2011

Spirent Communications plc
Annual Report

inspiring innovation enriching life

Welcome to the Spirent Group annual report for 2011.

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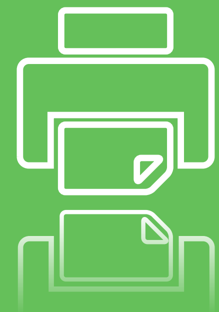

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Spirent plays a significant role in shaping the way the world communicates.

We inspire innovation by testing and assuring today's new technologies that will enable tomorrow's networks and services. By enhancing the products, services and applications that drive the ever-evolving communications and IT industries, we truly enrich the lives of people around the world by enabling them to communicate faster and more effectively – anytime, anywhere.

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Our results

"2011 was an exciting year for Spirent. Whilst world markets suffered from a lack of confidence, Spirent delivered new enhanced capabilities to customers, undertook unprecedented large scale testing, won new customer accounts and further industry recognition. We grew revenue and profit in the year, invested in the business for future organic growth and our first acquisition for many years generated a positive return."

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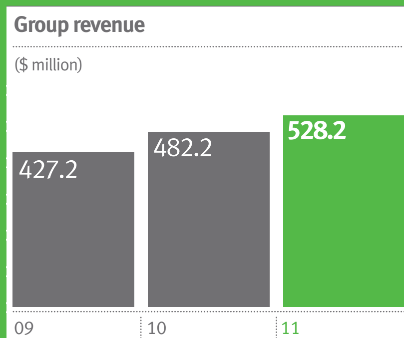

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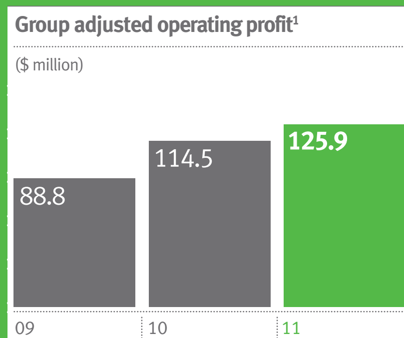

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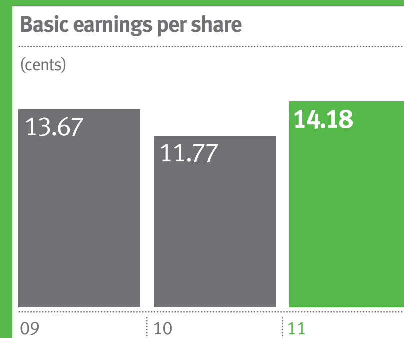

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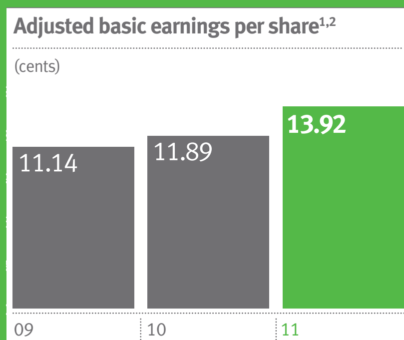

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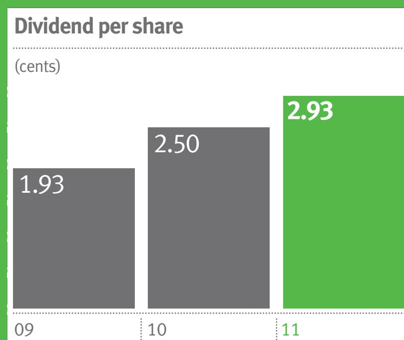

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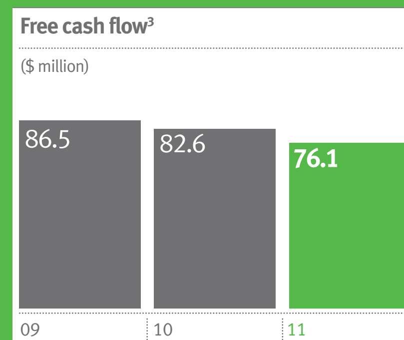


Notes
1 Before share-based payment, acquired intangible asset amortisation and acquisition related costs.
2 Before tax effect of items in note 1 and prior year tax.
3 Operating cash flow after tax, net interest and net capital expenditure.

Financial highlights

- Group revenue up 10% to $528.2 million (2010 $482.2 million) reflecting growth across all regions, with a book to bill ratio of 102 (2010 105).
- Performance Analysis, our major division, saw revenue up 14% with strong growth in wireless, positioning and data center technologies. Service Assurance and Systems saw slightly lower sales, down 5% and 3%, respectively.
- Adjusted Group operating profit up 10% to $125.9 million (2010 $114.5 million). Reported operating profit $122.0 million (2010 $112.7 million). Growth in Performance Analysis 18%.
- Basic earnings per share rose 20% to 14.18 cents (2010 11.77 cents). Adjusted basic earnings per share up 17% to 13.92 cents (2010 11.89 cents).
- The strong financial performance supports an increase of 17% in total dividend to 2.93 cents per share; final dividend proposed 1.67 cents per share (equivalent to 1.05 pence per share).
- Return on sales, based on adjusted operating profit, maintained at 24% after increasing investment in product development for future growth.
- Free cash flow of $76.1 million (2010 $82.6 million) reflected an increased investment in the business.

Operational highlights

2011 saw continuing growth in demand for Spirent's test solutions, driven by:

- High density, next-generation data center technologies for cloud computing and mobile broadband;
- Increased mobile internet traffic growth coupled with demand for 4G/LTE requiring higher Ethernet speeds, greater platform scale and new devices;
- Service assurance needs for Ethernet in mobile backhaul and enterprise business services;
- Growth in applications of global positioning technologies such as GPS/GLONASS.

Spirent introduced further innovative new test solutions to address customer needs:

- Completed convergence of our network performance test solutions onto the Spirent TestCenter™ platform;
- New Spirent TestCenter™ HyperMetrics™ neXt modules, providing unprecedented performance, scale and realism;
- Wireless test solutions for the rollout of LTE networks and devices and for higher 3G wireless network speeds;
- New positioning test capabilities to serve the rapid growth in location based services and satellite navigation.

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.

Spirent at a glance

Spirent is a global leader in communications test and measurement listed on the London Stock Exchange. The Group is organised into three business segments.

Performance Analysis

Develops innovative solutions for functional, conformance and performance testing of current and next-generation communications technologies that simulate real-world conditions in the lab, before a commercial launch.

Revenue

$416.4M
(2010 $365.8M)

Divisional focus

Ethernet, data center, cloud computing, virtualization and applications
Wireless devices and network infrastructure
Satellite navigation and positioning technologies

Highlights 2011

Financial

- Revenue up 14 per cent driven by expansion in worldwide data connectivity
- Profit up 18 per cent due to high operating leverage on revenue growth
- Increased investment in product development and sales channel for future growth

Customer wins

- Alcatel-Lucent for LTE mobile gateway testing
- Crossbeam for network security platform testing
- China Mobile for Fibre Channel testing
- Leading test lab SGS for LTE device testing

New product introductions

- 12 Spirent TestCenter™ HyperMetrics™ neXt module variants
- Spirent iTest® (Fanfare acquisition) for test automation and optimization
- 8100 LTE device test solutions for mobility and data performance
- Solution for record and playback of GNSS signals

Service Assurance

Provides solutions which allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network.

$54.1M
(2010 $57.0M)

Divisional focus

Ethernet business services
Wireless backhaul
Field test solutions

Financial

- Revenue down 5 per cent due to delays and caution in spending by service provider customers
- Profitability decreased 46 per cent on lower revenue, but primarily due to an excess inventory provision in 2011 and a one-time software contract in 2010

Customer wins

- Leading US MSO for test and diagnosis of Ethernet business and mobile backhaul services
- Leading US wireless service providers for mobile backhaul service activation
- Top-tier US service provider qualifies and places initial orders for field test solution

New product introductions

- Combined 1/10Gb Ethernet probes for Spirent TestCenter Live
- DOCSIS 3.0 and 1GHz RF functionality for field test solutions

Systems

Develops and supplies sophisticated electronic control systems for electrically powered vehicles in the medical mobility and industrial markets.

$57.7M
(2010 $59.4M)

Divisional focus

Motorised wheelchair and mobility scooters
Commercial and industrial electric vehicles
Low speed electric vehicles

Financial

- Revenue down 3 per cent, impacted by difficult market conditions for consumer wheelchair control systems caused by changes in US Medicare reimbursement policies
- Profit increase of 2 per cent due to a reduction in costs

Customer wins

- Good growth at new customers for rehab wheelchair systems and industrial systems

New product introductions

- C3 CAN AC stacker control system
- S-Drive Mk2 scooter control system

Chairman's statement

"We are pleased to report another year of strong financial results for Spirent."

Alex Walker
Chairman

Revenue grew by 10 per cent to $528.2 million and profit before tax rose 10 per cent to $123.3 million, a significant achievement in this time of uncertain economic conditions. Spirent, a leader in global test and measurement solutions, serves the needs created by the rapidly evolving trends in data technology. Operating results have benefited from our broad portfolio of test solutions and geographically diverse customer base. The highlights for 2011 were the performance of wireless, positioning and data center test, plus our growing activities in Asia.

Return on sales was maintained at 24 per cent, amongst the best in the test and measurement industry. At the same time investment was increased in product development and in the sales channel in 2011 to support the long term growth of the business.

Basic earnings per share increased in 2011 by 20 per cent to 14.18 cents per share. Adjusted basic earnings per share grew by 17 per cent to 13.92 cents, this is before charging share-based payment, acquired intangible asset amortisation and acquisition related costs.

The Group's free cash flow was $76.1 million in 2011 compared with $82.6 million for 2010; this is a cash conversion ratio of 85 per cent (2010 106 per cent) of reported earnings before non-cash prior year taxes. The lower free cash flow in 2011 is a consequence of the increased investment in the business, acquisition costs and higher tax payments. Cash balances were $236.5 million at 31 December 2011.

Spirent has been seeking growth through organic investment and also by acquisition. A first step was the acquisition of the Fanfare Group, Inc. for $14.5 million, announced and completed in February 2011. Fanfare has been fully integrated into Spirent's Performance Analysis division. We will continue to pursue acquisitions where the return on investment is attractive and in line with Spirent's long term strategy.

2011 Board activities

The Board's activities focus on strategy, governance and business performance.

Strategy and business performance

Strategy and business development is a primary focus for the Board and is discussed at every meeting, with a dedicated strategy summit being held each year at which the Group's overall strategy is reviewed by the Board over a number of days. We review and analyse market conditions and technology trends and openly debate issues such as risk, strategic direction and allocation of product development investment. It is critical that as a Board we have a deep understanding of, and remain close to, our businesses. Regular site visits are therefore arranged with the Board also taking the opportunity to talk directly with Spirent's customers. For example, in June 2011, the Board went to Sunnyvale in California, one of our principal US locations and where a number of our key customers are located. Further visits are planned for 2012.

Prior to the start of each financial year the Board reviews and approves management's plan for the coming year, making sure that stretching but realistic targets are put in place. The priorities for discussion are revenue growth, margins, earnings growth and cash generation, some of our key performance indicators, as well as ensuring that this one year plan aligns with the long term strategy of Spirent. As more fully explained in the Remuneration report, these one year financial goals then form the basis for short term executive compensation targets.

At each Board meeting the executive directors update the Board on market trends and conditions together with the Company's performance against the one year plan and present revised forecasts which are again openly challenged and debated.

Corporate governance

Achieving good governance is key to the long term success of the business. It ensures that we remain a responsible company and underpins our culture and reputation as an organisation.

The new Corporate Governance Code came into effect for this financial year and as a Board we are conscious of our obligations to think deeply, thoroughly and on a continuing basis regarding our duties.

Spirent is fortunate to have non-executive Board members with extensive experience in areas critical to the long term future success of the Company, covering a deep understanding of our industry, technology, corporate strategy, finance and investment. We believe that our members complement each other, delivering the appropriate balance of skills.

As non-executive Board members we are not responsible for the day-to-day running of Spirent, that duty is very capably in the hands of Bill Burns and his highly experienced executive management team, but what we add is open and rigorous debate that provides a valuable external and balanced perspective to the proceedings.

Consideration of the significant risks that affect the Company, both internal and external, their mitigation and the effectiveness of internal control is another essential component of corporate governance and these issues are deliberated by the Board at meetings throughout the year.

Employees

Spirent's performance in 2011 has been achieved through the talent, dedication and commitment of all our employees and management teams all over the world. Our appreciation goes out to all of them for their contribution to the continuing success of the Company.

We are well aware that Spirent's greatest resource is its employees; Spirent's people create and drive our innovation. As part of our process for ensuring that we have the necessary people in place to meet our strategic aims, at a meeting of the Board in March 2011 we reviewed succession planning for senior positions in the Company and our organisational structure.

Board

We have been fortunate to have had a stable and dedicated Board throughout 2011.

The Board is mindful of the benefits of having a diverse range of members with a broad range of skills, backgrounds and experience. In pursuit of these aims, we were delighted to announce the appointment of Sue Swenson to our Board as a non-executive director on 1 February 2012. Sue brings a wealth of experience in the telecommunications and technology sectors further strengthening the Board's experience of our industry. We will continue to follow a policy of ensuring that we appoint the best people for the relevant roles and recognise the importance and benefits of greater diversity both at board level and throughout the Group and will take this into account when considering any particular appointment.

Further information on Board activities can be found in the Directors' statement on corporate governance on pages 43 to 46.

Dividend and share repurchase

The Board is recommending a final dividend of 1.67 cents per share compared with 1.40 cents per share in 2010. This brings the total dividend for 2011 to 2.93 cents per share compared with 2.50 cents for 2010. The increase in total dividend per share is 17 per cent and reflects the strong operational performance of the Group. In sterling terms this represents an increase in the distribution to our shareholders of 17 per cent.

During 2011 we have repurchased 17.6 million shares at a cost of $34.2 million, some of which was part of the Company's ongoing policy to manage dilution attributable to its share incentive schemes.

Summary

The current economic climate is likely to remain with us for some time and we are therefore maintaining our thoughtful approach to the management of our business. Spirent is not immune to external factors and they may temper growth rates in parts of our business in the short term. We believe overall that long term growth opportunities for Spirent are very positive. The emphasis for the Company in 2012 will centre on investing in areas that matter most to our customers, bringing new solutions to market, to deliver on the long term strategy of a growing business.

Chief Executive Officer's review

"Growth was driven by our Performance Analysis division which saw strong demand for its wireless, data center, high speed Ethernet and positioning test products, especially in the Asia Pacific region."

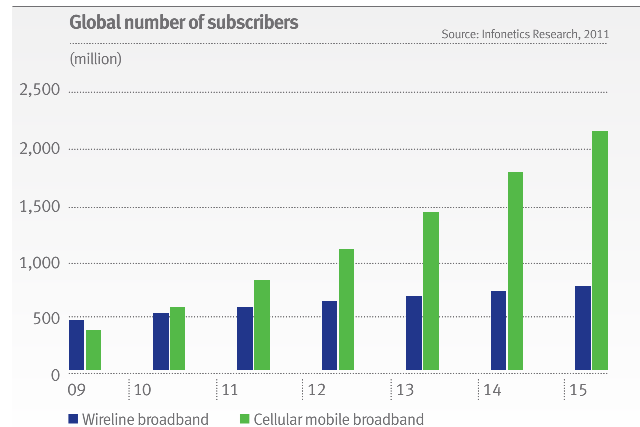
Bill Burns
Chief Executive Officer

2011 was another successful year for Spirent, despite the ongoing economic uncertainty in many parts of the world. Our business drivers remain positive, as the telecom and IT industries continue to invest in order to meet the demand of consumers and enterprises for anytime, anywhere access to data, applications and services with excellent Quality of Experience.

Focused execution of our strategy enabled us to again deliver profitable growth, increasing sales by 10 per cent and adjusted basic earnings per share by 17 per cent, a financial performance which remains amongst the best in our industry. Growth was driven by our Performance Analysis division which saw strong demand for its wireless, data center, high speed Ethernet and positioning test products, especially in the Asia Pacific region. This was partially offset by some weakness in our Service Assurance division as a result of cautious carrier investment in wireline networks, as well as in our Systems division due to changes in US Medicare programmes.

The rapid increase in mobile broadband subscribers and mobile internet traffic is forcing carriers to rethink their network architectures and business models, seeking new revenue streams through the monetisation of services. As carriers drive the convergence of networks and services using technologies such as IP and Ethernet, network equipment manufacturers are under pressure to accelerate delivery of converged wireline and wireless platforms with ever-increasing scale. A plethora of new mobile devices is also coming to market that allow subscribers to take advantage of the latest applications and services enabled by 4G/LTE. Our uniquely broad portfolio of solutions that test mobile networks, services and devices, as well as the positioning technologies that enable location based services, saw significant growth in 2011.

The growth rate for global cellular mobile broadband subscribers is forecast to be almost four times that for wireline broadband.



Another driver has been the ongoing investment in next-generation data centers, with virtualization enabling more efficient and manageable infrastructure. In 2011, we saw demand for next-generation data centers expand into the carrier space as operators invested in cloud IT services. Growing interest in "Big Data" analytics is also beginning to have implications for the data center. Cloud computing is becoming accepted as a scalable platform for consumption and delivery of services such as software as a service ("SaaS") and infrastructure as a service ("IaaS"). However, concerns persist over the performance, availability, security and scalability of cloud based services. We applied our innovation to a new generation of modules for our Spirent TestCenter™ platform in 2011 to maintain and expand our data center and cloud test leadership and our high speed Ethernet test capabilities. Our virtual solutions that provide unmatched visibility into data center infrastructure and cloud applications, also experienced strong growth. Frost & Sullivan recognised Spirent as the Global Market Share Leader in Gigabit Ethernet Test Equipment and Cloud Infrastructure Testing, just two of the many industry accolades we received during 2011.

We successfully integrated our Fanfare acquisition during the year, building it into a solution set for infrastructure test optimization ("ITO"). ITO is an integrated offering of products, services, partnerships and standards that enable new levels of test efficiency, helping our customers bring their products to market faster and with better quality. This is just one example of how we help our customers address rapidly growing complexity and time to market pressures with the industry's most innovative solutions.

Outlook

Spirent operates in markets where customers have long term investment programmes for the development of data technologies worldwide, driven by mobile internet, cloud computing and global positioning. This supports continued growth even in times of macro-economic uncertainty. For parts of our business that are more exposed to prevailing consumer behaviour and government expenditure, such as Systems and Service Assurance, there may be some impact on near term growth rates.

Performance Analysis, our largest division, has identified more opportunities for expansion through organic investment to bring the right solutions to market at the right time. In addition, we will strengthen our global reach as we further invest to take advantage of economic growth in the Asia Pacific region. We are confident that these factors will enable Spirent as a whole to deliver further growth in 2012 and beyond.

Our business model

Spirent Communications provides solutions to enable the world to communicate faster, better, and more reliably.

We develop innovative test solutions for the engineers working within the communications industry that allow them to evaluate the performance of the latest technologies, infrastructure and applications to be deployed worldwide. We also provide tools for service technicians and field test engineers to improve network quality and make troubleshooting of live networks efficient and effective.

Network equipment manufacturers and service providers face numerous challenges associated with bringing products and services from the lab to the commercial marketplace. Spirent's solutions allow network equipment and mobile device manufacturers, service providers, enterprises and government entities to holistically test and benchmark the performance of their networks, network elements, mobile devices and services.

How Spirent creates value

Spirent enables its customers to increase their revenues by reducing their time to bring new products and services to market, with higher quality and reliability. Our test solutions deliver efficiency and effectiveness to development engineers to make better use of their scarce resources.

Much of our revenue comes from follow on business with our clients, who have worked with us for many years. This is a result of a combination of our ability to innovate to meet their needs and on our emphasis on providing professional service and support. All of the above, with the optimal utilisation of our own resources, supports the sustainability of the margins Spirent achieves.

Our global presence

Spirent has global reach which results from its sales and service organisations' industry leading capabilities. Our communications businesses serve 1,400 customers worldwide.

Revenue

Americas

$280.2M

(2010 $265.2M)

Asia Pacific

$160.0M

(2010 $136.4M)

Europe, Middle East and Africa

$88.0M

(2010 $80.6M)

Our business model

Spirent's capability, across the entire product lifecycle, from concept to commercial availability, helps to shorten our customers' product development cycle, improve the quality of new services, while reducing associated cost and risk.

Technology cycle

Innovation in data technologies is required to satisfy the ever-increasing demand for data capacity, reliability and security by all members of society and by the development of new economic processes to create wealth worldwide.

Innovation

Spirent innovates and creates new products and services through the endeavours of its highly skilled and creative workforce. They build on decades of experience and product management expertise. External inputs are important through our technology partners as is being located in the world's leading centres for technological development.

Value-creating culture

We have embedded a culture which is aimed at creating value for stakeholders and shareholders, minimising activities that do not contribute to this. Management encourages rational risk taking, weighing the long term opportunity with the utilisation of scarce resources. We attract and retain the best people to work for the Company, offering career development, a non-discriminatory workplace and fair and competitive remuneration, within a non-bureaucratic culture.

Innovation

Intellectual property

Customer relationships

Value-creating culture

Intellectual property

Spirent has created a large body of intellectual property, patented and proprietary, which has raised the barriers to entry to competition. Much of the new development is evolutionary in nature building on our existing expertise.

Customer relationships

Customer relationships are key. Our clients are the leading providers of new technologies for data communication in the world. Our close and continuing relationships with them drive our people to aspire to achieve at higher levels each and every year.

Shareholder returns

Our focus on value-creation through investment in the business, whether that be organically by product development, by acquisition of technology, or access to new served markets, is aimed at delivering capital growth and cash generation to service distributions through dividends and share repurchase.

Our strategy

Our vision is to be the global leader in growing and emerging test and measurement markets.

Communications and IT continues to grow as a result of demand for anytime, anywhere connectivity, enabled by such key trends as the mobile internet and cloud computing. At Spirent we make use of our deep understanding of communications trends and technologies, together with our close customer relationships, to identify growing and emerging market opportunities. We look to attract and retain the best and brightest people in the industry in order to enable us to develop the most innovative and complete test and service assurance solutions to address these opportunities.

A high rate of investment in our solutions portfolio enables us to bring solutions to market at the right time in technology and market cycles when our customers most need them. Our solutions are used to develop and deploy the best devices, networks and applications, helping enrich people's lives, whether they are consumers, employed by a business enterprise or work for a government entity. As a trusted partner to 1,400 global customers, Spirent's global reach allows us to assist these organisations, wherever they are located, to transition from legacy to emerging and next-generation technologies. Spirent remains dedicated to retaining its position at the forefront of the ever-evolving communications industry, understanding that market leadership plays an important part in sustaining profitable growth.

The areas of strategic focus for Spirent's three operating segments are summarised and discussed further in each of the business sections on pages 20 to 27.

Strategy

Focus on growing and emerging technology markets

Invest in our people

Innovation

Evolve and expand our solutions portfolio

"Right Solution" at the "Right Time"

Global reach

Description	2011 Update
Spirent closely monitors the ever-changing trends across the communications and IT landscape, strategically reallocating resources to address growing and emerging technology markets.	We maintained our focus on growth markets, including 3G/4G/LTE mobile networks and devices, cloud computing and data center, high speed Ethernet and global positioning. During 2011 we expanded our addressable markets to include a new product offering for mobile device developers.
Spirent is its employees. Finding, keeping and engaging highly qualified and skilled employees is central to our ability to deliver on our strategy and to the success of our business. To drive profitable growth and innovation, we develop our employees through career path programmes and continuous learning opportunities.	Profitable growth enables us to recognise and reward our employees for their hard work, innovation and contribution to Spirent's success. We actively foster a challenging, stimulating work environment that enables the creative, competitive, customer focused and collaborative spirit to thrive that is critical to Spirent's success. Further information on what we have achieved can be found in the CSR statement on pages 32 and 33.
Remaining at the leading edge of technology is critical to our continued success. We apply our creativity to the development of tools and methodologies that meet our customers' complex needs for testing and assuring communications and IT equipment, networks and applications.	We released new HyperMetrics™ neXt modules for Spirent TestCenter™, applying the innovation of our Cloud Core™ architecture to provide exceptional performance and realism for testing the most complex converged IP systems, such as cloud data centers and 3G/4G/LTE mobile networks.
We invest in development across our product and service portfolio at a level that enables us to bring the most advanced test solutions to market.	During 2011, we released more than 50 new products and additions of new functionality in key technology areas including LTE networks and devices, cloud computing and data center, high speed Ethernet and satellite positioning.
We enable our customers to bring new products and technologies to market in the shortest amount of time by making available the solutions they need, when they need them.	Staying close to our customers has enabled us to bring to market, for example, LTE device and network test solutions that are meeting the demands of leading technology developers and are playing a significant role in the success of early commercial deployments.
Our geographic diversity is a key strength. We have built a world-class organisation that enables Spirent to develop and maintain strong customer relationships around the globe.	We continued to strengthen our customer relationships, expanding our sales and service capabilities in key growth markets, especially in Asia Pacific where revenue grew 16 per cent in 2011. We also continue to grow our product development capacity in Asia.

What we test

Spirent provides hardware and software solutions and test methodologies that enable performance benchmarking of network equipment, devices and applications through the entire lifecycle. We apply the expertise gained to our service assurance solutions, which allow service providers to diagnose, troubleshoot and determine how to resolve issues within live networks.

Spirent's recognised leadership in Ethernet testing allows us to benefit significantly from the sustained growth in Ethernet use across all communication and IT markets. We test network equipment which utilises Ethernet at ever-increasing scale, including switches, routers, evolved packet core network elements, firewalls, load balancers and intrusion detection/ intrusion prevention.

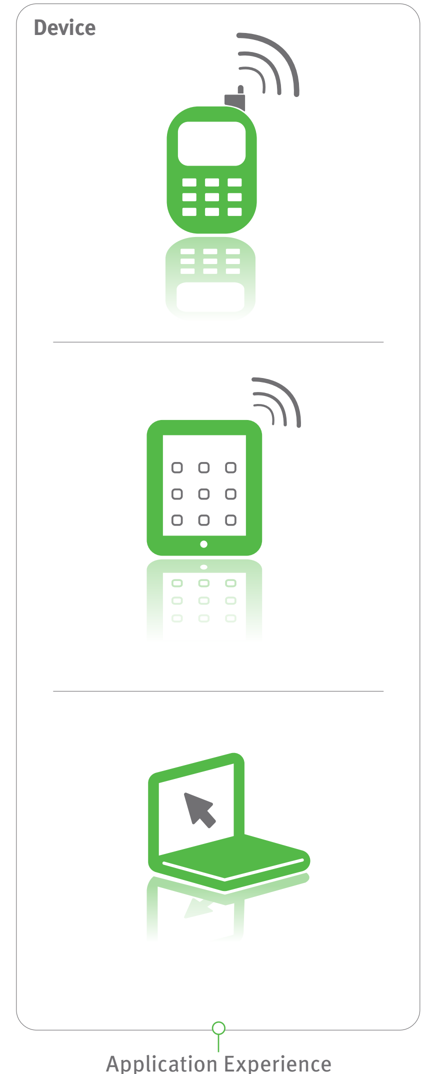
Spirent tests all layers of service provider networks (see diagram), including those that require high data capacity and those that deliver application scale or security. Service providers face the challenge of deploying services that can generate new revenue while cost effectively migrating to a converged network. To address this, Spirent TestCenter™ is a single, converged performance platform designed to test end user Quality of Experience as well as the Quality of Service of all the elements that make up the network. Key technology areas addressed include cloud computing, data center convergence, migration to Ethernet in the mobile core and high speed Ethernet in the mobile backhaul. We also test the service quality, security and application performance of content delivery networks, cloud applications and the internet.

For the enterprise, Spirent is well positioned to benefit from the move of applications into public/private clouds and from growth in next-generation cloud infrastructure and cloud service device markets. Spirent developed its innovative PASS methodology to test the performance, availability, security and scalability of cloud computing networks. Virtualized variants of Spirent solutions provide unsurpassed visibility into the entire data center infrastructure. Spirent's infrastructure test optimization ("ITO") solutions help address the challenges of bringing quality products to market faster in the face of rapid change and increasing complexity.

Testing needs for wireless devices are driven by smartphone growth and the associated exponential growth in mobile data, as service providers look to new technologies such as LTE and to the cost and efficiency advantages of all-IP networks. Spirent is a major provider of functional, conformance and performance test solutions for 3G and 4G/LTE devices, including smartphones, tablets and data cards. Spirent is also the recognised leader in testing location technologies that enable location based services on smartphones and other devices. In addition, Spirent provides innovative solutions to test the performance of advanced 4G/LTE air interface techniques, such as multiple-input multiple-output ("MIMO"), in base stations and devices.

Spirent is the worldwide leader in testing GNSS receiving devices. While GPS remains the most widely used system, others such as GLONASS, Galileo and Compass are gaining ground, with complementary positioning techniques such as use of Wi-Fi access points also growing in popularity. Spirent is able to test the performance of all of these technologies, as they become embedded in an ever-broader range of applications, from smartphones and vehicles to aerospace and government.

