Spirent Communications plc
Annual Report 2008

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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 testing and service assurance solutions that enable the development and deployment of next-generation networking technologies such as Ethernet, Triple Play, wireless, satellite positioning, web applications and security. Further information about Spirent Communications plc can be found at www.spirent.com

Our business at a glance

Revenue by division

Performance Analysis

Network equipment manufacturers and service providers face numerous challenges associated with taking products and solutions from the lab to the marketplace. Spirent's Performance Analysis division allows equipment manufacturers, service providers, enterprise and governments to holistically test and benchmark the performance of voice, video and data systems and services in an effort to accelerate the development and deployment of related applications.

£191.2m

2007 £169.3m

Service Assurance

Spirent's service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network as well as address the transition to next-generation service offerings. Service providers rely on Spirent to improve the quality of service at the network core, edge or even within the home.

£33.5m

2007 £34.3m

Systems

PG Drives Technology is a leading supplier of sophisticated electronic control systems for electrically powered vehicles in the mobility and industrial markets. These include medical vehicles such as powered wheelchairs and mobility scooters as well as industrial vehicles such as floor cleaning vehicles, golf carts, fork-lift trucks and aerial access platforms.

£33.2m

2007 £33.4m

Financial highlights – continuing operations

Revenue

£257.9m

2007 £237.0m

Operating profit[1]

£48.7m

2007 £25.5m

Adjusted basic earnings per share[2]

6.24p

2007 3.57p

Total dividend per share

1.1p

2007 Nil

1 Before exceptional items.
2 Adjusted basic earnings per share is based on adjusted earnings as set out in note 13 of Notes to the consolidated financial statements.

Overview

Business review

Governance

Financial statements

Other information

Cautionary statement regarding forward-looking statements

This Annual Report may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise.

Financial and operational highlights

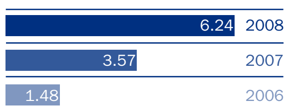
Summary of results – continuing operations

£ million	**2008**	2007	Change (%)	Underlying change at constant currency (%)[3]
Reported				
Revenue	**257.9**	237.0	9	2
Profit before tax	**49.6**	17.8	179	
Basic earnings per share (pence)	**10.13**	2.97	241	
Total dividend per share (pence)	**1.1**	–		
Adjusted				
Operating profit[1]	**48.7**	25.5	91	80
Profit before tax[1]	**51.4**	32.2	60	
Adjusted basic earnings[2] per share (pence)	**6.24**	3.57	75	

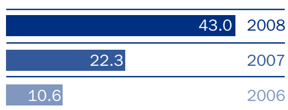
Group highlights

- Adjusted earnings per share up 75 per cent to 6.24 pence (2007 3.57 pence) after charging 0.30 pence for share-based payment and amortisation of intangibles (2007 0.38 pence).
- Adjusted operating profit up 91 per cent to £48.7 million (2007 £25.5 million).
- Increase in operating return on sales to 18.9 per cent (2007 10.8 per cent).
- Cash flows from operations up 22 per cent to £53.4 million (2007 £43.8 million).
- Total order intake in January 2009 for the Group is level year-on-year in constant currency, with Performance Analysis being down by 10 per cent.
- Annualised cost reduction of £8.2 million implemented in the first quarter of 2009.

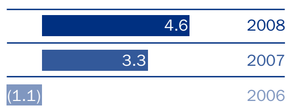
Adjusted basic earnings per share[2] (pence)



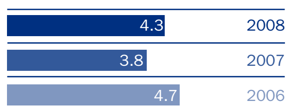
Operating profit[1,4] (£ million)



Performance Analysis



Service Assurance



Systems

Notes
1 Before exceptional items.
2 Adjusted basic earnings per share is based on adjusted earnings as set out in note 13 of Notes to the consolidated financial statements.
3 Change at constant currencies eliminating the effects of fluctuating exchange rates on the translation of operating results.
4 Operating divisions excluding non-segmental costs.

Chairman's statement

Edward Bramson
Chairman

"During 2008, Spirent introduced new, innovative products and lowered its cost base, resulting in a stronger financial position overall."

Spirent's financial performance improved in each quarter throughout 2008 as a result of the programmes put in place to increase manufacturing efficiency and to deliver new innovative products. In addition, the Company benefited from favourable exchange rates and a reduced number of issued shares. These factors, with annualised cost reductions of a further £8.2 million implemented in the first quarter of 2009 and the strong financial position of the Company, mean that Spirent is well placed to face the challenges of an uncertain market in the coming year.

Group revenue increased by £20.9 million, some 9 per cent over that for 2007 and the resulting gross profit increased by £18.8 million, with the gross profit margin increasing by 2.2 percentage points year-on-year. Adjusted earnings per share increased by 75 per cent to 6.24 pence from 3.57 pence in 2007. This was after charging 0.30 pence for share-based payment and intangible amortisation, down from 0.38 pence in 2007. Cash generation was robust with free cash flow of £42.2 million in the year.

The Company paid its first dividend since the first half of 2002 and proposes a final dividend of 0.6 pence per share. This will result in a total dividend for the year of 1.1 pence per share. It is the Board's policy to maintain a high dividend cover and to pursue a sustainable distribution policy consistent with the development of earnings over time.

The cash generation of the Group allowed the funding of share repurchases through on-market repurchase and by way of a tender offer. £67.0 million was used to repurchase and cancel 125.8 million shares, some 16 per cent of the shares in issue. The total cash returned to shareholders since 1 January 2007 is £133.8 million.

To ensure flexibility, further authority will be sought at the Annual General Meeting for share repurchases of up to 15 per cent of issued share capital, depending on market conditions and other factors.

Total order intake in January 2009 for the Group is level with that for the same period in the prior year in constant currency terms, with Performance Analysis being down by 10 per cent. In sterling total order intake in January 2009 increased 27 per cent year-on-year. The restructuring of the business over the past two years has resulted in a material reduction in the break-even point for sales. At current exchange rates the Company will benefit both as an exporter of products and services from the UK and in the translation of the Group's substantial dollar earnings. These factors, combined with the reduction in the number of shares in issue, will result in a greater resilience to the impact of any reduction in sales levels on the earnings per share and the cash generation of the Group.

Edward Bramson
Chairman

Chief Executive Officer's review

Bill Burns
Chief Executive Officer

"Our role as leaders in test and measurement is to enable our customers to develop and validate their most successful products and services, not just from a technological perspective but also to ensure the greatest return on their investment."

As we look back over the past year, customers in most segments of the telecommunications industry spent more cautiously as 2008 progressed. This was particularly true as the end of the fourth quarter approached. Network equipment manufacturers remained focused on profitability and growth as competition intensified. Restructuring across the telecommunications industry had an impact not only on major wireline network equipment manufacturers, but also mobile equipment suppliers and service providers. These factors are contributing to an uncertain outlook in 2009, although it is expected that research and development investments are unlikely to be reduced to the same levels as other areas of spending.

While network operator's wireless and Ethernet based broadband services experienced strong year-on-year growth, revenues for traditional wireline services declined. Service providers and network equipment manufacturers continue to invest in areas of growth aimed at ensuring their future. Test requirements in these growth areas have become even more critical as service providers are driven to deploy highly complex converged networks delivering differentiated voice, video, data and next-generation mobile networks, that include an array of GPS and location based services. The need for testing today's, as well as tomorrow's, equipment and networks is driven by the requirement to achieve uncompromised performance and scalability while delivering superior Quality of Service and Experience across the telecommunication infrastructure.

Our global reach and world-class sales and service organisations allow Spirent to partner closely with our customers, enabling research and development efficiencies through leadership in test methodologies and automation. Spirent's products and services serve a wide range of technologies, from wired to wireless, from development laboratories to live networks, from chip manufacturers to enterprise customers. Our strong customer relationships and broad solutions portfolio brings value to our customers and represent a distinct strategic advantage for Spirent.

The financial performance of the Company reflects operational improvements undertaken through outsourced manufacturing, design improvements and focus on driving efficiency throughout all aspects of our business. Our cash generation and profitability allows us to invest in the areas most critical to the success of our customers. At the same time, we have an agile business which is able to react quickly to developments in our markets. In addition, we have already taken action in the first quarter of 2009 to reduce Spirent's cost base by an annualised £8.2 million.

Major customers view 2009 as a year of decreased activity, with few seeing upside before 2010. Service providers and network equipment manufacturers will prioritise their overall spending but will invest in key technology development areas to ensure their future success. This will drive demand for our test solutions despite the challenging economic environment.

Our role as leaders in test and measurement is to enable our customers to develop and validate their most successful products and services, not just from a technological perspective but also to ensure the greatest return on their investment. Spirent's financial strength and diversified solutions portfolio will be key to defending and expanding our market share as well as developing new opportunities. We remain realistic in facing the challenges resulting from the current worldwide economic downturn and we believe that Spirent enters this year well placed to face the market uncertainties ahead.

Bill Burns
Chief Executive Officer

Description of the business

The Spirent Group is organised into two business areas: Communications and Systems. The Communications business comprises two divisions: Performance Analysis, providing test solutions for wireline and wireless technologies, and Service Assurance, providing network monitoring solutions for telecom service providers.

Spirent Communications provides tools and systems to enable the world to communicate faster, better, more frequently and more reliably. We develop new test solutions for the engineers working within the Communications industry to evaluate the performance of the latest technologies to be deployed across the worldwide telecommunications infrastructure. We also provide tools for service technicians and field test engineers to improve quality and make troubleshooting more efficient and effective.

Network equipment manufacturers and service providers face numerous challenges associated with taking products and solutions from the lab to the marketplace. Spirent's Performance Analysis division allows equipment manufacturers, service providers, enterprise and governments to holistically test and benchmark the performance of voice, video and data systems and services in an effort to accelerate the development and deployment of related applications.

Spirent provides the ability to conduct functional, conformance, interoperability, scalability and quality of experience testing under real-world conditions inside and outside the lab. This capability, across the entire product lifecycle from concept inception to use in commercially-available scenarios, helps shorten the product development cycle, improve the quality of new services, and reduce the cost and risk associated with such efforts.

Spirent delivers wireline and wireless solutions which address carrier Ethernet, data center, IMS, IPTV, location based, Long Term Evolution ("LTE"), satellite, Triple Play, WiMax, 3G wireless and other emerging technologies.

Spirent's service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network as well as address the transition to next-generation service offerings. Service providers rely on Spirent to improve the quality of service at the network core, edge or even within the home.

By leveraging the expertise gained by testing technologies and systems in the lab, Spirent enables service providers to deploy and maintain efficient, cost-effective and high-performing networks. Spirent's equipment and software facilitate functional, conformance, interoperability and scalability testing across an entire wireline or wireless network. As a result, the operators of Ethernet, IMS, IPTV, Triple Play and wireless networks see reduced churn by providing a higher quality of experience which ultimately increases subscriber retention. Additionally, such testing helps service providers reduce operational costs through better identification of potential network problems and then using the right resources to address and correct those difficulties.

Systems is a leading supplier of sophisticated electronic control systems for electrically powered vehicles in the mobility and industrial markets. These include medical vehicles such as powered wheelchairs and mobility scooters as well as industrial vehicles such as floor cleaning vehicles, golf carts, fork-lift trucks and aerial access platforms.

Business group development and performance

Communications

£ million	First half 2008	Second half 2008	Full year 2008	2007	Change (%)	Underlying change at constant currency (%)
Revenue						
Performance Analysis	**88.1**	**103.1**	**191.2**	169.3	13	5
Service Assurance	**15.8**	**17.7**	**33.5**	34.3	(2)	(9)
Communications group	**103.9**	**120.8**	**224.7**	203.6	10	3
Adjusted operating profit[1]						
Performance Analysis	**18.2**	**24.8**	**43.0**	22.3	93	83
Service Assurance	**2.3**	**2.3**	**4.6**	3.3	39	30
Communications group	**20.5**	**27.1**	**47.6**	25.6	86	76
Return on sales[1] (%)						
Performance Analysis	**20.7**	**24.1**	**22.5**	13.2		
Service Assurance	**14.6**	**13.0**	**13.7**	9.6		
Communications group	**19.7**	**22.4**	**21.2**	12.6		

Note
1 Before exceptional items in 2007.

Performance Analysis

Market conditions

The market saw growth in the first half year in all major areas, while the second half was characterised by cautious spending, highlighted by reduced demand in the fourth quarter of 2008. The current economic climate is forcing network equipment manufacturers and service providers to reprioritise the way they do business and has increased their focus on driving efficiency and operating even more cost-effectively. At the same time, they understand the need to invest in technologies and solutions that will allow them to compete in global markets.

The demand for next-generation networks and services continues. The pervasive nature of the internet on multiple devices: computers, mobile equipment, TV and others, offering content rich applications, is driving growth in traffic, demand for higher speed access and network complexity. For example, Ethernet is evolving to meet the demand for increased business connectivity, the migration of storage networks and service provider core networks which are moving from 10 GbE to 40/100 GbE in order to handle larger volumes of traffic.

Investment in next-generation technologies will continue to drive the need for test solutions. Furthermore, the current economic climate has led network equipment suppliers to focus on increasing efficiency in the use of research and development resources which drives the demand for more automated solutions, professional services and expertise to assist in automation projects, all of which are important sources of revenue for Spirent.

Mobile communication now demands a higher level of performance testing, which is not satisfied by existing conformance test standards and equipment. Emulation of real-world wireless testing in the laboratory has become a fundamental requirement as field testing is expensive and inconsistent. Demand is also increasing for smartphone testing, where greater numbers of integrated applications on a mobile device require a higher degree of testing. Open mobile device operating systems are leading to the proliferation of applications to take advantage of higher speed data and location based services. Further growth will come from streaming and broadcast video, as content becomes more attractive to users. Spirent delivers industry leading wireless test solutions to meet the ever evolving needs of wireless applications and services.

The market for test equipment in the positioning sector continues to grow as GPS services evolve and new investments are being made in satellite systems such as GLONASS and Galileo.

Revenue

Performance Analysis revenues grew by 5 per cent in constant currencies year-on-year. The rate of growth in the second half year slowed following the 9 per cent growth in the first half of 2008.

Performance Analysis continued

Demand in the second half was softer in all areas of the business. New broadband products, including Spirent TestCenter™, grew over the levels for the first half year but order intake slowed towards the end of the year. Wireless test solutions saw a peak in demand during the first half year and similarly demand softened towards the end of the year. Legacy products continued to decrease year-on-year, but the level of revenue decline flattened in the second half year.

Spirent continues to command technology leadership across its broadband solutions, winning head-to-head competitive opportunities based on technical comparisons against competitive products and solutions. Customers choose Spirent TestCenter for its performance, scalability, and ability to replicate real-world conditions across a wide array of testing environments. Combined these characteristics maximise return on investment and reduce total cost of ownership for our customers.

Professional services are an increasingly important part of the business. The number of maintenance agreements and their renewals has increased, reflecting the value these services bring to our customers. Laboratory automation has stimulated demand for professional services. The industry's first automation forum, the Test Automation Alliance, was launched by Spirent working with best-in-class providers of automation solutions.

Revenues for Spirent's Wireless UMTS test solutions increased during the year including significant wins with Tier 1 carriers in the US and network equipment manufacturers worldwide for both mobile device performance test systems and RF channel emulators. Revenues for CDMA EV-DO Rev A reached record levels and new customers adopted our solutions for LTE infrastructure testing in Europe and Asia. Wireless solutions now account for 36 per cent of Performance Analysis revenues (2007 32 per cent).

Market adoption of location based solutions continue to drive revenue for our positioning products as these services are integrated into a wide range of devices such as smartphones. The adoption of location based services has opened up a new market for our positioning test solutions which served 172 new customers in 2008.

The division's revenues are broad based by customer type and geography, with a low level of customer concentration. No single customer accounts for more than 10 per cent of revenues and the top 20 customers account for 43 per cent of the total.

Profitability

Performance Analysis profits grew in constant currency for the year by 83 per cent over 2007 and the second half year grew by 24 per cent over the same period. Profitable growth in sales contributed to the improved returns, whilst improvement in design of our products and the supply chain increased gross profit margin by 1.9 percentage points year-on-year. Indirect overheads were reduced in constant currency by £9.5 million, or some 9 per cent.

Product development

Anticipating the needs of customers and bringing products to market at the right time is a key contributor to Spirent's success, as we continue to command the number one or two position in most markets we serve.

In 2008, Spirent launched multiple new solutions to support a variety of customer needs. New broadband application and security testing solutions were introduced along with 10 gigabit Ethernet application performance appliances. We delivered next-generation solutions to support integrated Layer 2–7 testing at line rate performance. For mobile packet core performance testing, we evolved our Landslide solutions to support next-generation wireless standards such as LTE and WiMax. Our Spirent TestCenter platform is now capable of handling the needs of the latest data centre technology such as Fibre Channel over Ethernet as well as evolving Metro Ethernet Standards. Our focus in 2009, is to continue to enhance our Ethernet solutions portfolio meeting the requirement for testing higher speeds such as 10/40/100 GbE. From a software perspective, we will enhance our capabilities to offer more testing and technology coverage under our flagship product, Spirent TestCenter.

Spirent offers unique solutions that allow makers of wireless equipment as well as operators of wireless networks to be successful. In 2008, Spirent launched Over-The-Air test solutions for location based services testing devices through the antenna for both UMTS and CDMA technologies. Call reliability testing was a market first in the measurement of the reliability of a device to complete and maintain a call under various adverse conditions including handover from one cell to another. We continue our leadership in CDMA testing by increasing protocol test coverage and the release of an EV-DO Rev A protocol test solution. With the release of the Video User Experience test solution we have assumed a leadership position in measuring the quality of experience in viewing video on a handset. Complex

Business group development and performance continued

Performance Analysis continued

antenna configurations required for LTE are tested using the advanced Multiple Input Multiple Output channels models on the SR5500 platform, released in 2008. 2009 will see the need for LTE device performance test and the multimode combination of LTE and CDMA. We also expect further development in smartphones and 3G wireless deployments, particularly in China, combined with the need to evaluate mobile performance in real-world conditions. We continue to deliver testing solutions that address all emerging wireless technologies.

Undoubtedly the investment priorities in telecommunications will be reset during 2009. As a result of the increased efficiency, low cost production and investment in innovation, our Performance Analysis division is better positioned than most in our industry to respond to the challenges ahead. The longer term prospects resulting from the convergence of wired and wireless technologies in a world of increased connectivity with greater functionality remain good for test and measurement products, solutions and services.

Service Assurance

Market conditions

Market conditions remained challenging throughout 2008 for the Service Assurance division. However, there were signs that the adoption of next-generation network architectures has grown to a scale where service assurance solutions are required. Specifically, we saw increased demand for Metro Ethernet and Triple Play solutions for both centralised test and field test solutions. This included important wins in 2008 at several large service providers in North America.

Overall we see the service assurance market remaining sluggish during 2009 due to the economic climate and continued caution around capital spending. However, we believe that increased global competition and the transition to next-generation networks provides additional market opportunities for the Service Assurance division within cable multiple system operators, wireline and wireless service providers.

Revenue

Service Assurance revenues declined by 9 per cent in constant currency year-on-year as service providers continued to reduce spend on legacy and DSL solutions. We received further orders for our Triple Play monitoring solutions. While we have seen increased demand for next-generation solutions, we do not anticipate spending for these solutions will reach levels to cover the decline in legacy solution spend until some time in 2010.

Professional services revenues for test automation and custom software remained an area of growth as service providers looked to increase the effectiveness of their existing service assurance solutions.

Profitability

While the Service Assurance business saw a decline in revenue in 2008, the business was able to improve profitability by 30 per cent in constant currency driven by increased efficiency and continued tight cost control measures across the business.

Product development

The division continues to focus on the development of service assurance and field test solutions for next-generation networks. In November 2008, we launched a new modular field test platform, Tech-X Flex, to the market for in-home Triple Play testing. We are in the process of adding additional modules in the first half of 2009 to extend test capabilities to “outside the home” and to address opportunities in the European market. We are in trial with several major service providers in North America and will look to begin shipping in quantity during the first half of 2009. In addition, we continue to enhance our next-generation diagnostic and performance management Ethernet solutions.

Systems

£ million	2008	2007	Change (%)	Underlying change at constant currency (%)
Revenue	33.2	33.4	(1)	(3)
Operating profit	4.3	3.8	13	9
Return on sales (%)	13.0	11.4		

The Systems group comprises PG Drives Technology, a leading supplier of control systems for electrically powered medical and small industrial vehicles. Revenue continued to be affected by changes in US government healthcare funding for powered wheelchairs, creating a shift from premium systems to lower cost solutions. This was, however, offset by solid growth in our industrial systems. The US dollar exchange rate did not materially impact revenue, but profit was impacted by a loss on exchange of £0.4 million. The weaker exchange rate for sterling to US dollars will benefit earnings in 2009 compared to 2008 by £1.0 million on hedge contracts

Systems continued

in place at the year end. We continued to place more production into China to support our activities in the Asia Pacific Region and in order to gain product and logistical cost benefits.

During 2008 we introduced new products for scooters and wheelchairs to further strengthen our position in the medical mobility market. Good progress was made in opening new industrial market segments, such as fork-lift trucks.

Non-segmental costs

Non-segmental costs before exceptional items reduced by £0.7 million to £3.2 million in 2008. These cost reductions were principally a result of the consolidation of reporting activities and other functions in the business units, enabling a reduction in staff levels.

Financial review

"Foreign exchange will be a continuing theme in 2009, and if exchange rates remain at current levels this will have a significant positive effect on Spirent's reported revenue and earnings due to translation period-on-period."

Eric Hutchinson
Chief Financial Officer

Group financial performance

Results – continuing operations

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

	First half 2008	Second half 2008	Full year 2008	2007	Change (%)	Underlying change at constant currency (%)
Book to bill ratio[1]	**0.98**	**0.97**	**0.98**	1.05		
Revenue (£ million)	**120.5**	**137.4**	**257.9**	237.0	9	2
Gross profit margin[2] (%)	**63.5**	**65.6**	**64.6**	62.4		
Operating profit[2] (£ million)	**21.0**	**27.7**	**48.7**	25.5	91	80
Return on sales[2] (%)	**17.4**	**20.2**	**18.9**	10.8		
Adjusted basic earnings per share[3] (pence)	**2.67**	**3.57**	**6.24**	3.57	75	
Free cash flow[4] (£ million)	**17.8**	**24.4**	**42.2**	50.2	(16)	

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

Notes
1 Ratio of orders booked to revenue billed.
2 Before exceptional items in 2007.
3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 13 of Notes to the consolidated financial statements.
4 Operating cash flow after tax, net interest and net capital expenditure.

Revenue

Reported revenue in sterling was up 9 per cent compared with 2007. The underlying change was an increase of 2 per cent due to the improvement seen in Performance Analysis.

A significant amount of Spirent's revenues are denominated in US dollars and with sterling weakening against the US dollar particularly in the last quarter of 2008, translation has had a positive effect increasing reported revenue by £16.0 million compared with 2007.

Group financial performance continued

The geographic profile by market of reported revenues did not change significantly with revenue in sterling terms up in all markets.

£ million	2008	%	2007	%
Europe	47.8	19	43.7	18
North America	139.5	54	132.2	56
Asia and Rest of the World	70.6	27	61.1	26
	257.9		237.0	

The book to bill ratio was lower at 0.98 for the year compared with 1.05 for 2007. This reflects both the changing profile of the Spirent Group as technology continues to migrate from older platforms to new and a weakening of demand levels seen towards the end of the fourth quarter of the year. The Group continues to maintain a healthy order book.

Operating profit

Operating profit improved by 91 per cent to £48.7 million compared with an operating profit before exceptional items of £25.5 million in 2007, 11 percentage points of the improvement was due to exchange rates. Other factors include higher revenue, improved gross profit margin and reductions in overhead cost resulting from the actions commenced in 2007.

The resulting operating return on sales increased to 18.9 per cent for 2008 compared to 10.8 per cent in 2007. Return on sales was 20.2 per cent for the second half of 2008.

Currency impact

As previously mentioned there was a significant weakening of sterling in the latter part of the year against all the major currencies. Spirent is most exposed to the sterling to US dollar exchange rate and this rate has changed from $1.99:£1 at 31 December 2007 to $1.44:£1 at 31 December 2008. Although there was a marked change to the closing exchange rate, as this happened in the latter part of 2008 its effect on the average rate used to translate Spirent's results was positive but less material; the average US dollar to sterling exchange rate was $1.85:£1 in 2008 compared with $2.00:£1 in 2007.

Given that a significant amount of Spirent's revenue arises in North America even this degree of change in the average exchange rate positively affected the translation of our revenue and profits, increasing reported revenue as noted above. The impact on operating profit was an increase of £2.6 million due to translation.

Our UK based businesses are exposed to transactional currency risk, but had hedged most of the 2008 US dollar exposures by the end of 2007 at an average forward rate of $2.03:£1. For 2009 transaction exposures have been hedged in 2008 at a forward average rate of 1.76, this will result in a £3.0 million benefit in 2009 compared to the hedge rate in 2008.

Foreign exchange will be a continuing theme in 2009, and if exchange rates remain at current levels this will have a significant positive effect on Spirent's reported revenue and earnings due to translation period-on-period. At an average exchange rate of $1.45:£1 and based on 2008 revenue and operating profit, revenue would increase by approximately £48 million and operating profit by £12 million compared to that reported.

Cost of sales and operating expenses

Gross profit margin increased by just over two percentage points to 64.6 per cent of revenue from 62.4 per cent in 2007. Much of this increase reflects the further improvements achieved through the restructuring and outsourcing initiatives undertaken in the Communications businesses in 2007.

As the development of new innovative test products is critical to the success of Performance Analysis, product development continues to be a significant cost for the Group. Product development expense increased from £44.5 million in 2007 to £45.3 million in 2008, but was lower in US dollar terms and dropping to 17.6 per cent from 18.8 per cent of sales in 2007.

This reduction reflects benefits achieved through increased efficiencies, reduction in facilities and lower development spending on older technology products.

Other operating expenses, excluding exceptional items reduced from £77.8 million in 2007 to £72.6 million in 2008, being 32.8 per cent and 28.2 per cent of sales respectively. The annual reduction includes the lower expense for share-based payment of £1.5 million in 2008 compared with £2.5 million in 2007 and the lower cost base achieved through restructuring.

Exceptional items

No exceptional operating items have been charged in 2008. In 2007 £14.4 million was expensed for

Financial review continued

Group financial performance continued

restructuring costs, including severance costs, asset write-downs and provisions for vacant leasehold space.

In 2008 £0.8 million of exceptional finance income has been reported in relation to interest received on tax refunds for prior periods. An exceptional interest expense of £2.6 million has been charged for interest paid on the agreement of prior year tax positions with the relevant tax authorities.

There is an exceptional tax credit of £25.6 million which relates to the agreement of an overseas tax position.

Intangible amortisation

Operating expense for continuing businesses includes a charge of £0.7 million for the amortisation of intangibles in 2008, compared to £0.9 million in 2007.

Share-based payment

The charge for share-based payment for 2008 was £1.5 million compared to £2.5 million for 2007. Minimal share-based incentives were awarded in 2008 and it is expected that this charge will fall further in 2009 to approximately £0.4 million.

Net finance income

Net finance income was £2.7 million compared with £6.7 million for 2007 excluding exceptional interest referred to above. This reflects the significant reduction in returns particularly in the last quarter of 2008, as central banks lowered base rates in response to the economic uncertainties. Surplus funds are held in short term bank deposits and earn market rates of interest, since these returns have reduced considerably this will result in substantially reduced interest income in 2009.

Net finance income includes £0.1 million of income in respect of the expected return on pension plan assets less the interest charge on the unwinding of liabilities. This has reduced from £0.9 million in 2007, a result of reduced asset values compared with the prior year. For 2009 the expected interest for the pension plan will be a cost in the region of £1.2 million, affected by the reduced returns on assets as well as lower asset values.

Profit before tax for continuing operations

Reported profit before tax for continuing operations was £49.6 million compared with £17.8 million for 2007.

Adjusted profit before tax is set out below:

£ million	2008	2007
Reported profit before tax	49.6	17.8
Exceptional operating items	–	14.4
Exceptional interest (net)	1.8	–
Adjusted profit before tax	51.4	32.2

Tax

In 2008 there was a net tax credit of £25.2 million (2007 £7.7 million credit). This includes the release of a £30.5 million provision resulting from the agreement of prior year tax positions with the relevant tax authorities. Of this £25.6 million has been classed as exceptional due to its significance and unusual nature. As discussed above, net interest of £1.8 million has been incurred as a result of these agreements. Excluding prior period adjustments the current year tax charge was £5.3 million giving an effective tax rate of 10.3 per cent.

In 2007 there was a prior year tax credit of £5.3 million and a tax credit on exceptional items of £3.9 million. The current year charge for 2007 was £1.5 million giving an effective tax rate for 2007 of 4.7 per cent including the recognition of deferred tax assets.

