4)	(1.6)
	(1.6)	4.7	(1.6)	(0.2)	1.3

	Net foreign currency monetary assets/(liabilities)				2004 £ million
	Sterling	US dollar	Euro	Other	Total
Functional currency of Group operation					
Sterling	–	0.1	1.6	0.3	2.0
US dollar	(0.7)	–	(0.3)	(1.8)	(2.8)
Euro	(0.6)	(0.9)	–	–	(1.5)
Other	(0.5)	2.0	–	0.7	2.2
	(1.8)	1.2	1.3	(0.8)	(0.1)

	Net foreign currency monetary assets/(liabilities)				2003 £ million
	Sterling	US dollar	Euro	Other	Total
Functional currency of Group operation					
Sterling	–	(1.0)	0.6	–	(0.4)
US dollar	(0.3)	–	(0.1)	–	(0.4)
Euro	(0.8)	(1.5)	–	0.2	(2.1)
Other	(1.9)	1.7	(0.9)	0.6	(0.5)
	(3.0)	(0.8)	(0.4)	0.8	(3.4)

Notes to the consolidated financial statements continued

30. Financial instruments continued

d) Fair value of financial instruments

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial assets and liabilities (other than current trade and other receivables and current trade and other payables that approximate fair value) that are carried in the financial statements at other than fair values.

	2005 £ million		2004 £ million		2003 £ million	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Cash and cash equivalents *note 21*	49.2	49.2	51.7	51.7	37.6	37.6
Other debtors *note 20*	–	–	0.2	0.2	0.2	0.2
Financial liabilities						
Short term borrowings and overdrafts *note 23*	(3.9)	(3.9)	(1.8)	(1.8)	(1.8)	(1.8)
Other financial liabilities *note 25*	(0.2)	(0.2)	(1.1)	(1.1)	(1.3)	(1.3)
Long term senior unsecured loan notes *note 27*	(67.7)	(76.1)	(64.8)	(75.3)	(80.8)	(97.0)
Other long term borrowings *note 27*	(3.5)	(3.4)	(11.5)	(11.7)	(12.5)	(11.8)
Provisions and other liabilities *note 26*	(14.2)	(14.2)	(13.8)	(13.8)	(17.9)	(17.9)
	(40.3)	(48.6)	(41.1)	(51.8)	(76.5)	(92.0)
Interest rate swaps	(2.0)	(2.0)	–	(1.0)	–	(1.3)
Currency derivatives	1.9	1.9	–	0.5	–	0.4
	(40.4)	(48.7)	(41.1)	(52.3)	(76.5)	(92.9)

Market values have been used to determine the fair value of the long term senior unsecured loan notes. The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

e) Derivative financial instruments

The fair value of the derivative financial instruments at 31 December 2005 is as follows:

	£ million	
	Assets	Liabilities
Interest rate swaps	–	(2.0)
Currency derivatives	2.6	(0.7)
	2.6	(2.7)

The derivative financial instruments are as follows:

Interest rate swaps

Fixed to floating interest rate swaps were entered into on 23 May 2003 on $72.1 million of the senior unsecured loan notes. The swaps terminate on 23 November 2009 and can be cancelled at the bank's option at six monthly intervals. The swaps have been transacted with two banks and are split $48.0 million and $24.1 million between them. The terms of the $48.0 million swap allow for either party to exercise a break on 23 November 2008. Should a break take place a mark to market settlement would be due at fair value.

The interest rate swaps have been designated as hedges and following the adoption of IAS 39 on 1 January 2005 are included in the balance sheet as derivative financial instruments non-current liabilities at their fair value with movements in fair value being reflected through the income statement.

Currency derivatives

The Group uses forward foreign exchange contracts in the management of transactional exchange rate exposures. These contracts are designated where possible as hedging instruments.

At 31 December 2005, the Group held foreign exchange contracts designated as hedges in respect of the forward purchase of dollars to establish the sterling value of the anticipated repayment of senior unsecured loan notes associated with the disposal of the HellermannTyton Division. The terms of this contract are as follows:

	Maturity	Exchange rate
Buy US dollars 140,000,000	26 January 2006	1.77028

At 31 December 2005, the Group held foreign exchange contracts designated as hedges in respect of the forward purchase of Yen to establish the sterling value of the acquisition of the majority interest in the Tyton Company of Japan associated with the disposal of HellermannTyton Division. The terms of this contract are as follows:

	Maturity	Exchange rate
Buy Yen 5,252,360,000	26 January 2006	204.59

At 31 December 2005 the Group held various foreign exchange contracts designated as hedges in respect of the forward sale of US dollars and euro on trading transactions. These contracts total £30.6 million, are for various maturity dates over the period to December 2006 and are at exchange rates in the range 1.72 to 1.80 for US dollar contracts and 1.45 to 1.46 for euro contracts.

Hedge of net investment in foreign entities

As at 31 December 2005 senior unsecured loan notes of $124.8 million (2004 $124.8 million; 2003 $144.2 million) have been designated as a hedge of the net investments in the United States and are being used to reduce the exposure of the foreign exchange risk. Gains or losses on the retranslation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investments in subsidiaries.

Unrealised gains and losses on instruments used for hedging are as follows:

			2005 £ million	2004 £ million	2003 £ million
	Gains	Losses	Total net gains/ (losses)	Total net gains/ (losses)	Total net gains/ (losses)
Unrealised gains/(losses) at 1 January	0.5	(1.0)	(0.5)	(0.9)	0.9
Gains/(losses) arising in previous years realised in the year	(0.5)	–	(0.5)	(0.4)	(0.9)
Gains/(losses) arising before 1 January that were not realised in the year	–	(1.0)	(1.0)	(1.3)	–
Gains/(losses) arising in the year that were not realised	2.6	(1.7)	0.9	0.8	(0.9)
Unrealised gains/(losses) on hedges at 31 December	2.6	(2.7)	(0.1)	(0.5)	(0.9)
Expected to be realised:					
In one year or less	2.6	(0.7)	1.9	0.5	0.4
In later years	–	(2.0)	(2.0)	(1.0)	(1.3)
	2.6	(2.7)	(0.1)	(0.5)	(0.9)

Notes to the consolidated financial statements continued

31. Operating lease commitments

At 31 December, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 £ million	2004 £ million	2003 £ million
Continuing operations			
Within one year	7.6	8.3	9.0
In the second to fifth years	17.1	21.6	24.9
Over five years	5.4	10.0	10.4
	30.1	39.9	44.3
Discontinued operations			
Within one year	1.6	1.7	1.4
In the second to fifth years	4.2	4.7	3.9
Over five years	9.0	10.7	6.4
	14.8	17.1	11.7
	44.9	57.0	56.0

The Group leases certain land and buildings under non-cancellable operating lease agreements with a variety of terms. The Group also leases certain plant and equipment under non-cancellable operating lease agreements. Total future sub-lease payments receivable relating to the above leases amounted to £5.4 million (2004 £7.0 million; 2003 £8.0 million).

32. Authorised and issued share capital

Authorised

	2005 £ million	2004 £ million	2003 £ million
1,250 million (2004 and 2003 1,250 million) Ordinary shares of 3⅓ pence each	41.7	41.7	41.7

Issued and fully paid

	Number of Ordinary shares million	£ million
At 1 January 2003	939.4	31.3
Allotted pursuant to share options and purchase rights exercised	4.6	0.2
At 1 January 2004	944.0	31.5
Allotted as deferred consideration for the acquisition of Caw Networks, Inc.	4.3	0.1
Allotted pursuant to share options and purchase rights exercised	7.9	0.3
At 1 January 2005	956.2	31.9
Allotted pursuant to share options and purchase rights exercised	9.6	0.3
At 31 December 2005	965.8	32.2

At the Annual General Meeting held on 4 May 2005, shareholders gave authority for the Company to purchase up to 48 million of its own Ordinary shares in the market subject to certain specified conditions. At 23 February 2006, no purchases have been made or are contracted to be made under such authority.

In accordance with the rules of the following share schemes, options and purchase rights were exercised during the year which resulted in new Ordinary shares being allotted by the Company or existing shares being transferred from Spirent Sharesave Trust ("SST") as follows:

	Number of Ordinary shares million	Consideration received £000
Executive Share Option Schemes	2.1	341.7
Spirent Stock Incentive Plan	4.2	833.8
Acquisition plans[1]	0.6	108.6
All employee share schemes	3.1	1,498.9
	10.0	2,783.0

Note
1 The Acquisition Plans are the Netcom Amended and Restated Stock Option Plan, the Zarak Amended and Restated Stock Option Plan and the Caw Amended and Restated Stock Plan (see notes (d), (e) and (f) on pages 74 and 75).

During the year 276,196 shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes, and 195,756 shares were transferred from the Employee Share Ownership Trust ("ESOT") to satisfy options exercised under the Spirent Stock Incentive Plan.

There has been no material increase in the issued share capital, whether by exercise of options, purchase rights or otherwise, between the end of the year and 23 February 2006, the date on which these financial statements have been signed.

A reconciliation of movements in share incentives over the three years to 31 December 2005 is shown below:

	Executive Share Option Schemes[1]		2005 Employee Incentive Plan[2]		Spirent Stock Incentive Plan[3]		Acquisition Plans[4]		UK Sharesave Schemes[5]		Employee Stock Purchase Plans[6]	
	Number of shares million	Weighted average exercise price pence	Number of shares million	Weighted average exercise price pence	Number of shares million	Weighted average exercise price pence	Number of shares million	Weighted average exercise price pence	Number of shares million	Weighted average exercise price pence	Number of shares million	Weighted average exercise price pence
Options outstanding at 1 January 2003	18.0	180	–	–	79.6	215	15.1	59	5.3	61	3.3	14
Granted	7.6	16	–	–	21.1	57	–	–	3.4	38	3.3	50
Exercised	–	–	–	–	(0.4)	16	(0.9)	17	–	–	(3.3)	14
Forfeited	(0.3)	220	–	–	(33.4)	309	(0.2)	47	(0.8)	50	–	–
Expired	(2.7)	180	–	–	(4.2)	289	(1.3)	79	(0.8)	88	–	–
Options outstanding at 31 December 2003	22.6	125	–	–	62.7	108	12.7	59	7.1	48	3.3	50
Granted	6.2	61	–	–	25.0	68	0.1	9	–	–	2.7	50
Exercised	(0.1)	29	–	–	(2.6)	24	(1.8)	20	(0.1)	41	(3.3)	50
Forfeited	(0.1)	156	–	–	(5.9)	85	(0.2)	17	(0.4)	42	–	–
Expired	(1.5)	184	–	–	(2.5)	284	(1.1)	126	(0.7)	77	–	–
Options outstanding at 31 December 2004	27.1	107	–	–	76.7	94	9.7	60	5.9	45	2.7	50
Granted	–	–	3.2	40	24.3	54	–	–	–	–	–	–
Exercised	(2.1)	16	–	–	(4.2)	20	(0.6)	18	(0.4)	41	(2.7)	50
Forfeited	(0.5)	141	–	–	(7.9)	67	(0.2)	10	(0.3)	41	–	–
Expired	(3.3)	175	–	–	(7.3)	177	(0.2)	123	(0.6)	68	–	–
Options outstanding at 31 December 2005	21.2	105	3.2	40	81.6	81	8.7	62	4.6	43	–	–
Options exercisable												
At 31 December 2003	5.7	152	–	–	25.4	118	12.7	59	–	–	–	–
At 31 December 2004	8.2	124	–	–	36.3	118	9.7	60	0.2	110	–	–
At 31 December 2005	4.0	152	–	–	39.5	103	8.7	62	0.8	48	–	–

Notes to the consolidated financial statements continued

32. Authorised and issued share capital continued

Notes
1 Includes options granted under the 1995, 1985 and International Executive Share Option Schemes. As at 31 December 2005, the 1985 and International Executive Share Option Schemes were closed and no options remained outstanding.
2 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and performance shares in aggregate.
3 Shows both traditional share options and share settled stock appreciation rights in aggregate. A grant of 12.1 million options with an exercise price of 60.75 pence per share awarded in December 2003 made under the Spirent Stock Incentive Plan was partially hedged by 6.1 million Ordinary shares held in trust. As at 31 December 2005, 195,756 Ordinary shares had been transferred out of the ESOT in respect of the exercise of options from this grant, leaving a balance of 5.9 million shares hedging this award.
4 The Acquisition Plans are share plans which originally granted options over other companies' shares which have been rolled over into Spirent shares when the said companies were acquired by Spirent plc. A description of the Acquisition Plans can be found in notes (d) to (f) on pages 74 and 75 of these financial statements.
5 276,196 Spirent Ordinary shares were transferred from the Spirent Sharesave Trust ("SST") to settle the exercise of UK Sharesave options in 2005. As at 31 December 2005, 3.2 million Ordinary shares remained in the SST hedging share option grants made under the Sharesave Schemes.
6 The Employee Stock Purchase Plans includes the US Employee Stock Purchase Plan, the Global All Employee Share Purchase Plan and the UK Employee Share Purchase Plan. No purchase rights were outstanding under these plans as at 31 December 2005.

The following information relates to the outstanding share options:

						2005			2004			2003
Share scheme	Notes	Exercise period (as at 31 December 2005)	Range of exercise prices pence	Weighted average exercise price pence	Number million	Weighted average remaining contractual life	Weighted average exercise price pence	Number million	Weighted average remaining contractual life	Weighted average exercise price pence	Number million	Weighted average remaining contractual life
Executive Share	a	25.03.06-24.03.13	16	16	5.2	7.2	16	7.5	8.2	16	7.6	9.2
Option Schemes[1]		03.10.04-04.08.14	56-72	62	6.8	8.2	62	7.0	9.2	72	0.9	7.8
		11.04.98-01.05.12	91-163	125	6.6	4.6	133	9.0	5.5	132	10.2	6.3
		11.05.03-08.04.11	305-598	318	2.6	4.9	320	3.6	5.9	320	4.0	6.9
Employee Incentive Plan	b	25.08.08-24.08.15	0-53[2]	40	3.2	8.0	–	–	–	–	–	–
Spirent Stock	c	10.10.03-09.10.09	6	6	0.2	3.8	6	0.2	4.8	6	0.3	5.8
Incentive Plan		14.11.03-09.04.10	13-18	17	6.5	4.0	17	10.4	5.0	17	13.5	6.0
		08.05.04-07.05.10	22	22	0.1	4.3	22	0.1	5.4	22	0.1	6.4
		12.09.03-07.12.12	38-56	52	22.6	6.5	46	2.3	5.9	55	1.8	6.5
		03.10.02-06.04.12	61-87	67	39.4	4.9	67	46.7	5.8	66	27.0	6.2
		30.08.02-12.06.09	94-140	115	1.5	3.1	119	2.2	4.1	121	2.5	5.1
		21.06.02-13.03.09	141-190	143	8.3	3.2	144	10.2	4.2	144	11.4	5.2
		11.05.01-06.06.08	270-400	319	1.7	2.0	321	2.4	2.9	321	3.0	3.9
		07.09.01-14.02.08	488-617	583	1.3	2.0	585	2.2	3.0	583	3.1	4.0
Acquisition Plans	d, e, f	15.08.02-25.06.12	8-11[3]	9	0.1	6.0	9	0.3	6.9	11	0.7	7.9
		23.07.99-12.11.07	15-18	18	2.9	1.4	18	3.5	2.3	18	4.0	3.3
		23.07.99-18.01.08	24-36	24	2.2	1.9	24	2.2	2.9	24	3.2	3.9
		14.11.00-22.03.08	54-79	54	0.1	2.2	54	0.1	3.2	54	0.2	4.2
		14.11.00-12.10.10	90-127	103	2.9	3.2	103	3.0	4.2	101	3.9	5.0
		17.05.00-19.07.09	151	151	0.4	3.5	151	0.5	4.5	151	0.5	5.5
		14.11.00-12.11.10	350-572	523	0.1	4.8	519	0.1	5.8	535	0.2	6.8
Sharesave Schemes	g	01.12.05-31.05.11	38-41	39	4.4	2.2	39	5.5	3.1	39	6.2	4.1
		01.01.06-31.05.09	83-103	89	0.1	1.4	93	0.3	1.3	89	0.8	1.5
		01.12.05-30.11.08	142-518	314	0.1	1.0	214	0.1	1.2	142	0.1	1.7
Employee Stock Purchase Plans	h, i, j	–	–	–	–	–	50	2.7	0.1	50	3.3	0.1
Total					119.3			122.1			108.5	

Notes
1 Includes options granted under the 1995, 1985, and International Executive Share Option Schemes. As of 31 December 2005, the 1985 and International Executive Share Option Schemes were closed and no options remained outstanding.
2 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and performance shares in aggregate. No exercise price is payable on the vesting of a performance share.
3 These exercise prices relate to the Caw Amended and Restated Stock Plan and are expressed in this table in sterling using the average exchange rate between pounds sterling and US dollars for the year. The actual exercise price of these options are priced in US dollars at either 15.03 US cents or 20.03 US cents per share.

