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SPIRENT COMMUNICATIONS PLC ANNUAL REPORT 2012

INSPIRING INNOVATION ENRICHING LIFE

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

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

Cautionary statement regarding forward looking statements

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

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CHAIRMAN'S STATEMENT

Significant strategic progress in 2012

Spirent made significant strategic progress in 2012 through organic investment to bring new solutions to market, the acquisition of new technologies for testing the security of application-aware networks and the subscriber experience of mobile devices on live networks, in order to expand the markets it serves, and by the divestment of its last non-core business. A restructuring of the Service Assurance division has returned the business to more satisfactory levels of profitability. These achievements were made against a background of economic uncertainty in all regions, which in turn tempered growth.

Revenue for the continuing Group was similar to last year at \$472.4 million (2011 \$470.5 million) and reported profit before tax decreased by 3 per cent to \$110.7 million (2011 \$114.3 million). The strong start to the year was followed by a weak demand environment materialising during the second quarter, which then persisted throughout the remainder of the year. Operational highlights included the growth in new solutions for 4G/LTE wireless.

Alex Walker
Chairman

Dividend per share 2012

3.22 cents
(2011 2.93 cents)

development testing, the enhancements to new high speed Ethernet test solutions and the renewal of large long term service assurance maintenance contracts. The one significant area of weakness, other than Service Assurance, was the global navigation satellite system emulation products in the positioning business which experienced a 26 per cent decrease in revenue due to caution in government spending and delays to the commercial rollout of the specifications to a Chinese satellite navigation system. This decrease had a 3 percentage points negative impact on revenue growth for the Performance Analysis division for the year.

Return on sales, based on adjusted operating profit, was maintained at 25 per cent for the continuing Group, which is amongst the best in the test and measurement industry. This was after expanding product development expenditure by \$2.8 million and sales and distribution by \$1.2 million.

Adjusted basic earnings per share grew by 4 per cent to 13.38 cents (2011 12.92 cents), this is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and share based payment. Basic earnings per share for the continuing Group decreased in 2012 by 5 per cent to 12.46 cents per share (2011 13.17 cents).

The Group's free cash flow generation from continuing businesses increased to \$84.0 million (2011 \$69.3 million) representing a strong increase year-on-year, this is a cash conversion ratio of 105 per cent of reported earnings before non-cash prior year tax (2011 84 per cent). Spirent used its cash resources to fund the acquisitions of Mu Dynamics, Inc. in April for \$39.8 million and Metrick Wireless, Inc. in September for

\$52.2 million. Both businesses have been fully integrated into the Performance Analysis division. The divestment of the Systems division in November for a cash consideration of \$63.2 million has enabled the Company to focus on the development of its core business. Of the proceeds, \$27.2 million was applied to the repurchase of Spirent shares in the market for cancellation. The Company has no debt and cash balances were \$248.6 million at 31 December 2012.

The Board continues to focus on a high return on capital employed in the business. The operating return on capital employed (excluding cash balances) in the continuing Group in 2012 was 52 per cent. The target set for return on investment in acquired businesses is in line with or in excess of the cost of capital. Returns remain low to negligible on cash balances, which are retained to allow surety of completion for acquisition negotiations. While the Company expects to continue to invest in acquisitions which are in line with the strategy, it is also committed to making returns through share buybacks. To that end, during 2012 13.4 million shares were repurchased utilising cash of \$30.8 million. The intention is to continue the on market repurchase programme during 2013, envisaged at the time of the divestment of Systems, and to offset the dilutive effect of share-based incentives.

The final dividend recommended is 1.83 cents per share compared with 1.67 cents per share in 2011. This brings the total dividend for 2012 to 3.22 cents per share compared with 2.93 cents for 2011. The increase in total dividend per share is 10 per cent and reflects the strong operating margin and cash generation of the Group. In sterling terms this represents 2.10 pence per share, an increase in the distribution to our shareholders of 15 per cent.

RESULTS AND HIGHLIGHTS

Expanding our solutions portfolio

Investment in the telecom and IT industries is being made on a large scale to meet the demand of consumers and enterprises for anytime, anywhere access to data, applications and services with the highest quality of experience. We executed on our strategy in 2012 to increase the breadth of our test solutions portfolio, organically and through acquisition, to address growing and emerging opportunities, laying the groundwork for profitable growth in 2013 and beyond

Notes

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

Financial highlights

- Group revenue flat at \$472.4 million (2011 \$470.5 million) impacted by Service Assurance down 29%
- Book to bill ratio was 97 (2011 103) reflecting the weaker macro-economic environment, particularly in the second half-year
- Group adjusted operating margin was maintained at 25% after increased investment in product development
- Performance Analysis revenue up 4% with strong growth in 4G/LTE wireless, data center and high speed Ethernet, largely offset by a decline of 26% in positioning test
- Dividend increased by 10% Final dividend proposed of 1.83 cents per Ordinary Share, giving a full year dividend of 3.22 cents per Ordinary Share
- Strong free cash flow of \$84.0 million (2011 \$69.3 million), cash closed at \$248.6 million

Operational and strategic highlights

Significant strategic progress was made in 2012, through the introduction of new test solutions and the acquisition of Mu Dynamics, Inc. ("Mu") and Metrico Wireless, Inc. ("Metrico"), taking Spirent into adjacent growth markets

- Demand was driven by
 - Expansion in data center scale for cloud computing and mobile broadband,
 - Migration of Ethernet technologies to higher speeds,
 - Application security needs resulting from mobility and growth in applications,
 - 4G/LTE technology and services such as video and Voice over LTE ("VoLTE"),
 - Need for integrated infrastructure test automation to address time to market pressures
- Acquired Mu for cash of \$39.8 million in April 2012. Mu offers market leading expertise in cyber security. Mu's software has been integrated within Spirent TestCenter™, resulting in the most comprehensive solution available to test application-aware networks and security
- Acquired Metrico for cash of \$52.2 million in September 2012. Combining Metrico's live network with Spirent's lab-based mobile device test expertise has resulted in an unparalleled end-to-end test portfolio
- Expanded our wireless test capabilities for the deployment of 4G/LTE networks, devices and services into the mobile device R&D market
- Further test capabilities developed to serve growth in location based services and global navigation satellite systems beyond GPS
- New solution developed that is practical, easy to use and cost effective for enterprises to rapidly deploy network services
- Disposal of the Systems division for a cash consideration of \$63.2 million completed

SPIRENT AT A GLANCE

A focused Group

Spirent is a global leader in communications test and measurement listed on the London Stock Exchange.

At Spirent we develop innovative hardware and software solutions and test methodologies which help shorten our customers' product development lifecycle, improve the quality of their new and existing services, whilst reducing cost and risk.

Following the disposal of the Systems division in 2012 the Group is organised into two business segments:

Performance Analysis

Develops innovative solutions for functional, conformance and performance testing of current and next-generation communications technologies under actual or simulated real-world conditions, before a commercial launch

Service Assurance

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

Revenue

\$434.0M
(2011 \$416.4M)

\$38.4M
(2011 \$54.1M)

Divisional focus

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

- Ethernet business services
- Wireless backhaul
- Field test solutions

Divisional highlights

- Strong growth in 4G/LTE wireless, data center switching and high speed Ethernet
- Growth reduced by decline in sales of positioning and legacy products
- Acquisition of Mu Dynamics extends testing capability for application-aware networks and security
- Acquisition of Metrico Wireless adds measurement of subscriber experience of devices in live mobile networks

- Revenue down 29 per cent due to fall in demand for legacy products
- Cost reduction actions taken at the end of the first quarter to restore profitability
- Second half-year saw a number of Spirent TestCenter Live Ethernet services deals and improved results
- Closed several large multi-year deals for maintenance contracts

Where we operate

We have built a world-class organisation that enables Spirent to develop and maintain strong customer relationships around the globe.

We serve 1,400 customers worldwide

Americas**Revenue**

\$252.0M
(2011 \$258.6M)

Asia Pacific**Revenue**

\$150.8M
(2011 \$138.1M)

Europe, Middle East and Africa**Revenue**

\$69.6M
(2011 \$73.8M)

Our vision

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

Our strategy

At Spirent we make use of our deep understanding of communications trends and technologies, together with our close customer relationships, to identify growing and emerging technology market opportunities and to deliver those solutions

our customers need – when they need them. We look to attract and retain the best and brightest people in the industry to enable us to develop the most innovative and complete test and service assurance solutions to address these opportunities. Our geographic diversity is a key strength

Focus on growing and emerging technology markets

Invest in our people

Innovation

Evolve and expand our solutions portfolio

“Right Solution” at the “Right Time”

Global reach

BUSINESS MODEL

Adding value

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

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

How Spirent creates value

Spirent enables its customers to increase their revenues by reducing their time to bring new products and services to market, with higher quality and reliability while reducing associated cost and risk. Our test solutions, which span the entire product lifecycle from concept to commercial availability, deliver efficiency and effectiveness to development engineers to make better use of their scarce resources.

Much of our revenue comes from follow on business with our customers, who have worked with us for many years. This is a result of a combination of our ability to innovate to meet their needs and on our

emphasis on providing professional service and support. All of the above, with the optimal utilisation of our own resources, supports the sustainability of the margins Spirent achieves.

Technology cycle

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

Shareholder returns

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

Adjusted earnings per share 2012

13.38cents
(2011 12.92 cents)

VALUE-CREATING CULTURE

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

INNOVATION

Spirent innovates and creates new products and services through the endeavours of its highly skilled and creative workforce. They build on decades of experience and product management expertise. External inputs are important through our technology partners as is being located in the world's leading centers for technological development. Our pace of innovation leads our industry enabling us to deliver the right solutions to the global market at the right time.

CUSTOMER RELATIONSHIPS

Customer relationships are key. Our customers are the leading providers of new technologies for data communications in the world. It is our close and continuing relationships with them that drive our people to aspire to achieve at higher levels each and every year. Through Spirent's global sales and service organisations we strive to provide our customers with the highest quality of support and service possible.

INTELLECTUAL PROPERTY

Spirent has created a large body of intellectual property, patented and proprietary, which has raised the barriers of entry to competition. Much of the new development is evolutionary in nature and builds on our existing expertise as well as expanding our capabilities both organically and through acquisition. We invest a significant and increasing amount in product development enabling us to bring the most advanced test solutions to market.

SPIRENT'S SOLUTIONS PORTFOLIO

A global leader

Our portfolio of products and services is well aligned with growing and emerging opportunities in areas that matter most to our customers. Our broad portfolio of solutions addresses the end-to-end testing needs of today's converged, application-aware networks.

Spirent provides hardware and software solutions, services, and test methodologies that address our customers' testing needs – from devices to access networks to the core, including applications and content delivery.

We are a leader in testing network equipment which utilises Ethernet at ever-increasing scale, including switches, routers, firewalls, load balancers, data center fabrics and intrusion detection/prevention.

Spirent is a leading provider of solutions that test the performance and user experience of 4G/LTE and 3G mobile devices in the lab and on live networks.

Spirent is also the worldwide leader in testing positioning technologies such as GPS in mobile devices and other receivers used in an ever-increasing range of applications.

We address the testing needs of all layers of service provider networks, including access, Wi-Fi offload, mobility and performance of the Mobile Packet Core, cloud infrastructure and applications.

Spirent's infrastructure test optimization solutions help address the challenges of bringing quality products to market faster in the face of rapid change and increasing complexity.

Our service assurance solutions allow service providers to facilitate service activation and to diagnose, troubleshoot and determine resolution of issues within live networks.

Functional, conformance and performance testing of 4G/LTE and 3G mobile devices in the lab.

Services and tools for measuring the subscriber experience of devices on live networks.

Wireless and wireline access and backhaul network performance testing

Leadership in testing GPS, GLONASS and other positioning technologies

Mobility and performance testing of the Mobile Packet Core with subscriber emulation

10, 40 and 100Gb high speed Ethernet functional and performance testing with realism and scale

Service quality, security, scalability and application performance testing

Virtualized solutions provide visibility into the entire data center infrastructure

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**CHIEF EXECUTIVE
OFFICER'S REVIEW**

Our pace of innovation leads our industry

The fundamental drivers of Spirent's business remain positive, despite the macro-economic uncertainty in many parts of the world during 2012. Investment in the telecom and IT industries is being made on a large scale to meet the demand of consumers and enterprises for anytime, anywhere access to data, applications and services with the highest quality of experience. We executed on our strategy in 2012 to increase the breadth of our test solutions portfolio, organically and through acquisition, to address growing and emerging opportunities, laying the groundwork for profitable growth in 2013 and beyond.

Mobility – anywhere, anytime, with any device, was a major driver of demand for our solutions, as mobile broadband growth results in ever-increasing volumes of data traffic. This led service providers to focus on fixed and mobile network convergence and on the rollout of 4G/LTE networks, along with the services and devices that take advantage of this technology. Spending on cloud services grew rapidly, driving data centers to ever-increasing scale. The migration to high speed Ethernet in data centers and core networks accelerated, while awareness of the critical importance of network and application security grew as a result of multiple high profile attacks during 2012.

Bill Burns
Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

The impact of macro-economic conditions on our served markets, particularly in the second half of the year, led to flat revenues and profit performance in 2012. In Performance Analysis, we saw a fall in demand for our positioning solutions on the back of caution in government spending and the delay in the rollout of the commercial specifications for the Chinese BeiDou-2 (formerly Compass) satellite navigation system. In addition, some of our large customers significantly reduced their spending as a result of the decline in demand in their end markets due to Eurozone and Middle East conditions, slowing growth in China and a reduction in government spending, or due to their loss of market share, with some customers exiting certain market segments entirely. We experienced challenges in our Service Assurance division as service providers sharply reduced investment in assuring their legacy wireline networks. Despite these headwinds, Spirent delivered a financial performance that remains one of the best amongst its peers.

We again expanded our global reach in 2012 to further strengthen our close cooperation with our customers including network equipment manufacturers, mobile device manufacturers, service providers, enterprise, technology providers and governments.

Our pace of innovation leads our industry, enabling us to deliver on our strategy of bringing the right solutions to the global market at the right time. To increase focus on innovation in our faster growing core communications test and measurement market, we disposed of the Systems division in November for \$63.2 million.

Our strategic objectives continue to be furthered through the hard work, dedication and enthusiasm of our employees, and it is key to Spirent's success that we develop and nurture our people, recognising their critical contribution.

Spirent's solutions span all important technologies and serve all major customer segments across the telecommunications and IT industries. We increased our development spend on areas that matter most to our customers, including the evolution of wireless networks and services to 4G/LTE, high speed Ethernet and next-generation data centers, as well as network and application security and the development of a new approach to testing IT networks by enterprise customers. We

strengthened our solutions portfolio by acquiring and integrating two strategically important businesses during the year: Mu Dynamics and Metrico Wireless. Both acquisitions aligned well with our strategy of delivering profitable growth through expanding our capabilities in growing and emerging technology markets.

Mu added market leading expertise in cyber security, usability and application emulation to our solutions portfolio. Combining Mu's software-based applications and security testing capabilities with Spirent's market leading performance test platforms has enabled us to rapidly create best-in-class security test solutions with higher performance and greater scale than any other provider.

In acquiring Metrico, Spirent has responded to the needs of carriers and device vendors to minimise time to market, improve subscriber quality of experience and reduce device return rates, while also contending with new and emerging technologies including 4G data, VoLTE and the cloud. Bringing together Metrico's field-based, subscriber-level focus with Spirent's device performance test strength in the lab has resulted in an unparalleled end-to-end test portfolio. The combination enables our customers to increase subscriber satisfaction and loyalty while reducing time to market, as well as their operational costs.

We have the industry's broadest and most innovative test solution portfolio. Given our confidence in the medium term outlook, we plan to increase our investment in new test solutions and in enhancing our current capabilities in the areas that matter most to our customers, as they look to drive innovation and bring their industry leading products and services to market faster and with better quality. This, coupled with a relentless focus on executing our strategy, will enable Spirent to best leverage opportunities throughout 2013 and beyond.

Outlook

The difficult economic conditions that characterised market dynamics in the second half of 2012 are unlikely to change markedly during the first half of 2013, although there are some signs that confidence is returning with a few major service providers increasing capital spending plans for the year ahead. The rapid pace of innovation in mobile and data technologies continues.

In 2013 Spirent's revenue will be driven by macro demand in the Group's major regions, on-going industry trends, the full year effect of revenues from acquired businesses, and revenues attributable to new product introductions.

The Group is increasing its organic investment for future growth, in particular focusing on expanding Spirent's position in the 4G/LTE market and entering into new served markets. For 2013 as a whole, we anticipate modest revenue growth. Given current trading conditions and a lower order book at the start of the year, the performance in the first quarter will be lower compared to the strong period last year. The Board remains confident that the Group is well placed to capitalise on significant medium and longer term opportunities.

STRATEGY

A strategy for growth

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

Focus on growing and emerging technology markets

Spirent closely monitors the ever-changing trends across the communications and IT landscape, strategically reallocating resources to address growing and emerging technology markets

In 2012 we maintained our focus on growth markets, for example we released new or enhanced solutions for 4G/LTE wireless, data center and high speed Ethernet testing. We also made two acquisitions which further expanded our served markets to include the testing of application-aware networks (Mu) and the subscriber experience of mobile devices on live networks (Metrico)

Objectives 2013

Spirent will complete the integration of assets acquired with Mu and Metrico with the Spirent portfolio, enabling us to build leadership in the growing security and 4G/LTE mobile subscriber experience markets. We will also introduce new solutions for Enterprise markets and for the new Chinese BeiDou-2 global navigation satellite system

Invest in our people

Spirent is its employees. Finding, keeping and engaging highly qualified and skilled employees is central to our ability to deliver on our strategy and to the success of our business

Our challenging work environment inspires innovation, with continuous learning as an essential part of our human resources philosophy. In 2012, career development centered on the individual, providing a variety of education and learning opportunities over time in a number of different ways. Further information on what we have achieved can be found in the CSR statement on pages 33 and 34

Objectives 2013

Our focus will be on building reliable pipelines for critical positions and key skills in engineering and sales. We will continue to work to better understand the development needs of our managers, expanding leadership development and succession planning and progressing their individually-centered career development plans

Innovation

Remaining at the leading edge of technology is critical to our continued success. We apply our creativity to the development of tools and methodologies that meet our customers' complex needs

We responded to our customers' needs to bring their products to market faster and with better quality with an innovative environment that supports development of holistic and integrated infrastructure test strategies. We developed the Spirent iTest® solution, originally acquired with Fanfare in 2011, into a leader in addressing this emerging trend, and our business in this segment grew strongly during 2012

Objectives 2013

Spirent will invest to accelerate the pace of its innovation to address growth opportunities in markets such as 4G/LTE and data center to serve new markets such as Enterprise, in order to retain its position at the leading edge of the rapidly-evolving communications test and measurement industry

Communications and IT continues to grow as a result of the relentless demand for anytime, anywhere connectivity, enabled by such key trends as the mobile internet and cloud computing. At Spirent we make use of our deep understanding of communications trends and technologies, together with our close customer relationships, to identify growing and emerging market opportunities. Spirent's solutions are used to develop and deploy the best devices, networks and applications, helping enrich people's lives, whether they are consumers, employed by a business enterprise or work for a government entity.

The areas of strategic focus for Spirent's operating segments are discussed further in each of the business sections on pages 19 to 23

Evolve and expand our solutions portfolio

We invest in development across our product and service portfolio at a level that enables us to bring the most advanced test solutions to market

In 2012 Spirent released over 50 new products and additions to functionality. For example we broadened the coverage of our CS8 solution for 4G/LTE device developers, including the addition of a comprehensive capability to test Voice over LTE and other IMS-enabled services. Further information on our new solutions can be found in the business sections on pages 19 to 23

Objectives 2013

In 2013 the Group expects to increase its investment for future growth, in particular focusing on expanding into new served markets such as Enterprise and consolidating Spirent's position in the 4G/LTE, high speed Ethernet, data center and application security markets

"Right Solution" at the "Right Time"

We enable our customers to bring new products and technologies to market in the shortest amount of time by making available the solutions they need, when they need them

Staying close to and working with our customers is key. For example continuing growth in the scale of data centers requires the rapid evolution of their switching fabrics to higher speeds and higher densities. Spirent's leadership in testing the performance of these fabrics at massive scale was showcased in a public test in 2012 of QFabric™ from Juniper Networks, the largest test of its kind ever conducted

Objectives 2013

We will once again benefit from staying close to our customers by introducing, for example, solutions that address security testing needs across a broad range of customers and markets, as well as to test new voice and video chat services deployed on 4G/LTE networks

Global reach

Our geographic diversity is a key strength. We have built a world-class organisation that enables Spirent to develop and maintain strong customer relationships around the globe

To enable the development of technology, from its inception to deployment in live networks, across all geographies, we again expanded our global reach in 2012 especially in the Asia Pacific region. This further strengthened our close cooperation with our customers across all segments, including network equipment manufacturers, mobile device manufacturers, service providers, enterprise, technology providers and governments

Objectives 2013

In 2013 Spirent will continue to grow its operations in China and will address the needs of key markets across the globe, including Enterprise in Europe and adding solutions for the 4G/LTE technology being deployed in markets that include China, India and Japan

**OPERATIONAL AND
FINANCIAL REVIEW**

Best-in-class financial performance

Summary financial performance

After a positive start to 2012 in the first quarter of the year we experienced a marked change in sentiment impacting growth rates from the second quarter to the end of the year. Revenue from continuing operations was similar year-on-year at \$472.4 million (2011 \$470.5 million). Spirent's 2012 acquisitions, Mu Dynamics, Inc. ("Mu") and Metrico Wireless, Inc. ("Metrico") generated \$12.7 million of revenue in total since acquisition. Service Assurance revenues were down \$15.7 million year-on-year and our positioning products in Performance Analysis were down by \$13.8 million (26 per cent) compared with 2011. Overall Performance Analysis division revenue was up by 4 per cent. There were some areas of rapid growth for example, 4G/LTE wireless device test, data center switching and high speed Ethernet test. In addition, during the fourth quarter of 2012 the Service Assurance division delivered a much improved result.

Towards the end of 2012 Spirent commenced a review of its organisational reporting structure which is expected to be completed in the first quarter of 2013. This may result in a change to Spirent's segmental reporting structure in 2013. Once the review is complete any changes will be communicated and restated comparative disclosures provided.

Eric Hutchinson
Chief Financial Officer

Performance Analysis

Return on sales

26.8%
(2011 27.6%)

Description of the business

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

Market conditions

2012 saw our customers invest in 4G/LTE mobile networks, devices and services, in high speed Ethernet and data centers to enable cloud computing and virtualization, and in optimization of their testing, despite the generally unfavourable macro-economic conditions. We experienced a fall in investments in legacy and mature technologies such as DSL, 1Gb Ethernet and CDMA wireless.

Continuing growth in the scale of data centers requires the rapid evolution of their switching fabrics to higher speeds and higher densities. Spirent's leadership in testing the performance of these fabrics at massive scale was showcased in a public test of QFabric™ from Juniper Networks, the largest test of its kind ever conducted. Cisco also partnered with Spirent to test the performance of its latest Nexus 3548 ultra-low-latency, high density, high performance switch.

