Spirent Communications plc
Annual Report 2009

Inspiring Innovation Enriching Life

Spirent plays a significant role in the way the world communicates. We inspire innovation across our customer base by testing tomorrow's networks and technologies today, thereby enhancing the products, services and applications that drive the ever evolving communications industry. As a leader in test and measurement, we truly enrich the lives of people communicating around the world.

Spirent's innovative test solutions push the limits of networks, elements, devices and applications. Our unique testing methodologies ensure that global communications equipment manufacturers as well as service providers, supplying a wide range of voice, data, video and applications, deliver the highest quality products and services thereby improving the quality of experience for every user. Spirent and its employees continue to deliver the best return for shareholders in our industry.

Ethernet/Data Center/ Cloud Computing

Wireless

Satellite Navigation

Service Assurance

OUR BUSINESS AT A GLANCE

Spirent is a global leader in test and measurement inspiring innovation within development labs, communication networks and IT organisations. We enable today's communication ecosystem as well as tomorrow's emerging enterprises to deploy life enriching communications networks, devices, services and applications. The Systems group develops power control systems for electrical vehicles in the mobility and industrial markets.

GROUP FINANCIAL HIGHLIGHTS

Revenue
(2008 £257.9m)

£272.1M

Operating profit
(2008 £48.7m)

£55.3M

Adjusted basic earnings per share[1]
(2008 6.24p)

6.91P

Total dividend per share
(2008 1.10p)

1.21P

Note
1 Adjusted basic earnings per share is based on adjusted earnings as set out in note 12 of Notes to the consolidated financial statements.

OUR BUSINESS IS DIVIDED INTO THREE OPERATING DIVISIONS

Performance Analysis

Spirent puts innovation to the test. With a concentration on Ethernet, 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 and service providers to subject their offerings to lab-based conformance and performance testing simulating real-world conditions before a commercial launch. This approach accelerates time to market and improves the quality of the products and services our customers bring to market.

Service Assurance

Spirent's service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network. Service providers rely on Spirent to provide centralised and field test tools to improve the quality of service and allow technicians to efficiently prevent or resolve issues from the core of the network to inside the consumer's home.

Systems

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

REVENUE BY DIVISION

£201.8M
(2008 £191.2m)

£33.5M
(2008 £33.5m)

£36.8M
(2008 £33.2m)

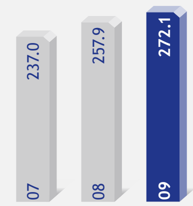
OUR FINANCIAL AND OPERATIONAL HIGHLIGHTS

SUMMARY OF RESULTS

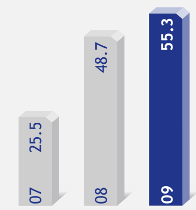
£ million	2009	2008	Change (%)	Change at constant currency[3] (%)
Revenue	272.1	257.9	6	(10)
Operating profit	55.3	48.7	14	(6)
Profit before tax	54.1	49.6	9	
Basic earnings per share (pence)	8.71	10.13	(14)	
Adjusted basic earnings per share[1] (pence)	6.91	6.24	11	
Total dividend per share (pence)	1.21	1.10	10	
Free cash flow[2]	55.1	42.2	31	

- Revenue grew by 6 per cent to £272.1 million (2008 £257.9 million); at constant currencies revenue was down 10 per cent, with signs of recovery in the fourth quarter of 2009.
- Operating profit ahead of expectations up 14 per cent; at constant currencies down 6 per cent.
- Further increases in gross profit margin to 66.3 per cent and in operating margin to 20.3 per cent.
- Adjusted basic earnings per share up 11 per cent at 6.91 pence (2008 6.24 pence) after charging 0.20 pence (2008 0.30 pence) for share-based payment and acquired intangible amortisation.
- Strong cash flows resulted in cash and cash equivalents of £108.0 million at 31 December 2009 (31 December 2008 £59.7 million).
- Order intake growth in the fourth quarter was strong as book to bill ratio reached 129.
- Final dividend up 10 per cent to 0.66 pence per share (2008 0.60 pence).
- Spirent released more new and innovative solutions to the market in 2009 than ever before.

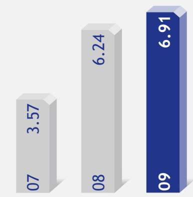
Group revenue (£ million)



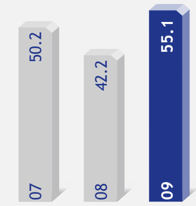
Group operating profit[4] (£ million)



Adjusted basic earnings per share[1] (pence)



Free cash flow[2] (£ million)



Notes

1. Adjusted basic earnings per share is based on adjusted earnings as set out in note 12 of Notes to the consolidated financial statements.
2. Operating cash flow after tax, net interest and net capital expenditure.
3. Change at constant currencies eliminating the effects of fluctuating exchange rates on the translation of operating results and on transactions.
4. Before exceptional items.

CHAIRMAN'S STATEMENT

I am pleased to report that Spirent's adjusted earnings per share increased by 11 per cent in 2009 to 6.91 pence, which excludes a non-recurring net tax benefit of 1.80 pence per share and is after charging 0.20 pence in respect of share-based payment and acquired intangible amortisation. Earnings benefited from an increase in operating profit of £6.6 million, an improvement of 14 per cent, but this was partially offset by an increase in the rate of tax charged for the year.

These results reflect the trend of improvement seen in the past several years as the Company's management team implements its strategic plan and effectively deploys resources. An increase in gross profit margin and careful cost control improved the operating profit margin to 20 per cent for the Group as a whole. In our largest business, Performance Analysis, the operating profit margin increased to 25 per cent, market share increased, and our new product portfolio is well aligned with the segments of the market that we expect will exhibit the fastest growth.

In the fourth quarter of 2009 market conditions improved noticeably, resulting in bookings exceeding sales by 29 per cent for the period, whereas bookings were somewhat lower than sales for the first three quarters of the year. Accordingly, we expect a positive start to 2010.

The Group's financial position remains strong with cash generation for 2009 that exceeded earnings excluding the effect of the non-recurring tax benefit. In these circumstances the Board is recommending a final dividend of 0.66 pence per share compared with 0.60 pence per share in 2008.

Gerard Eastman who joined the Board in 2006 is retiring at the Annual General Meeting and the Board would like to express its thanks for his many thoughtful contributions. I will also retire from the Board at the Annual General Meeting and I am resigning as Chairman with effect from 4 March 2010.

The Board has appointed Alex Walker, who has been a director since 2006, to be Chairman. With the continuing participation of Alex, the other non-executive board members, and the management team led by Bill Burns I have every confidence that the Company is in the best possible hands. I would like to express my sincere thanks to all of my colleagues at Spirent, with whom it is a great privilege to have been associated.

"In the fourth quarter of 2009 market conditions improved noticeably."

Edward Bramson
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

"The breadth and depth of our solutions portfolio, combined with our global reach, make Spirent uniquely positioned to address the changing needs of the communications test and measurement market."

Bill Burns
Chief Executive Officer

Over the last several years, we have seen significant change across the communications industry. Large and small enterprises, as well as consumers, are now demanding anytime, anywhere, always-on internet access with increased levels of quality of experience from the numerous applications they use everyday. New mobile devices are driving the need for faster wireless networks such as LTE, while downloadable applications are increasing both revenue and customer loyalty. Examples include the extraordinary growth in smartphone usage, the introduction of affordable netbook and tablet devices and the download of billions of applications from online stores.

Service providers have shifted their focus to address the ever increasing demand for wireless access, applications delivery and new enterprise offerings such as cloud computing. To meet these growing demands, service providers must manage an increased level of complexity driven by the integration of legacy wireline, next-generation wireless and outsourced Content Delivery Networks. Equipment manufacturers have responded by moving resources to growth markets such as smartphones, higher speed wireless networks and the evolution of enterprise data centers with Ethernet as the transport technology of choice. As a market leader in communications test and measurement, all of these areas represent significant opportunities for Spirent.

We have transformed the business in a number of key areas to capitalise on these changing market conditions. We have rationalised the organisational structure, consolidated the supply chain and concentrated on driving cost out of all aspects of the business. We closely monitor the trends in our industry, strategically reallocating our resources to address growing and emerging markets. Currently, Spirent is delivering the industry's most innovative solutions in Ethernet, wireless, applications and security testing — the areas that matter most to service providers and equipment manufacturers. The breadth and depth of our solutions portfolio, combined with our global reach, make Spirent uniquely positioned to address the changing needs of the communications test and measurement market.

Through this transformation, we have revitalised Spirent's strategy prioritising innovation, time to market and, most importantly, profitable growth. In 2009, we released more new and innovative solutions to the market than at any time in our history. Examples include the introduction of test solutions for 10/40/100 Gigabit Ethernet, virtualization inside the data center, and LTE devices and infrastructure, that have expanded our market leadership within test and measurement.

Our customers along with several of the industry's largest publications, conferences and research firms, Frost & Sullivan, Interop and Fortune among others, have recognised our accomplishments with a variety of awards. Our market leadership, new product innovation, commitment to excellence and service to customers has resulted in a strong 2009 financial performance. Throughout the year, we gained market share and outperformed our competitors in revenue and profitability.

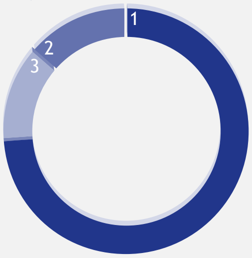
Despite the challenging macro economic environment in 2009, as the year progressed operating conditions improved noticeably, and customers began to move from cost saving to investing for the future. The alignment of our solutions portfolio with customers' areas of investment drove increased order activity in the second half of the year. These improved conditions meant that the fourth quarter saw bookings exceeding sales by 29 per cent.

This recovery makes us optimistic for the coming year. We will continue to manage costs thoughtfully as the economy recovers. Our goal is to outpace the market recovery and grow market share with the key objective of top-line growth that will drive increased profitability. We have seen a solid start to 2010 and we aim to continue this positive momentum as the year progresses.

DESCRIPTION OF OUR BUSINESS

The Spirent Group is organised into two business areas: Communications and Systems. The Communications business comprises two divisions: Performance Analysis, providing test solutions for wireline and wireless technologies in the lab, and Service Assurance, providing network monitoring and field test solutions for live networks.

Revenue by Division
£ million
2009



	09	08	07
1. Performance Analysis	201.8	191.2	169.3
2. Service Assurance	33.5	33.5	34.3
3. Systems	36.8	33.2	33.4

Operating Profit by Division[1]
£ million
2009

	09	08	07
1. Performance Analysis	49.9	44.9	24.9
2. Service Assurance	4.8	4.8	3.8
3. Systems	5.0	4.3	3.9

1 Before share-based payment, acquired intangible amortisation and exceptional items. Excludes corporate costs.

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 allowing them to evaluate the performance of the latest technologies to be deployed across the worldwide telecommunications infrastructure. We also provide tools for service technicians and field test engineers to improve 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 Performance Analysis division allows equipment and mobile device manufacturers, service providers, enterprises and government entities to holistically test and benchmark the performance of networks, elements and services accelerating the deployment of these innovations into the market.

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

Spirent delivers wireline and wireless solutions which address high speed Ethernet, data center, IMS, IPTV, location based services, LTE, Multi-GNSS satellites, 3G wireless and other emerging technologies.

Spirent's service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network all the way to the home. By leveraging the expertise gained by testing technologies and systems in the lab, Spirent enables service providers to deploy and maintain efficient, cost effective and high performing networks. As a result, network operators enjoy reduced churn by providing a higher quality of experience which ultimately increases subscriber retention. Additionally, our test solutions allow service providers to reduce operational costs through better identification of potential network problems and the use of the appropriate resources to address and correct those challenges.

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

OUR STRATEGY...

Product development

£47.5M
(2008 £45.3m)

Our vision

To be THE global leader in growing and emerging test and measurement markets.

Our strategy

Focus on growing and emerging markets
Spirent closely monitors the ever changing trends across the communications landscape, strategically reallocating resources to address growing and emerging markets.

Invest in our solutions portfolio
Spirent continues to enhance its product and service offerings by bringing the most advanced test solutions to market.

Innovation
By attracting and retaining the brightest individuals, Spirent leads the industry through innovation.

Delivering the "Right Solutions" at the "Right Time"
Delivering the right solutions at the right time allows our customers to develop and launch new products and services in the shortest amount of time.

Global customer reach
Our world class sales and service organisations enable Spirent to build strong customer relationships across the globe.

…IN ACTION

Verizon Wireless selects Spirent for LTE device testing solutions

Verizon Wireless has chosen Spirent as the first provider of testing solutions for the certification of devices for use on Verizon's 4G/LTE network. Spirent test equipment will help Verizon assure that LTE devices live up to their performance expectations with the industry's first LTE and multi-mode (LTE with CDMA or UMTS) device performance platform. Spirent helps Verizon control operational expenses and maximise revenues from new LTE services.

Spirent ranked global market leader for Ethernet testing

During 2009 Spirent was recognised as the market leader for Ethernet testing by research firm Frost & Sullivan. This top ranking, according to the firm's World Gigabit Ethernet Test Equipment Market report, reflects the sale by Spirent of more Ethernet test ports than any other vendor.

Spirent's portfolio of test solutions is the most comprehensive on the market extending from the lab to the live network and into the subscriber's home. Service providers and equipment manufacturers across the globe continue to depend on Spirent to test the complexities of today's high speed Ethernet equipment and networks.

Spirent preparing enterprises for dynamic, terabit-capacity data centers

Spirent introduced the first holistic approach to validating the performance of data centers designed to support virtualized services and converged networks. The network performance and scale, service availability, system security, application quality of experience and power efficiency of these new data centers can only be validated through a holistic test architecture.

Holistic testing provides a unified Layer 2–7 test architecture specifically designed to test the end-to-end performance of 10/40/100 Gigabit Ethernet fabrics, Fibre Channel over Ethernet convergence, virtualized server networking, cloud computing-based applications and security.

China Telecom to use Spirent equipment for sophisticated mobile device testing

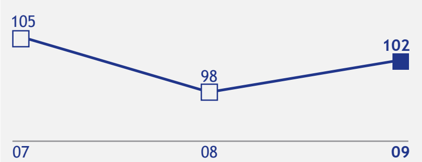
China Telecom selected Spirent's mobile device test system as the most complete and best suited to help the service provider continue to offer its subscribers the highest quality of experience. By ensuring the mobile devices it sells to subscribers comply with industry standards as well as offer the highest application service quality, China Telecom gains a competitive edge in the fiercely contested Chinese wireless market.

OUR KEY PERFORMANCE INDICATORS

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. Our strategy focuses on medium to long term growth and therefore its achievement cannot just be measured by looking at our performance in 2009 compared to the prior year, trends over a number of years must also be considered. The Group does not currently utilise any non-financial KPIs.

KPI | **DESCRIPTION** | **COMMENTARY**

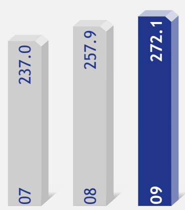
Book to bill ratio



Ratio of orders booked to revenue billed, which is a measure of the strength of our future revenues.

The ratio has increased to 102 during the year and this reflects the innovation in product solutions offered by the Company and improving demand levels seen in the fourth quarter of 2009.

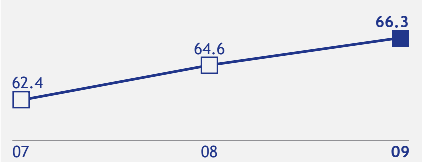
Revenue (£ million)



Growth in revenue is a measure of how we are growing our business organically. Our goal is to achieve year-on-year growth, although this aim has been particularly challenging in 2009. Nonetheless our focus has been on increasing our market share and growing our new product revenues, which are some of the key components of our strategy.

Revenue for the Group for 2009 increased by 6 per cent in sterling terms and was down 10 per cent in constant currencies. This result was in line with our expectations. During 2009 we have increased our market share in our key Performance Analysis division and have seen increased demand for our products in growing and emerging markets.

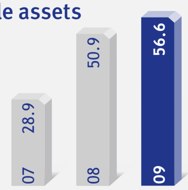
Gross profit margin (%)



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.

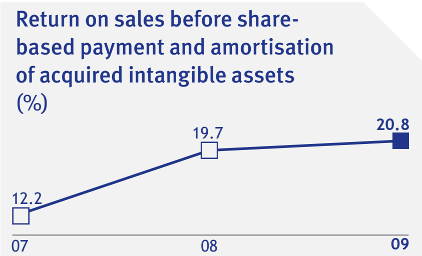
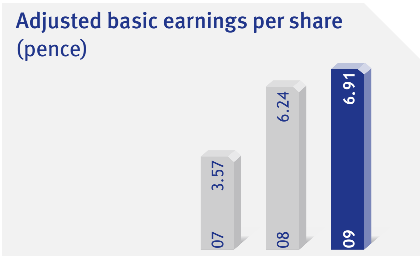
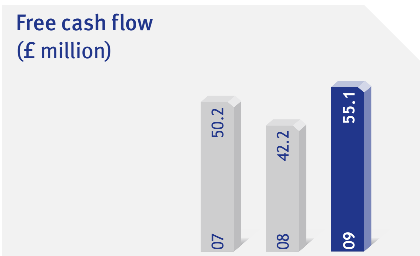
Gross profit margin improved in 2009 to 66.3 per cent from 64.6 per cent in 2008. There has been an improving trend over a number of years achieved through increased efficiency, redesign and outsourcing activities. Gross margin has also been positively affected by an increasing proportion of software revenue.

Operating profit before share-based payment and amortisation of acquired intangible assets (£ million)



Operating profit before share-based payment and acquired intangible amortisation 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 organic growth.

In 2009 Spirent reported an increase in operating profit of 11 per cent in sterling terms; at constant currencies Group operating profit was down by 8 per cent. Having the ability to adapt to the changing market dynamics has been key in 2009 in order for Spirent to maintain profitability whilst enabling our commitment to innovation to be preserved.

KPI	DESCRIPTION	COMMENTARY
	Operating profit before share-based payment and acquired intangible amortisation as a percentage of revenue is a measure of our profitability. We strive to achieve best in class operating returns for our industry.	We have improved return on sales from 19.7 per cent in 2008 to 20.8 per cent in 2009. This has been achieved through efficiency gains, improved gross margins and control of overhead expenses. These operating returns are some of the best in our industry.
	Earnings per share ("EPS") is the amount of earnings attributable to each share in issue. Adjusted EPS excludes exceptional items, net of any related tax, and prior year tax which enables period-on-period comparisons to be made of our performance. We aim to achieve growth in adjusted EPS year-on-year.	Adjusted EPS was 6.91 pence for 2009 an improvement of 11 per cent on the prior year. In 2009 EPS has also been adjusted for a deferred tax credit arising on a change in estimate of deferred tax recovery of £13.8 million.
	Free cash flow is operating cash flow after tax, net interest and net capital expenditure. We focus on cash generation as a measure of the quality of our earnings and our aim is to achieve a high conversion of profit into cash each year.	Free cash flow was £55.1 million for 2009, which represents 95 per cent of reported earnings. Adjusting for the deferred tax credit of £13.8 million referred to above and which was a non-cash item in 2009, the conversion ratio is 124 per cent.

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. 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 and/or adversely affect the operating or financial performance of the Group. These processes are more fully described in the Directors' statement on corporate governance.

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

RISK AND POTENTIAL IMPACT	MITIGATION ACTIONS
Macro economic and industry sector In common with most businesses Spirent is exposed to the current economic conditions. We are particularly exposed to conditions in the telecommunications sector into which we sell many of our products and services.	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 are in a position to take timely actions to protect profitability where possible.
Technological change As Spirent sell solutions in industries that are characterised by rapid technological changes, keeping at the forefront of these technologies is critical to our success and in ensuring that we remain competitive in our markets. Bringing these new solutions to market at the right time for our customers is also key to our success as well as ensuring that our solutions portfolio is aligned with their needs.	We continue to make significant investment in product development and in 2009 £47.5 million, being 17.5 per cent of revenue, was invested. We work closely with customers and remain focused on their requirements and believe we are investing in areas that represent their future. Our value proposition is based on our service, expertise and product breadth.
Reliance on contract manufacturers We use contract manufacturers for the manufacture of a substantial amount of our products. Disruption or financial problems of contract manufacturers or limitations in the manufacturing capacity at contract manufacturers could either limit supply or increase our costs.	We work closely with our contract manufacturers and maintain a regular on-site 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.
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.	An important component of Spirent's corporate governance is its integrated risk management strategy and its regular self assessment of risks encompassing all business units. Part of this process is to ensure that the risks of disruption to the business are identified, monitored and controlled wherever possible as well as arranging appropriate insurance cover.

RISK AND POTENTIAL IMPACT	MITIGATION ACTIONS
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 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. Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff.
Intellectual property Spirent's success is dependent in part on proprietary technology which may be infringed by others inadvertently or otherwise. We may inadvertently infringe the intellectual property rights of third parties.	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.
Exchange rate Spirent conducts operations globally and accordingly the value of revenue and expenses, assets and liabilities will be affected by fluctuations of the pound sterling, the reporting currency, against the currency in which these are denominated. The principal currency to which we are exposed is the US dollar. Currency exposures also arise from trading transactions undertaken by the Group's operations in foreign currencies.	The Group does not enter into instruments to hedge the translation exposure of the operating results or net assets of its overseas subsidiaries as these are considered accounting and not cash exposures. Where currency exposures on trading do not naturally offset, forward foreign currency exchange contracts are put in place by Group treasury to hedge the transactions.

"Customer sentiment has now changed from cost management to investing for the future, a positive trend which has continued into the first quarter of 2010."

Communications

£ million	First half 2009	Second half 2009	Full year 2009	2008	Change (%)	Change at constant currency (%)
Revenue						
Performance Analysis	102.5	99.3	201.8	191.2	6	(9)
Service Assurance	18.3	15.2	33.5	33.5	–	(14)
Communications group	120.8	114.5	235.3	224.7	5	(10)
Operating profit						
Performance Analysis	21.9	28.0	49.9	44.9	11	(5)
Service Assurance	2.6	2.2	4.8	4.8	–	(13)
Communications group	24.5	30.2	54.7	49.7	10	(6)
Return on sales (%)						
Performance Analysis	21.4	28.2	24.7	23.5		
Service Assurance	14.2	14.5	14.3	14.3		
Communications group	20.3	26.4	23.2	22.1		

Performance Analysis

Market conditions

The year ended with a welcome positive change in customer confidence. This followed the return to stability during the third quarter of the year, after the difficult conditions in the first two quarters. Customer sentiment has now changed from cost management to investing for the future, a positive trend which has continued into the first quarter of 2010.