Potential dilution of issued share capital arising from employee share schemes

In accordance with guidelines issued by the Association of British Insurers, the following information is provided in respect of possible future dilution of the Company's issued share capital arising from the exercise of awards under the Group's employee share schemes. The issued share capital at 31 December 2005 was 965.8 million. The closing price for a Spirent Ordinary share was 49.5 pence.

At 31 December 2005

	Total number exercisable million	Total[1] exercisable below 49.5 pence million	Weighted average exercise price of all exercisable awards pence	Shares held[2] in trust or treasury million	Maximum[3] number of new issue shares required to satisfy exercisable awards million	Total[4] outstanding below 49.5 pence million	Weighted average exercise price of all outstanding awards pence	Maximum[5] number of new issue shares required to satisfy all outstanding awards million
Discretionary share options	37.4	6.9	114	5.9	6.9	12.5	101	12.5
Options arising from Acquisition Plans	8.7	5.1	62	–	5.1	5.2	62	5.2
Stock appreciation rights[6]	6.2	0.1	68	–	0.1	3.0	59	0.2
Conditional shares	–	–	–	–	–	0.8	–	0.8
Stock purchase rights	–	–	–	–	–	–	–	–
Sharesave options	0.8	0.8	48	3.2	–	4.5	43	1.3
Total	53.1	12.9		9.1	12.1	26.0		20.0

Notes
1 This is the number of exercisable awards which have an exercise price less than 49.5 pence per share, being the Spirent plc closing share price on 31 December 2005.
2 Shares held in trust are in relation to shares held by the Employee Share Ownership Trust and the Spirent Sharesave Trust. These shares were purchased in the market and are held to satisfy exercises under various employee share schemes. Market purchased shares have been excluded for the purposes of calculating dilution.
3 This is the number of shares which would need to be issued to satisfy the exercise of all exercisable awards with an exercise price of less than 49.5 pence, being the Spirent plc closing share price on 31 December 2005.
4 Total number outstanding relates to outstanding awards (whether exercisable or not) which have an exercise price less than 49.5 pence per share, being the Spirent plc closing share price on 31 December 2005.
5 This is the number of shares which would need to be issued to satisfy the exercise of outstanding awards (whether exercisable or not) with an exercise price of less than 49.5 pence, being the Spirent plc closing share price on 31 December 2005.
6 This includes stock appreciation rights awarded under the Spirent Stock Incentive Plan and Employee Incentive Plan. Stock appreciation rights awarded under the Netcom Stock Appreciation Rights Plan (see note (k) below for details on this plan) are not included in the above figure and are fully hedged by shares in the Employee Share Ownership Trust.

Description of employee share schemes

a) 1995 Executive Share Option Scheme ("ESOS")

The ESOS is now closed (however outstanding options may still be exercised) and has been replaced by the Employee Incentive Plan referred to in (b) below.

The HM Revenue & Customs ("HMRC") approved ESOS incorporates the guidelines issued by the Association of British Insurers ("ABI") at that time. It was subsequently amended by the Board to facilitate the award of unapproved share options both in the UK and overseas.

Awards under the ESOS, normally determined annually, were at the sole discretion of the Remuneration Committee after considering recommendations made to it by the Chief Executive. No price was payable on the grant of an option and no options have been, or could be, granted at a discount to the market price.

The normal exercise period for options granted under the ESOS is between the third and tenth anniversary of the date of grant. Options awarded under the ESOS are subject to the achievement of an earnings per share ("EPS") performance condition before they can be exercised. The condition is that over a period of three consecutive financial years, there has been an increase in the Company's adjusted EPS which is at least 6 per cent more than the increase in the Retail Price Index over the same period. The performance condition is tested on the third anniversary of grant and, if it has not been met at that time, at each subsequent anniversary of grant until the option expires (ie on the tenth anniversary of grant in normal circumstances).

All ESOS grants made after 11 May 2000 to executive directors are subject to enhanced performance conditions on exercise. The performance conditions require the Company's adjusted EPS to increase over a period of three consecutive financial years within a range of 9 per cent (minimum performance for 25 per cent option vesting) and 15 per cent (for 100 per cent option vesting), with a sliding scale between these points. In addition, performance testing over the ten year option term is measured from a base point fixed at the date of grant. Performance will be tested on the third anniversary of grant and, if the target conditions at that time have not yet been met in full, performance will be tested again on the fourth and fifth anniversaries of grant only, with the performance hurdle being increased in proportion to the extended period.

Notes to the consolidated financial statements continued

32. Authorised and issued share capital continued

b) 2005 Employee Incentive Plan ("EIP")

On 4 May 2005, Spirent shareholders approved the EIP to replace the now closed ESOS. The EIP is currently available for selected employees (including executive directors) on a similar discretionary basis as the ESOS and any awards will be subject to prior satisfactory individual performance. No price is payable on the grant of an award and no award has been granted at a discount to the market price. The Company is able to grant share options, including HMRC approved options, share settled stock appreciation rights ("SARs") and performance shares under the EIP.

In normal circumstances, options or SARs under the EIP will vest three years following grant provided the Company's EPS growth targets (after excluding inflation) have been met over a three year performance period. The growth targets in respect of the initial award require that the Company's EPS increases within a range of 6 per cent per annum (for 25 per cent vesting) and 15 per cent per annum (for 100 per cent vesting) over the performance period, with a sliding scale between these points.

In normal circumstances, performance shares under the EIP will vest three years following grant provided the Company's total shareholder return ("TSR") targets have been met over a three year performance period. The performance conditions require Spirent's TSR to be between the median of a comparator group (for 30 per cent vesting) and the upper quartile of a comparator group (for 100 per cent vesting) over the performance period, with a sliding scale between these points. The comparator group consists of the 30 largest companies by market capitalisation in the FTSE TechMARK 100 Index, excluding those TechMARK companies who are also constituents of the FTSE100 Index at the commencement of the performance period.

All EIP awards will be tested once on or shortly following the third anniversary of grant. Any part of an award which does not vest shall, lapse (ie there is no opportunity for retesting).

SARs granted under the EIP will deliver the appreciation value (ie the aggregated increase in market value of an Ordinary share over the base price of the SAR) in the form of new issue Ordinary shares. This SARs approach, which is also being utilised for the Spirent Stock Incentive Plan (see note (c) below) will help the Company manage its dilution headroom more efficiently as only the SAR gain and not the entire share value needs to be funded. Using a SARs based approach, it is not possible to determine the precise level of dilution until the SARs are exercised. 2.2 million SARs with a base price of 53 pence were outstanding in respect of the EIP as at 31 December 2005, however, no SARs have been exercised.

Options and SARs granted under the EIP expire on the tenth anniversary of their grant unless they have previously lapsed or been exercised.

c) Spirent Stock Incentive Plan ("SSIP")

The SSIP (formerly the Spirent Stock Option Plan) was introduced in 2000. This discretionary plan is primarily targeted at selected employees in the Communications group with grants normally determined annually by reference to the seniority and contribution of the individual, together with the performance of the relevant business and prevailing local market practice. Under the SSIP, grants are also permitted to selected newly hired and promoted employees on a monthly basis.

Following an Extraordinary General Meeting held in June 2004, shareholders approved the renewal of the SSIP until the Company's 2007 Annual General Meeting along with several amendments including the ability to award SARs as well as stock options. The Company is mindful of the need to continue to manage shareholder dilution in a responsible manner. The current shareholder approved mandate regarding annual dilution rates includes an annual allowance of 2.5 per cent of shares outstanding for the SSIP and 0.6 per cent of shares outstanding for the EIP (see (b) above). The Remuneration Committee does not propose any change to the aggregate of 3.1 per cent of shares outstanding that could be granted annually under both the SSIP and EIP, but believes it would be helpful to allow flexibility in the mix to reflect future operational requirements. 38.5 million SARs with a base price of between 42 pence and 71 pence were outstanding in respect of the SSIP at 31 December 2005, however, no SARs have been exercised.

Awards made pursuant to the SSIP normally vest over four years, provided that the employee remains in employment. Awards normally become 25 per cent exercisable on the first anniversary of the date of grant and thereafter in equal proportions on a monthly basis over a further 36 months. Any award not exercised by the seventh anniversary of grant will lapse.

SSIP awards granted from June 2004 to certain senior managers will only become exercisable subject to the achievement of applicable EPS performance conditions.

No price is payable on the grant of options or SARs and no options or SARs have been, or can be, granted at a discount to the market price.

d) Netcom Amended and Restated Stock Option Plan ("NARSOP")

Spirent completed the acquisition of Netcom Systems, Inc. ("Netcom") in 1999. $44.5 million of the total consideration was satisfied through the roll-over of outstanding options over Netcom shares, primarily held by Netcom employees, into options over approximately 23.8 million Ordinary shares (as adjusted) on substantially similar terms as previously existed under the NARSOP. All remaining outstanding options are fully vested and exercisable until they expire.

e) Zarak Amended and Restated Stock Option Plan ("ZARSOP")

Out of a total consideration of approximately 44.9 million Ordinary shares issued for the acquisition of Zarak Systems Corporation ("Zarak") in 2000, approximately 3.8 million shares arose in connection with the roll-over of outstanding options over Zarak shares into options over Spirent Ordinary shares on substantially similar terms as previously existed under the ZARSOP. These options are primarily held by Zarak employees and have either a five or ten year life from the original date of grant.

Unvested rolled-over options were capable of immediate exercise (ie prior to their respective vesting date) and any shares arising from such an event were held in the ESOT until the relevant vesting date. The option holder was entitled to the beneficial (but not legal) interest in the shares whilst they were held in trust but they remained subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment was terminated prior to the vesting date. All ZARSOP options and resulting shares held in the ESOT have now fully vested.

f) Caw Amended and Restated Stock Plan ("CARSP")

Out of a total initial consideration for the acquisition of Caw Networks, Inc. ("Caw") in 2002 of $49 million, approximately $4 million was in respect of Spirent Ordinary shares and options which arose on the roll-over of outstanding options and shares under the previous Caw employee stock plan. The options and shares will vest over a period expiring in 2006 on substantially similar terms as previously existed under the CARSP. The options are held by Caw employees and have a ten year life from the original date of grant. Pursuant to the terms of the Merger Agreement for Caw, an additional cash payment of 78.8 US cents was payable as each share vested or upon the exercise of a vested option.

Any Ordinary shares issued under the CARSP are restricted until they have vested or are not at risk from forfeiture under the plan rules. Unvested rolled-over options are capable of immediate exercise (ie prior to their respective vesting date) and any shares arising from such an event are held in the ESOT until the relevant vesting date. The option holder is entitled to the beneficial (but not legal) interest in the shares whilst they are held in the ESOT but they remain subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment is terminated prior to the vesting date.

In accordance with the original terms for acquiring Caw, in March 2004, Spirent allotted 4.3 million Ordinary shares and issued 75,000 options following the achievement by Caw of certain technical and financial earn out targets. Participation in the CARSP entitled the participants to a share in the earn out. Any earn out payment for an outstanding CARSP option was made by increasing the number of shares subject to the option and decreasing the per share exercise price so as to preserve the existing aggregate total exercise price. Of the 4.3 million shares, 54,000 shares were issued to the ESOT in respect of unvested restricted shares, which remained subject to forfeiture prior to vesting. As a result of the earn out, the additional cash payment referred to above was adjusted to 66.9 US cents as each share vests or upon the exercise of a vested option.

The Ordinary shares subject to rolled-over options from the acquisition of Netcom, Zarak and Caw, or granted under the SSIP, do not count toward ABI scheme limits. The plans mentioned in (a) and (d) to (f) above are closed to new entrants and no further awards of options can be made under them.

g) UK Savings Related Share Option Scheme ("SRSOS") and 2005 Sharesave Scheme

The SRSOS closed in 2005 and was replaced by the 2005 Sharesave Scheme. SRSOS options which remain outstanding may still be exercised prior to expiry, however no further grants can be made. Both schemes operate as HMRC approved Save-As-You-Earn schemes and are open to all UK employees, subject to a qualifying service period. Any future sharesave invitations will be made under the 2005 Sharesave Scheme, which is broadly similar to the SRSOS.

The employee enters into a Save-As-You-Earn contract with the Company's savings carrier to save a regular sum of between £5 and £250 per month for a fixed period of either three or five years.

No price is payable on the grant of an option. The option exercise price is calculated by reference to the middle market price of an Ordinary share on the business day prior to the beginning of the invitation period, discounted by up to 20 per cent, at the Board's discretion. Options are normally exercisable within six months of the third, fifth or seventh anniversary of the contract commencement date, as elected by the option holder at the start of the contract.

The Company operates the SST to honour the contractual commitment to deliver Ordinary shares against the valid exercise of outstanding options under the SRSOS. The SST, a wholly-owned subsidiary of Spirent plc, acts as sole trustee. During the year, 276,196 shares were transferred to participants. SST has waived all rights to receive dividends payable on its registered shareholding except for 0.01 pence per annum in aggregate and accordingly such shareholding is not included in the Company's EPS calculation as referred to in note 13.

Notes to the consolidated financial statements continued

32. Authorised and issued share capital continued

h) US Employee Stock Purchase Plan ("ESPP")

The ESPP operates on a broadly similar basis to the Sharesave Scheme. It enables the Company to grant eligible US employees the right to acquire Spirent American Depositary Shares using proceeds of a savings contract. When joining the ESPP, participants enter into a contract to save up to 15 per cent of basic salary (gross), subject to an individual maximum of $1,000 (net) per month, over a contract period of 12 months by way of regular payroll deductions.

No price is payable on the grant of a purchase right. The purchase price will be based on the market value of an Ordinary share either on the first day of the offering period or on the last day of the offering period, whichever price is lower, less a 15 per cent discount or, where shares are to be subscribed, their nominal value (if greater).

i) Global All Employee Share Purchase Plan ("GAESPP")

The GAESPP was approved by shareholders in 2001 and offers employees in countries other than the UK or US an opportunity to share in the Company's performance through share ownership. The GAESPP was implemented in Canada in January 2002 and operates on similar terms to the ESPP above, with participants entering into a 12 month contract to save up to 15 per cent of basic salary (gross), subject to an individual maximum of Cdn $1,000 (net) per month.

j) UK Employee Share Purchase Plan ("UK ESPP")

On 4 May 2005, shareholders approved the UK ESPP, which is an HMRC approved share incentive plan, available to all UK employees (subject to a qualifying service period). The UK ESPP offers three ways to provide Ordinary shares to employees: free shares, partnership shares and matching shares. The UK ESPP will operate in conjunction with a trust, which will hold the shares on the behalf of participants.

Each year awards of free shares may be made to eligible employees up to a value of £3,000. Awards may be made subject to performance targets determined by the directors. In normal circumstances, free shares must be held in trust for between three and five years and normally become free of income tax and national insurance if held for five years.