The data center is a key factor in the migration of Ethernet technologies to higher speeds. We saw strong growth in spending on 10Gb and 40Gb Ethernet,

as well as on 100Gb Ethernet for service provider networks. Spirent was once again honoured by Frost & Sullivan, receiving the 2012 Market Share Leadership Award for Ethernet Testing, reflecting Spirent's leadership over its nearest competitors in every segment tracked by the leading analyst organisation.

The growth in cloud computing and server virtualization has led to a strong interest in software-defined networking ("SDN") and OpenFlow protocol, with their potential to greatly simplify network design, implementation and operation. Amongst multiple engagements that showcased Spirent's capability in this space, we announced a collaboration with Indiana University to develop an open source OpenFlow conformance test suite.

The convergence of mobile and fixed networks, mobile data explosion and scarcity of available radio spectrum are causing operators to evolve their access networks, employing carrier-grade Wi-Fi offload and small cells. Core networks are becoming ever more intelligent, with powerful networking devices that integrate capabilities such as deep packet inspection, application security, backhaul, timing and virtualization. Spirent has added support for Wi-Fi offloading to its Landslide solution and converged its test solutions on a single high performance, high scale platform which enables testing of these converged network elements with less equipment than was previously possible.

The growth in mobility and applications has resulted in a paramount need for application security. In acquiring Mu Dynamics, Spirent added Studio to its portfolio, the industry's first solution to emulate real application traffic while generating comprehensive security threats. We subsequently integrated Studio with Spirent's market leading performance test platforms, enabling us to offer best-in-class security test

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

solutions with higher performance and greater scale than any other solution provider

The trends mentioned above have increased time to market pressure on our customers and have led service providers to drive tighter equipment vendor ecosystems, while R&D teams have become more globalised. As a result, we saw a broader adoption of holistic and integrated infrastructure test automation. The Spirent iTest® solution, acquired with Fanfare in February 2011, is a leader in addressing this emerging infrastructure test optimization trend, and this segment grew strongly during 2012.

With the acceleration of 4G/LTE network rollouts in 2012, especially in North America and Asia, operators and device manufacturers are refocusing their investments on this fast growing technology

The penetration of smartphones, tablets and other connected devices continued in 2012, while a new generation of services enabled by IP Multimedia Subsystems ("IMS"), in particular Voice over LTE ("VoLTE"), saw its first commercial rollouts. The acquisition of Metrico Wireless in September added to our portfolio the capability to analyse performance and subscriber quality of experience of mobile devices on live networks.

For infrastructure vendors, key drivers included time-division LTE ("TD-LTE"), with large scale trials in China and early commercial rollouts in Japan and India. Infrastructure development also focused on LTE-Advanced technology, the first deployments of which are expected in 2013. Spirent's radio frequency channel emulator family continued to be a leader in addressing the unique testing needs

of cellular base stations and devices to support TD-LTE and LTE-Advanced

Subscriber location awareness is a key element in many mobile applications, leading to demand for accurate subscriber location under any conditions, whether indoors or outdoors. The resulting innovation in enabling technologies includes "hybrid" positioning techniques that make use of signals from satellites, Wi-Fi access points, cellular networks and sensors in mobile devices. Spirent retains its global leadership in testing these cutting edge location technologies. In September 2012, a Spirent solution was used in the industry's first independent benchmark study of the location performance of leading chipset platforms and smartphones.

Investment in GNSS test slowed as the government sector saw a sharp decline in spending. The test market for the Chinese BeiDou-2 satellite system failed to develop as expected in 2012, with release of detailed technical specifications for the system being delayed until late December.

Wireless Test Leadership

Spirent is a leader in testing the receivers and multiple-antenna schemes used in 4G/LTE devices and infrastructure.

The performance gains from 4G/LTE technology come at the cost of greatly increased complexity over 3G and 2G technologies. By accurately emulating radio channel characteristics, the Spirent VR5 makes it possible to find performance problems in the development lab well before commercial deployment.

Powerful user interface eliminates complexity in test setups, saving time and money

Replays conditions captured on live networks for the most realistic testing possible in the lab

Revenue

Revenue in the Performance Analysis division grew by 4 per cent in 2012 to \$434.0 million (2011 \$416.4 million). Although 10/40/100Gb Ethernet sales experienced strong growth, this was offset by a fall in our legacy business. The Infrastructure Test Optimization segment, built on assets acquired with Fanfare in 2011, experienced growth on the back of tighter ecosystems between service providers and equipment manufacturers to support accelerated innovation and time to market.

Our portfolio of LTE mobile device test solutions experienced very strong growth. We continued to address the needs of the North American operator ecosystem of top-tier device suppliers, achieved the business objectives for our initiative to build our presence in device R&D labs,

and strengthened our leadership in location based testing. Orders for CDMA technology test declined in line with expectations. UMTS test sales also declined, as our customers reallocated resources to higher growth 4G/LTE opportunities. Our physical layer radio frequency solutions had a record year, on the back of market and technology drivers that included over-the-air testing, TD-LTE and LTE-Advanced.

Sales of positioning products declined significantly due to sharply reduced government spending, investment caution amongst many commercial customers, and delays in the release of detailed technical specifications for the Chinese BeiDou-2 satellite system.

Profitability

Operating profit grew 1 per cent to \$116.4 million from \$115.1 million and operating margin was slightly lower at 26.8 per cent compared with 27.6 per cent in 2011 due to the higher investment in product development which increased from \$74.4 million to \$79.1 million in 2012.

Product development

We extended the ability of our flagship Spirent TestCenter family to address evolving data center test needs, with a focus on high speed Ethernet, SDN and application testing. Studio, acquired with Mu in April, was integrated into Spirent TestCenter to take advantage of its performance, scale and high speed Ethernet abilities, resulting in the development of the market leading solution for assessment of application-aware networks and security. We expanded the Spirent TestCenter portfolio to include a cost effective, portable solution that gives our customers the flexibility to test across a broader spectrum of the product lifecycle, expanding our served available market. In addition, we have developed a new test platform for the Enterprise market, utilising

our core technologies, that enables IT professionals to validate the performance of applications and networks.

Wireless is one of Spirent's key focus areas. In addition to its integration with Mu's Studio TestCloud, we enhanced the ability of our Landslide solution to test mobile infrastructure's readiness for 4G/LTE services such as VoLTE, video streaming and multi-player mobile gaming. Landslide also gained the capability to test Wi-Fi offload gateways and saw major performance enhancements, maintaining its leadership in testing mobile networks at massive scale, enabling service providers to address the challenge of explosive mobile data growth.

The acquisition of Fanfare and its iTest family of products in 2011 has enabled Spirent to address the shift in customer budgets towards optimising testing in their existing labs and building out new highly automated test environments. In 2012, we released a comprehensive lab management solution that enables network operators and network equipment vendors to improve their lab equipment utilisation, productivity and test cycle time.

Spirent enhanced its wireless test solutions that focus on our customers' 4G/LTE testing needs. We extended the test coverage of our solution family that validates the performance of LTE devices into new areas, including call reliability. We addressed a wider range of device R&D applications, including a comprehensive capability to test VoLTE and other IMS-enabled services. Our physical layer products were enhanced to address testing of TD-LTE technology in devices and base stations. We also released a new solution to test the performance of devices utilising hybrid location technologies, maintaining Spirent's leadership in the location based services test segment.

The Metrico Wireless acquisition in September brought with it leadership in services and tools that enable carriers, device vendors and technology providers to analyse the performance and subscriber quality of experience of mobile devices on live networks. Integration of Metrico's subscriber experience measurement tools with Spirent's lab-based device test solutions positions Spirent strongly to bring unprecedented realism to lab-based testing and to harmonise methodologies across live and lab testing, together with a true end-to-end test capability.

Our positioning solutions expanded into new areas including multi-radio (Wi-Fi, Bluetooth, NFC) production test, simulation of sensors in mobile devices, and the first shipment of a solution for China's BeiDou-2 satellite system testing.

Strategy

In 2013 we will complete the integration of assets acquired with Mu and Metrico into the Spirent portfolio, enabling us to build leadership in the growing application security and 4G/LTE mobile subscriber experience markets. We will consolidate our leadership in high speed Ethernet and data center test, as well as in mobile infrastructure test, including packet core and the emerging wireless data offload opportunities. We will further expand our innovative solutions portfolio that addresses the fast growing test automation market. We will enter an important new growth segment of the Enterprise market. We will also bring solutions to market for other growing and emerging market opportunities, including the new Chinese global navigation satellite system, 4G/LTE technology being deployed in key Asia Pacific markets, and hybrid location technologies in smartphones and other mobile devices.

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

Service Assurance

Return on sales

21.9%
(2011 12.9%)

Description of the business

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

Market conditions

2012 saw continuing caution around service provider investment, especially on wireline networks. The focus of service providers' capital expenditure has shifted rapidly from TDM to high speed Ethernet. Intense competition among service providers has helped drive the need for enterprise Ethernet-based service assurance solutions, although buying decisions were frequently delayed and the size of the deals were reduced as rollouts were scaled back. Investment in mobile networks continued, driven by the multiple 4G/LTE network rollouts underway in North America. We saw top tier US service providers invest in service assurance solution upgrades to support their wireless and wireline Ethernet networks.

Revenue

We saw a steep decline in revenue for our legacy TDM solutions, especially in the first half, which caused us to implement cost saving measures in the second quarter to re-establish the division's profitability. Revenue was down by \$15.7 million to \$38.4 million from \$54.1 million in 2011.

The second half of the year saw expansion of our STC Live solutions in top-tier North American service providers. We closed multi-year service contracts, which are essential to our service provider customers and will contribute to our future revenues.

Profitability

Adjusted operating profit was up 20 per cent year-on-year to \$8.4 million from \$7.0 million in 2011. Cost savings were implemented in the second quarter of 2012, at a cost of \$1.5 million which improved the profitability of the division. In addition, an inventory provision of \$1.4 million has been incurred in relation to excess legacy products. Including these costs, which have been classified as exceptional, reported operating profit was \$5.5 million.

Product development

Our development focus remains on Ethernet service assurance for next-generation networks. For Spirent TestCenter Live Ethernet service assurance, we are expanding our flexible platform capabilities, which include our combined 1Gb and 10Gb Ethernet probes along with network troubleshooting capabilities. We put a new development focus on mobile test and diagnostics, as well as performance monitoring solutions for 4G/LTE expansion and data center network rollouts.

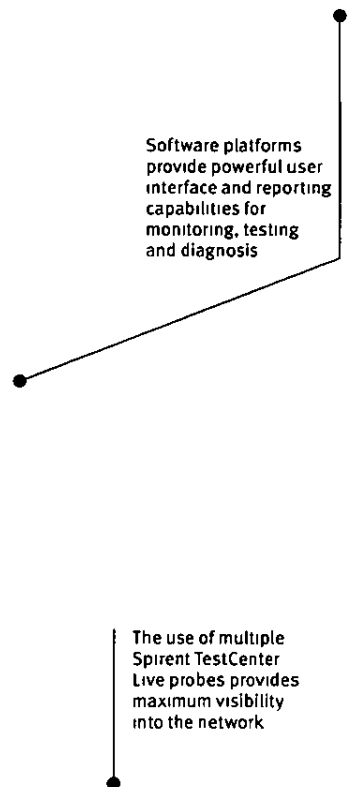
Strategy

In 2013 we will continue to invest in our Spirent TestCenter Live portfolio of service assurance solutions in order to maximize our benefit from service provider investments that will remain focused on growth areas such as 4G/LTE mobile, higher bandwidth enterprise business services, as well as the drive to cloud computing offerings and the data centers to enable them. Our innovations will enable service providers to improve efficiencies through test automation and service level network monitoring by their operations, administration and maintenance organisations. We will also enable installation and maintenance teams at leading multi-system operators with unique field test tools.

Leader in Service Assurance for Ethernet Services

Spirent is a leader in performance monitoring, testing and diagnostics of Ethernet services for wireless and wireline service providers.

Spirent TestCenter Live service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues within the live network to ensure quality of service and subscriber quality of experience.



Software platforms provide powerful user interface and reporting capabilities for monitoring, testing and diagnosis.

The use of multiple Spirent TestCenter Live probes provides maximum visibility into the network.

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

Group financial performance

On 1 November 2012 the Group disposed of the Systems division. Systems is reported as a discontinued operation in these results. All numbers provided below are for continuing operations unless otherwise stated.

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

	2012	2011	Change (%)
Continuing operations			
Book to bill ratio ¹	97	103	
Revenue (\$ million)	472.4	470.5	–
Gross profit margin (%)	71.3	69.6	
Operating profit ² (\$ million)	119.4	116.9	2
Return on sales ² (%)	25.3	24.8	
Adjusted basic earnings per share ³ (cents)	13.38	12.92	4
Free cash flow ⁴ (\$ million)	84.0	69.3	21

Notes

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

Revenue

Group revenue was similar to the prior year at \$472.4 million (2011 \$470.5 million). Service Assurance revenues were down \$15.7 million, and those for positioning products in Performance Analysis by \$13.8 million (26 per cent) on 2011. Revenue for the Performance Analysis division as a whole grew 4 per cent, despite the drop in positioning products, and saw some good areas of growth particularly in 4G/LTE mobile device, data center switching and high speed Ethernet test. Positioning products were impacted by lower US Government spend and delays to the release of the technical specifications for a satellite navigation system from China.

Service Assurance reported significantly lower revenues for the first three quarters of 2012, however, the fourth quarter yielded better results including revenue on several Ethernet software and services contracts and winning the renewal of large long term maintenance contracts with major customers.

By geographic region, revenue in the United States was flat compared with 2011. The US remains the largest market accounting for 51 per cent of revenue

(2011 51 per cent). Europe represents 14 per cent (2011 15 per cent) and was down, as had been expected, by 7 per cent compared with 2011. Asia Pacific has been a very positive market for Spirent in the last few years, and it continued to expand in 2012, by 9 per cent, which was a lower rate of growth than that for the prior year. The key contributing factor being the slowdown in China where revenue declined by 1 per cent. Asia Pacific accounts for 32 per cent of continuing Group revenue in 2012 (2011 29 per cent). The Rest of the World represents the remaining 3 per cent (2011 5 per cent) of revenue.

Geographic revenue by market was as follows:

\$ million	2012	2011
United States	239.2	238.8
Asia Pacific, Rest of World	166.0	159.1
Europe	67.2	72.6
	472.4	470.5

The book to bill ratio, which is a measure of the visibility of our future revenues, was 97 for the year for the Group compared

with 103 for 2011, with the strong start to the year being followed by weaker demand in the second half-year.

Operating profit

Reported operating profit for continuing operations was \$109.2 million compared with \$113.0 million in 2011. Operating profit before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment, ("adjusted operating profit") which is the measure of profit used by the Group to evaluate performance, increased by 2 per cent to \$119.4 million compared with \$116.9 million in 2011.

A reconciliation is set out below:

\$ million	2012	2011
Adjusted operating profit	119.4	116.9
Exceptional items		
Inventory provision	(1.4)	–
Reorganisation costs	(1.5)	–
Acquisition related costs	(1.2)	(1.2)
Acquired intangible asset amortisation	(4.5)	(1.6)
Share-based payment	(1.6)	(1.1)
Reported operating profit	109.2	113.0

Return on sales, based on adjusted operating profit was maintained at 25 per cent

Cost of sales and operating expenses

Gross margin increased to 71.3 per cent (2011 69.6 per cent) due to a better overall product mix with a higher software and services content. An excess inventory provision was charged in relation to Service Assurance of \$1.4 million in the period as a result of the significantly reduced levels of demand for our legacy products in this division. This provision has been reported as an exceptional item in the period. Excluding this provision gross margin was 71.6 per cent.

Focus has been maintained on growing the business organically as well as through acquisition. Investment in product development rose by 3 per cent to \$86.1 million in 2012, 18 per cent of revenue, from \$83.3 million and 18 per cent of revenue in 2011. The majority of this, \$79.1 million (2011 \$74.4 million), was incurred within the Performance Analysis division. The higher pace of innovation in product development engineering is expected to continue into 2013, enabling further enhancement of Spirent's capabilities and to address many of the new market opportunities that exist.

Other operating expenses were higher at \$141.4 million in 2012 compared with \$131.2 million in 2011, 30 per cent of sales (2011 28 per cent). In Service Assurance, in response to the rapid fall in legacy business experienced at the start of 2012, steps were taken to address the cost base, which resulted in savings of approximately \$5.0 million per annum at a one-off cost of \$1.5 million. Other operating expenses also include \$1.6 million for share-based payment, up from \$1.1 million for 2011, due to a modest increase in the number of new awards granted during the year. Acquired intangible asset amortisation was \$4.5 million (2011 \$1.6 million), of

which \$3.2 million was due to the 2012 acquisitions of Mu and Metrico. Within operating expenses is a charge of \$1.2 million of acquisition related costs for Mu and Metrico (2011 \$1.2 million for the Fanfare Group, Inc.). Excluding these costs, operating costs were \$132.6 million compared with \$127.3 million in 2011, an increase of 4 per cent, which reflects the overheads of the acquired businesses.

Corporate costs

Corporate costs are those expenses which cannot be attributed to the Group's operating segments and comprise the costs of the Board and other corporate activities. These costs were \$5.4 million for the year (2011 \$5.2 million).

The revised Accounting Standard IAS 19 "Employee Benefits" will be mandatory in 2013. The effect for Spirent will be an increase in corporate costs and a reduction in interest income. In 2013 the costs of administering the defined benefit pension plans will be charged to corporate operating expenses, these are currently deducted from the interest income in the pension plans. The comparative numbers will be restated accordingly. On restatement this will result in an increase in corporate costs of \$1.1 million for 2012 compared to the reported number. It is estimated that the administration costs for the pension plans will be \$1.1 million in 2013.

Currency impact

The effect of fluctuating exchange rates is relatively minimal as the Group's revenue and profits are denominated predominantly in US dollars or US dollar-linked currencies.

Finance income and costs

Finance income for 2012 was \$1.5 million compared with \$1.7 million in 2011. In 2012 this comprises \$0.7 million (2011 \$0.7 million) in respect of defined benefit pension plan interest and income earned on surplus funds of \$0.8 million (2011

\$1.0 million). Surplus funds are held principally in the United Kingdom and United States and earn market rates of interest which remain negligible.

No finance costs were incurred in 2012 (2011 \$0.4 million).

In 2013 the changes to IAS 19 "Employee Benefits" becomes mandatory. In addition to the increase in corporate costs discussed above, the expected rate of return on pension plan assets is now required to be the same as the discount rate used to discount plan liabilities. Comparative numbers will be restated for 2012 giving an interest cost on the pension plans of \$0.5 million compared to interest income reported in 2012 of \$0.7 million. It is estimated that the net interest expense for the pension plans for 2013 will be approximately \$1.0 million.

Profit before tax

Reported profit before tax for continuing operations was \$110.7 million compared with \$114.3 million for 2011. Adjusted profit before tax was up 2 per cent at \$120.9 million (2011 \$118.2 million).

Tax

For the Group taxable profits principally arise in the United States. The tax charge for the continuing Group in 2012 was \$29.0 million (2011 \$26.4 million), representing a current year effective tax rate of 27.8 per cent of pre-tax profit in both 2012 and 2011, excluding a prior year tax credit of \$1.8 million (2011 \$5.4 million). At 31 December 2012 deferred tax assets amounting to \$28.4 million have been recognised on the balance sheet (31 December 2011 \$29.4 million). At 31 December 2012 there are deferred tax assets amounting to a tax value of \$16.3 million (31 December 2011 \$22.0 million) which remain unrecognised in respect of unutilised non-trading loan relationship losses (\$14.7 million) and temporary differences (\$1.6 million).

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

For 2013 it is expected that the effective tax rate will be in the region of 28 per cent

Discontinued operations

The Systems division has been classified as a discontinued operation. The division was sold to Curtiss-Wright Corporation for a cash consideration of \$63.2 million with the sale completing on 1 November 2012. The operating result for Systems after tax was \$2.6 million for the period up to disposal (2011 \$6.7 million), and the net profit on disposal was \$44.5 million.

The net proceeds from the sale are in the process of being returned to Spirent's shareholders by way of on market share buybacks.

Earnings per share

Adjusted basic earnings per share for continuing operations rose to 13.38 cents from 12.92 cents for 2011, an increase of 4 per cent. There were 655.7 million weighted average Ordinary Shares in issue (2011 667.3 million). Basic earnings per share for the continuing Group was 12.46 cents for 2012 compared with 13.17 cents for 2011.

A reconciliation of adjusted profit is provided below for continuing operations.

\$ million	2012	2011
Profit for the year	81.7	87.9
Exceptional items	2.9	–
Acquisition related costs	1.2	1.2
Acquired intangible asset amortisation	4.5	1.6
Share-based payment	1.6	1.1
Tax effect on the above items	(2.4)	(0.2)
Prior year tax credit	(1.8)	(5.4)
Adjusted profit for the year	87.7	86.2
Adjusted basic earnings per share	13.38	12.92

Business combinations

Spirent made two acquisitions during 2012.

On 23 April 2012 the Group acquired 100 per cent of the share capital of Mu Dynamics, Inc. ("Mu") for a total consideration of \$39.8 million in cash. Mu is included within the Performance Analysis division.

At acquisition the fair value of the assets and liabilities acquired were determined in accordance with accounting standards and this gave rise to \$13.9 million of intangible assets, which are being amortised over five years, and goodwill of \$24.7 million.

Revenue from Mu was \$6.3 million in the period from acquisition and it made a small loss of \$0.5 million in the period from the 23 April 2012 closing date. Mu is on track to generate a positive return in 2013, in line with plan.

Metrico Wireless, Inc. ("Metrico") was acquired on 13 September 2012 for \$52.2 million. Metrico is included within the Performance Analysis division.

At acquisition the fair value of the assets and liabilities acquired were determined in accordance with accounting standards and this gave rise to \$20.5 million of intangible assets, which are being amortised over two and a half to seven years, and goodwill of \$30.9 million.

Revenue from Metrico was \$6.4 million in the period from acquisition and it contributed \$0.5 million of profit in the period from the 13 September 2012 closing date. Metrico's results are in line with plan.

Financial risk management

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

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

Financing and cash flow

Cash and cash equivalents increased to \$248.6 million at 31 December 2012 compared with \$236.5 million at 31 December 2011. Spirent continues to be debt free. The majority is held as cash on demand or in short term bank deposits and 80 per cent of the balance was denominated in US dollars. Currency translation has increased cash and cash equivalents by \$2.2 million in 2012.

Continuing operating activities generated \$120.3 million of cash in the year compared with \$113.0 million in 2011. Free cash flow is set out below for the continuing Group.

