



Inspired Innovation

## News Release

### **SPIRENT COMMUNICATIONS PLC**

#### **PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006**

**London, UK - 1 March 2007** - Spirent Communications plc (“Spirent” or “the Group”) (LSE: SPT; NYSE: SPM), a leading communications technology company, today announces its preliminary results for its financial year ended 31 December 2006.

#### **Highlights**

- Much improved performance for the second half year.
- Markets were highly competitive partly as a result of consolidation amongst our largest customers.
- Restructuring actions taken during the year with total annualised cost savings of £16 million at a total cost of £9.1 million.
- 24 per cent of orders for Communications group in the final quarter of 2006 came from new product platforms.

#### **Performance Analysis**

- Overall performance reflects continued product transition:
  - Spirent TestCenter™ sales grew to £20 million (2005: £4 million).
  - Existing older platforms, SmartBits and AX, orders declined by £27 million, 15 per cent of total Performance Analysis activity, to £48 million (2005: £75 million).
  - All other Broadband products and services grew.
- Wireless continued to make good overall progress.

#### **Service Assurance**

- Signed our first major contract with TELUS, a leading provider of data, IP and wireless solutions in Canada, to provide triple play service assurance solutions.

#### **Financial**

- Four acquisitions made for a total initial consideration of £39.7 million.
- Goodwill impairment of £46.8 million in relation to Service Assurance and SwissQual.
- Net funds at the year end of £106.1 million with £41.9 million returned to shareholders to date at an average price of 46.1 pence per share.

Spirent Communications 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 | [www.spirent.com](http://www.spirent.com)  
Registered in England Number 470893 | Registered at the above office

## **Board and management**

- New leadership at both Board level and in key operational positions: in-depth business review underway.

### **Anders Gustafsson, Chief Executive, commented:**

“In 2006 Spirent delivered a much improved second half performance benefiting from growth in new product revenues and the restructuring actions undertaken.

“With new Board leadership and having made key operational appointments we are now undertaking an in-depth business review, the outcome of which will be reported before the AGM in May.

“Our performance in 2007 is expected to benefit from the investment in new and upgraded products and the acquisitions made last year and further progress beyond that will depend on the outcome of the business review. We are confident that our new products, led by Spirent TestCenter, will grow revenue and continue to gain market share although this will be offset by the decreasing revenue from our older products. With market conditions continuing to be similar to last year, we consequently expect only a modest growth in Performance Analysis revenues. In addition, should sterling continue its recent strength relative to the US dollar, our performance for 2007, particularly in Systems, will be held back.”

## Results

The adjusted profit and earnings per share measures have been restated to include share-based payment of £5.2 million (2005: £5.1 million) and intangible amortisation of £1.6 million (2005: nil).

£ million	2006	2005	Change %
<b>Reported</b>			
<i>Continuing operations</i>			
Revenue	<b>271.6</b>	259.3	5
Loss before tax	<b>(50.1)</b>	(41.7)	
Basic loss per share (pence)	<b>(5.51)</b>	(3.97)	
<i>Group</i>			
Profit/(loss) for the year	<b>108.8</b>	(24.5)	
Basic earnings/(loss) per share (pence)	<b>11.75</b>	(2.62)	
<b>Adjusted</b>			
<i>Continuing operations</i>			
Operating profit <sup>1</sup>	<b>8.3</b>	6.4	30
Profit/(loss) before tax <sup>2</sup>	<b>14.3</b>	(0.2)	
Adjusted earnings/(loss) <sup>3</sup> per share (pence)	<b>1.41</b>	(0.22)	

### Notes

1 Before material one-time items and goodwill impairment.

2 Before material one-time items, goodwill impairment, profit on the disposal of operations and costs associated with the repayment of loan notes.

3 Adjusted earnings/(loss) per share is based on adjusted earnings as set out in note 6.

- ends -

## Enquiries

Anders Gustafsson, Chief Executive      Spirent Communications plc      +44 (0)1293 767676

Eric Hutchinson, Chief Financial Officer

Reg Hoare/Libby Young      Smithfield      +44 (0)20 7360 4900

The Company will host a results presentation today at 09.15 for 09.30 UK time. A simultaneous webcast of the presentation will be available on the Spirent Communications plc website at [www.spirent.com](http://www.spirent.com).

Photography is available from UPPA (Universal Pictorial Press & Agency) – [www.uppa.co.uk](http://www.uppa.co.uk)  
or tel: +44(0)20 7421 6000

## About Spirent Communications plc

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

Spirent Communications plc Ordinary shares are traded on the London Stock Exchange (ticker: SPT) and on the New York Stock Exchange (ticker: SPM; CUSIP number: 84856M209) in the form of American Depositary Shares ("ADS"), represented by American Depositary Receipts, with one ADS representing four Ordinary shares.

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*This press release 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 manage a significant transition in product revenues to new product solutions incorporating latest technology; the outcome of the business review; our ability to successfully expand our customer base; continuing variable market conditions; 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 the 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 Communications plc's Securities and Exchange Commission periodic reports and filings. The Company undertakes no obligation to update any forward-looking statements contained in this press release, whether as a result of new information, future events or otherwise.*

## **PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006**

### **CHAIRMAN'S STATEMENT**

At the end of 2006 a number of new directors were appointed to the Board and I was appointed Chairman. Since that time, the Board as a whole has embarked on an in-depth review of each of the company's operations.

Since I was not at Spirent during most of 2006 my comments are necessarily limited. However, it is already clear that the company has a strong base of technology and customer relationships, reflecting a very talented group of employees. I would like to express our thanks to them for their contributions during a year of transition and some market uncertainty.

We also find ourselves with a strong balance sheet, largely due to the sale of the HellermanTyton business in February. Overall the company has a sound foundation on which to build for which thanks are due to a number of Board members who departed during the year.

As you will read below, conditions in some of our markets are somewhat challenging. However, in reality the outlook for Spirent's financial performance in 2007 and beyond will be more affected by the actions resulting from the Board's review than by any foreseeable market developments. The major purpose of the Board's review is to decide where to focus our resources and how to be the most efficient and effective competitor in our chosen areas. We expect to announce the results of the review prior to the Annual General Meeting on 9 May and look forward to communicating with shareholders again at that time.

We evaluate the performance of Spirent based on revenue and operating profit/(loss) before the effect of material one-time items and goodwill impairment so that period on period comparisons are not distorted. Operating profit/(loss) and return on sales are referred to in the text before material one-time items and goodwill impairment unless otherwise stated.

## **GROUP OVERVIEW**

### **Introduction**

The year as a whole saw a series of challenges, primarily due to the continuing variable market conditions resulting from the impact of customer consolidation and product transition which both depressed sales and margins and was particularly notable in the first half. As expected at the time of the announcement of the interim results we delivered a much improved second half which benefited from the growth in new product revenues and restructuring actions undertaken. For the full year the adjusted profit before tax was £14.3 million compared with a loss before tax of £0.2 million in 2005.

Our newly developed and recently launched products and solutions for next-generation networks continue to grow sales and gain market share and represented almost 25 per cent of orders for Performance Analysis Broadband in the final quarter of the year, demonstrating the success of our investment in product development and the benefit of newly acquired products.