Service providers have increased their investments in higher speed Ethernet to support an increase in broadband and wireless traffic as well as advanced applications such as cloud computing. Network equipment manufacturers have shifted their investments accordingly to developing platforms that support higher speed Ethernet and backhaul of mobile generated data traffic in greater scale than ever before. In addition, we have seen an increase in development spending on next-generation enterprise solutions. These investments promise more application aware networks and the support of multiple technologies in the data center such as virtualization and cloud computing. Spirent is benefiting from all of these trends through its diverse solutions portfolio of test and measurement products and services.

Customers are continually seeking ways to optimise their investments in product development, and in turn are looking for increased value from test and measurement tools. This has led to a shift in demand from single technology test products to solutions that can handle multiple technology scenarios leveraging a single hardware and software architecture. As a result Spirent TestCenter™ has emerged as the Layer 2–7 test solution of choice for the market. We have seen a strong increase in demand for 10 Gigabit Ethernet ("GbE") interface modules in 2009 with customers requesting price reductions due to the increase in volume purchases. We have proactively met this challenge by adopting new technologies which increase port density and lower the overall cost per port. Automation is also playing a key role in driving improvement in time to market and efficiency for our customers. Spirent is leading the way with its automation solutions through its participation in industry wide automation initiatives.

Growth in wireless communication driven by the needs of consumers and businesses for anytime, anywhere internet access is accelerating the adoption of new technologies and the development of complex scenarios such as converged wireless and wireline networks. As a result we are experiencing strong demand for our UMTS and LTE wireless communication test solutions. At the same time, CDMA wireless technology began to show signs of expected weakness, although the effect of this was masked by a few large contract wins during the year. As a leader in testing wireless devices and infrastructure, Spirent continues to apply its innovations to meet the ever evolving needs of wireless customers.

The market for test equipment in the positioning sector experienced a sharp decline in 2009. This was the result of many factors including reduced US government spending and a significant reduction in manufacturing production volumes as sales of consumer end products fell as the market paused, waiting for the development of devices that can leverage multiple global navigation satellite systems. We expect a recovery in the positioning test market in 2010.

Revenue

Performance Analysis revenues grew by a reported 6 per cent in sterling, masking a 9 per cent decrease in constant currency for the full year 2009. However, the rate of decrease moderated in the fourth quarter. More importantly order intake for the fourth quarter grew by 17 per cent over the same period in 2008 in constant currency. Regionally we saw continued growth in Asia, particularly in China, with recovery coming in North America at the end of the year.

As customers assessed their investment priorities, they cut back on legacy product enhancements and shifted to new technology development. Almost all of the decrease in revenue in 2009 can be attributed to the decline in legacy test solution spending. Looking forward this is expected to have less of an impact, as legacy products now only account for 11 per cent of Performance Analysis revenue.

Spirent secured significant wins in the year as a result of new product introductions and selling initiatives. We enabled service providers and network equipment manufacturers to test the interoperability and scalability of the emerging LTE enhanced packet core. In addition, sales of our high density 10GbE ports were up nearly two fold. Meanwhile in Asia and North America we won orders for our 40/100GbE test solutions. Important sales were made throughout the year to service providers and network equipment manufacturers who are focused on virtualization, cloud computing inside the data center and delivery of applications to enterprise and consumers.

"New product innovation, technical leadership and working closely with our customers to bring test solutions to market at the right time to meet demand are key contributors to Spirent's success."

Revenue growth in our wireless business was exceptionally strong in 2009. Overall 3G/UMTS test solutions saw solid growth during the year. The continued build out of enhanced wireless data networks by CDMA carriers such as China Telecom and Verizon Wireless drove demand for test solutions. The rapid increase in sales and deployment of 3G smartphones has increased the complexity of testing these devices for both the wireless network operators as well as the device manufacturers. Furthermore, we became the supplier of choice for the mobile LTE device test for Verizon, a major US service provider, and their ecosystem of device suppliers. The emphasis on creating "real-world" conditions while testing in a controlled environment in the laboratory increased demand for fader products. Positioning products saw reduced revenues as a result of lower demand due to macro economic conditions in 2009, but fundamental long term positive trends continue to exist.

Profitability

Performance Analysis profits increased by a reported 11 per cent; excluding currency effects profits decreased by 5 per cent. Control of overheads led to a reduction of £12.7 million in constant currency terms, offsetting the 9 per cent decrease in revenue. Return on sales for the year was 24.7 per cent compared to 23.5 per cent for 2008, with the second half year seeing return on sales increase to 28.2 per cent. The benefits of improved design for manufacture, supply chain efficiencies and proactive product cost reduction measures through advancement in technology and density, offset price pressures to give an increase in gross margin of 0.6 percentage points over 2008.

Product development

New product innovation, technical leadership and working closely with our customers to bring test solutions to market at the right time to meet demand are key contributors to Spirent's success. Spirent has transformed itself into an organisation that can rapidly address the ever changing conditions in our target markets. Spirent today is more efficient and at the same time more agile than it has ever been. Industry recognition for innovation in our test solutions continues to demonstrate the Company's leadership position.

We delivered a series of new products in 2009 to serve our customers. Spirent TestCenter remained the leader in high speed Ethernet testing through the addition of our high density 10GbE module as well as the industry's highest performing 40/100GbE solution. In addition, we delivered the industry's first solution to holistically test the enterprise data center and enhanced the performance of our integrated application

BUSINESS GROUP DEVELOPMENT AND PERFORMANCE
continued

performance test platform. We also released new protocols to support mobile backhaul and introduced our LTE enhanced packet core performance test capability.

For 2010, we will continue to enhance our high speed Ethernet offerings on Spirent TestCenter while we further incorporate additional data center, applications and mobile backhaul capabilities into the platform. In addition, we will dramatically increase the performance and usability of application test solutions and support increased scalability and standards in our LTE packet core testing platform.

Wireless test solutions delivered in 2009 addressed the requirements of 3G and 4G/LTE testing needs. For our 3G customers we enhanced our testing capabilities to better simulate real-world conditions inside a controlled lab environment. Recreation and playback in the lab of data captured in the live wireless network using the virtual drive test functionality of our faders allowed customers to do more real-world testing in the lab at a lower cost than ever before. For the wireless network operators who are deploying higher speed data on CDMA our upgrades have enabled them to more effectively test the roll out of new devices. For UMTS customers we have expanded test coverage with our device library test solution that provides developers with a user controllable bench-top UMTS wireless network to test their hardware or software. In 2009 Spirent also delivered its first LTE device test solutions focused on radio frequency and data performance testing requirements.

In 2010, our wireless test solutions will expand to address the ever increasing market requirements of wireless testing. In particular, new Global Navigation Satellite Systems such as GLONASS will drive the need for wireless device test solutions that combine this technology with existing GPS capabilities. The further growth of smartphones and other “data-hungry” devices on the 3G/CDMA and UMTS networks will drive the need for testing high speed data solutions. LTE will require improved and expanded antenna testing by deploying techniques such as Multiple Input Multiple Output Over-the-Air testing, and increase the testing needs to include mobility and location based services. The ubiquity of positioning technology is also expected to expand in 2010, as consumer applications utilising global satellite navigation continue to grow.

We deliver testing solutions that address emerging and growing communication technologies. The desire for anytime, anywhere internet access coupled with the growing demand for increased bandwidth is driving the convergence of wireline and wireless technologies across the communications industry creating new opportunities for test and measurement products, solutions and services.

Service Assurance
Market conditions

As expected, market conditions remained challenging throughout 2009 for both the service assurance and field test markets. In the first half of the year we saw caution around operational and capital spending by service providers across all segments of our business. However, in the second half year we began to see indications of increased demand for carrier Ethernet service assurance and triple play field test solutions. Several factors are driving carrier investment in these areas which include increased competition, the complexity in the access network and a move towards the improved efficiency of their field engineers.

Specifically, we have added new customers throughout North America and Europe for 1G and 10G centralised test and performance solutions for the enterprise business services and wireless backhaul markets. Spirent’s next-generation field test unit, Tech-X Flex, has sold into major North American service providers and cable multiple system operators for in-home testing as service providers have begun to launch new advanced services such as multi-room digital video recording.

For 2010, we expect to see moderate growth in carrier Ethernet service assurance and triple play field test solutions. This growth is being driven by increased demand for more efficient and lower cost carrier Ethernet services for business and advanced residential triple play offerings. Spirent is well positioned to take advantage of these new areas of spend within cable multiple system operators, wireline, and wireless service providers.

Revenue

Service Assurance revenues declined by 14 per cent in constant currency year-on-year, as expected, as service providers continued to reduce spend on legacy and DSL solutions. Growth in 10GbE monitoring devices was strong and demand for monitoring for cable multiple system operators was robust, but this did not offset legacy decline. The second half year saw much more robust order intake, which gives confidence that revenues will stabilise in 2010.

Profitability

While the Service Assurance business saw a decline in revenue in 2009 in constant currency, the business was able to maintain profitability through increased efficiency and continued cost management.

Product development

The division continues to focus on the development of service assurance and field test solutions for next-generation networks. In 2009, new 1GbE and 10GbE service assurance solutions were launched for Ethernet business services and 3G/4G wireless backhaul. In addition, we completed the development on several new modules for the Tech-X Flex field test product line providing us with a complete suite of “in-home” and “outside the home” test capabilities for the service provider and cable multiple system operator markets.

Systems

£ million	First half 2009	Second half 2009	Full year 2009	2008	Change (%)	Change at constant currency (%)
Revenue	18.3	18.5	36.8	33.2	11	(5)
Operating profit	2.1	2.9	5.0	4.3	16	(23)
Return on sales (%)	11.5	15.7	13.6	13.0		

The Systems group comprises PG Drives Technology, a leading supplier of control systems for electrically powered medical and small industrial vehicles. The business was affected by the global recession, particularly on industrial sales, but less so on medical mobility despite changes in US government healthcare funding for powered wheelchairs.

At constant currency revenue was down 5 per cent and operating profit by 23 per cent. Nevertheless, the exchange rate benefit was more than enough to offset the effects of the recession on sales and profit, but as we were hedged for much of the year at $1.83:£1 we were unable to take full advantage of this effect.

During 2009 we introduced new products for scooters and wheelchairs and in spite of the recession made good progress in growing market share in the industrial market segment.

In 2010, we plan to introduce several significant new products which will include new systems for powered wheelchairs and also industrial vehicles. In addition, we will continue to take advantage of operational cost improvements through design and by placing more production into China, which also supports our activities in the Asia Pacific region. The US dollar to sterling exchange rate has moved significantly in our favour and this should benefit our results in 2010.

Corporate costs

Corporate costs were £3.1 million in 2009 and 2008. The cost reductions achieved in prior years were maintained, as were the reduced staff levels.

FINANCIAL REVIEW

"The book to bill ratio, which is a measure of the strength of our future revenues, grew to 102 for the year compared with 98 for 2008."

Eric Hutchinson
Chief Financial Officer

Group financial performance

Results

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

	First half 2009	Second half 2009	Full year 2009	2008	Change (%)	Change at constant currency[5] (%)
Book to bill ratio[1]	91	112	102	98		
Revenue (£ million)	139.1	133.0	272.1	257.9	6	(10)
Gross profit margin (%)	65.2	67.5	66.3	64.6		
Operating profit[2] (£ million)	24.8	31.8	56.6	50.9	11	(8)
Return on sales[2] (%)	17.8	23.9	20.8	19.7		
Adjusted basic earnings per share[3] (pence)	3.01	3.90	6.91	6.24	11	
Free cash flow[4] (£ million)	27.1	28.0	55.1	42.2	31	

Notes
1 Ratio of orders booked to revenue billed.
2 Before share-based payment and acquired intangible amortisation.
3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 12 of Notes to the consolidated financial statements.
4 Operating cash flow after tax, net interest and net capital expenditure.
5 Change at constant currencies eliminating the effects of fluctuating exchange rates on the translation of operating results and on transactions.

Revenue

Revenue in sterling terms was up 6 per cent compared with 2008. Excluding the benefits of exchange rates, the change was a decrease of 10 per cent which was a solid performance in a challenging economic environment. During 2009 we have increased our market share in our key Performance Analysis division and have seen increased demand for our products in growing and emerging markets.

Spirent's revenues are predominantly denominated in US dollars and therefore the lower average US dollar:sterling exchange rate this year has had a marked positive effect on these results, increasing reported revenue by £38.9 million compared with 2008. There was sequential growth of 3 per cent in revenue in constant currency for the second half of 2009 compared with the first half as we started to see some recovery in the fourth quarter of 2009.

The geographic profile of revenue did not change significantly with revenue in US dollars down in most markets with the exception of China where revenue grew 8 per cent.

£ million	2009	%	2008	%
Europe	44.1	16	47.8	19
United States	135.3	50	129.1	50
Asia and Rest of the World	92.7	34	81.0	31
	272.1	100	257.9	100

The book to bill ratio, which is a measure of the strength of our future revenues, grew to 102 for the year compared with 98 for 2008 and in the second half it was at 112, reflecting the stronger order intake in the fourth quarter. Order intake for the year at constant currencies was down 6 per cent compared with the prior year. For the fourth quarter there was growth of 18 per cent compared with the fourth quarter of 2008.

Operating profit

Reported operating profit was £55.3 million compared with £48.7 million in 2008, an increase of 14 per cent in sterling terms. Operating profit before share-based payment and acquired intangible amortisation, which is the measure of profit used by the Group to evaluate performance, improved by 11 per cent to £56.6 million compared with

£50.9 million in 2008. Exchange benefited this result by £9.7 million, compared to 2008; at constant currencies operating profit is down 8 per cent.

Spirent's ability to adapt to changing market dynamics has been key in 2009 in enabling profitability to be maintained and allowing the funding of innovation in products and solutions to be preserved. In 2009 we realised annualised cost reductions of £11.3 million, announced at the interim stage, at a cost of £1.0 million which was expensed in the year.

We have improved our return on sales from 19.7 per cent in 2008 to 20.8 per cent in 2009. The Group's returns are some of the best in our industry.

Return on sales

20.8%

(2008 19.7%)

Currency impact

As previously mentioned the weakening of sterling in the latter part of 2008 against all the major currencies resulted in a significant change to the average US dollar:sterling exchange rate used to translate Spirent's results in 2009 compared with that for 2008. The average exchange rate decreased from 1.85 for 2008 to 1.57 for 2009. This increased reported revenue by £32.9 million and operating profit by £7.5 million on translation. The Group has reduced its exposure to transactional currency risk in some of its businesses as it had hedged its full year expected US dollar exposures at the end of 2008 at an average rate of $1.76:£1. Transactional currency exposures resulted in an increase in reported revenue of £6.0 million and in operating profit of £2.2 million. For 2010 approximately half of the forecast transactional exposures have been hedged at an average rate of $1.57:£1.

At an exchange rate of $1.60:£1, and based on 2009 results, revenue would be lower by approximately £4 million and operating profit by £1 million. For each $0.01 change in the $:£ rate earnings per share changes by approximately 0.03 pence.

Cost of sales and operating expenses

We have seen a further improvement in gross margin during 2009, an increase of 1.7 percentage points, to 66.3 per cent, and in the second half of 2009 we achieved 67.5 per cent. There has been an improving trend over a number of years achieved through cost reduction and outsourcing activities. Gross margin has also been positively affected by an increasing proportion of software revenue.

The development of new innovative test solutions is critical to the success of our business and product development forms a substantial amount of our overall costs. We work closely with our customers and remain focused on their requirements and are investing in areas that represent their future. Product development expense in 2009 increased from £45.3 million in 2008 to £47.5 million, but was lower in US dollar terms and marginally lower as a percentage of revenue, dropping to 17.5 per cent from 17.6 per cent of sales in 2008. The majority of this spend, £38.7 million (2008 £37.8 million), is for our Performance Analysis division.

Other operating expenses, which includes share-based payment and acquired intangible amortisation, were higher at £77.7 million in 2009 compared with £72.6 million in 2008, being 28.6 per cent and 28.2 per cent of sales, respectively. The absolute increase is principally a result of exchange rate translation effect on US dollar operating expenses of £8.4 million, plus the losses on exchange rate hedging of £3.2 million. This increase has been offset by a lower expense for share-based payment in 2009 and by cost control.

Exceptional items

There were no exceptional items in 2009. In 2008 £0.8 million of exceptional finance income was reported in relation to interest received on tax refunds for prior periods. An exceptional interest expense of £2.6 million was charged for interest paid on the agreement of prior year tax positions with the relevant tax authorities, and a related exceptional tax credit of £25.6 million was also recorded.

Intangible amortisation

Operating expense includes a charge of £0.9 million for the amortisation of acquired intangibles in 2009, compared to £0.7 million in 2008. There will be a comparable charge in 2010.

FINANCIAL REVIEW continued

Share-based payment

The charge for share-based payment for 2009 was just £0.4 million compared to £1.5 million for 2008. Minimal share-based incentives have again been awarded in 2009 and it is expected that this charge will remain at a similar level in 2010.

Finance income and costs

The strong cash generation of the Group has boosted the funds available for investment but with continuing low interest rates finance income was just £0.4 million for 2009 compared with £3.2 million for 2008, excluding exceptional interest referred to above. Surplus funds are held in short term bank deposits in the UK and US and earn market rates of interest.

Finance cost of £1.6 million includes £1.1 million in respect of the defined benefit pension plan, being the expected return on pension plan assets less the interest charge on the unwinding of the liabilities. This item has reduced from £0.1 million of income in 2008, a result of reduced returns and asset values compared with the prior year. It is expected that the charge for the pension plan will be approximately the same for 2010. The remainder of the interest charge relates to the unwind of the discount on leasehold provisions of £0.2 million (2008 £0.3 million) and bank fees of £0.3 million (2008 £0.2 million).

Profit before tax

Reported profit before tax was £54.1 million compared with £49.6 million for 2008. There were no adjustments to the reported numbers in 2009. In 2008 there was an adjustment for the net exceptional interest charge of £1.8 million, giving an adjusted profit before tax of £51.4 million.

Tax

The Group has reported a tax credit for 2009 of £4.0 million (2008 £25.2 million credit). This includes the benefit of £13.8 million for a change in estimate in respect of the recovery of deferred tax assets. An exceptional tax credit arising on the agreement of prior year tax positions benefited 2008. Excluding the deferred tax credit and prior year tax charged of £1.8 million (2008 £30.5 million credit including exceptional items), the current year tax charge for the Group was £8.0 million in 2009 (2008 £5.3 million). This gives an effective rate of 14.8 per cent for 2009 (2008 10.3 per cent).

There is now sufficient evidence under accounting standards to require further recognition of deferred tax assets in 2009 in relation to unutilised tax losses and temporary differences. At 31 December 2009 deferred tax assets amounting to £26.4 million have been recognised on the balance sheet (31 December 2008 £12.2 million). At 31 December 2009 there are deferred tax assets amounting to a tax value of £19.1 million which remain unrecognised in respect of unutilised non-trading loan relationship losses (£17.5 million) and temporary differences (£1.6 million) (31 December 2008 £37.2 million).

Having recognised the benefit of tax losses brought forward the future tax charge is expected to result in an increase in the effective rate. For 2010 it is expected that the effective tax rate will be in the region of 34 per cent.

Earnings per share

Basic earnings per share for the Group was 8.71 pence for 2009 compared with 10.13 pence for 2008.

Adjusted basic earnings per share, before exceptional items, net of any related tax and prior year tax, and also excluding in 2009 the benefit of the deferred tax credit of £13.8 million referred to above, was 6.91 pence compared with 6.24 pence for 2008. This was an improvement of 11 per cent year-on-year.

Weighted average Ordinary Share capital was 667.0 million shares compared with 738.5 million for 2008, reduced by the substantial share repurchases in 2008. At the year end the shares in issue ranking for dividend were 672.2 million.

Financial risk management

The key objective of the Group treasury department is to manage the financial risks of the business and to ensure that sufficient liquidity is available to the Group. All treasury activity operates within a formal control framework. The Board has approved treasury policies and guidelines and periodically reviews treasury activities. Additionally, it is the Group's policy that speculative treasury transactions are expressly forbidden.

Spirent's financial risk management objectives and policies and its exposure to risks are discussed in note 26 of Notes to the consolidated financial statements.

Financing and cash flow

Cash and cash equivalents increased to £108.0 million at 31 December 2009 compared with £59.7 million at 31 December 2008. The Group continues to be debt free, and the undrawn £25 million three-year working capital facility which was put in place in 2008, was cancelled by the Company in 2009. The majority of the cash is held in bank deposits in the UK and US. Currency translation has decreased cash and cash equivalents by £2.2 million.

Operating activities generated £61.2 million in the year compared with £47.7 million in 2008. Free cash flow is set out below:

£ million	2009	2008
Cash flow from operations	67.7	53.4
Tax paid	(6.5)	(5.7)
Cash flow from operating activities	61.2	47.7
Net interest income	0.4	1.4
Net capital expenditure	(6.5)	(6.9)
Free cash flow	55.1	42.2

Free cash flow was £55.1 million for 2009, which represents 95 per cent of reported earnings. Adjusting for the one-time deferred tax credit of £13.8 million, which was a non-cash item in 2009, the conversion ratio is 124 per cent. For 2008 the conversion percentage was 86 per cent, adjusting for exceptional items.

Tax payments increased in 2009 to £6.5 million compared with £5.7 million in 2008. The Group is returning to more normal levels of tax payment as brought forward tax losses which had been available for set off against taxable profits are now substantially utilised.

Net interest received was lower at £0.4 million compared with £1.4 million in 2008 affected by the reduction in returns on bank deposits and in 2008 includes £1.8 million of net interest due on the prior year tax settlements.

Net capital expenditure for the Group was lower at £6.5 million in 2009 (2008 £6.9 million). This was well below the depreciation charge of £8.6 million (2008 £8.8 million). With most manufacturing now outsourced, the Group's capital investment requirements continue to be low.