\$ million	2012	2011
Cash flow from operations	120.3	113.0
Tax paid	(23.1)	(21.8)
Cash inflow from operating activities	97.2	91.2
Net interest received	0.6	0.9
Net capital expenditure	(13.8)	(22.8)
Free cash flow	84.0	69.3

Cash conversion was good with free cash flow for continuing operations of \$84.0 million for 2012, which represents 105 per cent (2011 84 per cent) of reported earnings before non-cash prior year tax

Cash inflows include the \$63.2 million received from the divestment of Systems, expenses of \$3.3 million were paid on the transaction

Cash outflow on the acquisitions of Mu and Metrico was \$92.0 million with \$1.2 million of expenses incurred. In 2012 a final dividend for 2011 and an interim dividend for 2012 totalling \$20.3 million (2011 \$17.5 million) were paid. Share repurchases have resulted in a cash outflow of \$31.6 million in the period (2011 \$33.4 million) of which \$0.8 million relates to share repurchases made at the end of 2011 but settled in 2012

Defined benefit pension plans

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

The accounting valuation of these plans at the end of 2012 was a net deficit of \$24.8 million compared with a net deficit of \$11.8 million at 31 December 2011 and was based on the latest triennial actuarial valuation at 1 April 2009. The deficit of \$24.8 million is all in the main plan (31 December 2011 \$12.5 million). At 31 December 2011 there was a surplus of \$0.7 million in a smaller plan which had reduced to zero at 31 December 2012. The increase in the deficit in the main plan is a result of a rise in the liabilities due to changes in the underlying assumptions, principally the discount rate which is based on high quality corporate bonds

The next triennial actuarial valuation at 1 April 2012 is in the process of being finalised. Such a valuation involves a complete review of all 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 \$0.8 million (31 December 2011 \$0.6 million) in respect of United Kingdom unfunded plan liabilities

Capital structure

During 2012 the Company repurchased 13.4 million shares at a cost of \$30.8 million (2011 17.6 million at a cost of \$34.2 million). All shares repurchased during 2012 were cancelled. In 2011 13.2 million were cancelled and 4.4 million were placed in trust

Shares were repurchased at an average share price of 143 pence per share in 2012. The Board intends to continue to repurchase shares to manage the dilution attributable to the Group's share incentive schemes and it is also envisaged that the return of the remainder of the proceeds on the divestment of Systems, \$32.7 million, will be made through on market share buy backs

Dividend

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

The Board are therefore recommending the payment of a final dividend for 2012 of 1.83 cents (1.21 pence) per Ordinary Share which, with the interim dividend of 1.39 cents (0.89 pence) per Ordinary Share paid in September 2012, brings the full year dividend to 3.22 cents (2.10 pence) per

Ordinary Share. The dividend is covered 4.2 times by adjusted earnings. This is an increase of 10 per cent over the full year dividend for 2011 of 2.93 cents and reflects the strong cash generation of the Group

Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 3 May 2013 to Ordinary shareholders on the register at 8 March 2013. Payment to ADR holders will be made on 10 May 2013

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 objectives. Spirent’s strategy focuses on medium to long term growth and therefore its achievement cannot just be measured by looking at performance in 2012 compared to the prior year, trends over a number of years must also be considered.

All KPIs are stated for continuing operations only.

Description	Commentary
Ratio of orders booked to revenue billed which is a measure of the visibility of our future revenues at current levels of activity The Group aims to maintain a book to bill ratio of 100 or higher	The ratio was below 100 at 97 for 2012 (2011 103). This reflects the more challenging market conditions experienced by the Group’s Performance Analysis division in the second half of 2012
Description	Commentary
Growth in revenue is a measure of how we are growing our business. Our goal is to achieve year-on-year growth. In addition 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	For the Group overall revenue was flat. The Performance Analysis division grew 4 per cent year-on-year, excluding the effect of 2012 acquisitions growth was 1 per cent. Demand was strong for wireless, data center and high speed Ethernet test solutions but this was offset by weakness in demand for positioning test products which suffered a 26 per cent decline. In Service Assurance revenue was down 29 per cent due to a fall in demand for our legacy products
Description	Commentary
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 was higher at 71.3 per cent compared with 69.6 per cent in 2011. The principal driver was a higher software and services content. An excess inventory provision was charged in Service Assurance of \$1.4 million as an exceptional item. Excluding this provision gross margin was 71.6 per cent

Description

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

Our goal is to achieve year-on-year growth

Commentary

Operating profit increased by 2 per cent largely as a result of higher gross margin. We managed costs carefully throughout the year but made further investment in product development.

Description

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

Commentary

Return on sales was maintained at 25 per cent, after increasing investment in product development in 2012 to support the long term growth of the business. Spirent's return on sales is among the best in the test and measurement industry.

Description

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

Commentary

Adjusted basic EPS rose to 13.38 cents from 12.92 cents for 2011, an increase of 4 per cent.

Comparison against 2008 and 2009 is distorted due to the abnormally low tax rates in those years.

Description

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

Commentary

Cash conversion was strong with free cash flow of \$84.0 million for 2012, which represents 105 per cent of reported earnings before non-cash prior year tax. At 31 December 2012 cash balances were \$248.6 million and there was no debt.

Notes

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

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 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 the Spirent Group are discussed below.

RISK AND POTENTIAL IMPACT

MITIGATION ACTIONS

Macro-economic and industry sector

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

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

Although the EU has taken steps to stabilise the euro there still remains significant financial and political uncertainty in the Eurozone, with the potential for a full or partial break up of the euro. Spirent is exposed to these factors through its operations in the Eurozone, 11 per cent of Spirent's revenue is derived from this region. However, the economic situation in the EU, which has been affecting growth rates in this region, may also affect demand globally.

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

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

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

Technological change and competition

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

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

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

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

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

We continue to make significant investment in product development. In 2012 our investment was increased by 3 per cent to \$86.1 million in order to underpin our organic growth initiatives.

During 2012 we have made organisational changes to further facilitate knowledge of new market areas outside our served market, with individual managers designated responsibility for investigation, review and action plans arising from such initiatives.

RISK AND POTENTIAL IMPACT	MITIGATION ACTIONS
Reliance on contract manufacturers We use contract manufacturers for the manufacture of a substantial amount of our products. Our major contract manufacturer is located in Thailand. Disruption or financial problems of contract manufacturers or limitations in the manufacturing capacity at contract manufacturers could either limit supply or increase our costs.	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. A significant natural disaster could disrupt our ability to conduct business and impact adversely our revenue and operating results.	An important component of Spirent's corporate governance is its integrated risk management strategy and its regular self-assessment of risks encompassing all business units. IT disaster recovery plans are in place for all core business systems. In 2012, the disaster recovery plans were reviewed for each business unit to ensure that the wider operations are all fully covered. In addition, the Group's largest manufacturing subcontractor has worldwide multiple sites and comprehensive business continuity plans.
Retention and recruitment of key staff Spirent is its employees. So attracting and retaining highly qualified and skilled employees is essential in enabling us to deliver on our strategy and to the success of our business. We face competition for personnel from other companies and organisations and the loss of our key employees, the failure to attract and retain other highly skilled employees, or the failure to adequately plan for succession may impair our ability to run and expand our business effectively.	Investing in our people is at the core of our strategy. We aim to find, keep and engage the highest calibre of employees and encourage their contribution and development. An environment that fosters innovation and collaboration is critical to Spirent's success as is ensuring our incentive plans are competitive. At a meeting of the Board in August 2012 we devoted a session to succession planning for senior posts in the Company and organisational structure. Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff. Further information on our employees is provided in the CSR statement on pages 33 and 34.
Intellectual property Spirent's success is dependent in part on proprietary technology which may be infringed by others inadvertently or otherwise. Protecting our proprietary technology is important to enabling us to compete successfully in our industry. Companies in the telecommunications industry often aggressively protect and pursue their intellectual property rights and may assert infringement claims against Spirent. Such claims can result in significant defence costs, and may affect Spirent's ability to market its products.	We have active intellectual property protection programmes in place to obtain appropriate intellectual property protection in a cost effective manner. There are procedures in the development of new products that include consideration of intellectual property rights of third parties. We also consult internal and external legal counsel experienced in intellectual property matters.
Acquisitions A key element of our strategy is to evolve and expand our solutions portfolio which may be achieved either organically or through acquisition. Integration of acquisitions can be a complex process and the results expected from acquisitions may not be achieved due to problems encountered in integration, changes in the market conditions or sometimes deficiencies arising in the due diligence processes.	We carry out rigorous strategic and financial evaluations of all acquisition opportunities. Detailed financial and commercial due diligence are performed. The Board will only authorise transactions after all due diligence has been successfully completed and where the financial hurdles are within the agreed guidelines. Integration plans and processes are carefully considered prior to acquisition. The Board regularly reviews post acquisition performance.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Sustainable value

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

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

Our responsibility framework

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.

Employees

Spirent is its employees. To sustain our competitive advantage, the Group maintains an environment where all employees can develop to their fullest potential, have the opportunity to give back to their communities, and advance their careers.

Health and safety

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.

Sustainability and environmental

The Group is committed to the concepts of pollution prevention, minimising environmental impacts and eco-efficiency.

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.

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 2012, Spirent's employees were again clearly reminded of the standards expected of them by the regular communication and explanation of Spirent's Vision, Mission and Values statements.

Spirent has continued to ensure that all its systems, controls and training comply with the anti-bribery and corruption legislation in all the countries where we operate and that a culture of prevention and detection of all forms of bribery and corruption is in place. This policy applies to Spirent's subsidiaries and business partners.

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

The following is a summary of the Ethics Policy:

- all employees have the right and responsibility to ensure that Spirent's business is conducted with high ethical and legal principles,
- our policy is to operate within applicable laws,
- discrimination or harassment of any kind will not be tolerated,
- as a matter of policy, we do not make political donations,
- no bribes shall be given or received,
- conflicts of interest must be avoided,

- we aim to be a responsible partner within our local communities, and
- employees are encouraged and supported to report, in confidence, any suspected wrongdoings ("whistleblowing")

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

Employees

Spirent is its people

Spirent understands that the key to success is centered on our employees and that one of our primary responsibilities in CSR is to the people who are Spirent. We rely on our highly skilled, motivated and empowered employees to drive the growth of our business. These 1,400+ employees, working in over 25 locations in more than 12 countries, provide a matchless competitive advantage for us creating innovative products for our customers.

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

Investing in our employees

For more than 75 years, Spirent has sustained a globally effective organisation and provided a great place to work through career advancement opportunities (resulting in more than 8 per cent of employees receiving a promotion in 2012), workforce diversity and transparent communication. To find, keep and bring out the best in our people, we constantly review and improve our benefits, retention, development programmes and career growth opportunities to ensure that Spirent remains a great place to work.

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

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

Our challenging work environment inspires innovation, with continuous learning as an

CORPORATE SOCIAL RESPONSIBILITY STATEMENT CONTINUED

Toastmasters@Centennial Campus, in Raleigh NC was started in 2011 and is one of five Toastmasters International clubs at Spirent

essential part of our human resources philosophy. In 2012, career development centered on the individual, providing a variety of education and learning opportunities over time in a number of different ways. Senior leaders participated in the Leadership 360 Feedback Programme and employees completed over 500 hours of e-learning on a wide range of technical and business topics. In our Asia Pacific region, employees participated in technical workshops, lunch and learn sessions, and one of five Toastmasters International clubs at Spirent. We also launched the new Spirent Learning Center on our intranet, which offers information on career management, tools for managers, and resources for new employees.

Engaging our employees

Spirent understands, like all businesses, it must work tirelessly to keep our talent in an increasingly competitive industry. That's why we seek to connect with, and support, our employees in many ways including transparent communication, showing appreciation for a job well done,

and providing competitive compensation and benefits programmes. Our efforts continue to bear positive fruit, with global voluntary turnover at 8 per cent, a result that stands out among our competitors where turnover in the high tech industry averages over 10 per cent.

Spirent believes that access to health care benefits is a fundamental responsibility to our employees. Results from our most recent Employee Opinion Survey showed a marked increase in satisfaction with benefit programmes. Around the world in all of our locations, we align employee needs with the healthcare and wellness options available in each country that are both comprehensive and competitive. In the United States, where more than 60 per cent of our employees reside, we offer competitive health care benefits, including medical, dental and vision, to all employees and their spouses or qualifying same-sex and opposite-sex domestic partners and dependents.

Celebrating our diversity

Spirent is committed to upholding human rights and fully believes that diversity fuels business success in a multicultural world. Our rich diversity is reflected in our work environment – including ethnicity, race, gender, age, sexual orientation, faith, culture and global experiences. We believe that this variety of backgrounds, experiences, beliefs, personalities, knowledge, skills and ideas not only creates an enriching experience for our employees, diversity also yields the innovation and creativity demanded by our customers.

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.

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 2012 with the disposal of the Systems division, which was the only division within Spirent which had not completely outsourced all its manufacturing. The new businesses acquired by Spirent in 2012, Mu Dynamics and Metrico Wireless, both have the same health and safety environment as the rest of the continuing Spirent Group. 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 2012 and no incidents required any hospitalisation

The Group Health and Safety Policy places responsibility for the management of health and safety on local management who are supported by local external advisers where necessary. It is the Group's policy that each business unit should have a senior individual designated as being responsible for ensuring the business unit conforms to local statutory health and safety regulations as well as the Group Policy. An annual questionnaire on health and safety performance is completed by 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 is managed to high standards 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. It is an essential element of its corporate responsibility.

Spirent is committed to continually improving its health and safety performance and 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 maintains a successful health and safety management

programme and appropriate resources are made available for this purpose.

Sustainability and environmental

The Group has made significant progress in 2012 in integrating sustainability and environmental strategy into its operations and in continuing to improve environmental performance. In addition to continuing with existing initiatives on space utilisation, logistics and power consumption in products, the Group has also begun to implement the recommendations of a major review of environmental strategy that was commissioned in 2011.

Environmental Policy and compliance

The Group Environmental Policy applies to the Company and to all subsidiaries worldwide. It commits the Group to prevention and control of pollution, minimising environmental impacts, eco-efficiency, and to adopt responsible environmental practices.

The Group is also committed to compliance with all applicable environmental regulation in all of the jurisdictions in which we operate.

To meet these objectives, the Group endeavours to continuously improve environmental performance and to make robust environmental management integral to its overall strategy.

The full policy can be found at www.spirent.com in the Corporate Responsibility section.

As in previous years, the Group's main direct environmental impacts result from offices, laboratories and assembly sites

accommodating employees, IT systems and travel. Business units across the Group continue to take measures to reduce impacts, including improved space utilisation, sensor controls of equipment and recycling programmes. The Group has also continued to reduce total floor space used.

Percentage reduction of square feet used compared to previous year

	2012	2011
%	4.2	13.7

During 2012 we installed two electric vehicle charging stations at Spirent offices in Sunnyvale, California. These charging stations are available to the general public as well as Spirent employees and the charging points are already being well used. Charging stations at additional Spirent locations will be installed where there is demand for their use.

Having introduced video conferencing into the Group in 2010, we invested further in 2012, increasing the number of sites covered and the quality of the user experience. Spirent is confident that video conferencing has reduced travel across the Group but it is difficult to quantify the benefit definitively.

Almost all of our products continue to be produced by external contract manufacturers and we monitor the environmental performance of our suppliers through audits and surveys. Our largest contract manufacturer is responsible for approximately 66 per cent of our production and they have an ISO 14001 certified environmental management system, alongside an extensive carbon reduction programme. The table overleaf shows their performance in reducing emissions for the last two years for which data is available.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT CONTINUED

Percentage reduction of CO₂ emission over previous year

	2011	2010
%	11.9	6.1

Product design and manufacturing processes take into consideration the recycling and disposal of products at the end of their life, as far as is possible. Product design also seeks to reduce power consumption in use. For our 10Gb Ethernet products, the following reductions have been achieved:

Percentage reduction of power consumption of 10GbE products over previous year

	2012	2011
%	33	20

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

Environment strategy

Following a comprehensive review of our sustainability strategy and management in 2011 we have an enhanced understanding of the impacts that we have on the environment and on the communities in which we operate. This has spurred the

Group to make greater efforts to integrate sustainability into overall strategy, based on greater visibility of the material issues for our business.

The following material issues were identified in this review:

- Greenhouse gas emissions and climate change
- Energy consumption in offices and manufacturing
- Environmental management
- Environmental reporting

The key environmental issues were energy consumption and greenhouse gas emissions and these have been the focus of the Group's efforts in 2012.

The Group has made great progress to date in setting the framework to proactively manage and improve sustainability performance. This review of the issues material to the Group has positioned Spirent to set a clear strategic course in leveraging sustainable business thinking to improve overall performance, and this has been the main theme of the work in this area in 2012.

2012 work programme

The work over the course of 2012 has focused on defining the specific tools and methodologies that will add value in driving forward the Group's strategic sustainability objectives. This has also built on the existing culture of environmental management at the Paignton site by using this location as a center of excellence and proving ground for the Group, piloting certain key initiatives.

The 2012 work programme comprised:

- Development of a low carbon center of excellence at the site at Paignton, UK
- Development of a low carbon site assessment toolkit

- Review of existing Group environment and ethics policies
- Development of sustainability management processes

Paignton: low carbon center of excellence

The Paignton site, located in Paignton, UK, has had an ISO 14001 certified environmental management system for several years and has a good track record in improving environmental performance. For this reason, the site was selected to act as a low carbon center of excellence for the Group, piloting a number of initiatives during 2012. As a result, a wide range of potential low carbon technologies and services have been assessed for this site, and financial, environmental and strategic business cases have been developed for suitable candidate technologies. The key outcomes from this project are:

- A 15 per cent reduction in unit costs of electricity
- Identification of further potential energy cost savings of 25 per cent based on technology and better energy management
- Investment in a solar photovoltaic system that will generate 10 per cent of annual electricity consumption at the site
- Business cases have been developed for the following low carbon technologies with positive NPV and payback under ten years. It is expected that these will be implemented in 2013:
 - Insulation
 - Voltage optimization
 - Air conditioning and heating system upgrades
 - LED lighting

Low carbon site assessment toolkit

A toolkit has been developed which can be used at sites across the Group to identify carbon and energy savings. This toolkit will be trialled at a number of Group sites globally in 2013.

Group environmental and ethics policies

The Group environment and ethics policies have been reviewed against leading standards ISO 14001 (Environment) and ISO 26000 (Corporate Responsibility) in order to ensure that all of the issues in these areas are properly addressed in line with the constantly evolving legislation and best practice in the field

Group sustainability management processes

The Group's existing management procedures for environmental and sustainability were reviewed and toolkits were developed to ensure that all of our global sites continue to meet Group policy requirements and to improve performance. The toolkits cover the identification and management of environmental impacts and of legal and regulatory requirements. These will be trialled at a number of global sites during 2013.

2013 work programme

In 2013, the emphasis will be on utilising the experiences gained in 2012 and the lessons learned at Paignton to deliver value across the Group. The most financially and environmentally effective tools and measures identified in 2012 will be rolled out to selected sites across the Group. This will sit alongside the trialling of the Group management processes discussed above.

In addition to the specific measures that will be trialled at a number of global sites, the Group will also seek to enhance internal and external reporting of sustainability metrics, with a focus on greenhouse gas emissions. This is partly driven by the forthcoming requirement for UK quoted companies to report emissions in the Directors' Report, but the Group also intends to participate in the Carbon Disclosure Project in 2013 and to have greater internal reporting on key sustainability issues.

Community**Giving back to the communities where our employees and customers live and work**

Because it's not enough to be a great Company, Spirent supports a variety of worthy causes to be a great neighbour too. Spirent supports technical education and local charitable programmes, and encourages employee volunteerism and participation within the communities where they live and work.

Building talent for the 21st century

To help students prepare for the communication revolution of the 21st century, the Group has been actively working with local public and private non-profit educational organisations. Throughout 2012, we continued to support education by offering internships and work experience programmes that not only help students develop professional knowledge but also provide future talent for our entire organisation.

In China, we offered the internship opportunities to 26 students from top universities in China, including the Beijing University of Posts and Telecommunications ("BUPT") and Beihang University (Beijing University of Aeronautics & Astronautics). In 2012, Spirent provided scholarships to ten students attending BUPT, all of whom will join Spirent as interns as part of their college education in electrical engineering.

In the UK, US and India, Spirent provided internship opportunities to more than 20 engineering degree candidates. We also hired an additional 11 college interns in non-engineering functions, including finance, manufacturing and marketing.

In addition to internships, our managers routinely work with local universities and industry groups. As one example, our UK management team participated in "Employability Week" at South Devon College where they helped students understand how to write a CV and present

Sunnyvale employees sorted and re-boxed more than 10 tons of oranges at the Second Harvest Food Bank

CORPORATE SOCIAL RESPONSIBILITY STATEMENT CONTINUED

themselves at an interview. In New Jersey, our manufacturing team participated in "ManufactureNJ", a NJ Advanced Manufacturing Talent Network grant, awarded to NJIT Continuing Professional Education, by the New Jersey Department of Labor and Workforce Development. Spirent managers met with over 200 middle school, high school, and college-aged students, along with their faculty and administrators to discuss the variety of careers available in manufacturing and the skills they will need to succeed.

Building strong communities by helping those in need

Spirent has a long history of supporting our local communities and helping those in need. Throughout 2012, the Group continued to provide aid to charitable and non-profit organisations through corporate sponsorships and contributions that enhance our local communities. When the eastern seaboard of North America suffered devastating damage and injury due to the unprecedented impact of superstorm Sandy, Spirent responded to this urgent need with donations of \$10,000 to the American Red Cross and \$7,500 to the K I D S Hurricane Relief Effort for disaster relief efforts. Thankfully everyone in the Spirent family weathered the storm pretty well and many of our Eatontown employees offered their talent and financial support to neighbouring communities who didn't fare as well.

Our Calabasas team raised \$20,350 for the American Cancer Society's Relay for Life. Employees and their families from all departments participated in a 24-hour walk, not only raising more than any of the other 46 companies and agencies participating, but also more than any team in the history of the Calabasas Relay for Life.

In total Spirent made charitable cash donations of \$118,000 in 2012 (2011 \$111,000).

Committing ourselves – volunteerism at Spirent

We're proud of our employees, who generously donate their time, expertise, and money to many different organisations around the globe. Our employees are active volunteers in their communities, where they support a broad variety of causes, organisations, and activities ranging from health organisations, educational programmes, food banks and environmental causes. They serve in many different ways – as fundraisers, board members, coaches and mentors.

Our employees not only donate their time – they enthusiastically embrace the true spirit of volunteerism in their local communities. Employees in our Crawley UK office participated in November, and demonstrated their gallant support for men's cancer awareness by sprouting moustaches throughout the month of November. Many of our employees around the world volunteer to help feed the hungry. Raleigh, North Carolina employees packaged 24,000 life-saving meals that will be sent to support transformational development programmes in developing countries by Stop Hunger Now. Sunnyvale California employees sorted and re-boxed more than 10 tons of oranges at the Second Harvest Food Bank. These boxes are then sent to 740 sites, including food pantries, soup kitchens and shelters. More than half the food Second Harvest provides is fresh produce.

The Eatontown, New Jersey office supports the Salvation Army's Angel Tree Program, which provides an opportunity to help local families and children in need during the holidays.

Governance

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CORPORATE GOVERNANCE

Active stewardship

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

How we engage with our stakeholders

Shareholders and investment community



- Annual Report
- Website
- Analyst and investor meetings
- Annual General Meeting
- Presentations

Employees



- Regular face-to-face meetings
- Training and career development
- Written communications and updates
- Spirent intranet
- Employee opinion survey

Customers and suppliers



- Face-to-face meetings
- Conferences and industry events
- Seminars and webinars
- Website
- Social media

Alex Walker
Chairman

Strategy and business performance

Strategy and business development is a primary focus for the Board and is discussed at every meeting, with a dedicated strategy summit being held each year at which the Group's overall strategy is reviewed by the Board over a number of days. We review and analyse market conditions and technology trends and openly debate issues such as risk, strategic direction and allocation of product development investment. It is critical that as a Board we have a deep understanding of, and remain close to, our businesses. Regular site visits are therefore arranged with the Board also taking the opportunity to talk directly with Spirent's customers. For example, in May 2012, the Board went to Beijing in China, one of our principal product development locations and where key Asian customers are located. Further customer and site visits are planned for 2013.