Four acquisitions were completed expanding our breadth of expertise and solutions into new growth areas such as IP multimedia subsystems ("IMS"), IP telephony and security test, whilst boosting our offering in other areas such as wireless.

With new Board leadership and having made key operational appointments we are now undertaking an in-depth business review, the outcome of which will be reported before the AGM in May.

### **Market conditions**

The many high profile mergers of the last two years among our customers have resulted in customers delaying their investment in next-generation networks and have created highly competitive markets. Indeed, our sales to these latter customers as a group fell by 8 per cent in the year as a whole, principally in the first half. As a result overall, many of our markets saw no growth, although we remain positive for long term growth prospects. We expect our markets will remain competitive in the current year.

### **Product transition**

A major feature of the year was significant product transition. The growth in sales of all our new and enhanced products was encouraging, with Spirent TestCenter sales reaching £20 million (2005: £4 million), which was the Group's highest revenue generating product in the final quarter of 2006. As expected, orders of our older platforms, SmartBits and AX, declined sharply by £27 million

being 36 per cent year-on-year. Revenues from all of our Performance Analysis Broadband products, apart from SmartBits and AX grew in 2006.

Spending on product development by the Communications businesses, totalled £55.0 million (2005: £56.1 million) of which £5.0 million was incurred by our newly acquired businesses. Product development was primarily focused on the new Spirent TestCenter platform, WCDMA performance test equipment for mobile handsets and triple play IP service assurance monitoring solutions, as well as in our other faster growing product lines.

Spirent TestCenter was developed to take testing to new levels by consolidating a host of solutions on a single platform. To date, our new and upgraded products have been well received by customers, who consistently report enhanced functionality, improved productivity and reliability. Spirent TestCenter's performance is very encouraging. It has already been purchased by over 200 customers worldwide, compared to just 90 when we reported our interim results in August 2006. These include most of the leading global companies in our industry and all of our largest customers.

We were pleased with strong performances in our Asia Pacific operations, especially in Performance Analysis, and Europe, which was boosted by our recent acquisitions.

### **Restructuring actions**

During the year we continued to manage the balance between the cost base and maintaining the capability to generate long term growth. Accordingly, we undertook two major restructuring actions to realign resources and to reduce operating expenses in our Performance Analysis and Service Assurance divisions, one announced in June and the other in October, as follows:

- in June, a total annualised cost reduction of approximately £9.0 million per year at a one-time cost of £3.9 million;
- in October, a total annualised cost reduction of approximately £7.0 million per year at a one-time cost of £5.2 million.

These actions included completion of the outsourcing of all manufacturing except final assembly and test, continuing investment in our low cost offshore engineering centre, further divisional management changes and restructuring of support functions.

Including these actions, we are targeting a long term improvement in operating margin in Performance Analysis Broadband, with an interim goal to deliver a run rate of 15 per cent by the end of 2007. The success of Spirent TestCenter as a single platform should enable the Group to realise significant operating efficiencies in product development, sales and marketing and other areas within the division.

The significant restructuring action within Service Assurance is intended to allow the division to target a break-even position through 2007, whilst funding the investment in the future of next-generation triple play IP monitoring solutions.

### **The Board and staff**

Following the Extraordinary General Meeting on 22 December 2006, John Weston, Andrew Given, Fred D' Alessio, Marcus Beresford and Kurt Hellström ceased to be directors of the Company. We would like to thank them for their collective service to Spirent over many years.

At the EGM, Edward Bramson, Ian Brindle, Gerard Eastman and Alex Walker were appointed directors of the Company. Subsequently, Edward Bramson was elected as Chairman of the Board and appointed as Chairman of the Nomination Committee; Ian Brindle was appointed Chairman of the Audit Committee, and as a member of the Remuneration Committee and Nomination Committee; Alex Walker was appointed as the Senior Independent Non-executive Director and Chairman of the Remuneration Committee, and as a member of the Audit Committee and Nomination Committee; and Gerard Eastman was appointed as a member of the Audit, Remuneration and Nomination Committees.

### **Outlook**

Our performance in 2007 is expected to benefit from the investment in new and upgraded products and the acquisitions made last year and further progress beyond that will depend on the outcome of the business review. We are confident that our new products, led by Spirent TestCenter, will grow revenue and continue to gain market share although this will be offset by the decreasing revenue from our older products. With market conditions continuing to be similar to last year, we consequently expect only a modest growth in Performance Analysis revenues. In addition, should sterling continue its recent strength relative to the US dollar, our performance for 2007, particularly in Systems, will be held back.

### **Summary**

2006 has been a busy and challenging year for Spirent with variability and unpredictability in our markets. We have worked hard to stay ahead of the competition and drive the development of our new products and services. We achieved an improved performance in the second half over the first half year.

We made good progress with our new products and saw growth in a number of key product areas during 2006. We have secured the first major contract for a full-scale triple play service assurance



solution. We intend to build on this in 2007. In particular the development plans we have for Spirent TestCenter will deliver increased functionality, scale, ease of use and automation for our customers.

The sale of the HellermannTyton Division enabled Spirent to achieve a significantly strengthened balance sheet and to return capital to our shareholders. Over the coming months the newly constituted Board will be working to undertake an in-depth business review and will report the outcome before the AGM in May.

## GROUP FINANCIAL REVIEW

The Group's financial performance is reported in accordance with International Financial Reporting Standards ("IFRS") under which the Group's discontinued operations, the HellermannTyton Division, are reported as a single line at the foot of the income statement including the profit on sale.

All comments below refer to continuing activities only unless otherwise stated.

**Please note that the adjusted profit and earnings per share measures have been restated to include share-based payment of £5.2 million (2005: £5.1 million) and intangible amortisation of £1.6 million (2005: nil).**

### Results

#### Continuing operations

£ million	Restated first half	Second half	2006	Restated 2005	Change (%)
Revenue	<b>138.2</b>	<b>133.4</b>	<b>271.6</b>	259.3	5
Adjusted operating profit <sup>1</sup>	<b>2.8</b>	<b>5.5</b>	<b>8.3</b>	6.4	30
Return on sales <sup>1</sup> (%)	<b>2.0</b>	<b>4.1</b>	<b>3.1</b>	2.5	
Adjusted profit/(loss) before tax <sup>2</sup>	<b>5.1</b>	<b>9.2</b>	<b>14.3</b>	(0.2)	-
Adjusted earnings per share <sup>3</sup> (pence)	<b>0.50</b>	<b>0.91</b>	<b>1.41</b>	(0.22)	
Adjusted cash generation from operating activities <sup>4</sup>	<b>(0.9)</b>	<b>13.5</b>	<b>12.6</b>	6.4	

#### Notes

<sup>1</sup> Before material one-time items and goodwill impairment.

<sup>2</sup> Before material one-time items, goodwill impairment, profit on the disposal of operations, costs associated with the repayment of loan notes and any related tax.

<sup>3</sup> As <sup>2</sup> and before any related and prior year tax.

<sup>4</sup> Before the cash cost of material one-time items and lump sum pension contribution.