Example:



Service provider networks

Wireless
2G
3G
4G

Satellite
Positioning

Residential
Copper
Fibre
Cable

Enterprise
Copper
Fibre
Cable

Backhaul/Edge

Mobile
Packet Core

Unified Core
IP/MPLS Ethernet

Fixed/Mobile Convergence

High speed Ethernet

Content Delivery

Cloud Applications

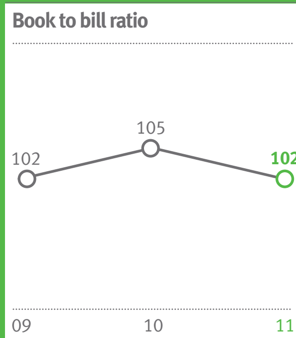
Internet
WWW

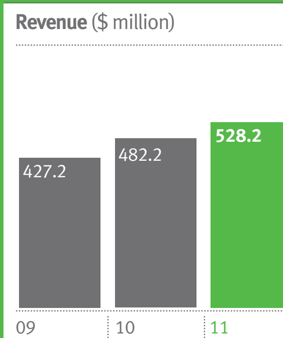
Performance, Availability,
Security and Scalability

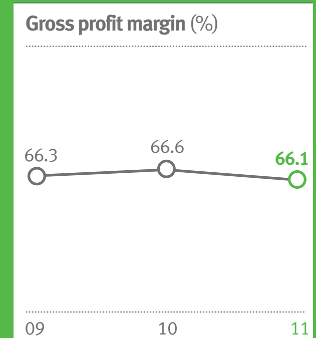
Measuring our performance

Spirent has identified the following key performance indicators ("KPIs") that it believes are useful in assessing how the Group is performing against its strategic aims.

KPI







Description

Book to bill ratio: Ratio of orders booked to revenue billed, which is a measure of the visibility of our future revenues at current levels of activity.

The Group aims to maintain a book to bill ratio of 100 or higher.

Revenue: Growth in revenue is a measure of how we are growing our business and the overall success of our strategy. Our goal is to achieve year-on-year growth. We continue to focus on increasing our market share, growing our new product revenues and extending our global reach, which are some of the key components of our strategy.

Gross profit margin: Gross profit as a percentage of revenue is a measure of our profitability. We seek to maximise our gross margin through operational excellence in all aspects of our business.

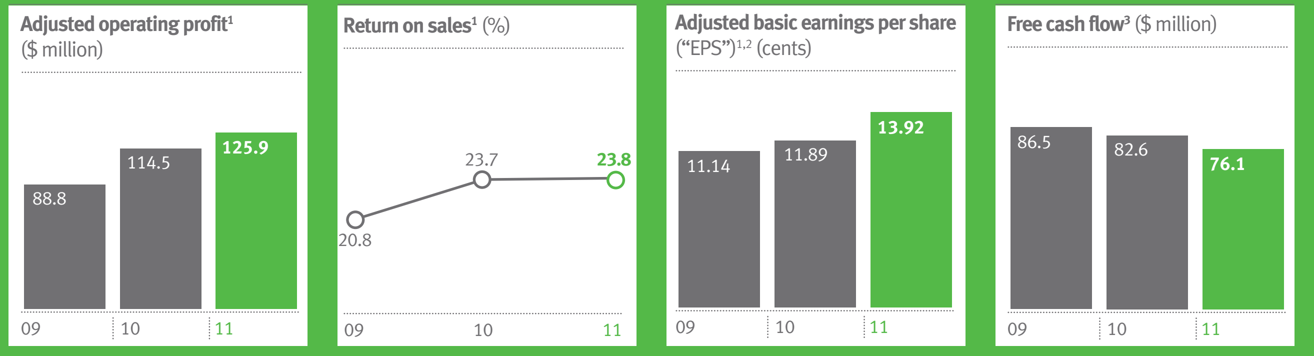
Commentary

Book to bill ratio: The ratio was positive at 102 for 2011 and this reflects the improving levels of demand experienced by the Group's Performance Analysis division during 2011.

Revenue: Revenue for the Group increased by 10 per cent which was a strong result in an uncertain economic environment. Performance Analysis revenue grew 14 per cent year-on-year but this was offset by weakness in the Service Assurance and Systems divisions. In Performance Analysis there was high demand for our wireless, positioning and data center test products and, geographically Asia was very strong.

Gross profit margin: Gross profit margin was slightly lower at 66.1 per cent compared with 66.6 per cent in 2010. There has been an improving trend over a number of years achieved through design for lower cost of manufacture and outsourcing activities. However, gross margin was impacted in 2011 by a provision for excess inventory of $2.9 million in Service Assurance, which accounted for the 0.5 per cent decrease.

Spirent's strategy focuses on medium to long term growth and therefore its achievement cannot just be measured by looking at the performance in 2011 compared to the prior year, trends over a number of years must also be considered.



Adjusted operating profit is the measure used to evaluate the overall performance of the Group as well as each of our operating segments.

Our goal is to achieve year-on-year growth.

Adjusted operating profit increased by 10 per cent largely as a result of higher revenue. We managed costs carefully throughout the year but made further investment in product development and in the expansion of our sales activities to drive future profitable growth.

Return on sales is the measure of our overall profitability. We operate in markets which have high operating leverage and we strive to achieve industry best in class operating returns compared with our peers.

Return on sales was maintained at 24 per cent, after increasing investment in product development and in the sales channel in 2011 to support the long term growth of the business. Spirent's return on sales is amongst the best in the test and measurement industry.

This is the amount of adjusted earnings attributable to each share in issue. Using an "adjusted" measure enables period-on-period comparisons to be made of Spirent's performance. The aim is to achieve growth year-on-year. A component of executive directors' compensation is dependent on the achievement of an EPS growth target.

Adjusted basic EPS rose to 13.92 cents from 11.89 cents for 2010, an increase of 17 per cent.

Comparison against 2009 is distorted due to the lower effective tax rate of 14.8 per cent in that year.

We focus on cash generation as a measure of the quality of our earnings and our aim is to achieve a high conversion of earnings into cash each year. Having strong cash generation allows Spirent to invest in organic growth, pursue strategic acquisitions and pay sustainable progressive dividends to shareholders.

Cash conversion was good with free cash flow of $76.1 million for 2011, which represents 85 per cent of reported earnings before non-cash prior year tax. The lower cash generation for the period is a result of further investment in the business to fund growth and higher tax payments. Cash balances were $236.5 million at 31 December 2011 and there was no debt.

Notes
1 Before share-based payment, acquired intangible asset amortisation and acquisition related costs.
2 Before tax effect of items in note 1 and prior year tax.
3 Operating cash flow after tax, net interest and net capital expenditure.

Our principal risks and uncertainties

We conduct regular risk reviews to identify the major risks in the business which may affect our operating and financial performance and where possible put in place mechanisms to mitigate them.

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

Risk and potential impact

Macro-economic and industry sector

Spirent is a global business exposed to the current world economic conditions. We are particularly exposed to conditions in the telecommunications sector into which we sell many of our products and services and which has experienced significant downturns in the past.

A deterioration in economic or sector conditions may lead to a reduction in the level of demand for Spirent's products and services and cause our customers to delay their purchasing decisions.

Mitigation actions

Having the ability to adapt to changing market dynamics is key in order to minimise the effects of adverse economic or sector conditions.

Our businesses closely monitor both market and geographic trends so that we can respond to changes in demand and are in a position to take timely actions to protect profitability where possible.

In addition, Spirent has a broad product portfolio of innovative test solutions and a large number of geographically diverse customers. A component of our strategy is our global reach.

Technological change and competition

Spirent sells complex solutions in industries that are characterised by rapid technological changes. Keeping at the forefront of these key future technologies is critical to our success and to ensure that we remain competitive in our markets.

It is critical that our innovation is directed at the right areas to enable Spirent to develop those solutions that our customers need at the time when they need them.

If we fail to achieve these objectives our competitive position, revenue and operating profits will suffer.

Mitigation actions

We continue to make a significant investment in product development. In 2011 our investment was increased by 10 per cent to $88.1 million to underpin our organic growth initiatives.

There is a Portfolio Planning Team in place responsible for reviewing and making investment decisions across Spirent's portfolio of investment opportunities.

Developing the "Right Solution" at the "Right Time" is a key component of Spirent's strategy. We always work closely with customers and remain focused on their requirements and believe we are investing in areas that represent their future.

Reliance on contract manufacturers

We use contract manufacturers for the manufacture of a substantial amount of our products. Our major contract manufacturer is located in Thailand.

Disruption or financial problems of contract manufacturers or limitations in the manufacturing capacity at contract manufacturers could either limit supply or increase our costs.

Mitigation actions

We work closely with our contract manufacturers and maintain 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.

Significant risks are reviewed by the Board and the Audit Committee. It is not possible to identify every risk that could affect the business, and the actions described below to mitigate those risks cannot provide absolute assurance that the risk will not occur or adversely affect the operating or financial performance of the Group. These processes are more fully described in the Directors' statement on corporate governance.

Business continuity risks

Operational risks are present in the Group's businesses. These risks include the risk of failed internal and external processes and systems, human error and external events, such as a natural disaster. For example, a significant portion of our communications operations are located in California which has in the past experienced natural disasters, including earthquakes and wildfires.

A significant natural disaster could disrupt our ability to conduct business and impact adversely our revenue and operating results.

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. Over the last three years, the Group has put in place an IT disaster recovery plan for the Group's major business systems. Our continued IT investment also means that people are able to work from home which makes our businesses resilient to issues at our locations. The Group's largest manufacturing subcontractor has worldwide multiple sites and comprehensive business continuity plans.

Retention and recruitment of key staff

Spirent is its employees. So attracting and retaining highly qualified and skilled employees is essential in enabling us to deliver on our strategy and to the success of our business.

We face intense competition for personnel from other companies and organisations and the loss of our key employees, or the failure to attract and retain other highly skilled employees, may impair our ability to run and expand our business effectively.

Investing in our people is at the core of our strategy. We aim to find, keep and engage the highest calibre of employees and encourage their contribution and development. An environment that fosters innovation and collaboration is critical to Spirent's success as is ensuring our incentive plans are competitive.

Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff. Further information on our employees is provided in the CSR statement on pages 32 and 33.

Intellectual property

Spirent's success is dependent in part on proprietary technology which may be infringed by others inadvertently or otherwise. Protecting our proprietary technology is important to enabling us to compete successfully in our industry.

Companies in the telecommunications industry often aggressively protect and pursue their intellectual property rights and may assert infringement claims against Spirent. Such claims can result in significant defence costs, and may affect Spirent's ability to market its products.

We have active intellectual property protection programmes in place to obtain appropriate intellectual property protection in a cost effective manner.

There are procedures in the development of new products that include consideration of intellectual property rights of third parties. We also consult internal and external legal counsel experienced in intellectual property matters.

Performance Analysis

"Revenue grew 14 per cent as customers increased their investment in next-generation mobile networks, devices and services, in data centers which enable cloud computing and virtualization, and in global navigation satellite systems."

Divisional highlights

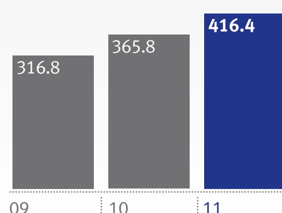
- Revenue up 14 per cent driven by expansion in data connectivity
- Profit up 18 per cent due to high operating leverage on revenue growth
- Key growth areas: mobile, cloud, data center and positioning, and regionally Asia
- Increased investment in product development and sales channel for future growth
- Fanfare acquisition in February enhanced test automation and optimization capabilities

Divisional strategy

- Focus on emerging growth markets for data center, cloud computing, virtualization, test automation, enterprise data and next-generation mobile technologies
- Invest in people to drive innovation and expand sales channels
- Right time solutions for mobile convergence, high speed Ethernet, 4G/LTE wireless and live-sky replay for satellite navigation
- Global expansion focused on driving successful growth in Asia Pacific

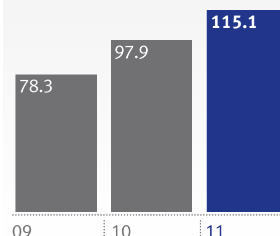
Revenue +14%

($ million)



Operating profit +18%

($ million)



Return on sales

27.6%

(2010 26.8%)

Description of our business

Spirent puts innovation to the test. With a concentration on Ethernet, data center (including cloud computing and virtualization), mobility and satellite positioning, as well as the applications that enrich these networks, Spirent's Performance Analysis division facilitates device and network testing, from the research and development stage to the launch of communications networks and services. We push the limits of these networks, their elements, mobile and satellite positioning devices and applications by allowing equipment makers, service providers, enterprises and government to subject their offerings to lab-based functional, conformance and performance testing that simulates real-world conditions, before a commercial launch.

Market conditions

The Performance Analysis division generated 14 per cent growth in 2011, with revenue of $416.4 million (2010 $365.8 million). Customers increased their investment in next-generation mobile networks, devices and services, in data centers which enable cloud computing and virtualization, and in global navigation satellite systems ("GNSS").

Testing across networks and applications experienced growth in several key areas, despite the unfavourable macro-economic conditions in many parts of the world. Ethernet technologies are rapidly migrating to higher speeds, requiring large scale data center switches and equipment to be developed and deployed to efficiently address mobile broadband traffic growth, while legacy applications such as voice and DSL decline. Although the majority of Ethernet deployment and test and measurement spending is focused on 1Gb and 10Gb, in 2011 we saw a significant ramp in spending on higher speed Ethernet, including 40Gb and 100Gb. Spirent is well positioned to respond to this trend and as a result was named the Global Market Share Leader in 1/10/40/100Gb Ethernet test equipment by industry analyst Frost & Sullivan.

Enterprises are taking advantage of the attractive economics and rapid application delivery capabilities of cloud computing. Spirent is a leader in virtualized solutions for testing the performance, availability, security and scalability ("PASS") of cloud computing networks; Frost & Sullivan also named Spirent as the Global Market Share Leader in cloud infrastructure testing. Demand for high density, next-generation data centers expanded into the carrier space with significant investments in cloud IT services. In addition, the requirement for security is now pervasive throughout the network, driving demand for high performance encrypted traffic, which must be thoroughly tested to ensure that business transactions and communication are not impacted.

The expanding need to simplify and add intelligence to mobile networks is forcing service providers and network equipment manufacturers to increase the convergence of services and the scale of platforms. Amongst Spirent's many engagements in this area during 2011 was the demonstration of 180Gb per second sustained throughput on Alcatel-Lucent's 7750 SR Mobile Gateway. During 2011, Spirent moved to address more testing needs of next-generation network architectures required for LTE, greatly simplifying and accelerating high scale mobility, core network, mobile backhaul, routing, access and application testing with major enhancements to the Spirent TestCenter™ platform's mobile network test capabilities.

The increased time to market pressures on our customers combined with the globalisation of R&D teams is driving the need for holistic and integrated infrastructure test strategy. The acquisition of Fanfare and its iTest® solution in February 2011 enables Spirent to benefit from this emerging infrastructure test optimization ("ITO") trend.

The markets for wireless test solutions once again experienced strong growth. As a leader in testing wireless devices and infrastructures, Spirent applies its innovations to meet the ever-evolving needs of wireless customers.

Smartphones have taken further market share, largely displacing feature phones in North America and other developed markets, and embedded modules are coming to market to support machine-to-machine ("M2M") communications. North America saw further 4G/LTE deployments by leading operators, as well as widespread data speed upgrades to 3G/UMTS networks. These trends also gained momentum in Asia and Europe.

The rapid growth in the popularity of mobile location based services ("LBS") seen in previous years was once again evident in 2011, driving evolution in the technologies that enable LBS support in smartphones and many other devices, such as tablets. LBS also proved to be a 'must have' capability in even the earliest LTE devices. Spirent is a global leader in testing the technologies that enable LBS, including the evolution to hybrid positioning techniques that can supply accurate subscriber location information anytime, anywhere.

There was high demand for our LTE and UMTS device test solutions. As the world moves toward a single global standard for fourth generation mobile communications, competition in the LTE testing space is understandably intense. However, Spirent is applying its innovation and expertise to differentiated device test capabilities in growth areas such as multi-mode (2G/3G/4G) mobility, LBS and operator acceptance testing.

Spirent is also benefiting from the migration to over-the-air ("OTA") testing techniques, which take into account antenna performance. OTA methodologies are used to test the performance of complex air interface techniques such as multiple-input multiple-output used in 4G/LTE devices. The performance of GPS technology in smartphones is also tested OTA.

Performance Analysis continued

The CDMA wireless test market held steady in 2011, due to the expansion in the number of multi-mode CDMA/LTE devices for the North American market and 3G CDMA subscriber growth in Asia.

Our positioning test solutions benefited from increased investment in GNSS test across all technology areas, particularly multi-GNSS test such as GPS/GLONASS. As in previous years, the growth of commercial markets was driven by increased demand for low cost, high availability consumer products and applications. Growth drivers include the new Chinese Compass/BeiDou regional GNSS system, the planned Indian regional system IRNSS and further development of GPS modernisation, GLONASS and Galileo, as well as emerging hybrid positioning technologies.

Revenue

Revenue for Performance Analysis grew 14 per cent, mostly as a result of our success in areas such as mobile, cloud, data center technologies and positioning. Spirent TestCenter revenue growth resulted from our leadership position in Ethernet, data center testing, and mobile internet testing. Legacy business continues to decline, as expected, and is now a much less significant percentage of overall portfolio revenue, representing 6 per cent of Performance Analysis revenue. Fanfare was integrated into the operational and sales structure of Spirent during the year.

Performance Analysis-data center
Demand for next-generation data centers continued to drive Spirent's growth in 2011.

Our market leading wireless test solutions for location technology in LTE, UMTS and CDMA devices experienced unprecedented revenue growth, as a result of the market trends identified earlier. There was also very high demand for our LTE test solutions within the North American operator ecosystem of top-tier device suppliers. We established our newest test solutions that target device vendor R&D labs, with several wins in top-tier accounts, particularly in the areas of location technology and LTE. Our physical layer radio frequency ("RF") solutions had a record year, driven by the need for realistic testing of the complex multi-antenna transmission schemes used in LTE infrastructure and devices, including the use of OTA techniques.

Our high-end, multi-constellation satellite simulators experienced good sales growth, especially in the Asia Pacific region. Sales of mid-range GNSS simulators to the commercial market were up compared to 2010, with demand primarily being driven by the need to test combined GPS and GLONASS in consumer devices.

Our services revenue continued its healthy growth during the year, especially for annual support contracts within the wireless line of business. Several multi-year deals were won which will contribute to revenues into 2012 and beyond and consolidate our already strong customer relationships.

"The rapid growth in the popularity of mobile location based services seen in previous years was once again evident in 2011, driving evolution in the technologies that enable LBS support in smartphones and many other devices, such as tablets."

Profitability

Profits grew 18 per cent to $115.1 million on revenue growth. This was after investing an additional $8.5 million in product development. Return on sales increased to 27.6 per cent from 26.8 per cent in the prior year.

Product development

We reached a major milestone during 2011, completing the convergence of all networks and applications performance test solutions onto the Spirent TestCenter platform, with the innovation of new Spirent TestCenter HyperMetrics™ neXt modules. Twelve new module variants were released in 2011, more than double the number released in prior years. Spirent TestCenter HyperMetrics' elastic computing design with Cloud Core™ processing allows for broad market reach and first to market innovation in areas that include LAN switching and data center, gateway, customer edge, core routing and mobile backhaul, 40/100Gb Ethernet and application performance.

Performance of the Spirent Avalanche solution was greatly enhanced, with up to 80Gb per second line rate stateful traffic to test the evolution to terabit IPSec and firewall platforms. The performance and functional breadth of the Spirent Landslide solution continued to lead the market with innovation in testing 2G/3G/4G mobility, deep packet inspection, and Wi-Fi offload. The acquisition of Fanfare and its iTest family of products has enabled Spirent to address the shift in customer budgets towards optimizing testing in existing labs and to capture new budgets to build out new, highly automated test labs.

Wireless test solutions delivered in 2011 addressed our customers' 3G and 4G/LTE testing needs. Spirent grew its family of 8100 test solutions that validate the performance of LTE devices and their ability to move between LTE and legacy wireless networks. New functionality included LTE/UMTS mobility, simultaneous voice and LTE and innovative data performance test methodologies. We rolled out our CS8 family of solutions, targeted at LTE, UMTS and CDMA device R&D applications, from RF design to prototype testing. A new VR5 wireless channel emulation solution was brought to market, optimized for testing the advanced air interface techniques used in LTE and LTE-advanced base stations and mobile devices. We released new capabilities to test the performance of devices when utilising location based services, maintaining Spirent's leadership in this rapidly expanding area. In 2011 these included support for observed time difference of arrival techniques and for testing the location performance of LTE devices over-the-air.

Our positioning solutions expanded into emerging test areas by launching products capable of capturing and replaying live-sky GNSS signals and of simulating new satellite constellations such as GLONASS, Galileo and Compass/BeiDou.

Service Assurance

"2011 saw challenging overall market conditions throughout the year, with service providers becoming increasingly cautious about their OpEx and CapEx spending."

Divisional highlights

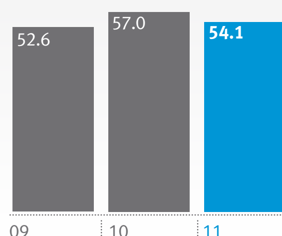
- Revenue down 5 per cent due to delays and caution in spending by service provider customers
- Profitability decreased 46 per cent on lower revenue, but primarily due to an excess inventory provision in 2011 and a one-time software contract in 2010
- Important wins for our Spirent TestCenter Live Ethernet test solution

Divisional strategy

- Priority objectives in live network monitoring solutions for growing and emerging technologies in mobile communications and in-home testing
- Invest in people in sales channels to expand our served markets
- Right time solutions through innovative re-use of lab test tools to serve live networks addressing 1Gb, 10Gb, 40Gb and 100Gb Ethernet monitoring requirements and roll out of DOCSIS 3.0 in-home test tools
- Key regional expansion in North America with early development opportunities in Europe and Asia

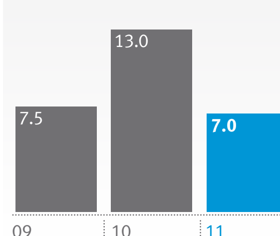
Revenue -5%

($ million)



Operating profit -46%

($ million)



Return on sales

12.9%

(2010 22.8%)

Description of our business

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. Building on the expertise gained through testing technologies and systems in the lab, Spirent enables service providers to deploy and maintain efficient, cost effective and high performing networks, helping to reduce subscriber churn by providing better quality of experience. Spirent's solutions also allow service providers to reduce operational costs through better identification of potential network problems, from the core of the network to inside the subscriber's home, and use of the most appropriate resources to address those issues.

Market conditions

2011 saw challenging overall market conditions throughout the year, with service providers becoming increasingly cautious about their OpEx and CapEx spending. This reduction in spend was most pronounced for wireline networks, for both business and residential services. While competition among service providers helped drive the need for enterprise Ethernet-based service assurance solutions, buying decisions were delayed and the size of the deals were reduced as rollouts were scaled back.

In contrast, spend on mobile networks remained strong throughout the year, driven by competition and growing bandwidth needs as a result of the rapid growth in mobile data across 3G and 4G networks. Despite an increasingly challenging marketplace, we were able to drive additional wins in mobile backhaul solution with our Spirent TestCenter Live Ethernet test solution at three major North American mobile service providers. There was also a nationwide Spirent TestCenter Live deployment win for Ethernet business services at a Tier 1 cable multiple systems operator ("MSO"). Spirent TestCenter Live 7500 Series Ethernet Services Probes were recognised with a high rating by Broadband Technology Report's Diamond Technology Reviews in 2011 for providing the cable industry with a solution that is unique, innovative and contributes to profitability. The field test marketplace remained challenging, although we saw some increased activity for in-home testing by MSOs.

In 2012, service provider investments are expected to remain focused on 4G/LTE mobile network growth, higher bandwidth enterprise business services, as well as application monitoring and testing. These investments will be aimed at improving efficiencies through test automation and service level network monitoring by the operations, administration and maintenance organisations within service providers. In the field test market, the growth of bandwidth needed for in-home networks, as a result of new and innovative services, will drive new field test tool investment decisions by service providers.

Service assurance-control room
Growth for our Ethernet-based service assurance solutions resulted from the build-out of 3G and 4G/LTE networks.

Revenue

Service Assurance revenues decreased by 5 per cent in 2011 to $54.1 million compared with $57.0 million in 2010 as service providers reduced capital spend, primarily on wireline networks. The year was highlighted by the demand for Ethernet test solutions for mobile backhaul and enterprise business services although this was more offset by the decline in revenue from legacy products and related maintenance contracts. There were important contracts wins for our Spirent TestCenter Live Ethernet test solution at major wireless service providers, as well as at a large North American cable MSO for Ethernet business services.

Profitability

In Service Assurance profit decreased by 46 per cent year-on-year to $7.0 million from $13.0 million in 2010. This was in part due to lower revenue, but primarily a result of an excess inventory provision charge of $2.9 million in 2011 and a one-time software contract for $2.8 million in 2010. During this same period, return on sales decreased from 22.8 per cent in 2010 to 12.9 per cent in 2011.

Product development

The focus remains on Ethernet Service Assurance and field test solutions for next-generation networks. For Spirent TestCenter Live Ethernet Service Assurance, we are expanding our flexible platform capabilities, which include our combined 1Gb and 10Gb Ethernet probes as well as development of 40Gb and 100Gb Ethernet solutions. In the Ethernet space, greater emphasis has been placed on mobile test and diagnostic and performance monitoring solutions. With the delivery of DOCSIS 3.0 and 1GHz RF test functionality, we continue to improve our field test product portfolio for the MSO service provider space.

Systems

"The cost structure of the business was improved during the year through design improvements, supply chain management and moving more production offshore."

Divisional highlights

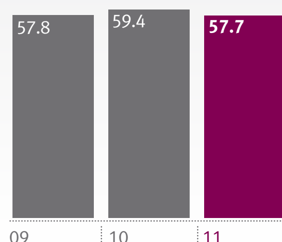
- Revenue down 3 per cent, impacted by difficult market conditions for consumer wheelchair control systems caused by changes in US Medicare reimbursement policies
- Grew revenue for rehabilitation wheelchair and industrial systems
- Profit increase of 2 per cent due to a reduction in costs

Divisional strategy

- Penetrate new industrial markets for growth
- Maintain market share in medical mobility markets
- Continuous improvement in quality and cost structure

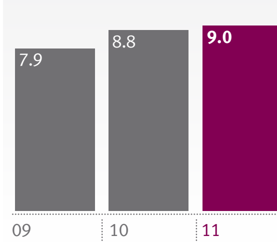
Revenue -3%

($ million)



Operating profit +2%

($ million)



Return on sales

15.6%

(2010 14.8%)

Systems-Aerial work platform
Our Access system controls the entire functionality of aerial work platforms, including traction speed and direction and lift/lower speeds.

Description of our business

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

Market conditions

Sales of high volume commercial wheelchair control systems were severely impacted by the introduction of new US Medicare reimbursement rules in January 2011. Although there was significant growth in premium rehabilitation wheelchair and industrial systems during the year, this was still not enough to fully offset the decline in consumer wheelchair systems. The cost structure of the business was improved during the year through design improvements, supply chain management and moving more production offshore.

Revenue and profitability

Revenue declined 3 per cent from $59.4 million to $57.7 million. This fall was due to a change in US Medicare reimbursement rules that reduced volumes of consumer wheelchair controllers. Operating profit improved by 2 per cent compared to 2010 despite the lower volumes due to a reduction in costs.

Product development

During the year we launched an enhanced version of our C3 AC pallet truck controller to address stacker vehicles. This addresses a new market area for us and provides an opportunity for future growth. A totally new design of the S-Drive scooter controller was also launched, an innovative, low cost controller designed to replace one of the older product lines.

Financial review

"In 2011 cash returns to shareholders totalled $51.7 million: $17.5 million in dividend payments and $34.2 million on the repurchase of shares."

Eric Hutchinson
Chief Financial Officer

Revenue

Revenue at $528.2 million (2010 $482.2 million) was up 10 per cent compared with 2010. The Performance Analysis division grew 14 per cent year-on-year but this was offset by some weakness in the Service Assurance and Systems divisions.

In Performance Analysis revenue increased compared with the prior year for all of the lines of business. The high demand for our wireless, positioning and data center test products continued throughout the year but this was accompanied by some caution and lengthier sales cycles exhibited by our wireline customers in the latter half of the year, tempering the overall increase for this division in 2011.

In Service Assurance revenue was down 5 per cent year-on-year, a result of delays and caution around spending particularly by the service providers.

Systems division has been affected by further changes in the US Medicare reimbursement process in 2011, with revenue down by 3 per cent compared with 2010.