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

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

Corporate governance

Achieving good governance is key to the long term success of the business. It ensures that we remain a responsible Company and underpins our culture and reputation as an organisation. As a Board we are conscious of our obligations to think deeply, thoroughly and on a continuing basis regarding our duties.

Spirent is fortunate to have non-executive Board members with extensive experience in areas critical to the long term future success of the Company, covering a deep understanding of our industry, technology, corporate strategy, finance and investment.

This experience enables the non-executives to add entrepreneurial leadership, with open and rigorous debate that provides a valuable external and balanced perspective to the proceedings. We believe that our Board members complement each other, delivering a broad and appropriate balance of skills.

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

Employees

Spirent's performance in 2012 has been achieved through the talent, dedication and commitment of all our employees and management teams throughout the world. Our appreciation goes to all of them for their contribution to the continuing success of the Company.

We are well aware that Spirent's greatest resource is its employees. Spirent's people create and drive our innovation. As part of our continuing process for ensuring that we have the necessary people in place to meet our strategic aims, in August 2012 the Board again reviewed succession planning for senior positions in the Company and our organisational structure.

Board diversity

Spirent has enjoyed a stable and dedicated Board during 2012. However, the Board is mindful of the benefits of having a diverse range of members with a broad range of skills, backgrounds and experience and in pursuit of these, we were delighted to announce the appointment of Sue Swenson to our Board as a non executive director in February 2012. Sue has already made a valuable contribution to the Board's deliberations through her wealth of experience in the telecommunications and technology sectors.

The Board will continue to follow a policy of ensuring that we appoint the best people for the relevant roles and recognise the importance and benefits of greater diversity both at Board level and throughout the Group and will take this into account when considering any particular appointment.

Board evaluation

During 2012, the Board commissioned an externally facilitated evaluation process and we are delighted to report that the feedback from that assessment was extremely positive with very few recommendations for improvement in our performance. We will now take these recommendations forward.

Further information on Board activities can be found in the Directors' statement on corporate governance on pages 50 to 54.

BOARD OF DIRECTORS

Alex Walker (66)

Chairman

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

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

Until August 2006 Alex was Chief Executive of Yule Catto & Co. plc and until April 2010 he was a Non executive Director, Chairman of the Remuneration Committee and member of the Audit and Nomination Committees of Rotork plc.

Alex is a Non executive Director of Zotefoams plc.

Bill Burns (45)

Chief Executive Officer

Bill was appointed to the Board in November 2008.

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

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

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

Bill holds an Associate degree in Engineering from The Pennsylvania State University, a Bachelor of Science degree from College Misericordia and a Master of Business Administration degree from Temple University.

Eric Hutchinson (57)

Chief Financial Officer

Eric was appointed to the Board in January 2000.

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

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

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

Ian Brindle (69)

Senior Independent Non-executive Director
 Ian was appointed to the Board in December 2006. He is Chairman of the Audit Committee and serves on the Nomination and Remuneration Committees.

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

He was Senior Partner of Price Waterhouse from 1991 to 1998 and Chairman of Pricewaterhouse Coopers until 2001. Ian was also a member of the Accounting Standards Board between 1992 and 2001 and Deputy Chairman of the Financial Reporting Review Panel between 2001 and 2008.

Ian serves as Non-executive Chairman of Sherborne Investors (Guernsey) A Limited, Sherborne Investors (Guernsey) B Limited and as a Non-executive Director on the boards of F&C Asset Management plc and Elementis plc.

Duncan Lewis (61)

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

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

Until March 2011, Duncan was Chief Executive Officer of Vislink plc and until October 2008 was Senior Adviser to The Carlyle Group, assisting them in developing strategy and identifying investments in the telecommunications and media sectors worldwide.

Prior to joining The Carlyle Group, Duncan served as Chief Executive Officer and President of GTS/Ebone, Managing Director of Equant NV and Chief Executive Officer at Granada Media Group and Mercury Communications.

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

Duncan is Chairman of nextiraOne EU and Workshare Limited, Non-executive Director of euNetworks Group Limited and director of several other companies.

Tom Maxwell (65)

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

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

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

Tom is a Non-executive Director of Foresight 3 VCT plc and is Chairman of their Audit Committee.

Sue Swenson (64)

Independent Non-executive Director
 Sue was appointed to the Board in February 2012. She is a member of the Audit, Nomination and Remuneration Committees.

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

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

Sue is a Non-executive Director of Wells Fargo and sits on their Audit and Examination Committee and Governance and Nominating Committee. She also serves as Non-executive Director on the boards of Harmonic, Inc., sitting on their Audit and Examination Committee, and Novatel Wireless, Inc., sitting on their Compensation Committee. In August 2012, Sue was appointed by the US National Telecommunications and Information Administration as a founding Board member of the First Responder Network Authority.

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 2012

Business review

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

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

The Business review explains financial performance, key performance indicators, the position at the year end, any post balance sheet events, likely future developments and a description of the principal risks and uncertainties facing the Group and how these are managed

The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update those forward-looking statements

Principal activities

The principal activities of the Group are set out on pages 6 and 7 of this Annual Report. The principal global divisions and subsidiaries of the Group are set out on page 135

Results and dividends

The consolidated income statement is on page 70. Profit for the financial year attributable to owners amounted to \$128.8 million (2011 \$94.6 million)

Dividends are determined in US dollars and paid in sterling at the exchange rate prevailing when the dividend is proposed. A final dividend of 1.83 cents (1.21 pence) per Ordinary Share is recommended by the Board for the year to 31 December 2012 (2011 1.67 cents (1.05 pence)) for which approval will be sought from shareholders at the Company's 2013 Annual General Meeting ("2013 AGM") on 1 May 2013, to be paid on 3 May 2013 (ADR holders on 10 May 2013) to those shareholders whose names are on the Register of Members on 8 March 2013

Together with the interim dividend of 1.39 cents (0.89 pence) per Ordinary Share (2011 1.26 cents (0.77 pence)) which was paid to shareholders on 13 September 2012, this amounts to a total dividend for 2012 of 3.22 cents (2.10 pence) per Ordinary Share (2011 2.93 cents (1.82 pence))

Share capital and control

The Company has a single class of share which is divided into Ordinary Shares of 3 $\frac{1}{3}$ pence each. Each Ordinary Share carries one vote and all of the Ordinary Shares rank *pari passu*. There are no special control rights relating to any of the Ordinary Shares. At the date of this Report, 650.5 million Ordinary Shares of 3 $\frac{1}{3}$ pence each had been issued which are fully paid up and are listed on the London Stock Exchange. The Company also operates a Level 1 American Depositary Receipt ("ADR") programme with each ADR representing four Ordinary Shares. The ADRs trade on the US over-the-counter market and The Bank of New York Mellon is the authorised depositary bank for the programme. Further details on share capital are set out in note 28 to the consolidated financial statements and note 15 to the parent Company financial statements

The rights, including those relating to voting, obligations and any restrictions on transfer relating to the Company's Ordinary Shares, as well as the powers of the Company's directors, are set out in the Company's Articles of Association, a copy of which can be found on our website at www.spirint.com or can be obtained from Companies House or by writing to the Company Secretary. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The most recent changes to the Articles of Association were approved at the 2010 AGM and became effective at the close of that meeting on 5 May 2010

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

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

During the year to 31 December 2012 and to the date of this Report, no new Ordinary Shares have been allotted as a result of the exercise of options and rights pursuant to the Company's share incentive plans

At each annual general meeting, the directors seek authority to allot shares for cash and to dis-apply pre-emption rights within prescribed limits. At the 2013 AGM, authority will be sought to allot new Ordinary Shares up to a nominal value of £7,227,587, which is equal to 33.3 per cent of the Company's issued share capital as at 8 March 2013

The Company has established two employee benefit trusts in connection with the operation of the Company's share incentive plans: the Spirent Employee Share Ownership Trust ("ESOT") and the Spirent Sharesave Trust ("SST"). The trustees of both trusts have waived their right to receive dividends on any Ordinary Shares held by them except for a nominal amount of 0.01 pence other than for those Ordinary Shares held in the ESOT which are the beneficial property of an employee/shareholder. For further details on the employee benefit trusts see "Investment in own Ordinary Shares" in note 28 to the consolidated financial statements and note 15 to the parent Company financial statements. Trustees of both trusts do not vote their Ordinary Shares, except for those Ordinary Shares held in the ESOT that are the beneficial property of an employee/shareholder, which the trustees will vote in accordance with the instructions received from the beneficial owner.

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

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

Significant agreements

A Group company has a significant agreement with a contract manufacturer which the Company considers to be essential to its business and which it intends to keep in place until at least April 2014.

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

Return of capital

The Company was first authorised to repurchase up to 14.99 per cent of its own issued Ordinary Shares, within certain limits and as permitted by the Company's Articles of Association, at the 2006 AGM. This authority has been renewed at each subsequent AGM, reducing to 9.99 per cent at the 2010 AGM and subsequent AGMs. The authority from the 2012 AGM remains valid until the earlier of the 2013 AGM or 30 June 2013. Since the Company began returning capital to shareholders in May 2006, a total of £225.9 million has been returned, through the repurchase of 358.7 million Ordinary Shares.

During 2012 13.4 million Ordinary Shares, each with a nominal value of 3¹/₃ pence were repurchased for an aggregate consideration of £19.3 million and cancelled immediately following repurchase. This represents 2.0 per cent of the Company's issued Ordinary Share capital at the beginning of 2012. The Company repurchased a further 0.1 million Ordinary Shares between 1 January 2013 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 2013 AGM to facilitate any further return of capital if the Board concludes that it is in the best interests of shareholders to do so.

REPORT OF THE DIRECTORS CONTINUED

Substantial shareholdings

In accordance with Listing Rule 9.8.6(2), the Company has been notified of the following significant interests in its Ordinary Shares pursuant to Disclosure and Transparency Rule 5

As at 31 December 2012

	Date of notification	Total holding	% of Company's total voting rights
BlackRock Inc ¹	19 July 2012	78,785,027	12.11
Prudential plc	19 June 2012	73,489,616	11.29
AXA Investment Managers SA	18 October 2011	47,515,946	7.30
Ameriprise Financial, Inc	7 March 2008	38,520,235	5.92
Aviva plc ²	15 September 2011	36,682,422	5.64
Legal & General Group plc ³	19 March 2012	33,778,871	5.19
Artemis Investment Management Limited	17 September 2010	32,940,888	5.06
Standard Life Investments Ltd	27 January 2011	32,370,026	4.98
Sun Life Assurance Company of Canada (UK) Ltd	4 December 2008	23,382,347	3.59

Notes

¹ BlackRock Inc 's notified holding comprised 62,077,835 Ordinary Shares and 16,707,192 Ordinary Shares subject to Contracts for Difference

² Aviva plc's notified holding comprised 35,537,422 Ordinary Shares and 1,145,000 Ordinary Shares subject to Contracts for Difference

³ Legal & General Group plc's notified holding comprised 33,553,871 Ordinary Shares and 225,000 Ordinary Shares subject to Contracts for Difference

The following notifications have been received during the period 1 January 2013 to 28 February 2013:

	Date of notification	Total holding	% of Company's total voting rights
BlackRock Inc ¹	13 February 2013	70,775,401	10.88

Note

¹ BlackRock Inc 's notified holding comprised 56,866,309 Ordinary Shares and 13,909,092 Ordinary Shares subject to Contracts for Difference

Board of directors

The names and brief biographical details of the current directors are shown on pages 42 and 43

Election and re-election of directors

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

Directors' interests

The directors' interests (including those of their connected persons) in the issued Ordinary Share capital of the Company are set out in the Report on directors' remuneration on pages 55 to 67.

Directors' indemnity arrangements

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

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

Other than these arrangements, at no time during the year nor to the date of this Report did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings except for the service contracts between executive directors and the Company

Corporate social responsibility

The Group's Corporate social responsibility statement appears on pages 32 to 38. This statement gives details of the Group's policies on ethics, the environment, health and safety, charitable donations and involvement in the community.

Charitable donations of \$118,000 were made in the year (2011 \$111,000). This amount excludes operating units' support for and participation in local community activities. In accordance with the Group's Ethics Policy, no political donations were made in the year (2011 nil).

Employees

The average number of people employed by the Group during the year including discontinued operations was 1,545 (2011 1,540) and the Group is proud of its history of being regarded as a responsible and respected employer. The Corporate social responsibility statement on pages 32 to 38 provides details of the Group's policies on employment, training and development.

Disabled persons

Disabled persons, whether registered or not, are accorded equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. In addition to complying with legislative requirements, procedures ensure that disabled employees are fairly treated in respect of training and career development. With regard to employees who become disabled during the course of their employment, the Group is supportive and will take all reasonable steps to ensure that they can remain in employment wherever practicable.

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 \$86.1 million research and development spend during the year in continuing operations, equivalent to 18.2 per cent of revenue (2011 \$83.3 million and 17.7 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.

In the UK, the Company is a signatory to the Department for Business Innovation & Skills' Prompt Payment Code, a voluntary agreement to promote good payment practices, the details of which can be found at www.promptpaymentcode.org.uk.

At 31 December 2012, the Company had an average of 16 days' purchases outstanding in trade creditors (2011 43 days).

Corporate governance

The Directors' statement on corporate governance is set out on pages 50 to 54. The Statement of directors' responsibilities in respect of the financial statements appears on page 49.

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 13 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Operational and financial review on pages 18 to 27. 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.

REPORT OF THE DIRECTORS CONTINUED

Disclosure of information to auditor

Each of the directors of the Company at the date of this Report confirms that

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

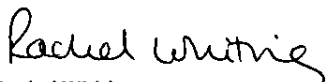
Auditor

Resolutions to reappoint Ernst & Young LLP as auditor and to authorise the directors to determine their remuneration will be proposed at the 2013 AGM

Annual General Meeting

The 2013 AGM will be held at 10 30am on Wednesday 1 May 2013 at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, United Kingdom

By Order of the Board



Rachel Whiting

Company Secretary
28 February 2013

Spirent Communications plc
Company number 470893

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

The consolidated financial statements of the Group are required by law and IFRSs to present fairly for each financial period the financial position and performance of the Group, the Companies Act 2006 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view, are references to their achieving a fair presentation.

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

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

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

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

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, for the Group, Article 4 of the International Accounting Standards Regulation. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a directors' remuneration report and a statement on corporate governance that comply with the law and those regulations. They are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

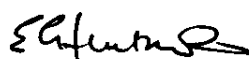
This Annual Report complies with the Disclosure and Transparency Rules ("DTR") of the Financial Services Authority in respect of the requirement to produce an annual financial report.

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

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

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

By Order of the Board



Eric Hutchinson
Chief Financial Officer
28 February 2013

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

Compliance

The Board is committed to the highest standards of corporate governance and fully supports the principles laid down in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the "Code") and September 2012 (the "New Code"). The Board is accountable to the Company's shareholders for good governance and this statement, together with the Chairman's introduction on pages 40 and 41 and the Report on directors' remuneration on pages 55 to 67, describes how the principles of the Code were applied during the year under review and reports on the Company's compliance with its provisions. Disclosures relating to significant shareholdings, voting rights, election and re-election of directors, powers of amendment of the Company's Articles of Association and the directors' power to issue or buy back shares are included in the Report of the directors on pages 44 to 48. It is the Board's view that the Company was fully compliant with the provisions of the Code throughout the period under review and with certain aspects of the New Code to the date of this Report.

The Board

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

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

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

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may potentially conflict, with the interests of the Company ("Situational Conflicts"). The Board has a formal system in place for directors to declare Situational Conflicts and for these to be considered for authorisation by those directors who have no connection with the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted directors are required to act in the way they consider most likely to promote the success of the Company and they may impose limits or conditions when giving authorisation, or subsequently, if they think this is appropriate. The Board considers the procedure to have continued to operate effectively during the year.

Details of other professional commitments of the Chairman and non-executive directors are provided in their biographies on pages 42 and 43.

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

During 2012, seven Board meetings were held. The agenda is set by the Chairman and papers are circulated to Board members in advance of the meeting. Minutes of meetings are circulated to all Board members and, subject to their agreement, approved at the following Board meeting.

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

	Number of meetings held	Number of meetings attended
Alex Walker (Chairman)	7	7
Bill Burns	7	7
Eric Hutchinson	7	7
Ian Brindle	7	7
Duncan Lewis	7	7
Tom Maxwell	7	7
Sue Swenson	7	7

The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information. They receive regular updates on business performance and receive presentations from the executive directors and other senior managers at Board meetings. In addition, regular site and customer visits are arranged for non-executive directors during which briefings are arranged and the directors have the opportunity to discuss aspects of the business with employees at all levels. Under the direction of the Chairman, the Company Secretary ensures good and timely information flows between the Board and its Committees and makes sure that Board procedures are complied with. The Company Secretary also updates and advises the Board on all regulatory and governance matters.

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

Board appointments, induction and training

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

Following appointment to the Board and its Committees, all directors receive an induction tailored to their individual requirements to ensure they have the necessary knowledge and understanding of the Company and its activities. New directors

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

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

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

Performance evaluation

During 2012, the Board engaged Useful Thinking Ltd to conduct an independent external evaluation of the Board and its Committees. The feedback from that evaluation was extremely positive and saw very few ways in which performance might be further strengthened. However, the Board will take these recommendations forward and will also in particular continue to consider the need in due course to increase diversity of its membership, especially in terms of gender. Useful Thinking Ltd has no other connection with the Company.

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

The Senior Independent Non-executive Director met with the independent non-executive directors on 7 November 2012, in the absence of the Chairman, to assess the Chairman's effectiveness. The independent non-executive directors were of the opinion that Mr Walker gave sufficient time to his role as Chairman of the Company and was effective in that role during the year under review.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Board Committees

Certain of the matters specifically reserved for the Board's decision have been delegated to three Committees with clearly defined terms of reference which, together with the composition of each Committee, are reviewed annually. The terms of reference for the Audit, Nomination and Remuneration Committees can be found on the Company's website at www.spirent.com

Audit Committee

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

The attendance of individual directors at Audit Committee meetings held during 2012 was as follows:

	Number of meetings held	Number of meetings attended
Ian Brindle (Committee Chairman)	3	3
Duncan Lewis	3	3
Tom Maxwell	3	3
Sue Swenson	3	3

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

Role of the Committee

The principal activities of the Committee during the year were:

- Review the interim and full year financial statements, key accounting policies and significant financial reporting judgements (if any) contained therein and to recommend such financial statements to the Board for approval,
- Review the external auditor's report on the interim review and year end audit and management's responses to the issues raised,
- Review and approve the external audit strategy and scope for 2012,
- Review the policy on the engagement of Ernst & Young to supply non-audit services,
- Review and recommend to the Board the re-appointment of Ernst & Young as external auditor and approve their fees,
- Monitor and review internal control and risk management systems,
- Review and approve the internal audit programme for 2012,
- Review the Company's Whistleblowing Policy,
- Review regular reports on taxation, treasury operations and health and safety.

The Chairman of the Committee reports any significant findings or identified weaknesses to the Board.

Policy on non-audit services

The Committee has adopted a policy in relation to the provision of non-audit services by the external auditor taking into account relevant ethical guidance and to ensure that the provision of such services does not impair the external auditor's independence or objectivity. Under this policy, a number of non-audit services are precluded including services relating to the accounting records and financial statements, internal audit, IT consulting, legal and investment services and other services deemed by regulators to be precluded. The policy is reviewed and financial limits for the provision of non-audit services are set on an annual basis. With regard to the non-audit services provided during the year, the Committee determined that in the interests of cost and efficiency, it was in the best interests of the Company to purchase these services from Ernst & Young. In addition, the Committee considers that notwithstanding the non-audit services provided during the year totalling \$0.4 million (2011 \$0.1 million), Ernst & Young's objectivity as external auditor was not impaired.

Appointment of external auditor

Prior to recommending their re-appointment as external auditor, the Committee considered Ernst & Young's performance, resources, quality control procedures, policy on rotating its audit partners (audit partners rotate every five years), independence and objectivity in the light of relevant UK professional and regulatory requirements. It was noted that as a result of Ernst & Young's policy on rotating audit partners there had been a new Audit Partner in 2011. The Committee also considered the risk of Ernst & Young withdrawing from the audit market and noted that there are no contractual obligations that restrict the Company's current choice of external auditor. The Committee is mindful of the New Code's provisions regarding the tendering of the external audit contract.

Further details of the Group's Ethics Policy and health and safety performance are contained in the Corporate social responsibility statement on pages 32 to 38

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. 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 system of internal control and risk management 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 identify, evaluate and manage the significant risks faced by the Group rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group consists of a limited number of entities and the Board and Audit Committee continue to consider that currently there is no need for a dedicated internal control and risk management department.

Day to-day responsibility for effective internal control and risk management and monitoring rests with senior management at business unit level. The Group Vice President, Finance attends all Audit Committee meetings to report on internal control and risk management and to apprise the Committee of any control weaknesses, control failings and risks, their impact and the actions taken to deal with the issues. The Group Vice President, Finance, is independent of any business unit and is therefore able to provide an objective view and continual assessment of the effectiveness of internal control and risk management throughout the Group.

The Group Vice President, Finance is responsible for ensuring that the finance department employs a level of management and specialists appropriate for maintaining financial records and processes that provide financial information that is relevant, reliable, complies with the applicable laws and regulations, and is distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is undertaken by senior 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 prior to its being approved by the Board.

The Group's system of risk management comprises all business units maintaining up to date risk registers as an integral part of their normal operating and control procedures. Risk registers for both the Group and operating units are reviewed by the Audit Committee and the Board at least three times a year and significant risks are discussed in detail together with progress on mitigating activities and any further actions to be taken.

The Board and Audit Committee consider that having the following key elements in place are critical to underpinning the overall internal control environment:

Operating Structure and Controls	An organisational structure with clear operating procedures, defined lines of responsibility and delegated levels of authority
Financial Control Structure	A comprehensive strategic planning, financial control and budgeting system which is properly documented and regularly reviewed
Ethics Policy	A policy that sets standards of professionalism and integrity for all employees and operations
Anti-Bribery Policy	A policy to ensure that all of Spirent's systems, controls and training comply with the anti-bribery and corruption legislation in all the countries where we operate and that a culture of prevention and detection of all forms of bribery and corruption is in place
Whistleblowing Policy	A whistleblowing procedure whereby employees may report, in confidence, suspected wrongdoings
Acquisitions and Divestments	A disciplined due diligence process and post-acquisition integration programme

Remuneration Committee

During 2012, Tom Maxwell (Chairman), Ian Brindle, Duncan Lewis and Sue Swenson served on the Remuneration Committee, Sue Swenson having joined the Committee on her appointment to the Board on 1 February 2012. All members of the Committee are independent non-executive directors, making it compliant with the Code in terms of independent non-executive directors.