The year has been affected by the complexities of implementing major product transitions combined with continued challenging market conditions in our communications markets. These market conditions to a large extent were a consequence of the consolidations of some of our major customers. Revenue increased by 5 per cent over 2005, excluding the contribution from acquisitions revenue was flat year-on-year. There were some significant areas of growth, namely in our voice, security testing, positioning, client services and of course in sales of our pioneering platform Spirent TestCenter. The growth of these products was offset by the rapid decline of our two traditional products, SmartBits and AX, which were down by 36 per cent, as well as the expected drop in revenue in our Service Assurance division during the second half of the year as carriers continued to shift spending away from legacy networks. We focused on the realignment of resources and the reduction in operating expenses across all divisions and took restructuring actions in both Service Assurance and Performance Analysis in June and also in October which improved the profitability in

Performance Analysis during the second half year and allowed us to maintain a near break-even position in Service Assurance.

We are presenting an adjusted earnings measure eliminating the effect of material one-time items and goodwill impairment. Previously we had adjusted for intangible amortisation and share-based payment. Comparatives have been restated to reflect this change.

Adjusted operating profit improved by 30 per cent to £8.3 million compared with £6.4 million in 2005, excluding the effect of exchange, growth was 36 per cent. This result includes a significant reduction in the loss for the Service Assurance division to £1.1 million; (after share-based payment of £1.2 million, 2005: £1.2 million) from a loss of £10.8 million reported in 2005. However, this was offset by the decline in profitability of the Performance Analysis division down from £18.4 million in 2005 to £10.5 million in 2006 (after share-based payment of £3.6 million, 2005: £3.6 million and intangible amortisation of £1.6 million, 2005: nil), although the performance improved in this division in the second half of 2006. The decline in profitability in the Performance Analysis business was largely a result of additional spend on product development and sales and marketing costs associated with the launch of new product releases.

Return on sales for the Group improved to 3.1 per cent from 2.5 per cent in 2005.

Revenue grew by market in the Asia Pacific region by 7 per cent and in Europe by 27 per cent, a result of the SwissQual acquisition, but it was reduced in North America year-on-year.

### **Currency impact**

In 2006 the currency effects were minimal in relation to the income statement. The average sterling to US dollar exchange rate increased from 1.82 in 2005 to 1.85 in 2006. Currency translation reduced revenue by £3.4 million and operating profit by £0.4 million compared with 2005. With the US dollar to sterling rate rising to \$1.96: £1 this is likely to have a more material impact in 2007. In particular our Systems group, which is exposed to transactional currency risk, had hedged its exposures and as a result did not experience the full effect of the weakening of the US dollar in 2006. Should the current exchange rate prevail in 2007, this would have a significant impact on its profitability.

### **Cost of sales and operating expenses**

Product development spend is included in cost of sales in the income statement. 2006 was a year of major product transition hence investment in product development remained high, with a total of £57.3 million, being 21 per cent of revenue, expensed during the year (2005: £58.4 million and 23 per cent of revenue). Of this amount £45.5 million (2005: £42.1 million) was incurred in the Performance Analysis division, £9.5 million (2005: £14.0 million) in the Service Assurance division with the

remaining £2.3 million (2005: £2.3 million) in the Systems group. The rate of spend increased in Performance Analysis in 2006 compared with 2005 as we undertook additional investment for the development of the TestCenter platform. Our acquired businesses have added £5.0 million to product development spend in 2006. Product development decreased in Service Assurance year-on-year.

Gross profit was higher at 44 per cent of revenue compared with 41 per cent in 2005 as a result of the reduction in product development expense and the reorganisation of our supply chain activities to increase efficiency as well as the move to increase outsourcing.

Operating costs, excluding material one-time items and goodwill impairment are 41 per cent of sales compared with 39 per cent in 2005. This is a result of the additional sales and marketing effort in respect of new product launches, the significant costs of compliance with the Sarbanes-Oxley Act 2002, £2.6 million, incurred as a result of being a US listed company and intangible amortisation of £1.6 million (2005: nil).

### **Material one-time items**

Material one-time items include restructuring costs of £9.1 million, the costs related to the EGM requisition in December 2006 of £2.0 million, a credit of £0.6 million in relation to the release of provisions on prior period disposals and curtailment and settlement gains of £1.7 million in respect of changes to our defined benefit pension plan. Together these total a net £8.8 million cost for the year. The Group incurred a one-time finance charge of £8.8 million as the loan notes were repaid early out of the proceeds from the sale of the HellermannTyton Division, and we incurred fees to break the associated interest rate swaps.

Restructuring actions took place at the end of June 2006 and in October 2006 affecting both our Communications divisions. These actions were in response to reductions in demand for legacy products in Service Assurance, and include the closure of loss making locations and the initiatives identified to help achieve the divisional margin targets in Performance Analysis. The estimated annualised cost savings from these actions are £16 million in total.

In November 2006 the Company received a notice of requisition from certain shareholders requesting that the Company convene an Extraordinary General Meeting to consider the removal of three of its non-executive directors and the appointment of four proposed new ones. The costs incurred in relation to this amounted to £2.0 million.

During 2006 active and deferred members of the Spirent Staff Pension Plan were offered the opportunity to leave the Plan and take an enhanced transfer value to another pension arrangement. Many members accepted this offer resulting in a benefit to the funding of the Plan under IFRS of £1.7 million.

### **Goodwill impairment**

We wrote down goodwill in our Service Assurance division by £9.5 million at the interim stage and have taken a further impairment charge in the second half of £9.6 million. £19.1 million has been charged in total reflecting the delays in triple play roll out and continued declines in legacy business. Goodwill in the Service Assurance division has now been fully impaired.

In accordance with IFRS we have also assessed the goodwill carrying value of the SwissQual business that we acquired in January 2006 where activity levels have been lower than had been anticipated. This has resulted in a goodwill impairment charge of £27.7 million. Goodwill in SwissQual has been fully impaired. Whilst we have written down the carrying value of SwissQual, we believe that there are excellent prospects for the new products in the medium term. However, we have discounted the projections to reflect the inherent risk in the growth projections.

Goodwill impairment charged in 2005 was £37.0 million and was in respect of the Service Assurance division.

### **Intangible amortisation**

This is the first year that the Group has acquired businesses under IFRS and consequently this is the first time acquired intangible assets have been recognised and the associated amortisation has been charged. We have made four acquisitions in 2006 resulting in £10.0 million of acquired intangible assets being recognised on the balance sheet and we have estimated that the average useful life of these intangibles is 5 years. These intangible assets represent current technology and customer relationships in the main. Amortisation of £1.6 million has been expensed in the income statement in 2006 and this is expected to be slightly higher in 2007 to reflect the full year effect of the 2006 acquisitions.

### **Share-based payment**

The charge for share-based payment for 2006 is £5.2 million for our continuing businesses (2005: £5.1 million) based on a fair value model.

### **Net finance income**

In February 2006 we repaid our senior loan notes out of the proceeds of the sale of the HellermannTyton Division. After funding the UK final salary pension plan this left us with a significant cash position some of which has been utilised to pay for acquisitions and commence an on-market share repurchase.

Net finance income was £6.0 million (excluding costs associated with the repayment of loan notes) compared with a net charge of £6.6 million in 2005. Of net income £2.0 million is in respect of

the expected return on pension scheme assets less interest on the unwinding of the liabilities (2005: £1.1 million charge) a result of the change to the funding position of the UK final salary pension plan in February 2006. Surplus cash is held on deposit or in short dated commercial paper and is earning current market rates of interest.

### Loss before tax for continuing operations

Reported loss before tax for continuing operations was £50.1 million compared with a loss before tax in 2005 of £41.7 million.