Cash outflow for on-market share repurchases amounted to £0.7 million in 2009 (2008 £67.2 million). An inflow of £2.4 million was received from the exercise of employee share incentives (2008 £2.4 million).

In 2009 the Group settled the final dividend of 0.60 pence for the year ended 31 December 2008 and paid an interim dividend of 0.55 pence per share giving a net dividend outflow of £7.7 million (2008 £3.7 million).

Finally £1.4 million (2008 £1.2 million) was transferred from the long term cash deposit, set up as a consequence of a capital reorganisation in 2004, as we settled lease obligations to allow release of funds.

Cash inflow for 2009 was £50.5 million compared with an outflow of £25.1 million for 2008.

Defined benefit pension plans

The accounting valuation of the UK defined benefit pension plans at the end of 2009 was based on the data from the triennial valuation of the plans at 1 April 2009. At 31 December 2009 there was a surplus of £0.6 million in one of the plans and a deficit in the other of £0.3 million. This compares with a total surplus for both plans of £2.6 million at 31 December 2008. The market value of the pension plans' assets has increased in 2009, largely due to a recovery in global markets, but this was offset by increases in the liabilities resulting from changes to the assumptions used to value the liabilities.

The actuarial valuation at 1 April 2009 has not yet been fully finalised; such a valuation involves a complete review of all the assumptions including longevity and funding. Once complete it is likely that there will be increases to future Company contributions, although these are unlikely to be material.

The Group has also reported a liability of £0.4 million (2008 £0.6 million) in respect of UK unfunded plan liabilities.

Essential contractual arrangements

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

We will negotiate renewal of this contract in advance of September 2010.

Capital structure

On-market share repurchases were recommenced towards the end of 2009 with 0.6 million shares being repurchased at a cost of £0.6 million. In 2008 £67.0 million of cash was returned to shareholders via on-market share repurchases and a tender offer. This represented 125.8 million Ordinary Shares.

Dividend

The Board are recommending the payment of a final dividend for 2009 of 0.66 pence per share which, with the interim dividend of 0.55 pence per share paid in September 2009, brings the full year dividend to 1.21 pence per share and is covered 5.7 times by adjusted earnings. Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 6 May 2010 to Ordinary shareholders on the register at 12 March 2010. Payment to ADR holders will be made on 13 May 2010.

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”). These include in particular our corporate practices in terms of ethical behaviour, our employees, care for the environment and community involvement.

The Board takes ultimate responsibility for CSR and is committed to developing and implementing appropriate policies while adhering to a fundamental commitment to create and sustain long term value for shareholders.

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 2009, Spirent’s employees were again clearly reminded of the standards expected of them when it refreshed its Vision, Mission and Values statements.

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. The Group aims to find, engage and keep the highest calibre of employees and encourages their contribution and development.

An environment that fosters innovation and collaboration is critical to the Company’s success. Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff. Such a commitment was recognised in 2009 by Fortune China magazine, where Spirent was found to be one of the 20 best companies to work for in China.

Employees are provided with numerous learning and development opportunities to fulfill their potential. For example, our US employees enjoy a tax free tuition reimbursement benefit for classes taken towards college-level degrees such as a master of business administration or master of science in electrical engineering. A wide variety of courses and training opportunities are also available to employees globally to enhance their skills. As another example, Spirent’s North America sales team participated in quarterly manager development training as well as negotiation skills training.
These development opportunities are structured to align with our organisational objectives and to help employees in furthering their career aspirations.

Spirent demonstrates that it values its employees through several reward and recognition programmes. One example is our President’s Club, which recognises our most exceptional sales employees on an annual basis in every geographic region. Another way we reward and recognise excellence is through our Global Recognition Programme. It is the intention of Spirent to recognise and reward both the efforts and results of individual accomplishments by employees or managers that provide positive results for the organisation. The programme is broken down into three types of recognition:

- Spot Recognition Award – to provide special recognition of extraordinary achievement;
- Excellence Award – to recognise performance or ideas which are tied to the Spirent values and result in significant savings or benefit;
- Executive Award – to recognise remarkable individual effort at the highest level which contributes to a significant positive result.

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

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

The Group is committed to providing equality of opportunity to all existing and prospective employees without unlawful discrimination on the basis of religion, disability, gender, age, marital status, sexual orientation, race, ethnicity or any other protected status. With regard to employees who become disabled, the policy is to take all reasonable steps, including retraining, to ensure that they can remain in employment wherever practicable. We encourage diversity and opportunity, which is reinforced through the Group's Ethics Policy.

Health and safety

The Chief Financial Officer is the director appointed by the Board to have responsibility for the health and safety performance of the Group. 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 again in 2009 as further Group manufacturing moved to an outsourcing model. 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 2009 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 intention that each business unit should have a senior individual designated as being responsible for ensuring the business unit conforms to local statutory health and safety regulations as well as the Group Policy. 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. All Spirent staff are provided with a written health and safety policy and each staff member can make a valuable contribution by taking reasonable care of themselves and those affected by their actions or omissions.

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

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

Business units are required to comply with the Group Policy and local statutory regulations and are encouraged to set their own environmental targets. An annual environmental questionnaire is completed by each business unit which highlights their environmental performance. The Group's main environmental impact now largely involves the effects produced from offices housing employees. Where possible, business units monitor energy consumption, water consumption and waste production. All business units continue to take positive steps to reduce energy consumption, such as better space utilisation, more efficient running of equipment and machinery, and sensor controlled equipment. Environmental waste management in the Group continues to improve with most business units operating waste minimisation schemes mainly focusing on increased recycling.

The vast majority of our products continue to be manufactured by outside contract manufacturers and we check the environmental policies of these suppliers through audits and surveys. Wherever possible our products are designed and manufactured to take account of the recycling and disposal of the product at the end of its lifecycle. Our business units comply with both The Waste Electrical and Electronic Equipment Regulations and The Batteries Directive. New products are designed to meet the Restriction of Hazardous Substances Directive ("RoHS"), also known as Directive 2002/95/EC, 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.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT continued

The vacant site reported on last year where historical activity had led to minor land and groundwater contamination is continuing to be monitored to confirm that remedial work carried out has been successful. We have also been contacted by authorities regarding another previously owned property which appears to have historical land and groundwater contamination and discussions are ongoing.

Community

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

Education

The Group has established links with certain public-private non-profit educational organisations to help students develop the skills needed to succeed in the global economy. Throughout 2009 we continued to support education by offering internships and work experience programmes. As part of Junior Achievement (www.ja.org), 30 Spirent employee volunteers from our Germantown, Maryland office spent a day at Patterson Elementary School in the inner city of Washington D.C. teaching students aged 6 to 12. The programme enabled volunteers to teach students financial literacy, work readiness, and entrepreneurship. Volunteers served as role models, providing both education and inspiration.

Spirent also periodically provides work experience opportunities for local students in our Paignton office, where 15 year olds spend a week with our team, visiting each department that is of interest to them. In our Beijing office, we offered on-site internship opportunities to 13 students from top universities in China, including University of Science and Technology Beijing. These internships help students develop professional knowledge as well as enhance their competitiveness in society.

Local community support of non-profit agencies

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

The Group has formed lasting partnerships with several local non-profit organisations to provide essential resources and services to those in need. During the winter holiday season in 2009, our employees in the US participated in a food drive for the Los Angeles Regional Food Bank (www.lafightshunger.org).

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.

Our Charitable Donation Policy matches employee contributions on a regular basis, including employee donations to the American Cancer Society's Relay for Life programme. In 2009, Spirent made charitable donations of £91,000 (2008 £52,000).

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

BOARD OF DIRECTORS

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1. Edward Bramson (58) [N]
Chairman

Edward Bramson was appointed Chairman of the Board and Chairman of the Nomination Committee on 22 December 2006 and served as Executive Chairman and Chief Executive Officer from March 2007 to November 2008. He is chairman and chief executive officer of Nautilus, Inc, where he was elected to the board on 31 December 2007. He was a member of the board of directors of Elementis plc where he served as chairman from June 2005 to September 2006 and as non-executive director until April 2007. Mr Bramson was chairman of 4imprint Group plc from October 2003 to July 2004 and a non-executive director until his resignation from the board in April 2005 and was chairman of Ampex Corporation until his resignation in February 2007. He is currently a partner in Sherborne Investors, a turnaround investment firm. Mr Bramson is resigning as Chairman of the Company on 4 March 2010 and will retire as a director at the 2010 AGM.

2. Bill Burns (42)
Chief Executive Officer

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

3. Eric Hutchinson (54)
Chief Financial Officer

Eric Hutchinson was appointed Finance Director on 1 January 2000, having previously been responsible for all financial reporting and control within the Group. He is a Fellow of the Chartered Association of Certified Accountants, and a member of the Financial Reporting Review Panel.

4. Alex Walker (63) [ANR]
Senior Independent Non-Executive Director

Alex Walker was appointed to the Board on 22 December 2006 and is the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee. He was chief executive of Yule Catto & Co. plc until 17 August 2006 and is currently a member of the audit, remuneration and nomination committees of Rotork plc. Mr Walker will be appointed Non-Executive Chairman of the Company following Mr Bramson's resignation from that position on 4 March 2010.

5. Ian Brindle (66) [ANR]
Independent Non-Executive Director

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

6. Gerard Eastman (52) [N]
Non-Executive Director

Gerard Eastman was appointed to the Board on 22 December 2006. He is the managing member of Caumsett Capital, a public equity investment firm focused on operating turnarounds. Until December 2009, he was a partner in Sherborne Investors and was a non-executive member of the board of Nautilus, Inc. He was previously a managing director of investment banking at Citigroup and before that held senior positions at Salomon Brothers and S.G.Warburg & Co. Mr Eastman will retire as a director at the 2010 AGM.

7. Duncan Lewis (58) [NR]
Independent Non-Executive Director

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

8. Tom Maxwell (62) [AN]
Independent Non-Executive Director

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

Statements on the independence of Board members are given in the Directors' statement on corporate governance on page 30.

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

A Audit Committee
N Nomination Committee
R Remuneration 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 2009.

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, any 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 page 7 of this Annual Report.

Results and dividends

The consolidated income statement is on page 42. Profit for the financial year attributable to equity shareholders amounted to £58.1 million (2008 £74.8 million).

A final dividend of 0.66 pence per Ordinary Share is recommended by the Board for the year to 31 December 2009 (2008 0.60 pence) for which approval will be sought from shareholders at the Company's 2010 Annual General Meeting ("2010 AGM") on 5 May 2010, to be paid on 6 May 2010 (ADR holders on 13 May 2010) to those shareholders whose names are on the Register of Members on 12 March 2010.

Together with the interim dividend of 0.55 pence per Ordinary Share (2008 0.50 pence) which was paid to shareholders on 17 September 2009, this amounts to a total dividend for 2009 of 1.21 pence per Ordinary Share (2008 1.10 pence).

Share capital and control

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

At the date of this Report, 678.8 million Ordinary Shares of 3⅓ 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 28 to the consolidated financial statements and note 16 to the parent Company financial statements.

The rights, including those relating to voting, obligations and any restrictions on transfer relating to the Company's Ordinary Shares, as well as the powers of the Company's directors, are set out in the Company's Articles of Association, a copy of which can be found on our website at www.spirent.com or can be obtained from Companies House or by writing to the Company Secretary. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The changes to the Articles of Association approved at the 2009 AGM became effective on 1 October 2009. The Notice of 2010 AGM includes a resolution to make minor changes to the Company's Articles of Association to take account of recent amendments to company law.

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

During the year to 31 December 2009, options and rights exercised pursuant to the Company's share incentive plans resulted in the allotment of 6.9 million new Ordinary Shares.

A further 0.7 million new Ordinary Shares have been allotted under the share incentive plans between the end of the financial year and the date of this Report.

The Company has established two employee benefit trusts in connection with the operation of the Company's share incentive plans: the Spirent Employee Share Ownership Trust ("ESOT") and the Spirent Sharesave Trust ("SST"). The trustees of both trusts have waived their right to receive dividends on any Ordinary Shares held by them except for a nominal amount of 0.01 pence other than for those Ordinary Shares held in the ESOT which are the beneficial property of an employee. For further details on the employee benefit trusts see "Investment in own Ordinary Shares" in note 28 to the consolidated financial statements and note 16 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 contains a clause requiring the manufacturer's consent to any proposed transaction which will or may result in a change of control of the Group company. The Company considers that the agreement is essential to its business and intends it to remain in place until at least September 2010.

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

Return of capital

The Company was authorised at the 2006 AGM to repurchase up to 14.99 per cent of its own issued Ordinary Shares, within certain limits and as permitted by the Company's Articles of Association. This authority has been renewed at each AGM since 2006. Since the Company began returning capital to shareholders in May 2006, a total of £176.3 million has been returned, through the repurchase of 320.1 million Ordinary Shares.

During 2009 a total of 0.6 million Ordinary Shares, each with a nominal value of 3⅓ pence were repurchased for an aggregate consideration of £0.6 million and cancelled immediately following repurchase. This represents 0.09 per cent of the Company's issued Ordinary Share capital at the beginning of 2009. The Company has not repurchased any further Ordinary Shares between the end of the financial year 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 2010 AGM to facilitate any further return of capital if the Board concludes that it is in the best interests of shareholders.

Substantial shareholdings

At the date of this Report, 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:

	Number of Ordinary Shares/voting rights	% of Company's total voting rights
Blackrock Inc	115,514,742	17.02
Prudential plc	74,053,929	10.91
Aviva plc	49,698,793	7.32
Ameriprise Financial, Inc	38,520,235	5.67
Artemis Investment Management Limited	35,063,850	5.17
Legal & General Group plc	26,423,720	3.89
Sun Life Assurance Company of Canada (UK) Limited	23,382,347	3.44
Deutsche Bank AG	21,740,213	3.20
Aegon UK Group of Companies	20,551,904	3.03
Total of significant holdings	404,949,733	59.65
Others	273,881,517	40.35
Total number of Ordinary Shares in issue	678,831,250	100.00

Board of directors

The names and brief biographical details of the directors who served during the year under review are shown on page 25.

Election and re-election of directors

The Company's Articles of Association contain provisions relating to the appointment and replacement of directors. Other than Edward Bramson and Gerard Eastman, who will be retiring from the Board at the 2010 AGM, no director has a letter of appointment which is due to expire before the 2011 AGM. No directors are therefore required to seek re-election at the 2010 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 33 to 40.

Directors' indemnity arrangements

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

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

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

Corporate social responsibility

The Group's Corporate social responsibility statement appears on pages 22 to 24. This statement gives details of the Group's policies on ethics, the environment, health and safety, charitable donations and involvement in the community.

REPORT OF THE DIRECTORS continued

Charitable donations of £91,000 were made in the year (2008 £52,000). This amount excludes operating units' support and participation in local community activities. In accordance with the Group's Ethics Policy, no political donations were made in the year (2008 nil).

The Group employs approximately 1,450 people (2008 1,500) around the world and is proud of its history of being regarded as a responsible and respected employer. The Corporate social responsibility statement gives details of the Group's policies on employment, training and development.

Research and development

Product development and innovation are considered key strategies to maintain and improve the Group's competitive position and therefore continue to receive high priority. This commitment is highlighted by the £47.5 million research and development spend during the year, equivalent to 17.5 per cent of revenue (2008 £45.3 million and 17.6 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 2009, the Company had an average of 59 days purchases outstanding in trade creditors (2008 51 days).

Corporate governance

The Directors' statement on corporate governance is set out on pages 30 to 32. The Statement of directors' responsibilities in respect of the financial statements appears on page 29.

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 6 to 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 18 to 21. In addition, note 26 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

Disclosure of information to auditors

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

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

Auditors

Resolutions to re-appoint Ernst & Young LLP as auditors and to authorise the directors to determine their remuneration will be proposed at the 2010 AGM.

Annual General Meeting

The 2010 AGM will be held at 10.30am on Wednesday 5 May 2010 at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, United Kingdom.

By Order of the Board

Rachel Whiting

Rachel Whiting
Company Secretary
4 March 2010

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 ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the parent Company financial statements in accordance with UK Generally Accepted Accounting Principles and applicable law.

The consolidated financial statements of the Group are required by law and IFRS 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 IFRS as adopted by the EU;
- state for the parent Company financial statements whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Group and the parent Company will continue in operational business for the foreseeable future.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that its financial statements comply with the Companies Act 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 his 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
4 March 2010

GOVERNANCE

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

Compliance

The Board is committed to the highest standards of corporate governance set out in the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the "Code"). The Board is accountable to the Company's shareholders for good governance and this Statement, together with the Report on directors' remuneration on pages 33 to 40, describes how the Board has applied the main principles of good governance contained within the Code during the year under review. It is the Board's view that the Company is fully compliant.

The Board

As at 31 December 2009, the Board comprised a chairman, four independent non-executive directors, one non-executive director not classified as independent for the purposes of the Code when determining the composition of the Board or its Committees, and two executive directors, details of whom are provided on page 25. The Board operates within a framework of controls including a formal schedule of matters specifically reserved for its decision. There is a clear division of responsibility at the head of the Company: the Chairman (Edward Bramson) being responsible for running the Board and the Chief Executive Officer (Bill Burns) being responsible for implementing strategy.

It was announced on 4 March 2010 that Mr Bramson would resign as Chairman of the Company on that day and that Alex Walker would be appointed Non-Executive Chairman of the Company. It was also announced that Edward Bramson and Gerard Eastman would retire from the Board at the 2010 AGM.

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

The independence of each director is reviewed on appointment and at least annually. The Board determined that, within the terms of the Code, Ian Brindle, Duncan Lewis, Tom Maxwell and Alex Walker are each independent non-executive directors. As Edward Bramson and Gerard Eastman have, until September 2009, had a connected material notifiable interest in the issued Ordinary Share capital of the Company, the Board has concluded that they should not be considered independent of the Company for the period under review. Details of other professional commitments of the Chairman and non-executive directors are provided in their biographies on page 25.

In October 2008, the Company adopted new Articles of Association permitting the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("Situational Conflicts"). The Board has a formal system in place for directors to declare Situational Conflicts and for these to be considered for authorisation by those directors who have no 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 operated effectively during the year.

Alex Walker served as the Senior Independent Non-Executive Director during the period under review. The Senior Independent Non-Executive Director 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. Ian Brindle will become Senior Independent Non-Executive Director following Mr Walker's appointment as Non-Executive Chairman of the Company on 4 March 2010.

It is Company policy to hold at least four Board meetings a year. There were seven Board meetings during 2009. The agenda is settled by the Chairman in advance of the meeting and papers are circulated to Board members several days ahead of the meeting. Minutes of previous meetings are circulated to all Board members and, subject to their agreement, approved at the following Board meeting.

Full attendance by the Board is expected at meetings and in 2009 all directors attended all seven meetings except Duncan Lewis, who missed two meetings and Ian Brindle, Gerard Eastman and Alex Walker, who each missed one meeting due to unavoidable diary conflicts. Where the director was absent, full documentation for the meeting was issued and briefings were provided as appropriate. It was ensured that any comments on the documentation or subject matter to be considered were passed to the Board for consideration.

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.

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. 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 fulfill 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 and induction

The Board has in place a procedure for the appointment of new directors to the Board which complies with the Code.

On appointment to the Board and its Committees all directors receive an induction tailored to their individual requirements.

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

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 seek re-election at least every three years. It was announced on 4 March 2010 that Edward Bramson and Gerard Eastman will retire at the 2010 AGM. As no other director has a letter of appointment which is due to expire before the 2011 AGM, no director is required to seek re-election at the 2010 AGM.

Performance evaluation

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

The Chairman communicates regularly with the non-executive directors and this contact provides an ongoing opportunity to assess performance and to discuss the performance of the executive directors or 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 time to attend all Board and appropriate Committee meetings and to carry out other appropriate duties.

The Senior Independent Non-Executive Director met with the independent non-executive directors on 11 November 2009, in the absence of the Chairman, to assess the Chairman's effectiveness. Notwithstanding Mr Bramson's role as chairman and chief executive officer of Nautilus, Inc, the independent non-executive directors were of the opinion that Mr Bramson gave sufficient time to his role as Chairman of the Company and was effective in that role during the year under review.

Board Committees

Audit Committee

The Audit Committee comprises Ian Brindle (Chairman), Tom Maxwell and Alex Walker, all of whom 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. Duncan Lewis will be appointed to the Audit Committee following Mr Walker's appointment as Non- Executive Chairman of the Company.

During 2009, the Audit Committee held three meetings at which there was full attendance by Committee members. At each meeting the Company's external auditors, the Chief Financial Officer, the Group Vice President Finance, the Head of Financial Reporting and the Company Secretary were in attendance. The Chairman and the other directors may also attend the meetings. In addition, the Committee meets with the Company's external auditors without management being present. The minutes of Committee meetings are available to all directors.

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. During the year the Committee has monitored and reviewed risk management and internal control, reviewed the interim and full year financial statements, key accounting policies, the auditors' 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 2009 were also agreed and approved. Further details of internal control and process are set out below. Regular reports on tax, treasury, legal 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 22 to 24. 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 auditors' independence or objectivity. Under this policy, certain non-audit services are 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, Ernst & Young's objectivity as external auditors was not impaired. In recommending their re-appointment as external auditors, 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. 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

The Remuneration Committee comprises Alex Walker (Chairman), Ian Brindle and Duncan Lewis, all of whom are independent non-executive directors, making the composition of the Committee compliant with the Code. Tom Maxwell will be appointed to and become Chairman of the Remuneration Committee following Mr Walker's appointment as Non-Executive Chairman of the Company.

Further details about the Remuneration Committee are included in the Report on directors' remuneration on pages 33 to 40.

Nomination Committee

The Nomination Committee comprises Edward Bramson (Chairman), Ian Brindle, Gerard Eastman, Duncan Lewis, Tom Maxwell and Alex Walker and meets at least once each year. During 2009 the Nomination Committee held one meeting which all Committee members attended, except Duncan Lewis, who had an unavoidable diary conflict. The Nomination Committee is responsible for reviewing the composition and structure of the Board and for identifying and recommending candidates for executive and non-executive positions, based on the required role and capabilities which have been specified for the appointment. Executive search consultants are used by the Nomination Committee to assist this process as appropriate. As the majority of members are independent non-executive directors, the composition of the Committee is compliant with the terms of the Code. Alex Walker will become Chairman of the

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE continued

Nomination Committee following Mr Bramson's resignation as Chairman of the Company.