Employees may be offered the opportunity to purchase partnership shares out of monthly contributions taken from pre-tax salary (up to £1,500 or 10 per cent of salary, if less). The directors determine a savings period of between one and 12 months following which the shares are purchased. Where the savings period is longer than one month, the purchase price will be the lesser of the price at the beginning of the accumulation period or the price at the end. Participants can withdraw partnership shares from the trust at anytime, however, doing so before five years may trigger a tax liability.

If partnership shares have been offered to employees, the Company may also offer matching shares up to a maximum of two matching shares for each partnership share. In normal circumstances, matching shares must be held in trust for a period of at least three years and may be subject to forfeiture if the participant leaves employment prior to the end of this period.

No awards have been made so far under this plan.

k) Stock Appreciation Rights Plan ("SARP")

The SARP was introduced in September 1999 as an interim incentive arrangement for the employees of Netcom following the closure of the NARSOP described in (d) above and subsequently for certain other employees in the Communications group. Under the SARP, recruitment, promotion and recognition awards over Ordinary shares have been made in line with historic and local competitive market practice on a quarterly basis at the discretion of a committee of senior executives. The operation of the SARP reflects as far as practicable the now closed NARSOP. Accordingly, rights under the SARP vest over four years, 25 per cent vesting one year after the date of grant and the remainder vesting on a monthly basis over a further 36 months. Rights granted are not subject to the fulfilment of any pre-exercise performance conditions.

The SARP will deliver the appreciation value (ie the aggregated increase in the market value of an Ordinary share over the rights price) in the form of existing Ordinary shares which have been purchased in the market by the Company's ESOT. The maximum number of shares over which SARP awards can be made is 5.25 million.

At 31 December 2005, the following rights were outstanding under the SARP:

Rights exercise dates	Rights price pence	Number of rights outstanding million
10.09.00-29.06.10	182-400	2.4

33. Share-based payment

The total charge for the year relating to employee share-based payment plans is as follows:

	2005 £ million	2004 £ million	2003 £ million
Continuing operations			
1995 Executive Share Option Scheme	0.4	0.3	0.1
2005 Employee Incentive Plan	0.1	–	–
Spirent Stock Incentive Plan	4.4	3.6	0.2
Acquisition Plans	0.2	0.4	0.5
Employee Sharesave Schemes	–	0.5	0.1
	5.1	4.8	0.9
Discontinued operations			
1995 Executive Share Option Scheme	0.4	0.2	0.1
Employee Sharesave Schemes	0.1	0.2	–
	0.5	0.4	0.1
	5.6	5.2	1.0

The fair value of the options and purchase rights over Ordinary shares is estimated as at the date of grant using a binomial model. The following table gives the assumptions made in arriving at the share-based payments charge:

	2005	2004	2003
Weighted average share price (pence)	53	65	36
Weighted average fair value (pence)	24	36	19
Expected volatility (%)	50-55	70	70
Expected life (years)	4.5	4.5	4.5
Risk free rate (%)	4.2	4.0-5.1	3.6-4.9
Dividend yield (%)	nil-1.0	1.0	1.0

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous two years which management considers to be the period which is likely to be most representative of future volatility. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. For performance shares granted under the 2005 Employee Incentive Plan, which have a market based performance condition, it has been assumed that there will be 50 per cent vesting for valuation purposes.

Notes to the consolidated financial statements continued

34. Reconciliation of movements in equity

£ million

	Share capital	Share premium account	Capital reserve	Capital redemption reserve	Translation reserve	Net unrealised gains and (losses)	Investment in own shares	Retained earnings/ (loss)	Minority interests	Total equity
At 1 January 2003 as originally stated	31.3	696.1	17.6	0.7	–	–	(2.1)	(648.5)	2.1	97.2
Changes in accounting policy relating to first-time application of IFRS	–	–	–	–	–	–	2.1	(4.9)	–	(2.8)
At 1 January 2003 as restated note 39	31.3	696.1	17.6	0.7	–	–	–	(653.4)	2.1	94.4
Changes in equity for 2003										
Total recognised income and expense for the year	–	–	(1.2)	–	3.0	–	–	27.6	0.1	29.5
Share-based payment	–	–	–	–	–	–	–	0.4	–	0.4
New shares issued	0.2	1.4	(0.9)	–	–	–	–	–	–	0.7
Obligation to issue share capital Caw Networks Inc.	–	–	2.7	–	–	–	–	–	–	2.7
Other movements	–	–	(0.5)	–	–	–	–	1.1	–	0.6
At 31 December 2003	31.5	697.5	17.7	0.7	3.0	–	–	(624.3)	2.2	128.3
Changes in equity for 2004										
Total recognised income and expense for the year	–	–	(1.2)	–	(1.4)	–	–	29.5	0.2	27.1
Share-based payment	–	–	–	–	–	–	–	4.8	–	4.8
New shares issued	0.3	3.3	(2.1)	–	–	–	–	–	–	1.5
New shares issued – Caw Networks Inc.	0.1	3.2	(2.7)	–	–	–	–	–	–	0.6
Cancellation of share premium and capital redemption reserve	–	(702.7)	–	(0.7)	–	–	–	703.4	–	–
Minority acquired	–	–	–	–	–	–	–	–	(1.1)	(1.1)
Other movements	–	–	(0.8)	–	–	–	–	–	–	(0.8)
At 31 December 2004	31.9	1.3	10.9	–	1.6	–	–	113.4	1.3	160.4
Changes in accounting policy relating to first-time application of IAS 39 'Financial Instruments: Recognition and Measurement' *note 39*	–	–	–	–	–	0.5	–	(0.6)	–	(0.1)
At 1 January 2005 as restated	31.9	1.3	10.9	–	1.6	0.5	–	112.8	1.3	160.3
Changes in equity for 2005										
Total recognised income and expense for the year	–	–	–	–	3.9	1.4	–	(52.1)	0.6	(46.2)
Share-based payment	–	–	–	–	–	–	–	5.4	–	5.4
New shares issued	0.3	3.1	(0.7)	–	–	–	–	–	–	2.7
At 31 December 2005	32.2	4.4	10.2	–	5.5	1.9	–	66.1	1.9	122.2

Nature and purpose of reserves

A reconciliation of the opening and closing balance on each reserve is shown in the Reconciliation of movements in equity. The nature and purpose of each reserve within equity is as follows:

i) Share premium account: this reserve records the consideration premium for shares issued at a value that exceeds their nominal value;
ii) Capital reserve: this reserve arises in relation to share option plans in acquired companies;
iii) Capital redemption reserve: this reserve has been eliminated as described below;
iv) Translation reserve: this reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the net investments hedged in these subsidiaries; and
v) Net unrealised gains and losses: this reserve records movements in fair value of forward currency contracts.

At 31 December 2005, the cumulative amount of goodwill charged to retained earnings as a result of UK GAAP accounting policies prior to 1998, is £43.9 million (2004 and 2003 £43.9 million).

Investment in own shares

At 31 December 2005, an amount of £2.6 million (2004 £2.6 million; 2003 £2.6 million) is deducted from retained earnings in relation to the cost of investment in own shares. The investment in own shares relates to 3.2 million Ordinary shares (2004 and 2003 3.5 million) held by the Spirent Sharesave Trust ("SST") and 9.4 million Ordinary shares (2004 and 2003 9.5 million) held by the Spirent Employee Share Ownership Trust ("ESOT"). Shares held by the SST will be used to satisfy options under the Company's Savings Related Share Option Schemes. Shares held in the ESOT are primarily held to hedge awards under various discretionary employee share schemes. The market value of own shares held in trust at 31 December 2005 was £6.2 million (2004 £9.6 million; 2003 £7.6 million).

Cancellation of share premium and capital redemption reserves

On 24 November 2004, Spirent plc was granted an order of the High Court for the approval of the cancellation of the share premium account and capital redemption reserve ("the Cancellation") which stood at that date at £702.7 million and £0.7 million, respectively. The Cancellation created a reserve in the financial statements of the Company which was applied to eliminate the deficit in distributable reserves. The balance of this reserve created after the deficit in distributable reserves had been eliminated was transferred to a special non-distributable reserve. The special non-distributable reserve at 31 December 2005 is £11.1 million (2004 £61.6 million; 2003 nil) and will be increased in future years to the extent that the Company subsequently realises any value from its assets in excess of the value at which those assets were recorded in the Company's financial statements at the time of the Cancellation.

The special non-distributable reserve will have a maximum value equal to the aggregate of the share premium account and capital redemption reserve at the time of the Cancellation, being £703.4 million. The special non-distributable reserve will be used to eliminate deficits arising in future years and is only capable of being distributed to the shareholders of the Company once all the creditors of the Company, which existed at the date of the Cancellation, have consented to the Cancellation or have been satisfied in full or on transferring to a blocked trust account a sum equal to the aggregate amount due to any creditors of Spirent plc who were creditors on 24 November 2004 and who remain creditors on the date of release of the special non-distributable reserve.

Notes to the consolidated financial statements continued

35. Reconciliation of operating (loss)/profit to cash generated from operations

	2005 £ million	2004 £ million	2003 £ million
Continuing operations			
Operating (loss)/profit	(39.0)	15.2	11.3
Adjustments for:			
Goodwill impairment	37.0	–	–
Depreciation of property, plant and equipment	11.4	14.8	17.5
Loss on the disposal of property, plant and equipment	0.1	0.5	–
Impairment of property, plant and equipment	–	0.6	2.2
Share-based payment	5.1	4.8	0.9
Changes in working capital:			
Deferred income received	5.8	4.9	0.2
Decrease/(increase) in receivables	0.4	(7.1)	6.7
(Increase)/decrease in inventories	(0.4)	3.5	1.8
(Decrease)/increase in payables	(16.8)	4.5	2.1
Decrease in provisions	(0.9)	(2.9)	(5.9)
Defined benefit pension plan	(3.8)	(7.8)	0.8
Cash (outflow)/generated from continuing operations	(1.1)	31.0	37.6
Discontinued operations			
Operating profit	24.4	20.9	16.8
Adjustments for:			
Depreciation of property, plant and equipment	11.2	10.6	11.8
Profit on the disposal of property, plant and equipment	(0.1)	(0.1)	(0.1)
Share-based payment	0.5	0.4	0.1
Changes in working capital:			
Increase in receivables	(1.7)	(2.0)	(2.9)
(Increase)/decrease in inventories	(3.0)	(4.5)	1.3
Increase in payables	3.8	4.0	3.6
Cash generated from discontinued operations	35.1	29.3	30.6
Cash generated from operations	34.0	60.3	68.2

36. Acquisition of subsidiaries

	2005 £ million	2004 £ million	2003 £ million
Net assets – minority interest acquired	–	1.1	–
Goodwill	–	–	2.7
	–	1.1	2.7
Consideration			
Issue of Ordinary shares – Caw Networks, Inc.	–	0.6	2.7
Cash (including expenses)	–	1.1	–
Adjustment to consideration – prior year acquisitions	–	(0.6)	–
	–	1.1	2.7

The cash flows in respect of the acquisition of subsidiaries are as follows:

	2005 £ million	2004 £ million	2003 £ million
Cash (including expenses)	–	(1.1)	–
Cash (accrued in prior years)	–	–	(1.1)
Net cash outflow on acquisitions	–	(1.1)	(1.1)

The issue of Ordinary shares related to deferred consideration pursuant to the acquisition agreement with Caw Networks, Inc. 4.3 million Ordinary shares were issued on 31 March 2004 when the Spirent Ordinary share price was 75.5 pence. The consideration had been estimated in 2003 and provided at £2.7 million and adjusted in 2004 when the actual share price and exchange rate were known.

During 2004, the minority shareholdings in two of the Network Products group's subsidiaries were acquired for a cash consideration of £1.1 million.

37. Disposal of operations

	2005 £ million	2004 £ million	2003 £ million
Net assets disposed of			
Goodwill *note 14*	–	–	0.6
Property, plant and equipment *note 15*	–	0.1	0.7
Inventories	–	0.2	2.3
Trade and other receivables	–	1.8	2.4
Trade and other payables	–	(2.4)	(4.5)
Provisions	–	(1.2)	–
Investment in joint venture	–	–	54.3
Net (liabilities)/ assets	–	(1.5)	55.8
Exchange gain transferred to profit on sale	–	–	(2.4)
Profit on disposal of operations	3.9	4.0	8.6
Disposal costs – HellermannTyton Division *note 6*	(6.7)	–	–
	(2.8)	2.5	62.0

During 2005, the Group disposed of certain non-trading companies for £3.9 million and incurred costs amounting to £6.7 million in relation to the disposal of the HellermannTyton Division. The sale of the HellermannTyton Division was completed on 15 February 2006.

During 2004, the Group disposed of its aerospace maintenance, repair and overhaul software business from within the Systems group.

During 2003, the Group disposed of its Aviation Information Solutions businesses from within the Systems group and its interests in the WAGO joint venture.

Notes to the consolidated financial statements continued

37. Disposal of operations continued

Cash flows in respect of the disposal of operations are as follows:

	2005 £ million	2004 £ million	2003 £ million
Cash received on disposal of operations	3.9	2.5	62.0
Cash expenses paid on the disposal of the HellermannTyton Division	(1.5)	–	–
Net cash flow	2.4	2.5	62.0
Expenses accrued on the disposal of the HellermannTyton Division	(5.2)	–	–
	(2.8)	2.5	62.0

38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

£ million

	Sales of goods			Purchases of goods			Amounts owed by related parties			Amounts owed to related parties		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
Associates	1.2	1.3	1.0	3.0	2.3	2.1	0.5	0.3	0.2	1.3	0.8	0.8

Sales to and purchases from related parties are made at normal market prices.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made in respect of the amounts owed by related parties. The amounts owed by and to related parties for 2005 are included in discontinued operations.

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2005 £000	2004 £000	2003 £000
Short term employee benefits	1,078	1,920	1,431
Share-based payment	504	222	61
	1,582	2,142	1,492

39. Transition to IFRS

For all periods up to and including the year ended 31 December 2004, the Group prepared its financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). As described in notes 1 and 2 above, these financial statements, for the year ended 31 December 2005, are the first the Group is required to prepare in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2003, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 January 2003 and its previously published UK GAAP financial statements for the two years ended 31 December 2003 and 31 December 2004.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRS as effective for December 2005 year ends retrospectively. The Group has taken the following exemptions:

- Comparative information on financial instruments is prepared in accordance with UK GAAP and the Group has adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 January 2005.
- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' has been applied prospectively from 1 January 2005, in accordance with the requirements of that standard and IFRS 1. Accordingly, the comparative balance sheets have not been adjusted for assets and liabilities classified in 2005 as held for sale.
- IFRS 3 'Business Combinations' has not been applied to acquisitions of subsidiaries or interests in associates and joint ventures that occurred before 1 January 2003.
- The Group has recognised all cumulative actuarial gains and losses on pensions and other post-retirement benefits as at 1 January 2003, directly in equity. Accordingly, the Group discloses prospectively from 1 January 2003 the information required by IAS 19 'Employee Benefits' on scheme obligations, scheme assets and experience adjustments on scheme assets and liabilities, as those amounts are determined.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2003.
- IFRS 2 'Share-based Payment' has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Accounting policies applied in the two years ended 31 December 2003 and 31 December 2004

As noted above, the Group adopted IAS 32 and IAS 39 with effect from 1 January 2005 and as permitted under IFRS 1 the Group has not restated comparative information. The new accounting policies as applied for the year ended 31 December 2005 are set out in note 2. For accounting periods up to the year ended 31 December 2004 the following accounting policies were applied in respect of financial instruments in the financial statements of Group:

Derivative instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Group also uses interest rate swaps to adjust interest rate exposures.

The Group considers its derivative instruments qualify for hedge accounting when certain criteria are met.

Forward foreign currency contracts

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, the gains and losses are not recognised until the transaction occurs.