Adjusted profit/(loss) before tax is set out below:

£ million	2006	2005
Reported loss before tax	<b>(50.1)</b>	(41.7)
Material one-time items	<b>8.8</b>	8.4
Goodwill impairment	<b>46.8</b>	37.0
Profit on the disposal of operations	-	(3.9)
Costs associated with the repayment of loan notes	<b>8.8</b>	-
Adjusted profit/(loss) before tax	<b>14.3</b>	(0.2)

### Tax

The tax charge for 2006 was £0.9 million, an effective rate of 6.3 per cent on the adjusted profit before tax (2005: £4.0 million credit). We continue to incur a low effective rate due to the carry forward of tax losses.

### Discontinued operations

Discontinued operations relate to the HellermannTyton Division which was sold to Doughty Hanson & Co Limited on 15 February 2006. For the period up until sale the operating result was a profit after share-based payment of £3.0 million.

The profit on the sale before tax was £166.1 million and tax of £9.2 million is payable in relation to the sale. The final proceeds from the disposal on a cash free/debt free basis were £296.7 million. The total expenses of the transaction amounted to £10.9 million, of which £6.7 million was incurred and charged in 2005 and net assets (excluding debt and cash) sold were £128.2 million. We realised a curtailment gain on the UK final salary pension fund of £0.5 million. Unrealised exchange gains of £1.3 million have been transferred from the translation reserve to the profit on sale.

## **Earnings per share**

Basic earnings per share for the Group were 11.75 pence, this includes the profit on sale of the HellermannTyton Division compared with a loss in 2005 of 2.62 pence. Adjusted earnings per share, being before material one-time items, goodwill impairment, profit or loss on the disposal of operations and costs associated with the repayment of loan notes, net of any related tax, was 1.41 pence compared with a loss of 0.22 pence in 2005.

## **Acquisitions**

We acquired four businesses during 2006 paying an initial consideration of £39.7 million and deferred consideration of £3.7 million in the year. All acquisitions were in the Performance Analysis division. Further deferred consideration payments amounting to approximately £6.6 million are expected to be paid.

On 23 January 2006 we acquired SwissQual Holding AG (“SwissQual”) for an initial consideration of CHF62.5 million (£27.8 million), paid in cash on completion with up to a further CHF28.0 million (£12.4 million) payable depending on future revenue growth and on various technical and financial milestones being achieved. We have paid an additional £3.1 million of deferred consideration in 2006 and have accrued for a further £4.5 million of deferred consideration. The total estimated consideration is £35.4 million, £4.8 million less than the maximum payable. SwissQual’s solutions analyse, measure and improve the quality of experience for users of wireless applications and services.

On 13 February 2006 we acquired QuadTex Systems, Inc (“QuadTex”) for an initial consideration of \$7.5 million (£4.3 million), paid in cash on completion with up to a further \$1.5 million (£0.9 million) payable depending on certain technical milestones and the retention of key employees. We paid £0.3 million of deferred consideration in 2006. QuadTex is a provider of innovative and leading test tools for internet protocol multimedia subsystem (“IMS”) and voice over IP (“VoIP”) testing.

On 10 July 2006 we acquired Scientific Software Engineering, Inc. (“SSE”), the US based developer of the Landslide product, a leading software based system for testing the performance and functionality of 2.5 and 3G wireless network infrastructure for an initial consideration of \$10.0 million (£5.5 million), paid in cash on completion with up to a further \$6.0 million (£3.3 million) payable depending on the satisfaction of certain technical milestones and the retention of key employees in 2007. We paid £0.3 million of deferred consideration in 2006.

On 10 August 2006 we acquired the business of Imperfect Networks, Inc. (“Imperfect Networks”), a US based developer of security testing solutions. The acquisition enables Spirent to deliver enhanced security testing solutions to its customers across a number of markets. The initial consideration was

\$4.0 million (£2.1 million), paid in cash on completion, with up to a further \$4.0 million (£2.2 million) payable depending on the satisfaction of certain technical milestones and revenues to be achieved in 2007.

### Financing and cash flow

At 1 January 2006 cash and cash equivalents were £49.2 million and borrowings, which comprised mainly of £70.9 million of senior loan notes attracting a 9.1 per cent rate of interest, were £84.8 million. The sale of the HellermannTyton Division enabled the Group to realise a significant amount of cash repaying the loan notes, extinguishing all other debt, funding the £47.0 million deficit in the UK final salary pension fund and commencing an on-market share buy back programme. We ended the year with cash and cash equivalents of £97.6 million, a significant strengthening of the balance sheet from the prior year end. In addition £8.5 million of cash is held on deposit in a blocked trust account as required by the capital restructuring discussed below.

Operating cash flow was representative of the tough market conditions and the additional costs required to undertake such significant product transition. Net cash outflow from continuing operations before tax was £40.8 million (2005: £1.1 million outflow). This outflow includes a £47.0 million contribution to fund the UK final salary pension plan and other one-time costs.

Adjusted operating cash flow before tax is set out below:

£ million	2006	2005
Reported cash flows from continuing operations	<b>(40.8)</b>	(1.1)
Add back:		
UK final salary pension plan lump sum contribution	<b>47.0</b>	3.5
Material one-time items	<b>6.4</b>	4.0
Adjusted cash generation from continuing operations	<b>12.6</b>	6.4

During 2006 the Group absorbed £10.6 million of working capital much of which was in relation to receivables and a consequence of the higher activity levels experienced during the latter part of the year.

Reported operating cash outflow for the continuing Group after tax was £42.4 million (2005: £1.8 million outflow) and discontinued operations used £0.6 million of operating cash in the period up to disposal (2005: £31.2 million inflow). Tax payments in 2006 amounted to £2.3 million compared with £4.6 million in 2005 (including discontinued operations). In the first quarter of 2007 we will settle tax obligations on the sale of the HellermannTyton Division of approximately £6.7 million.

Capital expenditure was £12.6 million compared with £14.8 million in 2005 for the continuing Group. The depreciation charge was £11.8 million (2005: £11.4 million).



We spent £44.4 million on the acquisition of businesses in 2006 and received net cash of £278.2 million from the sale of the HellermannTyton Division. Deferred consideration payments on acquisitions amounting to approximately £6.6 million are expected to be paid.

As previously mentioned the senior loan notes were repaid in February 2006 and this left the Group debt free. On the early repayment of loan notes a make whole amount was due of £7.2 million and we incurred break fees on the early termination of interest rate swaps of £2.3 million. Net finance income received in 2006 was £4.1 million compared with a net finance cost in 2005 of £6.5 million.

### **Pension fund**

The surplus in the UK defined benefit pension plans at 31 December 2006 was £2.4 million (2005: net deficit £50.8 million), having been funded in February 2006 by way of a special contribution of £47.0 million from the proceeds of the disposal of the HellermannTyton Division. During 2006 the plans have benefited from rising equity markets but have also benefited from an offer made to active and deferred members giving them the opportunity to leave the UK final salary pension plan and take an enhanced transfer value to another pension arrangement. Many members accepted this offer resulting in a benefit to the funding of the plan under IFRS of £1.7 million and a reduction in the total liabilities of the plan of £21.8 million. The value of the surplus at 31 December 2006 has been calculated using the latest mortality assumptions, and as such this has adversely affected the position.