Geographically the United States accounts for 49 per cent (2010 52 per cent) of revenue and remains our major market, it was up 4 per cent year-on-year. Europe accounts for 16 per cent (2010 16 per cent) and was up by 9 per cent compared with 2010. Asia has been a very positive geographic market for Spirent in 2011 with revenue growing by 16 per cent compared with 2010. Asia now accounts for 30 per cent of revenue (2010 28 per cent). The rest of the world represents the remaining 5 per cent (2010 4 per cent) of revenue.

$ million	2011	%	2010	%
United States	259.4	49	248.5	52
Asia Pacific, Rest of World	182.2	35	154.2	32
Europe	86.6	16	79.5	16
	528.2	100	482.2	100

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

	2011	2010	Change (%)
Book to bill ratio[1]	102	105	
Revenue ($ million)	528.2	482.2	10
Gross profit margin (%)	66.1	66.6	
Operating profit[2] ($ million)	125.9	114.5	10
Return on sales[2] (%)	23.8	23.7	
Adjusted basic earnings per share[3] (cents)	13.92	11.89	17
Free cash flow[4] ($ million)	76.1	82.6	(8)

Notes
1 Ratio of orders booked to revenue billed.
2 Before share-based payment, acquired intangible asset amortisation and acquisition related costs.
3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 11 of Notes to the consolidated financial statements.
4 Operating cash flow after tax, net interest and net capital expenditure.

The book to bill ratio, which is a measure of the visibility of our future revenues, was 102 for the year compared with 105 for 2010.

Operating profit

Reported operating profit was $122.0 million compared with $112.7 million in 2010, an increase of 8 per cent. Operating profit before share-based payment, acquired intangible asset amortisation and acquisition related costs (“adjusted operating profit”), which is the measure of profit used by the Group to evaluate performance, increased by 10 per cent to $125.9 million compared with $114.5 million in 2010.

Return on sales, based on adjusted operating profit, was maintained at 24 per cent.

Cost of sales and operating expenses

Gross margin was slightly lower than the prior year at 66.1 per cent (2010 66.6 per cent). There has been an improving trend in gross margin over a number of years achieved through design for lower cost of manufacture and outsourcing activities. However, gross margin was impacted in 2011 by a provision for excess inventory of $2.9 million in Service Assurance. This accounted for the 0.5 per cent decrease in gross margin.

In 2011, the focus has been on increasing our investment in product development to drive future profitable growth. Consequently product development rose by 10 per cent to $88.1 million in 2011, 17 per cent of revenue, from $80.2 million and 17 per cent of revenue in 2010. The majority of this, $74.4 million, was incurred within the Performance Analysis division (2010 $65.9 million). We expect to continue this pace of innovation in product development engineering into 2012, enabling us to further enhance our current capabilities and to address some of the many opportunities that exist in our markets.

Other operating expenses were higher at $138.8 million in 2011 compared with $128.2 million in 2010, 26 per cent of sales (2010 27 per cent). The increase was due to variable sales and marketing expense required to achieve the higher revenue but also the expansion of our sales activities, overall selling costs rose by $9.1 million over 2010. Other operating expenses include $1.1 million for share-based payment up from $0.4 million for 2010, as a result of a modest number of new awards granted during the year. Acquired intangible asset amortisation was $1.6 million (2010 $1.4 million) and includes a charge of $1.2 million in relation to the acquisition of Fanfare. Also within operating expenses is a charge of $1.2 million of acquisition related costs for the Fanfare acquisition.

Corporate costs

Corporate costs are those expenses which cannot be attributed to the Group’s operating segments and comprise the costs of the Board and other corporate activities. These costs were maintained at $5.2 million for the year.

Currency impact

Following the change to the Group’s reporting currency to US dollars in 2010 the effect of fluctuating exchange rates is relatively minimal as the Group’s revenue and profits are denominated predominantly in US dollars or US dollar-linked currencies.

Finance income and costs

Finance income for 2011 was $1.7 million compared with $0.8 million in 2010. In 2011 this comprises $0.7 million (2010 nil) in respect of defined benefit pension plan interest and income earned on surplus funds of $1.0 million (2010 $0.8 million). Surplus funds are held principally in the United Kingdom and United States and earn market rates of interest.

Financial review continued

Finance costs were $0.4 million (2010 $1.3 million). In 2011 the interest charge relates to the discounting of leasehold provisions of $0.1 million (2010 $0.1 million) and other interest expense of $0.3 million (2010 nil). In 2010 finance costs also included a charge of $1.2 million in respect of the defined benefit pension plans.

For 2012 it is expected that interest on the defined benefit pension plans will be approximately the same as in 2011.

Profit before tax

Profit before tax was $123.3 million compared with $112.2 million for 2010, an increase of 10 per cent.

Tax

For 2011 the tax charge for the Group was $28.7 million, representing a current year effective tax rate of 27.7 per cent, excluding a prior year tax credit of $5.4 million, compared with 30.4 per cent for 2010. The current year effective tax rate is lower than previously anticipated due to the benefit of Research and Experimental tax credits in the United States. Taxable profits principally arise in the United States.

At 31 December 2011 deferred tax assets amounting to $29.4 million have been recognised on the balance sheet (31 December 2010 $31.3 million). At 31 December 2011 there are deferred tax assets amounting to a tax value of $22.0 million (31 December 2010 $27.5 million) which remain unrecognised in respect of unutilised non-trading loan relationship losses ($20.4 million) and temporary differences ($1.6 million).

For 2012 it is expected that the effective tax rate will be in the region of 30.0 per cent.

Earnings per share

Basic earnings per share for the Group was 14.18 cents for 2011 compared with 11.77 cents for 2010.

Basic earnings per share as adjusted for share-based payment, acquired intangible asset amortisation, acquisition related costs and prior year tax rose to 13.92 cents from 11.89 cents for 2010, an increase of 17 per cent. There were 667.3 million weighted average Ordinary Shares in issue (2010 672.2 million).

Financial risk management

The key objective of the Group's treasury department is to manage the financial risks of the business and to ensure that sufficient liquidity is available 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 25 of Notes to the consolidated financial statements.

Business combinations

On 16 February 2011 the Group acquired 100 per cent of the share capital of the Fanfare Group, Inc. ("Fanfare") for a total consideration of $14.5 million in cash. Fanfare is integrated into the Performance Analysis division and provides test automation solutions that help equipment manufacturers and service providers accelerate time to market and improve product quality in the face of rapidly growing complexity. At acquisition the fair values of the assets and liabilities acquired were determined in accordance with Accounting Standards and this gave rise to $6.6 million of intangible assets, which are being amortised over five years, and goodwill of $4.2 million. In addition, $1.2 million of acquisition related costs have been expensed in 2011. From the date of acquisition to 31 December 2011 Fanfare contributed $6.4 million of revenue and $0.8 million of profit before tax before acquisition costs and acquired intangible asset amortisation.

Financing and cash flow

Cash and cash equivalents increased to $236.5 million at 31 December 2011 compared with $223.9 million at 31 December 2010. Spirent continues to be debt free. The majority is held as cash on demand or in short term bank deposits and 79 per cent of the balance was denominated in US dollars. Currency translation has increased cash and cash equivalents by $1.1 million in 2011.

Operating activities generated $98.7 million of cash in the year compared with $99.4 million in 2010. Free cash flow is set out below:

$ million	2011	2010
Cash flow from operations	120.5	116.9
Tax paid	(21.8)	(17.5)
Cash inflow from operating activities	98.7	99.4
Interest received	0.9	0.8
Net capital expenditure	(23.5)	(17.6)
Free cash flow	76.1	82.6

Cash conversion was good with free cash flow of $76.1 million for 2011, which represents 85 per cent of reported earnings, before non-cash prior year tax. The lower cash generation for the period compared to the prior year is due to a number of factors: an increase in working capital of $13.0 million (2010 $4.2 million increase) to fund higher trading activity; net capital expenditure was up at $23.5 million (2010 $17.6 million) and includes $3.7 million for LTE manufacturing rights; and tax payments were also higher at $21.8 million (2010 $17.5 million), due to increased profitability.

Cash outflow on the acquisition of Fanfare was $14.5 million with $1.2 million of expenses incurred. In 2011 a final dividend for 2010 and an interim dividend for 2011 totalling $17.5 million (2010 $13.7 million) were paid. Share repurchases and the purchase of shares into trust resulted in a cash outflow of $33.4 million in the period (2010 $19.7 million).

Defined benefit pension plans

The Group operates two funded defined benefit pension plans which are in the United Kingdom. Both of these schemes were closed some time ago to new entrants and the main plan now has less than 25 active members.

The accounting valuation of these plans at the end of 2011 was a net deficit of $11.8 million compared with a surplus of $7.7 million at 31 December 2010 and was based on the latest triennial actuarial valuation at 1 April 2009. This is comprised of a deficit of $12.5 million in the main plan (31 December 2010 surplus $7.1 million) and a surplus of $0.7 million in the smaller plan (31 December 2010 $0.6 million). The decrease is a result of a rise in the liabilities due to changes in the underlying assumptions, principally the discount rate which is based on high quality corporate bonds. The next triennial actuarial valuation is due at 1 April 2012.

The Group has also reported a liability of $0.6 million (31 December 2010 $0.6 million) in respect of United Kingdom unfunded plan liabilities.

Capital structure

During 2011 the Company repurchased 17.6 million shares at a cost of $34.2 million (2010 10.4 million at a cost of $19.7 million) of which $0.8 million will be settled in cash in 2012.

Of the shares repurchased, 13.2 million (2010 9.8 million) were cancelled and 4.4 million were placed in trust (2010 0.6 million), to deliver to employees in relation to certain share incentives.

Shares were repurchased at an average share price of 122.5 pence per share in 2011. The Board intends to continue to repurchase shares to manage the dilution attributable to the Group's share incentive schemes and to repurchase further shares on a one-off basis as it deems appropriate.

Dividend

Spirent's policy is to maintain a sustainable progressive dividend with high dividend cover.

For 2011 the Board is therefore recommending the payment of a final dividend for 2011 of 1.67 cents (1.05 pence) per Ordinary Share which, with the interim dividend of 1.26 cents (0.77 pence) per Ordinary Share paid in September 2011, brings the full year dividend to 2.93 cents (1.82 pence) per Ordinary Share. The dividend is covered 4.8 times by adjusted earnings. This is an increase of 17 per cent over the full year dividend for 2010 of 2.50 cents and is in line with earnings growth.

Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 3 May 2012 to Ordinary shareholders on the register at 9 March 2012. Payment to ADR holders will be made on 10 May 2012.

Corporate social responsibility statement

Corporate responsibility is integral to the way Spirent conducts its business and we are committed to advancing our policies and systems across the Group to ensure that we address all aspects of corporate social responsibility ("CSR").

The Board takes ultimate responsibility for CSR with a fundamental commitment to create and sustain long term value for shareholders, recognising that acting responsibly and sustainably creates value. Spirent's CSR strategy covers our accountability to all of our stakeholders, this includes striving for the highest ethical standards of business practice; how we support, develop and reward our employees; how we minimise our impact on the environment; and how we support and engage in the communities in which we operate.

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. During 2011, Spirent's employees were again clearly reminded of the standards expected of them by the regular communication and explanation of Spirent's Vision, Mission and Values statements.

The Bribery Act 2010 came into force in July 2011. It amended and reformed the UK criminal law and provides a modern legal framework to combat bribery in the United Kingdom and internationally. Spirent is committed to promoting an ethical business culture and has zero tolerance for all forms of bribery and corruption. Spirent is compliant with the Bribery Act 2010, has reviewed all relevant systems and controls and trained staff to promote the successful prevention and detection of all forms of bribery and corruption. This policy applies to Spirent's subsidiaries and business partners.

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

The following is a summary of the Ethics Policy:

- all employees have the right and responsibility to ensure that Spirent's business is conducted with high ethical and legal principles;
- our policy is to operate within applicable laws;
- discrimination or harassment of any kind will not be tolerated;
- as a matter of policy, we do not make political donations;
- no bribes shall be given or received;
- conflicts of interest must be avoided;
- we aim to be a responsible partner within our local communities; and
- employees are encouraged and supported to report, in confidence, any suspected wrongdoings ("whistleblowing").

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

Employees

Spirent is its employees. To sustain our competitive advantage, the Group maintains an environment where all employees can develop to their fullest potential, have the opportunity to give back to their communities, and advance their careers. Spirent employees come from a variety of diverse backgrounds and bring with them a broad range of skills and experiences from engineering to sales to supply chain as well as business functions such as finance, human resources, and information technology. By the end of 2011, we employed more than 1,500 people in over 25 locations in 12 countries.

To sustain our competitive advantage and bring together this culturally diverse group of employees, Spirent has built a global culture based on four values – being creative, competitive, customer focused and collaborative. These values form the foundation of Spirent's ability to inspire innovation and enrich the lives of millions of people around the world.

By encouraging and rewarding innovative thought and action by our employees across the globe, we inspire innovation within Spirent, our industry and our customers. To accomplish this, Spirent employees have a number of career paths and internal recognition programmes for both technical and non-technical staff. These development opportunities are structured to align with our organisational objectives and to help employees in furthering their career aspirations. For example, we have implemented a technical career ladder across the global engineering organisation to build our technical expertise and provide future career opportunities. Internal transfers and job rotations greatly benefit the career development of our engineering team. As a result of these activities and others, over 10 per cent of employees received a promotion in 2011.

Employees are provided with numerous learning and development opportunities to fulfil their potential. 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 New Jersey, for example, Spirent receives training grants that allow employees to take onsite skill training or attend classes at a local community college in software and other applicable subjects. In China, our employees are provided with problem solving, decision making, leading innovation, effective cooperation, English education and communication skills training and workshops. In order to further enhance the development opportunities for our employees at Spirent, we employed a Talent Development and Learning Manager in 2011.

Leadership and management development programmes are regularly reviewed and updated as the competition for talent increases and the leadership needs of our business grow. Spirent has an online performance management tool and each employee has an annual personal appraisal and a mid-year review. Each individual's goals are set to align with Company strategies and objectives.

Spirent demonstrates that it values its employees through several reward and recognition programmes. One way we reward and recognise excellence is through our Global Recognition Programme, which provides Spot, Excellence and Executive Awards. These awards are one-time cash incentives as recognition for exemplary contributions that demonstrate one or more of our key values. Spirent also provides project based incentives to recognise and reward employees for extraordinary work that results in significant over achievement of critical projects. Spirent's Patent Award programme rewards employees for being innovative, while protecting the Company's investment and intellectual rights and property.

Spirent believes in sharing its success with its employees, with all employees participating in some form of variable compensation tied to the achievement of key goals such as revenue, growth and profitability: Growth Sharing Plan for individual contributors through managers; Sales Commission Plan for sales employees; and Management Incentive Plan for senior managers and above.

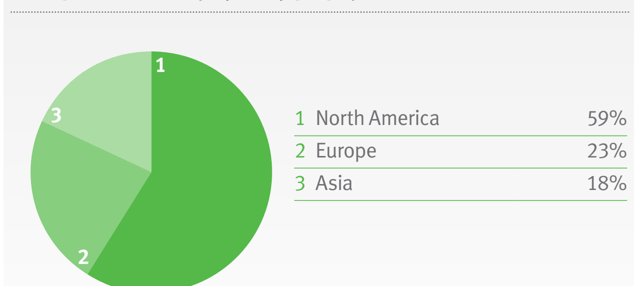
Spirent employees from Mainland China, Hong Kong, India and the US took part in the Beijing Marathon in October 2011.

At Spirent we recognise the importance of two-way communication. Our employees' opinions matter to us. In December 2011, employees were asked for their views on a wide range of issues. Based on the feedback, we will develop specific action plans to increase the engagement of our employees and foster a stronger organisational culture. In addition, informal meetings between many of Spirent's executives and small groups of employees continue to be held on a regular basis, with the aim of sharing perspectives among a broad cross section of our team members. Other tools aimed at facilitating two-way communication include regular all employee meetings with our CEO and other executives, employee focus group meetings and the continued expansion of our employee intranet.

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. With regard to employees who become disabled, the policy is to take all reasonable steps to ensure that they can remain in employment wherever practicable.

We encourage diversity and opportunity, which is reinforced through the Group's Ethics Policy.

Average number of employees by geographic location



1	North America	59%
2	Europe	23%
3	Asia	18%

Corporate social responsibility continued

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. No major health and safety issues were reported by the Chief Financial Officer to the Audit Committee and Board during the year.

The health and safety risk profile of the Group improved slightly again in 2011 as further Group manufacturing, particularly in the Systems division, moved to an outsourcing model and this trend is expected to continue in 2012. The main risks of the Group continue to be 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 2011 and no incidents required any hospitalisation.

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 policy 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. 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.

Spirent recognises the importance that health and safety, as with other corporate responsibilities, is managed successfully throughout all levels of the organisation. Successful health and safety management contributes to Spirent's overall success by preserving and developing staff and physical resources, thereby reducing costs and liabilities and is an expression of its corporate responsibility.

Spirent is committed to continually improving its health and safety performance and is also committed to employee wellbeing by encouraging the adoption of healthier lifestyles by its staff members. Regulatory requirements and the outline of care form the basis upon which Spirent's commitment is achieved. By realistic planning, review and development, Spirent continues to achieve a successful health and safety management programme and appropriate resources are made available for this purpose.

Environmental

The Group's Environmental Policy applies to the Company and all its subsidiaries worldwide. The Group is committed to the concepts of pollution prevention, minimising environmental impacts and eco-efficiency. 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. To achieve these goals the Group strives to integrate sound environmental management into its business strategies and continually improve environmental performance for the benefit of all its stakeholders.

The full policy can be found at www.spirent.com in the About Us section under Corporate Governance.

The Group's main environmental impact is due predominantly to the effects produced by offices housing employees, internal IT systems and travel. 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. During 2011 the Group further reduced the square feet used as follows:

	2011	2010
Square feet used	547,000	634,000
Percentage reduction (%)	13.7	9.4

Having introduced video conferencing into the Group in 2010, we invested further in 2011, increasing the number of sites covered and the quality of the user experience. Spirent is confident that video conferencing has reduced travel across the Group but it is difficult to quantify the benefit definitively. Where possible, business units monitor energy consumption, water consumption and waste production. Environmental waste management in the Group continues to improve with most business units operating waste minimisation schemes mainly focusing on increased recycling. One of our UK businesses is ISO-14001 registered.

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. Spirent's largest contract manufacturer, responsible for 60 per cent of our contract manufacturing services, is not only ISO-14001 certified, but also has an extensive CO_2 reduction programme. The table below shows the CO_2 reduction performance of our largest contract manufacturer in the last two years for which data is available.

	2010	2009
CO_2 emission reduction (kilogrammes)	1.2 million	2.1 million

Spirent also targets improvements in order fulfilment logistics to reduce air freight and corresponding reductions in carbon emissions. Orders for customers in APAC and EMEA regions directly fulfilled from our key contract manufacturer in Asia increased as follows:

	2011	2010
Freight shipped direct (kilogrammes)	53,500	51,000

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 products are also designed to reduce the amount of power consumed. In our 10Gb products we have reduced the power consumption by port as follows:

	2011	2010
Percentage reduction (%)	20	70

Our business units comply with both the Waste Electrical and Electronic Equipment Regulations, the Batteries Directive and the California Electronic Waste Recycling Program. New products are designed to meet the Restriction of Hazardous Substances Directive ("RoHS"), also known as Directive 2011/65/EU, even though Spirent Communications' hardware products are classified as Category Nine, (Monitor and Control Equipment) and are therefore currently out of scope with the RoHS Directive. All Spirent Communications' hardware products will be in compliance with the RoHS Directive at such time they are brought in to scope. Under the UK's mandatory carbon emission trading scheme (CRC Energy Efficiency Scheme), Spirent is only required to make an information disclosure.

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 and private non-profit educational organisations to help students develop the skills needed to succeed in the global economy. Throughout 2011, we continued to support education by offering internships and work experience programmes.

In our Beijing office, we increased the number of onsite internship opportunities to more than 18 students from top universities in China, including the University of Science and Technology Beijing, the Graduate School of Beijing Institute of Technology and Beihang University. In the US, we hired 14 college interns, both BS and MS engineering degree candidates, from a variety of universities. These internships help students develop professional knowledge as well as enhance their competitiveness in society.

In the UK we have set up several partnering programmes with various colleges and universities. The partnering programmes include student placements, to not only give valuable work experience to students, but also to build up a pipeline for recruiting. In addition, we undertake research and knowledge transfer, campus recruitment activities, skills training, sponsorship and endorsement, access to engineering expertise and career mentor schemes.

In September 2011 Spirent's employees joined thousands of other volunteers to clean up California's shorelines.

Our engineering managers are routinely invited to speak at universities about Spirent and career opportunities in the engineering field. Spirent plans to expand both the new graduate and intern programmes during 2012, further building on our relationships with local universities and colleges.

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.

Charitable donation policy

Our businesses are encouraged to support the particular needs of their local community 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.

After the tragic earthquake and tsunami in Japan in the spring of 2011, Spirent donated $10,000 to the American Red Cross designated for Japan relief. In the US, a global food drive was organised at all of our locations in March as part of our Collaborative Value launch. Some individual sites organised similar food drives throughout the year. Spirent in New Jersey, US holds blood drives twice a year in partnership with the Central Jersey Blood Center. In addition employees participated in the Angel Tree programme by working with the Salvation Army to purchase Christmas gifts for underprivileged children.

In the UK, Spirent sponsored employees who participated in Trailwalker, a charity event in aid of Oxfam and the Gurkha Welfare Trust; the challenge was to walk 100km across the South Downs in 30 hours.

In total Spirent made charitable cash donations of $111,000 in 2011 (2010 $81,000).

Board of directors

Alex Walker (65)
Chairman

Alex was appointed to the Board in December 2006 and was appointed Chairman of the Company in March 2010. He chairs the Nomination Committee and attends other Committee meetings by invitation.

Alex is responsible for leading the Board and ensuring that it operates in an effective manner. As Chairman, he is responsible for setting Board agendas and ensuring sufficient time is available for discussing all agenda items, particularly key strategic issues. He is also responsible for promoting a culture of openness and debate within the Board and ensuring constructive relations between the executive and non-executive directors and effective communication with shareholders.

Alex was chief executive of Yule Catto & Co. plc until August 2006 and, until April 2010 was a non-executive director, chairman of the remuneration committee and member of the audit and nomination committees of Rotork plc.

Alex is a non-executive director of Zotefoams plc.

Bill Burns (44)
Chief Executive Officer

Bill was appointed to the Board in November 2008.

He is responsible for formulating the Group's objectives and strategy for approval by the Board. Working with the CFO he sets the annual budget and medium term plan and is responsible for reporting performance against plan to the Board. Bill also plays a key role in identifying and executing acquisitions and disposals.

Before his appointment to the Board, Bill was Chief Executive Officer of the Communications Group. In this position he was responsible for the overall leadership, strategy, investments, coordination of resources and leveraging of the Company's breadth and depth of technology across all of the Communications Group's business units.

Prior to this position, Bill served as Executive Vice President of the Communications Group and as President, Service Assurance Broadband and was responsible for global sales and corporate marketing across all divisions. In this role, he drove critical business changes to improve profitability and grow market share.

Before joining the Company in November 2004, Bill held several executive leadership positions at Tellabs, Inc. including senior vice president Global Marketing, senior vice president – Europe, Middle East and Africa and vice president – Competitive Service Provider Sales.

Bill holds a degree in Telecommunications Engineering from Pennsylvania State University, a Business Administration degree from College Misericordia and a Master of Business Administration degree from Temple University.

Eric Hutchinson (56)
Chief Financial Officer

Eric was appointed to the Board in January 2000.

He is responsible for overseeing the financial operations of the Group and setting its financial strategy in conjunction with the Audit Committee and the Board. He also oversees the overall framework for financial forecasting, planning, analysis and reporting.

Before his appointment to the Board, Eric had previously been responsible for all financial reporting and control within the Group. He joined the Company in 1983, was appointed Chief Accountant in 1987 and became Head of Corporate Accounting in 1997.

Eric holds a degree in History from the University of Leicester and undertook postgraduate research in Contemporary History at Trinity College, Oxford. He is a Fellow of the Association of Chartered Certified Accountants and a member of the Financial Reporting Review Panel.

Ian Brindle (68)
Senior Independent Non-Executive Director

Ian was appointed to the Board in December 2006. He is Chairman of the Audit Committee and serves on the Nomination and Remuneration Committees.

As Senior Independent Director, he is responsible for meeting with the other non-executives to review the Chairman's performance and is available to shareholders to discuss their concerns.

Ian was senior partner of Price Waterhouse from 1991 to 1998 and the chairman of Pricewaterhouse Coopers until 2001. He was also a member of the Accounting Standards Board between 1992 and 2001 and the deputy chairman of the Financial Reporting Review Panel between 2001 and 2008.

Ian serves as non-executive chairman of Sherborne Investors (Guernsey) A Limited and as a non-executive director on the boards of F&C Asset Management plc, 4imprint Group plc and Elementis plc.

Duncan Lewis (60)
Independent Non-Executive Director

Duncan was appointed to the Board in July 2007. He is a member of the Audit, Nomination and Remuneration Committees.

Duncan has wide-ranging experience in the telecommunications industry and provides advice and counsel to the Board on major strategic issues.

He was chief executive officer of Vislink plc until March 2011 and until October 2008 was senior adviser to The Carlyle Group, assisting them in developing strategy and identifying investments in the telecommunications and media sectors worldwide.

Prior to joining The Carlyle Group, Duncan served as chief executive officer and president of GTS/Ebone, managing director of Equant NV and chief executive officer at Granada Media Group and Mercury Communications.

Duncan studied at Cambridge University after serving in Senegal for Voluntary Service Overseas and was also a visiting Professor of Business Management at Strathclyde University.

Duncan is a non-executive director of euNetworks Group Limited.

Tom Maxwell (64)
Independent Non-Executive Director

Tom was appointed to the Board in October 2007. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Tom has considerable fund management and investment trust experience and, as Chair of the Remuneration Committee, is responsible for developing the Company's policy on remuneration of executive directors and other senior managers.

Until September 2007, he was investment director and head of the UK Growth & Income Product Group at Martin Currie Investment Management in Edinburgh. He is a Member of the Chartered Institute of Bankers in Scotland and a Member of the Society of Investment Professionals & CFA Institute.

Tom is a non-executive director of Foresight 3 VCT plc and is chairman of their audit committee.

Sue Swenson (63)
Independent Non-Executive Director

Sue was appointed to the Board on 1 February 2012. She is a member of the Audit, Nomination and Remuneration Committees.

Sue has a wealth of international experience and expertise in the telecommunications and technology sector which she brings to the development of the strategic vision of the Company.

From March 2008 until her retirement in March 2011, Sue served as president and CEO of Sage Software, Inc., the North American division of The Sage Group plc. Before joining Sage Software, she held positions as the COO of Atrinsic, Inc. (formerly known as New Motion, Inc.), Amp'd Mobile, Inc., and T-Mobile, was president and COO of Leap Wireless International, Inc., and president and CEO of Cellular One.

Sue is a non-executive director of Wells Fargo and sits on their audit and examination committee and governance and nominating committee.

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 2011.

Business review

The purpose of the Annual Report is to provide information to the shareholders of the Company.

Reviews of the Group's activities during the year, the position at the year end and developments since that date are set out in the Chairman's statement, Chief Executive Officer's review, the Directors' statement on corporate governance and the Business review.

The Business review explains financial performance, key performance indicators, the position at the year end, any post balance sheet events, likely future developments and a description of the principal risks and uncertainties facing the Group and how these are managed. 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. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update those forward-looking statements.

Principal activities

The principal activities of the Group are set out on pages 4 and 5 of this Annual Report. The principal global divisions and subsidiaries of the Group are set out on page 122.

Results and dividends

The consolidated income statement is on page 56. Profit for the financial year attributable to owners amounted to $94.6 million (2010 $79.1 million).

Dividends are determined in US dollars and paid in sterling at the exchange rate prevailing when the dividend is proposed. A final dividend of 1.67 cents (1.05 pence) per Ordinary Share is recommended by the Board for the year to 31 December 2011 (2010 1.40 cents (0.86 pence)) for which approval will be sought from shareholders at the Company's 2012 Annual General Meeting ("2012 AGM") on 2 May 2012, to be paid on 3 May 2012 (ADR holders on 10 May 2012) to those shareholders whose names are on the Register of Members on 9 March 2012.

Together with the interim dividend of 1.26 cents (0.77 pence) per Ordinary Share (2010 1.10 cents (0.69 pence)) which was paid to shareholders on 15 September 2011, this amounts to a total dividend for 2011 of 2.93 cents (1.82 pence) per Ordinary Share (2010 2.50 cents (1.55 pence)).

Share capital and control

The Company has a single class of share which is divided into Ordinary Shares of $3^1/_3$ 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, 662.0 million Ordinary Shares of $3^1/_3$ pence each had been issued which 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 programme. Further details on share capital are set out in note 27 to the consolidated financial statements and note 15 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 most recent changes to the Articles of Association were approved at the 2010 AGM and became effective at the close of the meeting on 5 May 2010.