At 31 December 2008 a deferred tax asset of £12.2 million (2007 £10.5 million) has been recognised. Deferred tax assets on temporary differences of £29.1 million (2007 £56.2 million) arising principally in the United States, Canada and the United Kingdom have not been recognised. In addition, the Group has tax losses arising in the United Kingdom of £80.3 million (2007 £68.9 million in the United Kingdom and £28.6 million in the United States) that are available for offset against future taxable profits.

In total, deferred tax assets amounting to a tax value of £34.0 million (2007 £50.1 million) have not been recognised on unutilised losses and temporary differences. Although the directors ultimately expect to realise these assets, there is currently insufficient evidence under IAS 12 “Income Taxes” to recognise them.

As the Group utilises the benefit of tax losses brought forward the future tax rate will increase progressively, this effect is expected to result in an increase in the effective rate for 2009 to about 15 per cent.

Group financial performance continued

Discontinued operations

In 2007 discontinued operations relate to the loss making SwissQual business. The disposal was completed on 5 July 2007 for cash proceeds of $3.0 million (£1.5 million). A loss on disposal of £4.2 million was recorded. There were no discontinued operations in 2008.

Earnings per share

Basic earnings per share for the Group was 10.13 pence for 2008 compared with 2.05 pence for 2007.

Adjusted basic earnings per share for continuing operations, being before exceptional items, net of any related tax and prior year tax, was 6.24 pence compared with 3.57 pence for 2007, an improvement of 75 per cent year-on-year.

Weighted average Ordinary share capital was 738.5 million shares compared with 859.8 million for 2007, significantly reduced by the on-market share repurchase programme and tender offer made to shareholders in 2008. At the year end the shares in issue ranking for dividend were 664.0 million.

Financial risk management

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.

Spirent's financial risk management objectives and policies and its exposure to risks are discussed in note 27 of Notes to the consolidated financial statements.

Financing and cash flow

Cash and cash equivalents were £59.7 million at 31 December 2008 compared with £79.0 million at 31 December 2007, and this was after an outflow of £67.2 million for the share repurchase programme and tender offer in 2008. The Group continues to be debt free, although a £25 million three-year working capital facility, which is currently undrawn, was put in place in the second half year. The majority of the cash is held in the United Kingdom and the United States. Currency translation has increased cash and cash equivalents by £5.8 million.

Operating activities generated cash of £47.7 million in the year compared with £49.8 million in 2007. Free cash flow is set out below:

£ million	2008	2007
Cash flow from operations	53.4	43.8
Tax (paid)/received	(5.7)	6.0
Cash flow from operating activities	47.7	49.8
Net interest income	1.4	5.6
Net capital expenditure	(6.9)	(5.2)
Free cash flow	42.2	50.2

In 2008 there was a net tax payment of £5.7 million compared with a net tax refund in 2007 of £6.0 million. In 2007 brought forward tax losses were available for set-off of taxable profits and tax refunds were due for prior years. In 2008 profitability has improved and the losses available for set-off have also reduced resulting in a return to tax payments at more normal levels.

Net interest received is considerably lower at £1.4 million compared with £5.6 million in 2007 affected by the reduction in returns on bank deposits and includes £1.8 million of net interest due on the prior year tax settlements.

Net capital expenditure for the Group has increased to £6.9 million of cash outflow in 2008 (2007 £5.2 million). This was well below the depreciation charge of £8.8 million. With most manufacturing now outsourced, the Group's capital investment requirements continue to be low.

Net proceeds of £0.6 million were received from the sale of SwissQual in 2007 and a tax payment of £6.8 million was made in respect of a prior year disposal.

In 2008 the Group paid an interim dividend of 0.5 pence per share giving a net outflow of £3.7 million (2007 nil).

Pension fund

The accounting valuation of the UK defined benefit pension plans at the end of 2008 was based on the results of the triennial valuation of the plans at 1 April 2006. The next valuation is due at 1 April 2009.

Financial review continued

Group financial performance continued

The Group has adopted IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" and this has required a restatement of the opening surplus to £6.1 million, having previously been restricted to £3.0 million at 31 December 2007 under IAS 19 "Employee Benefits".

The surplus in the plans reduced from £6.1 million at 31 December 2007 to £2.6 million at 31 December 2008. This reduction is due to falling equity markets and returns on other assets, compensated for by a change in the assumptions underlying the calculation of the liabilities, principally the rate of return on corporate bonds. The asset allocation strategy of the main plan has progressively been reduced from an equity weighting of 37.5 per cent at 1 January 2008 to 25 per cent at 31 December 2008, and this has mitigated the impact of falling equity markets during 2008.

The Group has also reported a liability of £0.6 million (2007 £0.7 million) in respect of the UK unfunded plan.

Essential contractual arrangements

Spirent uses contract manufacturers for the manufacture of a substantial amount of its products. The principal contract manufacturer is Celestica Corporation with which an agreement is in place until September 2010. The Company considers that this arrangement is essential to its business.

Capital structure

In 2008 £67.0 million (2007 £66.8 million) of cash was returned to shareholders via on-market share repurchases and a tender offer, this represents 125.8 million Ordinary Shares (2007 103.4 million).

As a result of the tender offer in November 2008 the Company repurchased 52.9 million shares at a strike price of 46 pence per Ordinary Share. Shares repurchased on-market amounted to 72.9 million and these were repurchased at an average price of 57 pence per share.

At 31 December 2008 there were no shares held in treasury, all shares repurchased have been cancelled and at 31 December 2008 there were 664.0 million Ordinary Shares in issue ranking for dividend.

Dividend

Following a period of improved profitability and more stable cash generation the Board was pleased to announce at the interim stage a dividend of 0.5 pence per share. This was paid to shareholders in October 2008 and amounted to £3.7 million.

The Board are now recommending the payment of a final dividend for 2008 of 0.6 pence per Ordinary Share bringing the full year dividend to 1.1 pence per Ordinary Share and being covered 5.7 times by adjusted earnings. This is the first full year dividend payment since that for 2001. Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 8 May 2009 to shareholders on the register at 6 March 2009. Payment to ADR holders will be made on 18 May 2009.

Outlook

During 2008, Spirent introduced new, innovative products and lowered its cost base, resulting in a stronger financial position overall. These factors, with the benefit of current exchange rates and the substantially reduced number of shares in issue, will result in relative resilience in earnings and cash generation.

Spirent enters 2009 well placed to face the uncertainties of the market.

Principal risks and uncertainties

The principal risks and uncertainties which the directors believe are currently faced by Spirent Communications plc are discussed below.

Global economic and market conditions

Spirent operates globally with revenue generated in the United States, Europe and Asia. Demand for Spirent's products is therefore dependent on the general economic and market conditions in all these regions. A significant deterioration in economic or market conditions, for example a recession in any one of these regions, could significantly reduce demand for Spirent's products which could harm the business, operating results and financial condition of the Group.

Deteriorating economic and market conditions may also impact the financial position of the Group's customers and suppliers and impact their ability to do business with Spirent.

The Group's businesses closely monitor both market and geographic trends in order to take timely actions to minimise the effects of adverse economic and market conditions.

Technological change

The Spirent Group sells products and systems in several industries that are characterised by rapid technological changes, frequent product and service introductions and evolving industry standards. If the Communications business fails to extend its existing capabilities in the next-generation technology, the business, operating results and financial condition of the Communications group will suffer.

Spirent believes that the continued success of the Communications business is dependent on its ability to advance next-generation technologies and continues to make significant investment in product development and in 2008 £45.3 million, being 18 per cent of revenue, was invested. Spirent prioritises investment across its portfolio based on the expected return.

Customer concentration

Although no one customer accounts for more than 10 per cent of revenue for the Spirent Group, in some businesses in particular in Service Assurance and Systems there are a limited number of customers, which makes relationships with these customers, as well as the success of those customers' businesses, critical to their success. The loss of one or more of Spirent's major customers could harm the business, operating results and financial condition of Spirent.

Spirent is continuing to diversify its customer base in Service Assurance and Systems. In addition Spirent works closely with all its customers to develop strong relationships with a significant focus on ensuring its products and services meet the needs of its customers and are of the highest quality.

Reliance on contract manufacturers

The fact that Spirent uses contract manufacturers for the manufacture of a substantial amount of its products could have an adverse impact on the supply of its products and on operating results. Financial problems of contract manufacturers on whom Spirent rely, or limitations in the manufacturing capacity at contract manufacturers, could either limit supply or increase costs. Also, a major contract manufacturer of the Group is located in Asia. Any disruption of its operations could have an adverse impact on Spirent.

Spirent works closely with its contract manufacturers and maintains a regular onsite presence. To minimise the effect on supply that could be caused by disruption at contract manufacturers there are contingency plans in place to transfer manufacturing to other locations.

Operational risks and systems

Operational risks are present in the Spirent Group's businesses. These risks include, but are not limited to, the risk of failed internal and external processes and systems (including information technology systems), human error and external events. Such events could have an impact on the business, operating results and financial condition.

A significant portion of Spirent's communications operations are located in California which has experienced natural disasters, including earthquakes and wildfires, in the past. A significant natural disaster, such as an earthquake or wildfire, could disrupt its ability to conduct business in the affected locations and could have a material adverse impact on business, operating results and financial condition.

An important component of Spirent's corporate governance is its integrated risk management strategy and its regular self assessment of risks encompassing all business units. Part of this process is to ensure that the risks of disruption to the business are identified, monitored and controlled wherever possible as well as arranging appropriate insurance cover.

Principal risks and uncertainties continued

Competition

The Spirent Group faces competition in all of its businesses. To stay competitive these businesses will need to introduce successful new products and also may have to adjust prices of some products. The business, operating results and financial condition may suffer if Spirent does not compete effectively.

The Group invests in product development to develop new technologies and products to sustain and improve its competitive position. Spirent actively works with its customers to find innovative ways to meet their technological needs in order to remain a key provider to them. Spirent's value proposition is based on its service, expertise and product breadth rather than just competing on price.

Financial markets and credit risk

The Spirent Group is exposed to credit risk in relation to its trade receivables and its short term bank deposits and other investments.

Deteriorating economic conditions may impact the financial position of our customers and of those banks with whom Spirent transact investments. There has also been significant weakness during the year in the international financial markets which should it continue could pose risks to the financial position of our customers and may impact that of the banks with whom Spirent transact investments.

Should Spirent be subject to the failure of a major customer or a bank with which it transacts investments the Spirent Group's business, operating results and financial condition may suffer.

For trade receivables the appropriate credit checks are made on potential customers prior to sales commencing and balances due from customers are monitored and managed by local management. The concentration of credit risk is limited due to the large customer base.

The Spirent Group invests cash as short term bank deposits and other similar investments. Investment is limited to a group of high quality banks. There are pre-approved limits set by the Board for each bank to avoid concentrations of credit risk.

Credit risk is discussed in note 27 of Notes to the consolidated financial statements.

Retention and recruitment of key staff

Spirent's success is dependent on attracting and retaining highly qualified and skilled employees. There is competition for personnel from other organisations and the loss of key employees, or the failure to attract and retain other highly skilled employees, may impair Spirent's ability to run and expand its business effectively.

The Group aims to attract, retain and motivate the highest calibre of employees and encourages their contribution and development. Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff.

Intellectual property

While Spirent does not believe that any of its products infringe the valid intellectual property rights of third parties, it may be unaware of intellectual property rights of others that may cover some of its technology, products and services. As a result Spirent could suffer litigation expenses or could be prevented from selling certain products as a result of third-party infringement claims. Spirent has procedures in place regarding the development of new products that includes consideration of intellectual property rights and also consults internal and external legal counsel experienced in intellectual property matters.

The success of Spirent depends in part on proprietary technology. Should Spirent fail to maintain or enforce intellectual property rights, or if competitors design around its technology or develop competing technologies, its competitive position could suffer and its operating results may be harmed. Spirent prioritises investment across its portfolio based on the expected return. Spirent also has active IP protection programmes to obtain appropriate intellectual property protection in a cost effective manner.

Regulation and taxes

The businesses are subject to various significant international, federal, state and local regulations currently in effect and scheduled to become effective in the near future, including but not limited to environmental, health and safety and import/export regulations. These regulations are complex, change frequently, can vary from country to country, and have increased over time. Spirent may incur significant expense in order to comply with these regulations or

Regulation and taxes continued

to remedy violations of them. Any failure by Spirent to comply with applicable government regulations could result in non-compliant portions of our operations being shut down, product recalls or impositions of civil and criminal penalties and, in some cases, prohibition from distributing our products or performing our services until the products and services are brought into compliance, which could significantly affect our operations.

The Group closely monitors regulations across its businesses to ensure that it complies with the relevant laws and regulations. Whilst Spirent does not believe that it is non-compliant with any laws or regulations, other than as disclosed in note 17 of Notes to the consolidated financial statements, any instances of non-compliance would be brought to the attention of the appropriate authorities as soon as possible.

The Group's tax charge is comprised of current and deferred tax charges. The calculation of these charges involves a certain amount of estimation and judgement. Spirent is subject to income taxes in a number of tax jurisdictions and there are many transactions for which the final tax determination is uncertain and which may take many years to resolve. Liabilities are recognised for anticipated tax audit issues determined on whether additional taxes are likely to be due using facts and circumstances known at the time the financial statements are prepared. The final outcome could differ significantly from the amounts initially recorded and affect the financial position and results of the Group.

Exchange rate

Currency exposures arise from trading transactions undertaken by the Group's operations in foreign currencies and on the translation of the operating results and net assets of overseas subsidiaries.

Spirent conducts operations globally and accordingly the value of its revenue and expenses, assets and liabilities will be affected by fluctuations of the pound sterling, its reporting currency, against the currency in which these are denominated. The Group does not enter into instruments to hedge the translation exposure of the operating results or net assets of its overseas subsidiaries as these are considered accounting and not cash exposures. Such fluctuations in exchange could therefore have a material impact on the reported results. The principal currency to which Spirent is exposed is the US dollar.

Where trading transactions within Spirent's operations are exposed to foreign currencies, and these do not naturally offset, forward foreign currency exchange contracts are put in place to hedge the transactions.

Critical accounting policies and judgements

The consolidated Group financial statements are prepared using a number of estimations and assumptions which are based on the directors' best knowledge of the current facts and circumstances. Results may differ significantly from those estimates made under different assumptions and judgements. The directors have outlined those accounting policies which are considered most critical in note 2 of Notes to the consolidated financial statements.

Forward-looking statements

This document includes forward-looking statements concerning Spirent's business, operations and financial performance and condition. Forward-looking statements are based on current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions about the Spirent Group. The Spirent Group undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Given these considerations, readers are cautioned not to place undue reliance on such forward-looking statements.

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, work closely with our customers, monitor supplier performance and actively encourage feedback from our employees. 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 the activities of the Group present any significant environmental risks.

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 Ethics Policy was reviewed and revised by the Board during 2008 and sent to every Spirent employee.

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

Spirent is its employees. So, the Group aims to find, keep and engage the highest calibre of employees and encourages their contribution and development.

An environment that fosters innovation and collaboration is critical to the Company's success. Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff.

Employees are provided with numerous learning and development opportunities to fulfil their potential. For example, our US employees enjoy a tax free tuition reimbursement benefit for classes taken towards college-level degrees such as a master of business administration or master of science in electrical engineering. A wide variety of courses and training opportunities are also available to employees globally to enhance their skills. In our Beijing office, we had 33 employees during the last fiscal year taking English language training through guided multimedia and supported self-study combined with face-to-face speaking activities. These development opportunities are structured to align with our organisational objectives and to help employees in furthering their career aspirations.

Spirent demonstrates that it values its employees through several reward and recognition programmes. One example is our President's Club, which recognises our most exceptional sales employees on an annual basis in every geographic region. Another way we reward and recognise excellence is through our Spot Bonus Programme. Employees in any function or business unit are eligible for a spot bonus award for performing at a level above and beyond the call of duty, including contributions that produce results that will continually improve current operations, that delight our customers or that result in a significant reduction of expenses.

Employees continued

Similarly, the importance of two-way communication is recognised particularly as it relates to the business and its performance. The leadership team is responsible for providing forums for employees to understand the business objectives and to ask questions. A variety of tools are utilised to foster two-way communications, including management meetings, "all-hands" employee meetings, and the Company's intranet.

Leadership and management development programmes are regularly reviewed and updated as the competition for talented employees increases and the leadership needs of our business grow. Formal performance reviews are conducted annually and are linked to the goals of the organisation.

The Group is committed to providing equality of opportunity to all existing and prospective employees without unlawful discrimination on the basis of religion, disability, gender, age, marital status, sexual orientation, race, ethnicity or any other protected status. We encourage diversity and opportunity, which is reinforced through the Group's Ethics Policy.

Health and safety

The Chief Financial Officer is the director appointed by the Board to have responsibility for the health and safety performance of the Group. The Chief Financial Officer reports any major health and safety issues to the Audit Committee and the Board as necessary.

The health and safety risk profile of the Group again improved in 2008 as further Group manufacturing moved to an outsourcing model. The main risks of the Group are based around final test and assembly of products and working environment issues such as ergonomics and Repetitive Strain Injury. The Group continued to have very low accident rates in 2008 and no incidents required any hospitalisation. No major health and safety issues were reported to the Audit Committee and Board during the year.

The Group Health and Safety Policy places responsibility for the management of health and safety on local management, who are supported by local external advisers, where necessary. It is the Group's intention that each business unit should have a senior individual designated as being responsible for ensuring the business unit conforms to local statutory health and safety regulations as well as the Group Policy.

All business units are responsible for providing employees with a written health and safety policy. An annual questionnaire on health and safety performance is completed by all our business units and any issues are addressed and resolved. Independent external reviews of the Company's health and safety performance are conducted annually at selected business units. Regular designated health and safety awareness training programmes are also carried out.

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 all applicable 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 the 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.

The vast majority of our products continue to be manufactured by outside contract manufacturers and we check the environmental policies of these suppliers through audits and surveys. Wherever possible our products are designed and manufactured to take account of the recycling and disposal of the product at the end of its lifecycle. Our businesses comply with both The Waste Electrical and Electronic Equipment Regulations and The Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2004.

The Group's main environmental impact now largely involves the effects produced from offices housing employees. Where possible, business units monitor energy consumption, water consumption and waste production. All business units continue to take positive steps to reduce energy consumption, such as better space utilisation, more efficient running of equipment and machinery and sensor controlled equipment. Environmental waste management in the Group continues to improve with most business units operating waste minimisation schemes mainly focusing on increased recycling.

Corporate social responsibility statement continued

Environmental continued

The vacant site reported on last year where historical activity had led to minor land and groundwater contamination is continuing to be monitored to confirm that remedial work carried out has been successful. We have also been contacted by authorities regarding another previously owned property which appears to also have historic land and groundwater contamination. It is our position that we do not have legal responsibility for the clean up costs on this site.

Community

Spirent aims to build stronger and healthier global communities through education, charitable donations and support of non-profit agencies in the communities in which we operate. Working with established non-profit organisations maximises the impact of our community building initiatives.

Education

The Group has established links with certain public-private non-profit educational organisations to help students develop the skills needed to succeed in the global economy. Throughout 2008, we continued to support education by offering internships and work experience programmes. For example, in the UK, one of our employees is a "Science and Engineering Ambassador" for STEMNET, the Science Technology Engineering Mathematics Network (www.stemnet.org.uk).

Spirent also periodically provides work experience opportunities for local teenagers in our Paignton, UK office, where 15 year olds spend a week with our team, visiting each department that is of interest to them. Our Service Assurance division in Maryland partners with its local Junior Achievement chapter to bring the real-world to students through hands-on curriculum.

Local community support of Non-Profit Agencies

We recognise the significance of our communities through our relationship with local non-profit agencies. Our employees help their communities by volunteering their time to various programmes and donating materials and equipment to local causes.

The Group has formed lasting partnerships with several local non-profit organisations to provide essential resources and services to those in need. During the winter holiday season in 2008, our employees in the US participated in food drives for the Second Harvest Food Bank (www.secondharvestfood.org) and for the Santa Comes to Agoura and Beyond programme. Our California employees also collect toys during the holidays for underprivileged children as part of the annual California Highway Patrol's holiday toy drive ("CHiPs for Kids").

Charitable Donation Policy

Our businesses are encouraged to support the particular needs of their population by contributing to local charities and participating in community initiatives. Support takes the form of employee time and skills, gifts in kind and cash donations.

While our Charitable Donation Policy matches employee contributions on a regular basis, there are times when extraordinary events lead to extraordinary action. Following the devastating earthquake in China's Sichuan province in May 2008, our employees in China donated time, money and gifts generously. Spirent also made a special contribution to the Red Cross China Relief Fund of £10,700.

In addition to the special contribution to the Red Cross, Spirent made charitable cash donations of £41,300 in 2008 (2007 £40,000).

Spirent continues to support all of our employees and businesses in finding new ways of becoming involved to give back to their communities.

Board of directors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1. Edward Bramson (57) N
Chairman
Edward Bramson was appointed Chairman of the Board and Chairman of the Nomination Committee on 22 December 2006. He is chairman and chief executive officer of Nautilus, Inc, where he was elected to the board on 31 December 2007. He was a member of the board of directors of Elementis plc where he served as chairman from June 2005 to September 2006 and as non-executive director until April 2007. Mr Bramson was chairman of 4imprint Group plc from October 2003 to July 2004 and a non-executive director until his resignation from the board in April 2005 and was chairman of Ampex Corporation until his resignation in February 2007. He is currently a partner in Sherborne Investors, a turnaround investment firm.

2. Bill Burns (41)
Chief Executive Officer
Bill Burns was appointed Chief Executive Officer on 6 November 2008, having previously led the Communications division. He is responsible for overall leadership, strategy, investments, coordination of resources and leveraging Spirent's breadth and depth of technology across all of Spirent's business units.

3. Eric Hutchinson (53)
Chief Financial Officer
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.

4. Alex Walker (62) ANR
Senior Independent Non-Executive Director
Alex Walker was appointed to the Board on 22 December 2006 and is the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee. He was chief executive of Yule Catto & Co. plc until 17 August 2006 and is currently a member of the audit, remuneration and nomination committees of Rotork plc.

5. Ian Brindle (65) ANR
Independent Non-Executive Director
Ian Brindle was appointed to the Board on 22 December 2006 and is Chairman of the Audit Committee. He was previously UK chairman of PricewaterhouseCoopers and deputy chairman of the Financial Reporting Review Panel. He serves as a non-executive director on the boards of 4imprint Group plc and Elementis plc.

6. Gerard Eastman (51) N
Non-Executive Director
Gerard Eastman was appointed to the Board on 22 December 2006. He is a partner in Sherborne Investors, a turnaround investment firm. He also serves as a director on the board of Nautilus, Inc. He was previously a managing director of investment banking at Citigroup and before that held senior positions at Salomon Brothers and S.G.Warburg & Co.

7. Duncan Lewis (57) NR
Independent Non-Executive Director
Duncan Lewis was appointed to the Board on 1 July 2007. Mr Lewis is chief executive officer of Vislink plc, a technology company supplying secure communication systems to the broadcast, law enforcement and marine and energy markets. Until October 2008 he was senior adviser to The Carlyle Group, assisting them in developing strategy and identifying investments in the telecommunications and media sector worldwide.

8. Tom Maxwell (61) AN
Independent Non-Executive Director
Tom Maxwell was appointed to the Board on 1 October 2007. Until September 2007, he was investment director and head of the UK Growth & Income Product Group at Martin Currie Investment Management in Edinburgh and is a non-executive director of Foresight 3 VCT plc. He is a Member of the Chartered Institute of Bankers in Scotland and a Member of the Society of Investment Professionals & CFA Institute.

Statements on the independence of Board members are given in the Directors' statement on corporate governance on page 27.

Further biographical details of the directors can be found on the Company's website at www.spirent.com.

A Audit Committee (Chairman – Ian Brindle)
N Nomination Committee (Chairman – Edward Bramson)
R Remuneration Committee (Chairman – Alex Walker)

Report of the directors

The directors present their Annual Report to the shareholders together with the audited consolidated financial statements of the Group and the parent Company financial statements for the year to 31 December 2008. The purpose of the Annual Report is to provide information to shareholders of the Company. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this Annual Report should be construed as a profit forecast.

Business review

The Companies Act 2006 requires the directors to present a Business Review in this report. The information that fulfils this requirement can be found in the sections set out below and is incorporated by reference into this report:

- Chairman's statement on page 3;
- Chief Executive Officer's review on page 4;
- Description of the business on page 5;
- Business group development and performance on pages 6 to 9;
- Financial review on pages 10 to 14;
- Principal risks and uncertainties on pages 15 to 17;
- Corporate social responsibility statement on pages 18 to 20; and
- Statement of directors' responsibilities on page 26.

This Business Review has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks and uncertainties facing it.

This report, together with the sections of the Annual Report incorporated by reference as set out above, consist of a directors' report that has been drawn up and presented in accordance with, and reliance upon, applicable English law. The liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Principal activities

The principal activities of the Group are set out on page 5 of this Annual Report.

Results and dividends

The consolidated income statement is on page 43. Profit for the financial year attributable to equity shareholders amounted to £74.8 million.

A final dividend of 0.6 pence per Ordinary Share is recommended by the Board for the year to 31 December 2008 (2007 nil) for which approval will be sought from shareholders at the Company's 2009 Annual General Meeting ("2009 AGM") on 7 May 2009, to be paid on 8 May 2009 (ADR holders on 18 May 2009) to those shareholders whose names are on the Register of Members on 6 March 2009.

Together with the interim dividend of 0.5 pence per Ordinary Share (2007 nil) which was paid to shareholders on 15 October 2008, this amounts to a total dividend for 2008 of 1.1 pence per Ordinary Share.

Share capital and control

The Company has a single class of share which is divided into Ordinary Shares of 3⅓ pence each. Each Ordinary Share carries one vote and all of the Ordinary Shares rank *pari passu*. There are no special control rights relating to the Ordinary Shares.

At the date of this report, 671.8 million Ordinary Shares of 3⅓ pence each had been issued and are fully paid up and are listed on the London Stock Exchange. The Company also operates a Level 1 American Depositary Receipt ("ADR") programme with each ADR representing four Ordinary Shares. The ADRs trade on the US over-the-counter market and The Bank of New York Mellon is the authorised depositary bank for the Company's ADR programme. Further details on share capital are set out in note 29 to the consolidated financial statements and note 16 to the parent Company financial statements.

The rights (including those relating to voting), obligations and any restrictions on transfer relating to the Company's Ordinary Shares, as well as the powers of the Company's directors, are set out in the Company's Articles of Association, a copy of which can be found on our website at www.spirent.com or can be obtained from Companies House or by writing to the Company Secretary. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Share capital and control continued

During the year to 31 December 2008, options and rights exercised pursuant to the Company's share incentive plans resulted in the allotment of 5.2 million new Ordinary Shares. No new Ordinary Shares have been allotted under the share incentive plans between the end of the financial year and the date of this report.

The Company has established two employee benefit trusts in connection with the operation of the Company's share incentive plans: the Spirent Employee Share Ownership Trust ("ESOT") and the Spirent Sharesave Trust ("SST"). The trustees of both trusts have waived their right to receive dividends on any Ordinary Shares held by them except for a nominal amount of 0.01 pence, save for those Ordinary Shares held in the ESOT which are the beneficial property of an employee (for further details on the employee benefit trusts see "Investment in own Ordinary Shares" in note 16 to the parent Company financial statements on page 106).

Trustees of both trusts do not vote their Ordinary Shares, save for those Ordinary Shares held in the ESOT which are the beneficial property of an employee/shareholder which they will vote in accordance with the instructions received from the beneficial owner.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share incentive plans may cause options and awards granted to employees under such plans to vest on a takeover, as follows:

Share incentive plan	Change of control provisions in the rules	Effect on vesting	Performance condition
2005 Employee Incentive Plan	Yes	Pro-rated	Still applies
Spirent Stock Incentive Plan	No	None	N/A

The Company has entered into a £25 million Multicurrency Revolving Facilities Agreement dated 5 September 2008 which provides that, in the event of a change of control of the Company, the lenders are entitled to call for the repayment or cancellation of the facilities. The facilities are undrawn at the date of this report.

A Group company has a significant agreement with a contract manufacturer which contains a clause requiring the manufacturer's consent to any proposed transaction which will or may result in a change of control of the Group company. The Company considers that the agreement is essential to its business and intends it to remain in place until at least September 2010.

The Company is not aware of any other significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover.

Return of capital

Since the Company commenced returning capital to shareholders in May 2006, a total of £175.7 million has been returned, representing 319.5 million Ordinary Shares.

The Company will seek renewal of the authority to repurchase up to 14.99 per cent of its own Ordinary Shares at the 2009 AGM to facilitate any further return of capital if it is concluded that it is in the best interests of shareholders.