Further details about the Remuneration Committee are included in the Report on directors' remuneration on pages 55 to 67.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Nomination Committee

During 2012, Alex Walker (Chairman), Ian Brindle, Duncan Lewis, Tom Maxwell and Sue Swenson served on the Nomination Committee, Sue Swenson having joined the Committee on her appointment to the Board on 1 February 2012. The Company Secretary is Secretary to the Committee.

The attendance of individual directors at Nomination Committee meetings held during 2012 was as follows:

	Number of meetings held	Number of meetings attended
Alex Walker (Committee Chairman)	1	1
Ian Brindle	1	1
Duncan Lewis	1	1
Tom Maxwell	1	1
Sue Swenson	1	1

The Nomination Committee is responsible for reviewing the composition and structure of the Board and for identifying and recommending candidates for executive and non-executive positions. Recommendations are based on the required role and capabilities which have been specified for the appointment and having regard to the Board's balance, diversity and structure and considering issues of succession. Executive search consultants are used by the Nomination Committee to assist this process as appropriate and were used in the process completed during the year which led to the appointment of Sue Swenson. Spencer Stuart, the executive search consultants used by the Committee, have no connection with the Company.

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

Relations with shareholders

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

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

REPORT ON DIRECTORS' REMUNERATION

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present our Remuneration Report for 2012, for which we will be seeking your approval at the Company's Annual General Meeting on 1 May 2013

The Committee aims to ensure that remuneration packages are offered which

- Set the total remuneration package at an appropriate level to reflect the competitive markets in which the Group operates,
- Link a significant proportion of the total remuneration package to the achievement of demanding performance targets,
- Structure the reward of executive directors and senior management to align their interests with those of shareholders over the long term,
- Encourage the retention and stability of the management team, and
- Underpin a high performance culture throughout the Group

During the year, I was delighted to welcome Sue Swenson to the Committee following her appointment to the Board. Sue brings a wealth of experience to the Committee and I welcome the contributions that she makes to the deliberations of the Committee, particularly from her international experience

As outlined earlier in this Annual Report, whilst Spirent made significant strategic progress in 2012 the achievements made were against a background of economic uncertainty in all regions which in turn tempered growth. The strong start to the year turned to a weak demand environment during the second quarter, which then persisted throughout the remainder of the year. The Committee believes that the remuneration for the executive directors for the year appropriately reflects the performance achieved against the demanding targets that were set for them.

The Committee is committed to there being a strong link between long term shareholder value creation and executive remuneration and it was pleasing therefore that the Performance share award which vested in November 2012 showed a TSR of 78.6 per cent over the performance period, resulting in above median performance.

Over the past year, there has been significant focus on improving transparency of reporting on executive pay and although based on the current timeline Spirent will not be formally required to provide disclosure in line with the expected legislation until the Remuneration Report published in 2014, we have provided some additional disclosures in this Remuneration Report in order to help shareholders better understand our current remuneration policy and practice. The Committee is strongly committed to open and transparent dialogue with shareholders on remuneration matters and takes every opportunity to engage with key shareholders, to understand their views on our remuneration arrangements and to discuss our policy going forward. Our 2011 Report on directors' remuneration received a strong level of support at the Company's AGM in May 2012 with 96 per cent of shareholders voting in favour of the advisory resolution.

The main priorities for the Committee for 2013 are

- to continue to review remuneration policy in the light of evolving best practice, consulting with shareholders as appropriate,
- to ensure that the executive directors are fairly rewarded for both individual and Company performance, and
- to set incentive targets that support the long term strategy for the Group, are stretching, appropriate, and achievable

On behalf of the Committee I hope that you find this Report comprehensive, clear and informative

Tom Maxwell

Chairman, Remuneration Committee
28 February 2013

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Compliance with the UK Corporate Governance Code and best practice

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

Part A: Unaudited information Remuneration Committee

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

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

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

Role of the Committee

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

The Committee's principal activities during the year were:

- Review the executive remuneration strategy for 2013,
- Set the annual and quarterly incentive targets for executive directors and senior managers,
- Review and approve the outcome of executive directors' and senior managers' quarterly and annual incentives,
- Review remuneration benchmarking data, and
- Review and approve share incentive awards and vesting of share incentive awards.

Advisers to the Committee

In performing its duties and where considered appropriate, the Committee has taken advice on remuneration matters from the following:

- Aon Hewitt Consulting Inc – Radford executive remuneration data,
- Deloitte LLP – executive and non-executive director remuneration data,
- Ernst & Young LLP – independent verification of earnings per share ("EPS") performance measurement to determine the vesting of share incentives,
- Kepler Associates Limited – advice on performance metrics for share incentive plans and measurement of total shareholder return ("TSR") performance to determine the vesting of share incentives,
- Linklaters LLP – advice on share incentive plans, and
- PricewaterhouseCoopers LLP – advice on share incentive plans, executive remuneration data and policy review.

Ernst & Young LLP is also the Company's auditor and Linklaters LLP is also one of the Company's general legal advisers. The remaining advisers listed above do not have any other connection with the Company.

Deloitte LLP, PricewaterhouseCoopers LLP and Kepler Associates Limited are members of the Remuneration Consultants Group and comply with its voluntary Code of Conduct in respect of the provision of remuneration consulting services, details of which can be found at www.remunerationconsultantsgroup.com.

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

Remuneration policy for executive directors

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

No incentive payments are made for below threshold levels of corporate and individual performance and all performance related remuneration is subject to caps.

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

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Summary of remuneration

The following table summarises the various elements of executive remuneration

Element	Purpose and link to remuneration policy	Key features	Policy operated in 2012	Policy for 2013
Base salary	- Reflects the competitive market salary level for the individual and their role - Takes account of personal performance and contribution to corporate performance	- Paid in cash - Based on individual contribution - Reviewed annually	- CEO \$700,000 - CFO £312,850	- CEO \$720,000, increase of 2.9% - CFO £320,000, increase of 2.3% - In line with salary increases within Group across North America and Europe
Annual incentive	Rewards the achievement of stretching annual EPS and financial goals supported by individual goals linked to strategic milestones	Paid in cash following year end	- No change Target award of 33% of annual salary for CEO, subject to cap of 50% and 16.67% of base salary for CFO subject to cap of 25% \$72,333 and £16,164 payable to CEO and CFO respectively for 2012	Target award of 33% of annual salary for CEO, subject to cap of 50% and 18.33% of base salary for CFO subject to cap of 27.5%
Quarterly incentive	Rewards the achievement of stretching quarterly EPS and financial goals supported by individual goals linked to strategy	Paid in cash following quarter end	- No change Target award of 67% of annual salary for CEO, subject to cap of 100% and 33.33% of base salary for CFO subject to cap of 50% \$353,209 and £78,930 payable to CEO and CFO respectively for 2012	Target award of 67% of annual salary for CEO, subject to cap of 100% and 36.67% of base salary for CFO subject to cap of 55%
Long term incentives	- Aligns with shareholder interests through the delivery of shares - Awards of Performance shares (PS) and Stock Appreciation Rights (SARs) reward growth in EPS and TSR	- Limits of 250% and 125% of base salary for awards of SARs and PS respectively Limit of 250% of base salary for combined awards where one PS is equivalent to two SARs - Award vests after three years subject to performance conditions	- CEO received a PS award of 100% of base salary CFO received a PS award of 60% of base salary - PS awards vest subject to a combination of 50% EPS and 50% TSR performance conditions	- CEO to receive a combined award of 250% of base salary CFO to receive a combined award of 150% of base salary - SARs vest subject to EPS, PS awards vest subject to a combination of 50% EPS (after expensing share-based payment) and 50% TSR performance conditions
Benefits	Reflects market practice		Car allowance, health care, life insurance	
Pension	Provide funds to allow executives to save for retirement in line with local market practice		Contribution to 401(k) plan of \$10,000 for CEO 20% of base salary provided to CFO as a salary supplement in lieu of pension	

Components of executive director remuneration

Base salary

In November each year, the Committee reviews and determines the parameters for the remuneration of executive directors for the following year including base pay, target cash and share incentive awards. The Committee's policy is to set base salaries at an appropriate level to attract, retain and motivate the quality of individual required to run a business of the size and complexity of Spirent but without paying more than is necessary to do so. The Committee therefore considers this in the context of remuneration levels at companies of a similar size and complexity and at comparable companies in the FTSE 250.

When setting the policy for directors' remuneration, the Committee has regard to the pay and employment conditions elsewhere within the Group, particularly in Europe and North America where the executive directors are based, and is kept informed on a regular basis on salary increases for the general employee population. While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback on employee engagement surveys and takes these into account when reviewing executive pay. In the most recent survey, employee feedback continued to show high levels of employee engagement and most of our employees indicated that they feel fairly rewarded. The Committee is also mindful of the views of shareholders in determining appropriate levels of remuneration and in ensuring that shareholder and director interests are aligned.

Following its review of remuneration in November 2012, the Committee determined that Bill Burns' salary should be increased by 2.9 per cent to \$720,000 from 1 January 2013 and Eric Hutchinson's by 2.3 per cent to £320,000, both of which increases are below the average increase of 3 per cent for employees in the wider Group based in Europe or North America. Mr Burns' and Mr Hutchinson's remuneration will next be reviewed from 1 January 2014.

Quarterly and annual performance incentives

An important element of remuneration for executive directors is the quarterly and annual performance incentives. The Committee sets stretching annual and quarterly performance incentive targets and performance measures to incentivise executive directors to meet the short term strategic objectives of the Spirent Group. These short term objectives are specifically selected to underpin the roadmap to achieving the Group's long term strategic objectives.

During 2012, the incentive plan continued to be structured so that two thirds of the incentive target could be earned in respect of quarterly targets and one third in respect of annual targets. Executive performance was measured against a carefully structured combination of financial and non-financial objectives, designed to achieve the short term strategic objectives of the Group and to underpin its long term strategy.

Growth targets in the Company's EPS and order intake, representing 75 per cent and 25 per cent of the incentive respectively, determined the maximum incentive which could be earned in a given performance period. Performance against other financial targets, engineering and product milestones, key strategic goals and specific personal objectives determined the actual incentive earned by each executive director for a particular performance period. The engineering and product milestones in particular provide the roadmap to the Group's long term strategic direction and success.

For 2012, the maximum total cash incentive available for Bill Burns was 150 per cent of base salary and for Eric Hutchinson was 75 per cent of base salary. For 2012, having reviewed performance achieved against the targets set, the Committee approved quarterly cash incentive payments for Mr Burns of \$353,209, equivalent to 51 per cent of base salary, and for Mr Hutchinson of £78,930, equivalent to 25 per cent of base salary, (\$124,709 at an average exchange rate of \$1.58 £1). In February 2013, the Committee reviewed Mr Burns' and Mr Hutchinson's performance against the annual targets set and approved a cash incentive payment for 2012 of \$72,333, equivalent to 10 per cent of base salary, for Mr Burns and £16,164, equivalent to 5 per cent of base salary, for Mr Hutchinson (\$25,539 at an average exchange rate of \$1.58 £1). The total quarterly and annual incentive payments to Mr Burns was \$425,542, equivalent to 61 per cent of base salary and to Mr Hutchinson was £95,094 (\$150,248 at an average exchange rate of \$1.58 £1), equivalent to 30 per cent of base salary. For 2013, the maximum total quarterly and annual cash incentive available for Bill Burns and Eric Hutchinson will be 150 per cent and 82.5 per cent of base salary respectively.

Benefits and pension contributions or cash in lieu of pension

In addition to his base salary, Bill Burns participates in the US Group's medical, dental and vision plans, 401(k) Pension Plan, a non-qualified deferred compensation plan and receives disability coverage benefit, life insurance cover of four times base salary and a car allowance.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

The Spirent Communications 401(k) Pension Plan (the "Plan") is a defined contribution plan established under the provisions of Section 401(k) of the US Internal Revenue Code ("US IR Code"). The Group makes matching contributions of up to 4 per cent of the maximum compensation permitted for these purposes under the US IR Code, and accordingly in 2012 made the maximum permitted contribution to the Plan of \$10,000.

The Spirent Communications Inc ("SCI") Deferred Compensation Plan is a non-qualified plan offered as a benefit to senior management in the US. This plan allows participants to defer up to 15 per cent of their base salary plus any cash incentive earned subject to a maximum of 50 per cent of base salary. SCI does not make contributions to this plan.

In addition to his base salary, Eric Hutchinson receives private medical insurance, life insurance cover of four times base salary and a car allowance. During the year under review, he received an annual cash allowance in lieu of pension of 20 per cent of base salary, totalling £62,570 (\$98,860 at an average exchange rate of \$1.58 £1) (2011 £58,970 (\$94,352 at an average exchange rate of \$1.60 £1)).

Long term share incentive awards

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

Under the EIP, the Company is able to award Performance shares, share options and share-settled stock appreciation rights ("SARs"). Any awards made to executive directors are subject to prior satisfactory performance of the individual and award levels vary in accordance with the individual's potential to add value to the business over the medium to long term.

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

On 21 March 2012, the Committee approved awards of 287,287 Performance shares to Bill Burns and 142,235 Performance shares to Eric Hutchinson.

Vesting

In November 2010, the Committee reviewed the appropriateness of the historical performance conditions for awards under the EIP in the light of the Company's current and expected performance, together with current market practice for performance conditions and consulted with major shareholders on the proposed changes. The Committee considered a range of alternative performance measures including EPS, TSR, return on capital employed, cash generation and revenue growth and determined that for awards granted after November 2010, it was appropriate to have more than one performance condition for awards of Performance shares with vesting for 50 per cent of the award being based on the Company's relative Total Shareholder Return ("TSR") rating against a comparator group of companies and vesting for the remaining 50 per cent of the award being based on the rate of growth in the Company's EPS over the performance period. In addition, the Committee determined that it would set performance parameters that are relevant and appropriate at the time of each grant.

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

Performance conditions for awards made in 2011 and 2012

Performance shares

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

50% of award		Proportion of Performance shares vesting (%)
Growth in EPS ¹ over the performance period (%)		
Below 15		0
15		30
Above 15 and below 25	On a straight line basis	between 30 and 100
25 or above		100

Note

1 EPS means Adjusted Basic Earnings Per Share

50% of award		Proportion of Performance shares vesting (%)
TSR Ranking		
Below median		0
Between median and upper quartile	On a straight line basis	between 30 and 100
At or above upper quartile		100

The comparator group for determining TSR consists of the 30 largest companies by market capitalisation in the FTSE TechMARK 100 Index, excluding those companies who were also constituents of the FTSE 100 Index at the commencement of the performance period together with three non-UK listed direct competitors. 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, share prices are averaged over the 90 day period immediately prior to, and at the end of, the performance period.

SARs and Share Options

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

Growth in EPS ¹ over the performance period (%)	Proportion of SARs/share options vesting (%)
Below 15	0
15	30
Above 15 and below 25	On a straight line basis between 30 and 100
25 or above	100

Note

1 EPS means Adjusted Basic Earnings Per Share

Performance conditions for awards made prior to 2011

Performance shares

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

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

The comparator group and share price methodology used for the Performance share award in 2009 which vested in 2012 are the same as those set out above.

SARs and Share Options

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

Annual rate of growth in EPS ¹ in excess of growth in RPI over the performance period (%)	Percentage of SARs/share 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

Note

1 EPS means Adjusted Basic Earnings Per Share

Awards vesting in 2012

During 2012 the award of Performance shares granted to Bill Burns and Eric Hutchinson on 30 November 2009 vested. Based on the performance conditions for that award, the Committee determined that 129,260 of the Performance shares awarded to Bill Burns and 51,926 of the Performance shares awarded to Eric Hutchinson vested having achieved a growth in TSR of 78.6 per cent. This achievement resulted in a TSR percentile ranking of 51.5 per cent which translated to 34.2 per cent of the award vesting.

2013 Policy on long term share incentive awards

In 2013, the Committee expects to approve combined awards of Performance shares and SARs to Mr Burns and Mr Hutchinson equivalent to 250 per cent and 150 per cent of base salary respectively, with one Performance share being equivalent to two share options or SARs.

Performance conditions for awards expected to be made in 2013. Having reviewed the appropriateness of the performance parameters for awards under the EIP, the Committee has determined that for the awards expected to be made in 2013, the following performance parameters are apposite.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Performance shares

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

Growth in EPS ¹ over the performance period (%)	Proportion of Performance shares vesting (%)
Below 15	0
15	30
Above 15 and below 30	On a straight line basis between 30 and 100
30 or above	100

Note

1 EPS means Adjusted Basic Earnings Per Share after expensing of share based payments

50% of award

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

The comparator group for determining TSR will consist 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 together with one non-UK listed direct competitor. 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, share prices will be averaged over the 90 day period immediately prior to, and at the end of, the performance period.

SARs and Share Options

The performance condition for SARs and share options will be based on the rate of growth in the Company's EPS¹ over the three year performance period

Growth in EPS ¹ over the performance period (%)	Proportion of SARs/share options vesting (%)
Below 15	0
15	30
Above 15 and below 30	On a straight line basis between 30 and 100
30 or above	100

Note

1 EPS means Adjusted Basic Earnings Per Share after expensing of share based payments

Other share plans

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

During 2012, historical awards of vested share incentives held by executive directors under the Spirent Stock Incentive Plan ("SSIP") and 1995 Executive Share Option Scheme ("ESOS") remained outstanding. Both the SSIP and ESOS are now closed for new awards.

Further details of the Company's all employee and discretionary share plans are provided in note 29 to the consolidated financial statements and note 15 to the parent Company financial statements.

Single figure of total remuneration for 2012

The table below provides a single figure of total remuneration for 2012 for the executive directors

	Salary ¹ \$000	Benefits ² \$000	Pension ³ \$000	Performance related incentive ⁴ \$000	Long term incentive ⁵ \$000	Total 2012 \$000
Bill Burns	700.0	29.2	–	425.5	307.6	1,462.3
Eric Hutchinson	495.1	26.2	98.9	150.2	123.6	894.0

Notes

1 Salary and fees: cash paid in respect of the year

2 Benefits: taxable value of all benefits in respect of the year

3 Pension: cash value in lieu of pension

4 Performance related incentive: cash incentive payable in respect of the year

5 Long term incentive: value of Performance shares vesting in the year based on the performance condition that ends in the year

Shareholding guidelines for executive directors

The Committee believes that to further align their interests with those of shareholders, executive directors should have a significant shareholding in the Company equivalent to at least 100 per cent of their base salary in the form of shares or unfettered share incentive awards. At the date of this Report Bill Burns' shareholding, including vested and unfettered share awards represented 152 per cent of his base salary. Eric Hutchinson's shareholding at the date of this Report, including unfettered share awards represented 642 per cent of his base salary. Both Mr Burns and Mr Hutchinson are continuing to build their shareholdings through participation in the US and UK Employee Share Purchase Plans.

Shareholder dilution

The Committee is strongly committed to managing shareholder dilution in a responsible manner. No new shares were issued during the year, with all vesting and exercises of share incentives being satisfied by the transfer of shares held by the Company's ESOT. At the date of this Report, the ESOT holds 1.8 million Ordinary Shares for the purpose of satisfying the exercises of current and future awards by employees and former employees of the Group. Overall shareholder dilution resulting from the Company's share incentive plans (on a rolling ten year basis) has fallen by 0.2 per cent when comparing the positions at 31 December 2012 (9.0 per cent) and 31 December 2011 (9.2 per cent). The overall number of share incentives outstanding has fallen by 6.8 million during the year to 5.8 million at 31 December 2012 (2011 12.6 million).

Shareholder approval for EIP

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 2013 AGM to continue to operate this plan.

Service contracts

Bill Burns has a service agreement with Spirent Communications Inc. ("SCI"), and, being a US resident, his contract is in line with US employment practice and is governed by the laws of the State of California.

Eric Hutchinson has a service agreement with Spirent Communications plc, and, being a UK resident, his contract is in line with UK employment practice and is governed by the laws of England.

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. It is intended that this policy would also apply to new appointments of executive directors.

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

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

Exit payment policy

The Committee is committed to ensuring that it does not pay more than is necessary when executives leave the Group and its policy on exit payments is in line with market practice in the country in which the executive director resides.

- Both Bill Burns' and Eric Hutchinson's service contracts contain provisions for the removal of the director for poor performance or material misconduct without compensation.
- Payment in lieu of notice may be paid under each contract if the relevant notice period is not given to the Director or if, having received notice from the Director, the employer does not wish him to serve it.
- In the case of Bill Burns, mitigation provisions are contained in his service contract. 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.
- In the case of Eric Hutchinson, the Company would seek to apply practical mitigation measures to any payment of compensation on termination, taking into account all relevant circumstances.
- Neither contract contains provision for additional compensation on termination following a change of control.
- Neither contract contains provision for liquidated damages of any kind.
- Incentives
 - Cash incentives: As noted above, Bill Burns' contract entitles him to accrued cash incentives. Eric Hutchinson is not eligible for bonus payments made following his termination.
 - Employee Incentive Plan (EIP): Leaver provisions were approved by shareholders when they approved the EIP. For good leavers (as defined in the plan rules), awards generally vest at the point of exit, pro-rated for time and subject to the satisfaction of each award's performance conditions. Awards are generally forfeited in all other circumstances, and
- 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.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

External appointments

The Company recognises that its executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Company. At the date of this Report, neither Bill Burns nor Eric Hutchinson hold any such external positions.

Non-executive directors' fees and letters of appointment

The Company's remuneration policy with regard to fees for non-executive directors, including the Chairman, is to pay fees which are in line with market practice for companies of a similar size and complexity. Fees for the non-executive directors are normally reviewed by the Board once every three years and were last reviewed on 1 January 2012, having been frozen since 1 January 2008. It was determined that the basic annual fee for non-executive directors would be set at £40,000 per annum for 2012 to 2014. Fees for the Chairman, which are determined by the Remuneration Committee, were set at £160,000 per annum for 2012 to 2014, having been frozen since 1 January 2009. The Chairmen of the Audit and Remuneration Committees each receive additional fees of £11,000 and £9,000 respectively. It is considered that non-executive director fees are at the median level for comparable companies. Fees for non-executive directors and the Chairman will next be reviewed on 1 January 2015.

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

Details of individual appointments are as follows:

Director	First appointed a director	Current appointment due to expire
Ian Brindle	22 December 2006	2015 AGM
Duncan Lewis	1 July 2007	2014 AGM
Tom Maxwell	1 October 2007	2015 AGM
Sue Swenson	1 February 2012	2015 AGM
Alex Walker	22 December 2006	2015 AGM

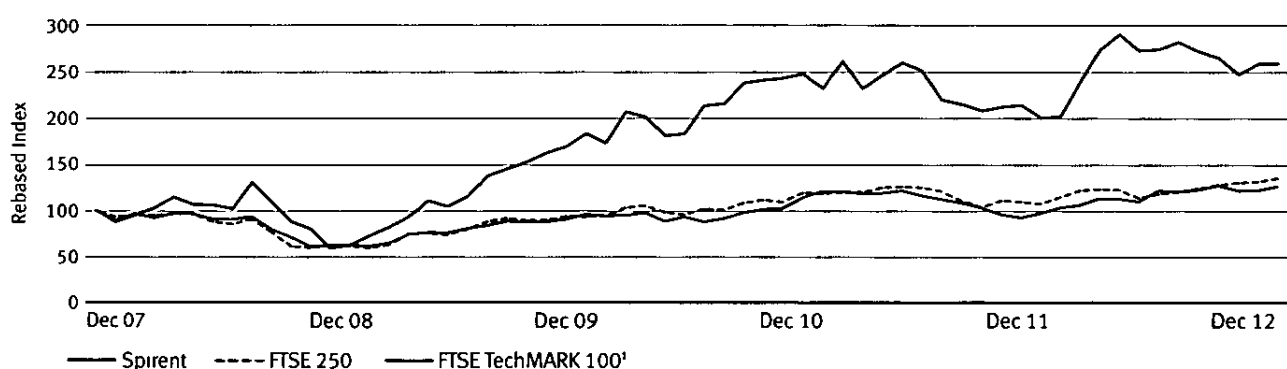
The letters of appointment are available for inspection on request and will be available for inspection at the 2013 AGM. An example of a letter of appointment for a non-executive director is available on the Company's website at www.spirent.com.