Relations with shareholders

Communication with all shareholders is given a high priority and a number of methods are used to promote greater understanding and dialogue with investment audiences. Dialogue with institutional investors is conducted on a regular basis by the Chairman, the Chief Executive Officer and the Chief Financial Officer.

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

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

Electronic communications

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

At its 2008 AGM the Company passed a resolution allowing it to communicate with shareholders by means of the Company's website and an invitation to opt out of receiving mailings solely by electronic communication was sent to shareholders with the 2009 AGM documentation. Shareholders who have purchased their shares since that invitation was distributed in March 2009 but who wish to receive company mailings electronically should notify the Company's registrar, Equiniti, on 0871 384 2126 or via www.shareview.co.uk. In line with this policy, the Company's Half-year Results will in future only be available on the Company's website at www.spirent.com.

Electronic communications provide significant benefits for shareholders and the Company in terms of timeliness of information, reduced environmental impact and cost and the Board would encourage investors to participate in the programme.

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

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 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

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 5 May 2010 ("2010 AGM"). The Report complies with the provisions of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. The Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the Combined Code on Corporate Governance published in June 2008 (the "Code"). 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

The Remuneration Committee (the "Committee") comprises Alex Walker (Chairman), Ian Brindle and Duncan Lewis. There were no changes to the members of the Committee during the year and its composition is compliant with the Code in terms of independent non-executive directors. Tom Maxwell will be appointed to and become Chairman of the Remuneration Committee following Mr Walker's appointment as Non-Executive Chairman of the Company on 4 March 2010.

The Committee met four times during the year. Full attendance of the Committee is expected at meetings and all members attended all meetings except Duncan Lewis, who missed one meeting due to an unavoidable diary conflict. The Company Secretary is Secretary to the Committee.

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

Remuneration policy

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

Advisers to the Committee

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

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

Executive directors' remuneration

The remuneration of executive directors comprises the following elements:

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

Edward Bramson acted as Executive Chairman from March 2007 until the appointment of Bill Burns as Chief Executive Officer on 6 November 2008. Mr Bramson, a partner in Sherborne Investors GP, LLC, who until September 2009 were the Company's largest shareholder, chose to waive his right to any remuneration for his role as Executive Chairman whilst he managed the operational turnaround of the Group. As a consequence he received no director's fee, salary, pension contributions, cash incentive or share incentive awards from his appointment to the Board on 22 December 2006 until 31 December 2008. Following the separation of the chairman and chief executive roles, the Committee determined that Mr Bramson should receive a fee of £150,000 per annum from 1 January 2009 for his services as Non-Executive Chairman.

Base salary, fees and benefits

Base salaries and benefits of executive directors are determined by the Committee and are normally reviewed annually. Bill Burns' base salary and benefits were set on his appointment on 6 November 2008 and reviewed on 1 January 2010 when the Committee determined that there should be no change. Eric Hutchinson's base salary and benefits were last reviewed on 1 January 2010 and the Committee determined that there should be no change. The base salary and benefits of the executive directors will next be reviewed on 1 January 2011.

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

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

The SCI 401(k) Pension Plan is a defined contribution plan approved under Section 401(k) of the US Internal Revenue Code ("US IR Code"). SCI make matching contributions of up to 4 per cent of the maximum compensation permitted for these purposes under the US IR Code, which for 2009 was $245,000.

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

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.

Quarterly and annual performance cash incentives

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

During 2009, the executive directors participated in a performance cash incentive arrangement with two thirds of the incentive target being earned quarterly and one third annually. This cash incentive arrangement was structured so that performance was measured against a combination of growth targets in the Company's EPS, other financial targets and personal objectives. For 2009, the maximum cash incentive available for Bill Burns was 150 per cent of base salary and for Eric Hutchinson was 60 per cent of base salary. These limits will also apply for 2010. The Committee reviewed Mr Burns' and Mr Hutchinson's performance against the targets set and, having exceeded the EPS target and met all personal objectives, the Committee approved a total cash incentive payment for the year of $845,000 for Mr Burns (£538,200 at an average exchange rate of $1.57:£1), equivalent to 141 per cent of his base salary and £171,500 for Mr Hutchinson, equivalent to 58 per cent of base salary.

Long term share incentive awards

The Company operates a number of share incentive plans. Currently, the principal share incentive plan utilised for executive directors is the 2005 Employee Incentive Plan ("EIP") which is a discretionary share plan.

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. The Board did not make any invitations to executive directors or any other employees to participate in an all employee plan during the year under review.

During 2009, 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 was the principal share incentive plan used to deliver awards to Communications group employees and Bill Burns participated in this plan in his former positions within the Communications group. The grants made to Mr Burns in 2005 and 2006 under the SSIP have performance conditions attached and further details are given below. The ESOS and SRSOS were closed in 2005 and no grants have been made under either scheme since then.

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

2005 Employee Incentive Plan

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

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/SARs. Awards are valued at the closing price for a Spirent Ordinary Share on the business day immediately preceding the date of award.

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

The Committee considers that real EPS growth is the most appropriate measure of the Company's performance in determining the vesting of SARs and options granted under the EIP. The performance condition for SARs and options is therefore based on the rate of growth in the Company's EPS over a three year performance period excluding any increase in the Retail Prices Index ("RPI"). 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

Following testing of the EPS performance condition attached to the SARs and options granted under the EIP on 5 May 2006, 100 per cent vesting occurred on 5 May 2009.

The Committee considers that a relative TSR growth target is the most appropriate measure of the Company's performance in determining the vesting of Performance shares granted under the EIP and the performance condition for Performance shares is therefore based on the Company's relative TSR rating against a comparator group of companies over a three year performance period as set out in the table below.

TSR Ranking	Percentage 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 award made on 30 November 2009, 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 award made on 30 November 2009, 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.

Following testing of the relative TSR performance condition attached to the Performance shares granted under the EIP on 5 May 2006, 100 per cent vesting occurred on 5 May 2009.

On 30 November 2009, the Committee approved awards of 377,953 Performance shares to Bill Burns and 151,829 Performance shares to Eric Hutchinson.

Spirent Stock Incentive Plan

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

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Spirent Stock Incentive Plan — performance condition schedule

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

REPORT ON DIRECTORS' REMUNERATION continued

Shareholder dilution

The Committee is mindful of the need to manage shareholder dilution in a responsible manner. At the 2009 Annual General Meeting ("2009 AGM"), shareholders granted the Company authority to award share incentives over new issue shares of no more than half of one per cent of the then issued Ordinary Share capital under the EIP and SSIP. This authority is due to expire at the 2010 AGM. It was also stated in the Notice of 2009 AGM that the Employee Share Ownership Trust ("ESOT") held 0.8 million unallocated shares as a result of share incentives lapsing on termination of employees and that the Company would utilise these unallocated shares before making any significant awards over new issue shares.

Between the 2009 AGM and the date of this Report, the Committee approved awards of share incentives over 1.8 million Ordinary Shares and intends to satisfy these awards by the on market purchase of Ordinary Shares by the Company's ESOT.

Overall shareholder dilution resulting from the Company's share incentive plans (on a rolling 10 year basis) has fallen by 2.4 per cent when comparing the positions at 31 December 2009 (11.4 per cent) and 31 December 2008 (13.8 per cent). The overall number of share incentives outstanding has fallen by 21.8 million during the year to 28.3 million at 31 December 2009 (2008 50.1 million).

At the 2009 AGM, the Company was also given authority by shareholders to continue to operate the SSIP until the 2010 AGM when the plan will expire. During 2009 a minimal number of share incentives were granted under the SSIP.

Shareholder approval was given in 2005 to operate the EIP until 2015, subject to further shareholder approval being required on the use of new issue shares and any material changes to the plan. No material changes to the EIP are proposed and therefore no specific shareholder approval is required at the 2010 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 will seek to apply practical mitigation measures to any payment of compensation on termination, taking into account all relevant circumstances.

In the case of Bill Burns, mitigation provisions are contained in his service contract. 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. The director would then retain any related fees. 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 having last been reviewed on 1 January 2008 will not formally be reviewed until 1 January 2011. It is considered that non-executive director fees are at the median level for comparable companies. The basic annual fee for non-executive directors with effect from 1 January 2008 is £36,000. The Chairmen of the Audit and Remuneration Committees each receive additional fees of £11,000 and £9,000 respectively.

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. Each letter provides for retirement every three years, except Edward Bramson and Gerard Eastman who stated on appointment that they would seek re-election by shareholders on an annual basis. It was announced on 4 March 2010 that Mr Bramson and Mr Eastman will retire from the Board at the 2010 AGM. Non-executive directors are not eligible to participate in cash incentive or share incentive arrangements and their service does not qualify for a pension or other benefits. No element of their fee is performance related.

Details of individual appointments are as follows:

Director	First appointed a director	Current appointment due to expire
Edward Bramson	22 December 2006	2010 AGM
Ian Brindle	22 December 2006	2012 AGM
Gerard Eastman	22 December 2006	2010 AGM
Duncan Lewis	1 July 2007	2011 AGM
Tom Maxwell	1 October 2007	2011 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 2010 AGM. An example of a letter of appointment for a non-executive director is available on the Company's website at www.spirent.com.

As outlined above, Edward Bramson acted as Executive Chairman from March 2007 until the appointment of Bill Burns as Chief Executive Officer on 6 November 2008. Mr Bramson, a partner in Sherborne Investors GP, LLC, who until September 2009 were the Company's largest shareholder, chose to waive his right to any remuneration for his role as Executive Chairman whilst he managed the operational turnaround of the Group. As a consequence, he received no remuneration from his appointment to the Board on 22 December 2006 until 31 December 2008. Following the separation of the chairman and chief executive roles, the Committee determined that Mr Bramson should receive a fee of £150,000 per annum from 1 January 2009 for his role as Non-Executive Chairman.

Gerard Eastman, who was also a partner in Sherborne Investors, waived his right to any fees from his appointment to the Board on 22 December 2006 whilst the operational turnaround of the Group was managed. Following the appointment of Bill Burns as Chief Executive Officer, the Board determined that Mr Eastman should receive the basic fee of £36,000 per annum from 1 January 2009 for his services as a non-executive director.

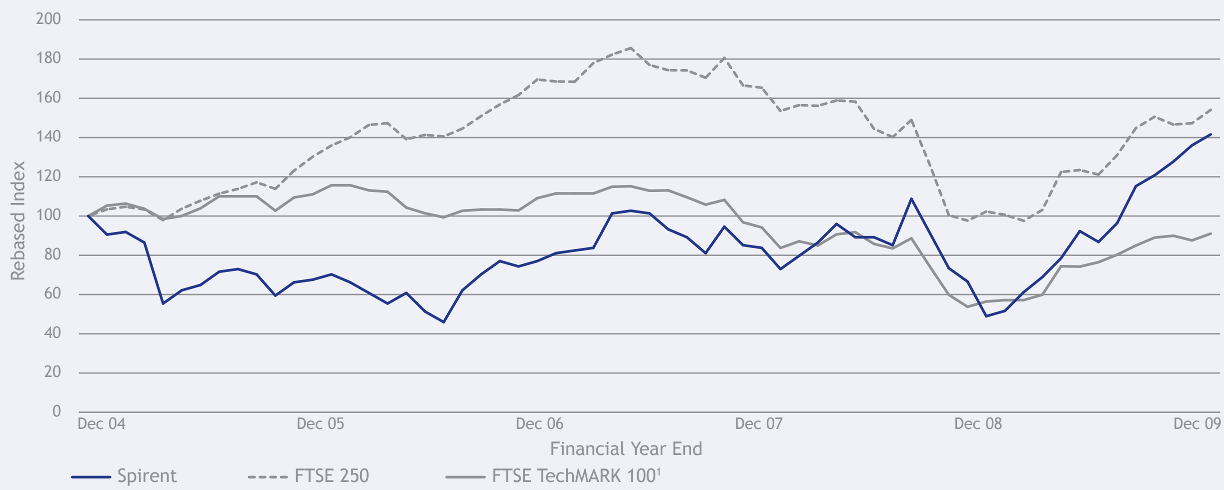
During 2009, Messrs Bramson and Eastman elected to have their fees paid to Sherborne Investors.

Total Shareholder Return performance

The graph below shows TSR performance (ie growth in the value of a share or index, assuming dividends and other distributions are reinvested) for the last five financial years of Spirent Communications plc as shown against the FTSE 250 Index ("FTSE 250") 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.

GOVERNANCE

5-year TSR performance — Spirent vs FTSE TechMARK 100[1] and FTSE 250



1 Excluding FTSE100 companies

Part B Audited information
Directors' remuneration
Individual and total remuneration for the year to 31 December 2009

	Base salary and fees £000	Taxable benefits £000	Performance related incentive paid in cash £000	Cash in lieu of pension £000	Other payments[1] £000	Total 2009[2] £000	Total 2008[2] £000
Executive directors							
Bill Burns	382.2	16.5	538.2	–	–	936.9	369.1
Eric Hutchinson[3]	295.4	16.3	171.5	59.0	–	542.2	518.2
Non-executive directors							
Edward Bramson[4]	150.0	–	–	–	–	150.0	–
Ian Brindle	47.0	–	–	–	–	47.0	47.0
Gerard Eastman[4]	36.0	–	–	–	–	36.0	–
Duncan Lewis	36.0	–	–	–	–	36.0	36.0
Tom Maxwell	36.0	–	–	–	–	36.0	36.0
Alex Walker	45.0	–	–	–	–	45.0	45.0
2009	1,027.6	32.8	709.7	59.0	–	1,829.1	–
2008	521.2	136.2	198.5	59.0	136.4	–	1,051.3

Notes
1 Other payments in 2008 relate to one-off non-taxable relocation expenses for Bill Burns.
2 These figures relate to the period of each director's Board membership. Bill Burns was appointed as Chief Executive Officer on 6 November 2008.
3 Eric Hutchinson earned a fee of £500 in respect of his services to the Board and its Committees.
4 Messrs Bramson and Eastman waived their right to any remuneration for 2008.

Summary of directors' remuneration

	2009 £000	2008 £000
Total emoluments for all directors	1,829.1	1,051.3
Gains made on the exercise of share incentives[1]	141.9	149.8
Contributions to 401(k) Pension Plan[2]	6.2	6.6
	1,977.2	1,207.7

Notes
1 2009: On 5 May 2009 91,875 Performance shares vested and were allotted to Bill Burns. Mr Burns sold 36,922 Ordinary Shares to cover the tax liability arising on the deemed gain of £54,666 which was realised on a market price of 59.5 pence per Ordinary Share and retained the remaining 54,953 Ordinary Shares.
On 5 May 2009 146,650 Performance shares vested and were allotted to Eric Hutchinson. The shares were retained by Mr Hutchinson and a deemed gain of £87,257 was realised based on a market price of 59.5 pence per share.
2008: On 25 August 2008 187,200 Performance shares vested and were allotted to Eric Hutchinson. The shares were retained by Mr Hutchinson and a deemed gain of £149,760 was realised based on a market price of 80 pence per share.
2 A contribution of $9,800 was made to the 401(k) Pension Plan relating to Bill Burns (equivalent to £6,200 at the average exchange rate for year of $1.57:£1), (2008 $9,800 equivalent to £6,600).

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 31 December 2009 Ordinary Shares[1]	At 31 December 2008 Ordinary Shares[1]
Executive directors		
Bill Burns	54,953	—
Eric Hutchinson	1,205,581	1,058,931
Non-executive directors		
Edward Bramson[2]	220,000	130,270,000
Ian Brindle	4,525	4,525
Gerard Eastman[2]	40,000	130,250,000
Duncan Lewis	—	—
Tom Maxwell	26,955	26,955
Alex Walker	30,000	30,000

Notes

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

2 At 31 December 2008, Messrs Bramson and Eastman had a connected notifiable interest in the 130,250,000 Ordinary Shares held by Sherborne Investors, which for statutory purposes, is also deemed to be an interest of these directors. Edward Bramson also had beneficial ownership of a further 20,000 Ordinary Shares. At 31 December 2009, Messrs Bramson and Eastman had beneficial ownership of 220,000 and 40,000 Ordinary Shares respectively.

	Plan type[1]	At 31 December 2009	Lapsed during the period	Exercised during the period	Granted during the period	At 1 January 2009	Date of grant	Exercise price per share pence	Market price on date of grant pence	Date first exercisable	Expiry date
Bill Burns											
	SSIP	250,000	—	—	—	250,000	10 Mar 05	70	70	15 Nov 05	10 Mar 12
	SSIP	262,500	—	—	—	262,500	25 Aug 05	53	53	25 Aug 08	25 Aug 12
	SSIP	170,625	—	—	—	170,625	05 May 06	48	48	05 May 07	05 May 13
	EIP	—	—	91,875	—	91,875	05 May 06	nil[2]	48	05 May 09	05 May 09
	EIP	374,000	—	—	—	374,000	07 Nov 08	51	51	07 Nov 11	07 Nov 18
	EIP	374,000	—	—	—	374,000	07 Nov 08	nil[2]	51	07 Nov 11	07 Nov 11
	EIP	377,953	—	—	377,953	—	30 Nov 09	nil[2]	98	30 Nov 12	30 Nov 12
Eric Hutchinson											
	ESOS	—	75,156	—	—	75,156	01 Apr 99	133	133	01 Apr 02	01 Apr 09
	SRSOS	—	8,693	—	—	8,693	05 Oct 01	93	93	01 Dec 08	01 Jun 09
	ESOS	234,000	—	—	—	234,000	02 Apr 02	134	134	02 Apr 06	02 Apr 12
	ESOS	387,000	—	—	—	387,000	02 May 02	113	113	02 May 06	02 May 12
	SRSOS	24,721	—	—	—	24,721	26 Sep 03	38	38	01 Jan 11	01 Jul 11
	ESOS	1,128,000	—	—	—	1,128,000	05 Aug 04	56	56	05 Aug 08	05 Aug 14
	EIP	695,300	—	—	—	695,300	25 Aug 05	53	53	25 Aug 08	25 Aug 15
	EIP	544,650	—	—	—	544,650	05 May 06	48	48	05 May 09	05 May 16
	EIP	—	—	146,650	—	146,650	05 May 06	nil[2]	48	05 May 09	05 May 09
	EIP	151,829	—	—	151,829	—	30 Nov 09	nil[2]	98	30 Nov 12	30 Nov 12

Notes

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

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

2 This relates to an award of Performance shares under the EIP. There is no exercise price payable for a Performance share upon vesting. Further details on Performance shares are provided above.

There has been no change in directors' interests in Ordinary Shares or share incentives in the Company between 31 December 2009 and the date of this report.

The middle market price of an Ordinary Share at the close of business on 2 January 2009 (being the first day the London Stock Exchange was open for trading in 2009) and 31 December 2009 was 39.25 pence and 102 pence, respectively, and during that period ranged between a high of 102 pence and a low of 33 pence.

Signed on behalf of the Board

Alex Walker
Chairman of the Remuneration Committee
4 March 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SPIRENT COMMUNICATIONS PLC

We have audited the Group financial statements of Spirent Communications plc for the year ended 31 December 2009 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 auditors

As explained more fully in the Statement of directors' responsibilities set out on page 29, 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 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.

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 2009 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 matters 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 financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Directors' statement on corporate governance set out on pages 30 to 32 with respect to internal control and risk management systems in relation to financial reporting processes and in the Report of the directors about share capital structures is consistent with the 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 Report of the directors, set out on page 28, in relation to going concern; and
- the part of the Directors' statement on corporate governance on pages 30 to 32 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters

We have reported separately on the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2009 and on the information in the Report on directors' remuneration that is described as having been audited.