Interest rate swaps

Interest differentials are recognised by accruing with net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

Notes to the consolidated financial statements continued

39. Transition to IFRS continued

Nature of the main adjustments to comply with IAS 32 and IAS 39

Had IAS 32 and IAS 39 been applied from 1 January 2003 all the Group's derivative instruments would have been brought onto the balance sheet at fair value.

Available-for-sale investments and investments held at fair value through profit and loss would have been carried at fair value rather than at cost.

Following adoption of IAS 32 and 39 by the Group, forward currency contracts with a positive fair value of £0.5 million and interest rate swaps with negative fair value of £1.0 million have been recognised in the Group balance sheet at 1 January 2005.

Restatement on the first-time application of IAS 32 and IAS 39

	£ million
Current assets – Financial assets	0.5
Non-current liabilities – Financial liabilities	(1.0)
Long term borrowings	0.4
Total change in equity *note 34*	(0.1)

Explanation of IFRS adjustments to the income statements and balance sheets

The most significant adjustments arising from the Group's transition to IFRS are described below and their financial effect is set out in the reconciliations on pages 89 to 93.

a) IFRS 2 'Share-based Payment'

IFRS 2 requires an expense to be recognised where the Group buys goods or services in exchange for shares or rights over shares (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash-settled transactions). The main impact of IFRS 2 on the Group is the measurement of the expense for employees' and directors' share options and other share-based incentives by using an option-pricing model.

Effect on the income statement

This change has resulted in an increase in the reported charge for share-based payment of £4.6 million for 2004 and £0.4 million for 2003.

The effect of this revised policy on the basic and diluted EPS is as follows:

- For 2004 a decrease in basic earnings per share of 0.49 pence (2003 0.04 pence).
- For 2004 a decrease in diluted earnings per share of 0.48 pence (2003 0.04 pence).

Effect on equity

There is no net effect on equity.

b) IAS 19 'Employee Benefits'

IAS 19 permits two different approaches for the recognition of actuarial gains and losses. The Group is adopting the approach which is similar to the UK Standard, Financial Reporting Standard ("FRS") 17 'Retirement Benefits'. Spirent adopted FRS 17 for UK GAAP reporting in 2003 and restated the consolidated balance sheet at 1 January 2003 for the adoption of this standard. The implementation of IAS 19 in respect of defined benefit pension schemes has had no effect on the reported results of the Group compared with the results reported under UK GAAP.

Under UK GAAP a deferred tax asset arose in respect of the retirement benefit obligation on the defined benefit pension schemes and this was set off against the obligation for disclosure purposes. IAS 19 requires that the deferred tax asset be separately disclosed as a non-current asset.

IAS 19 also requires companies to make an accrual for holiday pay; under UK GAAP this was not mandatory.

Effect on the income statement

The requirement to accrue holiday pay has resulted in a credit to the income statement of £0.8 million for 2004 and no adjustment for 2003.

The effect of this revised policy in respect of the requirement to accrue holiday pay on the basic and diluted EPS is as follows:

- For 2004 an increase in basic earnings per share of 0.09 pence (2003 nil).
- For 2004 an increase in diluted earnings per share of 0.08 pence (2003 nil).

Effect on equity

At 31 December 2004, a deferred tax asset of £11.1 million has been reclassified from the defined benefit pension plan deficit to non-current assets. A similar reclassification was made of £13.0 million at 31 December 2003. No deferred tax asset was recognised at the transition date 1 January 2003.

An additional accrual of £0.2 million for holiday pay has been reported and included in trade and other payables at 31 December 2004. A similar adjustment of £1.0 million was made at 31 December 2003 and £1.0 million at 1 January 2003.

Notes to the consolidated financial statements continued

39. Transition to IFRS continued

c) IFRS 3 'Business Combinations'

i) Goodwill amortisation

The Group made no acquisitions in 2003 or 2004 and has elected not to restate business combinations prior to the transition date of 1 January 2003. The effect of the adoption of IFRS 3 on the Group's accounting policies has therefore had no impact on the book value of assets and liabilities acquired for prior period acquisitions.

The adoption of IFRS 3 and IAS 36 'Impairment of Assets' has resulted in the Group ceasing annual goodwill amortisation from 1 January 2003 and introduced the requirement to test for impairment annually at the level of the cash-generating unit or cash-generating units to which goodwill has been allocated (unless an event occurs during the year which requires the goodwill to be tested more frequently).

In addition, the reversal of goodwill amortisation has resulted in a higher goodwill balance denominated in foreign currencies and hence has adjusted the exchange difference on retranslation of goodwill into sterling at each reporting date.

Effect on the income statement

Goodwill amortisation of £9.1 million charged in 2004 and £9.7 million charged in 2003 under UK GAAP has been reversed in the restatements under IFRS.

The effect of this revised policy due to the adoption of IFRS 3 on the basic and diluted EPS is as follows:

- For 2004 an increase in basic earnings per share of 0.97 pence (2003 1.04 pence).
- For 2004 an increase in diluted earnings per share of 0.96 pence (2003 1.03 pence).

Effect on equity

A cumulative exchange difference of £1.1 million arises on the retranslation of the adjusted goodwill balance at 31 December 2004. The equivalent cumulative exchange difference was £0.4 million at 31 December 2003.

The reversal of the cumulative goodwill amortisation from transition date together with the exchange effects outlined above have increased the carrying value of goodwill at 31 December 2004 by £17.7 million. The cumulative adjustment at 31 December 2003 was £9.3 million.

ii) Profit or loss on disposal

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in the calculation of any profit or loss on any subsequent disposal under IFRS.

Effect on the income statement

Goodwill written off to reserves arising prior to 1998 and reinstated under UK GAAP on the disposal of operations has been reversed in the amount of £4.9 million and £2.6 million in 2004 and 2003, respectively.

The effect of this revised policy due to the adoption of IFRS 3 on the basic and diluted EPS is as follows:

- For 2004 an increase in basic earnings per share of 0.52 pence (2003 0.28 pence).
- For 2004 an increase in diluted earnings per share of 0.51 pence (2003 0.27 pence).

Effect on equity

There is no net effect on equity.

d) IAS 12 'Income Taxes'

IAS 12 requires that deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. These deferred tax liabilities were not required to be recognised under UK GAAP.

Effect on the income statement

The tax charge for the Group has increased by £0.1 million and that for the associate by £0.1 million for 2003 under IFRS. There is no effect on the income statement in 2004 and therefore there is no effect on basic or diluted earnings per share (2003 basic and diluted 0.02 pence decrease).

Effect on equity

Under IFRS additional deferred tax liabilities for subsidiaries have been recognised of £0.6 million and for associates of £1.5 million at 31 December 2004 and at 31 December 2003. At the transition date, 1 January 2003, tax liabilities of £0.4 million for subsidiaries and £1.4 million for associates have been recognised under IFRS.

e) IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'

IAS 28 and IAS 31 require that the Group's share of the associates' or joint ventures' net profit or loss be disclosed in the income statement as one line after charging or crediting the Group's share of the associates' or joint ventures' interest and tax. Under UK GAAP the Group's share of interest and tax of the associates and joint ventures were disclosed within the interest or tax lines in the income statement.

Effect on the income statement

An amount of £1.0 million of tax has been reclassified to the associates' result from the tax charge in 2004 under IFRS. In 2003, £0.2 million of interest and £1.1 million of tax have been reclassified to the joint ventures' result and £0.9 million of tax to the associates' result.

Effect on equity

There is no effect on equity.

Notes to the consolidated financial statements continued

39. Transition to IFRS continued

f) IAS 21 'The Effects of Changes in Foreign Exchange Rates'

The Group has elected to adopt IAS 21 from the transition date, 1 January 2003. As a result any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. Goodwill acquired prior to 1 January 2003 that has been treated as an asset of the parent is reported in pounds sterling at the date of transition.

Exchange differences arising from the retranslation of opening net assets of overseas subsidiaries and exchange adjustments arising from the translation of the results of overseas subsidiaries, joint ventures and associates, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as part of the profit or loss on disposal should an operation be disposed of. The Group has elected to apply the exemption that allows the cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IFRS, 1 January 2003. The Group has similarly elected that the gain or loss on the subsequent disposal of any foreign operation shall exclude translation differences that arose before the transition date.

For disposals in 2003 and 2004 that occurred after the transition date, the profit or loss on disposal has been restated so as to include the effect of any post-transition translation differences.

Effect on the income statement

There is no effect on the income statement in 2004. In 2003, exchange gains of £2.4 million on foreign operations disposed of have been credited to the income statement.

The effect of this revised policy on the basic and diluted earnings per share is as follows:

- For 2004 there is no effect on basic earnings per share (2003 0.25 pence increase).
- For 2004 there is no effect on diluted earnings per share (2003 0.25 pence increase).

Effect on equity

At 31 December 2004, cumulative translation adjustments of £2.8 million have been transferred to a separate translation reserve in accordance with IAS 21. These, together with the translation effects of other IFRS adjustments, result in a closing balance of £1.6 million on the translation reserve at this date. The translation reserve at 31 December 2003 was a credit balance of £3.0 million.

g) Reclassifications

Some reclassifications are required in the restatements under IFRS.

Effect on the income statement

For the defined benefit pension schemes a credit for the expected return on the schemes' assets and a charge for the increase during the period in the present value of the schemes' liabilities, because the benefits are one year closer to settlement, were included in other finance expense or income in the income statement under UK GAAP. Under IFRS this charge or credit has been reclassified as finance costs.

Effect on equity

Under IFRS it is necessary to classify provisions into short term provisions and non-current provisions.

Under IFRS the investment in own shares has been reclassified to retained earnings in the transition date balance sheet and at 31 December 2003. The investment in own shares was deducted from retained earnings at 31 December 2004 for UK GAAP so no adjustment is required.

For UK GAAP purposes in the following reconciliations the defined benefit pension plan deficit has been reclassified as a non-current liability.

Other

The Group has applied IAS 39 prospectively, that is with effect from 1 January 2005, and hence no adjustments for financial instruments are required in the income statement restatements for 2003 or 2004.

Reconciliation of equity at 1 January 2003

£ million

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Goodwill		113.6	–	113.6
Property, plant and equipment		110.0	–	110.0
Investment in joint venture		50.1	–	50.1
Investment in associates	a	13.3	(1.4)	11.9
Trade and other receivables		2.0	–	2.0
		289.0	(1.4)	287.6
Current assets				
Inventories		61.5	–	61.5
Trade and other receivables		95.3	–	95.3
Cash and cash equivalents		83.6	–	83.6
		240.4	–	240.4
Total assets		529.4	(1.4)	528.0
Current liabilities				
Trade and other payables	c	(88.0)	(1.0)	(89.0)
Current tax		(19.5)	–	(19.5)
Short term borrowings and overdrafts		(1.8)	–	(1.8)
Provisions and other liabilities	d	–	(5.7)	(5.7)
		(109.3)	(6.7)	(116.0)
Non-current liabilities				
Trade and other payables		(4.7)	–	(4.7)
Long term borrowings		(243.6)	–	(243.6)
Defined benefit pension plan deficit		(46.2)	–	(46.2)
Deferred tax	e	(2.4)	(0.4)	(2.8)
Provisions and other liabilities	d	(26.0)	5.7	(20.3)
		(322.9)	5.3	(317.6)
Total liabilities		(432.2)	(1.4)	(433.6)
Net assets		97.2	(2.8)	94.4
Share capital		31.3	–	31.3
Share premium account		696.1	–	696.1
Capital reserve		17.6	–	17.6
Capital redemption reserve		0.7	–	0.7
Retained loss	f	(648.5)	(4.9)	(653.4)
Investment in own shares	b	(2.1)	2.1	–
Minority interests		2.1	–	2.1
Total equity		97.2	(2.8)	94.4

Notes to the reconciliation of equity at 1 January 2003
a Additional deferred tax liabilities recognised in relation to associates.
b Investment in own shares reclassified as treasury stock and shown as a deduction from equity.
c Accrual for vacation earned but not taken at the year end extended to include all subsidiaries within the Group.
d Reclassification of the current portion of lease provisions from provisions under UK GAAP to short term provisions under IFRS.
e Additional deferred tax liabilities recognised in relation to subsidiaries.
f Net adjustment to retained earnings.

Notes to the consolidated financial statements continued

39. Transition to IFRS continued
Reconciliation of equity at 31 December 2003

£ million

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Goodwill	a	101.6	9.3	110.9
Property, plant and equipment		90.2	–	90.2
Investment in joint venture		0.3	–	0.3
Investment in associates	b	14.6	(1.5)	13.1
Trade and other receivables		1.7	–	1.7
Deferred tax	c	–	13.0	13.0
		208.4	20.8	229.2
Current assets				
Inventories		55.0	–	55.0
Trade and other receivables		85.2	–	85.2
Cash and cash equivalents		37.6	–	37.6
		177.8	–	177.8
Total assets		386.2	20.8	407.0
Current liabilities				
Trade and other payables	d	(86.6)	(1.0)	(87.6)
Current tax		(24.7)	–	(24.7)
Short term borrowings and overdrafts		(1.8)	–	(1.8)
Provisions and other liabilities	e	–	(4.6)	(4.6)
		(113.1)	(5.6)	(118.7)
Non-current liabilities				
Trade and other payables		(2.3)	–	(2.3)
Long term borrowings		(93.3)	–	(93.3)
Defined benefit pension plan deficit	c	(35.2)	(13.0)	(48.2)
Deferred tax	f	(2.3)	(0.6)	(2.9)
Provisions and other liabilities	e	(17.9)	4.6	(13.3)
		(151.0)	(9.0)	(160.0)
Total liabilities		(264.1)	(14.6)	(278.7)
Net assets		122.1	6.2	128.3
Share capital		31.5	–	31.5
Share premium account		697.5	–	697.5
Capital reserve		17.7	–	17.7
Capital redemption reserve		0.7	–	0.7
Translation reserve	g	–	3.0	3.0
Investment in own shares	h	(2.6)	2.6	–
Retained loss	i	(624.9)	0.6	(624.3)
Minority Interests		2.2	–	2.2
Total equity		122.1	6.2	128.3

Notes to the reconciliation of equity at 31 December 2003
a Elimination of goodwill amortisation from 1 January 2003.
b Additional deferred tax liabilities recognised in relation to associates.
c Deferred tax asset on pension scheme is required to be shown separately.
d Accrual for vacation earned but not taken at the year end extended to include all subsidiaries within the Group.
e Reclassification of the current portion of lease provisions from provisions under UK GAAP to short term provisions under IFRS.
f Additional deferred tax liabilities recognised in relation to subsidiaries.
g Separate translation reserve required.
h Reclassify own shares within retained earnings.
i Net adjustment to retained earnings.

Reconciliation of equity at 31 December 2004

£ million

	Notes	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets				
Goodwill	a	88.8	17.7	106.5
Property, plant and equipment		86.3	–	86.3
Investment in associates		15.8	(1.5)	14.3
Trade and other receivables		1.5	–	1.5
Deferred tax	b	–	11.1	11.1
		192.4	27.3	219.7
Current assets				
Inventories		54.0	–	54.0
Trade and other receivables		88.4	–	88.4
Cash and cash equivalents		51.7	–	51.7
		194.1	–	194.1
Total assets		386.5	27.3	413.8
Current liabilities				
Trade and other payables	c	(90.6)	(0.2)	(90.8)
Current tax		(26.2)	–	(26.2)
Short term borrowings and overdrafts		(1.8)	–	(1.8)
Provisions and other liabilities	e	–	(4.2)	(4.2)
		(118.6)	(4.4)	(123.0)
Non-current liabilities				
Trade and other payables		(3.9)	–	(3.9)
Long term borrowings		(76.3)	–	(76.3)
Defined benefit pension plan deficit	b	(27.0)	(11.1)	(38.1)
Deferred tax	d	(1.9)	(0.6)	(2.5)
Provisions and other liabilities	e	(13.8)	4.2	(9.6)
		(122.9)	(7.5)	(130.4)
Total liabilities		(241.5)	(11.9)	(253.4)
Net assets		145.0	15.4	160.4
Share capital		31.9	–	31.9
Share premium account		1.3	–	1.3
Capital reserve		10.9	–	10.9
Capital redemption reserve		–	–	–
Translation reserve	f	–	1.6	1.6
Retained earnings	g	99.6	13.8	113.4
Minority Interests		1.3	–	1.3
Total equity		145.0	15.4	160.4

Notes to the reconciliation of equity at 31 December 2004

a Elimination of goodwill amortisation from 1 January 2003.
b Deferred tax asset on pension scheme is required to be shown separately.
c Accrual for vacation earned but not taken at the year end extended to include all subsidiaries within the Group.
d Additional deferred tax liabilities recognised in relation to subsidiaries.
e Reclassification of the current portion of lease provisions from provisions under UK GAAP to short term provisions under IFRS.
f Separate translation reserve required under IFRS.
g Net adjustment to retained earnings.