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

Total Shareholder Return performance

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

Five-year TSR performance – Spirent vs FTSE TechMARK 100¹ and FTSE 250



Note

1 As of 1 January 2008, excluding FTSE100 companies

Part B: Audited information

Directors' remuneration

	Base salary and fees \$000	Taxable benefits \$000	Performance related incentive paid in cash \$000	Cash in lieu of pension \$000	Total 2012 ² \$000	Total 2011 \$000
Executive directors						
Bill Burns	700.0	29.2	425.5	–	1,154.7	1,468.9
Eric Hutchinson ¹	495.1	26.2	150.2	98.9	770.4	923.5
Non-executive directors						
Ian Brindle	80.6	–	–	–	80.6	75.2
Duncan Lewis	63.2	–	–	–	63.2	57.6
Tom Maxwell	77.4	–	–	–	77.4	72.0
Sue Swenson	57.9	–	–	–	57.9	–
Alex Walker	252.8	–	–	–	252.8	240.0
2012	1,727.0	55.4	575.7	98.9	2,457.0	–
2011	1,517.4	55.2	1,170.2	94.4	–	2,837.2

Notes

1 Eric Hutchinson earned a fee of \$800 (2011 \$800) in respect of his services to the Board and its Committees

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

Figures in sterling have been translated at an average exchange rate of \$1.58 £1 (2011 \$1.60 £1)

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Summary of directors' remuneration

	2012 \$000	2011 \$000
Total emoluments for all directors	2,457 0	2,837 2
Gains made on the vesting and exercise of share incentives ¹	1,159 6	670 5
Pension Plan contributions ²	10.0	9 8
	3,626 6	3,517 5

Notes

1 Gains made on the vesting and exercise of share incentives

2012 On 9 March, Eric Hutchinson exercised 234,000 ESOS share options granted on 2 April 2002 at an exercise price of 133.5 pence and 387,000 ESOS share options granted on 2 May 2002 at an exercise price of 113 pence. Mr Hutchinson disposed of 555,213 of the Ordinary Shares acquired at a price of 155.8467 pence per share to cover the tax liability arising on the combined gain of £218,108 (\$344,611) and retained the balance of the award.

On 16 March, Bill Burns exercised 62,500 SSIP stock appreciation rights granted at a base price of 53 pence on 25 August 2005. The applicable fair market value of 160.3 pence resulted in a gain of £67,062 (\$105,959).

On 30 November, 129,260 and 51,926 Performance shares vested and were allotted to Bill Burns and Eric Hutchinson respectively, which at a fair market value of 150.6 pence resulted in a gain of £194,666 (\$307,572) for Mr Burns and £78,201 (\$123,557) for Mr Hutchinson.

On 3 December, Bill Burns exercised 170,625 SSIP stock appreciation rights granted at a base price of 47.5 pence on 5 May 2006. The applicable fair market value of 150.6 pence resulted in a gain of £175,914 (\$277,945).

2011 On 1 January, 24,721 options granted to Eric Hutchinson on 26 September 2003 under the Spirent Savings Related Share Option Scheme at an exercise price of 38 pence per share matured, resulting in a deemed gain of £27,144 on a market price of 147.8 pence per Ordinary Share. On 21 October 2010, Mr Hutchinson had elected to receive these options as shares on their maturity.

On 7 November, 313,262 Performance shares vested and were allotted to Bill Burns. Mr Burns sold 158,012 Ordinary Shares to cover the tax liability arising on the deemed gain of \$626,861 which was realised on a market price of 124.6 pence per Ordinary Share and retained the remaining 155,250 Ordinary Shares.

2 Pension Plan contributions

During the year, contributions totalling \$10,000 in respect of Bill Burns were made to the Spirent Communications Group 401(k) Pension Plan (2011 \$9,800).

Directors' interests in shares

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

	At 28 February 2013 Ordinary Shares ^{1,2}	At 31 December 2012 Ordinary Shares ¹	At 31 December 2011 Ordinary Shares ¹
Executive directors			
Bill Burns	219,634	218,850	213,242
Eric Hutchinson	1,300,693	1,300,379	1,232,570
Non-executive directors			
Ian Brindle	4,525	4,525	4,525
Duncan Lewis	—	—	—
Tom Maxwell	26,955	26,955	26,955
Sue Swenson	—	—	—
Alex Walker	80,481	80,481	80,000

Notes

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

2 Events since 31 December 2012

On 24 January 2013, Bill Burns acquired 328 Ordinary Shares under the US Employee Stock Purchase Plan and Eric Hutchinson acquired 166 Ordinary Shares under the UK Employee Share Purchase Plan, both at a price of 151.0 pence per share.

On 25 February 2013, Bill Burns acquired 456 Ordinary Shares under the US Employee Stock Purchase Plan and Eric Hutchinson acquired 148 Ordinary Shares under the UK Employee Share Purchase Plan, both at a price of 167.9751 pence per share.

	Plan and award type ¹	At 1 January 2012	Lapsed during the period	Exercised/ vested during the period	Granted during the period	At 31 December 2012	Date of grant	Exercise price per share pence	Market price on date of grant pence	Date first exercisable ²	Expiry date
Bill Burns											
	SSIP	62,500	–	62,500	–	–	25 Aug 05	53	53	25 Aug 08	25 Aug 12
	SSIP	170,625	–	170,625	–	–	05 May 06	48	48	05 May 07	05 May 13
	EIP SAR	374,000	–	–	–	374,000	07 Nov 08	51	51	07 Nov 11	06 Nov 18
	EIP PS	377,953	248,693	129,260	–	–	30 Nov 09	Nil ³	98	30 Nov 12	30 Nov 12
	EIP PS	255,859	–	–	–	255,859	23 Mar 11	Nil ³	143	23 Mar 14	23 Mar 14
	EIP PS	–	–	–	287,287	287,287	21 Mar 12	Nil ³	153	21 Mar 15	21 Mar 15
Eric Hutchinson											
	ESOS	234,000	–	234,000	–	–	02 Apr 02	134	134	02 Apr 06	01 Apr 12
	ESOS	387,000	–	387,000	–	–	02 May 02	113	113	02 May 06	01 May 12
	EIP SAR	56,600	–	–	–	56,600	25 Aug 05	53	53	25 Aug 08	24 Aug 15
	EIP PS	151,829	99,903	51,926	–	–	30 Nov 09	Nil ³	98	30 Nov 12	30 Nov 12
	EIP PS	109,366	–	–	–	109,366	23 Mar 11	Nil ³	143	23 Mar 14	23 Mar 14
	EIP PS	–	–	–	142,235	142,235	21 Mar 12	Nil ³	153	21 Mar 15	21 Mar 15

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 15 to the parent Company financial statements

1 Key to share plan and type of award

EIP SAR – 2005 Employee Incentive Plan Stock Appreciation Rights

EIP PS – 2005 Employee Incentive Plan Performance shares

ESOS – 1995 Executive Share Option Scheme Share Options

SSIP – Spirent Stock Incentive Plan Stock Appreciation Rights

2 Awards which have passed the date first exercisable have vested and are unfettered, having passed the relevant performance conditions

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

4 The market price on date of grant is the price of an Ordinary Share at the close of business on the day before the date of grant

The middle market price of an Ordinary Share at the close of business on 3 January 2012 and 31 December 2012 (being the first and last days the London Stock Exchange was open for trading in 2012) was 121 4 pence and 150 7 pence, respectively, and during that period ranged between a high of 174 pence and a low of 115 pence

Signed on behalf of the Board

Tom Maxwell

Chairman of the Remuneration Committee
28 February 2013



Financial statements

Consolidated financial statements

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Parent Company financial statements

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRENT COMMUNICATIONS PLC

We have audited the Group financial statements of Spirent Communications plc for the year ended 31 December 2012 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 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended,

- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

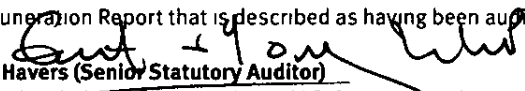
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 47, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.


Karl Havers (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 February 2013

Notes

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

CONSOLIDATED INCOME STATEMENT**YEAR TO 31 DECEMBER 2012**

	Notes	2012 \$ million	2011 ¹ \$ million
Continuing operations			
Revenue	3, 4	472.4	470.5
Cost of sales		(135.7)	(143.0)
Gross profit		336.7	327.5
Product development	4	(86.1)	(83.3)
Selling and distribution		(91.7)	(90.5)
Administration		(49.7)	(40.7)
Operating profit	4	109.2	113.0
Finance income	8	1.5	1.7
Finance costs	9	–	(0.4)
Profit before tax	4, 5	110.7	114.3
Tax	12	(29.0)	(26.4)
Profit for the year after tax for continuing operations		81.7	87.9
Discontinued operations	6	47.1	6.7
Profit for the year attributable to owners of parent Company		128.8	94.6
Earnings per share (cents)	13		
Continuing operations			
Basic		12.46	13.17
Diluted		12.41	13.07
Discontinued operations			
Basic		7.18	1.01
Diluted		7.16	0.99
Total Group			
Basic		19.64	14.18
Diluted		19.57	14.06

Note

1 2011 has been restated to reflect the presentation of Systems as a discontinued operation

The notes on pages 75 to 116 and page 135 form part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**YEAR TO 31 DECEMBER 2012**

	Notes	2012 \$ million	2011 \$ million
Profit for the year attributable to owners of parent Company		128.8	94.6
Other comprehensive income			
Exchange differences on retranslation of foreign operations		3.2	0.3
Exchange differences recycled on disposal	33	1.2	–
Actuarial losses on defined benefit pension plans	11	(14.0)	(25.5)
Movement in irrecoverable element of defined benefit pension plan surplus	11	–	2.2
Deferred tax credit on defined benefit pension plans	12	2.5	4.0
Other comprehensive income		(7.1)	(19.0)
Total comprehensive income for the year attributable to owners of parent Company		121.7	75.6

The notes on pages 75 to 116 and page 135 form part of these financial statements

CONSOLIDATED BALANCE SHEET**AT 31 DECEMBER 2012**

	Notes	2012 \$ million	2011 \$ million
Assets			
Non-current assets			
Intangible assets	15	207.4	123.2
Property, plant and equipment	16	34.1	35.5
Trade and other receivables	20	4.9	3.2
Cash on deposit	21	0.4	0.7
Defined benefit pension plan surplus	11	–	0.7
Deferred tax	23	28.4	29.4
		275.2	192.7
Current assets			
Inventories	19	34.0	43.6
Trade and other receivables	20	95.6	106.1
Cash and cash equivalents	21	248.6	236.5
		378.2	386.2
Total assets		653.4	578.9
Liabilities			
Current liabilities			
Trade and other payables	22	(107.3)	(119.3)
Current tax		(8.5)	(9.5)
Provisions and other liabilities	25	(4.4)	(3.3)
		(120.2)	(132.1)
Non-current liabilities			
Trade and other payables	24	(11.4)	(10.3)
Defined benefit pension plan deficit	11	(25.6)	(13.1)
Provisions and other liabilities	25	(0.6)	(1.2)
		(37.6)	(24.6)
Total liabilities		(157.8)	(156.7)
Net assets		495.6	422.2
Capital and reserves	28		
Share capital		35.3	34.3
Share premium account		32.9	31.3
Capital redemption reserve		19.4	17.7
Other reserves		(1.6)	2.7
Translation reserve		24.0	19.6
Retained earnings		385.6	316.6
Total equity attributable to owners of parent Company		495.6	422.2

The notes on pages 75 to 116 and page 135 form part of these financial statements

Signed on behalf of the Board



Eric Hutchinson

Director

28 February 2013

CONSOLIDATED CASH FLOW STATEMENT**YEAR TO 31 DECEMBER 2012**

	Notes	2012 \$ million	2011 \$ million
Cash flows from operating activities			
Cash flow from operations	31	128.2	120.5
Tax paid		(23.1)	(21.8)
Net cash inflow from operating activities		105.1	98.7
Cash flows from investing activities			
Interest received		0.9	0.9
Transfer from long term deposit		0.3	0.4
Purchase of intangible assets	15	–	(3.7)
Purchase of property, plant and equipment	16	(16.4)	(20.8)
Proceeds from the sale of property, plant and equipment		2.1	1.0
Acquisition of subsidiaries and businesses	32	(92.0)	(14.5)
Net proceeds from the disposal of operations	33	59.9	–
Net cash used in investing activities		(45.2)	(36.7)
Cash flows from financing activities			
Interest paid		(0.3)	–
Dividend paid	14	(20.3)	(17.5)
Proceeds from the issue of share capital and employee share ownership trust		2.2	0.4
Share repurchase		(31.6)	(33.4)
Net cash used in financing activities		(50.0)	(50.5)
Net increase in cash and cash equivalents		9.9	11.5
Cash and cash equivalents at the beginning of the year		236.5	223.9
Effect of foreign exchange rate changes		2.2	1.1
Cash and cash equivalents at the end of the year	21	248.6	236.5

The notes on pages 75 to 116 and page 135 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	\$ million						
	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total equity
At 1 January 2011	35.3	31.4	17.3	1.6	19.3	302.2	407.1
Profit for the year	–	–	–	–	–	94.6	94.6
Other comprehensive income (a)	–	–	–	–	0.3	(19.3)	(19.0)
Total comprehensive income	–	–	–	–	0.3	75.3	75.6
Share-based payment <i>note 30</i>	–	–	–	–	–	1.1	1.1
Deferred tax on share incentives <i>note 12</i>	–	–	–	–	–	(2.5)	(2.5)
New shares issued <i>note 28</i>	0.1	0.3	–	–	–	–	0.4
Share cancellation <i>note 28</i>	(0.7)	–	0.7	–	–	–	–
Share repurchase <i>note 28</i>	–	–	–	–	–	(34.2)	(34.2)
Share buy back obligation <i>note 28</i>	–	–	–	–	–	(7.8)	(7.8)
Equity dividends <i>note 14</i>	–	–	–	–	–	(17.5)	(17.5)
Exchange adjustment	(0.4)	(0.4)	(0.3)	1.1	–	–	–
At 1 January 2012	34.3	31.3	17.7	2.7	19.6	316.6	422.2
Profit for the year	–	–	–	–	–	128.8	128.8
Other comprehensive income (b)	–	–	–	–	4.4	(11.5)	(7.1)
Total comprehensive income	–	–	–	–	4.4	117.3	121.7
Share-based payment <i>note 30</i>	–	–	–	–	–	1.6	1.6
Deferred tax on share incentives <i>note 12</i>	–	–	–	–	–	(1.0)	(1.0)
Employee share ownership trust <i>note 28</i>	–	–	–	–	–	2.2	2.2
Share cancellation <i>note 28</i>	(0.7)	–	0.7	–	–	–	–
Share repurchase <i>note 28</i>	–	–	–	–	–	(30.8)	(30.8)
Equity dividends <i>note 14</i>	–	–	–	–	–	(20.3)	(20.3)
Exchange adjustment	1.7	1.6	1.0	(4.3)	–	–	–
At 31 December 2012	35.3	32.9	19.4	(1.6)	24.0	385.6	495.6

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

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

(b) The amount included in other comprehensive income for 2012 of \$11.5 million represents actuarial losses of \$14.0 million in respect of the defined benefit pension plans net of a tax credit of \$2.5 million

The amount included in the translation reserve of \$4.4 million represents other comprehensive income related to the translation of foreign operations of \$3.2 million and exchange differences of \$1.2 million recycled on the disposal of operations

The notes on pages 75 to 116 and page 135 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 2012 were authorised for issue by the Board of directors on 28 February 2013. Spirent Communications plc is a public limited company incorporated and domiciled in England and Wales.

The Company's Ordinary Shares are traded on the London Stock Exchange.

As required by the European Union's ("EU") IAS Regulation and the Companies Act 2006, the Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and issued by the International Accounting Standards Board ("IASB").

The Company has elected to prepare the Company financial statements in accordance with UK Accounting Standards. These are presented on pages 118 to 135 and the accounting policies in respect of the Company are set out on pages 119 to 122.

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 IFRSs. The significant accounting policies applied in the preparation of these consolidated financial statements are set out below and the accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2011.

New accounting standards

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

International Accounting Standards ("IAS/IFRS")

IAS 12	Amendments to IAS 12 – Deferred Tax Recovery of Underlying Assets
IFRS 1	Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7	Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

Basis of consolidation

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

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

Goodwill

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

Goodwill is subject to an annual review for impairment. For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies continued

The carrying amount of goodwill allocated to a cash-generating unit, an operation within a cash-generating unit, 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 2012 and 31 December 2011 no amounts have met the recognition criteria.

Property, plant and equipment

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

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

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

Impairment of assets

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

2. Summary of significant accounting policies continued

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

Leases

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset and are not finance leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value, after provisions for obsolescence. Cost includes all costs incurred in bringing each product to its present location and condition, being the full manufacturing cost on a first-in-first-out basis, including all attributable overheads based on a normal level of activity.

Provisions

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

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

Foreign currencies

The consolidated financial statements are presented in US dollars, which is the Group's presentation currency.

Transactions in foreign currencies are initially recorded at the rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling at the balance sheet date. All exchange differences are taken to the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies are measured in terms of historical costs using the exchange rate at the date of the initial transaction.

The functional currencies of the Group's operations are principally US dollar, sterling or euro. On consolidation the assets and liabilities of the Group's foreign operations are translated into the Group's presentation currency at exchange rates ruling at the balance sheet date. The results of foreign operations are translated into US dollars using average rates for the period. The exchange differences arising on retranslation are classified as a separate component of equity, the translation reserve. Such translation differences are recognised as part of the profit or loss on disposal should an operation be disposed of. The Group has elected to apply the exemption in IFRS 1 "First Time Adoption of International Financial Reporting Standards" which allows the cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IFRSs, being 1 January 2003.

Financial instruments

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

Trade receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits which usually have an original maturity of three months or less. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above. There are no bank overdrafts.

Trade payables

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

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs. Spirent Communications plc Ordinary Shares held by the Group are classified in equity as treasury shares and are recognised at cost and included as a deduction from retained earnings. Consideration received for the sale of such treasury shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to retained earnings.

Derivative financial instruments and hedge accounting

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

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

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

Retirement benefits

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

For defined benefit pension plans full actuarial valuations are carried out every three years using the projected unit credit method, and updates are performed at each balance sheet date. The cost of providing benefits under these plans is determined separately for each plan, and attributes entitlement to benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations). Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued), or a curtailment (reducing future obligations as a result of a material reduction in the plan membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

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.

2. Summary of significant accounting policies continued

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"

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 the Hull-White trinomial model by reference to the share price, and taking into account the terms and conditions of the award, excluding non-market vesting conditions, at the date the awards were granted. The charge is reassessed at each balance sheet date to reflect the expected and actual levels of vesting, due to achievement or otherwise of non-market conditions. Awards where vesting is conditional upon satisfying a market condition or non-vesting condition are treated as vesting irrespective of whether the market or non-vesting condition has been 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

Dividends paid

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

Critical accounting assumptions and judgements

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

Goodwill impairment

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

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 11.

2. Summary of significant accounting policies continued

Revenue recognition

For revenue recognition purposes contractual arrangements are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other, because they are capable of being provided separately from one another and it is possible to attribute reliable fair values to every component. To the extent that a separate component comprises a product sale of hardware or software, revenue is recognised as described above. Revenue is recognised on other components as the Group fulfils its contractual obligations and to the extent that it has earned the right to consideration. Management exercises a degree of judgement in setting the criteria used for determining when revenue which involves several elements should be recognised and the fair values allocated to each element.

Income taxes

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

Deferred taxes

The extent to which deferred tax assets can be recognised is based on current forecasts and estimates prepared by management. A change to these forecasts and estimates could result in a different recognition outcome. Unrecognised deferred tax assets are disclosed in note 23.

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 1	Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 1	Amendments to IAS 1 – Clarification of the Requirements for Comparative Information	1 January 2013
IAS 16	Amendments to IAS 16 – Classification of Servicing Equipment	1 January 2013
IAS 19	Employee Benefits	1 January 2013
IAS 32	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 32	Amendments to IAS 32 – Tax Effect of Distribution to Holders of Equity Instruments	1 January 2013
IFRS 1	Amendments to IFRS 1 – Borrowing Costs	1 January 2013
IFRS 1	Amendments to IFRS 1 – Government Loans	1 January 2013
IFRS 7	Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 10, 11 and IAS 27	Investment Entities	1 January 2014
IFRS 10, 11 and 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities Transition Guidance	1 January 2013
Annual Improvements 2009–2011 Cycle		1 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Summary of significant accounting policies continued

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application other than in relation to IAS 19. Under IAS 19 "Employee Benefits" the interest income for the defined benefit pension plans would reduce by approximately \$1.2 million at current levels of funding. This change results from the expected rate of return on the pension plan assets being the same rate as the discount rate used to discount the plan liabilities. In addition the administrative expenses of running the plans would be expensed to operating costs. The impact would be to increase operating costs by approximately \$1.1 million.

3. Revenue

	2012 \$ million	2011 \$ million
Sale of goods	362.0	381.9
Maintenance and support services	110.4	88.6
Total revenue from continuing operations	472.4	470.5

Revenue for discontinued operations principally relates to the sale of goods.

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:

The Group's continuing reportable operating segments are Performance Analysis and Service Assurance. Its Systems segment was sold during the year and is disclosed as a discontinued operation in these financial statements. The Group evaluates segment operating profit before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment. 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.

Information on segment assets and segment liabilities is not regularly provided to the Group's Chief Executive Officer and is therefore not disclosed below.

The principal activities of each of the continuing reportable operating segments are as follows:

- Performance Analysis provides solutions that test a broad range of communications technologies critical to the development of next-generation network equipment and devices.
- Service Assurance provides network monitoring and field test solutions to allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network.