There are no restrictions on the transfer of Ordinary Shares in the capital of the Company other than certain restrictions which may from time to time be imposed by law, for example, insider trading law. In accordance with the Listing Rules of the Financial Services Authority, certain employees are required to seek the approval of the Company to deal in its shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights. The Company is also not aware of any contract of significance between itself or any subsidiary undertaking and a controlling shareholder.

During the year to 31 December 2011, options and rights exercised pursuant to the Company's share incentive plans resulted in the allotment of 2.3 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.

At each annual general meeting, the directors seek authority to allot shares for cash and to dis-apply pre-emption rights within prescribed limits. At the 2012 AGM, authority will be sought to allot new Ordinary Shares up to a nominal value of £7,356,088, which is equal to 33.3 per cent of the Company's issued share capital as at 9 March 2012.

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 other than for those Ordinary Shares held in the ESOT which are the beneficial property of an employee/shareholder. For further details on the employee benefit trusts see "Investment in own Ordinary Shares" in note 27 to the consolidated financial statements and note 15 to the parent Company financial statements. Trustees of both trusts do not vote their Ordinary Shares, except for those Ordinary Shares held in the ESOT which are the beneficial property of an employee/shareholder which the trustees 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 outstanding unvested 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

Significant agreements

A Group company has a significant agreement with a contract manufacturer which the Company considers is essential to its business and which it intends to keep in place until at least April 2013.

The Company is not aware of any 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

The Company was first authorised 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, at the 2006 AGM. This authority has been renewed at each subsequent AGM, reducing to 9.99 per cent at the 2010 AGM and at the 2011 AGM. This authority from the 2011 AGM remains valid until the earlier of the 2012 AGM or 30 June 2012. Since the Company began returning capital to shareholders in May 2006, a total of £206.7 million has been returned, through the repurchase of 345.1 million Ordinary Shares.

During 2011 13.2 million Ordinary Shares, each with a nominal value of $3^1/_3$ pence were repurchased for an aggregate consideration of £15.8 million and cancelled immediately following repurchase. This represents 2.0 per cent of the Company's issued Ordinary Share capital at the beginning of 2011. The Company repurchased a further 2.0 million Ordinary Shares between 1 January 2012 and the date of this Report.

The Company will seek authority to repurchase up to 9.99 per cent of its own Ordinary Shares at the 2012 AGM to facilitate any further return of capital if the Board concludes that it is in the best interests of shareholders to do so.

Substantial shareholdings

In accordance with the Listing Rule 9.8.6(2), the Company had been notified of the following significant interests in its Ordinary Shares under the Disclosure and Transparency Rules of the Financial Services Authority:

Report of the directors continued

As at 31 December 2011:

	Shareholding made up of			
	Ordinary Shares	Contracts for Difference	Total holding	% of Company's total voting rights
BlackRock Inc	70,912,144	30,212,128	101,124,272	15.23
Prudential plc	64,590,066	–	64,590,066	9.73
AXA Investment Managers SA	47,515,946	–	47,515,946	7.16
Ameriprise Financial, Inc	38,520,235	–	38,520,235	5.80
Aviva plc	36,682,422	–	36,682,422	5.52
Artemis Investment Management Limited	32,940,888	–	32,940,888	4.96
Standard Life Investments Ltd	32,370,026	–	32,370,026	4.87
Legal & General Group plc	26,423,720	–	26,423,720	3.98
Kames Capital	25,769,320	–	25,769,320	3.88
Sun Life Assurance Company of Canada (UK) Ltd	23,382,347	–	23,382,347	3.52
Hermes Equity Ownership Services	22,116,033	–	22,116,033	3.33

The following notifications have been received since 31 December 2011:

Shareholder	Date of notification	Ordinary Shares	Contracts for Difference	Total holding	% of Company's total voting rights
Prudential plc	11 January 2012	66,334,456	–	66,334,456	10.02
Prudential plc	18 January 2012	70,798,058	–	70,798,058	10.69
Hermes Equity Ownership Services	19 January 2012	–	–	–	<3
Kames Capital	6 February 2012	–	–	–	<3

Board of directors

The names and brief biographical details of the current directors are shown on pages 36 and 37.

Election and re-election of directors

The Company's Articles of Association require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next annual general meeting following their appointment. However, commencing in 2011 and in accordance with the UK Corporate Governance Code, all directors will stand for re-election at the 2012 AGM.

Directors' interests

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 on pages 47 to 54.

Directors' indemnity arrangements

The Company has purchased and maintained throughout the year directors' and officers' liability insurance against certain legal liabilities and costs for claims in connection with any act or omission by such directors and officers in the execution of their duties, which remains in force.

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 each of the directors of the Company in respect of the costs of defending claims against them and any third party liabilities, which remains in force.

Other than these arrangements, at no time during the year and to the date of this Report did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings except for the service contracts between executive directors and the Company.

Corporate social responsibility

The Group's Corporate social responsibility statement appears on pages 32 to 35. This statement gives details of the Group's policies on ethics, the environment, health and safety, charitable donations and involvement in the community.

Charitable donations of $111,000 were made in the year (2010 $81,000). This amount excludes operating units' support for and participation in local community activities. In accordance with the Group's Ethics Policy, no political donations were made in the year (2010 nil). The Group employs approximately 1,540 people (2010 1,470) around the world and is proud of its history of being regarded as a responsible and respected employer. The Corporate social responsibility statement provides details of the Group's policies on employment, training and development.

Employees

Information in relation to employees is provided in the Group's Corporate social responsibility statement on pages 32 to 35.

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 $88.1 million research and development spend during the year, equivalent to 16.7 per cent of revenue (2010 $80.2 million and 16.6 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 2011, the Company had an average of 43 days' purchases outstanding in trade creditors (2010 46 days).

Corporate governance

The Directors' statement on corporate governance, which should be read in conjunction with the Chairman's statement on pages 6 and 7, is set out on pages 43 to 46. The Statement of directors' responsibilities in respect of the financial statements appears on page 42.

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 8 to 35. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 28 to 31. In addition, note 25 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 auditor

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 auditor in connection with preparing their report of which the Company's auditor is unaware; and
– he (she) has taken all the steps that he (she) ought to have taken as a director in order to make himself (herself) aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor

Resolutions to reappoint Ernst & Young LLP as auditor and to authorise the directors to determine their remuneration will be proposed at the 2012 AGM.

Annual General Meeting

The 2012 AGM will be held at 10.30am on Wednesday 2 May 2012 at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, United Kingdom.

By Order of the Board

Rachel Whiting

Rachel Whiting
Company Secretary
1 March 2012

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report, the consolidated financial statements of the Group and financial statements of the parent Company.

Company law requires the directors to prepare financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements of the Group in accordance with International Financial Reporting Standards ("IFRSs") 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 consolidated financial statements of the Group are required by law and IFRSs to present fairly for each financial period the financial position and performance of the Group; the Companies Act 2006 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 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 IFRSs 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 adequate 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 2006 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. They are also 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.

The Annual Report and consolidated financial statements are the responsibility of, and have been approved by, the directors.

Each of the directors confirms that, to the best of their knowledge:

- the 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
- the 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
1 March 2012

Directors' statement on corporate governance

Compliance

The Board is committed to the highest standards of corporate governance and fully supports the principles laid down in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the "Code"). The Board is accountable to the Company's shareholders for good governance and this statement, together with the Chairman's statement on pages 6 and 7 and the Report on directors' remuneration on pages 47 to 54, describes how the principles of the Code were applied during the year under review and reports on the Company's compliance with its provisions. Disclosures relating to significant shareholdings, voting rights, election and re-election of directors, powers of amendment of the Company's Articles of Association and the directors' power to issue or buy back shares are included in the Report of the directors on pages 38 to 41. It is the Board's view that the Company was fully compliant with the provisions of the Code throughout the period under review.

The Board

At the date of this Report, the Board comprises a chairman, four independent non-executive directors and two executive directors. The Board operates within a framework of controls including a formal schedule of matters specifically reserved to it which includes such matters as the acquisition and divestment of businesses, the issue of shares, significant contractual commitments, review and effectiveness of risk management processes and major capital investment. There is a clear division of responsibility at the head of the Company: the Chairman (Alex Walker) being responsible for running the Board and the Chief Executive Officer (Bill Burns) being responsible for implementing strategy.

The Chairman and the non-executive directors contribute external expertise and experience in areas of importance to the Company such as strategic investments, corporate finance, general finance and corporate governance. They also contribute independent challenge and rigour to the Board's deliberations, and assist in the development of the Company's strategy, scrutiny of the performance of management in meeting agreed goals and targets and satisfying themselves of the integrity of the Company's internal controls and risk management systems. The Board believes that all of the directors devote sufficient time and attention as is necessary in order to perform their duties.

The independence of each director is reviewed on appointment and at least annually. The Board determined that the non-executive directors are each independent in character and judgement and within the definition of the Code. No individual or group of individuals dominates the Board's decision making and the requirement of the Code that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors is satisfied.

The Company's 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 potentially 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 connection with the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted directors are required to act in the way they consider 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. The Board considers the procedure to have continued to operate effectively during the year.

Details of other professional commitments of the Chairman and non-executive directors are provided in their biographies on pages 36 and 37.

Ian Brindle served as Senior Independent Non-Executive Director during the period under review. The Senior Independent Non-Executive Director acts as a sounding board for the Chairman and an intermediary for the non-executive directors, if needed. Mr Brindle is available to meet shareholders upon request if they have concerns which contact through the normal channels of the Chairman or an executive director has failed to resolve, or for which such contact would be inappropriate.

During 2011, six Board meetings were held. The agenda is set by the Chairman and papers are circulated to Board members in advance of the meeting. Minutes of meetings are circulated to all Board members and, subject to their agreement, approved at the following Board meeting.

The attendance of individual directors at Board meetings held during the year was as follows:

	Number of meetings held	Number meetings of attended
Alex Walker (Chairman)	6	6
Bill Burns	6	6
Eric Hutchinson	6	6
Ian Brindle	6	6
Duncan Lewis	6	6
Tom Maxwell	6	6

Directors' statement on corporate governance continued

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. In addition, regular site and customer visits are arranged for non-executive directors during which briefings are arranged and the directors have the opportunity to discuss aspects of the business with employees at all levels. Under the direction of the Chairman, the Company Secretary ensures good and timely information flows between 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 fulfil their duties. All directors also have access to the advice and services of the Company Secretary, whose removal may only be effected with the approval of the Board.

Board appointments, induction and training

The Board has in place a procedure for the appointment of new directors to the Board which complies with the Code and was applied to the appointment of Sue Swenson on 1 February 2012.

Following appointment to the Board and its Committees, all directors receive an induction tailored to their individual requirements to ensure they have the necessary knowledge and understanding of the Company and its activities. 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, to assist the new director in developing an understanding of how the Group operates and the key issues that it faces.

The process outlined above of regular business updates, site and customer visits ensures that the non-executive directors remain close to, and have a deep understanding of, our business. In addition, the updates from the Company Secretary ensure that the Board is fully appraised of all corporate governance matters. Directors are also encouraged to attend external courses.

The Company's Articles of Association require that all directors seek election by shareholders at the first annual general meeting following their appointment and that all directors retire and seek re-election at least every three years. However, commencing in 2011 and in accordance with the Code, all directors stand for re-election annually.

Performance evaluation

Performance evaluation of the Board and its Committees was carried out during the year by each director 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 its Committees operated well and were effective, however, it would welcome the opportunity to broaden diversity and further strengthen industry experience.

The Chairman communicates regularly with the non-executive directors and this contact provides an ongoing opportunity to assess performance and to discuss the performance of the executive directors and any other matters. The Chairman has concluded that during the year under review the commitment and application of the non-executive directors was of a high standard, including each having sufficient time to attend all Board and appropriate Committee meetings and to discharge their responsibilities effectively.

The Senior Independent Non-Executive Director met with the independent non-executive directors on 2 November 2011, in the absence of the Chairman, to assess the Chairman's effectiveness. The independent non-executive directors were of the opinion that Mr Walker gave sufficient time to his role as Chairman of the Company and was effective in that role during the year under review.

The Board is actively considering the provisions under the Code relating to the use of external facilitators in the performance evaluation process and it is anticipated that an external review will be conducted in 2012.

Board Committees

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, Nomination and Remuneration Committees can be found on the Company's website at www.spirent.com.

Audit Committee

During 2011, the Audit Committee comprised Ian Brindle (Chairman), Duncan Lewis and Tom Maxwell. Sue Swenson was appointed to the Committee on 1 February 2012. All of the Committee members are independent non-executive directors, making the composition of the Committee compliant with the Code. The Code also requires that the Audit Committee includes at least one member who has recent, significant and relevant financial experience. The Board considers that both Ian Brindle and Tom Maxwell provide such experience.

The attendance of individual directors at Audit Committee meetings held during 2011 was as follows:

	Number of meetings held	Number of meetings attended
Ian Brindle (Committee Chairman)	4	4
Duncan Lewis	4	4
Tom Maxwell	4	4

The Board has overall responsibility for the system of internal controls, including risk management, and has delegated certain of these responsibilities to the Audit Committee.

The Company's external auditor, the Chief Executive Officer, the Chief Financial Officer, the Group Vice President Finance, the Head of Financial Reporting and the Company Secretary, who is Secretary to the Committee, were in attendance at each meeting. The Chairman also attends by invitation from the Committee Chairman. In addition, the Committee meets with the Company's external auditor without management being present. The minutes of Committee meetings are available to all directors.

During the year the Committee has monitored and reviewed risk management and internal control, reviewed the Company's whistleblowing policy, reviewed the interim and full year financial statements, key accounting policies, the auditor's report on the interim review and year end audit and management's responses to the issues raised. The internal audit programme and the external audit strategy and scope for 2011 were also agreed and approved. Further details of internal control and process are set out on page 46. Regular reports on tax, treasury and health and safety are presented. Further details of the Group's Ethics Policy and health and safety performance are contained in the Corporate social responsibility statement on pages 32 to 35. The Chairman of the Committee reports any significant findings or identified weaknesses to the Board.

The Audit Committee has adopted a policy in relation to the provision of non-audit services by the external auditor to ensure that the provision of such services does not impair the external auditor's independence or objectivity. Under this policy, a number of non-audit services are precluded including services relating to the accounting records or financial statements, internal audit, IT consulting, legal and investment services and other services deemed by regulators to be precluded. The policy is reviewed and financial limits for non-audit services are set on an annual basis. The Committee considers that notwithstanding the non-audit services provided during the year totalling $0.1 million (2010 $0.1 million), Ernst & Young's objectivity as external auditor was not impaired. Prior to recommending their reappointment as external auditor, the Committee considered Ernst & Young's performance, resource, quality control procedures, policy on rotating its audit partners (audit partners rotate every five years), independence and objectivity, noting that as a result of this policy there is a new Audit Partner in 2011. The Committee also considered the risk of Ernst & Young withdrawing from the audit market. There are no contractual obligations that restrict the Company's current choice of external auditor.

Remuneration Committee

During 2011, the Remuneration Committee comprised Tom Maxwell (Chairman), Ian Brindle and Duncan Lewis. Sue Swenson was appointed to the Committee on 1 February 2012. All members of the Committee are independent non-executive directors, making it compliant with the Code in terms of independent non-executive directors.

Further details about the Remuneration Committee are included in the Report on directors' remuneration on pages 47 to 54.

Nomination Committee

During 2011, the Nomination Committee comprised Alex Walker (Chairman), Ian Brindle, Duncan Lewis and Tom Maxwell. Sue Swenson was appointed to the Committee on 1 February 2012. The Company Secretary is Secretary to the Committee.

The attendance of individual directors at Nomination Committee meetings held during 2011 was as follows:

	Number of meetings held	Number of meetings attended
Alex Walker (Committee Chairman)	2	2
Ian Brindle	2	2
Duncan Lewis	2	2
Tom Maxwell	2	2

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. Recommendations are based on the required role and capabilities which have been specified for the appointment and having regard to the Board's balance, diversity and structure and considering issues of succession. Executive search consultants are used by the Nomination Committee to assist this process as appropriate. In 2011, the Committee dealt with the search for and appointment of Sue Swenson as non-executive director, having defined the competencies required for the role and utilising the services of external executive search consultants.

Directors' statement on corporate governance continued

As all of the Committee members are independent non-executive directors, the composition of the Committee is compliant with the terms of the Code.

Relations with shareholders

The Board supports the use of the Annual General Meeting as a means of communicating with both private and institutional investors and encourages their participation. The Company is ready, where practicable, to enter into a dialogue with shareholders through analyst briefings and investor presentations, all of which are made available on the Company's website at www.spirent.com. Senior executives meet regularly with institutional and major shareholders to facilitate stakeholders' understanding of the Company and its objectives and to receive feedback which is then reported to the Board. All directors are offered the opportunity to meet with shareholders at scheduled meetings and are available for shareholders to meet if required.

All of the Company's communications with shareholders are conducted in line with our environmental approach. We hold the majority of our events via webcast and conference calls and we encourage all of our investors to receive communications electronically where possible.

Pensions governance

The Group's principal pension and retirement schemes are 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 and risk management

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 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 the 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.

Management and specialists within the finance department are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published by the Group is subject to the approval of the Audit Committee.

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

Compliance with best practice and the UK Corporate Governance Code

This Report on directors' remuneration has been prepared by the Remuneration Committee on behalf of the Board for approval by shareholders at the Annual General Meeting to be held on 2 May 2012 ("2012 AGM"). The Report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the UK Corporate Governance Code (the "Code") relating to directors' remuneration. The Board has complied fully with the provisions of Section D of the Code in relation to Directors' remuneration policy and practice and has followed Schedule A to the Code in relation to performance related remuneration policy. Part A of the Report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the period under review.

Part A Unaudited information

Remuneration Committee

During 2011, Tom Maxwell (Chairman), Ian Brindle, and Duncan Lewis served on the Remuneration Committee. Sue Swenson joined the Committee on her appointment to the Board on 1 February 2012. All members of the Committee are independent non-executive directors and the Company Secretary is Secretary to the Committee.

The attendance of individual directors at Remuneration Committee meetings held during the year was as follows:

	Number of meetings held	Number of meetings attended
Tom Maxwell (Committee Chairman)	5	5
Ian Brindle	5	5
Duncan Lewis	5	5

The Committee is responsible for determining all elements of the remuneration of the Chairman, executive directors, Company Secretary and senior executives of the Group, reviewing remuneration policy and overseeing the operation of the Company's share incentive plans. The Committee's terms of reference, which are reviewed annually, can be found on the Company's website at www.spirent.com.

Advisers to the Committee

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

- Aon Hewitt Consulting Inc – Radford executive remuneration data;
- Deloitte LLP – executive and non-executive director 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 auditor);
- 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 – advice on share incentive plans, executive remuneration data and policy review.

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

Remuneration policy for executive directors

The Committee's policy is to set remuneration levels which ensure that executive directors are fairly and responsibly rewarded in return for high levels of performance. The remuneration policy set by the Committee aims to encourage a performance based culture which reinforces behaviour that will lead to the continued long term successful development of the business, is sufficient to attract, retain and motivate high calibre executive directors and senior managers and aligns their interests with those of shareholders. The aims of the policy are achieved by ensuring that a significant proportion of total remuneration is linked to the achievement of stretching corporate and individual targets both in the short and long term.

As well as providing motivation to perform, remuneration plays an important retention role and needs to be competitive. The Committee therefore seeks to position total executive director remuneration around mid-market for on target performance taking into account the size and complexity of the Group compared to other peer companies. The Committee takes into account a range of factors including the Company's performance, economic conditions, the responsibilities, individual performance and experience of each executive director. Consideration is also given to pay and employment conditions of employees within the Group and the Committee particularly takes into account pay increases throughout the Group when determining salary increases for executive directors.

Report on directors' remuneration continued

Executive directors' remuneration

The remuneration of executive directors comprises the following elements:

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

Base salary

In November each year, the Committee reviews and determines the parameters for the remuneration of executive directors for the following year including base pay, target bonus and share incentive awards.

Bill Burns' salary has been frozen since his appointment on 6 November 2008 at $600,000 per annum. Similarly, Eric Hutchinson's salary has been frozen since 1 January 2006 at £294,850 per annum. Following an extensive review of remuneration in November 2011, the Committee determined that Mr Burns' salary should be $700,000 from 1 January 2012 and Mr Hutchinson's £312,850. Mr Burns' and Mr Hutchinson's remuneration will next be reviewed from 1 January 2013.

Quarterly and annual performance cash incentives

Executive directors are eligible to participate in a quarterly and annual performance cash incentive plan. The Committee sets stretching performance incentive targets and performance measures to incentivise executive directors to meet the short term strategic objectives of the Spirent Group.

During 2011, the incentive plan was structured so that two thirds of the incentive target could be earned in respect of quarterly targets and one third in respect of annual targets. Executive performance was measured against a carefully structured combination of objectives designed to achieve the short term strategic objectives of the Group including growth targets in the Company's EPS and order intake, other financial targets, engineering and product milestones together with specific personal objectives. Achievement against the EPS and order intake growth targets determined the maximum incentive which could be earned in a given performance period with performance against other financial targets, engineering and product milestones and specific personal objectives determining the actual incentive earned for the period. For 2011, the maximum cash incentive available for Bill Burns was 150 per cent of base salary and for Eric Hutchinson was 75 per cent of base salary. In February 2012, the Committee reviewed Mr Burns' and Mr Hutchinson's performance against the targets set and approved a total cash incentive payment for the year of $840,000 for Mr Burns equivalent to 140 per cent of his base salary and £206,400 for Mr Hutchinson ($330,200 at an average exchange rate of $1.60: £1), equivalent to 70 per cent of base salary. For 2012, the maximum cash incentive available for Bill Burns and Eric Hutchinson will continue to be 150 per cent and 75 per cent of base salary respectively.

Benefits and pension contributions or cash in lieu of pension

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 the US group's medical, dental and vision plans, 401(k) Pension Plan, a non-qualified deferred compensation plan and receives disability coverage benefit, life insurance cover of four times base salary and a car allowance.

The Spirent Communications 401(k) Pension Plan is a defined contribution plan established under the provisions of 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, which for 2011 was $245,000 resulting in SCI contributions of $9,800.

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 15 per cent of their base salary plus any cash incentive earned subject to a maximum of 50 per cent of base salary. Contributions to this plan are met solely by Mr Burns and SCI makes no matching contributions.

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 ($94,352 at an average exchange rate of $1.60: £1) (2010 £58,970 ($90,814 at an average exchange rate of $1.54: £1)).

Long term share incentive awards

Executive directors are eligible to participate in the Company's 2005 Employee Incentive Plan ("EIP"), which is a discretionary share plan.

Under the EIP, the Company is able to award Performance shares, share options and share-settled stock appreciation rights ("SARs"). 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.

In normal circumstances, the maximum value of an award of Performance shares under the EIP is limited to 125 per cent of base salary with awards of options or SARs limited to a maximum value of 250 per cent of base salary. For combined awards, the maximum value is limited to 250 per cent of base salary with one Performance share being equivalent to two options or SARs. Awards are valued at the closing price for a Spirent Ordinary Share on the business day immediately preceding the date of award.

On 23 March 2011, the Committee approved awards of 255,859 Performance shares to Bill Burns and 109,366 Performance shares to Eric Hutchinson.

Vesting

In November 2010, the Committee reviewed the appropriateness of the historical performance conditions for awards under the EIP in the light of the Company's current and expected performance, together with current market practice for performance conditions and consulted with major shareholders on the proposed changes. The Committee considered that for future awards under the EIP it was appropriate to have more than one performance condition for awards of Performance shares with vesting for 50 per cent of the award being based on the Company's relative Total Shareholder Return ("TSR") rating against a comparator group of companies and vesting for the remaining 50 per cent of the award being based on the rate of growth in the Company's EPS. In addition, the Committee determined that it would set performance parameters that are relevant and appropriate for each grant. For the award in March 2011 the Committee determined that the following parameters were apposite:

Performance shares

The performance conditions for Performance shares are calculated over a three year performance period as set out in the following table:

50% of award: Growth in EPS over the performance period (%)	Proportion of Performance shares vesting (%)
Below 15	0
15	30
Above 15 and below 25	On a straight line basis between 30 and 100
25 or above	100

50% of award: 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

Options and SARs

The performance condition for SARs and options is based on the rate of growth in the Company's EPS over a three year performance period.

Growth in EPS over the performance period (%)	Proportion of SARs/options vesting (%)
Below 15	0
15	30
Above 15 and below 25	On a straight line basis between 30 and 100
25 or above	100

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

Report on directors' remuneration continued

The vesting of awards of SARs and options made prior to 2011 was based on the rate of growth in the Company's EPS excluding any increase in the Retail Prices Index ("RPI") over a three year performance period. Details of vesting are set out in the following table.

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

The vesting of awards of Performance shares made prior to 2011 was based solely on the Company's relative TSR growth against a comparator group of companies over a three year performance period as set out in the table below.

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

For awards made prior to 2009, the comparator group consisted 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. For the awards made on 30 November 2009 and 23 March 2011, three non-UK listed direct competitors were added to the comparator group. The Committee considers the selected comparator group provides a suitable benchmark for the Company's TSR rating. In determining the TSR for the Company and its comparator group in respect of the awards made on 30 November 2009 and 23 March 2011, share prices are averaged over the 90 day period immediately prior to, and at the end of, the performance period. For previous awards, there was no averaging period.

During 2011 an award of Performance shares and SARs granted to Bill Burns on his appointment as Chief Executive Officer vested. Based on the performance conditions for this award, the Committee determined that the SARs vested in full having achieved growth in EPS of 98.2 per cent against a target of 64.7 per cent for 100 per cent vesting and that 313,262 Performance shares vested having achieved a growth in TSR of 167.5 per cent resulting in a TSR percentile ranking of 69.2 per cent which translates to 83.76 per cent vesting.

Other share plans

Executive directors are also able to participate in all employee share plans if offered in the country within which they are resident. The applicable all employee plans in the UK are the 2005 Sharesave Scheme and the UK Employee Share Purchase Plan and in the US is the US Employee Stock Purchase Plan.

During 2011, 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, ESOS and SRSOS are all now closed for new awards.

Further details of the Company's all employee and discretionary share plans are provided in note 28 to the consolidated financial statements and note 15 to the parent Company financial statements.

Shareholding guidelines for executive directors

The Committee has agreed that to further align their interests with those of shareholders, executive directors should be encouraged to build, over time, a shareholding in the Company. Bill Burns is continuing to build his shareholding through participation in the US Employee Stock Purchase Plan and, following the partial vesting of his award of Perfomance shares on 7 November 2011, he retained the balance of vested shares after sales to meet tax liabilities. At the date of this Report, Mr Burns' shareholding represented 74 per cent of his base salary. Eric Hutchinson's shareholding at the date of this Report represented 598 per cent of his base salary and he is further building his shareholding through participation in the UK Employee Share Purchase Plan.

Shareholder dilution

The Committee is strongly committed to managing shareholder dilution in a responsible manner. 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 2011 (9.2 per cent) and 31 December 2010 (10.1 per cent). The overall number of share incentives outstanding has fallen by 2.9 million during the year to 12.6 million at 31 December 2011 (2010 15.5 million).

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. During

the year, 4.4 million Ordinary Shares were purchased by the ESOT reducing the impact of dilution. At the date of this Report, the ESOT holds 7.7 million Ordinary Shares to satisfy the exercises of current and future awards by employees and former employees of the Group. No material changes to the EIP are proposed and therefore no specific shareholder approval is required at the 2012 AGM to continue to operate this plan.

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 either the Company or 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 would 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. As noted above, Mr Burns' service contract is with SCI and governed by the laws of the State of California, its termination provisions therefore reflect US practice. Either the employer or Mr Burns may terminate employment upon 30 days' notice and, in addition to one month's base salary (or payment in lieu) he would be entitled to accrued base salary, cash incentives, and vacation pay. Mr Burns would also be entitled to 11 months' base salary subject to a set-off for any base salary earned from alternative employment during the 12 month 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 by an alternative employer 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.

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. At the date of this Report, neither Bill Burns nor Eric Hutchinson hold any such external positions.

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 were last reviewed on 1 January 2012, having been frozen since 1 January 2008, when it was determined that the basic annual fee for non-executive directors would be increased to £40,000 per annum for 2012 to 2014. Fees for the Chairman will be increased to £160,000 per annum for 2012 to 2014, having been frozen since 1 January 2009. Fees will next be reviewed on 1 January 2015. The Chairmen of the Audit and Remuneration Committees each receive additional fees of £11,000 and £9,000 respectively. It is considered that non-executive director fees are at the median level for comparable companies.

All non-executive directors have a letter of appointment with the Company for a period of not more than three years, subject to the Company's Articles of Association. However, in accordance with the Code, and as in 2011, all directors will stand for re-election at the 2012 AGM.