Notes to the consolidated financial statements continued

39. Transition to IFRS continued

Reconciliation of the income statement for 2003

£ million

	Notes	UK GAAP	Effect of transition to IFRS	Effect of proposed disposal of HellermannTyton[g]	IFRS
Continuing operations					
Revenue		466.2	–	(174.4)	291.8
Cost of sales		(279.8)	–	105.5	(174.3)
Gross profit		186.4	–	(68.9)	117.5
Operating expenses	a	(167.6)	9.3	52.1	(106.2)
Operating profit		18.8	9.3	(16.8)	11.3
Profit from interests in joint ventures	b	2.7	(1.3)	–	1.4
Share of profit of associates	c	2.1	(1.0)	(1.1)	–
Operating profit of the Group, joint venture and associates		23.6	7.0	(17.9)	12.7
Profit on the disposal of operations	d	3.6	5.0	–	8.6
Profit before interest		27.2	12.0	(17.9)	21.3
Finance income		3.1	–	(0.2)	2.9
Finance costs	e	(28.5)	(1.3)	1.0	(28.8)
Other finance expense	e	(1.5)	1.5	–	–
Profit/(loss) before tax		0.3	12.2	(17.1)	(4.6)
Tax	f	(0.6)	1.9	2.9	4.2
Loss for the year from continuing operations after tax		(0.3)	14.1	(14.2)	(0.4)
Discontinued operations					
Profit for the year from discontinued operations	g	–	–	14.2	14.2
(Loss)/profit for the year		(0.3)	14.1	–	13.8
Attributable to					
Equity holders of the parent		(0.5)	14.1	–	13.6
Minority shareholders' interests – discontinued operations		0.2	–	–	0.2
(Loss)/profit for the year		(0.3)	14.1	–	13.8

Notes to the reconciliation of the consolidated income statement for 2003

a The adjustment to operating expenses under IFRS is made up of the following items:

	£ million
Reversal of UK GAAP goodwill amortisation charge	9.7
Additional share-based payment charge under IFRS 2	(0.4)
	9.3

b Under IAS 31 income from interests in joint ventures is shown net of taxation (£1.1 million) and finance costs (£0.2 million).

c Under IAS 28 share of profit of associates is shown net of tax (£0.9 million) and an adjustment of £0.1 million in relation to deferred tax liabilities under IAS 12.

d Under IFRS goodwill previously written off to reserves of £2.6 million is not reinstated on the disposal of operations. In addition, there are exchange gains on foreign operations of £2.4 million that under IAS 21 were taken to equity and on disposal of those operations have now been transferred to the income statement.

e The adjustment to finance costs under IFRS relates to the reclassification of the finance expense arising on defined benefit pension schemes of £1.5 million to other finance expense and a reduction of £0.2 million for finance costs of the joint venture.

f The adjustment to tax relates to the tax charge for the associates and joint venture (see (b) and (c) above) and a deferred tax charge which arises in relation to temporary differences for investments in subsidiaries under IAS 12.

g The income statement has been adjusted to reflect the effect of the proposed disposal of the HellermannTyton Division which is a discontinued operation under IFRS but not under UK GAAP in 2005.

Reconciliation of the income statement for 2004

£ million

	Notes	UK GAAP	Effect of transition to IFRS	Effect of proposed disposal of HellermannTyton[f]	IFRS
Continuing operations					
Revenue		475.0	–	(187.8)	287.2
Cost of sales		(274.9)	–	109.7	(165.2)
Gross profit		200.1	–	(78.1)	122.0
Operating expenses	a	(169.3)	5.3	57.2	(106.8)
Operating profit		30.8	5.3	(20.9)	15.2
(Loss) from interest in joint venture		(0.7)	–	–	(0.7)
Share of profit of associates	b	2.8	(1.0)	(1.8)	–
Operating profit of the Group, joint venture and associates		32.9	4.3	(22.7)	14.5
(Loss)/profit on the disposal of operations	c	(0.9)	4.9	–	4.0
Profit before interest		32.0	9.2	(22.7)	18.5
Finance income		1.6	–	(0.2)	1.4
Finance costs	d	(8.9)	(0.7)	0.9	(8.7)
Other finance expense	d	(0.7)	0.7	–	–
Profit before tax		24.0	9.2	(22.0)	11.2
Tax	e	(7.7)	1.0	4.7	(2.0)
Profit for the year from continuing operations after tax		16.3	10.2	(17.3)	9.2
Discontinued operations					
Profit for the year from discontinued operations	f	–	–	17.3	17.3
Profit for the year		16.3	10.2	–	26.5
Attributable to					
Equity holders of the parent		16.0	10.2	–	26.2
Minority shareholders' interests – discontinued operations		0.3	–	–	0.3
Profit for the year		16.3	10.2	–	26.5

Notes to the reconciliation of the consolidated income statement for 2004

a The adjustment to operating expenses under IFRS is made up of the following items:

	£ million
Reversal of UK GAAP goodwill amortisation charge	9.1
Decrease in vacation accrual	0.8
Additional share-based payment charge under IFRS 2	(4.6)
	5.3

b Under IAS 28 share of profit of associates is shown net of taxation (£1.0 million).

c Under IFRS goodwill previously written off to reserves is not reinstated on the disposal of operations.

d The adjustment to finance costs under IFRS relates to the reclassification of the finance expense arising on defined benefit pension schemes to other finance expense.

e The adjustment to tax under IFRS relates to the tax charge for the associates (see (b) above).

f The income statement has been adjusted to reflect the effect of the proposed disposal of the HellermannTyton Division which is a discontinued operation under IFRS but not under UK GAAP in 2005.

Explanation of material adjustments to the cash flow statement for 2004 and 2003

Income taxes of £3.1 million paid during 2004 (2003 received £8.9 million) are classified as operating cash flows under IFRS, but were included in a separate category of tax cash flows under UK GAAP. There are no other material differences between the cash flow statements presented under IFRS and the cash flow statements presented under UK GAAP.

Notes to the consolidated financial statements continued

40. Post balance sheet events

On 23 January 2006 the Group announced that it had entered into an agreement to acquire SwissQual Holding AG ("SwissQual") for an initial consideration of CHF 62.5 million (£27.7 million). The initial consideration was paid in cash on completion on 23 January 2006 out of cash resources and utilisation of a new bank facility that was set up specifically for the purpose. A further CHF 28.0 million (£12.4 million) is payable in 2007 depending on revenue growth and various technical milestones.

We also announced on 13 February 2006 the acquisition of QuadTex Systems, Inc for $7.5 million (£4.2 million) payable in cash on completion with a further $1.5 million (£0.9 million) payable depending on certain technical milestones and the retention of key employees.

The directors consider it impractical to provide further disclosures in relation to these acquisitions given their proximity to the date of the Annual Report.

The disposal of The HellermannTyton Division was completed on 15 February 2006 when proceeds of £288.9 million were received at a cash free/debt free equivalent value. These proceeds have been applied as follows:

- Repayment of the senior loan notes of $124.8 million (£71.5 million).
- Payment of the make whole amount (an amount which becomes payable on the early redemption of the senior loan notes) of $12.9 million (£7.4 million).
- Break fees of £2.3 million in respect of interest rate swaps taken out in connection with the senior loan notes.
- Special contribution of £47.0 million to the UK final salary pension scheme.
- Repayment and cancellation of the bank facility in connection with the acquisition of SwissQual.

Taking these transactions into account the pro forma cash balance is approximately £150 million, of this, £50 million has been earmarked to fund the on-market share repurchase programme. The programme is expected to begin in the second quarter, following the completion of certain actions: establishing distributable reserves in the parent Company, clearance from the Pension Regulator and the approval from shareholders to make on-market share repurchases of up to 14.99 per cent of the Company's issued share capital.

Following the disposal of the HellermannTyton Division the Company issued notices of cancellation in respect of all its borrowing facilities.

Independent auditors' report to the shareholders of Spirent plc

We have audited the parent Company financial statements of Spirent plc for the year ended 31 December 2005 which comprise the Company balance sheet and the related notes 1 to 23. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Spirent plc for the year ended 31 December 2005.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, the Directors' remuneration report and the parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the parent Company financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, Chief Executive's overview, the Operating review and Financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the parent Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered auditor
London

23 February 2006

Company balance sheet

At 31 December	Notes		2005 £ million		2004 £ million
Fixed assets					
Tangible assets	4		15.9		15.8
Fixed asset investments					
Shares in subsidiaries	5		233.2		263.3
Loans to subsidiaries	6		119.1		175.3
Investment in associate	7		0.1		0.1
Total fixed assets			368.3		454.5
Current assets					
Stocks	8	9.3		8.6	
Trade and other debtors	9	21.9		25.3	
Derivative financial instruments	16	2.6		–	
Cash at bank and in hand		26.4		28.9	
		60.2		62.8	
Current liabilities					
Creditors due within one year	10	(23.4)		(19.7)	
Derivative financial instruments	16	(0.6)		–	
Loans due within one year	14	(3.2)		–	
		(27.2)		(19.7)	
Net current assets			33.0		43.1
Assets less current liabilities			401.3		497.6
Long term liabilities					
Creditors due after more than one year	11		(234.3)		(309.3)
Derivative financial instruments	16		(2.0)		–
Provisions for liabilities and charges					
Deferred tax	12		(0.8)		–
Provisions	13		(1.7)		(2.0)
Assets less liabilities (excluding pension liability)			162.5		186.3
Pension liability	3		(51.5)		(27.0)
Assets less liabilities (including pension liability)			111.0		159.3
Capital and reserves	17				
Called up share capital			32.2		31.9
Share premium account			4.4		1.3
Capital reserve			10.2		10.9
Merger reserve			–		1.2
Net unrealised gains and losses			2.0		–
Profit and loss account			62.2		114.0
Shareholders' funds – equity			111.0		159.3

The notes on pages 97 to 114 form part of these financial statements.

Signed on behalf of the Board

Anders Gustafsson
Director
23 February 2006

Notes to the parent Company financial statements

1. Significant accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

As the Company is included in the consolidated financial statements, made up to 31 December each year, it is not required to present a separate profit and loss account as provided by Section 230 of the Companies Act 1985.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following standards for which the principal effects of this decision are discussed below.

Financial Reporting Standard ("FRS") 20 'Share-based Payment'

Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The Company has applied FRS 20 from 1 January 2005, as allowed by the standard, and only to equity-settled awards granted after 7 November 2002 which were unvested at 1 January 2005.

FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'

From 1 January 2005, the Company is required to adopt the provisions of the above standards.

The Company uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates and 'fixed to floating' interest rate swaps to hedge its fixed interest rate borrowings. The Company's policy is not to undertake any trading activity in financial instruments. From 1 January 2005, the Company accounts for these instruments in accordance with FRS 26 (see below).

Tangible assets

Depreciation is not provided on freehold land. Depreciation is provided to write off all other assets over their estimated useful lives at rates which take into account commercial conditions at their location. Usual asset lives are as follows:

Freehold buildings	50 years
Leasehold properties	Over the lease period
Plant and machinery	3 to 8 years
Fixtures, fittings and equipment	
Building installations	20 years or lease period if less
Fittings and equipment	3 to 8 years
Motor vehicles	3 to 5 years
Business systems software	4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Leases

Finance leases, which transfer substantially all the risks and rewards of ownership of the assets concerned, are capitalised on the balance sheet at net present value. The corresponding liabilities are recorded as long term or current liabilities depending on the period when they are due. The interest elements of the rental obligations are charged to the profit and loss account over the periods of the leases as a finance cost. Capitalised leased assets are depreciated over their useful life.

Operating lease rentals are charged to profit and loss account over the period of the lease.

Inventories

Inventories are valued at the lower of cost and estimated net realisable value. Cost includes all costs in bringing each product to its present location and condition, being the full manufacturing cost on a first-in-first-out basis, including all attributable overheads based on a normal level of activity. Net realisable value represents the selling price less further costs to be incurred to completion and on sale.

Notes to the parent Company financial statements continued

1. Significant accounting policies continued

Trade and other debtors
Trade debtors, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Provisions
Provisions are recorded when the Company has a present, legal or constructive obligation as a result of a past event which it is probable that it will be required to settle by an outflow of resources and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Company, the revenue can be reliably measured and when the Company has transferred to the buyer the significant risks and rewards of ownership. In addition, revenue is only recognised when collectibility is probable.

For the sale of services, revenue is recognised in accounting periods in which the service is rendered.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. All exchange profits and losses are taken to the profit and loss account.

Product development
Expenditure is charged to the profit and loss account in the year in which it is incurred.

Financial instruments
Financial assets and liabilities are recognised on the Company's balance sheet when it becomes a party to the contractual provisions of the instrument.

Interest-bearing loans and borrowings
Loans and overdrafts are initially recognised at fair value of the consideration received, net of issue costs. Issue costs are amortised over the expected life of the instrument.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

From 1 January 2005, hedge accounting is adopted where derivatives such as 'fixed to floating' interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in the fair value attributable to the interest rate risk being hedged.

Equity instruments
Equity instruments are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments
With effect from 1 January 2005 the Company uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. The Company's policy is not to undertake any trading activity in financial instruments. Such derivative financial instruments are stated at fair value with effect from 1 January 2005.

From 1 January 2005, such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Interest rate swaps are used to hedge the Company's exposure to movements in interest rates. The fair value of interest rate swaps is determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to the variability in cash flows that is due to the risk associated with a recognised asset or liability or a forecast transaction.

In relation to these fair value hedges (interest rate swaps) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised in the profit and loss account and any gain or loss on the item that is being hedged is adjusted against its carrying amount and recognised in the profit and loss account.

In relation to cash flow hedges (forward foreign exchange contracts) to hedge firm commitments or highly probable forecast transactions and which meet the conditions for hedge accounting, the proportion of the gain or loss on the remeasurement of the fair value of the hedging instrument that is deemed to be effective is recognised in equity and the ineffective portion is recognised in the profit and loss account.

When the firm commitment or highly probable forecast transaction results in the recognition of an asset or liability, the associated gains and losses that have previously been recognised in equity are included in the initial measurement of the carrying amount of the asset or liability at the time the asset or liability is recognised.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken to the profit and loss account.

Gains or losses arising on hedging instruments, which are cancelled due to termination of the underlying exposure, are taken to the profit and loss account immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts.

Policy prior to 1 January 2005

Foreign exchange contracts

The rates under foreign currency contracts are used to record the hedged item and as such gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities. Where the contract is a hedge against future transactions, gains and losses are deferred until the transaction occurs.

Interest rate swaps

Receipts and payments on interest rate swaps are recognised on an accruals basis over the life of the underlying financial instrument. Interest rate swaps are not revalued to fair value or shown in the Company's balance sheet.

Pensions

The Company operates two defined benefit pension schemes for the benefit of employees. These schemes require contributions to be made to separately administered funds, based on triennial actuarial valuations. Other schemes are defined contribution in nature.

The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes measured using the projected unit credit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus or deficit in the balance sheet net of deferred tax.