On-market programme

The Company was authorised at the 2006 AGM to repurchase up to 14.99 per cent of its own issued Ordinary Shares, within certain limits and as permitted by the Company's Articles of Association. This authority was renewed at the 2007 and 2008 AGMs and the 2008 EGM (see tender offer below). During 2008 a total of 72.9 million Ordinary Shares, each with a nominal value of $3\frac{1}{3}$ pence were repurchased for an aggregate consideration of £42.2 million and placed either in treasury and cancelled or cancelled immediately following the repurchase. This represents 9.2 per cent of the Company's issued Ordinary Share capital at the beginning of 2008 (excluding treasury shares – see also note 29 to the consolidated financial statements and note 16 to the parent Company financial statements). The Company did not repurchase any further Ordinary Shares between 1 January 2009 and the date of this report.

Tender offer

On 15 September 2008, the Company announced the launch of a tender offer to repurchase up to £50 million of Ordinary Shares in the Company. A circular was sent to shareholders on 15 September 2008, containing the detailed terms of that tender offer. However, on

Report of the directors continued

Return of capital continued

13 October 2008, the Company announced that as the Company's Ordinary Shares were trading at a 22 per cent discount to the bottom of the price range set out in the tender offer, it no longer believed the tender offer to be in the best interests of the Company or the shareholders as a whole and withdrew the tender offer.

On 13 October 2008, the Company announced that it would launch a new tender offer to repurchase up to £25 million of Ordinary Shares in the Company and a new price range was set for this tender offer. This offer was launched on 27 October 2008 and led to 52.9 million Ordinary Shares (7.3 per cent of the Company's issued Ordinary Share capital at 27 November 2008) being repurchased for immediate cancellation at a total cost of £24.8 million.

Substantial shareholdings

At the date of this report, the following significant holdings of voting rights had been disclosed to the Company under the Disclosure and Transparency Rules of the Financial Services Authority:

	Number of ordinary shares/ voting rights	% of company's total voting rights
Sherborne Investors GP, LLC	130,270,000	19.39
Prudential plc	82,045,817	12.21
Aviva plc	51,634,447	7.69
Ameriprise Financial, Inc	38,520,235	5.73
BlackRock Inc	37,539,447	5.59
Credit Suisse Asset Management Ltd	36,863,179	5.49
Legal & General Group plc	35,628,811	5.30
Sun Life Assurance Company of Canada (UK) Ltd	23,382,347	3.48

Board of directors

The names and brief biographical details of the directors who served during the year under review are shown on page 21.

Election and re-election of directors

The Company's Articles of Association contain provisions relating to the appointment and replacement of directors.

Pursuant to the Company's Articles of Association, and the Combined Code on Corporate Governance, Ian Brindle and Alex Walker will retire at the 2009 AGM and, being eligible, offer themselves for re-election. Having been appointed since the last Annual General Meeting, Bill Burns will retire at the 2009 AGM and, being eligible, will offer himself for election. On appointment to the Board on 22 December 2006, Edward Bramson and Gerard Eastman stated that they would retire and offer themselves for re-election as directors on an annual basis and therefore, will retire at the 2009 AGM and, being eligible, offer themselves for re-election. Bill Burns is the only director subject to election or re-election who has a service contract with a Group company.

Directors' interests

Edward Bramson and Gerard Eastman have a connected notifiable interest in the Company's Ordinary Shares held by Sherborne Investors GP, LLC (see Substantial shareholdings above). This connected notifiable interest is also deemed for statutory purposes, to be an interest of these directors as they are members of Sherborne Investors GP, LLC, which is the general partner of Sherborne Investors, LP. Sherborne Investors, LP is the managing member of each of the following funds, which are the beneficial owners of the Company's Ordinary Shares: Sherborne Strategic Fund A, LLC; Sherborne Strategic Fund B, LLC; Hayden Investor Partners, LLC and Hayden Investor Partners II, LLC. The directors' interests (including any connected persons) in the issued Ordinary Share capital of the Company are set out in the Report on directors' remuneration.

Directors' indemnity arrangements

Save as disclosed, at no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than a third party indemnity provision between each director and the Company and service contracts between executive directors and the Company.

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors.

In addition to the indemnity provision contained in the Company's Articles of Association, the Company has provided a deed of indemnity for the benefit of the directors of the Company in respect of costs of defending claims against them and third party liabilities. These provisions are currently in force.

Corporate social responsibility

The Group's Corporate social responsibility statement appears on pages 18 to 20. This statement gives details of the Group's policies on ethics, the environment, health and safety, charitable donations and involvement in the community.

Corporate social responsibility continued

Charitable donations of £52,000 were made in the year (2007 £40,000). This amount excludes operating units' support and participation in local community activities. No political donations were made in the year (2007 nil).

The Group employs approximately 1,500 people (2007 1,550) around the world and is proud of its history of being regarded as a responsible and respected employer. The Corporate social responsibility statement gives details of the Group's policies on employment, training and development.

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 £45.3 million research and development spend during the year for continuing business, equivalent to 18 per cent of revenue (2007 £44.5 million and 19 per cent). The Group will continue to commit resources as appropriate to research and development.

Policy on payment of suppliers

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 2008, the Company had an average of 51 days purchases outstanding in trade creditors (2007 43 days).

Corporate governance

The Directors' statement on corporate governance is set out on pages 27 to 31. The Statement of directors' responsibilities in respect of the financial statements appears on page 26.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 4 to 20. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 10 to 14. In addition, note 27 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Disclosure of information to auditors

Each of the directors of the Company at the date of this report confirms that:

- so far as the director is aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Auditors

Resolutions to re-appoint Ernst & Young LLP as auditors and to authorise the directors to determine their remuneration will be proposed at the 2009 AGM.

Annual General Meeting

The 2009 AGM will be held at 10.30am on Thursday 7 May 2009 at the offices of the Company's PR advisers, Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, United Kingdom.

By Order of the Board

Michael Anscombe
Company Secretary
24 February 2009

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the audited consolidated financial statements of the Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law they are required to prepare the audited consolidated financial statements of the Group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the parent Company financial statements in accordance with UK Generally Accepted Accounting Principles and applicable law.

The audited consolidated financial statements of the Group are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view, are references to their achieving a fair presentation.

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent Company.

In preparing each of the audited consolidated financial statements of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state for the audited consolidated financial statements of the Group whether they have been prepared in accordance with IFRS as adopted by the EU;
- state for the parent Company financial statements whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Group and the parent Company will continue in operational business for the foreseeable future.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985 and, for the Group, Article 4 of the International Accounting Standards Regulation. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a directors' remuneration report and a statement on corporate governance that comply with the law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This Annual Report complies with the Disclosure and Transparency Rules ("DTR") of the Financial Services Authority in respect of the requirement to produce an annual financial report.

Each of the directors, the names of whom are set out on page 21 of this Annual Report, confirms that, to the best of his knowledge:

- the audited consolidated financial statements of the Group and parent Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and the profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

E G Hutchinson

Eric Hutchinson
Chief Financial Officer
24 February 2009

Directors' statement on corporate governance

Compliance

This statement describes how the principles and provisions as set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 (the "Code") have been applied within the Group during 2008.

The Board

As at 31 December 2008, the Board comprised a chairman, four independent non-executive directors, one non-executive director not classified as independent for the purposes of the Code when determining the composition of the Board or its Committees, and two executive directors, details of whom are provided on page 21. The Board operates within a framework of controls including a formal schedule of matters specifically reserved for its decision. At an Extraordinary General Meeting held on 22 December 2006 ("2006 EGM") shareholders elected Edward Bramson as a director of the Company, following which the Board elected him as Chairman. Mr Bramson assumed responsibility for the management of the Group by becoming Executive Chairman on 7 March 2007. At that point in time, as there was no longer a separation of the chairman and chief executive roles, Code Provision A.2.1. was breached. Although Mr Bramson performed a critical role during the strategic review and reorganisation of the Group, the Board considered that, given the balance of non-executive directors, no single individual dominated its decision making. However, on 6 November 2008 Bill Burns was appointed as Chief Executive Officer resulting in a separation of the chairman and chief executive roles and renewed compliance with this Code provision.

The Board discharges its responsibilities by providing leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews management performance. It also defines the Company's values and standards and ensures that its obligations to its shareholders are understood and met.

The independence of each director is reviewed at least annually. The Board determined that, within the terms of the Code, Ian Brindle, Duncan Lewis, Tom Maxwell and Alex Walker are all independent non-executive directors. As Edward Bramson and Gerard Eastman have a connected material notifiable interest in the issued Ordinary Share capital of the Company (see the Report of the directors on pages 22 to 25), the Board has concluded that they should not be considered independent of the Company. Details of other professional commitments of the Chairman and non-executive directors are provided in their biographies on page 21.

The Company adopted new Articles of Association which were approved by shareholders at the Company's 2008 Annual General Meeting ("2008 AGM") with effect from 1 October 2008. The new Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for directors to declare situational conflicts and for these to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, these non-conflicted directors are required to act in the way they would consider would be most likely to promote the success of the Company and they may impose limits or conditions when giving authorisation, or subsequently, if they think this is appropriate.

Alex Walker currently serves as the Senior Independent Non-Executive Director. The Senior Independent Non-Executive Director is available to meet shareholders upon request if they have concerns which contact through the normal channels (the Chairman or an executive director) has failed to resolve, or for which such contact would be inappropriate.

It is Company policy to hold at least four Board meetings a year. There were seven Board meetings during 2008. The agenda is settled by the Chairman in advance of the meeting and Board papers are circulated to Board members several days ahead of any meeting. Minutes of previous meetings are circulated to all Board members and approved at the next Board meeting.

Full attendance of the Board is expected at meetings and in 2008 all directors attended all seven meetings except Duncan Lewis, who missed two meetings due to unavoidable diary conflicts. Where the director was absent, full documentation for the meeting was issued and briefings were provided as appropriate. Where a director was absent it was ensured that any comments on the documentation or subject matter to be considered were passed to the Board, as appropriate, for consideration.

Directors' statement on corporate governance continued

The Board continued

Certain of the matters specifically reserved for the Board's decision have been delegated to three Committees with clearly defined terms of reference which, together with the composition of each Committee, are reviewed annually.

The terms of reference for the Audit, Remuneration and Nomination Committees can be found on the Company's website at www.spirent.com.

The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information. They receive regular updates on business performance and receive presentations from the executive directors and other senior managers at Board meetings. Directors are encouraged to update their skills continually and their knowledge of the Company required to fulfill their role both on the Board and on Board Committees. Under the direction of the Chairman, the Company Secretary ensures good and timely information flows within the Board and its Committees and makes sure that Board procedures are complied with. The Company Secretary also updates and advises the Board on all regulatory and governance matters.

There is a policy whereby the non-executive directors and the Board Committees may take independent professional advice at the Company's expense in order to fulfill their duties. All directors also have access to the advice and services of the Company Secretary, whose removal may be effected only with the approval of the Board.

Board appointments and induction

The Board has in place a procedure for the appointment of new directors to the Board which is in compliance with the Code and this procedure was applied in relation to the appointment of Bill Burns during 2008.

The Company's Articles of Association require that all directors seek election by shareholders at the first annual general meeting following their appointment and as a result, Bill Burns will offer himself for election at the 2009 Annual General Meeting ("2009 AGM"). They also require that all directors seek re-election at least every three years and therefore, Ian Brindle and Alex Walker will offer themselves for re-election at the 2009 AGM. Notwithstanding the requirements of the Company's Articles of Association, Edward Bramson and Gerard Eastman have agreed to offer themselves for re-election at each annual general meeting whilst they serve on the Board and will, therefore, also offer themselves for re-election at the 2009 AGM.

On appointment to the Board and its Committees all directors receive an induction tailored to their individual requirements. New directors are briefed on their legal and other duties and obligations as directors of a UK listed company. Visits to different facilities and meetings with senior management are organised, as appropriate, to assist the new director in developing an understanding of how the Group operates and the key issues that it faces.

Performance evaluation

Performance evaluation of the Board and its Committees was carried out during the year by directors completing questionnaires and the results being collated and analysed by the Company Secretary, who prepared a report for Board discussion. The Board discussion concluded that the Board and Committees operated well and were effective.

The Chairman communicates regularly with the non-executive directors and this contact provides an opportunity to assess performance and to raise any questions regarding the performance of the executive directors or in respect of any other matters. The Chairman concluded that during the year the quality and commitment of the non-executive directors was high. The Chairman also confirms that all those non-executive directors seeking re-election at the 2009 AGM continue to contribute effectively and to demonstrate commitment to their roles, including having time to attend all Board and appropriate Committee meetings and to carry out other appropriate duties.

The Senior Independent Non-Executive Director met with the independent non-executive directors on 16 December 2008, in the absence of the Chairman, to assess the Chairman's effectiveness. Notwithstanding Mr Bramson's role as chairman and chief executive officer of Nautilus, Inc the independent non-executive directors were of the opinion that Mr Bramson gave sufficient time to his role as Chairman of the Company and was effective in that role during the year.

Board Committees

Audit Committee

Chairman, Ian Brindle

The Audit Committee comprises Ian Brindle, Tom Maxwell and Alex Walker, all of whom are independent non-executive directors and the composition of the

Board Committees continued

Committee is compliant with the Code. The Code requires that the Audit Committee includes at least one member who has recent, significant and relevant financial experience and the Board believes that both Ian Brindle and Tom Maxwell provide such experience.

During 2008, the Audit Committee held three meetings at which there was full attendance by Committee members. At all meetings the Company's external auditors, the Chief Financial Officer, the Group Vice President-Finance, the Head of Financial Reporting and the Company Secretary were in attendance. The Chairman and the other directors may also attend the meetings. The Committee also meets with the external auditors without management present. The minutes of all Committee meetings are available to all directors.

The Audit Committee assists the Board in fulfilling its responsibilities by reviewing 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 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.

There is a detailed agenda for each Audit Committee meeting. Specific issues dealt with during the year are set out below.

In February 2008 the Committee considered the external auditors' performance and independence and their re-appointment, reviewed the annual financial statements, key accounting policies, areas of judgement, quality of earnings, the external auditors' report on the year end audit and management's responses to the issues raised. The Committee also reviewed corporate governance within the Group, in particular compliance with Turnbull and the annual internal control audit plan.

In August 2008 the Committee reviewed the Half-year Report, key accounting policies, areas of judgement, quality of earnings, the external auditors' report on the half-year audit and management's responses to the issues raised. The Committee also reviewed internal controls throughout the Group, with particular emphasis on visits by the financial management team to the business units.

In November 2008 the Committee reviewed the external auditors' report on their strategy and scope for the audit of the annual financial statements and proposed fees. The Committee also reviewed the corporate risk register and an amended, updated Ethics Policy which it recommended to the Board should be adopted throughout the Group.

At each meeting the Group Vice President-Finance also briefed the Committee on progress made against the annual internal control audit plan and any significant findings. Regular reports to the Committee also covered issues in the areas of tax, litigation, treasury and health and safety.

The Audit Committee has adopted a policy in relation to the provision of non-audit services performed by the external auditor to ensure that the provision of such services does not impair the external auditors' independence or objectivity. This policy is reviewed on an annual basis. A report is presented to the Committee on a regular basis detailing all non-audit services performed by the external auditors, including cost, when the services were provided and who approved the instruction.

This policy identifies those services which the external auditors are permitted to provide and those which they are precluded from providing. Precluded services include, but are not limited to, bookkeeping or other services relating to the accounting records or financial statements, financial information systems design and implementation, management functions, human resources, actuarial services and information technology consulting. If the Company wishes to engage the external auditors to provide any other services which are not contained in the policy and which are not precluded, the Company must obtain pre-approval for such services from the Audit Committee through the Committee's Chairman.

As part of this policy, the Committee also pre-approves annual financial limits for permitted audit services, tax services and any other services, which the Company may pay to Ernst & Young globally for services performed during the year. These financial limits may not be exceeded without approval by the Committee. Committee approval of permitted services is not required during the year provided the aggregate amounts paid by the Company do not exceed the pre-approved financial limits.

Directors' statement on corporate governance continued

Board Committees continued

The total fees paid to Ernst & Young LLP during the year to 31 December 2008 were £0.5 million (2007 £0.6 million) of which none (2007 £0.1 million) related to non-audit work. Further disclosure of fees paid to the auditors during the year can be found in note 5 to the audited consolidated financial statements of the Group.

Remuneration Committee

Chairman, Alex Walker

The Remuneration Committee comprises Ian Brindle, Duncan Lewis and Alex Walker, all of whom are independent non-executive directors and the composition of the Committee is compliant with the Code.

Further details about the Remuneration Committee are included in the Report on directors' remuneration on pages 32 to 41.

Nomination Committee

Chairman, Edward Bramson

The Nomination Committee comprises the Chairman and all non-executive directors and meets at least once each year. During 2008 the Nomination Committee held two meetings at which there was full attendance by Committee members except for Duncan Lewis, who was unable to attend one meeting. The Nomination 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 Nomination Committee to assist this process as appropriate. As the majority of members are independent non-executive directors, the composition of the Committee is compliant with the terms of the Code.

Relations with shareholders

Communication with all shareholders is given a high priority and a number of methods are used to promote greater understanding and dialogue with investment audiences. Dialogue with institutional investors is conducted on a regular basis by the Chairman, the Chief Executive Officer and the Chief Financial Officer. The Company's largest shareholder, Sherborne Investors GP, LLC has been represented on the Board by Edward Bramson and Gerard Eastman since December 2006.

The Company has an established cycle of communication based on its financial reporting calendar. This includes the Preliminary Results in February, Annual Report in March, Annual General Meeting and Interim Management Statement in May, Half-year Report in August and the Interim Management Statement in November.

The Chairman, Chief Executive Officer and Chief Financial Officer ensure that the views expressed at meetings with institutional shareholders are communicated effectively to the Board as a whole so that any issues or concerns are fully understood.

The Company promotes the use of electronic communication. All stock exchange announcements and presentations to shareholders are made available on our website, together with webcasts of our annual and half-year financial results. Our website also contains up to date corporate governance information including terms of reference for the three Board Committees, the terms and conditions of appointment of non-executive directors, the Company's Ethics Policy and Articles of Association.

Electronic communications

At its 2008 AGM the Company passed a resolution allowing it to communicate with shareholders by means of the Company's website and an invitation to sign up for this method of communication will be sent to shareholders with the 2009 AGM documentation. Electronic communications provide significant benefits for shareholders and the Company in terms of timeliness of information, reduced environmental impact and cost and the Board encourages investors to participate in the programme.

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 bodies). The schemes do not lend money or lease any assets to the Group.

Internal control

The Board has overall responsibility for the Group's system of internal control. The Board, assisted by the Audit Committee, has reviewed the effectiveness of this system and this review did not reveal any significant issues or weaknesses. 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

Internal control continued

business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Process

Day to day responsibility for effective internal control and risk monitoring rests with senior management at business unit level.

The Board and the Audit Committee continue to agree that currently there is no need for a dedicated internal control department. Responsibility for internal control rests with the Group Vice President-Finance and North America Vice President-Finance. Both of these senior finance managers are independent of any business unit and play a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems throughout the Group. The Group consists of a limited number of entities which can comfortably be covered by the two senior finance managers. As stated above, the Group Vice President-Finance attends all Audit Committee meetings to give an update on any internal control issues arising and any outstanding remedial actions.

The Group's system of risk management comprises an integrated risk management strategy of regular self-assessment of all business units. Significant risks are 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.

Report on directors' remuneration

1. Compliance

This Report on directors' remuneration has been prepared on behalf of the Board by the Remuneration Committee (the "Committee"). The Committee has adopted the principles of good governance relating to directors' remuneration as set out in the 2006 Combined Code (the "Code"). The Report complies with the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002) and the Listing Rules of the UK Listing Authority. Shareholders will be asked to approve the Report at the Annual General Meeting to be held on 7 May 2009 ("2009 AGM").

2. Remuneration Committee

There were no changes to the composition of the Committee during the year. The members of the Committee were Alex Walker (Chairman), Ian Brindle and Duncan Lewis. The composition of the Committee is compliant with the Code in terms of independent non-executive directors. The Committee met four times during the year. Full attendance of the Commitee is expected at meetings and all members attended all four meetings except Duncan Lewis, who missed one meeting due to an unavoidable diary conflict. The Company Secretary is Secretary to the Committee.

The Committee is responsible for determining, on behalf of the Board, all elements of the remuneration of the chairman, executive directors and senior managers, reviewing remuneration policy and overseeing the operation of the Company's share incentive plans. The Committee's terms of reference can be found on the Company's website at www.spirent.com.

3. Remuneration policy

The remuneration policy set by the Committee aims to encourage a performance-based culture which reinforces behaviour which will lead to the continued long term development of the business, attract and retain high calibre executive directors and senior managers and align their interests with shareholders. The aims of the policy are achieved by ensuring their remuneration is competitive when compared with companies of similar size, type and complexity within the countries in which they are based. It is structured so that a substantial proportion of their total remuneration package is weighted towards performance-based pay.

4. Advisers to the Committee

When the Committee considers it appropriate, it takes advice on remuneration matters from:

- Aon Consulting Inc – Radford executive remuneration data;
- Ernst & Young LLP – independent verification of earnings per share ("EPS") to determine the vesting of share incentives (they are also the Company's auditors);
- Kepler Associates Limited – measurement of total shareholder return ("TSR") to determine the vesting of share incentives;
- Linklaters LLP – advice on share incentive plans (they are also one of the Company's general legal advisers); and
- PricewaterhouseCoopers LLP – Monks' executive remuneration data.

During the year the Committee also consulted with the Company's Chairman, Chief Executive Officer, Chief Financial Officer, Vice President of Human Resources and the Company Secretary but not on matters relating directly to their own remuneration.

5. Executive directors' remuneration

The remuneration of executive directors comprises the following elements:

- base salary, benefits and pension contributions or cash allowance in lieu of pension;
- quarterly and/or annual performance cash incentive; and
- long term share incentive awards.

a) Edward Bramson, Chairman

Edward Bramson acted as Executive Chairman until the appointment of Bill Burns as Chief Executive Officer on 6 November 2008. Mr Bramson, who is a partner in Sherborne Investors GP, LLC ("Sherborne Investors"), the Company's largest shareholder, chose to waive his right to any remuneration for his role as Executive Chairman whilst he managed the operational turnaround of the Group. As a consequence he received no director's fee, salary, pension contributions, cash incentive or share incentive awards from his appointment to the Board on 22 December 2006 until 31 December 2008. Following the separation of the chairman and chief executive roles, the Committee determined that Mr Bramson should receive a director's fee of £150,000 per annum from 1 January 2009 for his services as Non-Executive Chairman.

5. Executive directors' remuneration continued

b) Base salary, fees and benefits

Base salaries and benefits of executive directors are determined by the Committee and are normally reviewed annually. Bill Burns' base salary and benefits were set on appointment on 6 November 2008 and will not be reviewed until 1 January 2010. Eric Hutchinson's base salary and benefits were last reviewed on 1 January 2008 and the Committee determined that there should be no change for 2008. Mr Hutchinson's base salary and benefits will next be reviewed on 1 July 2009.

When conducting such reviews, the Committee takes into account a range of factors including the Company's performance, economic conditions, the prevailing market rates for similar positions in a comparable group of companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group.

Bill Burns has a service agreement with Spirent Communications Inc. ("SCI"), and being a US resident, receives a remuneration package which is in line with US employment practice. In addition to his base salary, he participates in SCI's medical, dental and vision plans, 401(k) Pension Plan (see below) and a non-qualified deferred compensation plan (see below) and receives disability coverage benefit, life insurance cover of four times base salary and a car allowance.

The SCI 401(k) Pension Plan is a defined contribution plan approved under Section 401(k) of the US Internal Revenue Code ("US IR Code"). SCI make matching contributions of up to 4 per cent of the maximum compensation permitted for these purposes under the US IR Code. Under the US IR Code, the maximum annual amount of an employee's compensation that can be taken into account in determining the employer's contribution is $230,000 in respect of 2008.

The SCI Deferred Compensation Plan is a non-qualified plan offered as a benefit to senior management in the US. This plan allows participants to defer up to 50 per cent of their base salary and up to 100 per cent of any cash incentive until they reach retirement age or leave the Group's employment. Under this plan, contributions are met solely by Mr Burns and SCI makes no matching contributions.

During the year Bill Burns was required to relocate to California. A taxable relocation payment of $174,200 (£116,913[1]) was made during the year.

Eric Hutchinson has a service agreement with Spirent Communications plc, and being a UK resident, receives a remuneration package which is in line with UK employment practice. In addition to base salary he receives private medical insurance, life insurance cover of four times base salary and a car allowance.

During the year under review, Eric Hutchinson received an annual cash allowance in lieu of pension of 20 per cent of base salary, totalling £58,970 (2007 £58,970).

Further details of executive directors' remuneration are given in paragraphs 7a, 7b and 8b.

c) Annual and quarterly performance cash incentives

The Committee regularly reviews performance incentive targets and performance conditions to incentivise executive directors to meet the short term strategic objectives of the Company and its divisions.

Since appointment as Chief Executive Officer, Bill Burns has participated in a quarterly performance cash incentive arrangement. This cash incentive arrangement was structured so that performance was measured against a mixture of growth targets in the Company's EPS, other financial targets and personal objectives. The Committee reviewed Mr Burns' performance against the targets set and having exceeded the EPS target and met all personal objectives, the Committee approved a total cash incentive payable for the period he served as a director during the year of $76,087 (£51,065[1]), which was equivalent to 83 per cent of his pro-rated base salary.

During 2008 Eric Hutchinson participated in an annual performance cash incentive arrangement which was structured so that performance was measured against growth targets in the Company's EPS together with personal objectives. The target annual cash incentive for 2008 was set at 50 per cent of base salary.

The Committee reviewed his performance against the targets set and having exceeded the EPS target and met all personal objectives, the Committee approved a cash incentive payable for 2008 of £147,425, which was equivalent to 50 per cent of base salary.

d) Long term share incentive awards

The Company operates a number of share incentive plans. Currently, the principal share incentive plan utilised for executive directors is the 2005 Employee

Note
1 Using an average exchange rate for his period as a director of £1 = $1.49

Report on directors' remuneration continued

5. Executive directors' remuneration continued
Incentive Plan ("EIP"), which is a discretionary share plan. The only award made under the EIP during the year was to Bill Burns on his appointment as Chief Executive Officer (further details are given in paragraph 8b below).

Executive directors are also able to participate in an all employee share plan if one is offered in the country within which they are domiciled. The applicable all employee plans in the UK are the 2005 Sharesave Scheme and the UK Employee Share Purchase Plan. The applicable plan in the US is the US Employee Stock Purchase Plan. The Board did not make any invitations to executive directors or any other employees to participate in an all employee plan during the year.

During 2008, historical awards of share incentives held by executive directors under the Spirent Stock Incentive Plan ("SSIP"), 1995 Executive Share Option Scheme ("ESOS") and the UK Savings Related Share Option Scheme ("SRSOS") remained outstanding. The SSIP is the principal share incentive plan used to deliver awards to Communications group employees. Mr Burns participated in the SSIP in his former positions within the Communications group and there is no intention to offer further awards to Mr Burns under the SSIP following his appointment to the Board. The grants made to Bill Burns in 2005 and 2006 under the SSIP all have performance conditions attached and further details are given below. The ESOS and SRSOS were closed in 2005 and no grants have been made under either scheme since then.

Further details on all the Company's share incentive plans are provided in note 29 to the consolidated financial statements and note 16 to the parent Company financial statements.

2005 Employee Incentive Plan
Any awards made to executive directors are subject to prior satisfactory performance of the individual and award levels vary in accordance with the individual's potential to add value to the business over the medium to long term.

Under the EIP, the Company is able to grant options and share-settled stock appreciation rights ("SARs"), the vesting of which would be subject to meeting an EPS growth target. Performance shares may also be granted, the vesting of which would be subject to meeting a TSR performance target.

In normal circumstances, the maximum combined award under the EIP is limited to 250 per cent of base salary in SARs/options. As explained above, grants would normally consist partly of SARs/options and partly of performance shares, with the proviso that the performance share element does not exceed 100 per cent of base salary (ie using the ratio of two SARs/options being equivalent to one performance share). Executive directors would normally receive a mix of SARs/options and performance shares, utilising a ratio of two SARs/options being equivalent 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.

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

The Committee believes that real EPS growth is the most appropriate measure of the Company's performance in determining the vesting of SARs and options granted under the EIP since 2005. Accordingly, the performance condition for SARs and options is based on growth in the Company's EPS after excluding any increase in the Retail Prices Index ("RPI"), over a three year performance period as set out in the following table.

Annual rate of growth in EPS in excess of growth in RPI over the performance period (%)	Proportion of SARs/options vesting (%)
Below 6	0
6	25
Between 6 and 15	On a straight line basis between 25 and 100
15 or above	100

Following testing of the EPS performance condition attached to the SARs and options granted under the EIP on 25 August 2005, 100 per cent vesting occurred on 25 August 2008.

The Committee believes that a relative TSR growth target is the most appropriate measure of the Company's performance in determining the vesting of performance shares granted under the EIP since 2005. Accordingly, the performance condition for performance shares is based on the Company's relative TSR rating against a comparator group of companies over a three year performance period as set out in the table overleaf.