4. Operating segments continued

Segmental information is provided below for continuing operations, discontinued operations are dealt with in note 6

	2012 \$ million			
	Performance Analysis	Service Assurance	Corporate	Total
Revenue				
External revenue	434.0	38.4	–	472.4
There were no inter-segment sales				
Profit before tax				
Total reportable segment profit/(loss) before exceptional items	116.4	8.4	(5.4)	119.4
Exceptional items <i>note 7</i>	–	(2.9)	–	(2.9)
Total reportable segment profit/(loss)	116.4	5.5	(5.4)	116.5
Unallocated amounts				
Acquisition related costs				(1.2)
Acquired intangible asset amortisation				(4.5)
Share-based payment <i>note 30</i>				(1.6)
Operating profit				109.2
Finance income				1.5
Profit before tax				110.7
Other information				
Product development	79.1	7.0	–	86.1
Expenditure on intangibles <i>note 15</i>	90.0	–	–	90.0
Expenditure on property, plant and equipment	15.7	0.1	0.1	15.9
Intangible asset amortisation – other	1.6	–	–	1.6
Depreciation	13.4	1.1	0.1	14.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. Operating segments continued

				2011 ¹ \$ million
	Performance Analysis	Service Assurance	Corporate	Total
Revenue				
External revenue	416.4	54.1	–	470.5
There were no inter-segment sales				
Profit before tax				
Total reportable segment profit/(loss)	115.1	7.0	(5.2)	116.9
Unallocated amounts				
Acquisition related costs				(1.2)
Acquired intangible asset amortisation				(1.6)
Share-based payment <i>note 30</i>				(1.1)
Operating profit				113.0
Finance income				1.7
Finance costs				(0.4)
Profit before tax				114.3
Other information				
Product development	74.4	8.9	–	83.3
Expenditure on intangibles <i>note 15</i>	14.5	–	–	14.5
Expenditure on property, plant and equipment	19.2	0.9	–	20.1
Intangible asset amortisation – other	1.3	–	–	1.3
Depreciation	11.2	1.3	0.2	12.7

Geographical information

	2012 \$ million	2011 ¹ \$ million
Revenue by market		
United States	239.2	238.8
Asia Pacific, Rest of World	166.0	159.1
Europe	67.2	72.6
	472.4	470.5

Europe includes United Kingdom revenue of \$13.4 million (2011 \$13.4 million)

Revenues are attributed to countries based on customer location

	2012 \$ million	2011 \$ million
Non current assets		
United States	232.4	149.1
Asia Pacific, Rest of World	5.7	4.8
Europe	3.4	4.8
	241.5	158.7

Note

1 2011 has been restated to reflect the presentation of Systems as a discontinued operation

4. Operating segments continued

Europe includes United Kingdom non-current assets of \$2.2 million (2011 \$3.4 million)

No one customer accounted for 10 per cent or more of total Group revenue in either 2012 or 2011

5. Profit before tax

The following items have been charged or (credited) in arriving at profit before tax and are disclosed for continuing and discontinued operations

	2012 \$ million	2011 \$ million
Employee benefit costs <i>note 10</i>	185.4	184.0
Costs of inventories recognised as an expense	119.6	136.9
Write-down of inventories to net realisable value <i>note 19</i>	3.7	3.8
Amortisation of intangible assets <i>note 15</i>	6.1	2.9
Depreciation of property, plant and equipment		
Owned assets <i>note 16</i>	15.2	13.2
Loss on disposal of property, plant and equipment	0.1	0.1
Operating leases		
Minimum lease payments	7.7	11.6
Sublease income	(0.1)	(0.7)
Product development costs	90.1	88.1
Net foreign exchange charge/(credit)	0.8	(1.7)

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

	2012 \$ million	2011 \$ million
Audit services		
Group audit fee	0.8	0.8
Other fees to auditors		
Audit related assurance services	–	0.1
Taxation advisory services	0.2	–
Taxation advisory relating to corporate finance transactions	0.2	–
	0.4	0.1
	1.2	0.9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. Discontinued operations

The assets and liabilities of the Systems division were sold to Curtiss Wright Corporation on 1 November 2012 for a cash consideration of \$63.2 million

	2012 \$ million	2011 \$ million
Revenue	43.9	57.7
Cost of sales	(27.6)	(36.3)
Gross profit	16.3	21.4
Expenses	(12.0)	(12.4)
Operating profit	4.3	9.0
Profit on sale of operations <i>note 33</i>	44.5	–
Profit before tax	48.8	9.0
Tax <i>note 12</i>	(1.7)	(2.3)
Profit for the year after tax for discontinued operations	47.1	6.7

The net cash flows for discontinued operations were as follows

	2012 \$ million	2011 \$ million
Operating <i>note 31</i>	7.9	7.5
Investing	(0.5)	(0.7)
Net cash inflow	7.4	6.8

Revenue by market for discontinued operations was as follows

	2012 \$ million	2011 \$ million
Revenue by market		
United States	17.3	20.6
Asia Pacific, Rest of World	15.6	23.1
Europe	11.0	14.0
	43.9	57.7

Europe includes United Kingdom revenue of \$1.5 million (2011 \$1.6 million)

Revenues are attributed to countries based on customer location

7. Exceptional items

	2012 \$ million	2011 \$ million
Reorganisation expenses	1.5	–
Excess inventory provision	1.4	–
	2.9	–

The exceptional items were incurred in the Service Assurance division in response to the rapid fall in demand for legacy products during the year.

8. Finance income

	2012 \$ million	2011 \$ million
Bank interest receivable	0.8	1.0
Defined benefit pension plans <i>note 11</i>	0.7	0.7
Interest receivable	1.5	1.7

9. Finance costs

	2012 \$ million	2011 \$ million
Leasehold provisions discount unwind <i>note 25</i>	–	0.1
Other interest payable	–	0.3
	–	0.4

10. Employees

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

	2012 Number	2011 Number
Manufacturing	363	389
Product development	581	561
Selling and distribution	419	402
Administration	182	188
	1,545	1,540

Employee benefit costs were

	2012 \$ million	2011 \$ million
Remuneration	163.4	163.7
Social security costs	14.3	13.4
Pension and other related costs	6.1	5.8
Expense of share-based payment <i>note 30</i>	1.6	1.1
	185.4	184.0

Employee numbers and costs include discontinued operations

Please refer to the Report on directors' remuneration on pages 55 to 67 for disclosures relating to the emoluments, share incentives and pensions of the directors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Pensions

Defined benefit plans

The funded defined benefit pension plans are in the United Kingdom and comprise the Spirent Communications plc Staff Pension & Life Assurance Plan ("Staff Plan") and the Spirent Communications plc Retirement Cash & Life Assurance Plan ("Cash Plan"). The Staff Plan is the Group's most significant plan. There is in addition a United Kingdom unfunded plan.

The assets and liabilities on the balance sheet are as follows

	2012 \$ million	2011 \$ million
Assets		
UK defined benefit pension plan – Cash Plan	–	0.7
Liabilities		
UK defined benefit pension plan – Staff Plan	(24.8)	(12.5)
UK unfunded plan	(0.8)	(0.6)
	(25.6)	(13.1)

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

i) The key financial assumptions

The assumptions used for both plans were as follows

	2012 %	2011 %
Inflation – RPI	2.9	3.0
Inflation – CPI	2.2	2.0
Rate of increase in pensionable salaries	2.9	3.0
Rate of increase for pensions in payment pre 2001 service	3.6	3.6
Rate of increase for pensions in payment 2001 to 5 April 2005 service	2.8	2.9
Rate of increase for pensions post 5 April 2005 service	1.9	2.0
Rate of increase in deferred pensions	2.2	2.0
Rate used to discount plan liabilities	4.3	4.6
Expected rate of return on plan assets (weighted for both plans)	5.0	5.5

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

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are such that a member currently aged 65 (2011 aged 65) will live on average for a further 23.3 years (2011 21.9 years) if they are male and for a further 25.5 years (2011 23.8 years) if they are female. For a member who retires in 2032 (2011 in 2021) at age 65 (2011 age 65) the assumptions are that they will live on average for a further 24.2 years (2011 22.9 years) after retirement if they are male and for a further 26.6 years (2011 24.7 years) after retirement if they are female.

11. Pensions continued

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 would increase past service liabilities by \$4.1 million
- Increasing RPI inflation by 0.1 per cent would increase the plans' liabilities by \$1.3 million
- Increasing the life expectancy of a member by one year (by modifying the standard mortality tables using an appropriate scaling factor) would increase past service liabilities by \$10.4 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 %	2012 \$ million	Long term rate of return expected %	2011 \$ million
Staff Plan				
Equities	8.3	72.5	8.7	73.3
Government bonds	2.5	53.5	2.6	51.6
Corporate bonds	3.6	40.6	4.1	38.3
Cash benchmarked bonds	3.5	50.2	4.3	31.5
Insured annuities	4.3	5.7	4.6	5.0
Property	7.3	22.8	7.7	21.7
Cash and other	1.0	1.0	1.8	2.0
Fair value of plan assets	5.1	246.3	5.6	223.4
Present value of defined benefit pension plan obligations		(271.1)		(235.9)
Deficit in the plan on the balance sheet		(24.8)		(12.5)
Cash Plan				
Equities	8.3	3.7	8.7	3.2
Government bonds	2.5	3.6	2.7	3.6
Insured annuities	4.3	0.3	4.6	0.3
Cash and other	1.0	3.3	1.8	3.2
Fair value of plan assets	4.0	10.9	4.3	10.3
Present value of defined benefit pension plan obligations		(10.9)		(9.6)
Surplus in the plan on the balance sheet		–		0.7

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Pensions continued

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

	2012 \$ million	2011 \$ million
Analysis of amount charged to operating costs		
Current service cost	0.3	0.3
Curtailment loss on sale of Systems	1.3	–
Amount charged to operating costs	1.6	0.3
Expected return on pension plans' assets	12.1	12.7
Interest on pension plans' liabilities	(11.4)	(12.0)
Finance income <i>note 8</i>	0.7	0.7
Net charge/(credit) to the income statement	0.9	(0.4)

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

	2012 \$ million	2011 \$ million
Actual return on pension plans' assets	19.1	13.8
Less expected return on pension plans' assets	12.1	12.7
Experience gains on plans' assets	7.0	1.1
Experience gains/(losses) arising on plans' liabilities	1.1	(2.7)
Changes in assumptions underlying the present value of plans' liabilities	(21.9)	(23.9)
Changes in assumptions underlying the present value of unfunded plan's liabilities	(0.2)	–
Actuarial losses recognised directly in other comprehensive income	(14.0)	(25.5)

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the statement of comprehensive income is \$52.0 million loss (2011 \$38.0 million loss). The directors are unable to determine how much of the pension plan deficit recognised on 1 January 2003 and taken directly to equity of \$67.5 million in the Group is attributable to actuarial gains and losses since inception of those pension plans. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of comprehensive income before 1 January 2003.

	2012 \$ million	2011 \$ million
Movement in the irrecoverable element of the pension plan surplus	–	2.2

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

	2012 \$ million	2011 \$ million
At 1 January	245.5	220.7
Current service cost	0.3	0.3
Curtailment loss on sale of Systems	1.3	–
Interest cost	11.4	12.0
Employee contributions	0.2	0.2
Benefit payments	(10.9)	(10.6)
Actuarial loss	20.8	26.6
Exchange adjustment	13.4	(3.7)
Present value of funded defined benefit pension plans' obligations	282.0	245.5

11. Pensions continued

vi) Movements in the fair value of plans' assets

	2012 \$ million	2011 \$ million
At 1 January	233.7	230.6
Expected return on plans' assets	12.1	12.7
Employer contributions	2.8	2.9
Employee contributions	0.2	0.2
Benefit payments	(10.9)	(10.6)
Actuarial gain	7.0	1.1
Exchange adjustment	12.3	(3.2)
Fair value of plans' assets	257.2	233.7

vii) History of experience gains and losses

	2012 \$ million	2011 \$ million	2010 \$ million	2009 \$ million	2008 \$ million
Present value of defined benefit pension plans' obligations	(282.0)	(245.5)	(220.7)	(221.2)	(182.1)
Fair value of plans' assets	257.2	233.7	230.6	222.0	186.1
Net (deficit)/surplus in the plans	(24.8)	(11.8)	9.9	0.8	4.0
Experience gain/(loss) on plans' liabilities					
Amount (\$ million)	1.1	(2.7)	(0.6)	(3.9)	(0.7)
Percentage of plans' liabilities (%)	0.4	(1.1)	(0.3)	(1.8)	(0.4)
Experience gain/(loss) on plans' assets					
Amount (\$ million)	7.0	1.1	10.9	11.7	(28.5)
Percentage of plans' assets (%)	2.7	0.5	4.7	5.3	(15.3)

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 2012 of \$0.8 million (2011 \$0.6 million). This represents the actuarial value as confirmed by the Group's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a market value basis in line with the main plan valuation and adjusted each year. There were no experience gains or losses in the period from 2008 to 2012 on the unfunded plan.

Expected contributions for these plans for 2013 are \$2.7 million, including \$2.6 million of additional contributions to fund the deficit arising from the actuarial valuation at 1 April 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Pensions continued

Defined contribution plans

United Kingdom

The Group maintains defined contribution pension plans for employees in the United Kingdom. Employer contributions into these plans for 2012 were \$1.3 million (2011 \$1.4 million).

United States

The Group maintains a defined contribution pension plan for employees of its United States subsidiaries. This plan, also known as a 401(k) Plan, allows employees to defer a percentage of their salary for retirement. The investment choices offered by the plan are a selection of diversified mutual funds offering a broad mix of investment return potential with varying levels of risk. In aggregate, the Group's contributions to the US plan totalled \$3.4 million for 2012 (2011 \$3.2 million). Total assets in the defined contribution plan at the end of 2012 were \$167.0 million (2011 \$145.7 million). There were no defined benefit plans in the United States in 2012 or 2011.

Other jurisdictions

Outside the United Kingdom and the United States employees are provided with pension arrangements determined in accordance with approved local practice and regulations. These arrangements are defined contribution plans. Total employer contributions for 2012 in respect of these plans amounted to \$0.8 million (2011 \$0.6 million).

Total employer contributions to defined contribution plans were \$5.5 million (2011 \$5.2 million).

Directors' pension arrangements

The pension arrangements of the executive directors are described in detail in the Report on directors' remuneration on pages 55 to 67.

12. Tax

	2012 \$ million	2011 \$ million
Tax charge in the income statement		
Current income tax		
UK tax	0.5	–
Foreign tax	23.5	23.8
Amounts overprovided in previous years – foreign tax	(1.8)	(5.4)
Total current income tax charge	22.2	18.4
Deferred tax		
Recognition of deferred tax assets	(1.4)	(2.2)
Reversal of temporary differences	9.9	12.5
Total deferred tax charge	8.5	10.3
Tax charge in the income statement	30.7	28.7
Attributable to		
Continuing operations	29.0	26.4
Discontinued operations	1.7	2.3
Tax charge in the income statement	30.7	28.7

The tax charge for the year ended 31 December 2012 was \$30.7 million (2011 charge \$28.7 million) this was after a prior year tax credit of \$1.8 million (2011 credit \$5.4 million) resulting from the expiration and reassessment of open tax positions for previous years. Excluding the prior year tax credit the effective tax rate was 28.3 per cent (2011 27.7 per cent).

12. Tax continued

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

	2012 \$ million	2011 \$ million
Deferred tax on share incentives	1.0	2.5
Deferred tax on defined benefit pension plan	(2.5)	(4.0)

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 24.5 per cent (2011 lower and 26.5 per cent). The differences are reconciled below

	2012 \$ million	2011 \$ million
Accounting profit before tax	159.5	123.3
Accounting profit multiplied by the UK standard rate of corporation tax of 24.5 per cent (2011 26.5 per cent)	39.1	32.7
Share-based payment	(2.5)	–
Differences in overseas rates and other adjustments	8.0	3.9
Tax overprovided in prior years	(1.8)	(5.4)
Recognition of deferred tax assets	(1.4)	(2.2)
Utilisation of previously unrecognised tax losses	(10.9)	–
Use of pension fund and other UK adjustments	0.2	(0.3)
Total tax charge reported in the income statement	30.7	28.7

13. Earnings per share

Basic

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

	2012			2011		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit for the year attributable to owners of parent Company (\$ million)	81.7	47.1	128.8	87.9	6.7	94.6
Weighted average number of Ordinary Shares in issue (number million)	655.7	655.7	655.7	667.3	667.3	667.3
Basic earnings per share (cents)	12.46	7.18	19.64	13.17	1.01	14.18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. Earnings per share continued

Diluted

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

	2012			2011		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit for the year attributable to owners of parent Company (\$ million)	81.7	47.1	128.8	87.9	6.7	94.6
Weighted average number of Ordinary Shares in issue (number million)	658.1	658.1	658.1	672.7	672.7	672.7
Diluted earnings per share (cents)	12.41	7.16	19.57	13.07	0.99	14.06

Adjusted

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

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

A reconciliation is provided below:

	2012		2011	
	\$ million	EPS cents	\$ million	EPS cents
Continuing operations				
Profit for the year attributable to owners of parent Company	81.7	12.46	87.9	13.17
Exceptional items	2.9		–	
Acquisition related costs	1.2		1.2	
Acquired intangible asset amortisation	4.5		1.6	
Share-based payment	1.6		1.1	
Tax effect on the above items	(2.4)		(0.2)	
Prior year tax credit <i>note 12</i>	(1.8)		(5.4)	
Adjusted basic for continuing operations	87.7	13.38	86.2	12.92
Adjusted diluted for continuing operations		13.33		12.81

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 period end if those transactions had occurred before the end of the reporting period in either year.

14. Dividends paid and proposed

	2012 \$ million	2011 \$ million
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend paid for the year ended 31 December 2011 of 1.67 cents (1.05 pence) per Ordinary Share (31 December 2010 1.40 cents (0.86 pence))	10.9	9.4
Interim dividend 2012 1.39 cents (0.89 pence) per Ordinary Share (2011 1.26 cents (0.77 pence))	9.4	8.1
	20.3	17.5
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2012 1.83 cents (1.21 pence) per Ordinary Share (2011 1.67 cents (1.05 pence))	11.9	10.9

The directors are proposing a final dividend in respect of the financial year ended 31 December 2012 of 1.83 cents per share (1.21 pence) (2011 1.67 cents (1.05 pence)), which will absorb an estimated \$11.9 million of shareholders' funds (2011 \$10.9 million). It will be paid on 3 May 2013 to Ordinary shareholders who are on the Register of Members at close of business on 8 March 2013. Payment will be made to ADR holders on 10 May 2013. No liability is recorded in the financial statements in respect of this final dividend.

Dividends are determined in US dollars and paid in pounds sterling. The exchange rate for determining the amount of the final dividend to be paid for 2012 was \$1.51/£1 (2011 \$1.59/£1).

15. Intangible assets

	\$ million		
	Goodwill	Intangible assets	Total
Cost, net of accumulated amortisation and impairment losses			
At 1 January 2011	110.4	1.6	112.0
Amortisation for the year	–	(2.9)	(2.9)
Additions	–	3.7	3.7
Acquisitions <i>note 32</i>	4.2	6.6	10.8
Exchange adjustment	(0.4)	–	(0.4)
At 1 January 2012	114.2	9.0	123.2
Amortisation for the year	–	(6.1)	(6.1)
Acquisitions <i>note 32</i>	55.6	34.4	90.0
Exchange adjustment	0.3	–	0.3
At 31 December 2012	170.1	37.3	207.4
At 31 December 2011			
Cost (gross carrying amount)	2,765.7	22.6	2,788.3
Amortisation and accumulated impairment losses	(2,651.5)	(13.6)	(2,665.1)
Net carrying amount	114.2	9.0	123.2
At 31 December 2012			
Cost (gross carrying amount)	575.1	57.0	632.1
Amortisation and accumulated impairment losses	(405.0)	(19.7)	(424.7)
Net carrying amount	170.1	37.3	207.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. Intangible assets continued

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

				\$ million
	Customer list	Current technology	Other	Total
At 31 December 2011	1.8	3.6	3.6	9.0
At 31 December 2012	9.8	21.8	5.7	37.3

Goodwill of \$24.7 million and acquired intangible assets of \$13.9 million, in relation to computer software, customer relationships and brands have been recognised on the acquisition of Mu Dynamics, Inc. ("Mu"). Mu was acquired by Spirent on 23 April 2012. See note 32 of Notes to the consolidated financial statements.

Goodwill of \$30.9 million and acquired intangible assets of \$20.5 million, in relation to computer software, customer relationships, brands and the database have been recognised on the acquisition of Metrico Wireless, Inc. ("Metrico"). Metrico was acquired by Spirent on 13 September 2012. See note 32 of Notes to the consolidated financial statements.

Both Mu and Metrico were integrated into the Performance Analysis division during 2012 and the goodwill arising on these acquisitions has been allocated to this cash-generating unit.

Amortisation and impairment charges

Goodwill at 31 December 2012 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 2012 or 2011.

Acquired intangible assets are amortised on a straight line basis over their estimated useful lives which are between two and a half and seven years and the charge is included within administration expenses in the income statement. Other intangible assets are in relation to licences and other agreements which are amortised over their useful lives or term, being three to five years, and are expensed within cost of sales or selling costs. The remaining amortisation periods of the acquired intangible asset balances arising in relation to customer list and current technology are seven and five years, respectively.

Annual impairment test

Goodwill is tested annually for impairment or more frequently if there are indications that the goodwill might be impaired. The recoverable amount of the Performance Analysis cash-generating unit at 30 November 2012, the annual impairment testing date, has been determined based on a value in use calculation using management's cash flow projections over a five year period.

The cash flows are derived from the most recent financial budgets for the next financial year, as approved by the Board, and the Group's three year strategic plan. Cash flows for years four and five are then extrapolated based on long range plans. The key factor in the cash flow forecasts is the ability to forecast revenue. Cash flows in subsequent years have been extrapolated using a 2.75 per cent growth rate (2011 2.75 per cent) which management estimates to be the approximate average long term growth rate for the industries in which this unit operates.

The cash flows have been discounted using a pre-tax discount rate of 14.5 per cent (2011 14.9 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.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. 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 2011	4.6	16.7	7.8	29.1
Additions				
Owned assets	0.5	16.6	3.7	20.8
Disposals	-	(1.1)	-	(1.1)
Inter-class transfers	-	(1.4)	1.4	-
Depreciation charge for the year	(1.4)	(8.4)	(3.4)	(13.2)
Exchange adjustment	-	(0.1)	-	(0.1)
At 1 January 2012	3.7	22.3	9.5	35.5
Additions				
Owned assets	0.5	13.4	2.5	16.4
Disposals	-	(2.1)	(0.1)	(2.2)
Acquisitions <i>note 32</i>	-	0.5	-	0.5
Disposal of operations <i>note 33</i>	-	(1.1)	(0.1)	(1.2)
Inter-class transfers	-	(0.3)	0.3	-
Depreciation charge for the year	(1.3)	(10.2)	(3.7)	(15.2)
Exchange adjustment	0.1	0.1	0.1	0.3
At 31 December 2012	3.0	22.6	8.5	34.1
At 31 December 2011				
Cost	22.1	73.3	52.1	147.5
Accumulated depreciation and accumulated impairment	(18.4)	(51.0)	(42.6)	(112.0)
Net carrying amount	3.7	22.3	9.5	35.5
At 31 December 2012				
Cost	18.7	77.0	51.1	146.8
Accumulated depreciation and accumulated impairment	(15.7)	(54.4)	(42.6)	(112.7)
Net carrying amount	3.0	22.6	8.5	34.1

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

17. Capital commitments and contingent liabilities

The Group had capital commitments of \$1.2 million at 31 December 2012 (31 December 2011 nil)

The Group has provided indemnities of \$0.1 million (2011 \$0.2 million) for certain ongoing business obligations under letters of credit for subsidiary companies

18. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 135 of these financial statements

19. Inventories

	2012 \$ million	2011 \$ million
Raw materials	14.1	15.7
Work in progress	0.6	1.6
Finished goods	19.3	26.3
	34.0	43.6

An expense of \$3.7 million (2011 \$3.8 million) has been recognised in the period for inventory write-downs

There were no reversals of prior period inventory write-downs (2011 nil)

No inventories are carried at fair value less costs to sell (2011 nil)

20. Trade and other receivables

	2012 \$ million	2011 \$ million
Non-current assets		
Trade receivables	1.1	–
Other receivables	3.1	3.0
Prepayments, accrued income and deferred costs	0.7	0.2
	4.9	3.2
Current assets		
Trade receivables	84.9	95.2
Other receivables	3.4	3.3
Prepayments, accrued income and deferred costs	7.3	7.6
	95.6	106.1
	100.5	109.3

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

	2012 \$ million	2011 \$ million
At 1 January	0.9	0.6
Charge for the year	0.2	0.7
Released in the year	(0.3)	(0.4)
At 31 December	0.8	0.9

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**21. Cash and cash equivalents**

	2012 \$ million	2011 \$ million
Cash at bank and in hand	204.5	177.4
Short term bank deposits	44.1	59.1
	248.6	236.5

Cash at bank and in hand earns interest at floating interest rates. Of this balance \$40.0 million (2011 \$1.2 million) is callable at notice of between seven and 35 days.