The regular service cost of providing retirement benefits to employees in defined benefit schemes is charged to operating profit in the year together with the cost of providing benefit improvements in respect of past service and gains or losses arising on settlements and curtailments.

A credit for the expected return on the schemes' assets and a charge for the increase during the period in the present value of the schemes' liabilities because the benefits are one year closer to settlement, are included in other finance expense in the profit and loss account. Differences arising between the actual and expected returns on the schemes' assets together with changes in the actuarial assumptions are included in the statement of recognised gains and losses.

Contributions payable to the other defined contribution schemes are charged to the profit and loss account in the year for which they are due.

Notes to the parent Company financial statements continued

1. Significant accounting policies continued

Employee benefits

When an employee has rendered service to the Company during an accounting period, short term benefits expected to be paid in exchange for that service are recognised in the same accounting period.

Share-based payment

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in the opinion of the directors of the Company at that date and based on the best available estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Company has an employee share trust for the granting of certain options to employees. Shares are held by the employee share trust, treated as treasury shares and presented in the balance sheet as a deduction from equity.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable represents the amount expected to be paid or recovered in respect of taxable profit for the year and is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided on an undiscounted basis on all timing differences that have originated but not reversed at the balance sheet date except as referred to below. Amounts provided are calculated with reference to tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not provided on gains on the disposal of fixed assets that have been rolled over into replacement assets, unless there is a binding agreement to dispose of the assets concerned. Provision will not be made where it is considered more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold.

2. Employees

Please refer to the Report on directors' remuneration on pages 20 to 26 for disclosures relating to the emoluments, share options and long term incentive interests and pensions of the directors.

3. Pensions

Defined benefit schemes

The defined benefit schemes are in the United Kingdom and comprise the Staff Pension Plan and the Retirement Cash Plan. These schemes have been combined for the purposes of the following disclosures.

The most recent actuarial valuation of the schemes' assets and the present value of the defined benefit schemes' obligations using the project unit credit method at 1 April 2003 have been used and updated by our independent actuaries.

i) The key financial assumptions used were:

	2005 %	2004 %	2003 %
Inflation	2.9	2.9	2.8
Rate of increase in pensionable salaries	3.6	3.6	3.5
Rate of increase for pensions in payment pre 2001 service	3.5	3.0	3.0
Rate of increase for pensions in payment post 2001 pre April 2005 service	2.8	2.7	2.7
Rate of increase for pensions post April 2005 service	2.1	–	–
Rate of increase in deferred pensions	2.9	2.9	2.8
Rate used to discount scheme liabilities	4.7	5.3	5.4

The expected long term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long term asset allocation strategy adopted for the plans.

The demographic assumptions are as follows:
– for future pensioners, that men and women aged 65 will live on average for a further 22 and 24 years, respectively; and
– for current pensioners, that men and women aged 65 will live on average for a further 21 and 24 years, respectively.

ii) The assets and the liabilities in the scheme were as follows:

	Long term rate of return expected %	2005 £ million	Long term rate of return expected %	2004 £ million	Long term rate of return expected %	2003 £ million
Equities	7.6	77.2	7.5	62.2	7.8	61.3
Government bonds	4.1	22.1	4.5	11.9	4.8	15.3
Corporate bonds	4.5	13.4	5.0	18.8	5.1	9.6
Cash	4.8	2.1	5.0	2.6	4.3	4.5
Property	6.6	5.5	6.5	4.6	6.8	1.8
Other	5.2	8.5	5.6	6.8	5.6	6.3
Fair value of scheme assets	6.4	128.8	6.5	106.9	6.8	98.8
Present value of funded obligations		(179.6)		(144.2)		(142.2)
Net deficit in the schemes		(50.8)		(37.3)		(43.4)
Related deferred tax asset		–		11.1		13.0
Deficit in schemes, net of tax		(50.8)		(26.2)		(30.4)
Present value of unfunded obligations		(0.7)		(0.8)		(4.8)
Net pension liability		(51.5)		(27.0)		(35.2)

No deferred tax asset has been recognised in 2005 in respect of the net deficit in the schemes. The schemes are prohibited from investing in Spirent's own financial instruments.

Notes to the parent Company financial statements continued

3. Pensions continued

iii) Analysis of the amounts charged to the profit and loss account

	2005 £ million	2004 £ million
Analysis of amount charged to operating costs:		
Current service cost	2.4	1.8
Analysis of amount charged to finance costs:		
Expected return on pension schemes' assets	(6.9)	(6.6)
Interest on pension schemes' liabilities	7.6	7.3
Finance costs	0.7	0.7
Net profit and loss charge	3.1	2.5

iv) Analysis of amount recognised directly in equity

	2005 £ million	2004 £ million
Actual return less expected return on pension schemes' assets	14.6	3.6
Experience gains arising on the schemes' liabilities	4.8	2.4
Changes in assumptions underlying the present value of the schemes' liabilities	(35.5)	(3.0)
Actuarial (loss)/gain recognised directly in equity	(16.1)	3.0

v) Movement in deficit in the year

	2005 £ million	2004 £ million
Deficit in schemes at the beginning of year	(37.3)	(43.4)
Current service cost	(2.4)	(1.8)
Employer contributions paid	5.7	5.6
Other finance expense	(0.7)	(0.7)
Actuarial (loss)/gain	(16.1)	3.0
Net deficit in the schemes at 31 December	(50.8)	(37.3)

vi) History of experience gains and losses

	2005 £ million	2004 £ million	2003 £ million	2002 £ million
Difference between the expected and actual return on the schemes' assets				
Amount (£ million)	14.6	3.6	6.6	(20.3)
Percentage of the schemes' assets (%)	11.3	3.4	6.7	(22.8)
Experience gains and losses on scheme liabilities				
Amount (£ million)	4.8	2.4	6.8	(0.9)
Percentage of the present value of the schemes' liabilities (%)	2.7	1.7	4.8	(0.7)
Total amount recognised in the statement of recognised gains and losses				
Amount (£ million)	(16.1)	3.0	0.3	(23.6)
Percentage of the present value of the schemes' liabilities (%)	(9.0)	2.1	0.2	(18.0)

The above schemes are funded and have full UK HM Revenue & Customs tax-exempt approval by which benefits are limited due to the statutory earnings cap (a HM Revenue & Customs limit on the amount of earnings that can be made pensionable under the schemes for members who joined after May 1989). Certain members, whose salaries are in excess of this cap, have had their benefits increased through unapproved, unfunded arrangements, to the level that would otherwise have applied in respect of the basic salary only. The Company has contractually agreed to pay the additional retirement benefits itself and a provision is made in respect of this obligation in the balance sheet at 31 December 2005 of £0.7 million (2004 £0.8 million). This represents the actuarial value as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a Market Value basis in line with the Main Plan Valuation and adjusted each year by the charge for the year (equivalent to a contribution to a funded plan) of £0.1 million (2004 £0.1 million). The additional death-in-service benefits over the statutory cap are separately insured by the Company under an unapproved scheme.

The Company made a special contribution of £47.0 million into the UK final salary pension scheme in February 2006 (see note 23).

Defined contribution schemes

United Kingdom

The Company maintains defined contribution pension schemes for employees in the UK. These schemes are known as "Cash Builder", "Pension Builder" and "Executive Section". Employer contributions into these schemes for 2005 were £0.3 million (2004 £0.1 million).

4. Tangible assets

£ million

	Land and buildings					
	Freehold	Long lease	Short lease	Plant and machinery	Fixtures fittings and equipment	Total
Cost						
At 1 January 2005	1.0	9.1	0.4	32.3	8.9	51.7
Additions						
owned assets	0.2	–	–	2.6	0.4	3.2
Disposals	–	–	–	(0.3)	(0.2)	(0.5)
At 31 December 2005	1.2	9.1	0.4	34.6	9.1	54.4
Depreciation and impairment						
At 1 January 2005	0.5	2.1	0.2	25.8	7.3	35.9
Provided during the year	–	0.3	–	2.2	0.6	3.1
Disposals	–	–	–	(0.3)	(0.2)	(0.5)
At 31 December 2005	0.5	2.4	0.2	27.7	7.7	38.5
Net book value at 31 December 2004	0.5	7.0	0.2	6.5	1.6	15.8
Net book value at 31 December 2005	0.7	6.7	0.2	6.9	1.4	15.9

Notes to the parent Company financial statements continued

5. Shares in subsidiaries

	£ million
Cost	
At 1 January 2005	1,717.4
Additions	0.2
Transfers to subsidiaries	(896.2)
Disposals	(1.3)
At 31 December 2005	820.1
Provisions	
At 1 January 2005	1,454.1
Increases in provisions	29.0
Transfers	(896.2)
At 31 December 2005	586.9
Net book value at 31 December 2005	233.2

6. Loans to subsidiaries

	£ million
At 1 January 2005	175.3
Advances	6.6
Repayments	(71.8)
Exchange adjustment	9.0
At 31 December 2005	119.1

7. Investments in Associates

	£ million
Cost	
At 1 January and 31 December 2005	0.1

The associated company as at 31 December 2005 and 31 December 2004 was:

	Location	% holding	Nature of business
Tyton Company of Japan	Japan	49%	Cable management products

8. Stocks

	2005 £ million	2004 £ million
Raw materials	3.1	2.6
Work in progress	0.7	0.7
Finished goods	5.5	5.3
	9.3	8.6

9. Trade and other debtors

	2005 £ million	2004 £ million
Due within one year		
Trade debtors	8.7	9.0
Owed by subsidiaries	8.5	9.2
Owed by associates	0.1	0.1
Other debtors	1.9	2.0
Tax recoverable	1.3	3.6
Prepayments and accrued income	1.4	1.4
	21.9	25.3

10. Creditors due within one year

	2005 £ million	2004 £ million
Trade creditors	9.0	8.9
Owed to subsidiaries	1.5	2.0
Other creditors	3.9	1.3
Accruals and deferred income	7.8	6.4
Other taxes and social security costs	1.2	1.1
	23.4	19.7

11. Creditors due after more than one year

	2005 £ million	2004 £ million
Senior unsecured loan notes *note 14*	67.7	64.8
Owed to subsidiaries	166.4	244.1
Deferred income	–	0.3
Pension	0.2	0.1
	234.3	309.3

12. Deferred tax

	£ million
At 1 January 2005	–
Charge for the year	0.8
At 31 December 2005	0.8

	2005 £ million	2004 £ million
Deferred tax provided		
Capital allowances in advance of the corresponding charges for depreciation	0.8	–

Notes to the parent Company financial statements continued

13. Provisions

	£ million
Lease provisions	
At 1 January 2005	2.0
Utilised in the year	(0.3)
At 31 December 2005	1.7
Provisions have been analysed as follows:	
Current	0.3
Non-current	1.4
	1.7

These provisions are in respect of obligations for properties which have been vacated under operating leases.

14. Senior unsecured loan notes

	2005 £ million	2004 £ million
Due within one year		
Senior unsecured loan notes 2006	3.2	–
Due after more than one year *note 11*		
Senior unsecured loan notes 2006	–	2.8
Senior unsecured loan notes 2009	67.7	62.0
	67.7	64.8
	70.9	64.8

At 31 December 2005 and 2004, the following loan notes were in issue:

a) $5.5 million bearing interest at 8.94 per cent (2004 9.19 per cent) repayable on 23 November 2006;
b) $36.2 million bearing interest at 9.06 per cent (2004 9.31 per cent) repayable on 23 November 2009;
c) $65.9 million bearing interest at 9.16 per cent (2004 9.41 per cent) repayable on 23 November 2009; and
d) $17.2 million bearing interest at 9.75 per cent (2004 10.00 per cent) repayable on 23 November 2009. An interest rate derivative was entered into in 1999 to reduce the effective interest rate to 9.28 per cent (2004 9.53 per cent).

Loan notes are repayable:

i) at maturity; or
ii) at any time at the Company's option in an amount of not less than 5 per cent of the aggregate principal amount then outstanding plus a make whole amount.

The loan note agreement provides for half yearly covenant ratio testing. The covenant ratios are as follows:

a) Net interest cover – greater than or equal to 3.0 times;
b) Net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA") – less than or equal to 3.0 times; and
c) Net worth – greater than £100 million.

Covenant ratios are calculated using UK GAAP as applied at 31 December 2002. As the loan notes were repaid in February 2006 testing is not required for 31 December 2005.

If the Company repaid at its option the total principal amount of the loan notes at 31 December 2005 then a make whole amount of $14.3 million (£8.3 million) would become payable.

On 15 February 2006 the loan notes were repaid out of the proceeds of sale of the HellermannTyton Division. A make whole amount of $13.9 million (£7.4 million) was also paid (see note 23).

15. Operating lease commitments

At the balance sheet date, the Company had annual commitments which expire as follows:

	2005 £ million	2004 £ million
In the second to fifth years	0.2	0.2
Over five years	1.1	1.1
	1.3	1.3

16. Derivative financial instruments

The Company has taken advantage of the exemption under FRS 25 'Financial Instruments: Disclosure and Presentation' for parent company financial statements. The disclosures in respect of the Company are included in the consolidated financial statements.

The fair value of derivative financial instruments at 31 December 2005 is as follows:

		£ million
	Assets	Liabilities
Interest rate swaps	–	(2.0)
Currency derivatives	2.6	(0.6)
	2.6	(2.6)
Expected to be recognised:		
In one year or less	2.6	(0.6)
More than one year	–	(2.0)
	2.6	(2.6)

Interest rate swaps

Fixed to floating interest rate swaps were entered into on 23 May 2003 on $72.1 million of the senior unsecured loan notes. The swaps terminate on 23 November 2009 and can be cancelled at the bank's option at six monthly intervals. The swaps have been transacted with two banks and are split $48.0 million and $24.1 million between them. The terms of the $48.0 million swap allow for either party to exercise a break on 23 November 2008. Should a break take place a mark to market settlement is due at fair value.

The interest rate swaps have been designated as hedges and following the adoption of IAS 39 on 1 January 2005 are included in the balance sheet as derivative financial instruments non-current liabilities at fair value with movements in the fair value being reflected through the profit and loss account.

Currency derivatives

The Company uses forward foreign exchange contracts in the management of transactional exchange rate exposures. These contracts are designated where possible as hedging instruments.

At 31 December 2005, the Company held foreign exchange contracts designated as hedges in respect of the forward purchase of US dollars to establish the sterling value of the anticipated repayment of senior unsecured loan notes associated with the disposal of the HellermannTyton Division. The terms of this contract are as follows:

	Maturity	Exchange rate
Buy US dollars 140,000,000	26 January 2006	1.77028

At 31 December the Company held foreign exchange contracts designated as hedges in respect of the forward purchase of Yen to establish the sterling value of the acquisition of the majority interest in the Tyton Company of Japan associated with the disposal of the HellermannTyton Division. The terms of this contract are as follows:

	Maturity	Exchange rate
Buy Yen 5,232,360,000	26 January 2006	204.59

At 31 December the Company held various foreign exchange contracts designated as hedges for various transactional exchange expenses.

Notes to the parent Company financial statements continued

17. Capital and reserves

£ million

	Called up share capital	Share premium account	Capital reserve	Merger reserve	Net unrealised gains and losses	Profit and loss account[2]
At 1 January 2005 as originally stated	31.9	1.3	10.9	1.2	–	114.0
Changes in accounting policy on adopting FRS 26 'Financial Instruments: Measurement'	–	–	–	–	0.4	(0.6)
At 1 January 2005 as restated	31.9	1.3	10.9	1.2	0.4	113.4
New shares issued	0.3	3.1	(0.7)	–	–	–
Loss for the year[3]	–	–	–	–	–	(25.9)
Share-based payment	–	–	–	–	–	0.7
Actuarial loss recognised on the pension schemes	–	–	–	–	–	(16.1)
Unrealised gains and losses	–	–	–	–	1.6	–
Deferred tax written off on pension schemes	–	–	–	–	–	(11.1)
Transfer[4]	–	–	–	(1.2)	–	1.2
At 31 December 2005	32.2	4.4	10.2	–	2.0	62.2

Notes
1 The Company has taken advantage of the exemption given in section 230 of the Companies Act 1985 not to publish its profit and loss account.
2 The Company's profit and loss account of £62.2 million (2004 £114.0 million) includes non-distributable reserves of £51.1 million (2004 £51.1 million) and a special non-distributable reserve of £11.1 million (2004 £61.6 million).
3 The loss for the year dealt with in the financial statements of the Company was £25.9 million (2004 £6.8 million).
4 A transfer has been made between merger reserve and the profit and loss account.