5. Executive directors' remuneration continued

The comparator group consists of the 30 largest companies by market capitalisation in the FTSE TechMARK 100 Index, excluding those companies who were also constituents of the FTSE 100 Index at the commencement of the performance period. The Committee considers the selected comparator group as providing a suitable benchmark for the Company's TSR rating. In determining the TSR for the Company and its comparator group, share prices are taken at a fixed point immediately prior to, and at the end of, the performance period, and there is no averaging period.

TSR Ranking	Proportion of performance shares vesting (%)
Below median	0
Between median and upper quartile	On a straight line basis between 30 and 100
At or above upper quartile	100

Following testing of the relative TSR performance condition attached to the performance shares granted under the EIP on 25 August 2005, 100 per cent vesting occurred on 25 August 2008.

Spirent Stock Incentive Plan

Grants made to Bill Burns in 2005 and 2006 under the SSIP remain outstanding and are subject to a performance condition, as approved by shareholders in 2004, as set out below. A 25 per cent tranche of each grant of SARs vests and becomes exercisable, subject to the attainment of a performance condition, on each of the first, second, third and fourth anniversaries of the date of grant. The performance condition is measured against a fixed base year determined at the date of grant. Any tranche which does not meet the performance condition before the fourth anniversary of the date of grant is subject to a final testing on that fourth anniversary. The performance condition for this final testing is measured from the base year and the performance condition is increased in proportion to the four year performance period. Any tranche which remains unvested after the fourth anniversary of the date of grant lapses.

Spirent Stock Incentive Plan – performance condition schedule

Portion of total grant tested (%)	Rate of growth in EPS in excess of growth in RPI over the performance period (%)	Proportion of SARs vesting (%)	Performance period
25 (1st SAR tranche)	Below 6	0	Year 1
	6	25	
	Between 6 and 15	On a straight line basis between 25 and 100	
	15 or above	100	
25 (2nd SAR tranche)	Below 12	0	Years 1 and 2
	12	25	
	Between 12 and 30	On a straight line basis between 25 and 100	
	30 or above	100	
25 (3rd SAR tranche)	Below 18	0	Years 1, 2 and 3
	18	25	
	Between 18 and 45	On a straight line basis between 25 and 100	
	45 or above	100	
25 (4th SAR tranche) plus any unvested tranches of 1st, 2nd and 3rd SAR tranches	Below 24	0	Years 1, 2, 3 and 4
	24	25	
	Between 24 and 60	On a straight line basis between 25 and 100	
	60 or above	100	

Report on directors' remuneration continued

5. Executive directors' remuneration continued

e) Service contracts

It is the Company's policy that service contracts for the executive directors have no fixed term and are capable of termination on no more than 12 months' notice from the Company and no more than 12 months' notice from the executive director.

The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by company month(s)	Notice period by director month(s)
Bill Burns	6 November 2008	1	1
Eric Hutchinson	13 December 1999	12	12

Both contracts contain provisions for the employer to make payment in lieu of notice and for removal of the director for poor performance or material misconduct without compensation. In the case of Eric Hutchinson, the Company will seek to apply practical mitigation measures to any payment of compensation on termination, taking into account all relevant circumstances.

In the case of Bill Burns, mitigation provisions are contained in his service contract. His service contract is with SCI and is governed by the laws of the State of California and, accordingly, its termination provisions reflect US practice. Either the employer or Mr Burns may terminate upon 30 days' notice (although the employer may make payment of base salary in lieu of notice). If the employer terminates employment in circumstances other than for death, disability or "cause" (which is defined in detail in the contract and includes dismissal for material misconduct or poor performance), or Mr Burns terminates for "good reason" (which is defined in detail in the contract and includes any material breach of the contract by the employer), he is entitled to the following payments in addition to one month's base salary (or payment in lieu): accrued base salary; accrued paid time off and vacation pay; cash incentive due and payable with respect to the previous quarter and/or fiscal year, as appropriate, in which the termination occurs; a sum equal to 11 months' base salary payable in 10 equal monthly instalments but subject to a set-off for any base salary earned from alternative employment during the 12 months period following termination ("severance period"); and monthly COBRA premium payments for the duration of the severance period subject to a set-off for health insurance provided from alternative employment during the severance period.

Both 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

The Company recognises that its executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Company. The director retains any related fees. Eric Hutchinson serves as a non-executive director on the board of Trifast plc and received a fee of £33,250 during the year.

g) Shareholder dilution and share plan approval sought at 2009 AGM

The Committee is mindful of the need to manage shareholder dilution in a responsible manner. At the 2008 Annual General Meeting ("2008 AGM"), shareholders granted the Company authority to award share incentives over new issue shares of no more than half of one per cent of the then issued Ordinary Share capital under the EIP and SSIP. This authority is due to expire at the 2009 AGM. It was also stated in the Notice of 2008 AGM that the Employee Share Ownership Trust ("ESOT") held 1.7 million unallocated shares as a result of share incentives lapsing on termination of employees and that the Company would utilise these unallocated shares before making any significant awards over new issue shares.

Between the 2008 AGM and the date of this report, the Committee approved awards of share incentives over 1.2 million Ordinary Shares, just under one million of which were sourced from unallocated Ordinary Shares held in the Company's ESOT. The remainder of the awards to be satisfied with new issue shares equated to just 0.02 per cent of the issued Ordinary Share capital on 8 May 2008 (the date of the 2008 AGM). In addition, wherever practical, SARs are awarded rather than share options. SARs are more efficient than share options in terms of actual dilution as only the appreciation value and not the full value of the award needs to be funded in shares when awards are exercised. To demonstrate this efficiency, during 2008 the Company issued only 1.6 million new Ordinary Shares to cover the exercise of 5.4 million SARs.

5. Executive directors' remuneration continued

Overall shareholder dilution resulting from the Company's share incentive plans (on a rolling 10 year basis) has fallen by 0.9 per cent when comparing the positions at 31 December 2008 (14.1 per cent) and 31 December 2007 (15.0 per cent). The overall number of share incentives outstanding at 31 December 2008 has fallen by 17 million when compared to the number outstanding at 31 December 2007 (2008 50.1 million, 2007 67.1 million). However, the Committee's efforts to manage shareholder dilution have been significantly offset by the Company's share repurchase programme, as this has resulted in a large drop in the issued Ordinary Share capital over the year (2008 671.8 million, 2007 792.4 million). Ignoring the impact of the share repurchase programme, the dilution position at 31 December 2008 would have been 11.2 per cent, a drop of 3.8 per cent.

The Committee considers SARs, options and performance shares to be meaningful share incentives. Accordingly, in line with its sustainable dilution strategy, and to give management flexibility, the Company will seek shareholder authority at the 2009 AGM to award share incentives over new issue shares of no more than half of one per cent of the current issued Ordinary Share capital, such authority to expire at the 2010 Annual General Meeting ("2010 AGM"). In order to further mitigate the impact on dilution, the Company intends to utilise the 0.8 million unallocated shares currently held in the ESOT (these shares were allocated to awards which have since lapsed) before making any significant awards over new issue shares.

At the 2008 AGM, the Company was also given authority by shareholders to continue to operate the SSIP until the 2009 AGM. As outlined above, during 2008 a minimal number of share incentives were granted under the SSIP. The Company continues to review share incentive arrangements and as such it will seek shareholder authority to further extend the operation of the SSIP until the 2010 AGM at which time the Company will revert to shareholders with an update on long term share incentive policy. Accordingly, a resolution is being placed before shareholders at the 2009 AGM to renew the authority to operate the SSIP and to grant share incentives using new issue shares.

Shareholder approval was given in 2005 to operate the EIP until 2015, subject to further shareholder approval being required on the use of new issue shares and any material changes to the plan. No material changes to the EIP are proposed and therefore no shareholder approval is required at the 2009 AGM to continue to operate this plan.

6. Non-executive directors' fees and letters of appointment

The Company's remuneration policy with regard to non-executive directors is to pay fees which are in line with market practice. Fees are normally reviewed once every three years and having last been reviewed on 1 January 2008 will not formally be reviewed until 1 January 2011. It is considered that non-executive director fees are at the median level for comparable companies. The basic annual fee for non-executive directors with effect from 1 January 2008 is £36,000. The Chairmen of the Audit and Remuneration Committees receive an additional fee of £11,000 and £9,000 respectively.

All non-executive directors have a letter of appointment with the Company for not more than a three year period, subject to the Company's Articles of Association. Each letter provides for retirement every three years, except Edward Bramson and Gerard Eastman who have stated that they will seek re-election by shareholders on an annual basis. Non-executive directors are not eligible to participate in cash incentive or share incentive arrangements and their service does not qualify for a pension or other benefits. No element of their fee is performance related. Details of individual appointments are as follows:

Director	First appointed a director	Current appointment due to expire
Edward Bramson	22 December 2006	2009 AGM
Ian Brindle	22 December 2006	2009 AGM
Gerard Eastman	22 December 2006	2009 AGM
Duncan Lewis	1 July 2007	2011 AGM
Tom Maxwell	1 October 2007	2011 AGM
Alex Walker	22 December 2006	2009 AGM

The letters of appointment are available for inspection on request and will be available for inspection before and during the 2009 AGM.

As outlined in 5a above, Edward Bramson acted as Executive Chairman until the appointment of Bill Burns as Chief Executive Officer on 6 November 2008. Mr Bramson, who is a partner in Sherborne Investors, the Company's largest shareholder, chose to waive his right to any remuneration for his role as Executive Chairman whilst he managed the operational turnaround of the Group. As a consequence, he received no remuneration from his appointment to the Board on 22 December 2006 until 31 December 2008.

Report on directors' remuneration continued

6. Non-executive directors' fees and letters of appointment continued

Following the separation of the chairman and chief executive roles, the Committee determined that Mr Bramson should receive a director's fee of £150,000 per annum from 1 January 2009 for his role as Non-Executive Chairman.

Gerard Eastman, also a partner in Sherborne Investors, continued to waive his right to any fees in 2008 whilst the operational turnaround of the Group was managed. Following the appointment of Bill Burns as Chief Executive Officer, the Board determined that Mr Eastman should receive the basic fee of £36,000 per annum from 1 January 2009 for his services as a non-executive director. Messrs Bramson and Eastman have both elected to have their fees paid to Sherborne Investors.

Further information on non-executive directors' fees is provided in paragraph 7a.

7. Directors' remuneration

a) Individual and total remuneration for the year to 31 December 2008

Information relating to directors' remuneration in 7a and 7b has been audited.

	Base salary[1] £000	Fees[2] £000	Taxable benefits[3] £000	Performance related incentive paid in cash[4] £000	Cash in lieu of pension[5] £000	Compensation for loss of office £000	Other payments[6] £000	Total 2008[7] £000	Total 2007[7] £000
Directors in service at 31 December 2008									
Executive directors									
Bill Burns	61.8	–	119.8	51.1	–	–	136.4	369.1	–
Eric Hutchinson[8]	294.9	0.5	16.4	147.4	59.0	–	–	518.2	472.3
Non-executive directors									
Edward Bramson[9]	–	–	–	–	–	–	–	–	–
Ian Brindle	–	47.0	–	–	–	–	–	47.0	40.0
Gerard Eastman[9]	–	–	–	–	–	–	–	–	–
Duncan Lewis	–	36.0	–	–	–	–	–	36.0	16.5
Tom Maxwell	–	36.0	–	–	–	–	–	36.0	8.3
Alex Walker	–	45.0	–	–	–	–	–	45.0	40.0
Directors who left during the previous year									
Anders Gustafsson[10]	–	–	–	–	–	–	–	–	752.9
Göran Ennerfelt	–	–	–	–	–	–	–	–	13.8
2008	356.7	164.5	136.2	198.5	59.0	–	136.4	1,051.3	–
2007	381.8	119.1	104.9	100.0	84.8	465.3	87.9	–	1,343.8

Notes

1 Base salary received by Bill Burns has been pro-rated for his period as a director and was equal to $92,000 (equivalent to £61,800 using an average exchange rate for his period as a director of £1 = $1.49).

2 Eric Hutchinson earned these fees in respect of his services to the Board and its Committees. Further details on fees paid to non-executive directors are provided in paragraph 6.

3 Further details on taxable benefits are provided in paragraph 5b.

4 Further details of the annual and quarterly performance cash incentive arrangements are provided in paragraph 5c.

5 Further details on cash in lieu of pension are provided in paragraph 5b.

6 Other payments in 2008 relate to non-taxable relocation expenses for Bill Burns. In 2007 other payments relate to a contractual payment made in lieu of holiday to Anders Gustafsson on termination of his employment.

7 These figures relate to the period of each director's Board membership. Bill Burns was appointed as Chief Executive Officer on 6 November 2008.

7. Directors' remuneration continued

8 Remuneration figures for Eric Hutchinson exclude fees received as a result of his external appointment, details of which are given in paragraph 5f.
9 Messrs Bramson and Eastman waived their right to any remuneration for 2008. Further details are provided in Paragraph 6.
10 Anders Gustafsson's employment was terminated on 7 March 2007 and a payment of £465,257 was made to him as compensation for loss of office, in accordance with his contractual entitlements.

b) Summary of directors' remuneration

	2008 £000	2007 £000
Total emoluments for all directors	1,051.3	1,343.8
Gains made on the exercise of share incentives[1]	149.8	531.0
Contributions to 401(k) Pension Plan[2]	6.6	–
	1,207.7	1,874.8

Notes
1 2008: On 25 August 2008 187,200 performance shares vested and were allotted to Eric Hutchinson. The shares were retained by Mr Hutchinson and a deemed gain of £149,760 was realised based on a market price of 80 pence per share.
2007: This relates to the exercise and sale of 2.0 million share incentives by Anders Gustafsson on various dates and the vesting of two awards of conditional shares. Mr Gustafsson left the Company on 7 March 2007.
2 A contribution of $9,800 was made to the 401(k) Pension Plan relating to Bill Burns (equivalent to £6,600 at an average exchange rate for his period as a director of £1 = $1.49).

8. Directors' interests

Information relating to directors' interests in 8a and 8b has been audited.

a) Ordinary Shares

The beneficial and non-beneficial interests of the directors and their connected persons in the issued Ordinary Share capital of the Company at the beginning and end of the year are set out below.

	At 31 December 2008			At 1 January 2008 or date of appointment		
	Ordinary shares beneficial[1]	Ordinary shares non-beneficial	Share incentives[2]	Ordinary shares beneficial[1]	Ordinary shares non-beneficial	Share incentives[2]
Executive directors						
Bill Burns	–	–	1,523,000	–	–	775,000
Eric Hutchinson	1,058,931	–	3,244,170	871,731	–	3,460,956
Non-executive directors						
Edward Bramson[3]	130,270,000	–	–	130,270,000	–	–
Ian Brindle	4,525	–	–	4,525	–	–
Gerard Eastman[3]	130,250,000	–	–	130,250,000	–	–
Duncan Lewis	–	–	–	–	–	–
Tom Maxwell	26,955	–	–	26,955	–	–
Alex Walker	30,000	–	–	30,000	–	–

Notes
1 Directors' beneficial holdings do not form part of the remuneration provided by the Company.
2 Share incentives include share options, stock appreciation rights and performance shares.
3 Messrs Bramson and Eastman have a connected notifiable interest in the 130,250,000 Ordinary Shares held by Sherborne Investors, which for statutory purposes, is also deemed to be an interest of these directors. Edward Bramson also has beneficial ownership of a further 20,000 Ordinary Shares.

Report on directors' remuneration continued

8. Directors' interests continued

b) Share incentives

Plan type[1]	At 31 December 2008	Lapsed during the period	Exercised during the period	Granted during the period	At 1 January 2008 (or date of appointment)	Date of grant	Exercise price per share pence	Market value on date of grant pence	Date first exercisable	Expiry date
Bill Burns[2]										
SSIP	250,000	–	–	–	250,000	10 Mar 05	70	70	15 Nov 05	10 Mar 12
SSIP	262,500	–	–	–	262,500	25 Aug 05	53	53	25 Aug 08	25 Aug 12
SSIP	170,625	–	–	–	170,625	05 May 06	48	48	05 May 07	05 May 13
EIP	91,875	–	–	–	91,875	05 May 06	nil[3]	48	05 May 09	05 May 09
EIP	374,000	–	–	374,000	–	07 Nov 08	51	51	07 Nov 11	07 Nov 18
EIP	374,000	–	–	374,000	–	07 Nov 08	nil[3]	51	07 Nov 11	07 Nov 11
Eric Hutchinson										
ESOS	–	29,586	–	–	29,586	27 Apr 98	152	152	27 Apr 01	27 Apr 08
ESOS	75,156	–	–	–	75,156	01 Apr 99	133	133	01 Apr 02	01 Apr 09
SRSOS	8,693	–	–	–	8,693	05 Oct 01	93	93	01 Dec 08	01 Jun 09
ESOS	234,000	–	–	–	234,000	02 Apr 02	134	134	02 Apr 06	02 Apr 12
ESOS	387,000	–	–	–	387,000	02 May 02	113	113	02 May 06	02 May 12
SRSOS	24,721	–	–	–	24,721	26 Sep 03	38	38	01 Jan 11	01 Jul 11
ESOS	1,128,000	–	–	–	1,128,000	05 Aug 04	56	56	05 Aug 08	05 Aug 14
EIP	695,300	–	–	–	695,300	25 Aug 05	53	53	25 Aug 08	25 Aug 15
EIP	–	–	187,200	–	187,200	25 Aug 05	nil[3]	53	25 Aug 08	25 Aug 08
EIP	544,650	–	–	–	544,650	05 May 06	48	48	05 May 09	05 May 16
EIP	146,650	–	–	–	146,650	05 May 06	nil[3]	48	05 May 09	05 May 09

Notes

An explanation of each share plan and its operation is given in note 29 to the audited consolidated financial statements of the Group and note 16 to the parent Company financial statements.

1 Key to share plan:
EIP – 2005 Employee Incentive Plan.
ESOS – 1995 Executive Share Option Scheme.
SRSOS – UK Savings Related Share Option Scheme.
SSIP – Spirent Stock Incentive Plan.

2 The figures shown for Bill Burns are as at his date of appointment as Chief Executive Officer on 6 November 2008.

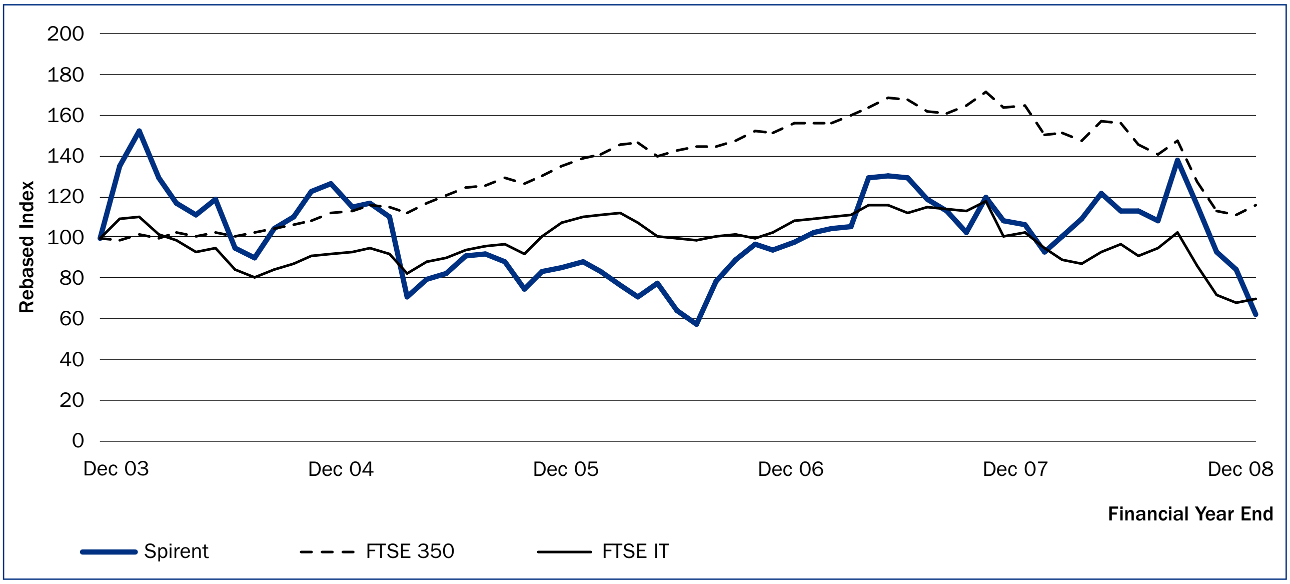
3 This relates to an award of performance shares under the EIP. There is no exercise price payable for a performance share upon vesting. Further details on performance shares are provided in paragraph 5d.

Save as disclosed, there have been no changes between 31 December 2008 and 24 February 2009 in the directors' interests in Ordinary Shares or share incentives in the Company.

The middle market price of an Ordinary Share at the close of business on 2 January 2008 (being the first day the London Stock Exchange was open for trading in 2008) and 31 December 2008 was 64.25 pence and 36.25 pence, respectively, and during that period ranged between a high of 82.75 pence and a low of 36.25 pence.

9. Total Shareholder Return performance

The graph below shows 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 Communications 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 the Company can be fairly compared, and that the FTSE IT provides a particularly representative collection of comparator companies.



Signed on behalf of the Board

Alex Walker
Chairman of the Remuneration Committee
24 February 2009

Independent auditors' report to the members of Spirent Communications plc

We have audited the Group financial statements of Spirent Communications plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense, the related notes 1 to 35 and the list of Principal divisions and subsidiaries. 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 Communications plc for the year ended 31 December 2008 and on the information in the Report on directors' remuneration 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 auditor's 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are 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 whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Directors' statement on corporate governance reflects the Company's compliance with the nine provisions of the 2006 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 Chairman's statement, the Business review, the Board of directors, the Report of the directors, the Statement of directors' responsibilities, the Directors' statement on corporate governance, the Report on directors' remuneration, Financial history and Shareholder information. 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 judgements 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the directors is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
London
24 February 2009

Consolidated income statement

Year to 31 December	Notes	2008 £ million Before exceptional items	2008 £ million Exceptional items note 7	2008 £ million Total	2007 £ million Before exceptional items	2007 £ million Exceptional items note 7	2007 £ million Total
Continuing operations							
Revenue	3,4	257.9	–	257.9	237.0	–	237.0
Cost of sales		(91.3)	–	(91.3)	(89.2)	(2.4)	(91.6)
Gross profit		166.6	–	166.6	147.8	(2.4)	145.4
Product development	4	(45.3)	–	(45.3)	(44.5)	–	(44.5)
Selling and distribution		(46.7)	–	(46.7)	(47.1)	–	(47.1)
Administration		(25.9)	–	(25.9)	(30.7)	(12.0)	(42.7)
Operating profit	4	48.7	–	48.7	25.5	(14.4)	11.1
Finance income	8	3.2	0.8	4.0	7.0	–	7.0
Finance costs	9	(0.5)	(2.6)	(3.1)	(0.3)	–	(0.3)
Profit before tax	4,5	51.4	(1.8)	49.6	32.2	(14.4)	17.8
Tax	12	(0.4)	25.6	25.2	3.8	3.9	7.7
Profit for the year from continuing operations after tax		51.0	23.8	74.8	36.0	(10.5)	25.5
Discontinued operations							
Loss for the year from discontinued operations	6	–	–	–	(3.7)	(4.2)	(7.9)
Profit for the year attributable to equity shareholders of parent Company		51.0	23.8	74.8	32.3	(14.7)	17.6

	Notes	2008	2007
Earnings per share (pence)	13		
Basic		10.13	2.05
Basic from continuing operations		10.13	2.97
Diluted		10.06	2.03
Diluted from continuing operations		10.06	2.94
Dividend	14		
Proposed final dividend (£ million)		4.0	–
Interim dividend paid (£ million)		3.7	–
Proposed final dividend (pence per share)		0.6	–
Interim dividend paid (pence per share)		0.5	–

The notes on pages 47 to 91 and page 111 form part of these financial statements.

Consolidated statement of recognised income and expense

Year to 31 December	Notes	2008 £ million	2007 (restated) £ million
Income and expense recognised directly in equity			
Losses on cash flow hedges taken to equity		**(5.6)**	(0.5)
Exchange differences on retranslation of foreign operations		**29.3**	(0.6)
Actuarial (losses)/gains on defined benefit pension plans	11	**(5.1)**	4.1
Irrecoverable element of pension plan surplus	11	**1.4**	(1.6)
Deferred tax credit/(charge) on pension plans	12	**0.3**	(0.8)
		20.3	0.6
Transfers to income statement			
Losses on cash flow hedges reclassified		**1.4**	–
Net income recognised directly in equity		**21.7**	0.6
Profit for the year		**74.8**	17.6
Total recognised income and expense for the year attributable to equity shareholders of parent Company	31	**96.5**	18.2

The notes on pages 47 to 91 and page 111 form part of these financial statements.

Consolidated balance sheet

At 31 December	Notes	2008 £ million	2007 (restated) £ million
Assets			
Non-current assets			
Intangible assets	15	**77.6**	58.6
Property, plant and equipment	16	**18.6**	16.2
Trade and other receivables	20	**2.5**	1.4
Cash on deposit	21	**2.5**	3.7
Defined benefit pension plan surplus	11	**2.6**	6.1
Deferred tax	23	**12.2**	10.5
		116.0	96.5
Current assets			
Inventories	19	**24.2**	17.8
Trade and other receivables	20	**62.4**	50.2
Cash and cash equivalents	21	**59.7**	79.0
		146.3	147.0
Total assets		**262.3**	243.5
Liabilities			
Current liabilities			
Trade and other payables	22	**(63.5)**	(54.6)
Current tax		**(4.6)**	(32.7)
Derivative financial instruments	26	**(5.6)**	(0.5)
Provisions and other liabilities	25	**(3.7)**	(5.1)
		(77.4)	(92.9)
Non-current liabilities			
Trade and other payables	24	**(5.1)**	(1.1)
Defined benefit pension plan deficit	11	**(0.6)**	(0.7)
Provisions and other liabilities	25	**(8.2)**	(7.6)
		(13.9)	(9.4)
Total liabilities		**(91.3)**	(102.3)
Net assets		**171.0**	141.2
Capital and reserves			
Share capital	29,31	**22.4**	28.0
Share premium account	31	**17.2**	15.5
Capital redemption reserve	31	**10.6**	4.8
Capital reserve	31	**1.4**	3.6
Translation reserve	31	**22.6**	(6.7)
Unrealised gains and losses	31	**(4.7)**	(0.5)
Retained earnings	31	**101.5**	96.5
Total equity attributable to equity shareholders of parent Company		**171.0**	141.2

The notes on pages 47 to 91 and page 111 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
24 February 2009

Consolidated cash flow statement

Year to 31 December	Notes	2008 £ million	2007 £ million
Cash flows from operating activities			
Cash flow from operations	32	**53.4**	43.8
Tax (paid)/received		**(5.7)**	6.0
Net cash inflow from operating activities		**47.7**	49.8
Cash flows from investing activities			
Interest received		**4.1**	5.7
Transfer from long term deposit		**1.2**	4.8
Disposal of operations	34	**–**	0.6
Tax paid on the disposal of operations		**–**	(6.8)
Purchase of intangible assets		**–**	(0.3)
Purchase of property, plant and equipment		**(7.4)**	(5.1)
Proceeds from the sale of property, plant and equipment		**0.5**	0.2
Acquisition of subsidiaries	33	**–**	(5.5)
Net cash used in investing activities		**(1.6)**	(6.4)
Cash flows from financing activities			
Interest paid		**(2.7)**	(0.1)
Dividend paid		**(3.7)**	–
Proceeds from the issue of share capital and employee share ownership trust		**2.4**	4.4
Share repurchase		**(67.2)**	(66.3)
Net cash used in financing activities		**(71.2)**	(62.0)
Net decrease in cash and cash equivalents		**(25.1)**	(18.6)
Cash and cash equivalents at the beginning of the year		**79.0**	97.6
Effect of foreign exchange rate changes		**5.8**	–
Cash and cash equivalents at the end of the year	21	**59.7**	79.0

The notes on pages 47 to 91 and page 111 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 2008 were authorised for issue by the Board of directors on 24 February 2009. Spirent Communications 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.

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").

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention modified to include revaluation to fair value of certain instruments as described below.

The Group has prepared its financial statements under IFRS. The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2007 except in relation to the implementation of IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The following new standards, amendments to standards and interpretations are mandatory for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position other than in relation to IFRIC 14 which is discussed below.

International Accounting Standards ("IAS/IFRS")	Effective date
IFRIC 11 IFRS2 Group and Treasury Share Transactions	1 January 2008
IFRIC 12 Service Concession Arrangements	1 January 2008
IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008
IAS 39 & IFRS 7 Reclassification of Financial Assets	1 July 2008

IAS 19 "Employee Benefits" limits the measurement of a defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognised gains and losses. IFRIC 14 clarifies what effect the existence of a minimum funding requirement has on this limit and provides guidance as to when the employer has an unconditional right to a refund from the plan.