Details of individual appointments are as follows:

Director	First appointed a director	Current appointment due to expire
Ian Brindle	22 December 2006	2012 AGM
Duncan Lewis	1 July 2007	2014 AGM
Tom Maxwell	1 October 2007	2014 AGM
Sue Swenson	1 February 2012	2012 AGM
Alex Walker	22 December 2006	2012 AGM

The letters of appointment are available for inspection on request and will be available for inspection before and during the 2012 AGM. An example of a letter of appointment for a non-executive director is available on the Company's website at www.spirent.com.

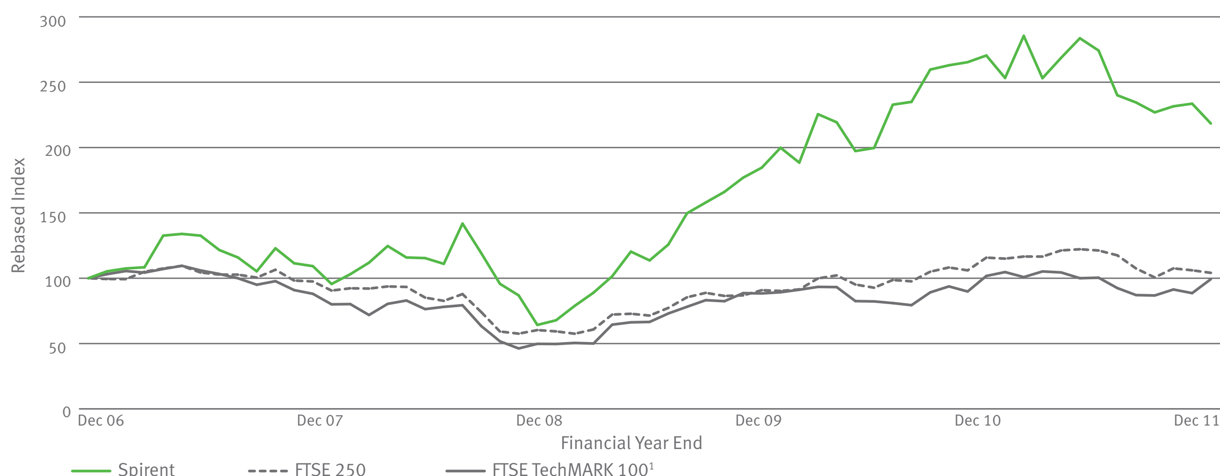
Non-executive directors are not eligible to participate in cash incentive or share incentive arrangements and their service does not qualify for a pension or other benefits. No element of their fee is performance related.

Report on directors' remuneration continued

Total Shareholder Return performance

The graph below shows the TSR performance for the last five financial years of Spirent Communications plc against the FTSE 250 Index and the FTSE TechMARK 100 Index, excluding those companies who were also constituents of the FTSE 100 Index at the commencement of the period. The Committee believes that these provide broad equity market indices against which the performance of the Company can be fairly compared, and that the FTSE TechMARK 100 Index provides a particularly representative collection of comparator companies.

Five-year TSR performance – Spirent vs FTSE TechMARK 100[1] and FTSE 250



1 As at 1 January 2007, excluding FTSE100 companies.

Part B Audited Information
Directors' remuneration

	Base salary and fees $000	Taxable benefits $000	Performance related incentive paid in cash $000	Cash in lieu of pension $000	Total 2011 $000	Total 2010[2] $000
Executive directors						
Bill Burns	600.0	28.9	840.0	–	1,468.9	1,526.4
Eric Hutchinson[1]	472.6	26.3	330.2	94.4	923.5	843.4
Non-executive directors						
Ian Brindle	75.2	–	–	–	75.2	72.4
Duncan Lewis	57.6	–	–	–	57.6	55.4
Tom Maxwell	72.0	–	–	–	72.0	65.8
Alex Walker	240.0	–	–	–	240.0	190.6
Former directors	–	–	–	–	–	82.1
2011	1,517.4	55.2	1,170.2	94.4	2,837.2	–
2010	1,521.2	51.7	1,172.4	90.8	–	2,836.1

Notes

1 Eric Hutchinson earned a fee of $800 in respect of his services to the Board and its Committees.

2 These figures relate to the period of director's Board membership.

Figures in sterling have been translated at an average exchange rate of $1.60: £1.

Summary of directors' remuneration

	2011 $000	2010 $000
Total emoluments for all directors	2,837.2	2,836.1
Gains made on the vesting and exercise of share incentives[1]	670.5	2,936.3
Contributions to 401(k) Pension Plan[2]	9.8	9.8
	3,517.5	5,782.2

Notes

1 2011: On 1 January, 24,721 options granted to Eric Hutchinson on 26 September 2003 under the Spirent Savings Related Share Option Scheme at an exercise price of 38 pence per share matured, resulting in a deemed gain of £27,144 on a market price of 147.8 pence per Ordinary Share. On 21 October 2010, Mr Hutchinson had elected to receive these options as shares on their maturity.
On 7 November, 313,262 Performance shares vested and were allotted to Bill Burns. Mr Burns sold 158,012 Ordinary Shares to cover the tax liability arising on the deemed gain of $626,861 which was realised on a market price of 124.6 pence per Ordinary Share and retained the remaining 155,250 Ordinary Shares.
2010: On 16 March, Eric Hutchinson exercised 1,128,000 ESOS share options granted on 5 August 2004 at an exercise price of 55.5 pence, selling the resulting shares at a fair market value of 120.1268 pence per share equating to a total gain of £728,990 ($1,122,645). On the same date, Mr Hutchinson also exercised 638,700 EIP stock appreciation rights granted at a base price of 53 pence on 25 August 2005 and 544,650 EIP stock appreciation rights granted at a base price of 47.5 pence on 5 May 2006; the applicable fair market value was 122.80 pence per Ordinary Share and the exercises resulted in a total gain of £855,934 ($1,318,138).
On 9 September, Bill Burns exercised 250,000 SSIP stock appreciation rights granted at a base price of 69.75 pence on 10 March 2005 and 200,000 SSIP stock appreciation rights granted at a base price of 53 pence on 25 August 2005; the applicable fair market value was 133.80 pence per Ordinary Share and the exercises resulted in a total gain of £321,725 ($495,457).

2 A contribution of $9,800 was made to the 401(k) Pension Plan relating to Bill Burns (2010 $9,800).

Directors' interests in shares

The beneficial interests of the directors and their connected persons in the shares of the Company are set out below:

	At 1 March 2012 Ordinary Shares[1,2]	At 31 December 2011 Ordinary Shares[1]	At 31 December 2010 Ordinary Shares[1]
Executive directors			
Bill Burns	214,143	213,242	54,953
Eric Hutchinson	1,232,958	1,232,570	1,205,581
Non-executive directors			
Ian Brindle	4,525	4,525	4,525
Duncan Lewis	–	–	–
Tom Maxwell	26,955	26,955	26,955
Alex Walker	80,000	80,000	50,000

Notes

1 Directors' beneficial interests do not form part of the remuneration provided by the Company.

2 Events since 31 December 2011:
On 24 January 2012, Bill Burns acquired 534 Ordinary Shares under the US Employee Stock Purchase Plan and Eric Hutchinson acquired 206 Ordinary Shares under the UK Employee Share Purchase Plan, both at a price of 120.73 pence per share.
On 24 February 2012, Bill Burns acquired 367 Ordinary Shares under the US Employee Stock Purchase Plan and Eric Hutchinson acquired 182 Ordinary Shares under the UK Employee Share Purchase Plan, both at a price of 137.90 pence per share.

Report on directors' remuneration continued

	Plan and award type[1]	At 31 December 2011	Lapsed during the period	Exercised during the period	Granted during the period	At 1 January 2011	Date of grant	Exercise price per share pence	Market price on date of grant pence	Date first exercisable[2]	Expiry date
Bill Burns											
	SSIP	62,500	–	–	–	62,500	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 SAR	374,000	–	–	–	374,000	07 Nov 08	51	51	07 Nov 11	07 Nov 18
	EIP PS	–	60,738	313,262	–	374,000	07 Nov 08	Nil[3]	51	07 Nov 11	07 Nov 11
	EIP PS	377,953	–	–	–	377,953	30 Nov 09	Nil[3]	98	30 Nov 12	30 Nov 12
	EIP PS	255,859	–	–	255,859	–	23 Mar 11	Nil[3]	143	23 Mar 14	23 Mar 14
Eric Hutchinson											
	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
	EIP SAR	56,600	–	–	–	56,600	25 Aug 05	53	53	25 Aug 08	25 Aug 15
	EIP PS	151,829	–	–	–	151,829	30 Nov 09	Nil[3]	98	30 Nov 12	30 Nov 12
	EIP PS	109,366	–	–	109,366	–	23 Mar 11	Nil[3]	143	23 Mar 14	23 Mar 14

Notes

An explanation of each share plan and its operation is given in note 28 to the audited consolidated financial statements of the Group and note 15 to the parent Company financial statements.

1 Key to share plan and type of award:
EIP SAR – 2005 Employee Incentive Plan Stock Appreciation Rights.
EIP PS – 2005 Employee Incentive Plan Performance shares.
ESOS – 1995 Executive Share Option Scheme Share Options.
SRSOS – UK Savings Related Share Option Scheme Share Options.
SSIP – Spirent Stock Incentive Plan Stock Appreciation Rights.

2 Awards which have passed the date first exercisable have vested, having passed the relevant performance conditions.

3 There is no exercise price payable for a Performance share upon vesting. Further details on Performance shares are provided above.

The middle market price of an Ordinary Share at the close of business on 4 January 2011 and 30 December 2011 (being the first and last days the London Stock Exchange was open for trading in 2011) was 149.5 pence and 117.9 pence, respectively, and during that period ranged between a high of 160.0 pence and a low of 105.8 pence.

Signed on behalf of the Board

Tom Maxwell
Chairman of the Remuneration Committee
1 March 2012

Independent auditor's 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 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement and the Consolidated statement of changes in equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Statement of directors' responsibilities set out on page 42, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 41, in relation to going concern;
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2011 and on the information in the Report of directors' remuneration that is described as having been audited.

Karl Havers (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
1 March 2012

Notes

1. The maintenance and integrity of the Spirent Communications plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
Year to 31 December 2011

	Notes	2011 $ million	2010 $ million
Revenue	3, 4	528.2	482.2
Cost of sales		(179.3)	(161.1)
Gross profit		348.9	321.1
Product development	4	(88.1)	(80.2)
Selling and distribution		(97.0)	(87.9)
Administration		(41.8)	(40.3)
Operating profit	4	122.0	112.7
Finance income	6	1.7	0.8
Finance costs	7	(0.4)	(1.3)
Profit before tax	4, 5	123.3	112.2
Tax	10	(28.7)	(33.1)
Profit for the year attributable to owners of parent Company		94.6	79.1
Earnings per share (cents)	11		
Basic		14.18	11.77
Diluted		14.06	11.66

All activities relate to continuing operations.

The notes on pages 61 to 101 and page 122 form part of these financial statements.

Consolidated statement of comprehensive income
Year to 31 December 2011

	Notes	2011 $ million	2010 $ million
Profit for the year attributable to owners of parent Company		94.6	79.1
Other comprehensive income			
Fair value movements on cash flow hedges	24	–	(0.6)
Exchange differences on retranslation of foreign operations		0.3	(3.3)
Actuarial (losses)/gains on defined benefit pension plans	9	(25.5)	8.6
Movement in irrecoverable element of defined benefit pension plan surplus	9	2.2	(1.9)
Deferred tax credit/(charge) on defined benefit pension plans	10	4.0	(0.9)
Other comprehensive income		(19.0)	1.9
Total comprehensive income for the year attributable to owners of parent Company		75.6	81.0

The notes on pages 61 to 101 and page 122 form part of these financial statements.

Consolidated balance sheet
At 31 December 2011

	Notes	2011 $ million	2010 $ million
Assets			
Non-current assets			
Intangible assets	13	123.2	112.0
Property, plant and equipment	14	35.5	29.1
Trade and other receivables	18	3.2	3.6
Cash on deposit	19	0.7	1.1
Defined benefit pension plan surplus	9	0.7	7.7
Deferred tax	21	29.4	31.3
		192.7	184.8
Current assets			
Inventories	17	43.6	37.6
Trade and other receivables	18	106.1	98.2
Cash and cash equivalents	19	236.5	223.9
		386.2	359.7
Total assets		578.9	544.5
Liabilities			
Current liabilities			
Trade and other payables	20	(119.3)	(108.5)
Current tax		(9.5)	(13.0)
Derivative financial instruments	24	–	(0.2)
Provisions and other liabilities	23	(3.3)	(5.1)
		(132.1)	(126.8)
Non-current liabilities			
Trade and other payables	22	(10.3)	(7.5)
Defined benefit pension plan deficit	9	(13.1)	(0.6)
Provisions and other liabilities	23	(1.2)	(2.5)
		(24.6)	(10.6)
Total liabilities		(156.7)	(137.4)
Net assets		422.2	407.1
Capital and reserves	27		
Share capital		34.3	35.3
Share premium account		31.3	31.4
Capital redemption reserve		17.7	17.3
Other reserves		2.7	1.6
Translation reserve		19.6	19.3
Retained earnings		316.6	302.2
Total equity attributable to owners of parent Company		422.2	407.1

The notes on pages 61 to 101 and page 122 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
1 March 2012

Consolidated cash flow statement
Year to 31 December 2011

	Notes	2011 $ million	2010 $ million
Cash flows from operating activities			
Cash flow from operations	30	120.5	116.9
Tax paid		(21.8)	(17.5)
Net cash inflow from operating activities		98.7	99.4
Cash flows from investing activities			
Interest received		0.9	0.8
Transfer from long term deposit		0.4	0.6
Purchase of intangible assets		(3.7)	(0.1)
Purchase of property, plant and equipment		(20.8)	(18.1)
Proceeds from the sale of property, plant and equipment		1.0	0.6
Acquisition of subsidiaries and businesses	31	(14.5)	–
Net cash used in investing activities		(36.7)	(16.2)
Cash flows from financing activities			
Dividend paid		(17.5)	(13.7)
Proceeds from the issue of share capital and employee share ownership trust		0.4	4.7
Share repurchase		(33.4)	(19.7)
Net cash used in financing activities		(50.5)	(28.7)
Net increase in cash and cash equivalents		11.5	54.5
Cash and cash equivalents at the beginning of the year		223.9	173.9
Effect of foreign exchange rate changes		1.1	(4.5)
Cash and cash equivalents at the end of the year	19	236.5	223.9

The notes on pages 61 to 101 and page 122 form part of these financial statements.

Consolidated statement of changes in equity

$ million

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Other reserves	Translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
At 1 January 2010	36.4	29.5	17.1	1.6	(0.6)	22.6	0.6	244.6	351.8
Profit for the year	–	–	–	–	–	–	–	79.1	79.1
Other comprehensive income (a)	–	–	–	–	–	(3.3)	(0.6)	5.8	1.9
Total comprehensive income	–	–	–	–	–	(3.3)	(0.6)	84.9	81.0
Share-based payment *note 29*	–	–	–	–	–	–	–	0.4	0.4
Deferred tax on share incentives *note 10*	–	–	–	–	–	–	–	2.6	2.6
New shares issued *note 27*	0.3	2.7	–	(0.2)	–	–	–	–	2.8
Share cancellation *note 27*	(0.5)	–	0.5	–	–	–	–	–	–
Employee share ownership trust *note 27*	–	–	–	–	–	–	–	1.9	1.9
Share repurchase *note 27*	–	–	–	–	–	–	–	(19.7)	(19.7)
Equity dividends *note 12*	–	–	–	–	–	–	–	(13.7)	(13.7)
Other movements *note 27*	–	–	–	(1.2)	–	–	–	1.2	–
Exchange adjustment	(0.9)	(0.8)	(0.3)	(0.2)	2.2	–	–	–	–
At 1 January 2011	35.3	31.4	17.3	–	1.6	19.3	–	302.2	407.1
Profit for the year	–	–	–	–	–	–	–	94.6	94.6
Other comprehensive income (b)	–	–	–	–	–	0.3	–	(19.3)	(19.0)
Total comprehensive income	–	–	–	–	–	0.3	–	75.3	75.6
Share-based payment *note 29*	–	–	–	–	–	–	–	1.1	1.1
Deferred tax on share incentives *note 10*	–	–	–	–	–	–	–	(2.5)	(2.5)
New shares issued *note 27*	0.1	0.3	–	–	–	–	–	–	0.4
Share cancellation *note 27*	(0.7)	–	0.7	–	–	–	–	–	–
Share repurchase *note 27*	–	–	–	–	–	–	–	(34.2)	(34.2)
Share buyback obligation *note 27*	–	–	–	–	–	–	–	(7.8)	(7.8)
Equity dividends *note 12*	–	–	–	–	–	–	–	(17.5)	(17.5)
Exchange adjustment	(0.4)	(0.4)	(0.3)	–	1.1	–	–	–	–
At 31 December 2011	34.3	31.3	17.7	–	2.7	19.6	–	316.6	422.2

(a) The amount included in other comprehensive income for 2010 of $5.8 million represents actuarial gains of $8.6 million in respect of the defined benefit pension plans less an amount for the movement in the irrecoverable element of the pension plan surplus of $1.9 million, net of a tax charge of $0.9 million.

The amount included in the translation reserve of $3.3 million represents other comprehensive income related to the translation of foreign operations.

The amount included within cash flow hedges of $0.6 million is in relation to movements on cash flow hedges, see note 24.

(b) The amount included in other comprehensive income for 2011 of $19.3 million represents actuarial losses of $25.5 million in respect of the defined benefit pension plans less an amount for the movement in the irrecoverable element of the pension plan surplus of $2.2 million, net of a tax credit of $4.0 million.

The amount included in the translation reserve of $0.3 million represents other comprehensive income related to the translation of foreign operations.

The notes on pages 61 to 101 and page 122 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 2011 were authorised for issue by the Board of directors on 1 March 2012. 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 ("EU") IAS Regulation and the Companies Act 2006, the Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and issued by the International Accounting Standards Board ("IASB").

The Company has elected to prepare the Company financial statements in accordance with UK Accounting Standards. These are presented on pages 103 to 122 and the accounting policies in respect of the Company are set out on pages 104 to 107.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention unless otherwise indicated.

The Group has prepared its financial statements under IFRSs. The significant accounting policies applied in the preparation of these consolidated financial statements are set out below and the accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2010.

New accounting standards

The following new standards, amendments to standards and interpretations are mandatory for the first time in the current period and have been adopted by the Group with no significant impact on its consolidated results or financial position.

International Accounting Standards ("IAS/IFRSs")	
IAS 24 (revised)	Related Party Disclosures
IAS 32	Amendment to IAS 32 – Classification of Rights Issues
IFRIC 14	Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs (May 2010)	

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.

Goodwill is subject to an annual review for impairment. For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. 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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

The carrying amount of goodwill allocated to a cash-generating unit, an operation within a cash-generating unit or 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.

Product development

Research expenditure is recognised in the year in which it is incurred. Intangible assets arising on the Group's various product development projects are recognised only if the recognition criteria of IAS 38 "Intangible Assets" are met.

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.

At 31 December 2011 and 31 December 2010 no amounts have met the recognition criteria.

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

Intangible assets with finite useful lives and property, plant and equipment are tested for impairment at each reporting date where there is an indication that an asset may be impaired. Goodwill and intangible assets with an indefinite useful life are assessed at least annually. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected cash flows (value in use) of the relevant cash-generating unit or asset and the fair value less cost to sell. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

2. Summary of significant accounting policies continued

Where an impairment loss has been recognised against an asset, it may be reversed in future periods where there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years. Such a reversal is recognised in the income statement. This does not apply for goodwill, for which an impairment loss must not be reversed in any circumstances.

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, after provisions for obsolescence. Cost includes all costs incurred 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.

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 US dollars, which is the Group's presentation currency.

Transactions in foreign currencies are initially recorded at the rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling at the balance sheet date. All exchange differences are taken to the consolidated income statement. 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 transaction.

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 ruling at the balance sheet date. The results of foreign operations are translated into US dollars using average rates for the period. The exchange differences arising on retranslation are classified as a separate component of equity, the 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 IFRSs, being 1 January 2003.

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.

Trade receivables

Trade receivables are non-interest bearing and are stated at original invoiced amount less an appropriate allowance for estimated irrecoverable amounts. Such allowances are based on an assessment of debtor ageing, past experience or known customer exposures.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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. There are no bank overdrafts.

Trade payables

Trade payables are non-interest bearing and are stated at the original invoiced amount.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs. Spirent Communications plc Ordinary Shares held by the Group are classified in equity as treasury shares and are recognised at cost and included as a deduction from retained earnings. Consideration received for the sale of 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.

Derivative financial instruments and hedge accounting

The Group uses forward foreign currency exchange contracts to manage exposures arising on receipts and payments in foreign currencies relating to firm commitments.

Forward foreign currency exchange contracts are initially recognised at fair value on the date on which the contract is entered into, and are subsequently remeasured to fair value at each reported balance sheet date. The fair value of forward foreign currency exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The Group has not adopted the hedge accounting rules ever since the decision was taken to change the reporting currency in 2010. Consequently all gains and losses arising from changes in fair value are taken to the income statement.

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.

Retirement benefits

The Group operates two funded defined benefit pension plans which are in the United Kingdom, all other pension plans are defined contribution in nature. For the defined contribution plans the amount charged to the income statement is the employers' contributions paid or payable during the year.

For defined benefit pension plans full actuarial valuations are carried out every three years using the projected unit credit method, and updates are performed at each balance sheet date. The cost of providing benefits under these plans is determined separately for each plan, and 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). 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.

2. Summary of significant accounting policies continued

The interest element of the defined benefit pension plan 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 as finance costs or finance income.

Actuarial gains and losses arising from differences between actual and expected returns on plan assets, experience adjustments on liabilities and changes in actuarial assumptions, are recognised immediately in the statement of comprehensive income.

The defined benefit pension plan 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 denominated in the same currency and whose term is consistent with the estimated term of the obligation), 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.

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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Share-based payment

The Group operates various equity-settled share-based compensation plans and accounts for these awards in accordance with IFRS 2 "Share-based Payment". In accordance with the transitional provisions available on first-time adoption of IFRSs, the Standard has been applied to awards granted after 7 November 2002 which were unvested at 1 January 2005.

The fair value of these awards is recognised in the income statement on a straight line basis over the vesting period together with a corresponding change in equity. The fair value is measured using a binomial model by reference to the share price, and taking into account the terms and conditions of the award, excluding non-market vesting conditions, at the date the awards were granted. The charge is reassessed at each balance sheet date to reflect the expected and actual levels of vesting, due to achievement or otherwise of non-market conditions. Awards where vesting is conditional upon satisfying a market condition or non-vesting condition are treated as vesting irrespective of whether the market or non-vesting condition has been satisified.

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.

Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable for previous years.

Deferred 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.

A deferred tax asset is 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 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 the liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Dividends paid

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

2. Summary of significant accounting policies continued

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 13.

Defined benefit pension plans

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 9.

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 and the fair values allocated to each element.

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. Unrecognised deferred tax assets are disclosed in note 21.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

New standards and interpretations not applied

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/IFRSs")		Effective for annual periods beginning on or after
IAS 1	Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12	Amendments to IAS 12 – Deferred Tax Recovery of Underlying Assets	1 January 2012
IAS 19	Employee Benefits	1 January 2013
IAS 32	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 1	Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IFRS 7	Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9	Financial Instruments	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

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 other than in relation to IAS 19. Under IAS 19 "Employee Benefits" the interest income for the defined benefit pension plans would reduce by approximately $2.2 million at current levels of funding. This change results from the expected rate of return on the pension plan assets being the same rate as the discount rate used to discount the plan liabilities.

3. Revenue

	2011 $ million	2010 $ million
Sale of goods	439.6	402.6
Maintenance and support services	88.6	79.6
Total revenue	528.2	482.2

4. Operating segments

The Group's organisational structure is based on differences in the products and services offered by each segment and information regularly reviewed by the Group's Chief Executive Officer, its chief operating decision maker, is presented on this basis. The Group's operating segments follow this structure, however, where operating segments exhibit similar economic characteristics and are similar in nature they are aggregated into a single reportable segment.

The Group's reportable operating segments are Performance Analysis, Service Assurance and Systems. The Group evaluates segment operating profit before share-based payment, acquired intangible asset amortisation, acquisition related costs and exceptional items, although there were no exceptional items in 2011 or 2010. Finance income and finance costs are not allocated to the reportable segments. Corporate is not an operating segment and costs are separately reported and not allocated to the reportable segments.

Corporate assets comprise cash and cash equivalents held for central treasury purposes and other corporate assets. Information on segment liabilities is not regularly provided to the Group's Chief Executive Officer and is therefore not disclosed below.

4. Operating segments continued

The principal activities of each reportable operating segment are as follows:

- Performance Analysis provides solutions that test a broad range of communications technologies critical to the development of next-generation network equipment and devices.
- Service Assurance provides network monitoring and field test solutions to allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network.
- Systems develops and supplies sophisticated electronic control systems for electrically powered vehicles in the medical mobility and industrial markets.

					2011 $ million
	Performance Analysis	Service Assurance	Systems	Corporate	Total
Revenue					
External revenue	416.4	54.1	57.7	–	528.2

There were no inter-segment sales.

	Performance Analysis	Service Assurance	Systems	Corporate	Total
Profit before tax					
Total reportable segment profit/(loss)	115.1	7.0	9.0	(5.2)	125.9
Unallocated amounts					
Acquired intangible asset amortisation					(1.6)
Share-based payment *note 29*					(1.1)
Acquisition related costs					(1.2)
Operating profit					122.0
Finance income					1.7
Finance costs					(0.4)
Profit before tax					123.3
Other information					
Product development	74.4	8.9	4.8	–	88.1
Expenditure on property, plant and equipment *note 14*	19.2	0.9	0.7	–	20.8
Expenditure on intangibles *note 13*	14.5	–	–	–	14.5
Depreciation *note 14*	11.2	1.3	0.5	0.2	13.2
Intangible asset amortisation – other	1.3	–	–	–	1.3
Segment assets	298.4	13.3	19.8	247.4	578.9
Segment cash flows					
Operating activities	116.4	5.1	7.5	(30.3)	98.7
Investing activities	(36.4)	(0.9)	(0.7)	1.3	(36.7)
Financing activities	–	–	–	(50.5)	(50.5)
	80.0	4.2	6.8	(79.5)	11.5

Notes to the consolidated financial statements continued

4. Operating segments continued

	Performance Analysis	Service Assurance	Systems	Corporate	2010 $ million Total
Revenue					
External revenue	365.8	57.0	59.4	–	482.2

There were no inter-segment sales.

	Performance Analysis	Service Assurance	Systems	Corporate	Total
Profit before tax					
Total reportable segment profit/(loss)	97.9	13.0	8.8	(5.2)	114.5
Unallocated amounts					
Acquired intangible asset amortisation					(1.4)
Share-based payment *note 29*					(0.4)
Operating profit					112.7
Finance income					0.8
Finance costs					(1.3)
Profit before tax					112.2
Other information					
Product development	65.9	9.9	4.4	–	80.2
Expenditure on property, plant and equipment *note 14*	16.3	1.2	0.6	–	18.1
Expenditure on intangibles *note 13*	0.1	–	–	–	0.1
Depreciation *note 14*	10.0	1.3	0.5	0.1	11.9
Intangible asset amortisation – other	0.2	–	–	–	0.2
Segment assets	264.1	17.7	22.7	240.0	544.5
Segment cash flows					
Operating activities	98.4	17.5	7.7	(24.2)	99.4
Investing activities	(15.8)	(1.2)	(0.6)	1.4	(16.2)
Financing activities	–	–	–	(28.7)	(28.7)
	82.6	16.3	7.1	(51.5)	54.5

Geographical information

	2011 $ million	2010 $ million
Revenue by market		
United States	259.4	248.5
Asia Pacific, Rest of World	182.2	154.2
Europe	86.6	79.5
	528.2	482.2

Europe includes United Kingdom revenue of $15.0 million (2010 $14.7 million).

Revenues are attributed to countries based on customer location.

4. Operating segments continued

	2011 $ million	2010 $ million
Non-current assets		
United States	149.1	133.5
Asia Pacific, Rest of World	4.8	3.5
Europe	4.8	4.1
	158.7	141.1

Europe includes United Kingdom non-current assets of $3.4 million (2010 $3.2 million).

No one customer accounted for 10 per cent or more of total Group revenue in either 2011 or 2010.

5. Profit before tax

The following items have been charged or (credited) in arriving at profit before tax:

	2011 $ million	2010 $ million
Employee benefit costs *note 8*	184.0	169.7
Costs of inventories recognised as an expense	136.9	125.5
Write-down of inventories to net realisable value *note 17*	3.8	1.0
Amortisation of intangible assets *note 13*	2.9	1.6
Depreciation of property, plant and equipment		
Owned assets *note 14*	13.2	11.9
Loss on disposal of property, plant and equipment	0.1	–
Operating leases		
Minimum lease payments	11.6	11.7
Sublease income	(0.7)	(1.0)
Product development costs *note 4*	88.1	80.2
Net foreign exchange (gain)/charge	(1.7)	0.4

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

	2011 $ million	2010 $ million
Audit services		
Statutory audit	0.4	0.4
Other fees to auditors		
Local statutory audits for subsidiaries	0.4	0.4
Other audit related services	0.1	–
Other services relating to tax	–	0.1
	0.5	0.5
	0.9	0.9

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 auditor.