Richard Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
4 March 2010

CONSOLIDATED INCOME STATEMENT

Year to 31 December	Notes	2009 £ million			2008 £ million
		Total[1]	Before exceptional items	Exceptional items note 6	Total
Revenue	3, 4	272.1	257.9	–	257.9
Cost of sales		(91.6)	(91.3)	–	(91.3)
Gross profit		180.5	166.6	–	166.6
Product development	4	(47.5)	(45.3)	–	(45.3)
Selling and distribution		(49.7)	(46.7)	–	(46.7)
Administration		(28.0)	(25.9)	–	(25.9)
Operating profit	4	55.3	48.7	–	48.7
Finance income	7	0.4	3.2	0.8	4.0
Finance costs	8	(1.6)	(0.5)	(2.6)	(3.1)
Profit before tax	4, 5	54.1	51.4	(1.8)	49.6
Tax	11	4.0	(0.4)	25.6	25.2
Profit for the year attributable to equity shareholders of parent Company		58.1	51.0	23.8	74.8
Earnings per share (pence)	12				
Basic		8.71			10.13
Diluted		8.67			10.06

1 There were no exceptional items in 2009.
2 All activities relate to continuing operations.

The notes on pages 47 to 82 and page 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year to 31 December	Notes	2009 £ million	2008 £ million
Profit for the year attributable to equity shareholders of parent Company		58.1	74.8
Other comprehensive income			
Fair value movements on cash flow hedges	25	5.1	(4.2)
Exchange differences on retranslation of foreign operations		(10.8)	29.3
Actuarial losses on defined benefit pension plans	10	(1.4)	(5.1)
Irrecoverable element of defined benefit pension plan surplus	10	—	1.4
Deferred tax credit on defined benefit pension plans	11	0.6	0.3
Other comprehensive income		(6.5)	21.7
Total comprehensive income for the year attributable to equity shareholders of parent Company		51.6	96.5

The notes on pages 47 to 82 and page 101 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December	Notes	2009 £ million	2008 £ million
Assets			
Non-current assets			
Intangible assets	14	69.8	77.6
Property, plant and equipment	15	14.7	18.6
Trade and other receivables	19	2.3	2.5
Cash on deposit	20	1.1	2.5
Defined benefit pension plan surplus	10	0.6	2.6
Deferred tax	22	26.4	12.2
		114.9	116.0
Current assets			
Inventories	18	17.5	24.2
Trade and other receivables	19	50.5	62.4
Derivative financial instruments	25	0.6	—
Cash and cash equivalents	20	108.0	59.7
		176.6	146.3
Total assets		291.5	262.3
Liabilities			
Current liabilities			
Trade and other payables	21	(53.8)	(63.5)
Current tax		(6.4)	(4.6)
Derivative financial instruments	25	(0.1)	(5.6)
Provisions and other liabilities	24	(3.8)	(3.7)
		(64.1)	(77.4)
Non-current liabilities			
Trade and other payables	23	(4.9)	(5.1)
Defined benefit pension plan deficit	10	(0.7)	(0.6)
Provisions and other liabilities	24	(3.3)	(8.2)
		(8.9)	(13.9)
Total liabilities		(73.0)	(91.3)
Net assets		218.5	171.0
Capital and reserves	28		
Share capital		22.6	22.4
Share premium account		18.3	17.2
Capital redemption reserve		10.6	10.6
Capital reserve		1.0	1.4
Translation reserve		11.8	22.6
Cash flow hedges		0.4	(4.7)
Retained earnings		153.8	101.5
Total equity attributable to equity shareholders of parent Company		218.5	171.0

The notes on pages 47 to 82 and page 101 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
4 March 2010

CONSOLIDATED CASH FLOW STATEMENT

Year to 31 December	Notes	2009 £ million	2008 £ million
Cash flows from operating activities			
Cash flow from operations	31	67.7	53.4
Tax paid		(6.5)	(5.7)
Net cash inflow from operating activities		61.2	47.7
Cash flows from investing activities			
Interest received		0.4	4.1
Transfer from long term deposit		1.4	1.2
Purchase of intangible assets		(0.2)	–
Purchase of property, plant and equipment		(6.4)	(7.4)
Proceeds from the sale of property, plant and equipment		0.1	0.5
Net cash used in investing activities		(4.7)	(1.6)
Cash flows from financing activities			
Interest paid		–	(2.7)
Dividend paid		(7.7)	(3.7)
Proceeds from the issue of share capital and employee share ownership trust		2.4	2.4
Share repurchase		(0.7)	(67.2)
Net cash used in financing activities		(6.0)	(71.2)
Net increase/(decrease) in cash and cash equivalents		50.5	(25.1)
Cash and cash equivalents at the beginning of the year		59.7	79.0
Effect of foreign exchange rate changes		(2.2)	5.8
Cash and cash equivalents at the end of the year	20	108.0	59.7

The notes on pages 47 to 82 and page 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£ million

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Translation reserve	Cash flow hedges	Retained earnings/ (loss)	Total equity
At 1 January 2008	28.0	15.5	4.8	3.6	(6.7)	(0.5)	96.5	141.2
Total comprehensive income (a)	–	–	–	–	29.3	(4.2)	71.4	96.5
Share cancellation *note 28*	(5.8)	–	5.8	–	–	–	–	–
Share-based payment *note 30*	–	–	–	–	–	–	1.5	1.5
New shares issued *note 28*	0.2	1.7	–	–	–	–	–	1.9
Employee share ownership trust *note 28*	–	–	–	–	–	–	0.6	0.6
Share repurchase *note 28*	–	–	–	–	–	–	(67.0)	(67.0)
Equity dividends *note 13*	–	–	–	–	–	–	(3.7)	(3.7)
Other movements *note 28*	–	–	–	(2.2)	–	–	2.2	–
At 1 January 2009	22.4	17.2	10.6	1.4	22.6	(4.7)	101.5	171.0
Total comprehensive income (b)	–	–	–	–	(10.8)	5.1	57.3	51.6
Share-based payment *note 30*	–	–	–	–	–	–	0.4	0.4
Deferred tax credit on share incentives *note 11*	–	–	–	–	–	–	1.1	1.1
Current tax on share incentives *note 11*	–	–	–	–	–	–	0.3	0.3
New shares issued *note 28*	0.2	1.1	–	–	–	–	–	1.3
Employee share ownership trust *note 28*	–	–	–	–	–	–	1.1	1.1
Share repurchase *note 28*	–	–	–	–	–	–	(0.6)	(0.6)
Equity dividends *note 13*	–	–	–	–	–	–	(7.7)	(7.7)
Other movements *note 28*	–	–	–	(0.4)	–	–	0.4	–
At 31 December 2009	**22.6**	**18.3**	**10.6**	**1.0**	**11.8**	**0.4**	**153.8**	**218.5**

(a) The amount included in retained earnings for 2008 of £71.4 million represents profit attributable to the owners of the parent of £74.8 million less actuarial losses of £5.1 million plus a movement of £1.4 million on the irrecoverable element both in respect of the defined benefit pension plans, net of a tax credit of £0.3 million.

The amount included in the translation reserve of £29.3 million represents other comprehensive income related to the translation of foreign operations.

The amount included within cash flow hedges of £4.2 million is in relation to movements on cash flow hedges, see note 25.

(b) The amount included in retained earnings for 2009 of £57.3 million represents profit attributable to the owners of the parent of £58.1 million less actuarial losses of £1.4 million in respect of the defined benefit pension plans, net of a tax credit of £0.6 million.

The amount included in the translation reserve of £10.8 million represents other comprehensive income related to the translation of foreign operations.

The amount included within cash flow hedges of £5.1 million is in relation to movements on cash flow hedges, see note 25.

The notes on pages 47 to 82 and page 101 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 2009 were authorised for issue by the Board of directors on 4 March 2010. 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 ("IFRS") as adopted by the EU and issued by the International Accounting Standards Board.

The Company has elected to prepare the Company financial statements in accordance with UK Accounting Standards. These are presented on pages 84 to 101 and the accounting policies in respect of the Company are set out on pages 85 to 88.

2. Summary of significant accounting policies

Basis of preparation

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

The Group has prepared its financial statements under IFRS. The significant accounting policies applied in the preparation of these consolidated financial statements are set out below and the accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2008.

The following new standards, amendments to standards and interpretations are mandatory for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position. IAS 1 (revised) "Presentation of Financial Statements" has introduced a number of terminology changes and changes to presentation and disclosure. IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and assess their performance. The Standard has not required a change to the reported segments, however segment profit is measured before share-based payment and acquired intangible amortisation and this has required a change to the way the results have been presented. Comparative information has been restated on the same basis.

International Accounting Standards ("IAS/IFRS")

IAS 1 (revised)	Presentation of Financial Statements
IAS 23	Borrowing Costs
IAS 32 and IAS 1	Amendments to IAS 32 and IAS 1 — Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 and IAS 27	Amendments to IFRS 1 and IAS 27 — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2	Amendments to IFRS 2 — Vesting Conditions and Cancellations
IFRS 7	Amendments to IFRS 7 — Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 and IAS 39	Amendment to IFRIC 9 and IAS 39 — Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
Annual Improvements 2008	

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.

2. Summary of significant accounting policies continued

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.

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

Intangible assets

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

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 2009 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

2. Summary of significant accounting policies continued

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.

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. This does not apply for goodwill, for which an impairment loss must not be reversed in any circumstances. Such a reversal is recognised in the income statement.

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 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 pounds sterling, which is the Company's functional and 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 sterling using average rates. 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 IFRS, 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.

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 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 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 forecast receipts and payments in foreign currencies relating to firm commitments or highly probable forecast transactions. Such derivative financial instruments 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 designated its forward foreign currency exchange contracts as cash flow hedges. Changes in the fair value of contracts which are designated as effective are recognised directly in equity and the gain or loss on the ineffective portion of the hedge is recognised immediately in the income statement. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken to the income statement. For effective hedges that are in relation to a financial asset or liability, amounts originally deferred are recognised in the income statement in the same period in which the hedged item affects profit or loss, for example when a highly probable forecast sale occurs. For non-financial assets or liabilities, the gains or losses that have been included in equity are included in the initial measurement of the non-financial asset or liability at the time the asset or liability is recognised on the balance sheet.

The Group discontinues hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Gains or losses arising on hedging instruments, which are cancelled due to termination of the underlying exposure, are taken to the income statement immediately.

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

Retirement benefits

The Group operates two 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 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.

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 IFRS, 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 fair value at the date the awards were granted and taking into account the best estimate of the number of awards expected to vest. The charge is reassessed at each balance sheet date to reflect the expected and actual levels of vesting, except where the failure to vest is a result of not meeting a market condition. Awards where vesting is conditional upon satisfying a market condition are treated as vesting irrespective of whether the market condition has been satisfied.

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.

2. Summary of significant accounting policies continued

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 it is approved by the directors, and the final dividend in the period it is approved by the shareholders at an annual general meeting.

Critical accounting assumptions and judgements

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

Goodwill impairment

The Group tests annually by cash-generating unit whether goodwill has suffered impairment and more frequently when events or circumstances indicate that the current carrying value may not be recoverable. The recoverable amounts of cash-generating units have been determined based on value in use calculations which require the use of estimates and assumptions. These are described in note 14.

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 10.

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.

2. Summary of significant accounting policies continued

Income taxes

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

Deferred taxes

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

Provisions

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

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/IFRS")		Effective for annual periods beginning on or after
IAS 24 (revised)	Related Party Disclosures	1 January 2011
IAS 27 (revised)	Consolidated and Separate Financial Statements	1 July 2010
IAS 32	Amendment to IAS 32 — Classification of Rights Issues	1 February 2010
IAS 39	Amendment to IAS 39 — Eligible Hedged Items	1 July 2009
IFRS 2	Amendments to IFRS 2 — Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3 (revised)	Business Combinations	1 July 2009
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013
IFRIC 14	Amendment to IFRIC 14 — Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 17	Distributions of Non-cash assets to Owners	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Annual Improvements 2009		Various

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

3. Revenue

	2009 £ million	2008 £ million
Sale of goods	226.5	219.6
Maintenance and support services	45.6	38.3
Total revenue	272.1	257.9

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. For presentational purposes the Group combines Performance Analysis and Service Assurance into the Communications operating group, its core activity. The Group evaluates segment operating profit before share-based payment, acquired intangible amortisation and exceptional items,

4. Operating segments continued

although there were no exceptional operating items in 2008 or 2009. 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, acquired intangible assets 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.

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

- Performance Analysis division of the Communications group develops testing solutions for a broad range of communications technologies critical to the development of next-generation network equipment and devices.
- Service Assurance division of the Communications group provides solutions to allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network.
- Systems group comprises PG Drives Technology, which develops power control systems for electrical vehicles in the mobility and industrial markets.

2009 £ million	Performance Analysis	Service Assurance	Communications Total	Systems	Corporate	Total
Revenue						
External revenue	201.8	33.5	235.3	36.8	–	272.1

There were no inter-segment sales.

	Performance Analysis	Service Assurance	Communications Total	Systems	Corporate	Total
Profit before tax						
Total reportable segment profit/(loss)	49.9	4.8	54.7	5.0	(3.1)	56.6
Unallocated amounts						
Acquired intangible amortisation						(0.9)
Share-based payment *note 30*						(0.4)
Operating profit						55.3
Finance income						0.4
Finance costs						(1.6)
Profit before tax						54.1
Other information						
Product development	38.7	6.3	45.0	2.5	–	47.5
Expenditure on property, plant and equipment *note 15*	5.7	0.5	6.2	0.2	–	6.4
Depreciation *note 15*	7.5	0.7	8.2	0.4	–	8.6
Intangible amortisation other	0.3	–	0.3	–	–	0.3
Segment assets	155.7	2.8	158.5	13.3	119.7	291.5
Segment cash flows						
Operating activities	58.9	6.6	65.5	6.6	(10.9)	61.2
Investing activities	(5.8)	(0.5)	(6.3)	(0.2)	1.8	(4.7)
Financing activities	–	–	–	–	(6.0)	(6.0)
	53.1	6.1	59.2	6.4	(15.1)	50.5

4. Operating segments continued

	Performance Analysis	Service Assurance	Communications Total	Systems	Corporate	2008 £ million Total
Revenue						
External revenue	191.2	33.5	224.7	33.2	—	257.9

There were no inter-segment sales.

	Performance Analysis	Service Assurance	Communications Total	Systems	Corporate	Total
Profit before tax						
Total reportable segment profit/(loss)	44.9	4.8	49.7	4.3	(3.1)	50.9
Unallocated amounts						
Acquired intangible amortisation						(0.7)
Share-based payment *note 30*						(1.5)
Operating profit						48.7
Finance income						4.0
Finance costs						(3.1)
Profit before tax						49.6
Other information						
Product development	37.8	5.2	43.0	2.3	—	45.3
Expenditure on property, plant and equipment *note 15*	5.2	1.8	7.0	0.4	—	7.4
Depreciation *note 15*	7.6	0.7	8.3	0.4	0.1	8.8
Segment assets	167.9	9.6	177.5	14.6	70.2	262.3
Segment cash flows						
Operating activities	47.6	3.8	51.4	4.0	(7.7)	47.7
Investing activities	(4.7)	(1.8)	(6.5)	(0.4)	5.3	(1.6)
Financing activities	—	—	—	—	(71.2)	(71.2)
	42.9	2.0	44.9	3.6	(73.6)	(25.1)

Geographical information

	2009 £ million	2008 £ million
Revenue by market		
Europe	**44.1**	47.8
United States	**135.3**	129.1
Asia Pacific, Rest of Americas, Africa	**92.7**	81.0
	272.1	257.9

Europe includes United Kingdom revenue of £8.9 million (2008 £11.1 million).

Revenues are attributed to countries based on customer location.

4. Operating segments continued

	2009 £ million	2008 £ million
Non-current assets		
Europe	3.4	8.4
United States	80.0	86.5
Asia Pacific, Rest of Americas, Africa	1.1	1.3
	84.5	96.2

Europe includes United Kingdom non-current assets of £3.0 million (2008 £7.9 million).

No one customer accounts for 10 per cent or more of total Group revenue in either 2009 or 2008.

5. Profit before tax

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

	2009 £ million	2008 £ million
Employee benefit costs *note 9*	102.0	96.9
Costs of inventories recognised as an expense	66.1	63.2
Write-down of inventories to net realisable value *note 18*	1.1	1.3
Amortisation of intangible assets *note 14*	1.2	0.7
Depreciation of property, plant and equipment		
Owned assets *note 15*	8.6	8.8
Loss on disposal of property, plant and equipment	0.1	0.3
Operating leases		
Minimum lease payments	6.8	6.8
Sublease income	(0.5)	(0.5)
Product development costs *note 4*	47.5	45.3
Net foreign exchange charge/(credit)	3.5	(0.1)

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

	2009 £ million	2008 £ million
Audit services		
Statutory audit	0.3	0.3
Other fees to auditors		
Local statutory audits for subsidiaries	0.2	0.2
Other audit related services	0.1	–
Other services relating to tax	0.1	–
	0.4	0.2
	0.7	0.5

A description of the work of the Audit Committee is set out in the Directors' statement on corporate governance and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

6. Exceptional items

There were no exceptional items in 2009.

Exceptional interest income and expense

In 2008 there was exceptional interest income of £0.8 million and an exceptional interest expense of £2.6 million. See notes 7 and 8.

Exceptional tax credit

There was an exceptional tax credit of £25.6 million in 2008 which was in relation to the agreement of an overseas tax position. See note 11.

7. Finance income

	2009 £ million	2008 £ million
Interest receivable	0.4	3.1
Defined benefit pension plans *note 10*	—	0.1
	0.4	3.2
Exceptional interest income	—	0.8
	0.4	4.0

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

8. Finance costs

	2009 £ million	2008 £ million
Bank fees	0.3	0.2
Leasehold provisions discount unwind *note 24*	0.2	0.3
Defined benefit pension plans *note 10*	1.1	—
	1.6	0.5
Exceptional interest on tax settlement	—	2.6
	1.6	3.1

An exceptional interest charge was incurred in 2008 on the agreement of prior year tax positions with the relevant tax authorities.

9. Employees

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

	2009 Number	2008 Number
Manufacturing	414	443
Product development	500	532
Selling and distribution	362	381
Administration	173	191
	1,449	1,547

9. Employees continued

Employee benefit costs were:

	2009 £ million	2008 £ million
Remuneration	91.2	85.7
Social security costs	7.2	6.8
Pension and other related costs	3.2	2.9
Expense of share-based payment *note 30*	0.4	1.5
	102.0	96.9

Please refer to the Report on directors' remuneration on pages 33 to 40 for disclosures relating to the emoluments, share incentives and pensions of the directors.

10. Pensions

Defined benefit plans

The defined benefit pension plans are in the United Kingdom and comprise the Spirent Communications plc Staff Pension & Life Assurance Plan ("Staff Plan") and the Spirent Communications plc Retirement Cash & Life Assurance Plan ("Cash Plan"). 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:

	2009 £ million	2008 £ million
Assets		
UK defined benefit pension plan — Staff Plan	—	2.1
UK defined benefit pension plan — Cash Plan	0.6	0.5
	0.6	2.6
Liabilities		
UK defined benefit pension plan — Staff Plan	(0.3)	—
UK unfunded plan	(0.4)	(0.6)
	(0.7)	(0.6)

The most recent actuarial valuations, at 1 April 2009, of the plans' assets and the present value of the defined benefit plans' obligations, using the projected unit credit method, have been used and updated by our independent actuaries.

i) The key financial assumptions

The assumptions used for both plans were as follows:

	2009 %	2008 %
Inflation	3.4	3.0
Rate of increase in pensionable salaries	3.9	3.5
Rate of increase for pensions in payment pre 2001 service	3.7	3.6
Rate of increase for pensions in payment post 2001 pre April 2005 service	3.2	2.9
Rate of increase for pensions post April 2005 service	2.2	2.1
Rate of increase in deferred pensions	3.4	3.0
Rate used to discount plan liabilities	5.7	6.0
Expected rate of return on plan assets (weighted for both plans)	5.6	5.2

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.

10. Pensions continued

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 68 (2008 aged 65) will live on average for a further 19.1 years (2008 21.7 years) if they are male and for a further 20.9 years (2008 24.0 years) if they are female. For a member who retires in 2019 (2008 in 2028) at age 64 (2008 age 65) the assumptions are that they will live on average for a further 23.6 years (2008 22.9 years) after retirement if they are male and for a further 25.5 years (2008 25.0 years) after retirement if they are female.

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

- Reducing the discount rate by 0.1 per cent per annum. This would increase past service liabilities by £2.0 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 £4.3 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.

ii) The assets and the liabilities in the plans

	Long term rate of return expected %	2009 £ million	Long term rate of return expected %	2008 £ million
Staff Plan				
Equities	8.5	30.6	8.0	24.9
Government bonds	4.3	32.2	4.0	60.3
Corporate bonds	5.1	57.3	5.7	25.7
Insured annuities	5.7	2.9	5.7	3.8
Property	9.0	3.6	7.0	4.1
Cash and other	1.0	4.5	2.7	3.6
Fair value of plan assets	5.7	131.1	5.3	122.4
Present value of defined benefit pension plan obligations		(131.4)		(120.1)
(Deficit)/surplus in the plan		(0.3)		2.3
Irrecoverable element of pension plan surplus		–		(0.2)
(Deficit)/surplus in the plan on the balance sheet		(0.3)		2.1
Cash Plan				
Equities	8.5	1.8	8.0	1.6
Government bonds	4.4	2.7	4.0	2.1
Insured annuities	5.7	0.2	4.0	0.3
Cash and other	1.0	2.1	2.7	2.9
Fair value of plan assets	4.5	6.8	4.4	6.9
Present value of defined benefit pension plan obligations		(6.0)		(6.4)
Surplus in the plan		0.8		0.5
Irrecoverable element of pension plan surplus		(0.2)		–
Surplus in the plan on the balance sheet		0.6		0.5

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.

10. Pensions continued

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

	2009 £ million	2008 £ million
Analysis of amount charged to operating costs		
Current service cost	0.1	0.2
Expected return on pension plans' assets	6.4	7.6
Interest on pension plans' liabilities	(7.5)	(7.5)
Finance (cost)/income *note 7 and 8*	(1.1)	0.1
Net charge to the income statement	1.2	0.1

iv) Analysis of amount recognised directly in the statement of comprehensive income

	2009 £ million	2008 £ million
Actual return on pension plans' assets	13.9	(7.8)
Less expected return on pension plans' assets	6.4	7.6
Experience gains/(losses) on plans' assets	7.5	(15.4)
Experience losses arising on plans' liabilities	(2.5)	(0.4)
Changes in assumptions underlying the present value of plans' liabilities	(6.4)	10.7
Actuarial losses recognised directly in equity	(1.4)	(5.1)

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the statement of comprehensive income is £13.1 million loss (2008 £11.7 million loss). The directors are unable to determine how much of the pension plan deficit recognised on 1 January 2003 and taken directly to equity of £41.9 million in the Group is attributable to actuarial gains and losses since inception of those pension plans. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of comprehensive income before 1 January 2003.

	2009 £ million	2008 £ million
Movement in the irrecoverable element of the pension plan surplus	–	1.4

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

	2009 £ million	2008 £ million
At 1 January	126.5	135.1
Current service cost	0.1	0.2
Interest cost	7.5	7.5
Employee contributions	0.1	0.1
Benefit payments	(5.7)	(6.1)
Actuarial loss/(gain)	8.9	(10.3)
Present value of funded defined benefit pension plans' obligations	137.4	126.5

10. Pensions continued

vi) Movements in the fair value of plans' assets

	2009 £ million	2008 £ million
At 1 January	129.3	142.8
Expected return on plans' assets	6.4	7.6
Employer contributions	0.3	0.3
Employee contributions	0.1	0.1
Benefit payments	(5.7)	(6.1)
Actuarial gain/(loss)	7.5	(15.4)
Fair value of plans' assets	137.9	129.3

vii) History of experience gains and losses

	2009 £ million	2008 £ million	2007 £ million	2006 £ million	2005 £ million
Present value of defined benefit pension plans' obligations	(137.4)	(126.5)	(135.1)	(158.2)	(179.6)
Fair value of plans' assets	137.9	129.3	142.8	160.6	128.8
Net surplus/(deficit) in plans	0.5	2.8	7.7	2.4	(50.8)
Experience gains and losses on plans' liabilities					
Amount (£ million)	(2.5)	(0.4)	(0.8)	(10.0)	4.8
Percentage of plans' liabilities (%)	(1.8)	(0.3)	(0.6)	(6.3)	2.7
Experience gains and losses on plans' assets					
Amount (£ million)	7.5	(15.4)	(2.6)	0.5	14.6
Percentage of plans' assets (%)	5.4	(11.9)	(1.8)	0.3	11.3

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 2009 of £0.4 million (2008 £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 are no experience gains or losses in the period from 2005 to 2009 on the unfunded plan.