The triennial actuarial valuations of the plans at 1 April 2006 are currently being finalised.

A defined benefit pension plan deficit is reported of £1.4 million at 31 December 2006 in respect of the acquired scheme in SwissQual and the unfunded UK plan.

### **Capital structure, on-market share repurchase programme and dividend**

During 2006, and following on from the cancellation of the share premium account and capital redemption reserve (the "Cancellation") which took place in 2004, the Company was able to release non-distributable special reserves formed as a result of the Cancellation by placing funds in a blocked trust account in accordance with the undertakings made to the Court at the date of the Cancellation. At 31 December 2006 cash held in the blocked trust account was £8.5 million. The Company currently has reserves of £194.1 million which are capable of being distributed to shareholders through dividend or through share buy back.

We commenced an on-market share repurchase programme in May 2006 which had been announced to shareholders together with the proposed disposal of HellermannTyton in December 2005. To date we have returned £41.9 million, being 90.3 million shares, to shareholders at an average price of 46.1 pence per share. There is a further £8 million to be returned of the originally

announced £50 million programme. Purchases are expected to be completed during 2007. It was also announced in October that the Company proposed to seek authority for a further return of £50 million to shareholders. This will be considered further as part of the in-depth business review currently underway.

Dividend policy is kept under review by the Board, however no dividend is being declared in respect of 2006.

### Review of US listing and SEC registration

As announced in October 2006 the Company has been carrying out a review to explore a process by which it can de-list its shares and de-register in the United States. The US listing has become significantly more costly and onerous in recent years, not least due to the imposition of the Sarbanes-Oxley regulations, which have cost the Company approximately £2.6 million during 2006.

If the proposed SEC rule change announced in December 2006 is passed without significant amendment it is expected that the Company will be able to seek a de-registration as a result of its extremely low trading volumes in the US.

A further update on progress towards de-listing and de-registration will be made as and when appropriate.

### Business group development and performance

#### Communications

£ million	Restated First half 2006	Second half 2006	2006	Restated 2005	Change %
Revenue					
Performance Analysis	94.5	97.7	192.2	178.8	7
Service Assurance	24.9	18.7	43.6	42.8	2
Communications group	119.4	116.4	235.8	221.6	6
Operating profit/(loss)					
Performance Analysis	3.2	7.3	10.5	18.4	(43)
Service Assurance	0.1	(1.2)	(1.1)	(10.8)	
Communications group	3.3	6.1	9.4	7.6	24
Return on sales (%)					
Performance Analysis	3.4	7.5	5.5	10.3	
Service Assurance	-	-	-	-	
Communications group	2.8	5.2	4.0	3.4	

## Performance Analysis

Results for Spirent's Performance Analysis division were marked by significant growth for a number of its products and solutions, including the pioneering Spirent TestCenter platform, and an appreciably improved second half due to early intervention efforts to increase profitability. However, the division's overall performance was dampened by market variability, intense competition, delays in technology upgrades and a significant decline in revenue for two established products.

In 2006, Performance Analysis introduced many new releases and established a solid foundation for future profitable growth within the segments of 3G wireless, IMS and VoIP. Several products had noteworthy results, including:

- Spirent TestCenter, which was the Group's highest revenue generating product in the fourth quarter;
- Spirent Protocol Tester, which received two industry recognition awards – one of the 10 "Best In Test" products for 2006 by Test & Measurement World and Product of the Year by Internet Telephony;
- Our security test solutions Avalanche and ThreatEx (the result of the acquisition of Imperfect Networks);
- Abacus, a leading VoIP testing solution;
- Launch of the new Diversity product (acquired as a result of the SwissQual acquisition), with subsequent key customer wins; and
- The first test demonstration of a Galileo global positioning system.

In 2006, revenue for this division of £192.2 million (2005: £178.8 million) was up 7 per cent whilst operating profit decreased by 43 per cent to £10.5 million (2005: £18.4 million) principally weighed towards the first half. The decline was largely due to additional spend on product development and sales and marketing costs associated with the launch of new product releases. To mitigate the weak first half restructuring actions were taken at the end of the second quarter together with a greater focus on improving profitability. These actions resulted in a significantly improved second half operating profit of £7.3 million and a return on sales of 7.5 per cent versus a first half of £3.2 million, and a return on sales of 3.4 per cent.

Spirent's top 20 customers typically represent an estimated 36 per cent of Performance Analysis revenues. No one customer represented more than 10 per cent of the total divisional revenues. On a geographic basis there was growth in Europe driven by Performance Analysis Positioning and SwissQual. Activity in the Asia Pacific region grew, building on strong growth particularly in China and India.

Throughout 2006, market conditions continued to be variable and unpredictable in Performance Analysis Broadband ("Broadband"). While we saw an increase in spending among some customers in

the second half, when combined with customers' reduced spending in the first half, Broadband experienced a flat year overall. This was driven by a reduction in the total available market due to consolidation activity among larger customers, lower spending from our largest customer, Cisco, and strong competition in the routing, switching, access, and L4-7 spaces, and in the VoIP and IMS markets. The tougher competitive environment resulted in pressure on pricing, particularly at our larger accounts.

Despite unpredictable market conditions, Broadband gained position with leading customers and strengthened its position in the growing security market with the acquisition of Imperfect Networks (ThreatEx).

The majority of product development investment for Broadband went to launching new products and to positioning Spirent for the long term. Spirent TestCenter continues to make significant gains in the marketplace, including:

- More than half of Spirent TestCenter customers are repeat buyers;
- A significant number of customer wins are at incumbent accounts of the competition;
- Our top 20 Broadband customers are using Spirent TestCenter; and
- More than 180 customers are now using the new platform.

Spirent's Broadband customers are interested in driving significant competitive advantage through faster time to market for new services and products, deploying new services to tap into new revenue streams and seeking highly integrated solutions to reduce their footprint. They understand that complex testing cannot be outsourced and that their resources for implementing complex testing are limited. Development plans for Spirent TestCenter will deliver increased functionality, scale, ease of use and automation so that our customers can continue to improve time to test, reduce the cost of testing and achieve a faster time to revenue for their new products and services. Spirent TestCenter architecture is significantly ahead of the competition and is designed to integrate new technologies moving forward to protect customers' investments.

Results for Performance Analysis Wireless ("Wireless") mirrored that of Broadband – a combination of key market successes countered by market and product challenges. Spirent's overall CDMA business was down due to a lull in the air interface evolution by network operators which led to the lack of a new technology catalyst for testing. In the WCDMA market, our gains in selling into GSM and WCDMA-based A-GPS mobile device test applications were offset by declines in the RF test business.

In the Mobile Device Test segment, where we hold a significant market share, we had a strong year for Location Based Services test in both the CDMA and WCDMA markets. Spirent's Location Test Systems turned in a record-breaking year, driven by additional regulatory requirements for handsets and growth in the deployment of commercial Location Based Services. More than

60 per cent of Wireless R&D is focused on the WCDMA applications market, and Spirent continues to invest in its core network emulator platform to improve feature capability. Wireless also saw some modest continued growth in the simulator market for faders, driven by the evolution of Mobile Input-Mobile Output technology, a key element of WiMax deployment. At the end of the year, Spirent saw activity in testing for Mobile TV begin to ramp. This exciting industry promises to be a key area of focus for Spirent as mobile network operators deploy multi-media services in 2007.