Notes to the consolidated financial statements continued

6. Finance income

	2011 $ million	2010 $ million
Bank interest receivable	1.0	0.8
Defined benefit pension plans *note 9*	0.7	–
	1.7	0.8

7. Finance costs

	2011 $ million	2010 $ million
Leasehold provisions discount unwind *note 23*	0.1	0.1
Other interest payable	0.3	–
Defined benefit pension plans *note 9*	–	1.2
	0.4	1.3

8. Employees

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

	2011 Number	2010 Number
Manufacturing	389	402
Product development	561	503
Selling and distribution	402	376
Administration	188	179
	1,540	1,460

Employee benefit costs were:

	2011 $ million	2010 $ million
Remuneration	163.7	151.6
Social security costs	13.4	12.5
Pension and other related costs	5.8	5.2
Expense of share-based payment *note 29*	1.1	0.4
	184.0	169.7

Please refer to the Report on directors' remuneration on pages 47 to 54 for disclosures relating to the emoluments, share incentives and pensions of the directors.

9. Pensions

Defined benefit plans

The funded 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"). The Staff Plan is the Group's most significant plan. There is in addition a United Kingdom unfunded plan.

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

	2011 $ million	2010 $ million
Assets		
UK defined benefit pension plan – Staff Plan	–	7.1
UK defined benefit pension plan – Cash Plan	0.7	0.6
	0.7	7.7
Liabilities		
UK defined benefit pension plan – Staff Plan	(12.5)	–
UK unfunded plan	(0.6)	(0.6)
	(13.1)	(0.6)

The valuation used for these disclosures has been based on a full assessment of the liabilities of the Plans as at 1 April 2009. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

i) The key financial assumptions

The assumptions used for both plans were as follows:

	2011 %	2010 %
Inflation – RPI	3.0	3.4
Inflation – CPI	2.0	2.5
Rate of increase in pensionable salaries	3.0	3.9
Rate of increase for pensions in payment pre 2001 service	3.6	3.7
Rate of increase for pensions in payment 2001 to 5 April 2005 service	2.9	3.2
Rate of increase for pensions post 5 April 2005 service	2.0	2.2
Rate of increase in deferred pensions	2.0	2.5
Rate used to discount plan liabilities	4.6	5.5
Expected rate of return on plan assets (weighted for both plans)	5.5	5.8

Spirent Communications plc employs a building block approach in determining the long term rate of return on plans' 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

9. 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 (2010 aged 68) will live on average for a further 21.9 years (2010 19.2 years) if they are male and for a further 23.8 years (2010 21.0 years) if they are female. For a member who retires in 2021 (2010 in 2020) at age 65 (2010 age 64) the assumptions are that they will live on average for a further 22.9 years (2010 23.7 years) after retirement if they are male and for a further 24.7 years (2010 25.6 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 $3.9 million.
– Increasing the life expectancy of a member by one year (by modifying the standard mortality tables using an appropriate scaling factor). This would increase past service liabilities by $8.2 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 %	2011 $ million	Long term rate of return expected %	2010 $ million
Staff Plan				
Equities	8.7	73.3	8.5	55.4
Government bonds	2.6	51.6	4.0	61.7
Corporate bonds	4.1	38.3	5.0	73.9
Cash benchmarked bonds	4.3	31.5	–	–
Insured annuities	4.6	5.0	5.5	4.6
Property	7.7	21.7	8.4	20.7
Cash and other	1.8	2.0	1.0	3.5
Fair value of plan assets	5.6	223.4	5.9	219.8
Present value of defined benefit pension plan obligations		(235.9)		(210.5)
(Deficit)/surplus in the plan		(12.5)		9.3
Irrecoverable element of pension plan surplus		–		(2.2)
(Deficit)/surplus in the plan on the balance sheet		(12.5)		7.1
Cash Plan				
Equities	8.7	3.2	8.5	3.8
Government bonds	2.7	3.6	4.1	3.3
Insured annuities	4.6	0.3	5.5	0.3
Cash and other	1.8	3.2	1.0	3.4
Fair value of plan assets	4.3	10.3	4.6	10.8
Present value of defined benefit pension plan obligations		(9.6)		(10.2)
Surplus in the plan		0.7		0.6
Irrecoverable element of pension plan surplus		–		–
Surplus in the plan on the balance sheet		0.7		0.6

9. Pensions continued

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

For the purposes of the following disclosures the two plans have been combined, as the Cash Plan is immaterial to these financial statements.

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

	2011 $ million	2010 $ million
Analysis of amount charged to operating costs		
Current service cost	0.3	0.3
Expected return on pension plans' assets	12.7	10.5
Interest on pension plans' liabilities	(12.0)	(11.7)
Finance income/(costs) *notes 6 and 7*	0.7	(1.2)
Net (credit)/charge to the income statement	(0.4)	1.5

iv) Analysis of amount recognised directly in other comprehensive income

	2011 $ million	2010 $ million
Actual return on pension plans' assets	13.8	21.4
Less expected return on pension plans' assets	12.7	10.5
Experience gains on plans' assets	1.1	10.9
Experience losses arising on plans' liabilities	(2.7)	(0.6)
Changes in assumptions underlying the present value of plans' liabilities	(23.9)	(1.7)
Actuarial (losses)/gains recognised directly in other comprehensive income	(25.5)	8.6

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the statement of comprehensive income is $38.0 million loss (2010 $12.5 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 $67.5 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 statement of comprehensive income before 1 January 2003.

	2011 $ million	2010 $ million
Movement in the irrecoverable element of the defined benefit pension plan surplus	2.2	(1.9)

Notes to the consolidated financial statements continued

9. Pensions continued

v) Movements in the present value of funded defined benefit obligations

	2011 $ million	2010 $ million
At 1 January	220.7	221.2
Current service cost	0.3	0.3
Interest cost	12.0	11.7
Employee contributions	0.2	0.2
Benefit payments	(10.6)	(9.6)
Actuarial loss	26.6	2.3
Exchange adjustment	(3.7)	(5.4)
Present value of funded defined benefit pension plans' obligations	245.5	220.7

vi) Movements in the fair value of plans' assets

	2011 $ million	2010 $ million
At 1 January	230.6	222.0
Expected return on plans' assets	12.7	10.5
Employer contributions	2.9	1.8
Employee contributions	0.2	0.2
Benefit payments	(10.6)	(9.6)
Actuarial gain	1.1	10.9
Exchange adjustment	(3.2)	(5.2)
Fair value of plans' assets	233.7	230.6

vii) History of experience gains and losses

	2011 $ million	2010 $ million	2009 $ million	2008 $ million	2007 $ million
Present value of defined benefit pension plans' obligations	(245.5)	(220.7)	(221.2)	(182.1)	(268.8)
Fair value of plans' assets	233.7	230.6	222.0	186.1	284.1
Net (deficit)/surplus in the plans	(11.8)	9.9	0.8	4.0	15.3
Experience loss on plans' liabilities					
Amount ($ million)	(2.7)	(0.6)	(3.9)	(0.7)	(1.6)
Percentage of plans' liabilities (%)	(1.1)	(0.3)	(1.8)	(0.4)	(0.6)
Experience gain/(loss) on plans' assets					
Amount ($ million)	1.1	10.9	11.7	(28.5)	(5.2)
Percentage of plans' assets (%)	0.5	4.7	5.3	(15.3)	(1.8)

9. Pensions continued

The above plans are funded and have full UK HM Revenue & Customs ("HMRC") tax-exempt approval. Certain members, whose salaries were in excess of the HMRC 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 2011 of $0.6 million (2010 $0.6 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 were no experience gains or losses in the period from 2007 to 2011 on the unfunded plan.

Expected contributions for these plans for 2012 are $2.8 million, including $2.5 million of additional contributions to fund the deficit arising from the actuarial valuation at 1 April 2009.

Defined contribution plans

United Kingdom

The Group maintains defined contribution pension plans for employees in the United Kingdom. Employer contributions into these plans for 2011 were $1.4 million (2010 $1.1 million).

United States

The Group maintains a defined contribution pension 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's contributions to the US plan totalled $3.2 million for 2011 (2010 $3.0 million). Total assets in the defined contribution plan at the end of 2011 were $145.7 million (2010 $144.9 million). There were no defined benefit plans in the United States in 2011 or 2010.

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 employer contributions for 2011 in respect of these plans amounted to $0.6 million (2010 $0.5 million).

Total employer contributions to defined contribution plans were $5.2 million (2010 $4.6 million).

Directors' pension arrangements

The pension arrangements of the executive directors are described in detail in the Report on directors' remuneration on pages 47 to 54.

Notes to the consolidated financial statements continued

10. Tax

	2011 $ million	2010 $ million
Tax charge in the income statement		
Current income tax		
Foreign tax	23.8	21.3
Amounts overprovided in previous years		
Foreign tax credit	(5.4)	(1.0)
Total current income tax charge	18.4	20.3
Deferred tax		
Recognition of deferred tax assets	(2.2)	(0.3)
Reversal of temporary differences	12.5	13.1
Total deferred tax charge	10.3	12.8
Tax charge in the income statement	28.7	33.1

The tax charge for the year ended 31 December 2011 was $28.7 million (2010 charge $33.1 million) this was after a prior year tax credit of $5.4 million (2010 credit $1.0 million) resulting from the expiration and reassessment of open tax positions for previous years. Excluding the prior year tax credit the effective tax rate was 27.7 per cent (2010 30.4 per cent).

Tax relating to items charged/(credited) to other comprehensive income or equity:

	2011 $ million	2010 $ million
Deferred tax on share incentives	2.5	(2.6)
Deferred tax on defined benefit pension plan	(4.0)	0.9

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 26.5 per cent (2010 higher and 28.0 per cent). The differences are reconciled below:

	2011 $ million	2010 $ million
Accounting profit before tax	123.3	112.2
Accounting profit multiplied by the UK standard rate of corporation tax of 26.5 per cent (2010 28.0 per cent)	32.7	31.4
Intangible assets	–	(0.1)
Share-based payment	–	(2.1)
Differences in overseas rates and other adjustments	3.9	7.7
Tax overprovided in prior years	(5.4)	(1.0)
Recognition of UK deferred tax assets	(2.2)	(0.3)
Use of pension fund and other UK deductions	(0.3)	–
Use of overseas tax credits and unrecognised losses	–	(2.5)
Total tax charge reported in the income statement	28.7	33.1

Recognition of deferred tax assets

During 2011 the Group recognised deferred tax assets in the United Kingdom of $2.2 million (2010 $0.3 million).

11. Earnings per share

Earnings per share is calculated by dividing the profit for the year attributable to owners of parent Company by the weighted average number of Ordinary Shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to owners of parent Company by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

	2011 $ million	2010 $ million
Profit for the year attributable to owners of parent Company	94.6	79.1

	2011 Number million	2010 Number million
Weighted average number of shares in issue – basic	667.3	672.2
Dilutive potential of employee share incentives	5.4	6.2
Weighted average number of shares in issue – diluted	672.7	678.4

	2011 cents	2010 cents
Earnings per share (“EPS”)		
Basic	14.18	11.77
Diluted	14.06	11.66

There were no Ordinary Share transactions that occurred after 31 December that would have significantly changed the number of Ordinary Shares or potential Ordinary Shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period in either year.

The Group is disclosing adjusted earnings per share attributable to owners of parent Company in order to provide a measure to enable period-on-period comparisons to be made of its performance. The following items are excluded from adjusted earnings:

- Exceptional items
- Share-based payment
- Acquired intangible asset amortisation
- Acquisition related costs
- Tax effect on the above items
- Prior year tax

Notes to the consolidated financial statements continued

11. Earnings per share continued

A reconciliation is provided below:

	2011		2010	
	$ million	EPS cents	$ million	EPS cents
Profit for the period attributable to owners of parent Company	94.6	14.18	79.1	11.77
Acquired intangible asset amortisation	1.6		1.4	
Share-based payment	1.1		0.4	
Acquisition related costs	1.2		–	
Tax effect on the above items	(0.2)		–	
Prior year tax credit *note 10*	(5.4)		(1.0)	
Adjusted basic	92.9	13.92	79.9	11.89
Adjusted diluted		13.81		11.78

12. Dividends paid and proposed

	2011 $ million	2010 $ million
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend paid for the year ended 31 December 2010 of 1.40 cents (0.86 pence) per Ordinary Share (31 December 2009 1.00 cents (0.66 pence))	9.4	6.4
Interim dividend 2011 1.26 cents (0.77 pence) per Ordinary Share (2010 1.10 cents (0.69 pence))	8.1	7.3
	17.5	13.7
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2011 1.67 cents (1.05 pence) per Ordinary Share (2010 1.40 cents (0.86 pence))	10.9	9.4

The directors are proposing a final dividend in respect of the financial year ended 31 December 2011 of 1.67 cents per share (1.05 pence) (2010 1.40 cents (0.86 pence)), which will absorb an estimated $10.9 million of shareholders' funds (2010 $9.4 million). It will be paid on 3 May 2012 to Ordinary shareholders who are on the Register of Members at close of business on 9 March 2012. Payment will be made to ADR holders on 10 May 2012. No liability is recorded in the financial statements in respect of this final dividend.

Dividends are proposed in US dollars and paid in pounds sterling. The exchange rate for determining the amount of the final dividend to be paid for 2011 was $1.59: £1 (2010 $1.63: £1).

13. Intangible assets

$ million

	Goodwill	Intangible assets	Total
Cost, net of accumulated amortisation and impairment losses			
At 1 January 2010	109.3	3.1	112.4
Amortisation for the year	–	(1.6)	(1.6)
Additions	–	0.1	0.1
Exchange adjustment	1.1	–	1.1
At 1 January 2011	110.4	1.6	112.0
Amortisation for the year	–	(2.9)	(2.9)
Additions	–	3.7	3.7
Acquisitions *note 31*	4.2	6.6	10.8
Exchange adjustment	(0.4)	–	(0.4)
At 31 December 2011	114.2	9.0	123.2
At 31 December 2010			
Cost (gross carrying amount)	2,875.4	12.3	2,887.7
Amortisation and accumulated impairment losses	(2,765.0)	(10.7)	(2,775.7)
Net carrying amount	110.4	1.6	112.0
At 31 December 2011			
Cost (gross carrying amount)	2,765.7	22.6	2,788.3
Amortisation and accumulated impairment losses	(2,651.5)	(13.6)	(2,665.1)
Net carrying amount	114.2	9.0	123.2

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

$ million

	Customer list	Current technology	Other	Total
At 31 December 2010	0.1	0.4	1.1	1.6
At 31 December 2011	1.8	3.6	3.6	9.0

Goodwill of $4.2 million and acquired intangible assets of $6.6 million, in relation to customer list and current technology, have been recognised on the acquisition of the Fanfare Group, Inc. ("Fanfare"). Fanfare was acquired by Spirent on 16 February 2011. See note 31 of Notes to the consolidated financial statements.

Fanfare was integrated into the Performance Analysis division during 2011 and the goodwill arising on acquisition has been allocated to this cash-generating unit.

Other intangible asset additions of $3.7 million are in relation to LTE manufacturing rights.

Amortisation and impairment charges

Goodwill at 31 December 2011 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 2011 or 2010.

Notes to the consolidated financial statements continued

13. Intangible assets continued

Acquired 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. Other intangible assets are in relation to licences and other agreements which are amortised over their useful lives or term, being three to five years, and are expensed within cost of sales or selling costs. The remaining amortisation periods of the acquired intangible asset balances arising in relation to customer list and current technology are both 4.1 years.

Annual impairment test

Goodwill is tested annually for impairment or more frequently if there are indications that the goodwill might be impaired. The recoverable amount of the Performance Analysis cash-generating unit at 30 November 2011, the annual impairment testing date, has been determined based on a value in use calculation using management's cash flow projections over a five year period.

The cash flows are derived from the most recent financial budgets for the next financial year, as approved by the Board, and the Group's three year strategic plan. Cash flows for years four and five are then extrapolated based on long range plans. The key factor in the cash flow forecasts is the ability to forecast revenue. Cash flows in subsequent years have been extrapolated using a 2.75 per cent growth rate (2010 2.75 per cent) which management estimates to be the approximate 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 14.9 per cent (2010 14.6 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 five year period covered by management's projections

Projections are 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 and take into account historic levels of growth, expected future developments in products and technology and macro-economic conditions.

The cash flows used in the impairment review have been approved by the Board.

Gross margins and operating expenses are based on historical values adjusted for the effect of revenue growth.

The discount rate applied to the cash flows is determined based on Spirent's weighted average cost of capital by taking the risk free rate for ten year government bonds and making an adjustment to reflect both the increased risk of investing in equities and the systematic risk of the specific cash-generating unit. In making this adjustment, inputs required are the equity market risk premium and the risk adjustment, beta, applied to reflect the risk of Spirent relative to the market as a whole.

13. Intangible assets continued

Sensitivity to changes in key assumptions

The directors believe that no reasonable possible change in any of the key assumptions would cause the carrying value of Performance Analysis to exceed its recoverable amount.

14. Property, plant and equipment

$ million

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
Cost, net of accumulated depreciation and accumulated impairment				
At 1 January 2010	5.1	12.7	5.8	23.6
Additions				
Owned assets	1.0	13.1	4.0	18.1
Disposals	–	(0.6)	–	(0.6)
Inter-class transfers	–	(1.0)	1.0	–
Depreciation charge for the year	(1.5)	(7.4)	(3.0)	(11.9)
Exchange adjustment	–	(0.1)	–	(0.1)
At 1 January 2011	4.6	16.7	7.8	29.1
Additions				
Owned assets	0.5	16.6	3.7	20.8
Disposals	–	(1.1)	–	(1.1)
Inter-class transfers	–	(1.4)	1.4	–
Depreciation charge for the year	(1.4)	(8.4)	(3.4)	(13.2)
Exchange adjustment	–	(0.1)	–	(0.1)
At 31 December 2011	3.7	22.3	9.5	35.5
At 31 December 2010				
Cost	23.2	60.9	54.9	139.0
Accumulated depreciation and accumulated impairment	(18.6)	(44.2)	(47.1)	(109.9)
Net carrying amount	4.6	16.7	7.8	29.1
At 31 December 2011				
Cost	22.1	73.3	52.1	147.5
Accumulated depreciation and accumulated impairment	(18.4)	(51.0)	(42.6)	(112.0)
Net carrying amount	3.7	22.3	9.5	35.5

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

15. Capital commitments and contingent liabilities

The Group had no capital commitments at 31 December 2011 (31 December 2010 nil).

The Group has provided indemnities of $0.2 million (2010 $0.6 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

16. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 122 of these financial statements.

Notes to the consolidated financial statements continued

17. Inventories

	2011 $ million	2010 $ million
Raw materials	15.7	13.1
Work in progress	1.6	2.0
Finished goods	26.3	22.5
	43.6	37.6

An expense of $3.8 million (2010 $1.0 million) has been recognised in the period for inventory write-downs. There were no reversals of prior period inventory write-downs (2010 nil).

No inventories are carried at fair value less costs to sell (2010 nil).

18. Trade and other receivables

	2011 $ million	2010 $ million
Non-current assets		
Other receivables	3.0	3.4
Prepayments and accrued income	0.2	0.2
	3.2	3.6
Current assets		
Trade receivables	95.2	81.7
Other receivables	3.3	3.5
Prepayments, accrued income and deferred costs	7.6	13.0
	106.1	98.2
	109.3	101.8

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

	2011 $ million	2010 $ million
At 1 January	0.6	2.1
Charge for the year	0.7	0.6
Released in the year	(0.4)	(1.8)
Amounts written off	–	(0.3)
At 31 December	0.9	0.6

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.

19. Cash and cash equivalents

	2011 $ million	2010 $ million
Cash at bank and in hand	177.4	126.4
Short term bank deposits	59.1	97.5
	236.5	223.9

Cash at bank and in hand earns interest at floating interest rates. Of this balance $1.2 million (2010 $25.8 million) is callable at notice of between seven and 35 days.

Short term bank deposits are made for varying periods of between one day and three 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.

At the end of 2011 the currency split of cash and cash equivalents was US dollar 79 per cent (2010 56 per cent), sterling 14 per cent (2010 37 per cent) and other currencies 7 per cent (2010 7 per cent).

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

	2011 $ million	2010 $ million
Non-current		
Cash on deposit	0.7	1.1

At 31 December 2011 $0.7 million (2010 $1.1 million) is held in a blocked trust account and is available for use by the Company as creditors, who were outstanding at the date of the cancellation of the share premium account and capital redemption reserve, being 24 November 2004, are settled. See note 27.

20. Trade and other payables – current

	2011 $ million	2010 $ million
Trade payables	21.5	27.0
Payments received on account	0.3	2.7
Other taxes and social security costs	4.1	3.2
Share buyback obligation *note 27*	7.8	–
Accruals and deferred income	85.6	75.6
	119.3	108.5

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.

Notes to the consolidated financial statements continued

21. Deferred tax

The movements in the deferred tax assets/(liabilities) are as follows:

$ million

	Temporary differences	Tax losses	UK pension plans	Total
At 1 January 2010	22.8	19.5	0.2	42.5
Recognised in the year *note 10*	–	0.3	–	0.3
Charged in the year *note 10*	(7.5)	(5.6)	–	(13.1)
Deferred tax on defined benefit pension plan *note 10*	–	–	(0.9)	(0.9)
Deferred tax on share incentives recognised in equity *note 10*	2.6	–	–	2.6
Exchange adjustment	0.3	(0.3)	(0.1)	(0.1)
At 1 January 2011	18.2	13.9	(0.8)	31.3
Recognised in the year *note 10*	–	2.2	–	2.2
Charged in the year *note 10*	(4.2)	(8.3)	–	(12.5)
Deferred tax on defined benefit pension plan *note 10*	–	–	4.0	4.0
Deferred tax on share incentives recognised in equity *note 10*	(2.5)	–	–	(2.5)
Deferred tax on acquisition *note 31*	–	7.3	–	7.3
Exchange adjustment	(0.1)	(0.2)	(0.1)	(0.4)
At 31 December 2011	11.4	14.9	3.1	29.4

A deferred tax asset of $29.4 million has been recognised at 31 December 2011 (2010 $31.3 million). $11.8 million is in the United Kingdom (2010 $13.7 million), $17.1 million is in the United States (2010 $17.5 million) and $0.5 million is in the rest of the world (2010 $0.1 million).

The deferred tax asset includes $3.8 million (2010 $6.4 million) in respect of the tax deduction which may be available on the future exercise of share incentives of which $2.0 million (2010 $2.6 million) has been recognised in equity.

The deferred tax liability arising on the United Kingdom pension plan surplus in 2010 has been offset as permitted by IAS 12 "Income Taxes". Movements in deferred tax in relation to the pension plan have been charged or credited to other comprehensive income in all years.

All deferred tax assets on temporary differences, arising principally in the United Kingdom and United States, have been recognised at 31 December 2011 and 2010 apart from $1.5 million in Canada (2010 $1.9 million).

The Group has tax losses arising in the United Kingdom of $81.7 million (2010 $94.2 million) that are available for offset against suitable future taxable profits. 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 $22.0 million (2010 $27.5 million) have not been recognised.

The Chancellor, in the Emergency budget on 22 June 2010, announced reductions in the main rate of corporation tax and rates of capital allowances. The standard rate of UK corporation tax will be reduced from 28 per cent to 27 per cent from 1 April 2011, and there will be progressive annual reductions of a further 1 per cent until a rate of 24 per cent is reached with effect from 1 April 2014. The Finance Act (No 2) 2010 received Royal Assent on 27 July 2010, with the first of the rate reductions being substantively enacted from 21 July 2010.

The Chancellor, in the 2011 Budget on 23 March 2011, announced that the main corporation tax rate would be reduced further to 26 per cent from 1 April 2011 and there will be progressive annual reductions of a further 1 per cent until a rate of 23 per cent is reached with effect from 1 April 2014. The Finance Act 2011 received Royal Assent on 19 July 2011 with the rate reduction from 27 per cent to 26 per cent, from 1 April 2011, and the rate reduction to 25 per cent, from 1 April 2012, being substantively enacted from 5 July 2011.

21. Deferred tax continued
The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 25 per cent. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would not be material to the financial statements.

22. Trade and other payables – non-current

	2011 $ million	2010 $ million
Other payables	1.5	1.4
Accruals and deferred income	8.8	6.1
	10.3	7.5

23. Provisions and other liabilities

	Other provisions ($ million)	Lease provisions ($ million)	Total ($ million)
At 1 January 2010	1.3	10.1	11.4
Discount unwind *note 7*	–	0.1	0.1
Charged in the year	–	0.7	0.7
Released in the year	–	(0.2)	(0.2)
Utilised in the year	–	(4.5)	(4.5)
Exchange adjustment	–	0.1	0.1
At 1 January 2011	1.3	6.3	7.6
Discount unwind *note 7*	–	0.1	0.1
Charged in the year	–	0.5	0.5
Released in the year	–	(0.2)	(0.2)
Utilised in the year	–	(3.5)	(3.5)
At 31 December 2011	1.3	3.2	4.5

Provisions have been analysed as follows:

	2011 $ million	2010 $ million
Current	3.3	5.1
Non-current	1.2	2.5
	4.5	7.6

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 four years.

Other provisions are mainly environmental provisions on property disposed of. The Group expects these provisions to be utilised in less than one year.

Notes to the consolidated financial statements continued

24. Derivative financial instruments

The derivative financial instruments are forward foreign currency exchange contracts.

The Group uses forward foreign currency exchange contracts to manage exposures arising on receipts and payments in foreign currencies relating to firm commitments.

At 31 December 2011 and 2010 the Group held various forward foreign currency exchange contracts on trading transactions.

	2011 $ million	2010 $ million
Sale of US dollars against sterling at an average rate of 1.55 (2010 1.57)	8.8	14.8
Purchase of euro against sterling (2010 at an average rate of 1.18)	–	0.9

Forward foreign currency exchange contracts were designated as cash flow hedges at 31 December 2009. However, following the change in reporting currency to US dollars in 2010 the Group chose not to designate any new contracts as hedges.

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

	2011 $ million		2010 $ million	
	Assets	Liabilities	Assets	Liabilities
Currency derivatives – expected to be realised in less than one year				
Not designated as hedges	–	–	–	0.2

The movements included within other comprehensive income in respect of cash flow hedges are as follows:

	2011 $ million	2010 $ million
Reclassification adjustments for gains included in profit or loss	–	(0.6)
Fair value movements on cash flow hedges	–	(0.6)

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

25. 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:

	2011 $ million		2010 $ 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 19*	0.7	–	1.1	–
Non-current other receivables *note 18*	3.0	–	3.4	–
Cash and cash equivalents *note 19*	236.5	–	223.9	–
Current trade and other receivables *note 18*	98.5	–	85.2	–
Financial assets	338.7	–	313.6	–
Non-current other payables *note 22*	1.5	–	1.4	–
Current trade payables *note 20*	21.5	–	27.0	–
Accruals	45.7	–	48.6	–
Share buyback obligation *note 20*	7.8	–	–	–
Provisions *note 23*	4.5	–	7.6	–
Currency derivatives that are not designated hedges *note 24*	–	–	–	0.2
Financial liabilities	81.0	–	84.6	0.2

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

The key objective of the Group's treasury department is to manage the financial risks of the business and to ensure that sufficient liquidity is available 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

The Group has no external debt and has limited exposure to interest rate risk.

The Group's excess funds are principally held in the United Kingdom and the United States and invested in on demand or short term bank deposits. It therefore has some exposure to interest rate risk arising on changes in sterling and US dollar interest rates.

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

25. Financial instruments and financial risk management continued

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

	Effective interest rate %	2011 $ million	Effective interest rate %	2010 $ million
Fixed rate				
Fixed deposits	0.39	59.1	0.40	97.5
Forward foreign currency exchange contracts		–		(0.2)
		59.1		97.3
Floating rate				
Cash at bank and in hand		177.4		126.4

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

In addition, $0.7 million (2010 $1.1 million) was held in a blocked trust account and was earning interest of 0.77 per cent at 31 December 2011 (2010 0.71 per cent). The maturity of the deposit is three months, 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 creditors which 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 $1.0 million (note 6) (2010 $0.8 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 25 basis points in interest rates based on levels of investment at 31 December 2011 would increase or reduce interest income and equity by $0.5 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 has the majority of its operations in the United States and chose, with effect from 1 January 2010, to present its consolidated financial statements in US dollars. The Company’s functional currency is sterling and its share capital is denominated in pounds sterling, the Group also has operations in Europe and Asia and therefore its results and assets and liabilities are affected on translation by movements in exchange rates in relation to the US dollar. 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 considered accounting and not cash exposures.