Expected contributions for these plans for 2010 are £0.3 million.

Defined contribution plans

United Kingdom

The Group maintains defined contribution pension plans for employees in the United Kingdom. Employer contributions into these plans for 2009 were £0.8 million (2008 £0.7 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 contributions to the US plan totalled £2.0 million for 2009 (2008 £1.7 million). Total assets in the defined contribution plan at the end of 2009 were £76.8 million (2008 £62.1 million). There were no defined benefit plans in the United States in 2009 or 2008.

10. Pensions continued

Other jurisdictions

Outside the United Kingdom and the United States employees are provided with pension arrangements determined in accordance with approved local practice and regulations. These arrangements are defined contribution plans. Total contributions for 2009 in respect of these plans amounted to £0.3 million (2008 £0.2 million).

Total contributions to defined contribution plans were £3.1 million (2008 £2.6 million).

Directors' pension arrangements

The pension arrangements of the executive directors are described in detail in the Report on directors' remuneration on pages 33 to 40.

11. Tax

	2009 £ million	2008 £ million
Tax (credit)/charge in the income statement		
Current income tax		
Foreign tax	7.5	5.0
Amounts underprovided/(overprovided) in previous years		
UK tax	–	(3.4)
Foreign tax	1.8	(27.1)
Prior year tax charge/(credit)	1.8	(30.5)
Total current income tax	9.3	(25.5)
Deferred tax		
Recognition of deferred tax assets	(19.8)	(2.5)
Origination and reversal of temporary differences	6.5	2.8
Total deferred tax (credit)/charge	(13.3)	0.3
Tax credit in the income statement	(4.0)	(25.2)
The tax credit in the income statement is disclosed as follows:		
Income tax charge	9.3	0.1
Deferred tax (credit)/charge	(13.3)	0.3
Income tax credit – exceptional	–	(25.6)
	(4.0)	(25.2)

Tax relating to items charged or credited to equity:

	2009 £ million	2008 £ million
Current tax credit on share incentives	(0.3)	–
Deferred tax credit on share incentives	(1.1)	–
Deferred tax credit on defined benefit pension plan	(0.6)	(0.3)

Reconciliation of the total tax charge

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 28.0 per cent (2008 lower and 28.5 per cent).

11. Tax continued

The differences are reconciled below:

	2009 £ million	2008 £ million
Accounting profit before tax	54.1	49.6
Accounting profit multiplied by the UK standard rate of corporation tax of 28.0 per cent (2008 28.5 per cent)	15.1	14.1
Exceptional items not given credit	—	0.5
Intangible assets	0.1	0.2
Share-based payment	(0.9)	0.4
Differences in overseas rates and other adjustments	1.3	(0.9)
Tax underprovided/(overprovided) in prior years	1.8	(30.5)
Recognition of UK deferred tax assets	(9.1)	—
Recognition of US deferred tax assets	(10.7)	(2.5)
Use of pension fund and other UK deductions	—	(3.0)
Use of overseas tax credits and unrecognised losses	(1.6)	(3.5)
Total tax credit reported in the income statement	(4.0)	(25.2)

Amount overprovided in prior year

In 2008 the Group released provisions of £30.5 million following the agreement of tax positions with various tax authorities for prior years. Of this, £25.6 million was reported as an exceptional item.

Recognition of deferred tax assets

During the year the Group has recognised deferred tax assets in the United Kingdom of £9.1 million (2008 nil) and in the United States of £10.7 million (2008 £2.5 million).

Of the deferred tax credit arising in 2009, £13.8 million is as a result of a change in estimate in respect of the recovery of tax losses and timing differences.

12. Earnings per share

Earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the 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 ordinary equity holders of the 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.

	2009 £ million	2008 £ million
Profit for the year attributable to equity shareholders of parent Company	58.1	74.8

	2009 Number million	2008 Number million
Weighted average number of shares in issue — basic	667.0	738.5
Dilutive potential of employee share incentives	3.4	5.3
Weighted average number of shares in issue — diluted	670.4	743.8

	2009 pence	2008 pence
Earnings per share		
Basic earnings per share	8.71	10.13
Diluted earnings per share	8.67	10.06

12. Earnings per share continued

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

	2009 £ million	2009 pence	2008 £ million	2008 pence
Profit for the period attributable to equity shareholders of parent Company	58.1	8.71	74.8	10.13
Exceptional finance income *note 7*	—		(0.8)	
Exceptional finance costs *note 8*	—		2.6	
Exceptional tax credit *note 11*	—		(25.6)	
Deferred tax assets — change in estimate *note 11*	(13.8)		—	
Prior year tax charge/(credit) *note 11*	1.8		(4.9)	
Adjusted basic	46.1	6.91	46.1	6.24
Adjusted diluted		6.88		6.20

13. Dividends paid and proposed

	2009 £ million	2008 £ million
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend paid for the year ended 31 December 2008 of 0.60 pence per Ordinary Share (31 December 2007 nil)	4.0	—
Interim dividend 2009 0.55 pence per Ordinary Share (2008 0.50 pence)	3.7	3.7
	7.7	3.7
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2009 0.66 pence per Ordinary Share (2008 0.60 pence)	4.4	4.0

The directors are proposing a final dividend in respect of the financial year ended 31 December 2009 of 0.66 pence per share (2008 0.60 pence), which will absorb an estimated £4.4 million of shareholders' funds (2008 £4.0 million). It will be paid on 6 May 2010 to shareholders who are on the Register of Members at close of business on 12 March 2010. Payment will be made to ADR holders on 13 May 2010. No liability is recorded in the financial statements in respect of this final dividend.

14. Intangible assets

£ million

	Goodwill	Intangible assets	Total
Cost net of accumulated amortisation and impairment losses			
At 1 January 2008	55.4	3.2	58.6
Amortisation for the year	–	(0.7)	(0.7)
Exchange adjustment	18.9	0.8	19.7
At 1 January 2009	74.3	3.3	77.6
Amortisation for the year	–	(1.2)	(1.2)
Additions	–	0.2	0.2
Exchange adjustment	(6.4)	(0.4)	(6.8)
At 31 December 2009	67.9	1.9	69.8
At 31 December 2008			
Cost (gross carrying amount)	1,884.9	8.3	1,893.2
Amortisation and accumulated impairment losses	(1,810.6)	(5.0)	(1,815.6)
Net carrying amount	74.3	3.3	77.6
At 31 December 2009			
Cost (gross carrying amount)	1,815.2	7.6	1,822.8
Amortisation and accumulated impairment losses	(1,747.3)	(5.7)	(1,753.0)
Net carrying amount	67.9	1.9	69.8

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

£ million

	Customer list	Current technology	Other	Total
At 31 December 2009	0.1	1.0	0.8	1.9
At 31 December 2008	0.4	1.9	1.0	3.3

Amortisation and impairment charges

Goodwill at 31 December 2009 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 2009 or 2008.

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

The remaining amortisation periods of the intangible asset balances arising in relation to customer list and current technology are 1.2 years and 1.4 years, respectively.

Annual impairment test

The recoverable amount of the Performance Analysis cash-generating unit at 30 November 2009, 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. Cash flows in subsequent years have been extrapolated using a 2.75 per cent growth rate (2008 over a three year period and 2.50 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 17.6 per cent (2008 21.0 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.

14. Intangible assets continued

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.

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

Long term growth rates are based upon management's estimate.

Sensitivity to changes in key assumptions

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

15. Property, plant and equipment

£ million

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
Cost, net of accumulated depreciation and accumulated impairment				
At 1 January 2008	2.6	7.9	5.7	16.2
Additions				
Owned assets	2.1	3.5	1.8	7.4
Disposals	–	(0.4)	(0.4)	(0.8)
Depreciation charge for the year	(1.4)	(4.3)	(3.1)	(8.8)
Exchange adjustment	1.4	2.4	0.8	4.6
At 1 January 2009	4.7	9.1	4.8	18.6
Additions				
Owned assets	0.2	4.5	1.7	6.4
Disposals	–	(0.2)	–	(0.2)
Depreciation charge for the year	(1.3)	(4.8)	(2.5)	(8.6)
Exchange adjustment	(0.4)	(0.7)	(0.4)	(1.5)
At 31 December 2009	3.2	7.9	3.6	14.7
At 31 December 2008				
Cost	14.6	32.7	32.6	79.9
Accumulated depreciation and accumulated impairment	(9.9)	(23.6)	(27.8)	(61.3)
Net carrying amount	4.7	9.1	4.8	18.6
At 31 December 2009				
Cost	13.8	31.3	32.7	77.8
Accumulated depreciation and accumulated impairment	(10.6)	(23.4)	(29.1)	(63.1)
Net carrying amount	3.2	7.9	3.6	14.7

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

16. Capital commitments and contingent liabilities

The Group had no capital commitments at 31 December 2009 (31 December 2008 £0.1 million).

The Group has provided indemnities of £0.4 million (2008 £0.5 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

17. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 101 of these financial statements.

18. Inventories

	2009 £ million	2008 £ million
Raw materials	8.2	11.7
Work in progress	0.9	1.5
Finished goods	8.4	11.0
	17.5	24.2

An expense of £1.1 million (2008 £1.3 million) has been recognised in the period for inventory write-downs. There are no reversals of prior period inventory write-downs (2008 nil).

No inventories are carried at fair value less costs to sell (2008 nil).

19. Trade and other receivables

	2009 £ million	2008 £ million
Non-current assets		
Other receivables	1.8	2.2
Prepayments, accrued income and deferred costs	0.5	0.3
	2.3	2.5
Current assets		
Trade receivables	41.9	52.2
Other receivables	2.0	2.4
Prepayments, accrued income and deferred costs	6.6	7.8
	50.5	62.4
	52.8	64.9

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

	2009 £ million	2008 £ million
At 1 January	1.9	1.8
Charge for the year	0.1	0.5
Released in the year	(0.1)	(0.6)
Amounts written off	(0.5)	—
Exchange adjustment	(0.1)	0.2
At 31 December	1.3	1.9

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.

20. Cash and cash equivalents

	2009 £ million	2008 £ million
Cash at bank and in hand	41.3	27.4
Short term bank deposits	66.7	32.3
	108.0	59.7

Cash at bank and in hand earns interest at floating interest rates. Of this balance £16.6 million (2008 nil) is callable at notice of between 7 and 35 days.

Short term bank deposits are made for varying periods of between one day and three months (2008 one day and one week) 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.

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

	2009 £ million	2008 £ million
Non-current		
Cash on deposit	1.1	2.5

At 31 December 2009 £1.1 million (2008 £2.5 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 and capital redemption reserve, being 24 November 2004, are settled. See note 28.

21. Trade and other payables — current

	2009 £ million	2008 £ million
Trade payables	11.7	13.7
Payments received on account	0.8	2.3
Other taxes and social security costs	1.8	1.7
Accruals and deferred income	39.5	45.8
	53.8	63.5

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.

22. 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 2008	10.5	0.8	(0.8)	10.5
Recognised in the year *note 11*	(0.8)	3.3	–	2.5
Charged in the year *note 11*	(2.3)	(0.5)	–	(2.8)
Deferred tax on UK pension plan *note 11*	–	–	0.3	0.3
Exchange adjustment	1.5	0.2	–	1.7
At 1 January 2009	8.9	3.8	(0.5)	12.2
Recognised in the year *note 11*	11.0	8.8	–	19.8
Charged in the year *note 11*	(6.0)	(0.5)	–	(6.5)
Deferred tax on defined benefit pension plan *note 11*	–	–	0.6	0.6
Deferred tax on share incentives recognised in equity *note 11*	1.1	–	–	1.1
Exchange adjustment	(0.8)	–	–	(0.8)
At 31 December 2009	14.2	12.1	0.1	26.4

A deferred tax asset of £26.4 million has been recognised at 31 December 2009 (2008 £12.2 million). £12.7 million is in the United Kingdom (2008 £6.1 million) and £13.7 million is in the United States (2008 £6.1 million).

The deferred tax asset includes £3.3 million in respect of the tax deduction which may be available on the future exercise of share incentives (2008 nil) of which £1.1 million has been recognised in equity.

The deferred tax liability arising on the United Kingdom pension plan surplus in 2008 has been offset as permitted by IAS 12 "Income Taxes". Movements in deferred tax in relation to the pension plan have been charged to the statement of comprehensive income in 2009 and 2008.

All deferred tax assets on temporary differences, arising principally in the United Kingdom and United States, have been recognised at 31 December 2009 apart from £1.6 million in Canada. In 2008 £29.1 million of temporary differences were not recognised as there was insufficient evidence under IAS 12 to recognise a deferred tax asset in respect of these temporary differences.

The Group has tax losses arising in the United Kingdom of £62.2 million (2008 £91.8 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 £19.1 million (2008 £37.2 million) have not been recognised.

23. Trade and other payables — non-current

	2009 £ million	2008 £ million
Other payables	1.0	1.3
Accruals and deferred income	3.9	3.8
	4.9	5.1

24. Provisions and other liabilities

			£ million
	Restructuring and other provisions	Lease provisions	Total
At 1 January 2009	0.9	11.0	11.9
Discount unwind *note 8*	—	0.2	0.2
Utilised in the year	—	(4.3)	(4.3)
Exchange adjustment	(0.1)	(0.6)	(0.7)
At 31 December 2009	0.8	6.3	7.1

Provisions have been analysed as follows:

	2009 £ million	2008 £ million
Current	3.8	3.7
Non-current	3.3	8.2
	7.1	11.9

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

Restructuring and other provisions at 31 December 2009 and 2008 are mainly in relation to environmental provisions on property disposed of.

25. Derivative financial instruments

The derivative financial instruments are forward foreign currency exchange contracts.

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

At 31 December 2009 and 2008 the Group held various forward foreign currency exchange contracts in respect of the forward sale of US dollars against sterling and at 31 December 2009 for the purchase of euro against sterling on trading transactions.

	2009 £ million	2008 £ million
Sale of US dollars against sterling at an average rate of 1.57 (2008 1.76)	17.3	26.5
Purchase of euro against sterling at an average rate of 1.11	1.4	—

These contracts have been designated as cash flow hedges at 31 December 2009 and 31 December 2008.

25. Derivative financial instruments continued

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

	2009 £ million		2008 £ million	
	Assets	Liabilities	Assets	Liabilities
Currency derivatives – expected to be realised in less than one year				
Designated as a cash flow hedge	0.6	0.1	–	5.6

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

	2009 £ million	2008 £ million
Gains/(losses) arising during the year	0.5	(5.6)
Less: Reclassification adjustments for losses included in profit or loss	4.6	1.4
Fair value movements on cash flow hedges	5.1	(4.2)

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

26. 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:

	2009 £ million		2008 £ 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 20*	1.1	–	2.5	–
Non-current other receivables *note 19*	1.8	–	2.2	–
Cash and cash equivalents *note 20*	108.0	–	59.7	–
Current trade and other receivables *note 19*	43.9	–	54.6	–
Currency derivatives that qualify for hedge accounting *note 25*	–	0.6	–	–
Financial assets	154.8	0.6	119.0	–
Non-current other payables *note 23*	1.0	–	1.3	–
Current trade and other payables *note 21*	13.5	–	15.4	–
Provisions *note 24*	7.1	–	11.9	–
Currency derivatives that qualify for hedge accounting *note 25*	–	0.1	–	5.6
Financial liabilities	21.6	0.1	28.6	5.6

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 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.

26. Financial instruments and financial risk management continued

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 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.

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

	Effective interest rate %	2009 £ million	Effective interest rate %	2008 £ million
Fixed rate				
Fixed deposits	0.42	66.7	1.26	32.3
Forward foreign currency exchange contracts (net)		0.5		(5.6)
		67.2		26.7
Floating rate				
Cash at bank and in hand		41.3		27.4

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 (2008 one week) after which date they will be exposed to floating rates of interest.

In addition, £1.1 million (2008 £2.5 million) was held in a blocked trust account and was earning interest of 0.61 per cent at 31 December 2009 (2008 1.75 per cent). The maturity of the deposit is three months (2008 less than one month), at maturity the interest rate will be reset. This cash must be retained in the blocked trust account in accordance with the terms of the undertakings made at the time of the cancellation of the share premium account and capital redemption reserve (the "Cancellation") in 2004. The funds must remain in this account until 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 £0.4 million (note 7) (2008 £3.1 million) and is under the effective interest method.

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

A movement of 50 basis points in interest rates based on levels of investment at 31 December 2009 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 presents its consolidated financial statements in sterling but has significant operations in the United States, and its results can therefore be substantially affected on translation by movements in the US dollar to sterling exchange rate. The Group does not enter into instruments to hedge the translation exposure of the operating results or net assets of its overseas subsidiaries since these are accounting and not cash exposures. During the year, sterling has strengthened against the US dollar. The Group does not have any net investment hedges in place.

26. Financial instruments and financial risk management continued

The Group is not exposed to significant transactional foreign currency risk at 31 December 2009, nor at 31 December 2008, because the majority of its businesses do not enter into non-functional currency transactions. Where such transactions do occur the Group enters into forward foreign currency exchange contracts as appropriate.

Group treasury, by means of forward foreign currency exchange contracts, carries out the transaction hedging activity in relation to normal trading activity. At 31 December 2009 the Group has hedged some of its 2010 US dollar forecast trading exposures at an average exchange rate of 1.57 US dollars to sterling (31 December 2008 at an average exchange rate of 1.76). At 31 December 2009 the Group has also hedged some of its euro purchases at an average rate of 1.11.

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 £109.1 million (2008 £62.2 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 £41.9 million (2008 £52.2 million).

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

	2009 £ million	2008 £ million
Neither impaired nor past due	27.3	29.5
Past due but not impaired:		
Less than 30 days overdue	9.7	14.7
30 to 60 days	2.0	3.8
Over 60 days	2.9	4.2
Trade receivables	41.9	52.2

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

The movement on the receivables provision during the year is given in note 19. The value of impaired trade receivables is £1.3 million (2008 £1.9 million).

26. Financial instruments and financial risk management continued

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 2009 the Group had cash and cash equivalents of £108.0 million (2008 £59.7 million) all of which matures within three months (2008 one week).

During 2009 the Group generated £61.2 million of cash from operating activities (2008 £47.7 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 forseeable future.

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

	2009 £ million	2008 £ million
Sale of US dollars against sterling	17.3	26.5
Purchase of euro against sterling	1.4	–
Gross settlement amounts	18.7	26.5

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 24).

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 current forward 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 2008 and 2009 the Company has been operating an on-market share repurchase programme. In 2009 the Company repurchased 0.6 million of its Ordinary Shares at a cost of £0.6 million. In 2008 the Company repurchased 72.9 million of its Ordinary Shares at a cost of £42.2 million. In 2008 the Company also undertook a tender offer for the purchase of Ordinary Shares in the Company which resulted in a further 52.9 million Ordinary Shares being repurchased at a cost of £24.8 million.

27. 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:

	2009 £ million	2008 £ million
Within one year	6.8	8.1
In the second to fifth years	13.4	17.8
Over five years	0.6	1.6
	20.8	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 above leases amounts to £1.3 million (2008 £1.2 million) of which £0.6 million (2008 £0.5 million) will be recognised within one year and the balance in the second to fifth year.

28. Equity

a) Authorised and issued share capital

Authorised

	2009 £ million	2008 £ million
1,250 million (2008 1,250 million) Ordinary Shares of 3⅓ pence each	41.7	41.7

Issued and fully paid

	Number of Ordinary Shares million	£ million
At 1 January 2008	840.8	28.0
Allotted pursuant to share incentives exercised	5.2	0.2
Cancelled during the year	(174.2)	(5.8)
At 1 January 2009	671.8	22.4
Allotted pursuant to share incentives exercised	6.9	0.2
Cancelled during the year	(0.6)	–
At 31 December 2009[1]	678.1	22.6

Note

1 During 2009, under the programme of returning capital to shareholders, the Company repurchased 0.6 million (2008 72.9 million) Ordinary Shares on-market. In 2008 the Company also repurchased 52.9 million Ordinary Shares by way of a tender offer. All Ordinary Shares repurchased during the year were 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
2005 Employee Incentive Plan	0.5	–
Spirent Stock Incentive Plan	7.8	2.2
1995 Executive Share Option Scheme	0.3	0.1
All employee share plans[1]	0.3	0.1
	8.9	2.4

Note

1 The all employee share plans are the UK Savings Related Share Option Scheme, the 2005 Sharesave Scheme, the US Employee Stock Purchase Plan, the Global All Employee Share Purchase Plan and the UK Employee Share Purchase Plan (see note 29).

28. Equity continued

During the year 0.3 million Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes (2008 0.3 million) and 1.7 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan (2008 0.7 million).

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2009 and 4 March 2010, 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) Translation reserve: this reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries; and
v) Cash flow hedges: 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 2009, an amount of £175.5 million (2008 £176.0 million) has cumulatively been deducted from retained earnings in relation to the cost of investment in own Ordinary Shares.

At 31 December 2009, the ESOT held 5.4 million Ordinary Shares (2008 7.1 million Ordinary Shares) to satisfy awards under various share incentive plans. Of this number, 0.1 million Ordinary Shares were unconditionally vested at 31 December 2009 (2008 0.2 million Ordinary Shares). At 31 December 2009, the SST held 0.6 million Ordinary Shares (2008 0.9 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 6.0 million Ordinary Shares (2008 8.0 million Ordinary Shares) at 31 December 2009 was £6.1 million (2008 £2.9 million).

Cancellation of share premium and capital redemption reserves

On 24 November 2004, Spirent Communications plc was granted an order of the High Court for the approval of the cancellation of the share premium account and capital redemption reserve (the "Cancellation") which stood at that date at £702.7 million and £0.7 million, respectively.

The Cancellation created a reserve in the financial statements of the Company which was applied to eliminate the deficit in distributable reserves. The balance of this reserve, created after the deficit in distributable reserves had been eliminated, was transferred to a special non-distributable reserve. During 2006 the Company transferred funds equal to the aggregate amount due to any creditors of Spirent Communications plc, who were creditors on 24 November 2004, and who still remained creditors, to a blocked trust account. Placing these funds in a blocked trust account in accordance with the undertakings made at the time of the Cancellation allowed the special reserve to be released to distributable reserves.