Defined benefit pension schemes

Amounts included within reserves in respect of the defined benefit pension schemes are as follows:

	2005 £ million	2004 £ million
Profit and loss account excluding pension fund deficit	113.0	140.2
Pension fund deficit *note 3*	(50.8)	(26.2)
Profit and loss account including pension fund deficit	62.2	114.0

Restatement on the adoption of FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'

Under previous UK GAAP, gains and losses from derivative financial instruments used for hedging purposes are not recognised in earnings or as adjustments to carrying amounts until the underlying hedged transaction matures or occurs. FRS 26 requires all derivatives to be recognised at fair value on the balance sheet.

Following the adoption of FRS 25 and FRS 26, forward currency contracts with a positive fair value of £0.4 million and interest rate swaps with a negative fair value of £1.0 million have been recognised on the Company balance sheet at 1 January 2005.

	£ million
Current assets – Financial assets	0.4
Long term liabilities – Financial liabilities	(1.0)
Long term borrowings	0.4
Total change in equity	(0.2)

Share capital

	Authorised		Issued and fully paid	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Called up share capital – Ordinary shares of 3⅓ pence each	41.7	41.7	32.2	31.9

Changes during the year in the Ordinary share capital were as follows:

	Number of Ordinary shares million
Issued and fully paid at 1 January 2005	956.2
Allotted pursuant to share options and purchase rights exercised	9.6
Issued and fully paid at 31 December 2005	965.8

At the Annual General Meeting held on 4 May 2005, shareholders gave authority for the Company to purchase up to 48 million of its own Ordinary shares in the market subject to certain specified conditions. At 23 February 2006, no purchases have been made or are contracted to be made under such authority.

In accordance with the rules of the following share schemes, options and purchase rights were exercised during the year which resulted in new Ordinary shares being allotted by the Company or existing shares being transferred from Spirent Sharesave Trust ("SST") as follows:

	Number of Ordinary shares million	Consideration received £000
Executive Share Option Schemes	2.1	341.7
Spirent Stock Incentive Plan	4.2	833.8
Acquisition Plans	0.6	108.6
All employee share schemes	3.1	1,498.9
	10.0	2,783.0

During the year, 276,196 shares were transferred from the SST. There has been no material increase in the issued share capital, whether by exercise of options, purchase rights or otherwise, between the end of the year and 23 February 2006, the date on which these financial statements have been signed.

Investment in own shares

At 31 December 2005, the Spirent Employee Share Ownership Trust held 9.5 million Ordinary shares (2004 10.3 million Ordinary shares) to satisfy awards under various share-based incentive schemes. Of this number, 0.4 million Ordinary shares were unconditionally vested at 31 December 2005 (2004 0.6 million Ordinary shares). At 31 December 2005, the SST held 3.2 million Ordinary shares (2004 3.5 million Ordinary shares) to satisfy awards made to UK based employees under an all employee share scheme. The market value of own shares held in trust at 31 December 2005 was £6.2 millon (2004 £9.6 millon).

Employee share schemes

The Company operates a number of employee option schemes as described below. The following options and purchase rights over Ordinary shares under these schemes have been granted and remain outstanding.

Notes to the parent Company financial statements continued

17. Capital and reserves continued

A reconciliation of option movements over the year to 31 December 2005 is shown below:

	Executive Share Option Schemes		2005 Employee Incentive Plan		UK Sharesave Schemes	
	Number of shares millions	Weighted average exercise price pence	Number of shares millions	Weighted average exercise price pence	Number of shares millions	Weighted average exercise price pence
Options outstanding at 31 December 2004	16.2	90	–	–	4.5	45
Granted	–	–	3.1	41	–	–
Exercised	(1.8)	16	–	–	(0.3)	41
Forfeited	(0.3)	172	–	–	(0.2)	41
Expired	(1.9)	160	–	–	(0.5)	68
Options outstanding at 31 December 2005	12.2	88	3.1	41	3.5	42
Options exercisable at 31 December 2005	1.5	143	–	–	0.5	46

The following information relates to the outstanding share options at 31 December 2005:

					2005	
Share scheme	Notes	Exercise period (as at 31 December 2005)	Range of exercise prices pence	Weighted average exercise price pence	Number million	Weighted average remaining contractual life
Executive Share Option Schemes	a	25.03.06-24.03.13	16	16	3.2	7.2
		03.10.04-04.08.14	56-72	60	4.8	8.4
		29.04.99-01.05.12	113-152	131	3.2	5.0
		11.05.03-08.04.11	305-334	316	1.0	4.9
Employee Incentive Plan	b	25.08.08-24.08.15	0-53[1]	41	3.1	8.0
Sharesave Schemes	c	01.12.05-31.05.11	38-41	39	3.4	2.3
		01.12.06-31.05.07	93-142	100	0.1	1.4
Total					18.8	

Note
1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and performance shares in aggregate. No exercise price is payable on the vesting of a performance share.

a) 1995 Executive Share Option Scheme ("ESOS")

The ESOS is now closed (however outstanding options may still be exercised) and has been replaced by the Employee Incentive Plan referred to in (b) below.

The HM Revenue & Customs ("HMRC") approved ESOS incorporates the guidelines issued by the Association of British Insurers at that time. It was subsequently amended by the Board to facilitate the award of unapproved share options both in the UK and overseas.

Awards under the ESOS, normally determined annually, were at the sole discretion of the Remuneration Committee after considering recommendations made to it by the Chief Executive. No price was payable on the grant of an option and no options have been, or could be, granted at a discount to the market price.

The normal exercise period for options granted under the ESOS is between the third and tenth anniversary of the date of grant. Options awarded under the ESOS are subject to the achievement of an earnings per share ("EPS") performance condition before they can be exercised. The condition is that over a period of three consecutive financial years, there has been an increase in the Company's adjusted EPS which is at least 6 per cent more than the increase in the Retail Price Index over the same period. The performance condition is tested on the third anniversary of grant and, if it has not been met at that time, at each subsequent anniversary of grant until the option expires (ie on the tenth anniversary of grant in normal circumstances).

All ESOS grants made after 11 May 2000 to executive directors are subject to enhanced performance conditions on exercise. The performance conditions require the Company's adjusted EPS to increase over a period of three consecutive financial years within a range of 9 per cent (minimum performance for 25 per cent option vesting) and 15 per cent (for 100 per cent option vesting), with a sliding scale between these points. In addition, performance testing over the ten year option term is measured from a base point fixed at the date of grant. Performance will be tested on the third anniversary of grant and, if the target conditions at that time have not yet been met in full, performance will be tested again on the fourth and fifth anniversaries of grant only, with the performance hurdle being increased in proportion to the extended period.

b) 2005 Employee Incentive Plan ("EIP")

On 4 May 2005, Spirent shareholders approved the EIP to replace the now closed ESOS scheme. The EIP is currently available for selected employees (including executive directors) on a similar discretionary basis as the ESOS and any awards will be subject to prior satisfactory individual performance. No price is payable on the grant of an award and no award has been granted at a discount to the market price. The Company is able to grant share options, including HMRC approved options, share settled stock appreciation rights ("SARs") and performance shares under the EIP.

In normal circumstances, options or SARs under the EIP will vest three years following grant provided the Company's EPS growth targets (after excluding inflation) have been met over a three year performance period. The growth targets in respect of the initial award require that the Company's EPS increases within a range of 6 per cent per annum (for 25 per cent vesting) and 15 per cent per annum (for 100 per cent vesting) over the performance period, with a sliding scale between these points.

In normal circumstances, performance shares under the EIP will vest three years following grant provided the Company's total shareholder return ("TSR") targets have been met over a three year performance period. The performance conditions require Spirent's TSR to be between the median of a comparator group (for 30 per cent vesting) and the upper quartile of a comparator group (for 100 per cent vesting) over the performance period, with a sliding scale between these points. The comparator group consists of the 30 largest companies by market capitalisation in the FTSE TechMARK 100 Index, excluding those TechMARK companies who are also constituents of the FTSE100 Index at the commencement of the performance period.

All EIP awards will be tested once on or shortly following the third anniversary of grant. Any part of an award which does not vest shall lapse (ie there is no opportunity for retesting).

SARs granted under the EIP will deliver the appreciation value (ie the aggregated increase in market value of an Ordinary share over the base price of the SAR) in the form of new issue Ordinary shares. This SARs approach will help the Company manage its dilution headroom more efficiently as only the SAR gain and not the entire share value needs to be funded. Using a SARs based approach, it is not possible to determine the precise level of dilution until the SARs are exercised.

Options and SARs granted under the EIP expire on the tenth anniversary of their grant unless they have previously lapsed.

c) UK Savings Related Share Option Scheme ("SRSOS") and 2005 Sharesave Scheme

The SRSOS closed in 2005 and was replaced by the 2005 Sharesave Scheme. SRSOS options which remain outstanding may still be exercised prior to expiry, however no further grants can be made. Both schemes operate as HMRC approved Save-As-You Earn schemes and are open to all UK employees, subject to a qualifying service period. Any future sharesave invitations will be made under the 2005 Sharesave Scheme, which is broadly similar to the SRSOS.

The employee enters into a Save-As-You-Earn contract with the Company's savings carrier to save a regular sum of between £5 and £250 per month for a fixed period of either three or five years.

No price is payable on the grant of an option. The option exercise price is calculated by reference to the middle market price of an Ordinary share on the business day prior to the beginning of the invitation period, discounted by up to 20 per cent at the Board's discretion. Options are normally exercisable within six months of the third, fifth or seventh anniversary of the contract commencement date, as elected by the option holder at the start of the contract.

The Company operates the SST to honour the contractual commitment to deliver Ordinary shares against the valid exercise of outstanding options under the SRSOS and the SST, a wholly-owned subsidiary of Spirent plc, acts as sole trustee. During the year, 276,196 shares were transferred to participants. SST has waived all rights to receive dividends payable on its registered shareholding except for 0.01 pence per annum in aggregate and accordingly such shareholding is not included in the Company's EPS calculation as referred to in note 13 to the consolidated financial statements.

Notes to the parent Company financial statements continued

18. Share-based payment

The total charge for the year relating to employee share-based payment plans was £0.7 million, all of which related to equity-settled share-based payment transactions. The Company has applied FRS 20 from 1 January 2005 as allowed by the standard and only to equity-settled awards granted after 7 November 2002 which were unvested at 1 January 2005. The charge relates to the following schemes:

	2005 £ million
1995 Executive Share Option Scheme	0.4
2005 Employee Incentive Plan	0.2
All Employee Share Plans	0.1
Total	0.7

The fair value of the options and purchase rights over Ordinary shares is estimated as at the date of grant using a binomial model. The following table gives the assumptions made in arriving at the share-based payments charge:

	2005
Weighted average share price (pence)	53
Weighted average fair value (pence)	24
Expected volatility (%)	50
Expected life (years)	4.5
Risk free rate (%)	4.2
Dividend yield (%)	nil

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous two years which management considers to be the period which is likely to be most representative of future volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. For performance shares granted under the 2005 Employee Incentive Plan, which have a market based performance condition, it has been assumed that there will be 50 per cent vesting for valuation purposes.

19. Related party transactions

The Company has taken advantage of the exemption under FRS 8 'Related Party Disclosures' and as such disclosures are provided in the consolidated financial statements.

20. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 114 of this Annual Report.

21. Capital commitments and contingent liabilities

	2005 £ million	2004 £ million
Capital expenditure commitments		
Contracted but not provided	0.1	0.1
Contingent liabilities		
Bank guarantees	1.5	1.6

Spirent plc has provided indemnities of £1.0 million (2004 £0.5 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

22. Directors emoluments and transactions with directors

Please refer to the Report on directors' remuneration on pages 20 to 26 for disclosures relating to the remuneration, share options and long term incentives and pensions of the directors.

23. Post balance sheet events

On 23 January 2006 Spirent announced that it had entered into an agreement to acquire SwissQual Holding AG ("SwissQual") for an initial consideration of CHF 62.5 million (£27.7 million). The initial consideration was paid in cash on completion on 23 January 2006 out of cash resources and utilisation of a new bank facility that was set up specifically for the purpose. A further CHF 28.0 million (£12.4 million) is payable in 2007 depending on revenue growth and various technical milestones.

We also announced on 13 February 2006 the acquisition of QuadTex Systems, Inc for $7.5 million (£4.2 million) payable in cash on completion with a further $1.5 million (£0.9 million) payable depending on certain technical milestones and the retention of key employees.

The directors consider it impractical to provide further disclosures in relation to these acquisitions given their proximity to the date of the Annual Report.

The disposal of The HellermannTyton Division was completed on 15 February 2006 when proceeds of £288.9 million (for a cash free/debt free equivalent value) were received. These proceeds have been applied as follows:

- Repayment of the senior loan notes of $124.8 million (£71.5 million).
- Payment of the make whole amount (an amount which becomes payable on the early redemption of the senior loan notes) of $12.9 million (£7.4 million).
- Break fees of £2.3 million in respect of interest rate swaps taken out in connection with the senior loan notes.
- Special contribution of £47.0 million to the UK final salary pension scheme.
- Repayment and cancellation of the bank facility in connection with the acquisition of SwissQual.

Taking these transactions into account the pro forma cash balance is approximately £150 million, of this, up to £50 million has been earmarked to fund the on-market share repurchase programme. The programme is expected to begin in the second quarter, following the completion of certain actions: establishing distributable reserves in the parent Company, clearance from the Pension Regulator and the approval from shareholders to make on-market share repurchases of up to 14.99 per cent of the Company's issued share capital.

Following the disposal of the HellermannTyton Division the Company issued notices of cancellation in respect of all its borrowing facilities.

Principal divisions, subsidiaries and associates

	% held at 31 December 2005
Communications	
Communications performance analysis and service assurance systems	
Spirent Communications Inc	100
Calabasas, California, USA	
Eatontown, New Jersey, USA	
Honolulu, Hawaii, USA	
Sunnyvale, California, USA	
Spirent Communications of Ottawa Ltd	100
Nepean, Ontario, Canada	
Spirent Communications (SW) Ltd*	100
Paignton, Devon, UK	
Spirent Communications of Rockville, Inc.	100
Rockville, Maryland, USA	
Spirent Communications (Scotland) Ltd*	100
Hamilton, Glasgow, UK	
Spirent Communications Ltd*	100
Crawley, West Sussex, UK	
Spirent Communications (India) Pvt Limited	100
Bangalore, India	
Spirent Communications (Asia) Limited	100
Hong Kong	
Spirent Communications Technology (Beijing) Limited*	100
Beijing, PRC	
Systems	
Control systems for the mobility and industrial markets	
PG Drives Technology Ltd	100
Christchurch, Dorset, UK	
PG Drives Technology Inc	100
Anaheim, California, USA	

	% held at 31 December 2005
Network Products#	
Electrical and data network cable management and connectivity products and systems	
Trading divisions of Spirent plc	
HellermannTyton	100
Aldridge, West Midlands, UK	
Plymouth, Devon, UK	
Wythenshawe, Manchester, UK	
HellermannTyton (Pty) Ltd	100
Johannesburg, South Africa	
HellermannTyton SA	100
Trappes, France	
HellermannTyton AB	100
Järfälla, Sweden	
HellermannTyton GmbH	100
Vienna, Austria	
HellermannTyton GmbH	100
Tornesch, Germany	
HellermannTyton Ltda	100
Jundaí, Brazil	
HellermannTyton Pte Ltd	75
Yishun, Singapore	
HellermannTyton Data Ltd*	100
Northampton, UK	
HellermannTyton Corporation	100
Milwaukee, Wisconsin, USA	
Tyton Company of Japan Ltd*‡	49
Tokyo, Japan	

The above companies operate and are incorporated in the countries listed. All shareholdings in the companies are held indirectly by Spirent plc, except where indicated by an asterisk (*) where the shareholding is held directly by Spirent plc. The activity mentioned is indicative and not comprehensive.