At 1 January 2007 the full amount of the defined benefit plan surplus had been recognised, but the surplus was restricted at 31 December 2007 to the present value of economic benefits available as a reduction in future contributions. However, as clarified by IFRIC 14 an unconditional right of refund to the employer exists in the Spirent plans and therefore the full amount of the surplus should be recognised on the balance sheet at 31 December 2007. IFRIC 14 requires provision to be made for any part of the surplus that would not be recoverable. Any surplus on the plans that may ultimately be repaid to the Company would currently be subject to a 35 per cent tax charge prior to repayment. IFRIC 14 requires that this liability be recognised at the balance sheet date. The Comparatives have been restated accordingly. There is no effect on the income statement for the year to 31 December 2007 nor on earnings per share.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

The effect of the implementation of IFRIC 14 on the consolidated balance sheet at 31 December 2007 is as follows:

	Defined benefit pension plan surplus £ million	Retained earnings £ million
As previously reported	3.0	93.4
Implementation of IFRIC 14	3.1	3.1
31 December 2007 (restated)	6.1	96.5

The effect of the implementation of IFRIC 14 on the consolidated statement of recognised income and expense for the year to 31 December 2007 is as follows:

	Actuarial gains and losses £ million	Irrecoverable element of pension plan surplus £ million
As previously reported	(0.6)	–
Implementation of IFRIC 14	4.7	(1.6)
31 December 2007 (restated)	4.1	(1.6)

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.

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.

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, trademarks and customer lists, and relationships 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.

2. Summary of significant accounting policies continued

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
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

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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.

Leases

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset and are not finance leases. 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 uncollectable 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.

Provisions

Provisions are recorded when the Group has a present, legal or constructive obligation as a result of a past event, for 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.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Company's functional and presentation 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

2. Summary of significant accounting policies continued

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, being 1 January 2003. 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 as an asset of the parent, and as such these are sterling denominated.

All other exchange profits and losses are taken to the income statement.

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.

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 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.

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 to fair value at the reported balance sheet date.

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 foreign currency exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The fair value of forward foreign currency exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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 those fair value hedges 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 currency 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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

When the firm commitment or highly probable forecast transaction results in the recognition of a non-financial asset or a non-financial 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.

Pensions

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

The cost of providing benefits under the defined benefit pension plans is determined separately for each plan 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 obligations), 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 plan membership or a reduction in future entitlement) occurs, the obligation and related plan 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 plan 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 plan assets is based on an assessment made at the beginning of the year of long term market returns on plan assets, adjusted for the effect on the fair value of plan assets of contributions received, and benefits paid during the year. The difference between the expected return on plan 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 plan 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 plan 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 plan or reductions in the future contributions.

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

Treasury shares

Spirent Communications plc Ordinary Shares held by the Group are classified in shareholders’ equity as treasury shares and are recognised at cost and shown as a deduction from retained earnings. Consideration received for the sale of

2. Summary of significant accounting policies continued

such treasury shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to retained earnings.

Revenue recognition

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 collectability 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 on a straight line basis.

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.

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 executive 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 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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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

The Group has an employee share trust for the granting of certain share incentives 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 took 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.

Dividends paid

The interim dividend is included in the financial statements in the period it is approved by the directors, and the final dividend in the period it is approved by the shareholders at an annual general meeting.

Critical accounting assumptions and judgements

The preparation of financial statements requires the Group to make estimates and assumptions that affect items reported. Such estimates and assumptions are based on management's best knowledge of current facts, circumstances and future events, actual results may differ, possibly significantly, from those estimates. The areas requiring a high degree of judgement or where assumptions and estimates are significant to the consolidated financial statements are discussed below.

Goodwill impairment

The Group tests annually by cash-generating unit whether goodwill has suffered impairment and more frequently when events or circumstances indicate that the current carrying value may not be recoverable. The recoverable amounts of cash-generating units have been determined based on value in use calculations which require the use of estimates and assumptions. These are described in note 15.

2. Summary of significant accounting policies continued

Defined benefit pension schemes
The pension cost and the defined benefit obligation of the Group's defined benefit pension plans are based on a number of selected assumptions, these include the discount rate, inflation rate, salary growth, longevity and expected return on the plans' assets. Differences arising from actual experience or future changes in assumptions will be reflected in future periods. The effect of changing these assumptions is described in note 11.

Revenue recognition
For revenue recognition purposes 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. Management exercises a degree of judgement in setting the criteria used for determining when revenue which involves several elements should be recognised.

Income taxes
The Group is subject to income taxes in a number of tax jurisdictions and judgement is applied in determining the worldwide provision for income taxes. There are many transactions for which the final tax determinability is uncertain. For example liabilities are recognised for anticipated tax audit issues based on whether additional taxes are likely to be due based on the facts and circumstances known at the time the financial statements are prepared. Where the final outcome differs from the amounts that were initially recorded the differences will be recorded in the future period in which the determination is made.

Deferred taxes
The extent to which deferred tax assets can be recognised is based on current forecasts and estimates prepared by management. A change to these forecasts and estimates could result in a different recognition outcome.

Provisions
The Group records a provision for vacant property based on future rentals and reduced by its expected ability to sublease the vacant space to a third party and discounted where the effect is significant. Changes in the actual outcome compared with expected outcome on subleasing or changes to expectations will be recorded in future periods.

New standards and interpretations not applied
During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date for the Group after the date of these financial statements:

International Accounting Standards ("IAS/IFRS")		Effective date
IAS 1 (revised)	Presentation of Financial Statements	1 January 2009
IAS 23	Borrowing Costs	1 January 2009
IAS 27	Amendment to IAS 27 – Consolidated and Separate Financial Statements	1 July 2009
IAS 32 and IAS 1	Amendment to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 38	Amendment to IAS 38 – Intangible Assets	1 January 2009
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3 (revised)	Business Combinations	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-cash assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

IFRS 8 "Operating Segments" will require disclosure of information about the Group's operating segments and replace the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group expects that the operating segments will remain the same as the business segments previously identified under IAS 14 "Segment Reporting".

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.

3. Revenue

	2008 £ million	2007 £ million
Sales of goods	**219.6**	202.8
Maintenance and support services	**38.3**	34.2
Total revenue from continuing operations	**257.9**	237.0

Revenues from discontinued operations principally related 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 two operating groups, Communications and Systems. Communications is further subdivided into two divisions, Performance Analysis and Service Assurance. The SwissQual business, which was included in Performance Analysis, was sold in 2007 and was reported as a discontinued operation in that year. There are no discontinued operations in 2008.

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.
- Systems group comprises PG Drives Technology, which develops power control systems for electrical vehicles in the mobility and industrial markets.

Non-segmental costs represent corporate expenses, non-segmental assets comprise cash and cash equivalents held for central treasury purposes and other corporate assets and non-segmental liabilities represent tax payable and other corporate liabilities.

4. Segmental analysis continued

	Performance Analysis	Service Assurance	Communications Total	Systems	Non-segmental	2008 £ million Continuing operations Total
Revenue						
External sales	191.2	33.5	224.7	33.2	–	257.9

There were no inter-segment sales.

	Performance Analysis	Service Assurance	Communications Total	Systems	Non-segmental	Continuing operations Total
Profit/(loss)						
Operating profit/(loss)	43.0	4.6	47.6	4.3	(3.2)	48.7
Finance income						4.0
Finance costs						(3.1)
Profit before tax						49.6
Tax						25.2
Profit after tax for the year						74.8
Other information						
Product development	37.8	5.2	43.0	2.3	–	45.3
Share-based payment *note 30*	1.2	0.2	1.4	–	0.1	1.5
Intangible amortisation *note 15*	0.7	–	0.7	–	–	0.7
Capital expenditure *note 16*	5.2	1.8	7.0	0.4	–	7.4
Depreciation *note 16*	7.6	0.7	8.3	0.4	0.1	8.8
Assets						
Segment assets	170.2	9.6	179.8	14.6	67.9	262.3
Liabilities						
Segment liabilities	(61.2)	(9.9)	(71.1)	(5.0)	(15.2)	(91.3)
Net assets/(liabilities)	109.0	(0.3)	108.7	9.6	52.7	171.0

Notes to the consolidated financial statements continued

4. Segmental analysis continued

2007
£ million

	Performance Analysis	Service Assurance	Communications Total	Systems	Non-segmental	Continuing operations Total	Discontinued operations note 6	Total operations
Revenue								
External sales	169.3	34.3	203.6	33.4	–	237.0	3.6	240.6
There were no inter-segment sales.								
Profit/(loss)								
Operating profit/(loss) before exceptional items	22.3	3.3	25.6	3.8	(3.9)	25.5	(3.4)	22.1
Exceptional operating items *note 7*	(10.0)	(2.6)	(12.6)	–	(1.8)	(14.4)	–	(14.4)
Operating profit/(loss)	12.3	0.7	13.0	3.8	(5.7)	11.1	(3.4)	7.7
Loss on the disposal of operations						–	(4.2)	(4.2)
Finance income						7.0	–	7.0
Finance costs						(0.3)	–	(0.3)
Profit/(loss) before tax						17.8	(7.6)	10.2
Tax						7.7	(0.3)	7.4
Profit/(loss) after tax for the year						25.5	(7.9)	17.6
Other information								
Product development	36.9	5.3	42.2	2.3	–	44.5	1.8	46.3
Share-based payment *note 30*	1.7	0.5	2.2	0.1	0.2	2.5	–	2.5
Intangible amortisation *note 15*	0.9	–	0.9	–	–	0.9	0.6	1.5
Capital expenditure *note 16*	4.1	0.1	4.2	0.5	0.3	5.0	0.1	5.1
Depreciation *note 16*	7.8	0.9	8.7	0.5	0.1	9.3	0.2	9.5
Assets								
Segment assets (restated)	130.7	9.2	139.9	11.7	91.9	243.5	–	243.5
Liabilities								
Segment liabilities	(45.1)	(9.4)	(54.5)	(4.2)	(43.6)	(102.3)	–	(102.3)
Net assets/(liabilities)	85.6	(0.2)	85.4	7.5	48.3	141.2	–	141.2

Geographical segments

The Group manages its business segments on a global basis and the operations are based in three main geographical areas. The following tables present external revenue and other information regarding the Group's geographical segments. Revenue is by market and is based on the location of the customer and other disclosures are based on the geographical area in which the operations are located.

4. Segmental analysis continued

	2008 £ million	2007 £ million
Revenue by market		
Continuing operations		
Europe	47.8	43.7
North America	139.5	132.2
Asia Pacific, Rest of Americas, Africa	70.6	61.1
	257.9	237.0
Discontinued operations		
Europe	–	3.2
North America	–	0.3
Asia Pacific, Rest of Americas, Africa	–	0.1
	–	3.6
	257.9	240.6

	2008 £ million	2007 (restated) £ million
Geographical assets		
Continuing operations		
Europe	17.0	7.1
North America	162.0	135.8
Asia Pacific, Rest of Americas, Africa	15.4	8.7
	194.4	151.6
Non-segmental assets	67.9	91.9
	262.3	243.5

	2008 £ million	2007 £ million
Capital expenditure		
Continuing operations		
Europe	1.0	0.5
North America	5.9	1.4
Asia Pacific, Rest of Americas, Africa	0.5	3.1
	7.4	5.0
Discontinued operations		
Europe	–	0.1
	7.4	5.1

Notes to the consolidated financial statements continued

5. Profit before tax

The following items have been charged in arriving at profit before tax and are disclosed for continuing and discontinued operations where relevant:

	2008 £ million	2007 £ million
Employee benefit costs *note 10*	**96.9**	95.3
Costs of inventories recognised as an expense	**63.2**	59.9
Write-down of inventories to net realisable value *note 19*	**1.3**	5.0
Amortisation of intangible assets *note 15*	**0.7**	1.5
Depreciation of property, plant and equipment		
Owned assets *note 16*	**8.8**	9.5
Loss on disposal of property, plant and equipment	**0.3**	0.8
Operating leases		
Minimum lease payments	**6.8**	7.0
Sublease income	**(0.5)**	(1.1)
Product development costs	**45.3**	46.3
Net foreign exchange (credit)/charge	**(0.1)**	0.6

Services provided to all of the operations of the Group by the auditor, Ernst & Young LLP, and its associates

	2008 £ million	2007 £ million
Audit services		
Statutory audit	**0.3**	0.3
Other fees to auditors		
Local statutory audits for subsidiaries	**0.2**	0.2
Other services relating to tax	**–**	0.1
	0.2	0.3
	0.5	0.6

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.

6. Discontinued operations
Discontinued operations in 2007 relate to SwissQual which was sold on 5 July 2007. SwissQual was included within the Performance Analysis division. There were no discontinued operations in 2008.

The results for discontinued operations are presented below:

	2007 £ million
Revenue	3.6
Cost of sales	(3.2)
Gross profit	0.4
Expenses	(3.8)
Operating loss	(3.4)
Loss on the disposal of operations *note 34*	(4.2)
Loss before tax from discontinued operations	(7.6)
Tax *note 12*	(0.3)
Loss for the year from discontinued operations	(7.9)

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

	2007 £ million
Operating	(1.3)
Investing	(0.1)
Net cash outflow	(1.4)

7. Exceptional items
Operating items

	2008 £ million	2007 £ million
Inventory provisions	–	2.4
Restructuring costs	–	12.8
Curtailment gains on defined benefit pension plan *note 11*	–	(0.8)
	–	14.4

The Group defines exceptional items as those items which, by virtue of their size or nature, would distort the comparability of the Group's results from year to year. There were no exceptional operating items in 2008.

Restructuring costs and inventory provisions
Major restructuring actions were taken throughout the Group during 2007.

Restructuring costs included severance costs and other reorganisation costs of £6.1 million, impairment of property, plant and equipment of £3.1 million and onerous lease provisions in respect of the Group's separable vacant space of £3.6 million.

In addition, an inventory write-down of £2.4 million was charged in relation to excess and obsolete inventory identified as a result of outsourcing activities.

Notes to the consolidated financial statements continued

7. Exceptional items continued

Curtailment gains

The curtailment gain of £0.8 million in 2007 relates to the closure of a site which led to a reduction in the number of employees covered by the Spirent Staff Pension Plan.

Exceptional interest income and expense

Exceptional interest income of £0.8 million and an exceptional interest expense of £2.6 million have been reported in 2008 (2007 nil). See notes 8 and 9.

Exceptional tax credit

There is an exceptional tax credit of £25.6 million in 2008 (2007 nil) which is in relation to the agreement of an overseas tax position. See note 12.

8. Finance income

	2008 £ million	2007 £ million
Interest receivable	**3.1**	6.1
Defined benefit pension plans *note 11*	**0.1**	0.9
	3.2	7.0
Exceptional interest income	**0.8**	–
	4.0	7.0

Finance income is all in respect of continuing operations.

Exceptional finance income in 2008 relates to interest received on prior year tax refunds during the year.

9. Finance costs

	2008 £ million	2007 £ million
Bank loans and overdrafts	**0.2**	0.1
Leasehold provisions discount adjustment *note 25*	**0.3**	0.2
	0.5	0.3
Exceptional interest on tax settlement	**2.6**	–
	3.1	0.3

Finance costs are all in respect of continuing operations.

An exceptional interest charge has been incurred on the agreement of prior year tax positions with the relevant tax authorities.

10. Employees

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

	2008 Number	2007 Number
Manufacturing	**443**	465
Product development	**532**	556
Selling and distribution	**381**	437
Administration	**191**	203
	1,547	1,661

10. Employees continued

Employee benefit costs were:

	2008 £ million	2007 £ million
Remuneration	85.7	81.8
Social security costs	6.8	6.7
Pension and other related costs	2.9	4.3
Expense of share-based payment *note 30*	1.5	2.5
	96.9	95.3

Employee numbers and costs include discontinued operations up to the date of disposal.

Please refer to the Report on directors' remuneration on pages 32 to 41 for disclosures relating to the emoluments, share incentives and pensions of the directors.

11. Pensions

Defined benefit plans

The defined benefit pension plans are in the United Kingdom and comprise the Spirent Communications plc Staff Pension & Life Assurance Plan ("Staff Plan") and the Spirent Communications plc Retirement Cash & Life Assurance Plan ("Cash Plan"). These plans have been combined for the purposes of the following disclosures. There is in addition a United Kingdom unfunded plan.

The assets and liabilities on the balance sheet are as follows:

	2008 £ million	2007 (restated) £ million
Assets		
UK defined benefit pension plan surplus	2.6	6.1
Liabilities		
UK unfunded plan	(0.6)	(0.7)

The most recent actuarial valuations, at 1 April 2006, of the plans' assets and the present value of the defined benefit plans' obligations, using the projected unit credit method, have been used and updated by our independent actuaries.

i) The key financial assumptions

	2008 %	2007 %
Inflation	3.0	3.4
Rate of increase in pensionable salaries	3.5	4.1
Rate of increase for pensions in payment pre 2001 service	3.6	3.6
Rate of increase for pensions in payment post 2001 pre April 2005 service	2.9	3.4
Rate of increase for pensions post April 2005 service	2.1	2.4
Rate of increase in deferred pensions	3.0	3.4
Rate used to discount plan liabilities	6.0	5.7
Expected rate of return on plan assets	5.2	5.9

Spirent Communications plc employs a building block approach in determining the long term rate of return on plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each class of asset is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return of each asset class over the actual asset allocation for the plans.

Notes to the consolidated financial statements continued

11. Pensions continued

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are such that a member currently aged 65 will live on average for a further 21.7 years (2007 21.6 years) if they are male and for a further 24.0 years (2007 24.0 years) if they are female. For a member who retires in 2028 at age 65 the assumptions are that they will live on average for a further 22.9 years (2007 22.8 years) after retirement if they are male and for a further 25.0 years (2007 25.0 years) after retirement if they are female.

The approximate impact to the past service liabilities of changing these main assumptions is as follows:

- Reducing the discount rate by 0.1 per cent per annum. This would increase past service liabilities by £1.8 million.
- Increasing the life expectancy of a current 65 year old by one year (by modifying the standard mortality tables using an appropriate scaling factor). This would increase past service liabilities by £3.1 million.

There will also be an impact on the future service cost but given the small active population in these plans this is likely to be insignificant.

ii) The assets and the liabilities in the plans

	Long term rate of return expected %	2008 £ million	Long term rate of return expected %	2007 (restated) £ million
Equities	8.0	24.9	8.0	48.0
Government bonds	4.0	60.3	4.5	64.3
Corporate bonds	5.7	29.5	4.7	13.0
Property	7.0	4.1	7.0	5.8
Cash and other	3.8	10.5	5.9	11.7
Fair value of plans' assets	5.2	129.3	5.9	142.8
Present value of defined benefit pension plans' obligations		(126.5)		(135.1)
Surplus in the plans		2.8		7.7
Irrecoverable element of pension plan surplus		(0.2)		(1.6)
Net surplus in the plans on the balance sheet		2.6		6.1

The surplus at 31 December 2007 has been restated on the implementation of IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The effect of this restatement is discussed in note 2.

The plans are prohibited from investing in Spirent's own financial instruments.

iii) Analysis of the amounts charged/(credited) to the income statement

	2008 £ million	2007 £ million
Analysis of amount charged/(credited) to operating costs		
Current service cost	0.2	0.2
Past service cost	–	0.6
Curtailment gains	–	(0.8)
Total operating charge	0.2	–
Analysis of amount credited to finance income		
Expected return on pension plans' assets	7.6	8.1
Interest on pension plans' liabilities	(7.5)	(7.2)
Finance income *note 8*	0.1	0.9
Net charge/(credit) to the income statement	0.1	(0.9)

11. Pensions continued

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

	2008 £ million	2007 (restated) £ million
Actual return on pension plans' assets	(7.8)	5.5
Less expected return on pension plans' assets	7.6	8.1
Experience losses on plans' assets	(15.4)	(2.6)
Experience losses arising on plans' liabilities	(0.4)	(0.8)
Changes in assumptions underlying the present value of plans' liabilities	10.7	7.5
Actuarial (loss)/gain recognised directly in equity	(5.1)	4.1

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the Group's statement of recognised income and expense is £11.7 million loss (2007 £6.6 million loss). The directors are unable to determine how much of the pension plan 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 plans. 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.

	2008 £ million	2007 (restated) £ million
Movement in the irrecoverable element of pension plan surplus	1.4	(1.6)

v) Movements in the present value of defined benefit obligations

	2008 £ million	2007 £ million
At 1 January	135.1	158.2
Current service cost	0.2	0.2
Past service cost	–	0.6
Interest cost	7.5	7.2
Employee contributions	0.1	0.1
Benefit payments	(6.1)	(4.9)
Transfer values paid	–	(18.8)
Curtailment gains	–	(0.8)
Actuarial gain	(10.3)	(6.7)
Present value of defined benefit pension plans' obligations	126.5	135.1

vi) Movements in the fair value of plans' assets

	2008 £ million	2007 £ million
At 1 January	142.8	160.6
Expected return on plans' assets	7.6	8.1
Employer contributions	0.3	0.3
Employee contributions	0.1	0.1
Benefit payments	(6.1)	(4.9)
Transfer values paid	–	(18.8)
Actuarial loss	(15.4)	(2.6)
Fair value of plans' assets	129.3	142.8

Notes to the consolidated financial statements continued

11. Pensions continued

vii) History of experience gains and losses

	2008 £ million	2007 £ million	2006 £ million	2005 £ million	2004 £ million
Present value of defined benefit pension plans' obligations	**(126.5)**	(135.1)	(158.2)	(179.6)	(144.2)
Fair value of plans' assets	**129.3**	142.8	160.6	128.8	106.9
Net surplus/(deficit) in plans	**2.8**	7.7	2.4	(50.8)	(37.3)
Experience gains and losses on plans' liabilities					
Amount (£ million)	**(0.4)**	(0.8)	(10.0)	4.8	2.4
Percentage of plans' liabilities (%)	**(0.3)**	(0.6)	(6.3)	2.7	1.7
Experience gains and losses on plans' assets					
Amount (£ million)	**(15.4)**	(2.6)	0.5	14.6	3.6
Percentage of plans' assets (%)	**(11.9)**	(1.8)	0.3	11.3	3.4

The above plans are funded and have full UK HM Revenue & Customs tax-exempt approval. Certain members, whose salaries were in excess of the statutory earnings cap, had their benefits increased through unapproved, unfunded arrangements, to the level that would otherwise have applied in respect of 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 2008 of £0.6 million (2007 £0.7 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. There are no experience gains or losses in the period from 2004 to 2008 on the unfunded plan.

Expected contributions for these plans for 2009 are £0.3 million.

A curtailment gain of £0.8 million arose in 2007 on the closure of a site which led to a reduction in the number of employees covered by the plans. As the curtailment gain related to restructuring it was included within exceptional restructuring costs.

Defined contribution plans

United Kingdom

The Group maintains defined contribution pension plans for employees in the United Kingdom. Employer contributions into these plans for 2008 were £0.7 million (2007 £0.7 million).

United States

The Group maintains a defined contribution pension benefit plan for employees of its United States subsidiaries. This plan, also known as a 401(k) Plan, allows employees to defer a percentage of their salary for retirement. The investment choices offered by the plan are 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 US plan totalled $3.1 million for 2008 (2007 $3.5 million). Total assets in the defined contribution plan at the end of 2008 were $89.4 million (2007 $129.2 million). There were no defined benefit plans in the United States in 2008 or 2007.

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. These arrangements are defined contribution plans. Total contributions for 2008 in respect of these plans amounted to £0.2 million (2007 £0.5 million).

Total contributions to defined contribution plans were £2.6 million (2007 £3.0 million).

11. Pensions continued

Directors' pension arrangements

The pension arrangements of the executive directors are described in detail in the Report on directors' remuneration on pages 32 to 41.

12. Tax

	2008 £ million	2007 £ million
Tax (credit)/charge in the income statement		
Current income tax		
Foreign tax		
Continuing operations	5.0	7.9
Discontinued operations *note 6*	–	0.3
Current income tax charge	5.0	8.2
Amounts (overprovided)/underprovided in previous years		
UK tax	(3.4)	(6.4)
Foreign tax	(27.1)	1.1
Prior year tax credit	(30.5)	(5.3)
Total current income tax	(25.5)	2.9
Deferred tax		
Recognition of deferred tax assets	(2.5)	(10.5)
Origination and reversal of temporary differences	2.8	0.2
Total deferred tax expense/(credit)	0.3	(10.3)
Tax credit in the income statement	(25.2)	(7.4)
The tax credit in the income statement is disclosed as follows:		
Continuing operations		
Income tax charge	0.1	2.6
Income tax credit – exceptional	(25.6)	–
Deferred tax charge/(credit)	0.3	(10.3)
	(25.2)	(7.7)
Discontinued operations		
Income tax charge *note 6*	–	0.3
Tax credit in the income statement	(25.2)	(7.4)

Tax relating to items charged or credited to equity:

	2008 £ million	2007 £ million
Deferred tax liability on defined benefit pension plan surplus	(0.3)	0.8
Tax (credit)/charge in the statement of recognised income and expense	(0.3)	0.8

Reconciliation of the total tax charge

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 28.5 per cent (2007 lower and 30 per cent).

Notes to the consolidated financial statements continued

12. Tax continued

The differences are reconciled below:

	2008 £ million	2007 £ million
Profit before tax from continuing operations	**49.6**	17.8
Loss before tax from discontinued operations *note 6*	**–**	(7.6)
Accounting profit before tax	**49.6**	10.2
Accounting profit multiplied by the UK standard rate of corporation tax of 28.5 per cent (2007 30 per cent)	**14.1**	3.1
Exceptional items not given credit	**0.5**	0.9
Intangible assets	**0.2**	0.4
Share-based payment	**0.4**	0.7
Disposals	**–**	2.3
Differences in overseas rates and other adjustments	**(0.9)**	1.4
Tax overprovided in prior years	**(30.5)**	(5.3)
Recognition of UK deferred tax assets	**–**	(6.6)
Use of pension fund and other UK deductions	**(3.0)**	(4.3)
Use of overseas tax credits and unrecognised losses	**(6.0)**	–
Total tax credit reported in the income statement	**(25.2)**	(7.4)

Amount overprovided in prior years

In 2008 the Group released provisions of £30.5 million (2007 £5.3 million) following the agreement of tax positions with various tax authorities for prior years. Of this £25.6 million has been reported as an exceptional item (2007 nil).

Recognition of deferred tax assets

During the year the Group has recognised deferred tax assets in the United States of £2.5 million (2007 £3.9 million). No additional deferred tax assets were recognised in the United Kingdom (2007 £6.6 million).

Tax effect of exceptional items

The tax effect in respect of exceptional items in 2007 was a £3.9 million credit. There was no tax effect on exceptional items in 2008.

13. Earnings/(loss) per share

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

	2008 £ million	2007 £ million
Profit/(loss) for the year attributable to equity shareholders of parent Company		
Continuing operations	**74.8**	25.5
Discontinued operations	**–**	(7.9)
	74.8	17.6

	2008 Number million	2007 Number million
Weighted average number of shares in issue – basic	**738.5**	859.8
Dilutive potential of employee share incentives	**5.3**	8.8
Weighted average number of shares in issue – diluted	**743.8**	868.6

13. Earnings/(loss) per share continued

	2008 pence	2007 pence
Earnings/(loss) per share		
Basic earnings per share	10.13	2.05
Basic earnings per share from continuing operations	10.13	2.97
Basic loss per share from discontinued operations	–	(0.92)
Diluted earnings per share	10.06	2.03
Diluted earnings per share from continuing operations	10.06	2.94
Diluted loss per share from discontinued operations	–	(0.91)

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

	2008 £ million	2008 pence	2007 £ million	2007 pence
Profit for the period attributable to equity shareholders of parent Company	74.8	10.13	25.5	2.97
Exceptional operating items *note 7*	–		14.4	
Exceptional finance income *note 8*	(0.8)		–	
Exceptional finance expense *note 9*	2.6		–	
Tax on exceptional items *note 12*	–		(3.9)	
Exceptional tax credit *note 12*	(25.6)		–	
Prior year tax credit *note 12*	(4.9)		(5.3)	
Adjusted basic	46.1	6.24	30.7	3.57
Adjusted diluted		6.20		3.54

14. Dividends paid and proposed

	2008 £ million	2007 £ million
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Interim dividend 2008 0.5 pence (2007 nil)	3.7	–
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2008 0.6 pence (2007 nil)	4.0	–

The directors are proposing a final dividend in respect of the financial year ended 31 December 2008 of 0.6 pence per share (2007 nil), which will absorb an estimated £4.0 million of shareholders' funds. It will be paid on 8 May 2009 to shareholders who are on the Register of Members at close of business on 6 March 2009. Payment will be made to ADR holders on 18 May 2009. No liability is recorded in the financial statements in respect of this final dividend.