Capital redemption reserve

During 2009 the Company cancelled 0.6 million Ordinary Shares (2008 174.2 million Ordinary Shares) that had been the subject of the on-market share repurchase programme and, in 2008 the tender offer, and transferred £20,333 (2008 £5.8 million) to the capital redemption reserve.

Capital reserve

In 2009 the reserve has been reduced by £0.4 million (2008 £2.2 million) in relation to share incentives which have been cancelled or have lapsed.

Share repurchase

During 2009 the Company repurchased 0.6 million Ordinary Shares on-market at a cost of £0.6 million (2008 72.9 million at a cost of £42.2 million). In addition, in 2008 the Company undertook a tender offer whereby it repurchased 52.9 million Ordinary Shares at a cost of £24.8 million. All Ordinary Shares repurchased have been subsequently cancelled.

29. Employee share plans

Movements in share incentives over a two year period ending on 31 December 2009 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 2007	2.9	36	56.1	72	5.2	121	2.1	115	0.8	39
Granted	0.8	25	0.5	65	—	—	—	—	—	—
Exercised	(0.6)	23	(8.6)	56	(0.6)	42	—	—	(0.3)	39
Forfeited	(0.1)	—	(1.4)	53	—	—	—	—	—	—
Expired	—	—	(4.9)	151	(1.0)	173	(0.7)	100	(0.1)	44
Incentives outstanding at 31 December 2008	3.0	37	41.7	66	3.6	119	1.4	122	0.4	39
Granted	1.7	—	0.1	72	—	—	—	—	—	—
Exercised	(0.7)	19	(13.9)	52	(0.3)	49	—	—	(0.3)	38
Forfeited	—	—	(0.3)	50	—	—	—	—	—	—
Expired	—	—	(6.6)	123	(0.3)	425	(1.2)	116	—	—
Incentives outstanding at 31 December 2009	4.0	24	21.0	57	3.0	123	0.2	157	0.1	39
Incentives exercisable										
At 31 December 2008	0.8	53	34.6	69	3.6	119	1.4	122	0.4	39
At 31 December 2009	1.5	50	19.3	58	3.0	123	0.2	157	0.1	39

Notes

1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance shares in aggregate. As at 31 December 2009 0.8 million Ordinary Shares held in the ESOT had been allocated to hedge awards made under the 2005 Employee Incentive Plan (2008 0.8 million).

2 Figures for the Spirent Stock Incentive Plan show both share options and stock appreciation rights in aggregate. As at 31 December 2009, 2.2 million Ordinary Shares held in the ESOT had been allocated to hedge awards made under the Spirent Stock Incentive Plan (2008 3.9 million).

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 0.3 million Ordinary Shares were transferred from the SST to settle the exercise of UK sharesave options in 2009 (2008 0.3 million). As at 31 December 2009, 0.6 million Ordinary Shares remained in the SST hedging share option grants made under the UK sharesave schemes.

The weighted average share price at exercise date was 82.4 pence (2008 73.9 pence).

29. Employee share plans continued

Share plan	Exercise period (as at 31 December 2009)	2009 Range of exercise prices pence	2009 Weighted average exercise price pence	2009 Number of share incentives outstanding million	2009 Weighted average remaining contractual life years	2008 Weighted average exercise price pence	2008 Number of share incentives outstanding million	2008 Weighted average remaining contractual life years
2005 Employee Incentive Plan	25.08.08 – 29.11.19	0-53	24	4.0	8.2	37	3.0	5.9
Spirent Stock Incentive Plan	11.03.04 – 07.05.10	17-22	20	–	0.3	17	2.0	0.9
	12.09.03 – 12.11.15	37-57	50	11.9	3.0	50	19.3	4.0
	17.09.04 – 12.08.16	59-87	67	9.1	1.6	85	20.4	1.9
1995 Executive Share Option Scheme	03.10.04 – 04.08.14	56-72	59	1.5	4.4	60	1.7	5.3
	02.04.05 – 01.05.12	113–134	126	1.0	2.3	128	1.4	2.5
	11.05.03 – 08.04.11	305-334	322	0.5	0.7	322	0.5	1.7
Acquisition plans	15.08.02 – 06.08.11	10	10	–	1.6	10	0.1	3.2
	14.11.00 – 12.10.10	127	127	0.2	0.5	118	1.2	0.5
	14.11.00 – 12.10.10	350	350	–	0.8	350	0.1	1.8
UK sharesave schemes	01.12.09 – 31.05.11	38-41	39	0.1	1.1	39	0.4	0.7
Total				28.3			50.1	

Description of employee share 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") and for Performance shares, relate to total shareholder return ("TSR").

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 34 and 35.

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

Spirent Stock Incentive Plan ("SSIP")

The SSIP was introduced in 2000. This discretionary plan is primarily targeted at US employees with grants normally determined by reference to the seniority and contribution of the individual, together with the performance of the relevant business and prevailing local market practice. Grants are also permitted to selected newly hired and promoted employees on a monthly basis. Under the SSIP, the Company is able to grant share options and share-settled SARs. No price is payable on the grant of an award.

At the Annual General Meeting held in May 2009, shareholders approved the extension of the SSIP until the Company's 2010 Annual General Meeting after which the plan will expire. The current shareholder approved mandate regarding the annual dilution rate is 0.5 per cent of the issued Ordinary Share capital for both the SSIP and EIP in aggregate.

29. Employee share plans continued

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 the SSIP awards made to Bill Burns, prior to his appointment as Chief Executive Officer, and to certain other key senior managers within the Communications group, are subject to the Company meeting EPS growth targets over the vesting periods. Further details of these performance conditions are set out in the Report on directors' remuneration on page 35.

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 2009, 1.9 million EIP SARs and 17.6 million SSIP SARs with an average base price of 50 pence and 56 pence respectively were outstanding (2008 2.2 million EIP SARs and 27.5 million SSIP SARs with an average base price of 50 pence and 56 pence respectively). During 2009, 9.4 million EIP and SSIP SARs were exercised resulting in the issue of 3.1 million Ordinary Shares (2008 1.6 million Ordinary Shares were issued on the exercise of 5.4 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 2009 there were no remaining exercisable options under this plan and it will be formally closed during 2010.

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

Out of a total consideration of approximately 44.9 million Ordinary Shares issued for the acquisition of Zarak Systems Corporation ("Zarak") in 2000, approximately 3.8 million Ordinary Shares arose in connection with the roll-over of outstanding options over Zarak shares into options over Spirent Ordinary Shares on substantially similar terms as previously existed. Any remaining outstanding ZARSOP options have a ten year life from the original date of grant and will therefore expire if not exercised during 2010 and the plan will be formally closed.

Caw Amended and Restated Stock Plan ("CARSP")

Out of a total initial consideration for the acquisition of Caw Networks, Inc. ("Caw") in 2002 of $49 million, approximately $4 million was in respect of Spirent Ordinary Shares and options which arose on the roll-over of outstanding options and shares under the previous Caw employee stock plan. The options and shares vested over a period ending in 2006 on substantially similar terms as previously existed. The options have a ten year life from the original date of grant. Pursuant to the terms of the Merger Agreement for Caw, an additional cash payment of 78.8 US cents was payable as each share vested or upon the exercise of a vested option. No further award 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.

29. Employee share plans continued

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, 0.3 million Ordinary Shares were transferred to participants (2008 0.3 million Ordinary Shares).

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

US Employee Stock Purchase Plan ("ESPP")

The ESPP enables the Company to grant eligible US employees the right to acquire Spirent American Depositary Shares using the proceeds of a savings contract. When joining the ESPP, participants enter into a 12 month contract to save up to 15 per cent of basic salary subject to an individual limit of $1,000 per month.

No offer has been made under this plan since 2003.

Global All Employee Share Purchase Plan ("GAESPP")

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

No offer has been made under this plan since 2003.

UK Employee Share Purchase Plan ("UK ESPP")

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

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

Stock Appreciation Rights Plan ("SARP")

The SARP was introduced in September 1999 as an interim incentive arrangement for the employees of Netcom following the closure of the NARSOP described above and subsequently for certain other employees in the Communications group. Rights under the SARP vested over four years, 25 per cent vesting one year after the date of grant and the remainder vesting on a monthly basis over a further 36 months. Rights granted were not subject to the fulfilment of any performance conditions.

The SARP will deliver the appreciation value (ie the aggregated increase in the market value of an Ordinary Share over the rights price) in the form of existing Ordinary Shares which have been purchased in the market by the Company's ESOT. The SARP is closed and no further grants can be made under it.

At 31 December 2009, 1.0 million (2008 1.5 million) rights were outstanding at rights prices of 335p to 416p. The plan will expire in 2010.

30. Share-based payment

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

	2009 £ million	2008 £ million
1995 Executive Share Option Scheme	—	0.2
2005 Employee Incentive Plan	0.1	0.2
Spirent Stock Incentive Plan	0.3	1.0
All employee share plans	—	0.1
	0.4	1.5

All schemes are equity-settled.

The fair value of share incentives is estimated as at the date of grant using a binomial model. The following table gives the assumptions made in arriving at the share-based payment charge and the fair value:

	2009	2008
Weighted average share price (pence)	96.3	55.9
Weighted average exercise price (pence)	3.9	40.5
Weighted average fair value (pence)	29.4	19.3
Expected volatility (%)	53—55	40—45
Expected life (years)	4.5	4.5
Risk free rate (%)	2.4—2.5	3.7—4.9
Dividend yield (%)	2.0	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. For Performance shares granted under the 2005 Employee Incentive Plan, which have a market based performance condition, it has been assumed that there will be 30 per cent vesting for valuation purposes.

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

	2009 £ million	2008 £ million
Profit before tax	54.1	49.6
Adjustments for:		
Finance income	(0.4)	(4.0)
Finance costs	1.6	3.1
Intangible asset amortisation	1.2	0.7
Depreciation of property, plant and equipment	8.6	8.8
Loss on the disposal of property, plant and equipment	0.1	0.3
Share-based payment	0.4	1.5
Changes in working capital		
Deferred income received/(released)	4.1	(1.3)
Decrease in receivables	4.6	2.4
Decrease/(increase) in inventories	5.1	(1.6)
Decrease in payables	(7.0)	(2.1)
Decrease in provisions	(4.3)	(3.9)
Defined benefit pension plan	(0.4)	(0.1)
Cash flows from operations	67.7	53.4

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”.

	2009 £000	2008 £000
Short term employee benefits	1,829	1,051
Share-based payment	66	156
Post-retirement benefits	6	7
	1,901	1,214

In 2009 Eric Hutchinson made gains on the exercise of share incentives of £87,257 (2008 £149,760).

In 2009 Bill Burns made gains on the exercise of share incentives of £54,666 (2008 nil).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SPIRENT COMMUNICATIONS PLC

We have audited the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2009 which comprise the Parent Company balance sheet and the related notes 1 to 21. 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 auditors

As explained more fully in the Statement of directors' responsibilities set out on page 29, 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 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.

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 2009;
- 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 matter

We have reported separately on the Group financial statements of Spirent Communications plc for the year ended 31 December 2009.

Richard Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
4 March 2010

PARENT COMPANY BALANCE SHEET

At 31 December	Notes	2009 £ million	2008 £ million
Fixed assets			
Intangible assets	4	5.0	5.6
Tangible assets	5	1.7	2.3
Fixed asset investments			
Shares in subsidiaries	6	165.2	164.9
Loans to subsidiaries	7	17.9	8.7
Total fixed assets		189.8	181.5
Current assets			
Inventories	8	5.9	6.7
Trade and other debtors	9	22.9	22.4
Derivative financial instruments	15	0.6	—
Cash and bank deposits		84.4	41.1
		113.8	70.2
Current liabilities			
Creditors due within one year	10	(10.9)	(11.9)
Derivative financial instruments	15	(0.1)	(5.6)
		(11.0)	(17.5)
Net current assets		102.8	52.7
Assets less current liabilities		292.6	234.2
Long term liabilities			
Creditors due after more than one year	11	(61.2)	(55.2)
Provisions for liabilities and charges			
Provisions	13	(0.2)	(1.1)
Assets less liabilities (excluding pension plan)		231.2	177.9
Pension plan (deficit)/surplus	3	(0.3)	1.1
Assets less liabilities (including pension plan)		230.9	179.0
Capital and reserves	16		
Called up share capital		22.6	22.4
Share premium account		18.3	17.2
Capital redemption reserve		10.6	10.6
Capital reserve		1.0	1.4
Cash flow hedges		0.4	(4.7)
Profit and loss account		178.0	132.1
Shareholders' funds — equity		230.9	179.0

The notes on pages 85 to 101 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
4 March 2010

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.

New Accounting Standards

The Company has adopted the amendments to FRS 2, FRS 6 and FRS 28 "Amendments for Companies Act Changes", the Amendment to FRS 20 "Vesting Conditions and Cancellations" and the Amendments to UITF 42 and FRS 26 "Embedded Derivatives and Reclassification". The adoption of these amendments had no impact on the net results or net assets of the Company.

Intangible assets

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

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

Tangible assets

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

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

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

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

Leases

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

Inventories

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

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.

1. Significant accounting policies continued

Provisions

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

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

Revenue recognition

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

For the sale of services, revenue is recognised in accounting periods in which the service is rendered.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. All exchange profits and losses are taken to the profit and loss account.

Product development

Expenditure is charged to the profit and loss account in the year in which it is incurred.

Financial instruments

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

Equity instruments

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

Derivative financial instruments and hedge accounting

The Company uses forward foreign currency exchange contracts to manage exposures arising on forecast receipts and payments in foreign currencies relating to firm commitments or highly probable forecast transactions. Such derivative financial instruments 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 designated its forward foreign currency exchange contracts as cash flow hedges. Changes in the fair value of contracts which are designated as effective are recognised directly in equity and the gain or loss on the ineffective portion of the hedge is recognised immediately in the profit and loss account. For derivatives that do not qualify for hedge accounting any gains or losses arising from changes in fair value are taken to the profit and loss account. For effective hedges that are in relation to a financial asset or liability, amounts originally deferred are recognised in the profit and loss account in the same period in which the hedged item affects profit or loss, for example when a highly probable sale occurs. For non-financial assets or liabilities, the gains or losses that have been included in equity are included in the initial measurement of the non-financial asset or liability at the time the asset or liability is recognised on the balance sheet.

The Company discontinues hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes designation.

Gains or losses arising on hedging instruments, which are cancelled due to termination of the underlying exposure, are taken to the profit and loss account immediately.

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 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.

Dividends paid

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

1. Significant accounting policies continued

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.

2. Employees

Please refer to the Report on directors' remuneration on pages 33 to 40 for disclosures relating to the emoluments, share incentives and long term incentive interests and pensions of the directors.

3. Pensions

Defined benefit plans

The defined benefit 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.

3. Pensions continued

The most recent actuarial valuations, at 1 April 2009, of the plans' assets and the present value of the defined benefit plans' obligations, using the projected unit credit method, have been used and updated by our independent actuaries.

i) The key financial assumptions

The assumptions used for both plans were as follows:

	2009 %	2008 %
Inflation	3.4	3.0
Rate of increase in pensionable salaries	3.9	3.5
Rate of increase for pensions in payment pre 2001 service	3.7	3.6
Rate of increase for pensions in payment post 2001 pre April 2005 service	3.2	2.9
Rate of increase for pensions post April 2005 service	2.2	2.1
Rate of increase in deferred pensions	3.4	3.0
Rate used to discount plan liabilities	5.7	6.0
Expected rate of return on plan assets (weighted for both plans)	5.6	5.2

Spirent Communications plc employs a building block approach in determining the long term rate of return on the 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 68 (2008 aged 65) will live on average for a further 19.1 years (2008 21.7 years) if they are male and for a further 20.9 years (2008 24.0 years) if they are female. For a member who retires in 2019 (2008 in 2028) at age 64 (2008 aged 65) the assumptions are that they will live on average for a further 23.6 years (2008 22.9 years) after retirement if they are male and for a further 25.5 years (2008 25.0 years) after retirement if they are female.

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

- Reducing the discount rate by 0.1 per cent per annum. This would increase past service liabilities by £2.0 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 £4.3 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 were as follows:

	Long term rate of return expected %	2009 £ million	Long term rate of return expected %	2008 £ million
Staff Plan and unfunded plan				
Equities	8.5	30.6	8.0	24.9
Government bonds	4.3	32.2	4.0	60.3
Corporate bonds	5.1	57.3	5.7	25.7
Insured annuities	5.7	2.9	5.7	3.8
Property	9.0	3.6	7.0	4.1
Cash and other	1.0	4.5	2.7	3.6
Fair value of plan assets	5.7	131.1	5.3	122.4
Present value of defined benefit pension plan obligations		(131.4)		(120.1)
(Deficit)/surplus in the plan		(0.3)		2.3
Surplus restriction		–		(0.7)
(Deficit)/surplus recognised		(0.3)		1.6
Present value of unfunded obligations		(0.4)		(0.6)
(Deficit)/surplus on the balance sheet		(0.7)		1.0
Deferred tax asset/(liability) *note 12*		0.2		(0.3)
Net (deficit)/surplus on the balance sheet		(0.5)		0.7
Cash Plan				
Equities	8.5	1.8	8.0	1.6
Government bonds	4.4	2.7	4.0	2.1
Insured annuities	5.7	0.2	4.0	0.3
Cash and other	1.0	2.1	2.7	2.9
Fair value of plan assets	4.5	6.8	4.4	6.9
Present value of defined benefit pension plan obligations		(6.0)		(6.4)
Surplus in the plan		0.8		0.5
Surplus restriction		(0.5)		–
Pension surplus recognised		0.3		0.5
Deferred tax liability *note 12*		(0.1)		(0.1)
Net surplus on the balance sheet		0.2		0.4
Net pension plan (deficit)/surplus on the balance sheet		(0.3)		1.1

The recognition of the surplus in the Staff Plan was restricted in 2008 to the present value of economic benefits available in the form of refunds from the Plan or reductions in future contributions to the Plan. As a result only £1.6 million of the £2.3 million surplus has been recognised on the balance sheet at 31 December 2008.

The recognition of the surplus in the Cash Plan is restricted in 2009 to the present value of 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 £0.8 million surplus has been recognised on the balance sheet at 31 December 2009.

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.

3. Pensions continued

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

	2009 £ million	2008 £ million
Analysis of amount charged to operating costs		
Current service cost	0.1	0.2
Expected return on pension plans' assets	6.4	7.6
Interest on pension plans' liabilities	(7.5)	(7.5)
Finance (cost)/income	(1.1)	0.1
Net profit and loss charge	1.2	0.1

iv) Analysis of amount recognised directly in equity

	2009 £ million	2008 £ million
Actual return on pension plans' assets	13.9	(7.8)
Less expected return on pension plans' assets	6.4	7.6
Experience gains/(losses) on plans' assets	7.5	(15.4)
Experience losses arising on plans' liabilities	(2.5)	(0.4)
Changes in assumptions underlying the present value of plans' liabilities	(6.4)	10.7
Movement in surplus restriction	0.2	4.0
Actuarial losses recognised directly in equity	(1.2)	(1.1)

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 £13.6 million loss (2008 £12.4 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

	2009 £ million	2008 £ million
At 1 January	126.5	135.1
Current service cost	0.1	0.2
Interest cost	7.5	7.5
Employee contributions	0.1	0.1
Benefit payments	(5.7)	(6.1)
Actuarial loss/(gain)	8.9	(10.3)
Present value of funded defined benefit pension plans' obligations	137.4	126.5

3. Pensions continued

vi) Movements in the fair value of plans' assets

	2009 £ million	2008 £ million
At 1 January	129.3	142.8
Expected return on plans' assets	6.4	7.6
Employer contributions	0.3	0.3
Employee contributions	0.1	0.1
Benefit payments	(5.7)	(6.1)
Actuarial gain/(loss)	7.5	(15.4)
Fair value of plans' assets	137.9	129.3

vii) History of experience gains and losses

	2009 £ million	2008 £ million	2007 £ million	2006 £ million	2005 £ million
Present value of defined benefit pension plans' obligations	(137.4)	(126.5)	(135.1)	(158.2)	(179.6)
Fair value of plans' assets	137.9	129.3	142.8	160.6	128.8
Net surplus/(deficit) in plans	0.5	2.8	7.7	2.4	(50.8)
Experience gains and losses on plans' liabilities					
Amount (£ million)	(2.5)	(0.4)	(0.8)	(10.0)	4.8
Percentage of plans' liabilities (%)	(1.8)	(0.3)	(0.6)	(6.3)	2.7
Experience gains and losses on plans' assets					
Amount (£ million)	7.5	(15.4)	(2.6)	0.5	14.6
Percentage of plans' assets (%)	5.4	(11.9)	(1.8)	0.3	11.3

Expected cash contributions for 2010 for these plans are £0.3 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 2009 of £0.4 million (2008 £0.6 million). This represents the actuarial value, as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a market value basis in line with the main plan valuation. There are no experience gains or losses on the unfunded plan in the period from 2005 to 2009.

Defined contribution schemes

The Company also maintains defined contribution pension plans for employees. Employer contributions into these plans for 2009 were £0.8 million (2008 £0.7 million).