The percentage held reflects the proportion of shares controlled and not the beneficial interest.

‡Associate.

#On 15 February 2006 Spirent plc disposed of the HellermannTyton Division which included all the companies and divisions listed in this section.

Financial history

£ million

	2005	2004	2003	2002†	2001†
	IFRS	IFRS	IFRS	UK GAAP	UK GAAP
Consolidated income statement					
Continuing operations					
Revenue	259.3	287.2	291.8	394.2	554.6
Operating (loss)/profit	(39.0)	15.2	11.3	(959.1)	(751.7)
Add back:					
Material one-time items	8.4	2.9	7.5	38.3	32.0
Goodwill impairment	37.0	–	–	901.6	724.6
Goodwill amortisation	–	–	–	54.6	83.9
Share-based payment	5.1	4.8	0.9	0.5	–
Operating profit before material one-time items, goodwill impairment and amortisation and share-based payment	11.5	22.9	19.7	35.9	88.8
Joint venture's (loss)/profit	–	(0.7)	1.4	7.4	9.6
Share of loss of associate	–	–	–	(1.0)	(0.2)
Profit/(loss) on disposal of operations	3.9	4.0	8.6	(48.4)	(2.8)
(Loss)/profit before interest	(35.1)	18.5	21.3	(1,001.1)	(745.1)
Net finance expense	(6.6)	(6.8)	(9.8)	(11.8)	(21.2)
Costs associated with the part prepayment of loan notes	–	(0.5)	(16.1)	–	–
(Loss)/profit before tax	(41.7)	11.2	(4.6)	(1,012.9)	(766.3)
Tax	4.0	(2.0)	4.2	(24.0)	(26.8)
(Loss)/profit from continuing operations after tax	(37.7)	9.2	(0.4)	(1,036.9)	(793.1)
Discontinued operations	13.2	17.3	14.2	(13.4)	29.3
(Loss)/profit for the year	(24.5)	26.5	13.8	(1,050.3)	(763.8)
Minority interest	(0.4)	(0.3)	(0.2)	(0.4)	(0.2)
(Loss)/profit attributable to equity holders of parent	(24.9)	26.2	13.6	(1,050.7)	(764.0)
Consolidated balance sheet					
Goodwill	71.5	106.5	110.9	113.6	987.7
Property, plant and equipment	30.1	86.3	90.2	110.0	137.6
Investments	–	14.3	13.4	63.4	62.6
Working capital (excluding cash, overdrafts and deferred tax)	(3.3)	23.0	27.3	46.6	32.7
Operating assets	98.3	230.1	241.8	333.6	1,220.6
Net assets classified as held for sale	115.4	–	–	–	–
Derivative financial instruments (net)	(0.1)	–	–	–	–
Net borrowings	(25.9)	(26.4)	(57.5)	(161.8)	(179.1)
Provisions and other liabilities	(14.2)	(13.8)	(17.9)	(28.4)	(1.5)
Deferred tax	0.2	8.6	10.1	–	25.8
Defined benefit pension plan deficit	(51.5)	(38.1)	(48.2)	(46.2)	(15.6)
Net assets	122.2	160.4	128.3	97.2	1,050.2
Equity holders of parent	120.3	159.1	126.1	95.1	1,047.8
Minority interests	1.9	1.3	2.2	2.1	2.4
Total equity	122.2	160.4	128.3	97.2	1,050.2

† 2001 and 2002 have been restated to present the HellermannTyton Division, and in 2001 the Sensing Solutions group, as discontinued operations.

Financial history continued

£ million

	2005	2004	2003	2002	2001
	IFRS	IFRS	IFRS	UK GAAP	UK GAAP
Investment					
Capital expenditure – owned assets	30.5	25.3	16.7	27.6	59.4
– leased assets	2.5	0.3	0.3	0.2	0.8
Depreciation	22.6	25.4	29.3	33.6	37.2
Product development	62.8	67.3	66.0	77.7	95.9
Share information					
Basic (loss)/earnings per share (pence)	(2.62)	2.79	1.46	(113.90)	(83.49)
Basic (loss)/earnings per share from continuing operations (pence)	(3.97)	0.98	(0.04)	(112.40)	(86.67)
Adjusted earnings per share (pence)	2.30	3.14	2.36	3.41	7.70
Adjusted earnings per share from continuing operations (pence)	0.32	1.29	0.84	2.07	4.45
Diluted (loss)/earnings per share (pence)	(2.62)	2.74	1.44	(113.90)	(83.49)
Diluted (loss)/earnings per share from continuing operations (pence)	(3.97)	0.96	(0.04)	(112.40)	(86.67)
Fully paid Ordinary shares in issue at year end (million)	965.8	956.2	944.0	939.4	933.2
Segmental analysis					
Business segments					
Revenue					
Performance Analysis	178.8	176.8	148.7	184.0	241.4
Service Assurance	42.8	74.7	91.7	131.4	189.2
Communications	221.6	251.5	240.4	315.4	430.6
Systems	37.7	31.3	37.9	34.3	29.1
On-going operations	259.3	282.8	278.3	349.7	459.7
Other disposals[2]	–	4.4	13.5	44.5	94.9
Continuing operations	259.3	287.2	291.8	394.2	554.6
Network Products	205.5	187.8	174.4	164.7	170.4
Sensing Solutions	–	–	–	–	76.8
	464.8	475.0	466.2	558.9	801.8
Operating profit[1]					
Performance Analysis	22.0	21.7	5.2	10.5	38.6
Service Assurance	(9.6)	2.5	13.4	20.8	44.8
Communications	12.4	24.2	18.6	31.3	83.4
Systems	4.4	3.4	6.8	3.8	4.2
Non-segmental	(5.3)	(5.3)	(5.1)	–	–
On-going operations	11.5	22.3	20.3	35.1	87.6
Other disposals[2]	–	0.6	(0.6)	0.8	1.2
Continuing operations	11.5	22.9	19.7	35.9	88.8
Network Products	25.3	21.3	16.9	15.0	14.9
Sensing Solutions	–	–	–	–	8.1
	36.8	44.2	36.6	50.9	111.8

£ million

	2005	2004	2003	2002	2001
	IFRS	IFRS	IFRS	UK GAAP	UK GAAP
Geographical segments					
Revenue					
Europe	61.2	59.0	49.4	39.8	38.4
North America	180.9	206.2	219.1	300.4	421.0
Asia Pacific, Rest of Americas, Africa	17.2	17.6	9.8	9.5	0.3
On-going operations	259.3	282.8	278.3	349.7	459.7
Other disposals[2]	–	4.4	13.5	44.5	94.9
Continuing operations	259.3	287.2	291.8	394.2	554.6
Network Products	205.5	187.8	174.4	164.7	170.4
Sensing Solutions	–	–	–	–	76.8
	464.8	475.0	466.2	558.9	801.8

Rates against sterling

Average exchange rates for major currencies					
US dollar	1.82	1.83	1.64	1.51	1.44
Euro	1.46	1.47	1.45	1.59	1.61

Number

Average employment by geographical area					
Europe	1,771	1,742	1,722	1,909	2,730
North America	1,813	1,988	2,071	2,622	3,608
Asia Pacific, Rest of Americas, Africa	794	791	705	648	1,474
	4,378	4,521	4,498	5,179	7,812

Notes
1 Before goodwill amortisation and impairment, material one-time items and share-based payment.
2 Other disposals includes other less significant disposals and closures which do not qualify as discontinued operations.

Shareholder information

Shareholder analysis

At 23 February 2006, the number of registered shareholders was 6,335 and the number of Ordinary shares in issue was 966.4 million.

	Number of holdings	Percentage of total shareholders	Number of shares million	Percentage of share capital
Range of holdings:				
1-5,000	4,375	69.06	6.7	0.69
5,001-10,000	769	12.14	5.8	0.60
10,001-50,000	774	12.22	16.3	1.69
50,001-100,000	96	1.52	6.8	0.70
100,001-250,000	81	1.28	13.6	1.41
250,001-500,000	68	1.07	25.1	2.60
500,001-1,000,000	45	0.71	32.1	3.32
1,000,001-Highest	127	2.00	860.0	88.99
Total	6,335	100.00	966.4	100.00
Held by:				
Individuals	5,009	79.07	29.7	3.07
Institutions	1,326	20.93	936.7	96.93
Total	6,335	100.00	966.4	100.00

Lloyds TSB Registrars*

Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to the Company's Registrar, Lloyds TSB Registrars on 0870 600 3964. They also provide a range of online shareholder information services at www.shareview.co.uk, where shareholders can check their holdings and find practical help on transferring shares or updating their details.

Spirent Single Company ISA

Lloyds TSB Registrars (a division of Lloyds TSB Bank plc, which is authorised and regulated by the Financial Services Authority) operate a Single Company Individual Savings Account ("ISA") in which Spirent Ordinary shares can be held in a tax efficient manner. Full details and an application form can be obtained from Lloyds TSB Registrars on 0870 242 4244.

Internet, telephone and postal share dealing services

Lloyds TSB Registrars Shareview Dealing is a telephone and Internet service that provides a simple and convenient way of buying and selling Spirent Ordinary shares. For telephone services call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday and for Internet services visit www.shareview.co.uk/dealing.

A postal dealing service for buying and selling Ordinary shares is also available and a dealing form can be obtained by calling 0870 606 0302.

Share price information

The Spirent share price is available via the Company's website (www.spirent.com) and also in various newspapers published in the UK.

UK capital gains tax

For the purposes of capital gains tax, the market value of an Ordinary share on 31 March 1982, as adjusted for subsequent capitalisation issues, was 97.233 pence per share.

American Depositary Receipts – The Bank of New York*

The Company's shares are traded on the New York Stock Exchange (ticker: SPM) in the form of American Depositary Shares ("ADS") and these are evidenced by American Depositary Receipts ("ADRs"), each one of which represents four Ordinary shares. The Bank of New York is the authorised Depositary bank for the Company's ADR programme. The Company's ADS price is quoted daily in the Wall Street Journal and can be obtained from either the Spirent website or via the New York Stock Exchange website at www.nyse.com.

Spirent website at www.spirent.com

The Spirent website provides further information about Spirent and its operating groups and also provides access to annual and interim reports, company news and share price information.

Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations, which may use it as a mailing list, resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS, United Kingdom or call +44 (0)20 7291 3310 for an application form or visit www.mpsonline.org.uk.

ShareGIFT

Shareholders who hold only a small number of shares, where dealing costs may make it uneconomical to sell them, may wish to consider donating them to charity through ShareGIFT, a registered charity administered by The Orr Mackintosh Foundation. The relevant share transfer form can be obtained from Lloyds TSB Registrars. Further information is available at www.sharegift.org or telephone +44 (0)20 7337 0501.

Annual General Meeting

The Company's Annual General Meeting will be held at 10.30am on Wednesday 3 May 2006 at the Copthorne Hotel (London Gatwick), Copthorne Way, Copthorne, Crawley, West Sussex RH10 3PG, United Kingdom. Shareholders who are not attending the AGM may appoint a proxy and vote their shares electronically by using www.sharevote.co.uk or CREST and following the instructions on the enclosed Form of Proxy.

Advisers

Auditor

Ernst & Young LLP*

Brokers

JPMorgan Cazenove Limited
Citigroup

Financial Adviser

N M Rothschild & Sons Limited

*Contact details appear on page 120.

Glossary

3G (Third Generation)	Future generation of mobile communications following first generation (analogue) and second (digital).
10 Gig E (10-gigabit Ethernet)	Networking technology enabling Ethernet data to be transported at 10 gigabits per second.
Access	The connection between the local exchange and the home/office, etc (also referred to as the Access Network or the Local Loop).
ATM (Asynchronous Transfer Mode)	High-speed transmission technology used for transporting multiple simultaneous services (voice, data and multimedia applications) with high quality of service levels.
Broadband	Generic term for devices with a bandwidth greater than one megabit per second.
CDMA (Code Division Multiple Access)	Technology allowing communications circuits to carry multiple conversations simultaneously, thus increasing its capacity.
DSL (Digital Subscriber Line)	Technology that uses existing telephone/copper lines to transport high-bandwidth data such as multimedia and video to service subscribers.
Ethernet	A family of networking technologies developed for local area networks and now migrating to metro area networks.
Gig E (Gigabit Ethernet)	Transmission protocol over a local area network that operates at a speed of 10 billion bits (gigabit) per second.
GPS (Global Positioning System)	A system for determining 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.
HSDPA (High-speed Downlink Packet Access)	An evolution of W-CDMA.
Internet protocol multimedia subsystem (IMS)	A standardised next-generation architecture for telecoms operators who want to provide mobile and fixed multimedia services.
Internet telephony	Generic term used to describe various approaches to running voice telephony over IP (Internet Protocol).
IP (Internet Protocol)	Data protocol used by many networking devices to facilitate and control the flow of data.
Metro	A metropolitan (city) area. Generally excludes suburban zones but can include university campuses.
Triple play	Voice, video and data transmitted over a single transport medium.
VoIP (voice over IP)	The technology that makes it possible to have a telephone conversation where the signal is carried over the Internet or a dedicated network in Internet Protocol (IP) packets, instead of over dedicated voice transmission lines.
W-CDMA (Wideband CDMA)	A global standard for mobile 3G.

Contact details

Head office and registered office

Spirent plc
Spirent House
Crawley Business Quarter
Fleming Way
Crawley
West Sussex RH10 9QL
United Kingdom
Tel: +44 (0)1293 767676
Fax: +44 (0)1293 767677
Email: plc@spirent.com
Website: www.spirent.com

Spirent plc
Registered in England No: 470893

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom
Tel: +44 (0)20 7951 2000
Website: www.ey.com

Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
United Kingdom
Service Helplines:
Tel: 0870 600 3964 (UK)
Tel: +44 121 415 7047 (overseas)
Website: www.shareview.co.uk

ADR depositary

The Bank of New York
Investor Relations
PO Box 11258
Church Street Station
New York
NY 10286-1258
USA
Tel: 1 888 BNY ADRS (toll free – US)
Tel: +1 (610) 382 7836 (outside US)
Email: shareowners@bankofny.com
Website: www.adrbny.com

Cautionary statement regarding forward-looking statements

This Annual Report may contain forward-looking statements (as that term is defined in the United States Private Securities Litigation Reform Act of 1995) 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. Such factors include, but are not limited to: the extent to which customers continue to invest in next-generation technology and deploy advanced IP-based services; our ability to successfully expand our customer base; our ability to continue to benefit from generally improving market conditions; the prevailing market conditions and pace of economic recovery; our ability to improve efficiency, achieve the benefits of our cost reduction goals and adapt to economic changes and other changes in demand or market conditions; our ability to develop and commercialise new products and services, extend our existing capabilities in IP services and expand our product offering internationally; our ability to attract and retain qualified personnel; the effects of competition on our business; fluctuations in exchange rates and heavy exposure to a weak US dollar; changes in the business, financial condition or prospects of one or more of our major customers; risks of doing business internationally; risks relating to the acquisition or sale of businesses and our subsequent ability to integrate businesses; our reliance on proprietary technology; our exposure to liabilities for product defects; our reliance on third party manufacturers and suppliers; and other risks described from time to time in Spirent plc's Securities and Exchange Commission periodic reports and filings. The Company undertakes no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise.

www.spirent.com

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