Performance Analysis Positioning (“Positioning”) saw its third year of double-digit growth. Of note, Positioning launched the World’s first commercial Galileo simulator and secured key contracts for official Galileo program business. Galileo is expected to be a significant source of revenue in the future.

Spirent entered into the Subscriber Experience Management (“SEM”) market segment as a result of its acquisition of SwissQual. Here, Spirent experienced a significant impact from widespread industry consolidation, reducing demand markedly. In addition, there were substantial delays in purchasing decisions compared to previous years. Competition is intense as well and drove increased pressure on pricing; whilst several competitors merged to improve their market position. Despite these conditions, Spirent added an estimated 30 new SEM customers during the year. It launched a new product, Diversity, which was well received by the market and gained traction with leading mobile network operators.

### **Service Assurance**

In 2006, Spirent’s Service Assurance division stabilised its performance amid significant market consolidation, secured important contracts for its triple play service assurance and field test solutions and delivered a break-even result before share-based payment of £1.2 million, marking a significant improvement over its performance in 2005.

Delays in customer decisions and spending on new solutions continued throughout the year and competition remains strong as service assurance players vie for fewer customers and retention of incumbent positions due to market consolidation. Carriers continue to shift spending away from legacy networks as they deploy triple play offerings, however the current limited triple play subscriber base is restricting the service assurance market.

Overall revenues were slightly higher for Service Assurance compared to last year, due to the recognition of revenue from one-time projects for remote packet access testing in the first half of 2006. Operating loss was £1.1 million compared with a loss of £10.8 million in 2005. The improvement in profitability is due to increased revenue and margin, coupled with the benefit of restructuring actions that took place in the second quarter. These actions allowed the division to target a break-even position before share-based payment for the year.

The revenue profile has remained comparable with the prior year, with the majority of revenue coming from US service providers. Revenue from DSL equipment (20 per cent of total revenue) was higher in 2006 due to increased customer demand. Leased line revenue for service assurance products (50 per cent of total) was down on 2005 as anticipated as customers continued to move spending away from legacy service assurance solutions.

Service Assurance has begun to see the results of its investment in next-generation services. It secured a strategic contract with TELUS, a leading provider of data, IP and wireless solutions in Canada. The contract represents the first award for a full-scale triple play service assurance solution. It also demonstrates that the triple play market is growing and that carriers understand service assurance solutions are needed before scaling services. In addition, the Service Assurance division's new handheld field test device, Tech-X, was approved and deployed at major North American customers.

Service Assurance is focused on providing the right tools for service providers to scale triple play services and ensure consumers' Quality of Experience ("QoE"). Its portfolio includes software and hardware based centralised test and diagnostic solutions as well as handheld field test devices. The Tech-X is the first all-in-one field test solution that combines testing of copper, xDSL and triple play services enabling field technicians to access the power of the central test and monitoring systems in the field. Spirent's triple play service assurance solutions allow service providers to get it right the first time, scale the service while managing operating costs, and dispatch to fix not to find problems. From the lab to the live network, Spirent is the only company that offers triple play solutions throughout the entire technology lifecycle.

The Service Assurance division will continue to seek opportunities to realise the potential of its existing baseline business while focusing its investments on expanding its position in the triple play market. However, continuing delays in the roll out of triple play service assurance solutions by our customers is likely to impact the timing of deployment of our new centralised test products. In the short term we expect that revenue from legacy products will decline faster than the ramp up of revenues from our triple play solutions.

## Systems

£ million	2006	Restated 2005	Change %
Revenue	<b>35.8</b>	37.7	(5)
Operating profit	<b>4.7</b>	4.3	9
Return on sales (%)	<b>13.1</b>	11.4	

The Systems group comprises PG Drives Technology, a leading supplier of control systems for electrically powered medical and industrial vehicles. Revenue was down 5 per cent and operating profit up 9 per cent, respectively. Return on sales increased to 13.1 per cent compared with 11.4 per cent in 2005.

During 2006 we saw continued strong revenues from the VR2, a low cost, mainstream wheelchair control system that we launched in second half of 2005, as well as growing market recognition for the R-net, our highly sophisticated rehab wheelchair system. These new products, together with our established ones, enabled us to increase 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 more of our production to China to reduce the logistical costs of supporting our activities in the Asia Pacific region. At the end of 2006 we launched two new systems, X25/30 and Sigmadrive, targeted at heavier industrial vehicles. These new products will spearhead our entry into new industrial markets.

## Non-segmental costs

Non-segmental costs, being those which are not directly attributable to the operating segments, were £5.8 million compared with £5.5 million in 2005. These costs relate to the costs of our Board and costs in relation to our dual listing, including much of the costs of the Sarbanes-Oxley Act of 2002.

## Consolidated income statement

Year to 31 December	Notes	2006 £ million			2005 £ million		
		Before material one-time items and goodwill impairment	Material one-time items and goodwill impairment	Total	Before material one-time items and goodwill impairment	Material one-time items and goodwill impairment	Total
<b>Continuing operations</b>							
<b>Revenue</b>	2,3	<b>271.6</b>	-	<b>271.6</b>	259.3	-	259.3
Cost of sales		(151.2)	-	(151.2)	(151.7)	(1.4)	(153.1)
<b>Gross profit/(loss)</b>		<b>120.4</b>	-	<b>120.4</b>	107.6	(1.4)	106.2
Selling and distribution		(71.2)	-	(71.2)	(70.9)	-	(70.9)
Administration		(40.9)	(55.6)	(96.5)	(30.3)	(44.0)	(74.3)
<b>Operating profit/(loss)</b>	2	<b>8.3</b>	<b>(55.6)</b>	<b>(47.3)</b>	6.4	(45.4)	(39.0)
Profit on the disposal of operations		-	-	-	-	3.9	3.9
<b>Profit/(loss) before interest</b>		<b>8.3</b>	<b>(55.6)</b>	<b>(47.3)</b>	6.4	(41.5)	(35.1)
Finance income		7.6	-	7.6	1.5	-	1.5
Finance costs		(1.6)	-	(1.6)	(8.1)	-	(8.1)
Costs associated with the repayment of loan notes		-	(8.8)	(8.8)	-	-	-
<b>Profit/(loss) before tax</b>		<b>14.3</b>	<b>(64.4)</b>	<b>(50.1)</b>	(0.2)	(41.5)	(41.7)
Tax		(0.9)	-	(0.9)	4.0	-	4.0
<b>Profit/(loss) for the year from continuing operations after tax</b>		<b>13.4</b>	<b>(64.4)</b>	<b>(51.0)</b>	3.8	(41.5)	(37.7)
<b>Discontinued operations</b>							
Profit for the year from discontinued operations	4	2.9	156.9	159.8	19.9	(6.7)	13.2
<b>Profit/(loss) for the year</b>		<b>16.3</b>	<b>92.5</b>	<b>108.8</b>	23.7	(48.2)	(24.5)
Attributable to:							
Equity holders of parent		16.3	92.5	108.8	23.3	(48.2)	(24.9)
Minority shareholders' interests - discontinued operations		-	-	-	0.4	-	0.4
<b>Profit/(loss) for the year</b>		<b>16.3</b>	<b>92.5</b>	<b>108.8</b>	23.7	(48.2)	(24.5)
<b>Earnings/(loss) per share (pence)</b>							
Basic earnings/(loss)	6			<b>11.75</b>			(2.62)
Basic loss from continuing operations				<b>(5.51)</b>			(3.97)
Diluted earnings/(loss)				<b>11.70</b>			(2.62)
Diluted loss from continuing operations				<b>(5.51)</b>			(3.97)