Notes to the consolidated financial statements continued

15. Intangible assets

£ million

	Goodwill	Intangible assets	Total
Cost net of accumulated amortisation and impairment losses			
At 1 January 2007	54.8	8.5	63.3
Increase during the year	–	0.3	0.3
Discontinued operations *note 34*	–	(3.4)	(3.4)
Amortisation for the year	–	(1.5)	(1.5)
Release of accrual for deferred consideration	–	(0.5)	(0.5)
Exchange adjustment	0.6	(0.2)	0.4
At 1 January 2008	**55.4**	**3.2**	**58.6**
Amortisation for the year	**–**	**(0.7)**	**(0.7)**
Exchange adjustment	**18.9**	**0.8**	**19.7**
At 31 December 2008	**74.3**	**3.3**	**77.6**
At 31 December 2007			
Cost (gross carrying amount)	1,737.9	5.7	1,743.6
Amortisation and accumulated impairment losses	(1,682.5)	(2.5)	(1,685.0)
Net carrying amount	55.4	3.2	58.6
At 31 December 2008			
Cost (gross carrying amount)	**1,884.9**	**8.3**	**1,893.2**
Amortisation and accumulated impairment losses	**(1,810.6)**	**(5.0)**	**(1,815.6)**
Net carrying amount	**74.3**	**3.3**	**77.6**

Goodwill and intangible assets at 31 December 2008 and 2007 are all within the Performance Analysis segment.

The carrying amounts of intangible assets at 31 December by class are as follows:

£ million

	Customer list	Current technology	Other	Total
At 31 December 2008	**0.4**	**1.9**	**1.0**	**3.3**
At 31 December 2007	0.4	1.9	0.9	3.2

Amortisation and impairment charges

Goodwill at 31 December 2008 acquired through business combinations is all in the cash-generating unit Performance Analysis which is a reportable segment. There has been no goodwill impairment charged in 2008 or 2007.

Intangible assets are amortised on a straight line basis over their estimated useful lives which are on average five years and the charge is included within administration expenses in the income statement.

The remaining amortisation periods of the intangible asset balances arising in relation to customer list and current technology are 2.2 years and 2.4 years, respectively.

15. Intangible assets continued

Annual impairment test

The recoverable amount of the Performance Analysis cash-generating unit at 30 November 2008, the annual impairment testing date, has been determined based on a value in use calculation using management's cash flow projections over a three year period. Cash flows in subsequent years have been extrapolated using a 2.5 per cent (2007 2.5 per cent) growth rate which approximates to the average long term growth rate for the industries in which this unit operates. The cash flows have been discounted using a pre-tax discount rate of 21.0 per cent (2007 21.3 per cent). The recoverable amount of this unit, calculated on a value in use basis, was in excess of its carrying value and consequently no impairment has been recognised.

Key assumptions for the annual impairment test

The key assumptions used in the value in use calculation were:

- Revenue growth rates.
- Gross margin.
- Operating expenses.
- Discount rate.
- Growth rate used to extrapolate cash flows beyond the three year period covered by management's projections.

Projections were denominated in the same currency as the denomination of the goodwill balance to eliminate the effect of fluctuating exchange rates.

Revenue growth rates used in management's projections are based on management's estimate of growth in the markets served, taking into account the current economic uncertainties. The cash flows used in the impairment review were approved by the Board.

Gross margins and operating expenses are based on historical values.

The discount rate applied to the cash flows is based on the risk free rate for ten year government bonds adjusted for a risk premium to reflect both the increased risk associated with investing in equities and the systematic risk of the specific cash-generating unit.

Long term growth rates are based upon industry analysis.

Sensitivity to changes in key assumptions

At 30 November 2008, the date of the Group's annual impairment review, the estimated recoverable amount of the Performance Analysis cash-generating unit exceeded its carrying value by £36.2 million. The table below shows the key assumptions used in the value in use calculation and the rate to which each must change in isolation in order for the estimated recoverable amount to be equal to its carrying value.

	Assumptions used in value in use calculation	Rate required for carrying value to equal recoverable amount
Pre-tax discount rate (%)	21.0	28.7
Rate of revenue decline in year 1 (%)	19.0	23.2
Long term growth rate (%)	2.5	(3.1)

Notes to the consolidated financial statements continued

15. Intangible assets continued

In the impairment review carried out at 30 November 2007 the recoverable amount exceeded the carrying value of the cash-generating unit by £138.2 million. The directors believed that no reasonable possible change in any of the key assumptions used in isolation would have caused the carrying value of the Performance Analysis cash-generating unit to exceed its recoverable amount.

16. Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total (£ million)
Cost, net of accumulated depreciation and accumulated impairment				
At 1 January 2007	4.4	12.3	8.6	25.3
Additions				
Owned assets	0.4	2.8	1.9	5.1
Discontinued operations *note 34*	–	–	(0.5)	(0.5)
Disposals	–	(0.9)	(0.1)	(1.0)
Depreciation charge for the year	(1.1)	(4.5)	(3.9)	(9.5)
Impairment	(1.1)	(1.7)	(0.3)	(3.1)
Exchange adjustment	–	(0.1)	–	(0.1)
At 1 January 2008	**2.6**	**7.9**	**5.7**	**16.2**
Additions				
Owned assets	**2.1**	**3.5**	**1.8**	**7.4**
Disposals	**–**	**(0.4)**	**(0.4)**	**(0.8)**
Depreciation charge for the year	**(1.4)**	**(4.3)**	**(3.1)**	**(8.8)**
Exchange adjustment	**1.4**	**2.4**	**0.8**	**4.6**
At 31 December 2008	**4.7**	**9.1**	**4.8**	**18.6**
At 31 December 2007				
Cost	8.8	38.3	36.2	83.3
Accumulated depreciation and accumulated impairment	(6.2)	(30.4)	(30.5)	(67.1)
Net carrying amount	2.6	7.9	5.7	16.2
At 31 December 2008				
Cost	**14.6**	**32.7**	**32.6**	**79.9**
Accumulated depreciation and accumulated impairment	**(9.9)**	**(23.6)**	**(27.8)**	**(61.3)**
Net carrying amount	**4.7**	**9.1**	**4.8**	**18.6**

None of the property, plant and equipment is held under finance leases arrangements.

17. Capital commitments and contingent liabilities

The Group had capital commitments at 31 December 2008 of £0.1 million (31 December 2007 nil).

The Group has provided indemnities of £0.5 million (2007 £0.4 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

During 2006 Spirent discovered potential violations of the United States Export Administration Regulations surrounding the valuation and classification of exports together with record keeping requirements. The Company has notified the Office of Export Enforcement of the US Department of Commerce and until the Office of Export Enforcement has concluded on this matter, the Company is unable to determine what liability, if any, might be due in respect of this.

18. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 111 of these financial statements.

19. Inventories

	2008 £ million	2007 £ million
Raw materials	**11.7**	8.3
Work in progress	**1.5**	1.9
Finished goods	**11.0**	7.6
	24.2	17.8

An expense of £1.3 million (2007 £5.0 million) has been recognised in the period for inventory write-downs. There are no reversals of prior period inventory write-downs (2007 nil).

No inventories are carried at fair value less costs to sell (2007 nil).

20. Trade and other receivables

	2008 £ million	2007 £ million
Non-current assets		
Other receivables	**2.2**	1.4
Prepayments, accrued income and deferred costs	**0.3**	–
	2.5	1.4
Current assets		
Trade receivables	**52.2**	40.2
Other receivables	**2.4**	2.7
Prepayments, accrued income and deferred costs	**7.8**	7.3
	62.4	50.2
	64.9	51.6

The trade receivables are stated net of provisions for doubtful debts. The movement in the provision was as follows:

	2008 £ million	2007 £ million
At 1 January	**1.8**	1.3
Charge for the year	**0.5**	0.5
Released in the year	**(0.6)**	–
Exchange adjustment	**0.2**	–
At 31 December	**1.9**	1.8

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

The Group has no significant concentration of credit risk attributable to its trade receivables as the exposure is spread over a large number of customers.

21. Cash and cash equivalents

	2008 £ million	2007 £ million
Cash at bank and in hand	**27.4**	12.3
Short term bank deposits	**32.3**	61.7
Short dated commercial paper	**–**	5.0
	59.7	79.0

Cash at bank and in hand earns interest at floating interest rates.

Notes to the consolidated financial statements continued

21. Cash and cash equivalents continued

Short term bank deposits are made for varying periods of between one day and one week (2007 one day and two months) depending on the cash requirements of the Group and earn interest at the short term deposit rates appropriate for the term of the deposit and currency. In 2007 short dated commercial paper was also held, having a maturity of between one day and one month, and rated Standard & Poor's A or Moodys A2 or better.

For the purposes of the cash flow statement, cash and cash equivalents comprise the above amounts.

	2008 £ million	2007 £ million
Non-current		
Cash on deposit	**2.5**	3.7

At 31 December 2008 £2.5 million (2007 £3.7 million) is held in a blocked trust account and is only available for use by the Company once all creditors who were outstanding at the date of the cancellation of the share premium and capital redemption reserve, being 24 November 2004, are settled. See note 31.

22. Trade and other payables – current

	2008 £ million	2007 £ million
Trade payables	**13.7**	9.0
Payments received on account	**2.3**	2.0
Other taxes and social security costs	**1.7**	0.6
Other payables	**–**	3.2
Accruals and deferred income	**45.8**	39.8
	63.5	54.6

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. Deferred tax

The movements in the deferred tax assets and liabilities are as follows:

				£ million
	Temporary differences	Tax losses	UK pension plan surplus	Total
Deferred tax asset at 1 January 2007	0.2	1.0	–	1.2
Recognised in the year *note 12*	10.5	–	–	10.5
Charged in the year *note 12*	–	(0.2)	–	(0.2)
Deferred tax on UK pension plan surplus *note 12*	–	–	(0.8)	(0.8)
Disposal of operations *note 34*	(0.2)	–	–	(0.2)
Deferred tax asset at 1 January 2008	**10.5**	**0.8**	**(0.8)**	**10.5**
Recognised in the year *note 12*	**(0.8)**	**3.3**	**–**	**2.5**
Charged in the year *note 12*	**(2.3)**	**(0.5)**	**–**	**(2.8)**
Deferred tax on UK pension plan surplus *note 12*	**–**	**–**	**0.3**	**0.3**
Exchange adjustment	**1.5**	**0.2**	**–**	**1.7**
Deferred tax asset at 31 December 2008	**8.9**	**3.8**	**(0.5)**	**12.2**

23. Deferred tax continued

A deferred tax asset of £12.2 million has been recognised at 31 December 2008 (2007 £10.5 million). £6.1 million is in the United Kingdom (2007 £5.8 million) and £6.1 million is in the United States (2007 £4.7 million).

The deferred tax liability arising on the United Kingdom pension plan surplus in 2008 and 2007 has been offset as permitted by IAS 12 "Income Taxes". Movements have been charged to the statement of recognised income and expense in 2008 and 2007.

Deferred tax assets on temporary differences of £29.1 million (2007 £56.2 million) arising principally in the United States, Canada and the United Kingdom 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 to recognise a deferred tax asset in respect of these temporary differences.

In addition, the Group has tax losses arising in the United Kingdom of £80.3 million (2007 £68.9 million in the United Kingdom and £28.6 million in the United States) that are available for offset against suitable future taxable profits. The United States tax losses unrecognised at 31 December 2007 have been reduced by £26.8 million following agreement of the tax position for prior years with the balance being utilised in the current year. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. United Kingdom tax losses can be carried forward indefinitely.

In total deferred tax assets amounting to £34.0 million (2007 £50.1 million) have not been recognised on unutilised losses and temporary differences.

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

24. Trade and other payables – non-current

	2008 £ million	2007 £ million
Other payables	1.3	1.1
Accruals and deferred income	3.8	–
	5.1	1.1

25. Provisions and other liabilities

£ million	Restructuring and other provisions	Lease provisions	Total
At 1 January 2008	2.3	10.4	12.7
Charged/(released) during the year	(0.4)	0.8	0.4
Discount unwind *note 9*	–	0.3	0.3
Change in discount rate	–	0.5	0.5
Utilised in the year	(0.4)	(3.2)	(3.6)
Transfer to payables	(1.2)	–	(1.2)
Exchange adjustment	0.6	2.2	2.8
At 31 December 2008	0.9	11.0	11.9

Notes to the consolidated financial statements continued

25. Provisions and other liabilities continued

Provisions have been analysed as follows:

	2008 £ million	2007 £ million
Current	**3.7**	5.1
Non-current	**8.2**	7.6
	11.9	12.7

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 eight years.

Restructuring and other provisions at 31 December 2008 are mainly in relation to environmental provisions on property disposed of.

26. Derivative financial instruments

The derivative financial instruments are forward foreign currency exchange contracts.

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

At 31 December 2008 the Group held various forward foreign currency exchange contracts in respect of the forward sale of US dollars against sterling on trading transactions. Contracts for the sale of US dollars total £26.5 million (2007 £29.7 million), are for various maturity dates over the period to 31 December 2009 at an average exchange rate of 1.76 (2007 over the period to 31 December 2008 at an average rate of 2.03). At 31 December 2007 there were also outstanding contracts for the purchase of US dollars against the euro which totalled £0.7 million at an average exchange rate of 1.41 which all matured before 31 December 2008.

These contracts have been designated as hedges at 31 December 2008 and 31 December 2007.

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

	2008 £ million	2007 £ million
	Liabilities	Liabilities
Currency derivatives – expected to be realised in less than one year		
Designated as a cash flow hedge	**5.6**	0.5

Gains and losses on cash flow hedges recycled into the income statement from equity are charged or credited to administration costs.

27. Financial instruments and financial risk management

The main purpose of the Group's financial instruments, other than trade receivables, trade payables and provisions is to fund the Group's liquidity requirements.

All the Group's financial assets and liabilities are categorised as loans and receivables with the exception of the derivative financial instruments which are measured at fair value. These are shown in the following table.

		2008 £ million		2007 £ million
	Loans and receivables at amortised cost	Derivative financial instruments at fair value	Loans and receivables at amortised cost	Derivative financial instruments at fair value
Non-current cash on deposit *note 21*	**2.5**	**–**	3.7	–
Non-current other receivables *note 20*	**2.2**	**–**	1.4	–
Cash and cash equivalents *note 21*	**59.7**	**–**	79.0	–
Current trade and other receivables *note 20*	**54.6**	**–**	42.9	–
Financial assets	**119.0**	**–**	127.0	–
Non-current other payables *note 24*	**1.3**	**–**	1.1	–
Current trade and other payables *note 22*	**15.4**	**–**	12.8	–
Provisions *note 25*	**11.9**	**–**	12.7	–
Current derivatives that qualify for hedge accounting *note 26*	**–**	**5.6**	–	0.5
Financial liabilities	**28.6**	**5.6**	26.6	0.5

The Group enters into derivative transactions, forward foreign currency exchange contracts, for the management of the Group's currency 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.

a) Market risk

The main types of market risk that affect the Group are interest rate risk and exchange rate risk.

Interest rate risk

Following the repayment of its long term debt in February 2006 the Group has remained debt free with limited exposure to market risk for changes in interest rates. The Group's excess funds are principally held in the United Kingdom and United States and invested in short term bank deposits. It therefore has some exposure to interest rate risk arising on changes in sterling and US dollar interest rates. In 2007 the Group also invested in short dated commercial paper which all matured within one month.

Cash and cash equivalents, long term cash on deposit and forward foreign currency exchange contracts are the Group's financial instruments which are exposed to interest rate risk.

Notes to the consolidated financial statements continued

27. Financial instruments and financial risk management continued

Short term bank deposits all mature within one week. Forward foreign currency exchange contracts all mature within one year. The financial instruments bear the following interest rates:

	Effective interest rate %	2008 £ million	Effective interest rate %	2007 £ million
Fixed rate				
Fixed deposits	1.26	32.3	5.98	61.7
Short dated commercial paper	–	–	4.18	5.0
Forward foreign currency exchange contracts		(5.6)		(0.5)
		26.7		66.2
Floating rate				
Cash at bank and in hand		27.4		12.3

Interest rates on financial instruments classified as fixed rate are fixed until the maturity of the instrument. All fixed rate deposits mature within one week (2007 two months) after which date they will be exposed to floating rates of interest.

In addition, £2.5 million (2007 £3.7 million) was held in a blocked trust account and was earning interest of 1.75 per cent at 31 December 2008 (2007 6.25 per cent). The maturity of the deposit is less than one month, at maturity the interest rate will be reset. This cash must be retained in the blocked trust account in accordance with the terms of the undertakings made at the time of the cancellation of the share premium account and capital redemption reserve (the “Cancellation”) in 2004. The funds must remain in this account until all the creditors who existed at the date of the Cancellation have been repaid and therefore the maturity of this account is uncertain.

Interest receivable for the year was £3.1 million (note 8) (2007 £6.1 million) and is under the effective interest method.

The other financial instruments of the Group that are not included in the above table are non-interest bearing and are therefore not subject to interest rate risk.

A movement of 100 basis points in interest rates based on levels of investment at 31 December 2008 would increase or reduce interest income and equity by £0.3 million (2007 £0.7 million).

Exchange rate 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.

The Group presents its consolidated financial statements in sterling but has significant operations in the United States, and its results can therefore be substantially affected on translation by movements in the US dollar to sterling exchange rate. 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. During the year, sterling has significantly weakened against the US dollar. The Group does not have any net investment hedges in place.

A 10 per cent change in the US dollar to sterling exchange rate will have the following effect on the income statement and balance sheet compared with the reported exchange rate:

	2008 £ million	2007 £ million
Income statement		
Profit before tax	5.0	3.0
Balance sheet		
Shareholders’ funds	10.0	7.0

27. Financial instruments and financial risk management continued

The Group is not exposed to significant transactional foreign currency risk at 31 December 2008, nor at 31 December 2007, because the majority of its businesses do not enter into non-functional currency transactions. Where such transactions do occur the Group enters into forward foreign currency exchange contracts as appropriate.

Group Treasury, by means of forward foreign currency exchange contracts, carries out the majority of the transaction hedging activity in relation to normal trading activity. At 31 December 2008 the Group had hedged the major part of its 2009 US dollar forecast trading exposures at an average exchange rate of 1.76 US dollars to sterling (at 31 December 2007 at an average exchange rate of 2.03).

b) Credit risk

Investment counterparties are subject to pre-approval by the Board and as such short term deposits are limited to banks with a rating of Standard & Poor's A or Moody's A2 or better. There are pre-approved limits set for each bank to avoid any concentrations of credit risk.

The maximum credit exposure at the balance sheet date under financial instruments in relation to bank deposits is equal to the carrying value of £34.8 million (2007 £70.4 million, bank deposits and short dated commercial paper).

Trade receivables, which generally have 30 to 90 day terms, are carried at original invoice amount less an allowance for uncollectable amounts where appropriate. Trade receivable exposures are managed in the business units where they arise. Allowance is made for bad and doubtful debts based on management's assessment of the risk taking into account ageing profile, experience and circumstance.

The Group has no significant concentration of credit risk attributable to its trade receivables as the exposure is spread over a large number of customers with no one customer accounting for more than 10 per cent of total Group revenue. The maximum credit exposure at the balance sheet date in relation to trade receivables is equal to the carrying value of £52.2 million (2007 £40.2 million).

The composition of trade receivables at 31 December is as follows:

	2008 £ million	2007 £ million
Neither impaired nor past due	**29.5**	27.4
Past due but not impaired:		
Less than 30 days overdue	**14.7**	8.7
30 to 60 days	**3.8**	2.1
Over 60 days	**4.2**	2.0
Trade receivables	**52.2**	40.2

The Group closely monitors amounts due from customers and performs activities such as credit checks and review of payment history and has put in place appropriate credit approval limits. Based on these procedures management assessed the quality of those receivables that are past due but not impaired as low risk.

The movement on the receivables provision during the year is given in note 20.

c) 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 cash and cash equivalents held centrally and cash generated from operations. In addition the Group has a committed but currently undrawn borrowing facility for £25 million in place until September 2011. This facility incurs commitment fees at market rates.

Notes to the consolidated financial statements continued

27. Financial instruments and financial risk management continued

The facility requires that the following financial covenants are met:

i) The ratio of operating profit to net interest shall not be less than 5.00:1.00
ii) The ratio of net debt to operating profit shall not be greater than 2.00:1.00
iii) The ratio of net debt to shareholders funds shall not exceed 1.00:1.00

All three financial covenants have been complied with for the 12 months ended 31 December 2008.

At 31 December 2008 the Group had cash and cash equivalents of £59.7 million (2007 £79.0 million) all of which mature within one week (2007 two months).

During 2008 the Group generated £47.7 million of cash from operating activities (2007 £49.8 million) and considers that with current cash resources, positive cash flow from operating activities and a committed borrowing facility it has adequate resources available to it to remain in operational existence for the forseeable future.

The Group has entered into forward foreign exchange contracts all of which mature within one year. The gross settlement amounts of these contracts are as follows:

	2008 £ million	2007 £ million
Sale of US dollars against sterling	**26.5**	29.7
Purchase of US dollars against euro	**–**	0.7
Gross settlement amounts	**26.5**	30.4

The Group is debt free and does not have loans payable. Financial liabilities, other than derivative financial liabilities, are trade and other payables, the majority of which are all due to be settled within one year, and provisions (see note 25).

The Group does not have any other material contractual commitments.

d) Fair value of financial instruments

The carrying value of all financial assets and liabilities is a reasonable approximation of fair value.

Derivative financial instruments are stated at fair value.

e) Capital management

The primary objective of the Group's capital management is to support its business and maximise shareholder value. The Group's capital is its total shareholders' funds.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. During 2007 and 2008 the Company has been operating an on-market share repurchase programme. In 2008 the Company repurchased 72.9 million of its Ordinary Shares (2007 103.4 million) at a cost of £42.2 million (2007 £66.8 million). In 2008 the Company also undertook a tender offer for the purchase of Ordinary Shares in the Company which resulted in a further 52.9 million shares being repurchased at a cost of £24.8 million.

28. 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:

	2008 £ million	2007 £ million
Within one year	**8.1**	6.6
In the second to fifth years	**17.8**	15.2
Over five years	**1.6**	2.0
	27.5	23.8

28. Operating lease commitments continued

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 sublease payments receivable relating to the above leases amounts to £1.2 million (2007 £0.9 million).

29. Authorised and issued share capital

Authorised

	2008 £ million	2007 £ million
1,250 million (2007 1,250 million) Ordinary Shares of 3⅓ pence each	**41.7**	41.7

Issued and fully paid

	Number of ordinary shares million	£ million
At 1 January 2007	975.9	32.5
Allotted pursuant to share incentives exercised	10.2	0.3
Cancelled during the year	(145.3)	(4.8)
At 1 January 2008	**840.8**	**28.0**
Allotted pursuant to share incentives exercised	**5.2**	**0.2**
Cancelled during the year	**(174.2)**	**(5.8)**
At 31 December 2008[1]	**671.8**	**22.4**

Note
1 During 2008, under the programme of returning capital to shareholders, the Company repurchased 72.9 million Ordinary Shares on-market and 52.9 million by way of a tender offer. All Ordinary Shares repurchased during the year were cancelled. The remaining 48.4 million Ordinary Shares which were held in treasury were cancelled during the year leaving no Ordinary Shares in treasury as at 31 December 2008 (2007 48.4 million). For the purposes of providing comparative data, the issued Ordinary Share capital of the Company (when treasury shares are taken into account and excluded from the calculation) as at 31 December 2007 was 792.4 million Ordinary Shares compared with 671.8 million as at 31 December 2008.

In accordance with the rules of the following share plans, share incentives were exercised during the year which resulted in new Ordinary Shares being allotted by the Company or existing Ordinary Shares being transferred from either the Spirent Employee Share Ownership Trust ("ESOT") or Spirent Sharesave Trust ("SST") as follows:

	Number of ordinary shares million	Consideration received £000
2005 Employee Incentive Plan	**0.4**	**24.0**
Spirent Stock Incentive Plan	**4.9**	**1,973.1**
1995 Executive Share Option Scheme	**0.6**	**238.3**
All employee share plans[1]	**0.3**	**125.9**
	6.2	**2,361.3**

Note
1 The all employee share plans are the UK Savings Related Share Option Scheme, the 2005 Sharesave Scheme, the US Employee Stock Purchase Plan, the Global All Employee Share Purchase Plan and the UK Employee Share Purchase Plan (see notes (g) to (j) on page 86).

During the year 0.3 million Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes (2007 0.6 million) and 0.7 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan (2007 1.6 million).

Notes to the consolidated financial statements continued

29. Authorised and issued share capital continued

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2008 and 24 February 2009, the date on which these financial statements have been signed.

Employee share plans

Movements in share incentives over a two year period ending on 31 December 2008 are shown below:

	2005 Employee Incentive Plan[1]		Spirent Stock Incentive Plan[2]		1995 Executive Share Option Scheme		Acquisition plans[3]		UK sharesave schemes[4]	
	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence
Incentives outstanding at 31 December 2006	6.6	37	83.8	74	15.4	119	4.5	93	1.5	40
Granted	0.1	–	1.0	62	–	–	–	–	–	–
Exercised	(0.1)	4	(12.3)	52	(2.8)	45	(1.5)	22	(0.6)	39
Forfeited	(3.7)	38	(10.3)	52	–	–	–	–	(0.1)	40
Expired	–	–	(6.1)	169	(7.4)	145	(0.9)	168	–	82
Incentives outstanding at 31 December 2007	**2.9**	**36**	**56.1**	**72**	**5.2**	**121**	**2.1**	**115**	**0.8**	**39**
Granted	**0.8**	**25**	**0.5**	**65**	**–**	**–**	**–**	**–**	**–**	**–**
Exercised	**(0.6)**	**23**	**(8.6)**	**56**	**(0.6)**	**42**	**–**	**–**	**(0.3)**	**39**
Forfeited	**(0.1)**	**–**	**(1.4)**	**53**	**–**	**–**	**–**	**–**	**–**	**–**
Expired	**–**	**–**	**(4.9)**	**151**	**(1.0)**	**173**	**(0.7)**	**100**	**(0.1)**	**44**
Incentives outstanding at 31 December 2008	**3.0**	**37**	**41.7**	**66**	**3.6**	**119**	**1.4**	**122**	**0.4**	**39**
Incentives exercisable At 31 December 2007	0.1	48	40.5	79	3.6	148	2.1	115	0.1	41
At 31 December 2008	**0.8**	**53**	**34.6**	**69**	**3.6**	**119**	**1.4**	**122**	**0.4**	**39**

Notes

1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and performance shares in aggregate. As at 31 December 2008, 0.8 million Ordinary Shares held in the ESOT had been allocated to hedge awards made under the 2005 Employee Incentive Plan (2007 nil).

2 Shows both share options and stock appreciation rights in aggregate. As at 31 December 2008, 3.9 million Ordinary Shares held in the ESOT had been allocated to hedge awards made under the Spirent Stock Incentive Plan (2007 4.4 million).

3 The acquisition plans are share plans which originally granted options over other companies' equity which have been rolled-over into Spirent Ordinary Shares when the said companies were acquired by Spirent Communications plc. Further details of the acquisition plans can be found in notes (d) to (f) on page 85 of these financial statements.

4 0.3 million Ordinary Shares were transferred from the SST to settle the exercise of UK sharesave options in 2008 (2007 0.6 million). As at 31 December 2008, 0.9 million Ordinary Shares remained in the SST hedging share option grants made under the UK sharesave schemes.

29. Authorised and issued share capital continued

The weighted average share price at exercise date was 73.9 pence (2007 75.9 pence).

The following information relates to outstanding share incentives:

						2008			2007
Share plan	Notes	Exercise period (as at 31 December 2008)	Range of exercise prices pence	Weighted average exercise price pence	Number of share incentives outstanding million	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of share incentives outstanding million	Weighted average remaining contractual life years
2005 Employee Incentive Plan	a	25.08.08–06.11.18	0–53[1]	37	3.0	5.9	36	2.9	6.0
Spirent Stock Incentive Plan	b	10.10.03–09.10.09	6	6	0.1	0.8	6	0.1	1.8
		14.11.03–09.04.10	13–18	17	1.8	1.0	17	2.3	2.0
		08.05.04–07.05.10	22	22	0.1	1.4	22	0.1	2.4
		12.09.03–12.11.15	37–57	50	19.3	4.0	50	24.1	4.9
		03.10.02–13.08.15	59–87	67	15.4	2.5	67	22.6	3.0
		13.09.02–12.06.09	94–140	123	0.5	0.2	118	0.7	1.1
		05.07.02–13.03.09	141–190	143	4.5	0.2	143	5.2	1.2
		01.03.02–06.06.08	270–383	–	–	–	311	0.6	0.3
		02.01.02–01.01.08	550–579	–	–	–	570	0.4	0.1
1995 Executive Share Option Scheme	c	25.03.06–24.03.13	16	16	0.1	4.2	16	0.3	5.2
		03.10.04–04.08.14	56–72	60	1.6	5.3	61	2.2	6.2
		27.04.01–01.05.12	113–152	128	1.4	2.5	130	2.0	3.3
		11.05.03–08.04.11	305–341	322	0.5	1.7	320	0.7	2.8
Acquisition plans	d, e, f	15.08.02–25.06.12	8–11[2]	10	0.1	3.2	9	0.1	4.2
		23.07.99–12.10.10	90–127	107	0.9	0.4	103	1.6	1.2
		17.05.00 – 19.07.09	151	151	0.3	0.5	151	0.3	1.5
		14.11.00–12.10.10	350–572	350	0.1	1.8	374	0.1	2.7
UK sharesave schemes	g	01.12.08–31.05.11	38–93	39	0.4	0.7	39	0.8	1.4
Total					50.1			67.1	

Notes
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.
2 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 prices of these options are priced at either 15.03 US cents or 20.03 US cents per share.