The Group is not exposed to significant transactional foreign currency risk at 31 December 2011, nor at 31 December 2010, because the majority of its businesses do not enter into non-functional currency transactions. Where such transactions do occur the Group typically enters into forward foreign currency exchange contracts as appropriate.

Group treasury, by means of forward foreign currency exchange contracts, carries out the transaction hedging activity in relation to normal trading activity. At 31 December 2011 the Group has hedged its financial assets and liabilities in relation to trading which are denominated in non-functional currencies. However, the Group holds cash balances in non-functional currencies which are exposed to US dollar to sterling exchange rates.

25. Financial instruments and financial risk management continued

At 31 December 2011 these balances amounted to $2.0 million (2010 $2.7 million). A 10 per cent appreciation or depreciation of sterling against the US dollar would increase or reduce profit before tax by $0.2 million (2010 $0.3 million) based on the balance at the reporting dates.

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 A. 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 cash and bank deposits is equal to the carrying value of $237.2 million (2010 $225.0 million).

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 $95.2 million (2010 $81.7 million).

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

	2011 $ million	2010 $ million
Neither impaired nor past due	61.7	45.0
Past due but not impaired:		
Less than 30 days overdue	24.5	24.1
30 to 60 days	5.0	5.9
Over 60 days	4.0	6.7
Trade receivables	95.2	81.7

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 18. The value of impaired trade receivables is $0.9 million (2010 $0.6 million). For all other financial assets the maximum exposure to credit risk is represented by the carrying amount.

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.

At 31 December 2011 the Group had cash and cash equivalents of $236.5 million (2010 $223.9 million) of which $177.4 million (2010 $126.4 million) is available on demand and $59.1 million (2010 $97.5 million) of which matures within three months.

During 2011 the Group generated $98.7 million of cash from operating activities (2010 $99.4 million) and considers that with current cash resources, no debt and positive cash flow from its operating activities it has adequate resources available to it to remain in operational existence for the foreseeable future.

Notes to the consolidated financial statements continued

25. Financial instruments and financial risk management continued

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

	2011 $ million	2010 $ million
Sale of US dollars against sterling	8.8	14.8
Purchase of euro against sterling	–	0.9
Gross settlement amounts	8.8	15.7

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 (note 23).

The Group does not have any other material financial 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.

The fair value of currency derivatives is determined by reference to forward foreign currency exchange rates for contracts with similar maturity profiles, and is therefore determined to be a level 2 financial instrument as its value is based on observable market inputs.

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 2011 and 2010 the Company has been operating an on market share repurchase programme. In 2011 the Company repurchased 17.6 million of its Ordinary Shares at a cost of $34.2 million. In 2010 the Company repurchased 10.4 million of its Ordinary Shares at a cost of $19.7 million. The Group intends to continue to repurchase shares to manage the dilution attributable to the Group's share incentive schemes and to repurchase further shares on a one-off basis as it deems appropriate.

Spirent's policy on the payment of dividends to shareholders is to maintain a sustainable progressive dividend with high dividend cover.

26. 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:

	2011 $ million	2010 $ million
Within one year	9.1	11.2
In the second to fifth years	10.0	16.3
Over five years	0.4	–
	19.5	27.5

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

26. Operating lease commitments continued
above leases amount to $0.1 million (2010 $1.0 million) of which $0.1 million (2010 $0.9 million) will be recognised within one year and the balance in 2010 in the second to fifth years.

27. Equity

a) Issued share capital

Issued and fully paid Ordinary Shares of 3¹/₃ pence each

	Number of Ordinary Shares million	$ million
At 1 January 2010	678.1	36.4
Allotted pursuant to share incentives exercised	6.6	0.3
Cancelled during the year[1]	(9.8)	(0.5)
Exchange adjustment	–	(0.9)
At 1 January 2011	674.9	35.3
Allotted pursuant to share incentives exercised	2.3	0.1
Cancelled during the year[1]	(13.2)	(0.7)
Exchange adjustment	–	(0.4)
At 31 December 2011	664.0	34.3

Note
1 During 2011, under the programme of returning capital to shareholders, the Company repurchased 13.2 million (2010 9.8 million) Ordinary Shares on market which were subsequently cancelled.

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 $ million
Spirent Stock Incentive Plan	2.3	0.4

During the year no Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes (2010 0.1 million) and 0.4 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan and 2005 Employee Incentive Plan (2010 2.0 million). 4.4 million Ordinary Shares were purchased and placed into the ESOT during 2011 (2010 0.6 million).

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2011 and 1 March 2012, the date on which these financial statements have been signed.

b) Equity and reserves

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) Other reserves: share capital, share premium account, capital redemption reserve, capital reserve and cash flow hedge reserve are translated into US dollars at the rates of exchange at the balance sheet date and the resultant exchange differences are included in other reserves;

Notes to the consolidated financial statements continued

27. Equity continued

v) Translation reserve: this reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries; and

vi) Cash flow hedge reserve: 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 2011, the ESOT held 7.9 million Ordinary Shares (2010 3.9 million Ordinary Shares) to satisfy awards under various share incentive plans. In addition, the ESOT held 0.1 million Ordinary Shares which are the beneficial property of an employee/shareholder at 31 December 2011 (2010 0.1 million Ordinary Shares). At 31 December 2011, the SST held 0.5 million Ordinary Shares (2010 0.5 million Ordinary Shares) to satisfy awards made to United Kingdom based employees under an all employee share scheme. The market value of own Ordinary Shares held in trust, being in total 8.5 million Ordinary Shares (2010 4.5 million Ordinary Shares), at 31 December 2011 was $15.5 million (2010 $10.4 million).

Cancellation of share premium account and capital redemption reserve

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 $1,321.1 million (£702.7 million) and $1.3 million (£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 2011 the Company cancelled 13.2 million Ordinary Shares (2010 9.8 million Ordinary Shares) that had been the subject of the on market share repurchase programme, and transferred $0.7 million (2010 $0.5 million) to the capital redemption reserve.

Capital reserve

In 2010 the reserve was reduced by $1.2 million in relation to share incentives which were cancelled or lapsed.

Share repurchase

During 2011 the Company repurchased 17.6 million Ordinary Shares on market at a cost of $34.2 million (2010 10.4 million at a cost of $19.7 million). Of the shares repurchased 13.2 million Ordinary Shares (2010 9.8 million Ordinary Shares) have subsequently been cancelled and 4.4 million (2010 0.6 million) have been placed into the ESOT.

Share buyback obligation

On 30 December 2011 the Company entered into an irrevocable agreement with UBS Limited to purchase up to a maximum of 4.3 million Ordinary Shares at no more than 105 per cent of the average market value of a share for the five business days immediately preceding the day on which the share is purchased, and at a maximum price of 115 pence per share, from 3 January 2012 to 29 February 2012, on their behalf. This agreement entered into in respect of share buybacks during the close period has been recognised as a financial liability of $7.8 million.

As at the close of business on 29 February 2012, 2.0 million shares had been repurchased under this buyback programme at 115 pence per share for a total consideration of $3.6 million. The remaining liability expired at close of business on 29 February 2012.

28. Employee share plans

Movements in share incentives over a two year period ending on 31 December 2011 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 2009	4.0	24	21.0	57	3.0	123	0.2	157	0.1	39
Exercised	(1.3)	50	(9.3)	60	(1.3)	58	–	–	(0.1)	39
Forfeited	–	–	(0.1)	51	–	–	–	–	–	–
Expired	–	–	(0.2)	58	(0.3)	326	(0.2)	165	–	–
Incentives outstanding at 31 December 2010	2.7	11	11.4	55	1.4	140	–	–	–	–
Exercised	(0.3)	3	(3.8)	63	–	–	–	–	–	–
Granted	1.6	42	–	–	–	–	–	–	–	–
Forfeited	(0.1)	–	–	–	–	–	–	–	–	–
Expired	–	–	(0.1)	49	(0.2)	305	–	–	–	–
Incentives outstanding at 31 December 2011	3.9	24	7.5	51	1.2	117	–	–	–	–
Incentives exercisable At 31 December 2010	0.2	50	11.2	55	1.4	140	–	–	–	–
At 31 December 2011	0.6	50	7.4	51	1.2	117	–	–	–	–

Notes

1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance shares in aggregate.

2 Figures for the Spirent Stock Incentive Plan show both share options and stock appreciation rights in aggregate.
As at 31 December 2011, the ESOT held 7.9 million Ordinary Shares (2010 3.9 million Ordinary Shares) to be utilised by the Trustee to satisfy the exercises of current and future awards by employees and former employees of the Group.

3 The acquisition plans are share plans which originally granted options over other companies' equity which, on acquisition by Spirent Communications plc, have been rolled over into Spirent Ordinary Shares. Further details of the acquisition plans can be found below.

4 No Ordinary Shares were transferred from the SST to settle the exercise of UK sharesave options in 2011 (2010 0.1 million Ordinary Shares). As at 31 December 2011 0.5 million Ordinary Shares (2010 0.5 million Ordinary Shares) remained in the SST hedging share option grants made under the UK sharesave schemes.

Notes to the consolidated financial statements continued

28. Employee share plans continued

The weighted average share price at exercise date was 145.1 pence (2010 127.6 pence).

Share plan	Exercise period (as at 31 December)	Range of exercise prices pence	2011 Weighted average exercise price pence	2011 Number of share incentives outstanding million	2011 Weighted average remaining contractual life years	2010 Weighted average exercise price pence	2010 Number of share incentives outstanding million	2010 Weighted average remaining contractual life years
2005 Employee	25.08.08 – 22.03.21	0–53	9	3.4	8.0	11	2.7	8.3
Incentive Plan	23.03.14 – 22.03.21	143	143	0.5	9.2	–	–	–
Spirent Stock	05.08.05 – 13.11.15	37–57	50	6.9	1.1	50	8.1	2.1
Incentive Plan	07.01.05 – 12.08.16	59–87	67	0.6	2.3	69	3.3	1.1
1995 Executive Share	03.10.04 – 29.06.14	69–72	69	0.2	2.5	69	0.2	3.2
Option Scheme	02.04.05 – 01.05.12	113–134	126	1.0	0.3	126	1.0	1.3
	09.04.04 – 08.04.11	305	–	–	–	305	0.2	0.3
Total				12.6			15.5	

Description of employee share plans

Discretionary plans

2005 Employee Incentive Plan ("EIP")

The EIP, which was introduced in 2005 and replaced the now closed ESOS (see below), is currently available for selected employees, including executive directors, on a discretionary basis.

Under the EIP, the Company is able to grant share options, including HMRC approved options, share-settled stock appreciation rights ("SARs") and Performance shares. No price is payable on the grant of an award.

In normal circumstances, EIP awards vest three years following the date of grant provided the relevant performance conditions have been met. For share options and SARs, the performance conditions relate to the Company's earnings per share ("EPS"). For Performance share awards made prior to 2011, performance conditions relate to Total Shareholder Return ("TSR"). For awards made in 2011, performance conditions relate to the Company's EPS and TSR.

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 49 to 50.

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

28. Employee share plans continued

Spirent Stock Incentive Plan ("SSIP")

The SSIP is now closed for new awards and has been replaced by the EIP referred to above.

The SSIP was introduced in 2000. This discretionary plan was 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. Grants were also permitted to selected newly hired and promoted employees on a monthly basis. Under the SSIP, the Company was able to grant share options and share-settled SARs. No price was payable on the grant of an award.

Most awards made pursuant to the SSIP vest over four years, provided that the participant remains in employment. Vesting is not normally subject to a performance condition and awards become 25 per cent exercisable on the first anniversary of the date of grant and thereafter in equal tranches on a monthly basis over a further 36 months. Any award not exercised by the seventh anniversary of the date of grant will lapse.

The vesting of 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, were subject to the Company meeting EPS growth targets over the vesting periods. All outstanding awards have now passed their EPS performance conditions and remain exercisable until they expire on the seventh anniversary of their respective grant dates.

SARs granted under the EIP and SSIP will deliver the appreciation value (ie the increase in market value of an Ordinary Share over the base price of the SAR) in the form of Ordinary Shares. This "SARs approach" helps the Company manage its dilution headroom more efficiently as only the SAR gain needs to be funded. Using a SARs approach, it is not possible to determine the precise level of dilution until the SARs are exercised. At 31 December 2011, 0.9 million EIP SARs and 7.3 million SSIP SARs with an average base price of 91 pence and 51 pence respectively were outstanding (2010 0.5 million EIP SARs and 11.0 million SSIP SARs with an average base price of 50 pence and 55 pence respectively). During 2011, 3.6 million EIP and SSIP SARs were exercised resulting in the issue or transfer of 2.1 million Ordinary Shares (2010 4.0 million Ordinary Shares were issued on the exercise of 7.3 million EIP and SSIP SARs).

1995 Executive Share Option Scheme ("ESOS")

The ESOS is now closed for new grants and has been replaced by the EIP referred to above.

Under the ESOS awards of share options, including HMRC approved options, were on a discretionary basis. 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. All outstanding options have now passed their EPS performance conditions and remain exercisable until they expire on the tenth anniversary of their respective grant dates.

Acquisition plans

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. At 31 December 2011 there are no remaining outstanding NARSOP options and the plan is therefore closed.

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. At 31 December 2011 there are no remaining outstanding ZARSOP options and the plan is therefore closed.

Notes to the consolidated financial statements continued

28. Employee share plans continued

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 cents was payable as each share vested or upon the exercise of a vested option. No further awards can be made under this plan.

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.

All Employee plans

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.

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, no Ordinary Shares were transferred to participants (2010 0.1 million Ordinary Shares).

No invitations have been made under either of these schemes since 2003 and there are no options outstanding at 31 December 2011 (2010 nil).

US Employee Stock Purchase Plan ("US ESPP")

The US ESPP was initially approved by shareholders in 2000, with amendments being approved by shareholders in 2005 and 2011. The US ESPP enables the Company to invite all US employees to acquire shares in the Company on market using deductions from payroll. In November 2010, the Company commenced making six-monthly invitations to employees.

The US ESPP also enables the Company to grant eligible US employees the right to acquire Spirent Ordinary Shares using the proceeds of a savings contract. If such a grant were made, when joining the US ESPP, participants would enter into a 12 month contract to save up to 15 per cent of base salary subject to an individual limit of $1,000 per month. No grants of this nature have been made since 2003.

Global All Employee Share Purchase Plan ("GAESPP")

The GAESPP was initially approved by shareholders in 2001 with amendments being approved by shareholders in 2005 and 2011. The GAESPP enables the Company to invite employees in countries other than the US or UK to acquire shares in the Company on market using deductions from payroll. In September 2011, such an invitation was made to all employees in Canada, Hong Kong, France and Germany.

The GAESPP can also be operated on similar terms to the US ESPP above, with participants entering into a 12 month contract to save up to 15 per cent of base salary subject to an individual limit. No grants of this nature have been made since 2003.

28. Employee share plans continued

UK Employee Share Purchase Plan ("UK ESPP")

The UK ESPP, which is an HMRC approved share incentive plan, was approved by shareholders in 2005 and is available to all UK employees. The UK ESPP offers three ways to provide Ordinary Shares to employees: free shares, partnership shares and matching shares. The UK ESPP operates in conjunction with a trust, which holds the shares on behalf of participants.

In November 2010, the Company commenced making invitations to all UK employees to acquire Partnership shares on market using deductions from payroll.

29. Share-based payment

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

	2011 $ million	2010 $ million
2005 Employee Incentive Plan	1.1	0.3
Spirent Stock Incentive Plan	–	0.1
	1.1	0.4

All schemes are equity-settled.

1.6 million share incentives were granted during 2011 (2010 nil). For 2011 the fair value of share incentives has been 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 and the fair value:

	2011	2010
Weighted average share price (pence)	143.2	–
Weighted average exercise price (pence)	41.6	–
Weighted average fair value (pence)	111.0	–
Expected volatility (%)	36.5	–
Expected life (years)	4.5	–
Risk free rate (%)	2.0–3.6	–
Dividend yield (%)	2.0	–

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous two years which management considers to be the period which is likely to be most representative of future volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the consolidated financial statements continued

30. Reconciliation of profit before tax to cash generated from operations

	2011 $ million	2010 $ million
Profit before tax	123.3	112.2
Adjustments for:		
Finance income	(1.7)	(0.8)
Finance costs	0.4	1.3
Intangible asset amortisation	2.9	1.6
Depreciation of property, plant and equipment	13.2	11.9
Loss on the disposal of property, plant and equipment	0.1	–
Share-based payment	1.1	0.4
Changes in working capital		
Deferred income received	1.6	10.2
Increase in receivables	(7.5)	(16.5)
Increase in inventories	(6.2)	(9.6)
(Decrease)/increase in payables	(0.9)	11.7
Decrease in provisions	(3.2)	(4.0)
Defined benefit pension plan	(2.6)	(1.5)
Cash flow from operations	120.5	116.9

31. Business combinations

On 16 February 2011 the Group acquired 100 per cent of the share capital of the Fanfare Group, Inc. (“Fanfare”) for a total consideration of $14.5 million in cash.

Fanfare provides test automation solutions that help equipment manufacturers and service providers accelerate time to market and improve product quality in the face of rapidly growing complexity. Convergence, in multiple forms, is driving growth in the complexity and scale required for successful testing of IP and Ethernet devices, networks and services, creating a clear need to streamline the product and services development process. An integrated and collaborative test automation approach is becoming an increasingly important business requirement to innovate in this market. Combining the two companies’ products and services results in a common automated test experience and a common platform that brings together engineers, technologies and processes.

From the date of acquisition to 31 December 2011, Fanfare contributed $6.4 million of revenue and $0.8 million of profit before tax to the results of the Group before charging $1.2 million of acquisition related costs and $1.2 million of acquired intangible asset amortisation. If the combination had occurred at the beginning of the financial year additional revenue of $1.4 million and a loss before tax of $0.4 million would have been included in the Group result before bonus payments made by the vendor prior to the sale of the business of $1.2 million.

The goodwill arising of $4.2 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place.

None of the goodwill recognised is expected to be deductible for income tax purposes.

31. Business combinations continued

The following table summarises the consideration paid for Fanfare and the assets and liabilities acquired at the acquisition date:

	$ million
	Fair value
Net assets acquired	
Intangible fixed assets	6.6
Deferred tax asset	8.1
Trade and other receivables	0.5
Trade and other payables	(4.1)
Deferred tax liability	(0.8)
Total identifiable net assets	10.3
Goodwill	4.2
Total consideration	14.5
Satisfied by:	
Cash	14.5

The intangible assets acquired represent customer relationships and computer software (current technology) and these have been assigned a life of five years.

Acquisition related costs were $1.2 million and these have been expensed and are included in administration costs.

32. 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":

	2011 $000	2010 $000
Short term employee benefits	2,837	2,836
Share-based payment	279	90
Post retirement benefits	10	10
	3,126	2,936

In 2011 Eric Hutchinson made gains on the exercise of share incentives of $44,000 (2010 $2,441,000).

In 2011 Bill Burns made gains on the exercise of share incentives of $627,000 (2010 $495,000).

Independent auditor's 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 2011 which comprise the parent Company balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Statement of directors' responsibilities set out on page 42, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on directors' remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the directors for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Report on directors' remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of Spirent Communications plc for the year ended 31 December 2011.

Karl Havers (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
1 March 2012

Notes

1. The maintenance and integrity of the Spirent Communications plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Parent Company balance sheet
At 31 December 2011

	Notes	2011 £ million	2010 £ million
Fixed assets			
Intangible assets	4	3.7	4.3
Tangible assets	5	2.0	1.9
Investments	6	257.3	217.6
		263.0	223.8
Current assets			
Stocks	7	6.6	5.9
Debtors	8	16.6	20.9
Cash at bank and in hand		23.8	54.0
		47.0	80.8
Creditors: amounts falling due within one year			
Trade and other creditors	9	(15.6)	(11.1)
Derivative financial instruments	14	–	(0.1)
		(15.6)	(11.2)
Net current assets		31.4	69.6
Total assets less current liabilities		294.4	293.4
Creditors: amounts falling due after more than one year	10	(58.6)	(60.8)
Provisions	12	(0.1)	–
Net assets (excluding defined benefit pension plan (deficit)/surplus)		235.7	232.6
Defined benefit pension plan (deficit)/surplus	3	(6.2)	1.3
Net assets		229.5	233.9
Capital and reserves	15		
Called up share capital		22.2	22.5
Share premium account		20.2	20.0
Capital redemption reserve		11.3	10.9
Profit and loss account		175.8	180.5
Shareholders' funds – equity		229.5	233.9

The notes on pages 104 to 122 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
1 March 2012

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 408 of the Companies Act 2006.

Cash flow statement

The Company is exempt under the terms of FRS 1 "Cash Flow Statements" from the requirement to publish its own cash flow statement, as its cash flows are included within the consolidated cash flow statement of the Group.

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 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 exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. All exchange gains 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 and hedge accounting

The Company uses forward foreign currency exchange contracts to manage exposures arising on receipts and payments in foreign currencies relating to firm commitments.

Forward foreign currency exchange contracts are initially recognised at fair value on the date on which the contract is entered into, and are subsequently remeasured to fair value at each reported balance sheet date. The fair value of forward foreign currency exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The Company has not adopted the hedge accounting rules. Consequently all gains and losses arising from changes in fair value are taken to the profit and loss account.

Notes to the parent Company financial statements continued

1. Significant accounting policies continued

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 funded defined benefit pension plans. All other plans are defined contribution in nature where the amount charged to the profit and loss account is the contributions paid or payable during the year.

For defined benefit pension plans full actuarial valuations are carried out every three years using the projected unit credit method, and updates are performed at each balance sheet date. The cost of providing benefits under these plans is determined separately for each plan, and 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).

Past services are recognised in the profit and loss account on a straight line basis 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 profit and loss account during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit pension plan 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 profit and loss account as finance costs or finance income.

Actuarial gains and losses arising from differences between actual and expected returns on plan assets, experience adjustments on liabilities and changes in actuarial assumptions, are recognised immediately in the statement of total recognised gains and losses.

The defined benefit pension plan 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 denominated in the same currency and whose term is consistent with the estimated term of the obligation). 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 Company expects to recover, by way of reductions in the future contributions or refunds from the plan that have been agreed by the trustees.

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.

1. Significant accounting policies continued

Dividends paid

The interim dividend is included in the financial statements in the period in which it is paid, 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.

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.

Notes to the parent Company financial statements continued

2. Employees

Please refer to the Report on directors' remuneration on pages 47 to 54 for disclosures relating to the emoluments, share incentives and long term incentive interests and pensions of the directors.

3. Pensions

Defined benefit plans

The funded 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"). The Staff Plan is the Company's most significant plan. There is in addition an unfunded plan.

The valuation used for these disclosures has been based on a full assessment of the liabilities of the Plans as at 1 April 2009. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

i) The key financial assumptions

The assumptions used for both plans were as follows:

	2011 %	2010 %
Inflation-RPI	3.0	3.4
Inflation-CPI	2.0	2.5
Rate of increase in pensionable salaries	3.0	3.9
Rate of increase for pensions in payment pre 2001 service	3.6	3.7
Rate of increase for pensions in payment 2001 to 5 April 2005 service	2.9	3.2
Rate of increase for pensions post 5 April 2005 service	2.0	2.2
Rate of increase in deferred pensions	2.0	2.5
Rate used to discount plan liabilities	4.6	5.5
Expected rate of return on plan assets (weighted for both plans)	5.5	5.8

Spirent Communications plc employs a building block approach in determining the long term rate of return on plans' 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 (2010 aged 68) will live on average for a further 21.9 years (2010 19.2 years) if they are male and for a further 23.8 years (2010 21.0 years) if they are female. For a member who retires in 2021 (2010 in 2020) at age 65 (2010 age 64) the assumptions are that they will live on average for a further 22.9 years (2010 23.7 years) after retirement if they are male and for a further 24.7 years (2010 25.6 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 £2.5 million.
– Increasing the life expectancy of a member by one year (by modifying the standard mortality tables using an appropriate scaling factor). This would increase past service liabilities by £5.3 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

	Long term rate of return expected %	2011 £ million	Long term rate of return expected %	2010 £ million
Staff Plan				
Equities	8.7	47.3	8.5	35.3
Government bonds	2.6	33.3	4.0	39.3
Corporate bonds	4.1	24.7	5.0	47.1
Cash benchmarked bonds	4.3	20.3	–	–
Insured annuities	4.6	3.2	5.5	2.9
Property	7.7	14.0	8.4	13.2
Cash and other	1.8	1.3	1.0	2.2
Fair value of plan assets	5.6	144.1	5.9	140.0
Present value of defined benefit pension plan obligations		(152.2)		(134.1)
(Deficit)/surplus in the plan		(8.1)		5.9
Surplus restriction		–		(4.0)
(Deficit)/surplus recognised		(8.1)		1.9
Cash Plan				
Equities	8.7	2.1	8.5	2.4
Government bonds	2.7	2.3	4.1	2.1
Insured annuities	4.6	0.2	5.5	0.2
Cash and other	1.8	2.1	1.0	2.2
Fair value of plan assets	4.3	6.7	4.6	6.9
Present value of defined benefit pension plan obligations		(6.2)		(6.5)
Surplus in the plan		0.5		0.4
Surplus restriction		(0.2)		(0.1)
Surplus recognised		0.3		0.3
Total net (deficit)/surplus recognised		(7.8)		2.2
Unfunded plan				
Present value of unfunded obligations		(0.4)		(0.4)
Net pension plan (deficit)/surplus		(8.2)		1.8
Deferred tax asset/(liability) *note 11*		2.0		(0.5)
Net pension plan (deficit)/surplus on the balance sheet		(6.2)		1.3

The recognition of the surplus is restricted to the present value of the economic benefits available in the form of refunds from the Plan or reductions in future contributions to the Plan. As a result only £0.3 million of the surplus in the Cash Plan has been recognised at 31 December 2011. In 2010, the surplus on the Staff Plan and the Cash Plan has been restricted, as a result of which only £2.2 million of the total surplus has been recognised at 31 December 2010.

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

For the purposes of the following disclosures the two plans have been combined as the Cash Plan is immaterial to these financial statements.

Notes to the parent Company financial statements continued

3. Pensions continued

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

	2011 £ million	2010 £ million
Analysis of amount charged to operating costs		
Current service cost	0.2	0.2
Expected return on pension plans' assets	7.9	6.8
Interest on pension plans' liabilities	(7.5)	(7.6)
Finance income/(costs)	0.4	(0.8)
Net profit and loss (credit)/charge	(0.2)	1.0

iv) Analysis of amount recognised directly in equity

	2011 £ million	2010 £ million
Actual return on pension plans' assets	8.6	13.9
Less expected return on pension plans' assets	7.9	6.8
Experience gains on plans' assets	0.7	7.1
Experience losses arising on plans' liabilities	(1.7)	(0.4)
Changes in assumptions underlying the present value of plans' liabilities	(14.9)	(1.1)
Movement in surplus restriction	3.9	(3.6)
Actuarial (losses)/gains recognised directly in equity	(12.0)	2.0

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 £23.6 million loss (2010 £11.6 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 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 funded defined benefit obligations

	2011 £ million	2010 £ million
At 1 January	140.6	137.4
Current service cost	0.2	0.2
Interest cost	7.5	7.6
Employee contributions	0.1	0.1
Benefit payments	(6.6)	(6.2)
Actuarial loss	16.6	1.5
Present value of funded defined benefit pension plans' obligations	158.4	140.6

3. Pensions continued

vi) Movements in the fair value of plans' assets

	2011 £ million	2010 £ million
At 1 January	146.9	137.9
Expected return on plans' assets	7.9	6.8
Employer contributions	1.8	1.2
Employee contributions	0.1	0.1
Benefit payments	(6.6)	(6.2)
Actuarial gain	0.7	7.1
Fair value of plans' assets	150.8	146.9

vii) History of experience gains and losses

	2011 £ million	2010 £ million	2009 £ million	2008 £ million	2007 £ million
Present value of defined benefit pension plans' obligations	(158.4)	(140.6)	(137.4)	(126.5)	(135.1)
Fair value of plans' assets	150.8	146.9	137.9	129.3	142.8
Net (deficit)/surplus in plans	(7.6)	6.3	0.5	2.8	7.7
Experience losses on plans' liabilities					
Amount (£ million)	(1.7)	(0.4)	(2.5)	(0.4)	(0.8)
Percentage of plans' liabilities (%)	(1.1)	(0.3)	(1.8)	(0.3)	(0.6)
Experience gains and losses on plans' assets					
Amount (£ million)	0.7	7.1	7.5	(15.4)	(2.6)
Percentage of plans' assets (%)	0.5	4.8	5.4	(11.9)	(1.8)

Expected cash contributions for 2012 for these plans are £1.8 million.

The above plans are funded and have full UK HM Revenue & Customs ("HMRC") tax-exempt approval. Certain members, whose salaries were in excess of the HMRC 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 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 2011 of £0.4 million (2010 £0.4 million). This represents the actuarial value, as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a market value basis in line with the main plan valuation and adjusted each year. There were no experience gains or losses on the unfunded plan in the period from 2007 to 2011.