**Consolidated statement of recognised income and expense**

£ million	Year to 31 December	
	2006	2005
<b>Income and expense recognised directly in equity</b>		
Gains on cash flow hedges taken to equity	-	1.9
Exchange differences on retranslation of foreign operations	(10.3)	4.1
Actuarial gains/(losses) on defined benefit pension plans	1.6	(16.1)
	(8.7)	(10.1)
<b>Transfers to income statement</b>		
Exchange gain transferred to profit on sale	(1.3)	-
Gains on cash flow hedges	(1.9)	(0.5)
<b>Transfers to balance sheet</b>		
Write-off of deferred tax asset on pension liability	-	(11.1)
<b>Net (expense)/income recognised directly in equity</b>	<b>(11.9)</b>	<b>(21.7)</b>
<b>Profit/(loss) for the year</b>	<b>108.8</b>	<b>(24.5)</b>
<b>Total recognised income and expense for the year</b>	<b>96.9</b>	<b>(46.2)</b>
<b>Attributable to:</b>		
Equity holders of parent	96.9	(46.8)
Minority shareholders' interests – discontinued operations	-	0.6
	<b>96.9</b>	<b>(46.2)</b>

**Consolidated balance sheet**

£ million	At 31 December	
	2006	2005
<b><u>Assets</u></b>		
<b>Non-current assets</b>		
Intangible assets	63.3	71.5
Property, plant and equipment	25.3	30.1
Trade and other receivables	1.4	1.7
Cash on deposit	8.5	-
Defined benefit pension fund surplus	2.4	-
Deferred tax	1.2	1.0
	<b>102.1</b>	<b>104.3</b>
<b>Current assets</b>		
Inventories	25.4	27.0
Trade and other receivables	63.8	56.3
Derivative financial instruments	0.1	2.6
Cash and cash equivalents	97.6	49.2
	<b>186.9</b>	<b>135.1</b>
Assets held in disposal group held for sale	-	164.1
<b>Total assets</b>	<b>289.0</b>	<b>403.5</b>
<b><u>Liabilities</u></b>		
<b>Current liabilities</b>		
Trade and other payables	(61.8)	(62.9)
Current tax	(30.5)	(24.7)
Derivative financial instruments	-	(0.7)
Short term borrowings and overdrafts	-	(3.9)
Provisions and other liabilities	(5.9)	(4.1)
	<b>(98.2)</b>	<b>(96.3)</b>
<b>Non-current liabilities</b>		
Trade and other payables	(0.5)	(0.7)
Derivative financial instruments	-	(2.0)
Long term borrowings	-	(71.2)
Defined benefit pension fund deficit	(1.4)	(51.5)
Deferred tax	-	(0.8)
Provisions and other liabilities	(6.1)	(10.1)
	<b>(8.0)</b>	<b>(136.3)</b>
Liabilities included in disposal group held for sale	-	(48.7)
<b>Total liabilities</b>	<b>(106.2)</b>	<b>(281.3)</b>
<b>Net assets</b>	<b>182.8</b>	<b>122.2</b>
<b><u>Capital and reserves</u></b>		
Share capital	32.5	32.2
Share premium account	10.6	4.4
Capital reserve	5.5	10.2
Translation reserve	(6.1)	5.5
Net unrealised gains and losses	-	1.9
Retained earnings	140.3	66.1
<b>Equity holders of parent</b>	<b>182.8</b>	<b>120.3</b>
<b>Minority interests</b>	<b>-</b>	<b>1.9</b>
<b>Total equity</b>	<b>182.8</b>	<b>122.2</b>

### **Consolidated cash flow statement**

£ million	Note	Year to 31 December	
		2006	2005
<b>Cash flows from operating activities</b>			
Cash flow from operations	7	(40.7)	34.0
Tax paid		(2.3)	(4.6)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(43.0)</b>	<b>29.4</b>
<b>Cash flows from investing activities</b>			
Dividends received from associates		-	0.2
Interest received		5.5	1.4
Cash on deposit		(8.5)	-
Disposal of operations		278.2	2.4
Purchase of property, plant and equipment		(14.1)	(30.5)
Purchase of intangible assets		(0.8)	-
Proceeds from the sale of property, plant and equipment		0.4	0.6
Acquisition of subsidiaries		(44.4)	-
<b>Net cash from/(used in) investing activities</b>		<b>216.3</b>	<b>(25.9)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(1.4)	(7.4)
Interest element of finance lease rental payments		-	(0.5)
Costs associated with repayment of loan notes		(9.5)	-
Proceeds from the issue of share capital and employee share ownership trust		2.4	2.7
On-market share repurchase		(41.9)	-
Repayments of borrowings		(95.7)	(0.2)
New borrowings		23.0	-
Repayments of capital element of finance lease rentals		-	(1.4)
<b>Net cash used in financing activities</b>		<b>(123.1)</b>	<b>(6.8)</b>
Net increase/(decrease) in cash and cash equivalents		<b>50.2</b>	<b>(3.3)</b>
Cash and cash equivalents at the beginning of the year		<b>48.8</b>	<b>51.0</b>
Effect of foreign exchange rate changes		<b>(1.4)</b>	<b>1.1</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>97.6</b>	<b>48.8</b>
Cash and cash equivalents comprise:			
Cash and cash equivalents		<b>97.6</b>	<b>49.2</b>
Overdrafts		<b>-</b>	<b>(0.4)</b>
		<b>97.6</b>	<b>48.8</b>

## Notes

### 1 Financial information presented

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

As required by the European Union's IAS Regulation and the Companies Act 1985 the Group has prepared its consolidated financial statements for the year to 31 December 2006 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The comparative financial information is based on the statutory accounts to 31 December 2005. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

### 2 Segmental analysis

£ million	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total
<b>2006</b>						
<b>Revenue</b>	<b>192.2</b>	<b>43.6</b>	<b>235.8</b>	<b>35.8</b>	<b>-</b>	<b>271.6</b>
Operating profit/(loss) before material one-time items and goodwill impairment	<b>10.5</b>	<b>(1.1)</b>	<b>9.4</b>	<b>4.7</b>	<b>(5.8)</b>	<b>8.3</b>
Material one-time items	<b>(3.8)</b>	<b>(5.3)</b>	<b>(9.1)</b>	<b>-</b>	<b>0.3</b>	<b>(8.8)</b>
Goodwill impairment	<b>(27.7)</b>	<b>(19.1)</b>	<b>(46.8)</b>	<b>-</b>	<b>-</b>	<b>(46.8)</b>
<b>Operating (loss)/profit</b>	<b>(21.0)</b>	<b>(25.5)</b>	<b>(46.5)</b>	<b>4.7</b>	<b>(5.5)</b>	<b>(47.3)</b>
Finance income						<b>7.6</b>
Finance costs						<b>(1.6)</b>
Costs associated with the repayment of loan notes						<b>(8.8)</b>
<b>Loss before tax</b>						<b>(50.1)</b>
Tax						<b>(0.9)</b>
<b>Loss after tax for the year</b>						<b>(51.0)</b>
<b>Other information</b>						
Product development	45.5	9.5	55.0	2.3	-	57.3
Share-based payment	3.6	1.2	4.8	0.1	0.3	5.2
Intangible amortisation	1.6	-	1.6	-	-	1.6