Description of employee share plans

a) 2005 Employee Incentive Plan ("EIP")

On 4 May 2005, Spirent shareholders approved the EIP to replace the now closed ESOS (see (c) on page 84). The EIP is currently available for selected employees (including executive directors) on a similar discretionary basis as the ESOS. No price is payable on the grant of an award. 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, EIP options or SARs vest three years following grant provided the Company's earnings per share ("EPS") growth targets have been met over the three year performance period.

Notes to the consolidated financial statements continued

29. Authorised and issued share capital continued

In normal circumstances, EIP performance shares vest three years following grant provided the Company's total shareholder return ("TSR") targets have been met over the three year performance period.

For further information on the performance conditions for EIP share incentives please see Section 5(d) of the Report on directors' remuneration.

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 Ordinary Shares. This "SARs approach", which is also being utilised for the Spirent Stock Incentive Plan (see note (b) below), helps 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 approach, it is not possible to determine the precise level of dilution until the SARs are exercised. 2.2 million EIP SARs with an average base price of 50 pence were outstanding as at 31 December 2008 (2007 1.9 million SARs outstanding, 52 pence average base price). 216,959 EIP SARs were exercised in 2008 resulting in the issue of 77,867 Ordinary Shares (2007 1,946 Ordinary Shares were issued on the exercise of 5,070 EIP SARs).

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

b) Spirent Stock Incentive Plan ("SSIP")

The SSIP was introduced in 2000. This discretionary plan is primarily targeted at US employees with grants normally determined 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.

At the Annual General Meeting held in May 2008, shareholders approved the extension of the SSIP until the Company's 2009 Annual General Meeting. The current shareholder approved mandate regarding the annual dilution rate is 0.5 per cent of the issued Ordinary Share capital for both the SSIP and EIP (see (a) on page 83) in aggregate.

27.5 million SSIP SARs with an average base price of 56 pence were outstanding as at 31 December 2008 (2007 34.4 million SARs outstanding, 58 pence average base price). During 2008, 1.5 million Ordinary Shares were issued as a consequence of the exercise of 5.2 million SSIP SARs (2007 1.7 million Ordinary Shares resulted from the exercise of 6.7 million SSIP SARs).

Most awards made pursuant to the SSIP vest over four years, provided that the participant remains in employment. Vesting is not subject to a performance condition. 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.

The vesting of the SSIP awards made to Bill Burns, prior to his appointment as Chief Executive Officer, and to certain other key senior managers within the Communications group, are subject to the Company meeting EPS growth targets over the vesting periods. For further details on these performance conditions please see Section 5(d) of the Report on directors' remuneration.

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.

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

The ESOS is now closed (however outstanding options may still be exercised) and has been replaced by the EIP referred to in (a) on page 83.

29. Authorised and issued share capital continued

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 Officer. No price was payable on the grant of an option and no options were 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 were subject to the achievement of an EPS performance condition before they could be exercised.

During 2008, all remaining share options awarded under the ESOS passed their EPS performance conditions and are now exercisable until they expire on the tenth anniversary of their respective grant dates, or in the case of terminated participants 12 months from the date of termination, if sooner.

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 into options over approximately 23.8 million Ordinary Shares (as adjusted) on substantially similar terms as previously existed. 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 Ordinary 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. Any remaining outstanding ZARSOP options have a ten year life from the original date of grant.

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 vested over a period ending in 2006 on substantially similar terms as previously existed. The options 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.

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 Ordinary Shares whilst they were held in the ESOT 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 CARSP options and resulting Ordinary Shares held in the ESOT have now fully vested.

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 Ordinary Shares, 54,000 Ordinary 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 vested 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 towards ABI scheme limits. The plans mentioned in (c) to (f) above are closed to new entrants and no further awards of options can be made under them.

Notes to the consolidated financial statements continued

29. Authorised and issued share capital continued

g) UK Savings Related Share Option Scheme ("SRSOS") and the 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 closing 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 commitment to deliver Ordinary Shares against the exercise of outstanding options under the SRSOS. Spirent Sharesave Trust Limited, a wholly-owned subsidiary of Spirent Communications plc, acts as sole trustee of the SST. During the year, 0.3 million Ordinary Shares were transferred to participants (2007 0.6 million).

No invitations have been made under either of these schemes since 2003.

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

The ESPP 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 offer has been made under this plan since 2003.

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.

No offer has been made under this plan since 2003.

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

On 4 May 2005, shareholders approved the UK ESPP, which is based on 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.

To date, no awards have been made under this plan.

29. Authorised and issued share capital continued

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) on page 85 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 market practice. The operation of the SARP reflected as far as practicable the NARSOP. Accordingly, rights under the SARP vested 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 were not subject to the fulfilment of any 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 SARP is closed and no further grants can be made under it.

At 31 December 2008, the following rights were outstanding under the SARP:

Rights exercise dates	Rights price pence	2008 Number of rights outstanding million	2007 Number of rights outstanding million
10.09.00–29.06.10	182–416	1.5	1.6

30. Share-based payment

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

	2008 £ million	2007 £ million
Continuing operations		
1995 Executive Share Option Scheme	0.2	0.3
2005 Employee Incentive Plan	0.2	0.1
Spirent Stock Incentive Plan	1.0	2.0
All employee share plans	0.1	0.1
	1.5	2.5

All schemes are equity settled.

The fair value of share incentives 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 payment charge:

	2008	2007
Weighted average share price (pence)	41.0	56.0
Weighted average fair value (pence)	31.0	28.0
Expected volatility (%)	40–45	40–50
Expected life (years)	4.5	4.5
Risk free rate (%)	3.7–4.9	4.7–5.3
Dividend yield (%)	2.0	nil

Notes to the consolidated financial statements continued

30. Share-based payment continued

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 30 per cent vesting for valuation purposes.

31. Reconciliation of movements in equity

£ million

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Translation reserve	Net unrealised gains and (losses)	Retained earnings/ (loss)	Total equity (restated)
At 1 January 2007	32.5	10.6	–	5.5	(6.1)	–	140.3	182.8
Total recognised income and expense for the year	–	–	–	–	(0.6)	(0.5)	19.3	18.2
Share cancellation	(4.8)	–	4.8	–	–	–	–	–
Share-based payment	–	–	–	–	–	–	2.5	2.5
New shares issued	0.3	4.9	–	(1.9)	–	–	–	3.3
Employee share ownership trust	–	–	–	–	–	–	1.2	1.2
Share repurchase	–	–	–	–	–	–	(66.8)	(66.8)
At 1 January 2008	**28.0**	**15.5**	**4.8**	**3.6**	**(6.7)**	**(0.5)**	**96.5**	**141.2**
Total recognised income and expense for the year	–	–	–	–	29.3	(4.2)	71.4	96.5
Share cancellation	(5.8)	–	5.8	–	–	–	–	–
Share-based payment	–	–	–	–	–	–	1.5	1.5
New shares issued	0.2	1.7	–	–	–	–	–	1.9
Employee share ownership trust	–	–	–	–	–	–	0.6	0.6
Share repurchase	–	–	–	–	–	–	(67.0)	(67.0)
Equity dividends	–	–	–	–	–	–	(3.7)	(3.7)
Other movements	–	–	–	(2.2)	–	–	2.2	–
At 31 December 2008	**22.4**	**17.2**	**10.6**	**1.4**	**22.6**	**(4.7)**	**101.5**	**171.0**

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 redemption reserve: this reserve arises in relation to share capital cancellation;
iii) Capital reserve: this reserve arises in relation to share option plans in acquired companies;
iv) Translation reserve: this reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries; and
v) Net unrealised gains and losses: this reserve records movements in the fair value of effective forward foreign currency exchange contracts designated as hedging instruments.

Investment in own Ordinary Shares

At 31 December 2008, an amount of £175.8 million (2007 £109.4 million) has cumulatively been deducted from retained earnings in relation to the cost of investment in own Ordinary Shares.

31. Reconciliation of movements in equity continued

At 31 December 2008, the ESOT held 7.1 million Ordinary Shares (2007 7.8 million Ordinary Shares) to satisfy awards under various share incentive plans. Of this number, 0.2 million Ordinary Shares were unconditionally vested at 31 December 2008 (2007 0.2 million Ordinary Shares). At 31 December 2008, the SST held 0.9 million Ordinary Shares (2007 1.2 million Ordinary Shares) to satisfy awards made to UK based employees under an all employee share scheme. The market value of own Ordinary Shares held in trust, being in total 8.0 million Ordinary Shares (2007 9.0 million Ordinary Shares), at 31 December 2008 was £2.9 million (2007 £5.6 million).

At 31 December 2008 the Company held no Ordinary Shares in treasury (2007 48.4 million). The market value of own Ordinary Shares held in treasury at 31 December 2007 was £30.0 million.

Cancellation of share premium and capital redemption reserves

On 24 November 2004, Spirent Communications 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. During 2006 the Company transferred funds equal to the aggregate amount due to any creditors of Spirent Communications plc, who were creditors on 24 November 2004, and who still remained creditors, to a blocked trust account. Placing these funds in a blocked trust account in accordance with the undertakings made at the time of the Cancellation allowed the special reserve to be released to distributable reserves.

Capital redemption reserve

During 2008 the Company cancelled 174.2 million Ordinary Shares (2007 145.3 million) that had been the subject of the on-market share repurchase programme and tender offer and transferred £5.8 million (2007 £4.8 million) to the capital redemption reserve.

Capital reserve

In 2008 the reserve has been reduced by £2.2 million (2007 nil) in relation to share incentives which have been cancelled or have lapsed.

Share repurchase

During 2008 the Company repurchased 72.9 million Ordinary Shares on-market at a cost of £42.2 million (2007 103.4 million at a cost of £66.8 million). In addition the Company undertook a tender offer whereby it repurchased 52.9 million Ordinary Shares at a cost £24.8 million (2007 nil). All Ordinary Shares repurchased have been subsequently cancelled.

Notes to the consolidated financial statements continued

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

	2008 £ million	2007 £ million
Continuing operations		
Profit before tax	49.6	17.8
Adjustments for:		
Finance income	(4.0)	(7.0)
Finance costs	3.1	0.3
Intangible asset amortisation	0.7	0.9
Depreciation of property, plant and equipment	8.8	9.3
Loss on the disposal of property, plant and equipment	0.3	0.8
Impairment of property, plant and equipment	–	3.1
Share-based payment	1.5	2.5
Curtailment gains on pension plan	–	(0.8)
Changes in working capital		
Deferred income released	(1.3)	(0.4)
Decrease in receivables	2.4	7.7
(Increase)/decrease in inventories	(1.6)	6.1
(Decrease)/increase in payables	(2.1)	4.9
Decrease in provisions	(3.9)	(0.9)
Defined benefit pension plan	(0.1)	0.5
Cash flows from continuing operations	53.4	44.8
Discontinued operations		
Loss before tax	–	(7.6)
Adjustments for:		
Loss on sale of discontinued operations	–	4.2
Intangible asset amortisation	–	0.6
Depreciation of property, plant and equipment	–	0.2
Changes in working capital		
Decrease in receivables	–	3.0
Increase in inventories	–	(0.2)
Decrease in payables	–	(1.2)
Cash flows from discontinued operations	–	(1.0)
Cash flows from operations	53.4	43.8

33. Acquisition of businesses

There were no acquisitions made by the Group in 2008 or 2007.

The cash flows in respect of prior year acquisitions were as follows:

	2008 £ million	2007 £ million
Deferred consideration paid	–	5.5
Net cash outflow on acquisitions	–	5.5

34. Disposal of operations

In 2007 Spirent disposed of its SwissQual business, a business within the Performance Analysis division of the Communications group. The sale was completed on 5 July 2007. There were no disposals made in 2008 and no cash flows related to prior year disposals.

34. Disposal of operations continued

	2007 £ million
Net assets disposed of	
Intangible assets	3.4
Property, plant and equipment	0.5
Inventories	1.4
Trade and other receivables	2.9
Cash and cash equivalents	0.5
Current tax	(0.1)
Trade and other payables	(2.7)
Deferred tax	0.2
Pension plan deficit	(0.8)
Net assets	5.3
Less consideration net of expenses	(1.1)
Loss on disposal of operations *note 6*	4.2

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

	2007 £ million
Cash consideration received on disposal of operations	1.5
Cash expenses paid	(0.4)
Cash consideration net of expenses	1.1
Cash and cash equivalents sold	(0.5)
Net cash flow on the disposal of operations	0.6

35. 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.

Remuneration of key management personnel

The remuneration of the 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".

	2008 £000	2007 £000
Short term employee benefits	**1,051**	879
Termination benefits	**–**	465
Share-based payment	**156**	255
Post-retirement benefits	**7**	–
	1,214	1,599

The termination costs relate to the resignation of Anders Gustafsson on 7 March 2007.

In 2008 Eric Hutchinson made gains on the exercise of share incentives of £149,760. In 2007 Anders Gustafsson made gains on the exercise of share incentives of £531,018.

Independent auditors' report to the members of Spirent Communications plc

We have audited the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2008 which comprise the Company balance sheet and the related notes 1 to 21 and the list of Principal divisions and subsidiaries. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on directors' remuneration that is described as having been audited.

We have reported separately on the Group financial statements of Spirent Communications plc for the year ended 31 December 2008.

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' responsibilities for preparing the Annual Report, the Report on directors' remuneration and the parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Report on directors' remuneration 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 Report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Chairman's statement, the Business review, the Board of directors, the Report of the directors, the Statement of directors' responsibilities, the Directors' statement on corporate governance, the unaudited part of the Report on directors' remuneration, Financial history and Shareholder information. 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 Report on directors' remuneration to be audited. It also includes an assessment of the significant estimates and judgements 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 Report on directors' remuneration 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 Report on directors' remuneration 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 2008;
- the parent Company financial statements and the part of the Report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the directors is consistent with the parent Company financial statements.

Ernst & Young LLP
Registered auditor
London
24 February 2009

Parent Company balance sheet

At 31 December	Notes	2008 £ million	2007 £ million
Fixed assets			
Intangible assets	4	**5.6**	6.2
Tangible assets	5	**2.3**	2.5
Fixed asset investments			
Shares in subsidiaries	6	**164.9**	193.3
Loans to subsidiaries	7	**8.7**	40.8
Total fixed assets		**181.5**	242.8
Current assets			
Inventories	8	**6.7**	5.0
Trade and other debtors	9	**22.4**	19.8
Cash and bank deposits		**41.1**	62.6
		70.2	87.4
Current liabilities			
Creditors due within one year	10	**(11.9)**	(10.3)
Derivative financial instruments	15	**(5.6)**	(0.5)
		(17.5)	(10.8)
Net current assets		**52.7**	76.6
Assets less current liabilities		**234.2**	319.4
Long term liabilities			
Creditors due after more than one year	11	**(55.2)**	(109.4)
Provisions for liabilities and charges			
Provisions	13	**(1.1)**	(1.3)
Assets less liabilities (excluding pension plan surplus)		**177.9**	208.7
Pension plan surplus	3	**1.1**	1.5
Assets less liabilities (including pension plan surplus)		**179.0**	210.2
Capital and reserves	16		
Called up share capital		**22.4**	28.0
Share premium account		**17.2**	15.5
Capital redemption reserve		**10.6**	4.8
Capital reserve		**1.4**	3.6
Unrealised gains and losses		**(4.7)**	(0.5)
Profit and loss account		**132.1**	158.8
Shareholders' funds – equity		**179.0**	210.2

The notes on pages 94 to 111 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
24 February 2009

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 modified for measurement of derivative financial instruments at fair value and in accordance with applicable UK law and UK Generally Accepted Accounting Principles (UK GAAP).

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.

New Accounting Standards

The Company has adopted Amendments to FRS 17 "Retirement Benefits" and the Amendment to FRS 26 and FRS 29 "Reclassification of Financial Assets". The adoption of these amendments had no impact on the net results or net assets of the Company.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased goodwill, representing the excess of cost over the fair value of assets acquired, is written off on a straight line basis from the date of acquisition over 20 years, being its anticipated useful life.

Tangible assets

Depreciation is not provided on freehold land. Depreciation is provided to write off the cost of all other assets, less residual value, on a straight line basis 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
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.

Investments

Fixed asset investments, including investment in subsidiaries, are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Leases

Operating lease rentals are charged to the profit and loss account over the period of the lease on a straight line basis.

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.

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 uncollectable 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 for 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 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 collectability 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.

Equity instruments

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

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposures to fluctuations in 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.

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 to fair value at the reported balance sheet date.

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 parent Company financial statements continued

1. Significant accounting policies continued

Forward foreign currency exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The fair value of forward foreign currency exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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 cash flow hedges (forward foreign currency 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.

Pensions

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

The assets of the defined benefit plans are measured at their market value at the balance sheet date and the liabilities of the plans are measured using the projected unit credit method. The discount rate used to measure the plans' 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 plans' assets exceed or fall short of the plans' 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 plans 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 plans' assets and a charge for the increase during the period in the present value of the plans' liabilities because the benefits are one year closer to settlement, are included in other finance income or expense in the profit and loss account. Differences arising between the actual and expected returns on the plans' assets together with changes in the actuarial assumptions are included in the statement of total recognised gains and losses.

Contributions payable to the other defined contribution plans are charged to the profit and loss account in the year for which they are due.

1. Significant accounting policies continued

Treasury shares

Spirent Communications plc Ordinary Shares held by the Company are classified in shareholders' equity as treasury shares and are recognised at cost and shown as a deduction from retained earnings. Consideration received for the sale of such Ordinary Shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to retained earnings.

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.

Dividends paid

The interim dividend is included in the financial statements in the period it is approved by the directors, and the final dividend in the period it is approved by the shareholders at an annual general meeting.

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 as a cost to the Company or as an addition to the cost of investment in the subsidiary in which the relevant employees work, over the vesting period of the equity-settled transactions with a corresponding adjustment to reserves. Any payments received from the Company's subsidiaries in respect of these share-based payments result in a reduction in the cost of investment.

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 vesting 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 share incentives 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 substantively 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.

Notes to the parent Company financial statements continued

1. Significant accounting policies continued

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 32 to 41 for disclosures relating to the emoluments, share incentives and long term incentive interests and pensions of the directors.

3. Pensions

Defined benefit plans

The defined benefit plans are in the United Kingdom and comprise the Spirent Communications plc Staff Pension & Life Assurance Plan ("Staff Plan") and the Spirent Communications plc Retirement Cash & Life Assurance Plan ("Cash Plan"). These plans have been combined for the purposes of the following disclosures. There is in addition a UK unfunded plan.

The most recent actuarial valuation, at 1 April 2006, of the plans' assets and the present value of the defined benefit plans' obligations, using the projected unit credit method, have been used and updated by our independent actuaries.

i) The key financial assumptions used were:

	2008 %	2007 %
Inflation	**3.0**	3.4
Rate of increase in pensionable salaries	**3.5**	4.1
Rate of increase for pensions in payment pre 2001 service	**3.6**	3.6
Rate of increase for pensions in payment post 2001 pre April 2005 service	**2.9**	3.4
Rate of increase for pensions post April 2005 service	**2.1**	2.4
Rate of increase in deferred pensions	**3.0**	3.4
Rate used to discount plan liabilities	**6.0**	5.7
Expected rate of return on plan assets	**5.2**	5.9

Spirent Communications plc employs a building block approach in determining the long term rate of return on plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each class of asset is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return of each asset class over the actual asset allocation for the plans.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are such that a member currently aged 65 will live on average for a further 21.7 years (2007 21.6 years) if they are male and for a further 24.0 years (2007 24.0 years) if they are female. For a member who retires in 2028 at age 65 the assumptions are that they will live on average for a further 22.9 years (2007 22.8 years) after retirement if they are male and for a further 25.0 years (2007 25.0 years) after retirement if they are female.

The approximate impact to the past service liabilities of changing these main assumptions is as follows:

- Reducing the discount rate by 0.1 per cent per annum. This would increase past service liabilities by £1.8 million.
- Increasing the life expectancy of a current 65 year old by one year (by modifying the standard mortality tables using an appropriate scaling factor). This would increase past service liabilities by £3.1 million.

There will also be an impact on the future service cost but given the small active population in these plans this is likely to be insignificant.

3. Pensions continued

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

	Long term rate of return expected %	2008 £ million	Long term rate of return expected %	2007 £ million
Equities	8.0	24.9	8.0	48.0
Government bonds	4.0	60.3	4.5	64.3
Corporate bonds	5.7	29.5	4.7	13.0
Property	7.0	4.1	7.0	5.8
Cash and other	3.8	10.5	5.9	11.7
Fair value of plans' assets	5.2	129.3	5.9	142.8
Present value of defined benefit pension plans' obligations		(126.5)		(135.1)
Surplus in the plans		2.8		7.7
Surplus restriction		(0.7)		(4.7)
Surplus recognised		2.1		3.0
Present value of unfunded obligations		(0.6)		(0.7)
Pension asset on the balance sheet		1.5		2.3
Deferred tax liability *note 12*		(0.4)		(0.8)
Net pension asset on the balance sheet		1.1		1.5

The recognition of the surplus is restricted in both 2008 and 2007 to the present value of economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. As a result only £2.1 million of the £2.8 million surplus has been recognised on the balance sheet at 31 December 2008. At 31 December 2007 only £3.0 million of the £7.7 million surplus was recognised.

The plans are prohibited from investing in Spirent's own financial instruments.

iii) Analysis of the amounts charged/(credited) to the profit and loss account

	2008 £ million	2007 £ million
Analysis of amount charged/(credited) to operating costs		
Current service cost	0.2	0.2
Past service cost	–	0.6
Curtailment gains	–	(0.8)
Total operating charge	0.2	–
Analysis of amount credited to finance income		
Expected return on pension plans' assets	7.6	8.1
Interest on pension plans' liabilities	(7.5)	(7.2)
Finance income	0.1	0.9
Net profit and loss charge/(credit)	0.1	(0.9)

Notes to the parent Company financial statements continued

3. Pensions continued

iv) Analysis of amount recognised directly in equity

	2008 £ million	2007 £ million
Actual return on pension plans' assets	(7.8)	5.5
Less expected return on pension plans' assets	7.6	8.1
Experience losses on plans' assets	(15.4)	(2.6)
Experience losses arising on plans' liabilities	(0.4)	(0.8)
Changes in assumptions underlying the present value of plans' liabilities	10.7	7.5
Movement in surplus restriction	4.0	(4.7)
Actuarial loss recognised directly in equity	**(1.1)**	(0.6)

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the Company's statement of total recognised gains and losses is £12.4 million loss (2007 £11.3 million loss). The directors are unable to determine how much of the pension plan deficit recognised on 1 January 2003 and taken directly to equity of £41.9 million in the Company is attributable to actuarial gains and losses since inception of those pension plans. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Company's statement of recognised gains and losses before 1 January 2003.

v) Movements in the present value of defined benefit obligations

	2008 £ million	2007 £ million
At 1 January	135.1	158.2
Current service cost	0.2	0.2
Past service cost	–	0.6
Interest cost	7.5	7.2
Employee contributions	0.1	0.1
Benefit payments	(6.1)	(4.9)
Transfer values paid	–	(18.8)
Curtailment gains	–	(0.8)
Actuarial gain	(10.3)	(6.7)
Present value of defined benefit pension plans' obligations	**126.5**	135.1

vi) Movements in the fair value of plans' assets

	2008 £ million	2007 £ million
At 1 January	142.8	160.6
Expected return on plans' assets	7.6	8.1
Employer contributions	0.3	0.3
Employee contributions	0.1	0.1
Benefit payments	(6.1)	(4.9)
Transfer values paid	–	(18.8)
Actuarial loss	(15.4)	(2.6)
Fair value of plans' assets	**129.3**	142.8

3. Pensions continued

vii) History of experience gains and losses

	2008 £ million	2007 £ million	2006 £ million	2005 £ million	2004 £ million
Present value of defined benefit pension plans' obligations	(126.5)	(135.1)	(158.2)	(179.6)	(144.2)
Fair value of plans' assets	129.3	142.8	160.6	128.8	106.9
Net surplus/(deficit) in plans	2.8	7.7	2.4	(50.8)	(37.3)
Experience gains and losses on plans' liabilities					
Amount (£ million)	(0.4)	(0.8)	(10.0)	4.8	2.4
Percentage of plans' liabilities (%)	(0.3)	(0.6)	(6.3)	2.7	1.7
Experience gains and losses on plans' assets					
Amount (£ million)	(15.4)	(2.6)	0.5	14.6	3.6
Percentage of plans' assets (%)	(11.9)	(1.8)	0.3	11.3	3.4

Expected cash contributions for 2009 for these plans are £0.3 million.

The above plans are funded and have full UK HM Revenue & Customs tax-exempt approval. Certain members, whose salaries were in excess of the HM Revenue & Customs statutory earnings cap, have had their benefits increased through unapproved, unfunded arrangements, to the level that would otherwise have applied in respect of 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 2008 of £0.6 million (2007 £0.7 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. There are no experience gains or losses on the unfunded plan in the period from 2004 to 2008.

Defined contribution schemes

The Company also maintains defined contribution pension plans for employees. Employer contributions into these plans for 2008 were £0.7 million (2007 £0.7 million).

4. Intangible assets

	£ million Goodwill
Cost	
At 1 January 2008 and 31 December 2008	**6.8**
Amortisation	
At 1 January 2008	**0.6**
Provided during the year	**0.6**
At 31 December 2008	**1.2**
Net book value at 31 December 2007	**6.2**
Net book value at 31 December 2008	**5.6**

Notes to the parent Company financial statements continued

5. Tangible assets

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total £ million
Cost				
At 1 January 2008	0.6	3.3	3.7	7.6
Additions	–	0.6	–	0.6
At 31 December 2008	0.6	3.9	3.7	8.2
Depreciation and impairment				
At 1 January 2008	–	2.4	2.7	5.1
Provided during the year	–	0.5	0.3	0.8
At 31 December 2008	–	2.9	3.0	5.9
Net book value at 31 December 2007	0.6	0.9	1.0	2.5
Net book value at 31 December 2008	0.6	1.0	0.7	2.3

6. Shares in subsidiaries

	£ million
Cost	
At 1 January 2008	881.4
Additions	4.0
At 31 December 2008	885.4
Provisions	
At 1 January 2008	688.1
Increase in provisions	32.4
At 31 December 2008	720.5
Net book value at 31 December 2007	193.3
Net book value at 31 December 2008	164.9

7. Loans to subsidiaries

	£ million
At 1 January 2008	40.8
Advances	0.7
Repayments	(32.8)
At 31 December 2008	8.7

8. Inventories

	2008 £ million	2007 £ million
Raw materials	4.2	3.2
Work in progress	1.2	1.2
Finished goods	1.3	0.6
	6.7	5.0

9. Trade and other debtors

	2008 £ million	2007 £ million
Due within one year		
Trade debtors	**7.6**	6.6
Owed by subsidiaries	**6.7**	4.6
Other debtors	**1.0**	0.9
Tax receivable	**–**	0.4
Prepayments and accrued income	**0.5**	0.7
	15.8	13.2
Due after more than one year		
Deferred tax asset *note 12*	**6.6**	6.6
	22.4	19.8

The balance at 31 December 2007 has been restated to reclassify the deferred tax asset to trade and other debtors from fixed assets.

10. Creditors due within one year

	2008 £ million	2007 £ million
Trade creditors	**5.7**	4.2
Owed to subsidiaries	**0.4**	0.1
Other creditors	**–**	1.2
Accruals and deferred income	**5.1**	4.3
Other taxes and social security costs	**0.7**	0.5
	11.9	10.3

11. Creditors due after more than one year

	2008 £ million	2007 £ million
Owed to subsidiaries	**55.2**	109.4

12. Deferred tax

	£ million
At 1 January 2008 and 31 December 2008	**6.6**

The deferred tax asset is in relation to short-term timing differences and tax losses.

There is a deferred tax liability at 31 December 2008 of £0.4 million (2007 £0.8 million) in relation to the pension plan surplus (note 3).