4. Intangible assets

	£ million Goodwill
Cost	
At 1 January 2009 and 31 December 2009	6.8
Amortisation	
At 1 January 2009	1.2
Provided during the year	0.6
At 31 December 2009	1.8
Net book value at 31 December 2008	5.6
Net book value at 31 December 2009	5.0

5. Tangible assets

£ million

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
Cost				
At 1 January 2009	0.6	3.9	3.7	8.2
Additions	–	0.2	0.1	0.3
Disposals	–	(0.2)	(0.2)	(0.4)
At 31 December 2009	0.6	3.9	3.6	8.1
Depreciation and impairment				
At 1 January 2009	–	2.9	3.0	5.9
Provided during the year	–	0.5	0.3	0.8
Disposals	–	(0.1)	(0.2)	(0.3)
At 31 December 2009	–	3.3	3.1	6.4
Net book value at 31 December 2008	0.6	1.0	0.7	2.3
Net book value at 31 December 2009	0.6	0.6	0.5	1.7

6. Shares in subsidiaries

	£ million
Cost	
At 1 January 2009	885.4
Additions	0.3
At 31 December 2009	885.7
Provisions	
At 31 December 2009 and 1 January 2009	720.5
Net book value at 31 December 2008	164.9
Net book value at 31 December 2009	165.2

7. Loans to subsidiaries

	£ million
At 1 January 2009	8.7
Advances	11.5
Repayments	(0.9)
Exchange	(1.4)
At 31 December 2009	17.9

8. Inventories

	2009 £ million	2008 £ million
Raw materials	3.1	4.2
Work in progress	0.7	1.2
Finished goods	2.1	1.3
	5.9	6.7

9. Trade and other debtors

	2009 £ million	2008 £ million
Due within one year		
Trade debtors	6.1	7.6
Owed by subsidiaries	3.1	6.7
Other debtors	0.6	1.0
Prepayments and accrued income	0.4	0.5
	10.2	15.8
Due after more than one year		
Deferred tax asset *note 12*	12.7	6.6
	22.9	22.4

10. Creditors due within one year

	2009 £ million	2008 £ million
Trade creditors	5.4	5.7
Owed to subsidiaries	0.2	0.4
Accruals and deferred income	4.5	5.1
Other taxes and social security costs	0.8	0.7
	10.9	11.9

11. Creditors due after more than one year

	2009 £ million	2008 £ million
Owed to subsidiaries	61.2	55.2

12. Deferred tax

	£ million
At 1 January 2009	6.6
Recognised in the year	6.1
At 31 December 2009	12.7

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

There is a deferred tax liability at 31 December 2009 of £0.1 million and a deferred tax asset of £0.2 million (2008 liability of £0.4 million) in relation to the pension plans (note 3).

13. Provisions

	£ million
Lease provisions	
At 1 January 2009	1.1
Utilised in the year	(0.9)
At 31 December 2009	0.2

13. Provisions continued

Provisions are analysed as follows:

	2009 £ million	2008 £ million
Current	0.2	0.2
Non-current	–	0.9
	0.2	1.1

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

14. Operating lease commitments

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

	2009 £ million	2008 £ million
In the second to fifth years	0.5	0.5
Over five years	–	0.2
	0.5	0.7

15. Derivative financial instruments

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

The fair value of derivative financial instruments is as follows:

	2009 £ million		2008 £ million	
	Assets	Liabilities	Assets	Liabilities
Currency derivatives	0.6	0.1	–	5.6

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

Currency derivatives

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

16. Capital and reserves

£ million

	Called up share capital	Share premium account	Capital redemption reserve	Capital reserve	Cash flow hedges	Profit and loss account[2]	Total
At 1 January 2009	22.4	17.2	10.6	1.4	(4.7)	132.1	179.0
New shares issued	0.2	1.1	—	—	—	—	1.3
Profit for the year[3]	—	—	—	—	—	53.0	53.0
Share-based payment[4]	—	—	—	—	—	0.4	0.4
Actuarial loss recognised on defined benefit pension plans	—	—	—	—	—	(1.2)	(1.2)
Deferred tax on defined benefit pension plans	—	—	—	—	—	0.5	0.5
Cash flow hedges	—	—	—	—	5.1	—	5.1
Employee Share Ownership Trust	—	—	—	—	—	1.1	1.1
Share repurchase	—	—	—	—	—	(0.6)	(0.6)
Equity dividends	—	—	—	—	—	(7.7)	(7.7)
Other movements	—	—	—	(0.4)	—	0.4	—
At 31 December 2009	22.6	18.3	10.6	1.0	0.4	178.0	230.9

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 £178.0 million (2008 £132.1 million) includes non-distributable reserves of £6.9 million (2008 £6.9 million).

3 The profit for the year dealt with in the financial statements of the Company was £53.0 million (2008 £40.4 million) which after dividends of £7.7 million (2008 £3.7 million), gave a retained profit of £45.3 million (2008 £36.7 million).

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

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

	Number of Ordinary Shares million
Issued and fully paid at 1 January 2009	671.8
Allotted pursuant to share incentives exercised	6.9
Cancelled during the year	(0.6)
Issued and fully paid at 31 December 2009[1]	678.1

Note

1 During 2009, under the programme of returning capital to shareholders, the Company repurchased 0.6 million Ordinary Shares on-market. All Ordinary Shares repurchased during the year were 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
2005 Employee Incentive Plan	0.5	—
Spirent Stock Incentive Plan	7.8	2.2
1995 Executive Share Option Scheme	0.3	0.1
All employee share plans[1]	0.3	0.1
	8.9	2.4

Note

1 The all employee share plans are the UK Savings Related Share Option Scheme, the 2005 Sharesave Scheme, the US Employee Stock Purchase Plan, the Global All Employee Share Purchase Plan and the UK Employee Share Purchase Plan.

16. Capital and reserves continued

During the year 0.3 million Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes (2008 0.3 million) and 1.7 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan (2008 0.7 million).

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2009 and 4 March 2010, the date on which these financial statements have been signed.

Investment in own Ordinary Shares

At 31 December 2009, the ESOT held 5.4 million Ordinary Shares (2008 7.1 million Ordinary Shares) to satisfy awards under various share incentive plans. Of this number, 0.1 million Ordinary Shares were unconditionally vested at 31 December 2009 (2008 0.2 million Ordinary Shares). At 31 December 2009, the SST held 0.6 million Ordinary Shares (2008 0.9 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 6.0 million Ordinary Shares (2008 8.0 million Ordinary Shares), at 31 December 2009 was £6.1 million (2008 £2.9 million).

Capital redemption reserve

During 2009 the Company cancelled 0.6 million Ordinary Shares that had been the subject of the on-market share repurchase programme (2008 174.2 million Ordinary Shares, on-market share repurchase and tender offer) and transferred £20,333 (2008 £5.8 million) to the capital redemption reserve.

Capital reserve

In 2009 the reserve has been reduced by £0.4 million (2008 £2.2 million) in relation to share incentives which have been cancelled or have lapsed.

Share repurchase

During 2009 the Company repurchased 0.6 million Ordinary Shares on-market at a cost of £0.6 million (2008 72.9 million Ordinary Shares at a cost of £42.2 million). In addition, in 2008 the Company undertook a tender offer whereby it repurchased 52.9 million Ordinary Shares at a cost £24.8 million. All Ordinary Shares repurchased have been subsequently cancelled.

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 2009 are shown below:

	2005 Employee Incentive Plan		Spirent Stock Incentive Plan		1995 Executive Share Option Scheme		UK share save schemes	
	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence
Options outstanding at 31 December 2008	2.7	37	2.1	57	3.0	110	0.4	39
Granted	0.8	—	—	—	—	—	—	—
Exercised	(0.4)	21	(0.5)	55	(0.2)	33	(0.3)	38
Forfeited	(0.1)	37	—	—	—	—	—	—
Expired	—	—	—	—	(0.2)	138	—	—
Options outstanding at 31 December 2009	3.0	30	1.6	58	2.6	112	0.1	39
Options exercisable at 31 December 2009	1.4	50	1.4	59	2.6	112	0.1	39

16. Capital and reserves continued

The weighted average share price at exercise date was 77.6 pence (2008 77.4 pence).

The following information relates to outstanding share incentives at 31 December 2009:

Share plan	Exercise period (as at 31 December 2009)	Range of exercise prices pence	Weighted average exercise price pence	Number of share incentives outstanding million	2009 Weighted average remaining contractural life years
2005 Employee Incentive Plan	25.08.08—06.11.18	0—53[1]	30	3.0	5.0
Spirent Stock Incentive Plan	12.09.03—12.11.15	37—53	50	0.9	3.0
	17.09.04—12.08.16	59—87	67	0.7	1.7
1995 Executive Share Option Scheme	03.10.04—04.08.14	56—72	58	1.4	4.5
	02.04.05—01.05.12	113—134	125	0.9	2.3
	11.05.03—08.04.11	305—334	322	0.3	0.7
UK sharesave schemes	01.12.09—31.05.11	38—41	39	0.1	1.1
				7.3	

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

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") and for Performance shares, relate to total shareholder return ("TSR").

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 34 and 35.

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

Spirent Stock Incentive Plan ("SSIP")

The SSIP was introduced in 2000. This discretionary plan is primarily targeted at US employees with grants normally determined by reference to the seniority and contribution of the individual, together with the performance of the relevant business and prevailing local market practice. Grants are also permitted to selected newly hired and promoted employees on a monthly basis. Under the SSIP, the Company is able to grant share options and share-settled SARs. No price is payable on the grant of an award.

16. Capital and reserves continued

At the Annual General Meeting held in May 2009, shareholders approved the extension of the SSIP until the Company's 2010 Annual General Meeting after which the plan will expire. The current shareholder approved mandate regarding the annual dilution rate is 0.5 per cent of the issued Ordinary Share capital for both the SSIP and EIP in aggregate.

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 the SSIP awards made to Bill Burns, prior to his appointment as Chief Executive Officer, and to certain other key senior managers within the Communications group, are subject to the Company meeting EPS growth targets over the vesting periods. Further details of these performance conditions are set out in the Report on directors' remuneration on page 35.

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.

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, 0.3 million Ordinary Shares were transferred to participants (2008 0.3 million Ordinary Shares).

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

UK Employee Share Purchase Plan ("UK ESPP")

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

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

17. Share-based payment

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

	2009 £ million	2008 £ million
1995 Executive Share Option Scheme	–	0.1
2005 Employee Incentive Plan	0.1	0.2
All employee share plans	–	0.1
	0.1	0.4

All schemes are equity-settled.

The fair value of share incentives is estimated as at the date of grant using a binomial model. The following table gives the assumptions made in arriving at the share-based payment charge and the fair value:

	2009	2008
Weighted average share price (pence)	97.8	50.5
Weighted average exercise price (pence)	–	25.3
Weighted average fair value (pence)	29.3	16.7
Expected volatility (%)	53.0	45.0
Expected life (years)	4.5	4.5
Risk free rate (%)	2.4	3.7
Dividend yield (%)	2.0	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. For Performance shares granted under the 2005 Employee Incentive Plan, which have a market based performance condition, it has been assumed that there will be 30 per cent vesting for valuation purposes.

18. Related party transactions

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

19. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 101 of this Annual Report.

20. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2009 or 31 December 2008.

Spirent Communications plc has provided indemnities of £0.4 million (2008 £0.5 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

21. Directors' emoluments and transactions with directors

Please refer to the Report on directors' remuneration on pages 33 to 40 for disclosures relating to the remuneration, share incentives and pensions of the directors.

PRINCIPAL DIVISIONS AND SUBSIDIARIES

	% held at 31 December 2009
Communications group	
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 group	
Control systems for the mobility and industrial markets	
United Kingdom	
PG Drives Technology Limited (Christchurch, Dorset)	100
United States	
PG Drives Technology Inc (Anaheim, California)	100

Notes

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

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

The activity mentioned is indicative and not comprehensive.

FINANCIAL HISTORY

£ million

	2009	2008	2007	2006	2005
Summary income statement					
Continuing operations					
Revenue	272.1	257.9	237.0	258.9	259.3
Operating profit before exceptional items and goodwill impairment	55.3	48.7	25.5	8.4	6.4
Exceptional items	–	–	(14.4)	(8.8)	(8.4)
Goodwill impairment	–	–	–	(19.1)	(37.0)
Operating profit/(loss)	55.3	48.7	11.1	(19.5)	(39.0)
Profit on disposal of operations	–	–	–	–	3.9
Profit/(loss) before interest	55.3	48.7	11.1	(19.5)	(35.1)
Net finance income/(costs)	(1.2)	2.7	6.7	6.0	(6.6)
Exceptional net finance costs	–	(1.8)	–	(8.8)	–
Profit/(loss) before tax	54.1	49.6	17.8	(22.3)	(41.7)
Tax	4.0	(0.4)	3.8	(0.4)	4.0
Exceptional tax	–	25.6	3.9	–	–
Profit/(loss) from continuing operations after tax	58.1	74.8	25.5	(22.7)	(37.7)
Discontinued operations	–	–	(7.9)	131.5	13.2
Profit/(loss) for the year	58.1	74.8	17.6	108.8	(24.5)
Minority interest	–	–	–	–	(0.4)
Profit/(loss) attributable to equity shareholders of parent Company	58.1	74.8	17.6	108.8	(24.9)
Summary balance sheet					
Intangible assets	69.8	77.6	58.6	63.3	71.5
Property, plant and equipment	14.7	18.6	16.2	25.3	30.1
Working capital (excluding cash and deferred tax)	5.2	15.9	(19.0)	(2.2)	(3.3)
Operating assets	89.7	112.1	55.8	86.4	98.3
Net assets classified as held for sale	–	–	–	–	115.4
Derivative financial instruments (net)	0.5	(5.6)	(0.5)	0.1	(0.1)
Net funds/(borrowings) including long term cash	109.1	62.2	82.7	106.1	(25.9)
Provisions and other liabilities	(7.1)	(11.9)	(12.7)	(12.0)	(14.2)
Deferred tax	26.4	12.2	10.5	1.2	0.2
Defined benefit pension plan surplus/(deficit)	(0.1)	2.0	5.4	1.0	(51.5)
Net assets	218.5	171.0	141.2	182.8	122.2
Equity shareholders of parent Company	218.5	171.0	141.2	182.8	120.3
Minority interests	–	–	–	–	1.9
Total equity	218.5	171.0	141.2	182.8	122.2
Summary cash flows					
Cash flow from operating activities	61.2	47.7	49.8	(43.0)	29.4
Net interest received/(paid)	0.4	1.4	5.6	4.1	(6.5)
Net capital expenditure	(6.5)	(6.9)	(5.2)	(14.5)	(29.9)
Free cash flow	55.1	42.2	50.2	(53.4)	(7.0)
Acquisitions and disposals	–	–	(11.7)	233.8	2.4
Share capital and share repurchase	1.7	(64.8)	(61.9)	(39.5)	2.7
Dividends paid	(7.7)	(3.7)	–	–	–
Borrowings	–	–	–	(82.2)	(1.6)
Long term cash and dividends from associates	1.4	1.2	4.8	(8.5)	0.2
Net increase/(decrease) in cash and cash equivalents	50.5	(25.1)	(18.6)	50.2	(3.3)

	2009	2008	2007	2006	2005
					£ million
Other information					
Capital expenditure	6.4	7.4	5.1	14.1	33.0
Depreciation	8.6	8.8	9.5	13.4	22.6
Product development	47.5	45.3	46.3	58.0	62.8
Share information					
Earnings/(loss) per share from continuing operations (pence)					
Basic	8.71	10.13	2.97	(2.45)	(3.97)
Diluted	8.67	10.06	2.94	(2.45)	(3.97)
Adjusted basic	6.91	6.24	3.57	1.48	(0.22)
Total dividend per Ordinary Share (pence)	1.21	1.10	—	—	—
Fully paid Ordinary Shares in issue at year end (million)	678.1	671.8	840.8	975.9	965.8
Segmental analysis					
Revenue from continuing operations					
Performance Analysis	201.8	191.2	169.3	179.5	178.8
Service Assurance	33.5	33.5	34.3	43.6	42.8
Communications	235.3	224.7	203.6	223.1	221.6
Systems	36.8	33.2	33.4	35.8	37.7
	272.1	257.9	237.0	258.9	259.3
Operating profit from continuing operations[1]					
Performance Analysis	49.9	44.9	24.9	14.7	22.0
Service Assurance	4.8	4.8	3.8	0.1	(9.6)
Communications	54.7	49.7	28.7	14.8	12.4
Systems	5.0	4.3	3.9	4.8	4.4
Segment operating profit	59.7	54.0	32.6	19.6	16.8
Corporate — non-segmental	(3.1)	(3.1)	(3.7)	(5.5)	(5.3)
Acquired intangible amortisation	(0.9)	(0.7)	(0.9)	(0.5)	—
Share-based payment	(0.4)	(1.5)	(2.5)	(5.2)	(5.1)
	55.3	48.7	25.5	8.4	6.4
Geographical information					
Revenue by market from continuing operations					
Europe	44.1	47.8	43.7	43.7	43.0
United States	135.3	129.1	123.2	143.9	151.5
Asia Pacific, Rest of Americas, Africa	92.7	81.0	70.1	71.3	64.8
	272.1	257.9	237.0	258.9	259.3

					Rates against sterling
Average exchange rates for major currencies					
US dollar	1.57	1.85	2.00	1.85	1.82
Euro	1.12	1.26	1.46	1.47	1.46

Notes
1 Before exceptional items and goodwill impairment.

SHAREHOLDER INFORMATION

Financial calendar 2010

4 March	Preliminary results and final dividend announcement
10 March	Final dividend — ex-dividend date
12 March	Final dividend — record date
5 May	Annual general meeting and interim management statement
6 May	Final dividend — payment date (Ordinary shareholders)
13 May	Final dividend — payment date (ADR holders)
4 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 2011	2010 Preliminary results and final dividend announcement

Ordinary shares and American depositary receipts

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

Annual General Meeting

The Company's 2010 Annual General Meeting ("2010 AGM") will be held at 10.30am on Wednesday 5 May 2010 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 2623 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 2623 or log on to www.shareview.co.uk.

Electronic communications

At its 2008 AGM the Company passed a resolution allowing it to communicate with shareholders by means of the Company's website and an invitation to opt out of receiving mailings solely by electronic communication was sent to shareholders with the 2009 AGM documentation. Shareholders who have purchased their shares since that invitation was distributed in March 2009 but who wish to receive company mailings electronically should notify the Company's registrar, Equiniti, on 0871 384 2126 or via www.shareview.co.uk. In line with this policy, the Company's Half-year Results will in future only be available on the Company's website at www.spirent.com.

Electronic communications provide significant benefits for shareholders and the Company in terms of timeliness of information, reduced environmental impact and cost and the Board would encourage investors to participate in the programme.

Company's registrar

Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to 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 2126 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.moneymadeclear.fsa.gov.uk.

Unsolicited mail

The Company is obliged by law to make its share register publicly available, subject to a "proper purpose" test, should a request be received. As a consequence, some shareholders may receive unsolicited mail. To limit the amount of unsolicited mail received, please contact: The Mailing Preference Service (MPS), DMA House, 70 Margaret Street, London W1W 8SS, register online at www.mpsonline.org.uk or call the MPS Registration line on 0845 703 4599. The Mailing Preference Service is an independent organisation which offers a free service to the public within the UK. Registering with them will help stop most unsolicited consumer advertising material.

Company's website

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

Shareholder analysis

At 4 March 2010, the number of registered shareholders was 4,274 and the number of Ordinary Shares in issue was 678.8 million.

	Number of holdings	% of total shareholders	Number of Ordinary Shares million	% of share capital
Range of holdings:				
1—5,000	3,027	70.82	4,377,511	0.64
5,001—10,000	446	10.43	3,315,508	0.49
10,001—50,000	462	10.81	9,626,873	1.42
50,001—100,000	70	1.64	4,788,536	0.70
100,001—250,000	73	1.71	12,064,582	1.78
250,001—500,000	58	1.36	21,032,037	3.10
500,001—1,000,000	50	1.17	35,366,606	5.21
1,000,001—Highest	88	2.06	588,259,597	86.66
Total	4,274	100.00	678,831,250	100.00
Held by:				
Individuals	3,465	81.07	17,574,205	2.59
Institutions	809	18.93	661,257,045	97.41
Total	4,274	100.00	678,831,250	100.00

GLOSSARY

3G (Third Generation)	Third generation of mobile communications following first generation (analogue) and second generation (digital) that promises megabits per second.
4G (Fourth Generation)	Future generation of mobile communications following 3G that promises hundreds of megabits per second.
Broadband	Generic term for devices with a bandwidth greater than one megabit per second.
CDMA (Code Division Multiple Access)	A digital cellular standard technology allowing communications circuits to carry multiple conversations simultaneously, thus increasing its capacity; used in radio communications.
Cloud Computing	A way of computing, via the internet, that broadly shares computer resources instead of having local servers handle specific applications.
Content Delivery Network	A system storing data on different servers across the internet on content delivery service providers making it is possible to ensure that content is closer and more quickly accessible to users.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
Ethernet	A family of networking technologies developed for local area networks, migrating to metro area networks and becoming a dominant standard in wireline networks.
GbE (Gigabit Ethernet)	A term describing various technologies for transmitting Ethernet frames at a rate of a gigabit per second. GbE uses the same framing as Ethernet and Fast Ethernet, but has a much higher clock speed (one billion bits per second).
GPS (Global Positioning System)	A system for determining location and height at any point on the earth's surface. A receiver uses minute differences in measured time signals from clocks on satellites to calculate position and altitude.
GLONASS (Global Navigation Satellite System)	Global navigation satellite system operated by the Russian Federation Ministry of Defence.
IMS (Internet Protocol Multimedia Subsystem)	A standardised next-generation architecture for telecoms operators who want to provide mobile and fixed multimedia services.

Internet/IP telephony	Generic term used to describe various approaches to running voice telephony over IP.
IP (Internet Protocol)	Data protocol used by many networking devices to facilitate and control the flow of data.
LTE (Long Term Evolution)	A standard to enhance existing 3G wireless to add 4G mobile communications technology on an IP network air interface, to create a wireless broadband internet system.
Layer 2-7	Layer 2-7 are abstract descriptions of layered communication levels between two devices. The layers from top to bottom are the Application, Presentation, Session, Transport, Network, Data-Link and Physical Layers.
Location Based Services	The delivery of information, mapping and locally available business and public data over the wireless network dependent upon the ability to locate mobile devices by means of direct satellite or cellular assisted satellite signals.
MIMO (Multiple Input Multiple Output)	A wireless technology that employs multiple intelligent radio antennas to improve transmission speed and quality of wireless networks over longer distances than otherwise possible.
MSO (Multiple System Operator)	A company that operates more than one cable TV system, often in different places.
Over-the-Air	Mobile network radio cellular tower signal or satellite signal transmitted over-the-air to a mobile device antenna and processed by the mobile device communicating with the mobile network.
Triple Play	Voice, video and data transmitted over a single transport medium.
UMTS (Universal Mobile Telecommunications System)	One of the 3G wireless technologies. The most common form of UMTS uses WCDMA on its underlying air interface and offers support for high speed data transfer.
Virtualization	A term that refers to the abstraction of computer resources. Virtualization puts a number of computing facilities together in such a way that it looks like a virtual computer to a user or customer.
WCDMA (Wideband CDMA)	A global standard for mobile 3G.

NOTES

CONTACT DETAILS

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