## 2 Segmental analysis continued

£ million	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total
<b>2005</b>						
<b>Revenue</b>	178.8	42.8	221.6	37.7	-	259.3
Operating profit/(loss) before material one-time items and goodwill impairment	18.4	(10.8)	7.6	4.3	(5.5)	6.4
Material one-time items	(2.5)	(5.4)	(7.9)	-	(0.5)	(8.4)
Goodwill impairment	-	(37.0)	(37.0)	-	-	(37.0)
<b>Operating (loss)/profit</b>	15.9	(53.2)	(37.3)	4.3	(6.0)	(39.0)
Profit on disposal of operations						3.9
Finance income						1.5
Finance costs						(8.1)
<b>Loss before tax</b>						(41.7)
Tax						4.0
<b>Loss after tax for the year</b>						(37.7)
<b>Other information</b>						
Product development	42.1	14.0	56.1	2.3	-	58.4
Share-based payment	3.6	1.2	4.8	0.1	0.2	5.1

### 3 Geographical analysis

£ million	2006	2005
<b>Revenue by market</b>		
<b>Continuing operations</b>		
Europe	54.6	43.0
North America	153.0	158.2
Asia Pacific, Rest of Americas, Africa	64.0	58.1
	<b>271.6</b>	<b>259.3</b>
<b>Revenue by source</b>		
<b>Continuing operations</b>		
Europe	76.5	61.2
North America	175.9	180.9
Asia Pacific, Rest of Americas, Africa	19.2	17.2
	<b>271.6</b>	<b>259.3</b>

### 4 Discontinued operations

£ million	2006	2005
Revenue	28.0	205.5
Operating profit	3.0	24.4
Share of profit of associate	0.1	2.7
Profit/(loss) on the disposal of operations	166.1	(6.7)
Net finance costs	(0.1)	(1.1)
Profit/(loss) before tax	169.1	19.3
Tax	(0.1)	(6.1)
Tax on the disposal of operations	(9.2)	-
<b>Profit for the year</b>	<b>159.8</b>	<b>13.2</b>

### 5 Material one-time items and goodwill impairment

£ million	2006	2005
Goodwill impairment	46.8	37.0
Restructuring costs	9.1	6.9
EGM costs	2.0	-
Curtailment and settlement gain on defined benefit pension plan	(1.7)	-
Release of provision for prior year disposals	(0.6)	-
Inventory provisions	-	1.4
Exit from joint venture	-	0.1
	<b>55.6</b>	<b>45.4</b>

## 6 Earnings/(loss) per share

£ million	Continuing operations	Discontinued operations	Total operations
<b>2006</b>			
<b>Profit/(loss) for the year attributable to equity holders of parent</b>	<b>(51.0)</b>	<b>159.8</b>	<b>108.8</b>
Material one-time items	8.8	-	8.8
Goodwill impairment	46.8	-	46.8
Profit on the disposal of operations	-	(156.9)	(156.9)
Costs associated with the repayment of loan notes	8.8	-	8.8
Prior year tax credit	(0.3)	-	(0.3)
<b>Adjusted earnings attributable to equity holders of parent</b>	<b>13.1</b>	<b>2.9</b>	<b>16.0</b>
<b>2005</b>			
(Loss)/profit for the year	(37.7)	13.2	(24.5)
Less: minority shareholders' interests	-	(0.4)	(0.4)
<b>(Loss)/profit for the year attributable to equity holders of parent</b>	<b>(37.7)</b>	<b>12.8</b>	<b>(24.9)</b>
Material one-time items	8.4	0.4	8.8
Goodwill impairment	37.0	-	37.0
(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)
<b>Adjusted earnings/(loss) attributable to equity holders of parent (restated)</b>	<b>(2.1)</b>	<b>18.4</b>	<b>16.3</b>
		<b>2006</b>	<b>2005</b>
<b>Earnings/(loss) per share (pence)</b>			
Basic		<b>11.75</b>	(2.62)
Basic from continuing operations		<b>(5.51)</b>	(3.97)
Diluted		<b>11.70</b>	(2.62)
Diluted from continuing operations		<b>(5.51)</b>	(3.97)
Adjusted (restated)		<b>1.73</b>	1.72
Adjusted from continuing operations (restated)		<b>1.41</b>	(0.22)
Weighted average number of shares in issue (million)			
Basic and adjusted		<b>925.9</b>	950.4
Dilutive potential of employee share options		<b>3.8</b>	10.2
<b>Weighted average number of shares in issue - diluted</b>		<b>929.7</b>	<b>960.6</b>

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

£ million	2006	2005
<b>Continuing operations</b>		
Loss before tax	<b>(50.1)</b>	(41.7)
Adjustments for:		
Profit on the disposal of operations	-	(3.9)
Finance income	<b>(7.6)</b>	(1.5)
Finance costs	<b>1.6</b>	8.1
Costs associated with the repayment of loan notes	<b>8.8</b>	-
Goodwill impairment	<b>46.8</b>	37.0
Intangible amortisation	<b>1.6</b>	-
Depreciation of property, plant and equipment	<b>11.8</b>	11.4
Loss on the disposal of property, plant and equipment	<b>0.6</b>	0.1
Impairment of property, plant and equipment	<b>0.8</b>	-
Share-based payment	<b>5.2</b>	5.1
Settlement and curtailment of pension fund	<b>(1.7)</b>	-
Changes in working capital:		
Deferred income (released)/received	<b>(1.3)</b>	5.8
(Increase)/decrease in receivables	<b>(6.1)</b>	0.4
Increase in inventories	<b>(0.4)</b>	(0.4)
Decrease in payables	<b>(2.8)</b>	(16.8)
Decrease in provisions	<b>(1.0)</b>	(0.9)
Defined benefit pension fund	<b>(47.0)</b>	(3.8)
<b>Cash flows from continuing operations</b>	<b>(40.8)</b>	(1.1)
<b>Discontinued operations</b>		
Profit before tax	<b>169.1</b>	19.3
Adjustments for:		
Share of profit of associates	<b>(0.1)</b>	(2.7)
Profit/(loss) on the sale of discontinued operations	<b>(166.1)</b>	6.7
Finance income	-	(0.1)
Finance costs	<b>0.1</b>	1.2
Depreciation of property, plant and equipment	<b>1.6</b>	11.2
Profit on the disposal of property, plant and equipment	<b>(0.1)</b>	(0.1)
Share-based payment	<b>0.4</b>	0.5
Changes in working capital:		
Increase in receivables	<b>(2.9)</b>	(1.7)
Decrease/(increase) in inventories	<b>0.5</b>	(3.0)
(Decrease)/increase in payables	<b>(2.4)</b>	3.8
<b>Cash flows from discontinued operations</b>	<b>0.1</b>	35.1
<b>Cash flows from operating activities</b>	<b>(40.7)</b>	34.0