Defined contribution schemes

The Company also maintains defined contribution pension plans for employees. Employer contributions into these plans for 2011 were £0.9 million (2010 £0.7 million).

Notes to the parent Company financial statements continued

4. Intangible assets

	£ million
	Goodwill
Cost	
At 1 January 2011 and 31 December 2011	6.8
Amortisation	
At 1 January 2011	2.5
Provided during the year	0.6
At 31 December 2011	3.1
Net book value at 31 December 2010	4.3
Net book value at 31 December 2011	3.7

5. Tangible assets

£ million

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
Cost				
At 1 January 2011	0.6	4.6	2.8	8.0
Additions	–	0.7	0.1	0.8
Disposals	–	(0.3)	(0.3)	(0.6)
At 31 December 2011	0.6	5.0	2.6	8.2
Depreciation and impairment				
At 1 January 2011	0.1	3.7	2.3	6.1
Provided during the year	–	0.5	0.2	0.7
Disposals	–	(0.3)	(0.3)	(0.6)
At 31 December 2011	0.1	3.9	2.2	6.2
Net book value at 31 December 2010	0.5	0.9	0.5	1.9
Net book value at 31 December 2011	0.5	1.1	0.4	2.0

6. Investments

£ million

	Shares in subsidiaries	Loans to subsidiaries	Total
Cost			
At 1 January 2011	929.7	8.2	937.9
Additions	44.3	–	44.3
Repayments	–	(4.6)	(4.6)
At 31 December 2011	974.0	3.6	977.6
Provisions			
At 1 January 2011 and 31 December 2011	720.3	–	720.3
Net book value at 31 December 2010	209.4	8.2	217.6
Net book value at 31 December 2011	253.7	3.6	257.3

7. Stocks

	2011 £ million	2010 £ million
Raw materials	3.3	3.0
Work in progress	0.7	0.8
Finished goods	2.6	2.1
	6.6	5.9

8. Debtors

	2011 £ million	2010 £ million
Due within one year		
Trade debtors	5.8	6.3
Owed by subsidiaries	5.5	4.7
Other debtors	0.7	0.4
Prepayments and accrued income	0.4	0.6
	12.4	12.0
Due after more than one year		
Deferred tax asset *note 11*	4.2	8.9
	16.6	20.9

Notes to the parent Company financial statements continued

9. Trade and other creditors: amounts falling due within one year

	2011 £ million	2010 £ million
Trade creditors	4.1	4.6
Owed to subsidiaries	0.2	0.3
Accruals and deferred income	5.6	5.7
Share buyback obligation	5.0	–
Other taxes and social security costs	0.7	0.5
	15.6	11.1

10. Creditors: amounts falling due after more than one year

	2011 £ million	2010 £ million
Owed to subsidiaries	58.3	60.8
Deferred income	0.3	–
	58.6	60.8

11. Deferred tax

	£ million
At 1 January 2011	8.9
Reversed in the year	(4.7)
At 31 December 2011	4.2

The deferred tax asset is in relation to short term timing differences of £0.3 million (2010 £0.4 million) and tax losses of £3.9 million (2010 £8.5 million). The Company has tax losses of £38.0 million (2010 £38.7 million) that are available for offset against suitable future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. These losses can be carried forward indefinitely.

There is a deferred tax asset at 31 December 2011 of £2.0 million (2010 liability of £0.6 million and asset of £0.1 million) in relation to the pension plans (note 3).

12. Provisions

	£ million
Lease provisions	
At 1 January 2011	–
Charged	0.1
At 31 December 2011	0.1

Provisions are analysed as follows:

	2011 £ million	2010 £ million
Current	0.1	–

These provisions are in respect of dilapidations for properties under operating leases.

13. Operating lease commitments

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

	2011 £ million	2010 £ million
In the second to fifth years	0.5	0.5

14. 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:

	2011 £ million		2010 £ million	
	Assets	Liabilities	Assets	Liabilities
Currency derivatives	–	–	–	0.1

Currency derivatives 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. The Company has chosen not to designate these contracts as hedges.

15. Capital and reserves

£ million

	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account[2]	Total
At 1 January 2011	22.5	20.0	10.9	180.5	233.9
New shares issued	0.1	0.2	–	–	0.3
Share cancellation	(0.4)	–	0.4	–	–
Profit for the year[3]	–	–	–	41.8	41.8
Share-based payment[4]	–	–	–	0.7	0.7
Actuarial loss recognised on defined benefit pension plans	–	–	–	(12.0)	(12.0)
Deferred tax on defined benefit pension plans	–	–	–	2.5	2.5
Share repurchase	–	–	–	(21.7)	(21.7)
Share buyback obligation	–	–	–	(5.0)	(5.0)
Equity dividends	–	–	–	(10.9)	(10.9)
Deferred tax on share incentives	–	–	–	(0.1)	(0.1)
At 31 December 2011	22.2	20.2	11.3	175.8	229.5

Notes

1 The Company has taken advantage of the exemption given in section 408 of the Companies Act 2006 not to publish its profit and loss account.

2 The Company's profit and loss account of £175.8 million (2010 £180.5 million) includes non-distributable reserves of £6.9 million (2010 £6.9 million).

3 The profit for the year dealt with in the financial statements of the Company was £41.8 million (2010 £20.8 million) which after dividends of £10.9 million (2010 £9.1 million), gave a retained profit of £30.9 million (2010 £11.7 million).

4 Share-based payment has been recorded for subsidiary companies whose incentives are satisfied by the Company's shares.

Notes to the parent Company financial statements continued

15. Capital and reserves continued

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

	Number of Ordinary Shares million
Issued and fully paid Ordinary Shares of 3$^{1}/_{3}$ pence each at 1 January 2011	674.9
Allotted pursuant to share incentives exercised	2.3
Cancelled during the year[1]	(13.2)
Issued and fully paid Ordinary Shares of 3$^{1}/_{3}$ pence each at 31 December 2011	664.0

Note

1 During 2011, under the programme of returning capital to shareholders, the Company repurchased 13.2 million (2010 9.8 million) Ordinary Shares on market which were subsequently cancelled.

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 £ million
Spirent Stock Incentive Plan	2.3	0.3

During the year no Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes (2010 0.1 million Ordinary Shares) and 0.4 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan and 2005 Employee Incentive Plan (2010 2.0 million Ordinary Shares). 4.4 million Ordinary Shares (2010 0.6 million Ordinary Shares) were purchased and placed into the ESOT during 2011.

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2011 and 1 March 2012, the date on which these financial statements have been signed.

Investment in own Ordinary Shares

At 31 December 2011, the ESOT held 7.9 million Ordinary Shares (2010 3.9 million Ordinary Shares) to satisfy awards under various share incentive plans. In addition, the ESOT held 0.1 million Ordinary Shares which are the beneficial property of an employee/shareholder at 31 December 2011 (2010 0.1 million Ordinary Shares). At 31 December 2011, the SST held 0.5 million Ordinary Shares (2010 0.5 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 8.5 million Ordinary Shares (2010 4.5 million Ordinary Shares), at 31 December 2011 was £10.0 million (2010 £6.7 million).

Capital redemption reserve

During 2011 the Company cancelled 13.2 million Ordinary Shares (2010 9.8 million Ordinary Shares) that had been the subject of the on market share repurchase programme and transferred £0.4 million (2010 £0.3 million) to the capital redemption reserve.

15. Capital and reserves continued

Share repurchase

During 2011 the Company repurchased 17.6 million Ordinary Shares on market at a cost of £21.7 million (2010 10.4 million Ordinary Shares at a cost of £13.0 million). Of the shares repurchased 13.2 million (2010 9.8 million) Ordinary Shares were subsequently cancelled and 4.4 million (2010 0.6 million) were placed into the ESOT.

Share buyback obligation

On 30 December 2011 the Company entered into an irrevocable agreement with UBS Limited to purchase up to a maximum of 4.3 million Ordinary Shares at no more than 105 per cent of the average market value of a share for the five business days immediately preceding the day on which the share is purchased, and at a maximum price of 115 pence per share, from 3 January 2012 to 29 February 2012, on their behalf. This agreement entered into in respect of share buybacks during the close period has been recognised as a financial liability of £5.0 million.

As at the close of business on 29 February 2012, 2.0 million shares had been repurchased under this buyback programme at 115 pence per share for a total consideration of £2.3 million. The remaining liability expired at close of business on 29 February 2012.

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 2011 are shown below:

	2005 Employee Incentive Plan		Spirent Stock Incentive Plan		1995 Executive Share Option Scheme		UK sharesave scheme	
	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 2009	3.0	30	1.6	58	2.6	112	0.1	39
Exercised	(1.2)	50	(0.9)	59	(1.2)	56	(0.1)	39
Expired	–	–	–	–	(0.2)	323	–	–
Incentives outstanding at 31 December 2010	1.8	17	0.7	53	1.2	135	–	–
Granted	0.5	2	–	–	–	–	–	–
Exercised	(0.3)	–	(0.1)	65	–	–	–	–
Cancelled	(0.1)	–	–	–	–	–	–	–
Expired	–	–	–	–	(0.1)	305	–	–
Incentives outstanding at 31 December 2011	1.9	16	0.6	50	1.1	116	–	–
Incentives exercisable at 31 December 2010	0.2	50	0.7	53	1.2	135	–	–
31 December 2011	0.6	50	0.6	50	1.1	116	–	–

The weighted average share price at exercise date was 119.4 pence (2010 123.5 pence).

Notes to the parent Company financial statements continued

15. Capital and reserves continued

The following information relates to outstanding share incentives at 31 December 2011:

			2011					2010
Share plan	Exercise period (as at 31 December)	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[1]	25.08.08 – 22.03.21	0–53	15	1.9	4.6	17	1.8	3.3
Spirent Stock Incentive Plan	25.08.06 – 09.08.13	43–53	49	0.6	1.1	49	0.6	2.1
	30.06.05 – 17.04.14	59–69	60	–	1.8	67	0.1	1.0
1995 Executive Share Option Scheme	30.06.07 – 29.06.14	69	69	0.2	2.5	69	0.2	3.5
	02.04.05 – 01.05.12	113–134	125	0.9	0.3	125	0.9	1.3
	09.04.04 – 08.04.11	305	–	–	–	305	0.1	0.3
				3.6			3.7	

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.

Description of employee share plans

Discretionary plans

2005 Employee Incentive Plan ("EIP")

The EIP, which was introduced in 2005 and replaced the now closed ESOS (see below), is currently available for selected employees, including executive directors, on a discretionary basis.

Under the EIP, the Company is able to grant share options, including HMRC approved options, share-settled stock appreciation rights ("SARs") and Performance shares. No price is payable on the grant of an award.

In normal circumstances, EIP awards vest three years following the date of grant provided the relevant performance conditions have been met. For share options and SARs, the performance conditions relate to the Company's earnings per share ("EPS"). For Performance share awards made prior to 2011, performance conditions relate to Total Shareholder Return ("TSR"). For awards made in 2011, performance conditions relate to the Company's EPS and TSR.

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 47 to 54.

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

15. Capital and reserves continued

Spirent Stock Incentive Plan ("SSIP")

The SSIP is now closed for new grants and has been replaced by the EIP referred to above.

The SSIP was introduced in 2000. This discretionary plan was 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. Grants were also permitted to selected newly hired and promoted employees on a monthly basis. Under the SSIP, the Company was able to grant share options and share-settled SARs. No price was payable on the grant of an award.

Most awards made pursuant to the SSIP vest over four years, provided that the participant remains in employment. Vesting is not normally subject to a performance condition and awards become 25 per cent exercisable on the first anniversary of the date of grant and thereafter in equal tranches on a monthly basis over a further 36 months. Any award not exercised by the seventh anniversary of the date of grant will lapse.

The vesting of 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, were subject to the Company meeting EPS growth targets over the vesting periods. All outstanding awards have now passed their EPS performance conditions and remain exercisable until they expire on the seventh anniversary of their respective grant dates.

SARs granted under the EIP and SSIP will deliver the appreciation value (ie the increase in market value of an Ordinary Share over the base price of the SAR) in the form of Ordinary Shares. This "SARs approach" helps the Company manage its dilution headroom more efficiently as only the SAR gain needs to be funded. Using a SARs approach, it is not possible to determine the precise level of dilution until the SARs are exercised.

1995 Executive Share Option Scheme ("ESOS")

The ESOS is now closed for new grants and has been replaced by the EIP referred to above.

Under the ESOS awards of share options, including HMRC approved options, were on a discretionary basis. 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. All outstanding options have now passed their EPS performance conditions and remain exercisable until they expire on the tenth anniversary of their respective grant dates.

Notes to the parent Company financial statements continued

15. Capital and reserves continued

All Employee plans

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.

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, no Ordinary Shares were transferred to participants (2010 0.1 million Ordinary Shares).

No invitations have been made under either of these schemes since 2003 and there are no options outstanding at 31 December 2011.

UK Employee Share Purchase Plan ("UK ESPP")

The UK ESPP, which is an HMRC approved share incentive plan, was approved by shareholders in 2005 and is available to all UK employees. The UK ESPP offers three ways to provide Ordinary Shares to employees: free shares, partnership shares and matching shares. The UK ESPP operates in conjunction with a trust, which holds the shares on behalf of participants.

In November 2010, the Company commenced making invitations to all UK employees to acquire Partnership shares on market using deductions from payroll.

16. Share-based payment

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

	2011 £ million	2010 £ million
2005 Employee Incentive Plan	0.3	0.1

All schemes are equity-settled.

No share incentives were granted during 2010. For 2011 the fair value of share incentives has been estimated as at the date of grant using a binomial model.

16. Share-based payment continued

The following table gives the assumptions made in arriving at the share-based payment charge and the fair value:

	2011	2010
Weighted average share price (pence)	143.2	–
Weighted average exercise price (pence)	1.9	–
Weighted average fair value (pence)	133.7	–
Expected volatility (%)	36.5	–
Expected life (years)	4.5	–
Risk free rate (%)	2.0–3.6	–
Dividend yield (%)	2	–

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.

17. 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.

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 122 of this Annual Report.

19. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2011 or 31 December 2010.

Spirent Communications plc has provided indemnities of £0.2 million (2010 £0.4 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

Principal divisions and subsidiaries

	% held at 31 December 2011
Communications	
Performance Analysis and Service Assurance solutions	
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 Hawaii, LLC (Honolulu, Hawaii)	100
Spirent Communications Inc	100
Calabasas, California	
Sunnyvale, California	
Eatontown, New Jersey	
Spirent Communications of Rockville, Inc (Germantown, Maryland)	100
Systems	
Control systems for the medical 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

	2011	2010	2009	2008	2007
Summary income statement					
Continuing operations					
Revenue	528.2	482.2	427.2	477.1	474.0
Operating profit before exceptional items	122.0	112.7	86.8	90.1	51.0
Exceptional items	–	–	–	–	(28.8)
Operating profit	122.0	112.7	86.8	90.1	22.2
Net finance income/(costs)	1.3	(0.5)	(1.9)	5.0	13.4
Exceptional net finance costs	–	–	–	(3.3)	–
Profit before tax	123.3	112.2	84.9	91.8	35.6
Tax	(28.7)	(33.1)	6.3	(0.7)	7.6
Exceptional tax	–	–	–	47.3	7.8
Profit from continuing operations after tax	94.6	79.1	91.2	138.4	51.0
Discontinued operations	–	–	–	–	(15.1)
Profit attributable to owners of parent Company	94.6	79.1	91.2	138.4	35.9
Summary balance sheet					
Intangible assets	123.2	112.0	112.4	111.7	116.6
Property, plant and equipment	35.5	29.1	23.6	26.8	32.2
Working capital (excluding cash and deferred tax)	13.8	10.4	8.3	23.0	(37.8)
Operating assets	172.5	151.5	144.3	161.5	111.0
Derivative financial instruments (net)	–	(0.2)	0.8	(8.1)	(1.0)
Net funds including long term cash	237.2	225.0	175.7	89.6	164.6
Provisions and other liabilities	(4.5)	(7.6)	(11.4)	(17.1)	(25.2)
Deferred tax	29.4	31.3	42.5	17.5	20.9
Defined benefit pension plan (deficit)/surplus	(12.4)	7.1	(0.1)	2.8	10.7
Net assets	422.2	407.1	351.8	246.2	281.0
Total equity	422.2	407.1	351.8	246.2	281.0
Summary cash flows					
Cash flow from operating activities	98.7	99.4	96.1	88.3	99.1
Net interest received	0.9	0.8	0.6	2.6	11.2
Net capital expenditure	(23.5)	(17.6)	(10.2)	(12.8)	(10.4)
Free cash flow	76.1	82.6	86.5	78.1	99.9
Acquisitions and disposals	(14.5)	–	–	–	(23.4)
Share capital and share repurchase	(33.0)	(15.0)	2.7	(112.9)	(126.4)
Dividends paid	(17.5)	(13.7)	(12.1)	(6.4)	–
Transfer from long term deposit	0.4	0.6	2.2	2.2	9.6
Net increase/(decrease) in cash and cash equivalents	11.5	54.5	79.3	(39.0)	(40.3)

Financial history continued

$ million

	2011	2010	2009	2008	2007
Other information					
Expenditure on property, plant and equipment	20.8	18.1	10.1	13.7	10.2
Depreciation	13.2	11.9	13.5	16.3	19.0
Product development	88.1	80.2	74.6	83.8	92.6
Share information					
Earnings per share from continuing operations (cents)					
Basic	14.18	11.77	13.67	18.74	5.93
Diluted	14.06	11.66	13.60	18.61	5.87
Adjusted basic[1,2]	13.92	11.89	11.14	12.11	7.93
Total dividend per Ordinary Share (cents)	2.93	2.50	1.93	1.85	–
Fully paid Ordinary Shares in issue at year end (number million)	664.0	674.9	678.1	671.8	840.8
Segmental analysis					
Revenue from continuing operations					
Performance Analysis	416.4	365.8	316.8	353.7	338.6
Service Assurance	54.1	57.0	52.6	62.0	68.6
Systems	57.7	59.4	57.8	61.4	66.8
	528.2	482.2	427.2	477.1	474.0
Operating profit from continuing operations[1]					
Performance Analysis	115.1	97.9	78.3	83.1	49.8
Service Assurance	7.0	13.0	7.5	8.9	7.6
Systems	9.0	8.8	7.9	8.0	7.8
Segment operating profit	131.1	119.7	93.7	100.0	65.2
Corporate — non-segmental	(5.2)	(5.2)	(4.9)	(5.8)	(7.4)
Acquisition related costs	(1.2)	–	–	–	–
Acquired intangible asset amortisation	(1.6)	(1.4)	(1.4)	(1.3)	(1.8)
Share-based payment	(1.1)	(0.4)	(0.6)	(2.8)	(5.0)
	122.0	112.7	86.8	90.1	51.0
Geographical information					
Revenue by market from continuing operations					
United States	259.4	248.5	212.4	238.8	246.4
Asia Pacific, Rest of World	182.2	154.2	145.6	149.9	140.2
Europe	86.6	79.5	69.2	88.4	87.4
	528.2	482.2	427.2	477.1	474.0

Notes

1 Before share-based payment, acquired intangible asset amortisation, acquisition related costs and exceptional items.

2 Before tax effect of items in note 1 and prior year tax.

Shareholder information

Financial Calendar

1 March 2012	Preliminary results and final dividend announcement
7 March	Final dividend – ex-dividend date
9 March	Final dividend – record date
2 May	Annual general meeting and interim management statement
3 May	Final dividend – payment date (Ordinary shareholders)
10 May	Final dividend – payment date (ADR holders)
1 July	Half-year end
August	Half-year results and interim dividend announcement
August	Interim dividend – ex-dividend date
August	Interim dividend – record date
September	Interim dividend – payment date (Ordinary shareholders)
September	Interim dividend – payment date (ADR holders)
November	Interim management statement
31 December	Financial year end
February 2013	2012 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 OTC Pink electronic quotation service which can be found at www.otcmarkets.com/otc-pink.

Annual General Meeting

The Company's 2012 Annual General Meeting ("2012 AGM") will be held at 10.30am on Wednesday 2 May 2012 at 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 through the Company's Dividend Reinvestment Plan (see below);
- 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 please contact the Company's registrar, Equiniti, on 0871 384 2268 or log on to www.shareview.co.uk.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan ("DRIP") delivered 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. If you would like additional information, please contact the Company's registrar, Equiniti, on 0871 384 2268 or log on to www.shareview.co.uk.

Shareholder information continued

Electronic communications
All of the Company's communications with shareholders are conducted in line with our environmental approach. We hold the majority of our events via webcast and conference calls and we encourage all of our investors to receive communications electronically. Shareholders who do not currently receive Company mailings electronically but wish to do so should notify the Company's registrar, Equiniti, on 0871 384 2126 or via www.shareview.co.uk.

Company's registrar
Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to the Company's registrar, Equiniti, on 0871 384 2126. Equiniti 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.

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 or at www.shareview.co.uk.

Individual savings accounts
Information about investing in the Company's Ordinary Shares through an Individual Savings Account ("ISA") may be obtained from Equiniti on 0845 300 0430 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.fsa.gov.uk/consumerinformation.

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 or register online at www.mpsonline.org.uk. 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 1 March 2012, the number of registered shareholders was 3,812 and the number of Ordinary Shares in issue was 662.0 million.

Number of Ordinary Shares held	Number of shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
1–5,000	2,703	70.91	3,868,779	0.59
5,001–10,000	370	9.71	2,734,240	0.41
10,001–50,000	403	10.57	8,547,109	1.29
50,001–100,000	68	1.78	4,819,578	0.73
100,001–250,000	64	1.68	9,859,991	1.49
250,001–500,000	50	1.31	18,557,667	2.80
500,001–1,000,000	57	1.50	39,021,126	5.89
1,000,001–highest	97	2.54	574,639,388	86.80
Total	3,812	100.00	662,047,878	100.00

	Number of holders	% of total holders	Number of shares	% of total shares
Individuals	3,020	79.22	14,956,417	2.26
Institutions	792	20.78	647,091,461	97.74
Total	3,812	100.00	662,047,878	100.00

Glossary

2G (Second Generation)	Second generation remains the most common type of wireless cellular communication in use globally. Although its primary focus has been voice service and short message service ("SMS"), it has also been enhanced to allow low rate data communication.
3G (Third Generation)	Third generation of mobile communications that promises data rates of hundreds of kilobits per second to tens of megabits per second.
4G (Fourth Generation)	Fourth generation of mobile communications that promises data rates of tens to hundreds of megabits per second. Future 4G technologies promise data rates in excess of one gigabit per second.
Backhaul	The portion of a network that comprises the intermediate links between the core network, or backbone, and the sub-networks at the "edge" of the entire hierarchical network.
Broadband	Generic term for bit rates greater than approximately 1.5 to 2 megabits per second.
CDMA (Code Division Multiple Access)	A digital cellular technology standard which allows numerous signals to occupy a single transmission channel, thus increasing network capacity; used in 2G and 3G radio communications.
Cloud Computing	The delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a metered service over a network (typically the internet).
Compass (also known as BeiDou 2)	China's second generation global satellite navigation system, which is under construction but eventually planned to consist of 35 satellites. Service was launched in China during 2011, with plans to extend it to the Asia Pacific region by 2012 and to provide service globally by 2020.
Content Delivery	The delivery of media content such as audio, video, software and video games over online delivery mediums, such as broadcasting or the internet.
Core Router	A router that is part of the backbone, forwarding packets to computer hosts within a network (but not between networks).
Customer Edge	A router at the customer's premises that provides an Ethernet interface between the customer's local area network and one or more provider edge routers in the provider's core network.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
DOCSIS 3.0 (Data Over Cable Service Interface Specification 3.0)	The most recent release of a communications standard that adds high speed data transfer to an existing cable TV system, employed by cable operators to provide internet access over existing hybrid fibre-coaxial infrastructure. A European variant has also been released, named EuroDOCSIS.
DSL (Digital Subscriber Line)	Technology that uses existing telephone/copper lines to transport higher bandwidth data such as multimedia and video to service subscribers.
Ethernet	A family of networking technologies originally developed for local area networks, which migrated to metro area networks and eventually became the dominant standard in wireline networks worldwide.
Galileo	A global navigation satellite system being built by the European Union and European Space Agency that will offer users anywhere in the world "metre-class" geographic positioning when it becomes operational between 2014 and 2019.

Gateway	An internetworking system capable of joining together two networks that use different base protocols.
GbE (Gigabit Ethernet)	A transmission technology based on the Ethernet frame format and protocol used in local area networks that provides a data rate of 1 billion bits per second (one gigabit) and which is used as the backbone in many enterprise networks.
GLONASS (Global Navigation Satellite System)	A global navigation satellite system operated by the Russian Federation. Deployment began in 1976 and, although the system fell into disrepair in the 1990s, full global service was restored in 2011.
GNSS (Global Navigation Satellite Systems)	The standard generic term for satellite navigation systems that provide autonomous geo-spatial positioning with global coverage. GNSS allows users' receivers to determine their location to within a few metres by employing a triangulation technique that uses information from multiple satellites.
GPS (Global Positioning System)	A global navigation satellite system operated by the United States government for determining a user's 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.
IaaS (Infrastructure as a Service)	Cloud infrastructure services that deliver computer infrastructure – typically a platform virtualization environment – as a service, along with raw storage and networking. Clients buy servers, software, data center space or network equipment as a fully outsourced service rather than purchasing them outright.
IP (Internet Protocol)	A network protocol used on the internet and other network devices to facilitate and control the flow of data. Each computer (known as a host) has at least one IP address that uniquely identifies it from all other computers.
IPSec (Internet Protocol Security)	A collection of protocols designed to secure IP communications. IPSec supports encryption and authentication and is most commonly used in so-called "tunnel mode" with a Virtual Private Network ("VPN"). However, IPSec also supports a "transport mode" for direct connection between two computers.
IRNSS (Indian Regional Navigational Satellite System)	An autonomous regional satellite navigation system being developed by the Indian government to reduce dependence on GPS. The full constellation of seven satellites (three geo-stationary and four geo-synchronous) is planned to be operational by 2015.
ITO (Infrastructure Test Optimization)	The practices required to ensure that infrastructures meet a defined quality of service and quality of experience necessary to meet strategic business objectives. Primary practice areas are: emulation and analysis, automation, quality management, development testing and lifecycle virtualization.
LAN (Local Area Network)	A short distance data communications network used to link computers and peripheral devices, such as printers or modems. Ethernet is by far the most commonly used LAN technology.
LBS (Location Based Services)	The delivery of location specific information, mapping, business and public data over a wireless network. These services require the ability to locate a user's mobile device by means of direct satellite or cellular assisted satellite signals.
LTE (Long Term Evolution)	An advanced wireless data communications technology standard (sometimes called "4G") which is an evolution of 3G UMTS standards. In addition to a new wireless interface specification, LTE uses a simplified flat IP-based network architecture.

Glossary continued

Term	Definition
M2M (Machine-to-Machine)	Technologies that allow automatic communications between wireless (and wired) devices without human intervention. M2M typically uses a device to capture an event, which is relayed through a network to an application that translates the captured event into meaningful information.
MIMO (Multiple-Input Multiple-Output)	A wireless technology that employs multiple radio antennas on both the transmitter and receiver to improve the data transmission speeds and capacity of wireless networks.
MSO (Multiple System Operator)	A company that owns more than one cable system, often in different locations. Most commonly used to refer only to companies that own a large number of cable systems.
Observed Time Difference of Arrival	A method used to determine the position of a mobile device by performing timing measurements on the signals received at the device from two or more cellular base stations.
OTA (Over-the-Air)	Any kind of event, transfer, or transaction that takes place wirelessly using the cellular network, as opposed to using a cable or other local connection. Testing of mobile device performance is commonly carried out using OTA techniques that take into account antenna design and implementation.
RF (Radio Frequency)	A technology used for wireless broadcasting and/or communications that uses radio waves within the range over which they may be transmitted, from about 3 kilohertz to about 300,000 megahertz.
SaaS (Software as a Service)	Cloud application services that deliver software as a service over the internet, eliminating the need to install and run the application on the customer's own computers and simplifying maintenance and support.
Simultaneous Voice and LTE	A technique for providing voice service over a CDMA network and data service over an LTE network simultaneously, using two radios in a mobile device.
Triple Play	Voice, video and data transmitted over a single transport medium.
UMTS (Universal Mobile Telecommunications System)	The most common 3G wireless technology globally, which uses WCDMA on its underlying air interface and offers support for data transfer rates from hundreds of kilobits per second to tens of megabits per second.
Virtualization	Technologies designed to provide a layer of abstraction from the physical characteristics of computing resources to simplify the way in which other systems, applications, or end users interact with those resources.
WCDMA (Wideband CDMA)	An International Telecommunication Union standard derived from CDMA which is used globally in 3G mobile communications.
Wi-Fi	A mechanism that enables devices such as personal computers, video game consoles, smartphones or digital audio players to exchange data wirelessly over a computer network and connect to network resources, such as the internet. Coverage ranges from a few rooms to several square miles, depending on the number of access points used.

Notes

Notes

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