Notes to the parent Company financial statements continued

13. Provisions

	£ million
Lease provisions	
At 1 January 2008	**1.3**
Utilised in the year	**(0.2)**
At 31 December 2008	**1.1**

Provisions are analysed as follows:

	2008 £ million	2007 £ million
Current	**0.2**	0.3
Non-current	**0.9**	1.0
	1.1	1.3

These provisions are in respect of obligations for properties under operating leases which have been vacated. The lease provisions are expected to be utilised in the next seven years.

14. Operating lease commitments

At the balance sheet date, the Company had annual commitments which expire as follows:

	2008 £ million	2007 £ million
In the second to fifth years	**0.5**	0.5
Over five years	**0.2**	0.2
	0.7	0.7

15. Derivative financial instruments

The Company has taken advantage of the exemption under FRS 29 "Financial Instruments: Disclosures" for parent Company financial statements. The disclosures in respect of the Group are included in the consolidated financial statements.

The fair value of derivative financial instruments is as follows:

	2008 £ million	2007 £ million
	Liabilities	Liabilities
Currency derivatives	**5.6**	0.5

Currency derivatives, which are cash flow hedges, are expected to be realised within one year.

Currency derivatives

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

16. Capital and reserves

£ million

	Called up share capital	Share premium account	Capital redemption reserve	Capital reserve	Net unrealised gains and losses	Profit and loss account[2]	Total
At 1 January 2008	**28.0**	**15.5**	**4.8**	**3.6**	**(0.5)**	**158.8**	**210.2**
New shares issued	0.2	1.7	–	–	–	–	1.9
Profit for the year[3]	–	–	–	–	–	40.4	40.4
Share-based payment[4]	–	–	–	–	–	1.5	1.5
Share cancellation	(5.8)	–	5.8	–	–	–	–
Actuarial loss recognised on the pension plans	–	–	–	–	–	(1.1)	(1.1)
Deferred tax on pension asset	–	–	–	–	–	0.4	0.4
Unrealised gains and losses	–	–	–	–	(4.2)	–	(4.2)
Employee Share Ownership Trust	–	–	–	–	–	0.6	0.6
Share repurchase	–	–	–	–	–	(67.0)	(67.0)
Equity dividends	–	–	–	–	–	(3.7)	(3.7)
Other movements	–	–	–	(2.2)	–	2.2	–
At 31 December 2008	**22.4**	**17.2**	**10.6**	**1.4**	**(4.7)**	**132.1**	**179.0**

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 £132.1 million (2007 £158.8 million) includes non-distributable reserves of £6.9 million (2007 £6.9 million).
3 The profit for the year dealt with in the financial statements of the Company was £40.4 million (2007 £11.0 million) which after dividends of £3.7 million (2007 nil), gave a retained profit of £36.7 million (2007 £11.0 million).
4 Share-based payment has been recorded for subsidiary companies whose incentives are satisfied by the Company's shares.

Changes during the year in the issued Ordinary Share capital were as follows:

	Number of ordinary shares million
Issued and fully paid at 1 January 2008	**840.8**
Allotted pursuant to share incentives exercised	5.2
Cancelled during the year	(174.2)
Issued and fully paid at 31 December 2008[1]	**671.8**

Note
1 During 2008, under the programme of returning capital to shareholders, the Company repurchased 72.9 million Ordinary Shares on-market and 52.9 million by way of a tender offer. All Ordinary Shares repurchased during the year were cancelled. The remaining 48.4 million Ordinary Shares which were held in treasury were cancelled during the year leaving no Ordinary Shares in treasury as at 31 December 2008 (2007 48.4 million). For the purposes of providing comparative data, the issued Ordinary Share capital of the Company (when treasury shares are taken into account and excluded from the calculation) as at 31 December 2007 was 792.4 million Ordinary Shares compared with 671.8 million as at 31 December 2008.

Notes to the parent Company financial statements continued

16. Capital and reserves continued

In accordance with the rules of the following share plans, share incentives were exercised during the year which resulted in new Ordinary Shares being allotted by the Company or existing Ordinary Shares being transferred from either the Spirent Employee Share Ownership Trust ("ESOT") or from the Spirent Sharesave Trust ("SST") as follows:

	Number of ordinary shares million	Consideration received £000
2005 Employee Incentive Plan	0.4	24.0
Spirent Stock Incentive Plan	4.9	1,973.1
1995 Executive Share Option Scheme	0.6	238.3
All employee share plans[1]	0.3	125.9
	6.2	2,361.3

Note

1 The all employee share plans are the UK Savings Related Share Option Scheme, the 2005 Sharesave Scheme, the US Employee Stock Purchase Plan, the Global All Employee Share Purchase Plan and the UK Employee Share Purchase Plan (see notes (g) to (j) on page 86).

During 2008, 0.3 million Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes (2007 0.6 million) and 0.7 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan (2007 1.6 million).

There has been no material increase in the issued Ordinary Share capital, whether by the exercise of share incentives or otherwise, between 31 December 2008 and 24 February 2009, the date on which these financial statements have been signed.

Investment in own Ordinary Shares

At 31 December 2008, the ESOT held 7.1 million Ordinary Shares (2007 7.8 million Ordinary Shares) to satisfy awards under various share incentive plans. Of this number, 0.2 million Ordinary Shares were unconditionally vested at 31 December 2008 (2007 0.2 million Ordinary Shares). At 31 December 2008, the SST held 0.9 million Ordinary Shares (2007 1.2 million Ordinary Shares) to satisfy awards made to UK based employees under an all employee share scheme. The market value of own Ordinary Shares held in trust, being in total 8.0 million Ordinary Shares (2007 9.0 million Ordinary Shares), at 31 December 2008 was £2.9 million (2007 £5.6 million).

At 31 December 2008, the Company did not hold any Ordinary Shares in treasury (2007 48.4 million). The market value of own Ordinary Shares held in treasury at 31 December 2007 was £30.0 million.

Capital redemption reserve

During 2008 the Company cancelled 174.2 million Ordinary Shares (2007 145.3 million) that had been the subject of the on-market share repurchase programme and tender offer and transferred £5.8 million (2007 £4.8 million) to the capital redemption reserve.

Capital reserve

In 2008 the reserve has been reduced by £2.2 million (2007 nil) in relation to share incentives which have been cancelled or have lapsed.

Share repurchase

During 2008 the Company repurchased 72.9 million Ordinary Shares on-market at a cost of £42.2 million (2007 103.4 million at a cost of £66.8 million). In addition, the Company undertook a tender offer whereby it repurchased 52.9 million Ordinary Shares at a cost of £24.8 million (2007 nil). All Ordinary Shares repurchased have been subsequently cancelled.

16. Capital and reserves continued

Employee share plans

The Company operates a number of employee share incentive plans as described below. The following share incentives over Ordinary Shares under these plans have been granted and remain outstanding, held by employees of the parent Company.

Movements in share incentives during the year to 31 December 2008 are shown below:

	2005 Employee Incentive Plan		Spirent Stock Incentive Plan		1995 Executive Share Option Scheme		UK sharesave schemes	
	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence
Options outstanding at 31 December 2007	2.5	39	2.2	57	4.4	111	0.7	39
Granted	0.7	25	–	–	–	–	–	–
Transferred in	0.1	–	0.9	57	0.1	155	–	–
Exercised	(0.5)	23	(0.7)	58	(0.6)	42	(0.3)	39
Transferred out	(0.1)	36	(0.2)	51	(0.1)	160	–	–
Forfeited	–	–	–	–	–	–	–	–
Expired	–	–	(0.1)	71	(0.8)	160	–	–
Options outstanding at 31 December 2008	2.7	37	2.1	57	3.0	110	0.4	39
Options exercisable at 31 December 2008	0.7	53	1.4	61	3.0	110	0.3	40

The weighted average share price at exercise date was 77.4 pence (2007 74.6 pence).

The following information relates to outstanding share incentives at 31 December 2008:

						2008
Share plan	Notes	Exercise period (as at 31 December 2008)	Range of exercise prices pence	Weighted average exercise price pence	Number of share incentives outstanding million	Weighted average remaining contractual life years
2005 Employee Incentive Plan	a	25.08.08–06.11.18	0-53[1]	37	2.7	6.0
Spirent Stock Incentive Plan	b	07.07.06–09.08.13	37-53	50	1.2	4.0
		12.09.04–18.04.14	59-87	67	0.9	2.6
1995 Executive Share Option Scheme	c	25.03.06–24.03.13	16	16	0.1	4.2
		03.10.04–04.08.14	56-72	58	1.5	5.5
		01.04.02–01.05.12	113-134	126	1.1	2.8
		11.05.03–08.04.11	305-334	322	0.3	1.7
UK sharesave schemes	d	01.12.08–31.05.11	38-93	39	0.4	0.8
					8.2	

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.

Notes to the parent Company financial statements continued

16. Capital and reserves continued

Description of employee share plans

a) 2005 Employee Incentive Plan ("EIP")

On 4 May 2005, Spirent shareholders approved the EIP to replace the now closed ESOS (see (c) below). 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. 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, EIP options or SARs vest three years following grant provided the Company's earnings per share ("EPS") growth targets have been met over the three year performance period.

In normal circumstances, EIP performance shares vest three years following grant provided the Company's total shareholder return ("TSR") targets have been met over the three year performance period.

For further information on the performance conditions for EIP share incentives please see Section 5(d) of the Report on directors' remuneration.

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 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 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 or have been exercised.

b) Spirent Stock Incentive Plan ("SSIP")

The SSIP was introduced in 2000. This discretionary plan is primarily targeted at US employees with grants normally determined 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.

At the Annual General Meeting held in May 2008, shareholders approved the extension of the SSIP until the Company's 2009 Annual General Meeting. The current shareholder approved mandate regarding the annual dilution rate is 0.5 per cent of the issued Ordinary Share capital for both the SSIP and EIP (see (a) above) in aggregate.

Most awards made pursuant to the SSIP vest over four years, provided that the participant remains in employment. Vesting is not subject to a performance condition. 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.

The vesting of the SSIP awards made to Bill Burns, prior to his appointment as Chief Executive Officer, and to certain other key senior managers within the Communications group, are subject to the Company meeting EPS growth targets over the vesting periods. For further details on these performance conditions please see Section 5(d) of the Report on directors' remuneration.

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.

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

The ESOS is now closed (however outstanding options may still be exercised) and has been replaced by the EIP referred to in (a) above.

16. Capital and reserves continued

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 Officer. No price was payable on the grant of an option and no options were 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 were subject to the achievement of an EPS performance condition before they could be exercised.

During 2008, all remaining share options awarded under the ESOS passed their EPS performance conditions and are now exercisable until they expire on the tenth anniversary of the their respective grant dates, or in the case of terminated participants 12 months from the date of termination.

d) 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 closing 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 exercise of outstanding options under the SRSOS and Spirent Sharesave Trust Limited, a wholly-owned subsidiary of Spirent Communications plc, acts as sole trustee of the SST. During the year, 0.3 million Ordinary Shares were transferred to participants (2007 0.6 million).

No invitations have been made under either of these schemes since 2003.

Notes to the parent Company financial statements continued

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

	2008 £ million	2007 £ million
1995 Executive Share Option Scheme	0.1	0.3
2005 Employee Incentive Plan	0.2	–
All employee share plans	0.1	0.1
	0.4	0.4

All schemes are equity settled.

The fair value of share incentives 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 payment charge:

	2008	2007
Weighted average share price (pence)	25.0	61.0
Weighted average fair value (pence)	34.0	24.0
Expected volatility (%)	45.0	40.0
Expected life (years)	4.5	4.5
Risk free rate (%)	3.7	4.7
Dividend yield (%)	2.0	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 30 per cent vesting for valuation purposes.

18. Related party transactions
The Company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" in relation to disclosing transactions with its subsidiaries.

19. Subsidiaries
A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 111 of this Annual Report.

20. Capital commitments and contingent liabilities
There were no capital commitments at 31 December 2007 or 31 December 2008.

Spirent Communications plc has provided indemnities of £0.5 million (2007 £0.4 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

21. Directors' emoluments and transactions with directors
Please refer to the Report on directors' remuneration on pages 32 to 41 for disclosures relating to the remuneration, share incentives and pensions of the directors.

Principal divisions and subsidiaries

	% held at 31 December 2008
Communications group	
Performance Analysis and Service Assurance	
Canada	
Spirent Communications of Ottawa Limited (Nepean, Ontario)	100
France	
Spirent Communications SAS (Paris)	100
Hong Kong	
Spirent Communications (Asia) Limited	100
India	
Spirent Communications (India) Pvt Limited (Bangalore)	100
People's Republic of China	
Spirent Communications Technology (Beijing) Limited*	100
United Kingdom	
Spirent Communications (International) Limited (Crawley, West Sussex)*	100
Spirent Communications Positioning (Paignton, Devon)†	
United States	
Spirent Communications Inc	100
Calabasas, California	
Sunnyvale, California	
Honolulu, Hawaii	
Eatontown, New Jersey	
Spirent Communications of Rockville, Inc (Germantown, Maryland)	100
Systems group	
Control systems for the mobility and industrial markets	
United Kingdom	
PG Drives Technology Limited (Christchurch, Dorset)	100
United States	
PG Drives Technology Inc (Anaheim, California)	100

Notes

The above companies operate and are incorporated in the countries listed. All shareholdings in the companies are held indirectly by Spirent Communications plc, except where indicated by an asterisk (*) where the shareholding is held directly by Spirent Communications plc.

† Spirent Communications Positioning operates as a division of Spirent Communications plc.

The activity mentioned is indicative and not comprehensive.

Financial history

£ million	2008	2007	2006	2005	2004
Consolidated income statement					
Continuing operations					
Revenue	**257.9**	237.0	258.9	259.3	287.2
Operating profit/(loss)	**48.7**	11.1	(19.5)	(39.0)	15.2
Add back:					
Exceptional items	**–**	14.4	8.8	8.4	2.9
Goodwill impairment	**–**	–	19.1	37.0	–
Operating profit before exceptional items, and goodwill impairment	**48.7**	25.5	8.4	6.4	18.1
Joint venture's loss	**–**	–	–	–	(0.7)
Profit on disposal of operations	**–**	–	–	3.9	4.0
Profit/(loss) before interest	**48.7**	11.1	(19.5)	(35.1)	18.5
Net finance income/(expense)	**2.7**	6.7	6.0	(6.6)	(6.8)
Exceptional finance income	**0.8**	–	–	–	–
Exceptional finance costs	**(2.6)**	–	(8.8)	–	(0.5)
Profit/(loss) before tax	**49.6**	17.8	(22.3)	(41.7)	11.2
Tax	**25.2**	7.7	(0.4)	4.0	(2.0)
Profit/(loss) from continuing operations after tax	**74.8**	25.5	(22.7)	(37.7)	9.2
Discontinued operations	**–**	(7.9)	131.5	13.2	17.3
Profit/(loss) for the year	**74.8**	17.6	108.8	(24.5)	26.5
Minority interest	**–**	–	–	(0.4)	(0.3)
Profit/(loss) attributable to equity shareholders of parent Company	**74.8**	17.6	108.8	(24.9)	26.2
Consolidated balance sheet					
Intangible assets	**77.6**	58.6	63.3	71.5	106.5
Property, plant and equipment	**18.6**	16.2	25.3	30.1	86.3
Investments	**–**	–	–	–	14.3
Working capital (excluding cash, overdrafts and deferred tax)	**15.9**	(19.0)	(2.2)	(3.3)	23.0
Operating assets	**112.1**	55.8	86.4	98.3	230.1
Net assets classified as held for sale	**–**	–	–	115.4	–
Derivative financial instruments (net)	**(5.6)**	(0.5)	0.1	(0.1)	–
Net funds/(borrowings)	**62.2**	82.7	106.1	(25.9)	(26.4)
Provisions and other liabilities	**(11.9)**	(12.7)	(12.0)	(14.2)	(13.8)
Deferred tax	**12.2**	10.5	1.2	0.2	8.6
Defined benefit pension plan surplus/(deficit)	**2.0**	5.4	1.0	(51.5)	(38.1)
Net assets	**171.0**	141.2	182.8	122.2	160.4
Equity shareholders of parent Company	**171.0**	141.2	182.8	120.3	159.1
Minority interests	**–**	–	–	1.9	1.3
Total equity	**171.0**	141.2	182.8	122.2	160.4

					£ million
	2008	2007	2006	2005	2004
Other information					
Capital expenditure – owned assets	**7.4**	5.1	14.1	30.5	25.3
– leased assets	**–**	–	–	2.5	0.3
Depreciation	**8.8**	9.5	13.4	22.6	25.4
Product development	**45.3**	46.3	58.0	62.8	67.3
Intangible amortisation	**0.7**	1.5	1.6	–	–
Share-based payment	**1.5**	2.5	5.6	5.6	5.2
Share information					
Basic earnings/(loss) per share (pence)	**10.13**	2.05	11.75	(2.62)	2.79
Basic earnings/(loss) per share from continuing operations (pence)	**10.13**	2.97	(2.45)	(3.97)	0.98
Diluted earnings/(loss) per share (pence)	**10.06**	2.03	11.75	(2.62)	2.74
Diluted earnings/(loss) per share from continuing operations (pence)	**10.06**	2.94	(2.45)	(3.97)	0.96
Adjusted basic earnings/(loss) per share from continuing operations (pence)	**6.24**	3.57	1.48	(0.22)	0.78
Dividend per Ordinary Share (pence)	**1.1**	–	–	–	–
Fully paid Ordinary Shares in issue at year end (million)	**671.8**	840.8	975.9	965.8	956.2
Segmental analysis					
Business segments					
Revenue					
Performance Analysis	**191.2**	169.3	179.5	178.8	176.8
Service Assurance	**33.5**	34.3	43.6	42.8	74.7
Communications	**224.7**	203.6	223.1	221.6	251.5
Systems	**33.2**	33.4	35.8	37.7	31.3
On going operations	**257.9**	237.0	258.9	259.3	282.8
Other disposals[2]	**–**	–	–	–	4.4
Continuing operations	**257.9**	237.0	258.9	259.3	287.2
Discontinued operations					
Communications	**–**	3.6	12.7	–	–
Network Products	**–**	–	28.0	205.5	187.8
	257.9	240.6	299.6	464.8	475.0
Operating profit[1]					
Performance Analysis	**43.0**	22.3	10.6	18.4	18.5
Service Assurance	**4.6**	3.3	(1.1)	(10.8)	1.1
Communications	**47.6**	25.6	9.5	7.6	19.6
Systems	**4.3**	3.8	4.7	4.3	3.3
Non-segmental	**(3.2)**	(3.9)	(5.8)	(5.5)	(5.4)
On going operations	**48.7**	25.5	8.4	6.4	17.5
Other disposals[2]	**–**	–	–	–	0.6
Continuing operations	**48.7**	25.5	8.4	6.4	18.1
Discontinued operations					
Communications	**–**	(3.4)	(0.1)	–	–
Network Products	**–**	–	3.0	24.8	20.9
	48.7	22.1	11.3	31.2	39.0

Financial history continued

	2008	2007	2006	2005	2004
					£ million
Geographical segments					
Revenue by market					
Europe	**47.8**	43.7	43.7	43.0	48.3
North America	**139.5**	132.2	152.1	158.2	178.6
Asia Pacific, Rest of Americas, Africa	**70.6**	61.1	63.1	58.1	55.9
On going operations	**257.9**	237.0	258.9	259.3	282.8
Other disposals[2]	**–**	–	–	–	4.4
Continuing operations	**257.9**	237.0	258.9	259.3	287.2
Discontinued operations	**–**	3.6	40.7	205.5	187.8
	257.9	240.6	299.6	464.8	475.0

					Rates against sterling
Average exchange rates for major currencies					
US dollar	**1.85**	2.00	1.85	1.82	1.83
Euro	**1.26**	1.46	1.47	1.46	1.47

					Number
Average employment by geographical area					
Europe	**379**	448	818	1,771	1,742
North America	**976**	1,038	1,380	1,813	1,988
Asia Pacific, Rest of Americas, Africa	**192**	175	237	794	791
	1,547	1,661	2,435	4,378	4,521

Notes
1 Before goodwill impairment and exceptional items.
2 Other disposals includes other less significant disposals and closures which do not qualify as discontinued operations.

Shareholder information

Financial calendar 2009

24 February	2008 Preliminary results and final dividend announcement
4 March	Final dividend – ex-dividend date
6 March	Final dividend – record date
16 April	Last date for receipt of applications to participate in Dividend Reinvestment Plan for 2008 final dividend
7 May	Annual general meeting and interim management statement
8 May	Final dividend – payment date (Ordinary shareholders)
18 May	Final dividend – payment date (ADR holders)
28 June	Half-year end
August	2009 Half-year results and interim dividend announcement
August	Interim dividend – ex-dividend date
August	Interim dividend – record date
October	Interim dividend – payment date (Ordinary shareholders)
October	Interim dividend – payment date (ADR holders)
November	Interim management statement
31 December	Financial year end
February 2010	2009 Preliminary results and final dividend announcement

Ordinary shares and American depositary receipts

The Company's Ordinary Shares are traded on the London Stock Exchange (ticker: SPT). The Company operates a Level 1 American Depositary Receipt ("ADR") programme with each ADR representing four Ordinary Shares. The ADRs trade on the US over-the-counter market (symbol: SPMYY & CUSIP: 84856M209). The Bank of New York Mellon is the authorised depositary bank for the Company's ADR programme. The ADRs are quoted on the Pink Sheets electronic quotation service which can be found at www.pinksheets.com.

Annual General Meeting

The Company's 2009 Annual General Meeting ("2009 AGM") will be held at 10.30am on Thursday 7 May 2009 at the offices of the Company's PR advisers, Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, United Kingdom.

Dividends

Shareholders are able to choose how they receive their dividends:

- direct to their bank account;
- reinvested in Ordinary Shares;
- paid by cheque; or
- paid in foreign currencies.

The quickest and most efficient way to receive your dividends is to have them paid direct to your bank account. It saves waiting for funds to clear and reduces the paper and postage we use. To change how you receive your dividends either log on to www.shareview.co.uk or contact the Company's registrar, Equiniti.

Dividend reinvestment plan

The Company has introduced a Dividend Reinvestment Plan ("DRIP") provided by Equiniti Financial Services Limited. The DRIP allows eligible shareholders to use their cash dividend to buy additional shares in the Company, so increasing their shareholding. Additional information, including details of how to participate, can be obtained from the Company's website at www.spirent.com and from Equiniti on 0871 384 2623.

Electronic communications

At its 2008 AGM the Company passed a resolution allowing it to communicate with shareholders by means of the Company's website and an invitation to sign up for this method of communication will be sent to shareholders with the 2009 AGM documentation. Electronic communications provide significant benefits for shareholders and the Company in terms of timeliness of information, reduced environmental impact and cost and the Board would encourage investors to participate in the programme.

Company's registrar

Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to Equiniti, on 0871 384 2126. 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.

Shareholder information continued

Share dealing services
Equiniti Shareview Dealing is a service that provides a simple and convenient way of buying and selling the Company's Ordinary Shares. For telephone services call 08456 037 037 between 8.00am and 4.30pm, Monday to Friday and for Internet services visit www.shareview.co.uk/dealing. A postal share dealing service for buying and selling Ordinary Shares is also available and a dealing form can be obtained by calling 0871 384 2248.

Individual savings accounts
Information about investing in the Company's Ordinary Shares through an Individual Savings Account ("ISA") may be obtained from Equiniti on 0871 384 2244 or at www.shareview.co.uk. ISAs are also offered by other organisations.

Shareholder security
Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in the Company's mailings or on our website. More detailed information can be found at www.moneymadeclear.fsa.gov.uk.

Unsolicited mail
The Company is obliged by law to make its share register publicly available, subject to a "proper purpose" test, should a request be received. As a consequence, some shareholders may receive unsolicited mail. To limit the amount of unsolicited mail received, please contact: The Mailing Preference Service (MPS), DMA House, 70 Margaret Street, London W1W 8SS. Alternatively, register online at www.mpsonline.org.uk or call the MPS Registration line on 0845 703 4599. The Mailing Preference Service is an independent organisation which offers a free service to the public within the UK. Registering with them will help stop most unsolicited consumer advertising material.

Company's website
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.

Shareholder analysis
At 24 February 2009, the number of registered shareholders was 4,571 and the number of Ordinary Shares in issue was 671.8 million.

	Number of holdings	% of total shareholders	Number of ordinary shares million	% of share capital
Range of holdings:				
1–5,000	3,269	71.51	4.8	0.72
5,001–10,000	490	10.72	3.7	0.55
10,001–50,000	495	10.83	10.6	1.59
50,001–100,000	69	1.51	4.8	0.72
100,001–250,000	69	1.51	11.4	1.69
250,001–500,000	53	1.16	18.6	2.76
500,001–1,000,000	46	1.01	31.5	4.69
1,000,001–Highest	80	1.75	586.4	87.28
Total	4,571	100.00	671.8	100.00
Held by:				
Individuals	3,726	81.51	20.3	3.02
Institutions	845	18.49	651.5	96.98
Total	4,571	100.00	671.8	100.00

Glossary

3G (Third Generation)	Third generation of mobile communications following first generation (analogue) and second (digital) that promises megabits per second.
4G (Fourth Generation)	Future generation of mobile communications following 3G that promises hundreds of megabits per second.
Broadband	Generic term for devices with a bandwidth greater than one megabit per second.
CDMA (Code Division Multiple Access)	A digital cellular standard technology allowing communications circuits to carry multiple conversations simultaneously, thus increasing its capacity; used in radio communications.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
DSLAM (Digital Subscriber Line Access Multiplexer)	A network device located in the telephone exchange that takes numbers of DSL lines and concentrates them into a single line.
Ethernet	A family of networking technologies developed for local area networks, migrating to metro area networks and becoming a dominant standard in wireline networks.
EV-DO Rev A (Evolution-Data Optimised revision A)	Data only (revision A) is a collection of mobile telephone protocols that extend and improve the performance of existing CDMA protocols for high speed data transmission, typically for broadband internet access.
Galileo	The informal name for the European Global Navigation Satellite System, a system that will offer users anywhere in the world “near pinpoint” geographic positioning when it becomes fully operational.
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.
GLONASS (Global Navigation Satellite System)	Global navigation satellite system operated by the Russian Federation Ministry of Defence.
HSPA (High Speed Packet Access)	A collection of mobile telephone protocols that extend and improve the performance of existing UMTS protocols for high speed data transmission.
IMS (Internet Protocol Multimedia Subsystem)	A standardised next-generation architecture for telecoms operators who want to provide mobile and fixed multimedia services.
Internet/IP 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.

Glossary continued

LTE (Long Term Evolution)	A standard to enhance existing 3G wireless to add 4G mobile communications technology on an IP network air interface, to create a wireless broadband internet system.
Location Based Services	The delivery of information, mapping and locally available business and public data over the wireless network dependent upon the ability to locate mobile devices by means of direct satellite or cellular assisted satellite signals.
RF (Radio Frequency)	A technology used for wireless broadcasting and/or communications.
Triple Play	Voice, video and data transmitted over a single transport medium.
UMTS (Universal Mobile Telecommunications System)	One of the 3G wireless technologies. The most common form of UMTS uses WCDMA on its underlying air interface and offers support for high speed data transfer.
WCDMA (Wideband CDMA)	A global standard for mobile 3G.
WiMax (Worldwide Interoperability for Microwave Access)	A wireless transmission technology.

Notes

Notes

Contact details

Registered office
Spirent Communications plc
Northwood Park
Gatwick Road
Crawley
West Sussex RH10 9XN
United Kingdom
Tel: +44 (0)1293 767676
Fax: +44 (0)1293 767677
Email: investor.relations@spirent.com
Website: www.spirent.com

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
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom
Service Helplines:
Tel: 0871 384 2126 (UK)
Tel: +44 (0)121 415 7047 (overseas)
Text phone (for shareholders with hearing difficulties):
0871 384 2255 (UK)
+44 (0)121 415 7028 (overseas)
Website: www.shareview.co.uk

ADR depositary
The Bank of New York Mellon Corporation
ADR Depositary Receipts
101 Barclay Street
22nd Floor
New York
NY 10286
USA
Tel: 1 888 269 2377 (toll free – US)
Tel: +1 (201) 680 6825 (outside US)
Email: shrrelations@bnymellon.com
Website: www.adrbny.com

Brokers (Joint)
RBS Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA
United Kingdom
Tel: +44 (0)20 7678 8000
Website: www.rbs.com

UBS Limited
2 Finsbury Avenue
London EC2M 2PP
United Kingdom
Tel: +44 (0)20 7567 8000
Website: www.ubs.com

Financial PR Advisers
Financial Dynamics Limited
Holborn Gate
26 Southampton Buildings
London WC2A 1PB
United Kingdom
Tel: +44 (0)20 7831 3113
Website: www.fd.com

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Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

Registered office
Spirent Communications plc
Northwood Park
Gatwick Road
Crawley
West Sussex RH10 9XN
United Kingdom
Tel: +44 (0)1293 767676
Fax: +44 (0)1293 767677
Email: investor.relations@spirent.com
Website: www.spirent.com

Registered in England No: 470893

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