Short term bank deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group and earn interest at the short term deposit rates appropriate for the term of the deposit and currency.

At the end of 2012 the currency split of cash and cash equivalents was US dollar 80 per cent (2011 79 per cent), sterling 10 per cent (2011 14 per cent) and other currencies 10 per cent (2011 7 per cent).

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

	2012 \$ million	2011 \$ million
Non current		
Cash on deposit	0.4	0.7

At 31 December 2012 \$0.4 million (2011 \$0.7 million) is held in a blocked trust account and is available for use by the Company as creditors, who were outstanding at the date of the cancellation of the share premium account and capital redemption reserve, being 24 November 2004, are settled. See note 28.

22. Trade and other payables – current

	2012 \$ million	2011 \$ million
Trade payables	15.9	21.5
Payments received on account	0.4	0.3
Other taxes and social security costs	4.1	4.1
Share buyback obligation <i>note 28</i>	8.1	7.8
Accruals	36.2	45.6
Deferred income	42.6	40.0
	107.3	119.3

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms. Other payables are non-interest bearing.

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

23. Deferred tax

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

	\$ million			
	Temporary differences	Tax losses	UK pension plans	Total
At 1 January 2011	18.2	13.9	(0.8)	31.3
Recognised in the year <i>note 12</i>	–	2.2	–	2.2
Charged in the year <i>note 12</i>	(4.2)	(8.3)	–	(12.5)
Deferred tax on defined benefit pension plan <i>note 12</i>	–	–	4.0	4.0
Deferred tax on share incentives recognised in equity <i>note 12</i>	(2.5)	–	–	(2.5)
Deferred tax on acquisition <i>note 32</i>	–	7.3	–	7.3
Exchange adjustment	(0.1)	(0.2)	(0.1)	(0.4)
At 1 January 2012	11.4	14.9	3.1	29.4
Recognised in the year <i>note 12</i>	–	1.4	–	1.4
Charged in the year <i>note 12</i>	(3.7)	(6.2)	–	(9.9)
Deferred tax on defined benefit pension plan <i>note 12</i>	–	–	2.5	2.5
Deferred tax on share incentives recognised in equity <i>note 12</i>	(1.0)	–	–	(1.0)
Deferred tax on acquisition <i>note 32</i>	(3.7)	9.0	–	5.3
Exchange adjustment	(0.1)	0.5	0.3	0.7
At 31 December 2012	2.9	19.6	5.9	28.4

A deferred tax asset of \$28.4 million has been recognised at 31 December 2012 (2011 \$29.4 million). \$11.8 million is in the United Kingdom (2011 \$11.8 million), \$15.9 million is in the United States (2011 \$17.1 million) and \$0.7 million is in the rest of the world (2011 \$0.5 million).

The deferred tax asset includes \$2.0 million (2011 \$3.8 million) in respect of the tax deduction which may be available on the future exercise of share incentives of which \$1.0 million (2011 \$2.0 million) has been recognised in equity.

Movements in deferred tax in relation to the pension plan have been charged or credited to other comprehensive income in all years.

All deferred tax assets on temporary differences, arising principally in the United Kingdom and United States, have been recognised at 31 December 2012 and 2011 apart from \$1.6 million in Canada (2011 \$1.5 million).

The Group has tax losses arising in the United Kingdom of \$64.0 million (2011 \$81.7 million) that are available for offset against suitable future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. United Kingdom tax losses can be carried forward indefinitely. In total deferred tax assets amounting to \$16.3 million (2011 \$22.0 million) have not been recognised.

The Group also has capital losses carried forward of \$1,340.3 million (2011 \$1,311.3 million) for which no deferred tax asset is recognised on the balance sheet. These capital losses have no expiry date.

The Chancellor, in the 2012 Budget on 21 March 2012, announced that the main corporation tax rate would be reduced to 23 per cent from 1 April 2013 and that there would be a further reduction of 1 per cent with effect from 1 April 2014. The Finance Act 2012 received Royal Assent on 17 July 2012 with the rate reduction from 24 per cent to 23 per cent from 1 April 2013 being substantively enacted from 3 July 2012.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 23 per cent. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reduction would not be material to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. Trade and other payables – non-current

	2012 \$ million	2011 \$ million
Other payables	1 9	1 5
Accruals	0 9	0 1
Deferred income	8 6	8 7
	11 4	10 3

25. Provisions and other liabilities

	\$ million		
	Other provisions	Lease provisions	Total
At 1 January 2011	1 3	6 3	7 6
Discount unwind <i>note 9</i>	–	0 1	0 1
Charged in the year	–	0 5	0 5
Released in the year	–	(0 2)	(0 2)
Utilised in the year	–	(3 5)	(3 5)
At 1 January 2012	1 3	3 2	4 5
Charged in the year	0 6	1 3	1 9
Released in the year	–	(0 2)	(0 2)
Utilised in the year	–	(1 3)	(1 3)
Exchange adjustment	–	0 1	0 1
At 31 December 2012	1 9	3 1	5 0

	2012 \$ million	2011 \$ million
Current	4 4	3 3
Non-current	0 6	1 2
	5 0	4 5

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 three years.

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

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 of the Group's financial assets and liabilities are categorised as loans and receivables and these are shown in the following table

	2012 \$ million	2011 \$ million
	Loans and receivables at amortised cost	Loans and receivables at amortised cost
Non-current cash on deposit <i>note 21</i>	0.4	0.7
Non-current trade and other receivables <i>note 20</i>	4.2	3.0
Cash and cash equivalents <i>note 21</i>	248.6	236.5
Current trade and other receivables <i>note 20</i>	88.3	98.5
Financial assets	341.5	338.7
Non-current other payables and accruals <i>note 24</i>	2.8	1.6
Current trade payables and accruals <i>note 22</i>	52.1	67.1
Share buyback obligation <i>note 22</i>	8.1	7.8
Provisions <i>note 25</i>	5.0	4.5
Financial liabilities	68.0	81.0

The Group enters into derivative transactions, forward foreign currency exchange contracts, for the management of the Group's foreign currency exposures when deemed appropriate. These derivative financial instruments are measured at fair value, however the fair values at 31 December 2012 and 2011 were immaterial to these accounts.

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

a) Market risk

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

Interest rate risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. Financial instruments and financial risk management continued

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

	Effective interest rate %	2012 \$ million	Effective interest rate %	2011 \$ million
Fixed rate				
Fixed deposits	0.42	44.1	0.39	59.1
Floating rate				
Cash at bank and in hand		204.5		177.4

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

In addition, \$0.4 million (2011 \$0.7 million) was held in a blocked trust account and was earning interest of 0.44 per cent at 31 December 2012 (2011 0.77 per cent). The maturity of the deposit is three months, at maturity the interest rate will be reset. This cash must be retained in the blocked trust account in accordance with the terms of the undertakings made at the time of the cancellation of the share premium account and capital redemption reserve (the "Cancellation") in 2004. The funds must remain in this account until creditors which existed at the date of the Cancellation have been repaid and therefore the maturity of this account is uncertain.

Interest receivable for the year was \$0.8 million (note 8) (2011 \$1.0 million) and is under the effective interest method.

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

A movement of 25 basis points in interest rates based on levels of investment at 31 December 2012 would increase or reduce interest income and equity by \$0.5 million.

Exchange rate risk

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

The Group has the majority of its operations in the United States and presents its consolidated financial statements in US dollars. The Company's functional currency is sterling and its share capital is denominated in pounds sterling. The Group also has operations in Europe and Asia and therefore its results and assets and liabilities are affected on translation by movements in exchange rates in relation to the US dollar. The Group does not enter into instruments to hedge the translation exposure of the operating results or net assets of its overseas subsidiaries since these are considered accounting and not cash exposures.

The Group is not exposed to significant transactional foreign currency risk at 31 December 2012, nor at 31 December 2011, because the majority of its businesses do not enter into non-functional currency transactions. Where such transactions do occur the Group typically enters into forward foreign currency exchange contracts as appropriate.

Group treasury, by means of forward foreign currency exchange contracts, carries out the transaction hedging activity in relation to normal trading activity. At 31 December 2012 the Group has hedged the majority of its financial assets and liabilities in relation to trading which are denominated in non-functional currencies. However, the Group holds cash balances in non-functional currencies which are exposed to US dollar to sterling exchange rates.

26. Financial instruments and financial risk management continued

At 31 December 2012 these balances amounted to \$0.9 million (2011 \$2.0 million). A 10 per cent appreciation or depreciation of sterling against the US dollar would increase or reduce profit before tax by \$0.1 million (2011 \$0.2 million) based on the balance at the reporting dates.

b) Credit risk

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

The maximum credit exposure at the balance sheet date under financial instruments in relation to cash and bank deposits is equal to the carrying value of \$249.0 million (2011 \$237.2 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 \$86.0 million (2011 \$95.2 million).

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

	2012 \$ million	2011 \$ million
Neither impaired nor past due	58.8	61.7
Past due but not impaired		
Less than 30 days overdue	14.1	24.5
30 to 60 days	5.2	5.0
Over 60 days	7.9	4.0
Trade receivables	86.0	95.2

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

The movement on the receivables provision during the year is given in note 20. The value of impaired trade receivables is \$0.8 million (2011 \$0.9 million). For all other financial assets the maximum exposure to credit risk is represented by the carrying amount.

c) Liquidity risk

The Group's objective is to ensure that there are sufficient sources of funding to meet projected requirements. Its operations are financed through cash and cash equivalents held centrally and cash generated from operations.

At 31 December 2012 the Group had cash and cash equivalents of \$248.6 million (2011 \$236.5 million) of which \$164.5 million (2011 \$177.4 million) is available on demand and \$84.1 million (2011 \$59.1 million) of which is on one month's notice or matures within three months.

During 2012 the Group generated \$105.1 million of cash from operating activities (2011 \$98.7 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 foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. Financial instruments and financial risk management continued

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

	2012 \$ million	2011 \$ million
Sale of US dollars against sterling	3.6	8.8

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

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 although the amounts at 31 December 2012 and 2011 were immaterial.

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

e) Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. During 2012 and 2011 the Company has been operating an on market share repurchase programme. In 2012 the Company repurchased 13.4 million of its Ordinary Shares at a cost of \$30.8 million (2011: 17.6 million at a cost of \$34.2 million). The Group intends to continue to repurchase shares to manage the dilution attributable to the Group's share incentive schemes and to repurchase further shares on a one-off basis as it deems appropriate.

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

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

	2012 \$ million	2011 \$ million
Within one year	7.9	9.1
In the second to fifth years	9.9	10.0
Over five years	0.3	0.4
	18.1	19.5

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. There are no sublease payments receivable relating to the above leases (2011: \$0.1 million recognised within one year).

28. Equity**a) Issued share capital**

Issued and fully paid

	Number of Ordinary Shares million	\$ million
At 1 January 2011	674.9	35.3
Allotted pursuant to share incentives exercised	2.3	0.1
Cancelled during the year ¹	(13.2)	(0.7)
Exchange adjustment	–	(0.4)
At 1 January 2012	664.0	34.3
Cancelled during the year ¹	(13.4)	(0.7)
Exchange adjustment	–	1.7
At 31 December 2012	650.6	35.3

Note

1 During 2012 under the programme of returning capital to shareholders, the Company repurchased 13.4 million (2011 13.2 million) Ordinary Shares on market which were subsequently cancelled

During 2012 and 2011 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2012 5.6 million Ordinary Shares were transferred from the Spirent Employee Share Ownership Trust ("ESOT") to satisfy options exercised under the Spirent Stock Incentive Plan and 2005 Employee Incentive Plan (2011 0.4 million Ordinary Shares). 4.4 million Ordinary Shares were purchased and placed into the ESOT during 2011.

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2012 and 28 February 2013, 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) Other reserves: share capital, share premium account and capital redemption reserve are translated into US dollars at the rates of exchange at the balance sheet date and the resultant exchange differences are included in other reserves, and
- iv) Translation reserve: this reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Investment in own Ordinary Shares

At 31 December 2012, the ESOT held 2.3 million Ordinary Shares (2011 7.9 million Ordinary Shares) to satisfy awards under various share incentive plans. In addition at 31 December 2011 the ESOT held 0.1 million Ordinary Shares which were the beneficial property of an employee/shareholder. At 31 December 2012, the SST held 0.5 million Ordinary Shares (2011 0.5 million Ordinary Shares) to satisfy awards made to United Kingdom based employees under an all employee share scheme. The market value of own Ordinary Shares held in trust, being in total 2.8 million Ordinary Shares (2011 8.5 million Ordinary Shares), at 31 December 2012 was \$6.9 million (2011 \$15.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28. Equity continued

Cancellation of share premium account and capital redemption reserve

On 24 November 2004, Spirent Communications plc was granted an order of the High Court for the approval of the cancellation of the share premium account and capital redemption reserve (the "Cancellation") which stood at that date at \$1,321.1 million (£702.7 million) and \$1.3 million (£0.7 million), respectively

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

Capital redemption reserve

During 2012 the Company cancelled 13.4 million Ordinary Shares (2011 13.2 million Ordinary Shares) that had been the subject of the on market share repurchase programme, and transferred \$0.7 million (2011 \$0.7 million) to the capital redemption reserve.

Share repurchase

During 2012 the Company repurchased 13.4 million Ordinary Shares on market at a cost of \$30.8 million which were subsequently cancelled. In 2011 17.6 million Ordinary Shares were repurchased at a cost of \$34.2 million of which 13.2 million Ordinary Shares were subsequently cancelled and 4.4 million were placed into the ESOT.

Share buyback obligation

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

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

On 31 December 2012 the Company entered into an irrevocable agreement with UBS Limited to purchase up to a maximum of 3.4 million Ordinary Shares at no more than 105 per cent of the average market value of a share for the five business days immediately preceding the day on which the share is purchased, and at a maximum price of 145 pence per share, from 10 January 2013 to 27 February 2013, on their behalf. This agreement entered into in respect of share buybacks during the close period has been recognised as a financial liability of \$8.1 million.

As at the close of business on 27 February 2013, 0.1 million shares had been repurchased under this buyback programme at 145 pence per share for a total consideration of \$0.3 million. The remaining liability expired at close of business on 27 February 2013.

29. Employee share plans

Movements in share incentives over a two year period ending on 31 December 2012 are shown below

	2005 Employee Incentive Plan ¹		Spirent Stock Incentive Plan ²		1995 Executive Share Option Scheme	
	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence
Incentives outstanding at 31 December 2010	2.7	11	11.4	55	1.4	140
Exercised	(0.3)	3	(3.8)	63	—	—
Granted	1.6	42	—	—	—	—
Forfeited	(0.1)	—	—	—	—	—
Expired	—	—	(0.1)	49	(0.2)	305
Incentives outstanding at 31 December 2011	3.9	24	7.5	51	1.2	117
Exercised	(0.6)	2	(5.7)	51	(1.1)	123
Granted	2.0	59	—	—	—	—
Forfeited	(1.4)	2	—	—	—	—
Incentives outstanding at 31 December 2012	3.9	53	1.8	50	0.1	69
Incentives exercisable						
At 31 December 2011	0.6	50	7.4	51	1.2	117
At 31 December 2012	0.5	50	1.8	50	0.1	69

Notes

- Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance shares in aggregate
- Figures for the Spirent Stock Incentive Plan show both share options and stock appreciation rights in aggregate

The weighted average share price at exercise date was 155.4 pence (2011 145.1 pence)

Share plan	Exercise period (as at 31 December)	Range of exercise prices pence	Weighted average exercise price pence	Number of share incentives outstanding million	2012		2011	
					Weighted average remaining contractual life years	Weighted average exercise price pence	Number of share incentives outstanding million	Weighted average remaining contractual life years
2005 Employee Incentive Plan	25 08 08 – 09 11 22	0–53	10	2.7	8.0	9	3.4	8.0
	23 03 14 – 09 11 22	143–169	150	1.2	8.9	143	0.5	9.2
Spirent Stock Incentive Plan	12 01 07 – 13 11 15	37–57	48	1.6	0.4	50	6.9	1.1
	04 11 05 – 12 08 16	59–79	73	0.2	2.4	67	0.6	2.3
1995 Executive Share Option Scheme	30 06 07 – 29 06 14	69	69	0.1	1.5	69	0.2	2.5
	02 04 05 – 01 05 12	113–134	—	—	—	126	1.0	0.3
Total				5.8			12.6	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. Employee share plans continued

Description of employee share plans

Discretionary plans

2005 Employee Incentive Plan ("EIP")

The EIP, which was approved by shareholders and introduced in 2005, is available for selected employees, including executive directors, on a discretionary basis

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

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

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 55 to 67

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

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

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

The vesting of SSIP awards made to Bill Burns prior to his appointment as Chief Executive Officer and to certain other key senior managers within the Communications group, were subject to the Company meeting EPS growth targets over the vesting periods. All outstanding awards have now passed their EPS performance conditions and remain exercisable until they expire on the seventh anniversary of their respective grant dates

SARs granted under the EIP and SSIP will deliver the appreciation value (ie the increase in market value of an Ordinary Share over the base price of the SAR) in the form of Ordinary Shares. This "SARs approach" helps the Company manage its dilution headroom more efficiently as only the SAR gain needs to be funded. Using a SARs approach, it is not possible to determine the precise level of dilution until the SARs are exercised. At 31 December 2012, 1.7 million EIP SARs and 1.8 million SSIP SARs with an average base price of 118 pence and 50 pence respectively were outstanding (2011 0.9 million EIP SARs and 7.3 million SSIP SARs with an average base price of 91 pence and 51 pence respectively). During 2012, 5.6 million EIP and SSIP SARs were exercised resulting in the transfer of 3.9 million Ordinary Shares (2011 3.6 million Ordinary Shares were issued or transferred on the exercise of 2.1 million EIP and SSIP SARs)

29. Employee share plans continued**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.

All Employee plans**UK Employee Share Purchase Plan ("UK ESPP")**

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

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

US Employee Stock Purchase Plan ("US ESPP")

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

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

Global All Employee Share Purchase Plan ("GAESPP")

The GAESPP was initially approved by shareholders in 2001 with amendments being approved by shareholders in 2005 and 2011. The GAESPP enables the Company to invite employees in countries other than the US or UK to acquire Ordinary Shares in the Company on market using deductions from payroll. In September 2011, the first such invitation was made to all employees in Canada, Hong Kong, France and Germany and subsequent invitations have been made in 2012.

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

2005 Sharesave Scheme

The 2005 Sharesave Scheme was approved by shareholders in 2005 and was introduced following the expiry of the Savings Related Share Option Scheme. The scheme is an HMRC approved Save-As-You-Earn scheme open to all UK employees, subject to a qualifying service period. 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. No invitations have yet been made under this scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. Share-based payment

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

	2012 \$ million	2011 \$ million
2005 Employee Incentive Plan	1.6	1.1

All schemes are equity-settled

2.0 million share incentives were granted during 2012 (2011 1.6 million). For 2012 the fair value of share incentives has been estimated as at the date of grant using the Hull-White trinomial model. The following table gives the assumptions made in arriving at the share-based payment charge and the fair value.

	2012	2011
Weighted average share price (pence)	153.2	143.2
Weighted average exercise price (pence)	59.3	41.6
Weighted average fair value (pence)	78.1	111.0
Expected volatility (%)	35.0	36.5
Option life (years)		
Performance shares	3	3
Options and SARs	10	10
Suboptimal exercise factor	1.5	–
Risk free rate (%)	1.5–2.4	2.0–3.6
Dividend yield (%)	1.6	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 risk free rate is calculated by reference to UK government bonds.

31. Reconciliation of profit to cash generated from operations

	2012 \$ million	2011 \$ million
Profit for the year	128.8	94.6
Adjustments for		
Tax	30.7	28.7
Profit on the sale of operations	(44.5)	–
Finance income	(1.5)	(1.7)
Finance costs	–	0.4
Intangible asset amortisation	6.1	2.9
Depreciation of property, plant and equipment	15.2	13.2
Loss on the disposal of property, plant and equipment	0.1	0.1
Share-based payment	1.6	1.1
Changes in working capital		
Deferred income (released)/received	(3.4)	1.6
Decrease/(increase) in receivables	7.0	(7.5)
Decrease/(increase) in inventories	1.6	(6.2)
Decrease in payables	(11.4)	(0.9)
Increase/(decrease) in provisions	0.4	(3.2)
Defined benefit pension plan	(2.5)	(2.6)
Cash flow from operations	128.2	120.5
Cash flow from operations comprises		
Continuing operating activities	120.3	113.0
Discontinued operating activities	7.9	7.5
Cash flow from operations	128.2	120.5

32. Business combinations**Mu Dynamics, Inc.**

On 23 April 2012 Spirent acquired 100 per cent of the share capital of Mu Dynamics, Inc. ("Mu") for a cash consideration of \$39.8 million. Mu is included within the Performance Analysis division.

Mu is a security testing pioneer, offering innovative solutions that enable faster, higher quality deployments of cloud applications and application-aware networks. Mu brings additional market leading expertise in cyber security, usability and application emulation to the Spirent solutions portfolio. Combining Mu's software based applications and security testing capabilities with Spirent's market leading performance test platforms will enable the rapid development of best-in-class security test solutions with higher performance and greater scale than any other provider.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32. Business combinations continued

From the date of acquisition to 31 December 2012, Mu contributed \$6.3 million of revenue and a \$0.5 million loss before tax to the results of the Group before charging \$0.8 million of acquisition related costs and \$1.9 million of acquired intangible asset amortisation. If the combination had occurred at the beginning of the financial year additional revenue of \$3.6 million and a loss before tax of \$1.2 million would have been included in the Group result.

The goodwill arising of \$24.7 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place.

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

The intangible assets acquired represent computer software, customer relationships and brands and these have been assigned a life of five years.

Metrico Wireless, Inc.

On 13 September 2012 Spirent acquired 100 per cent of the share capital of Metrico Wireless, Inc. ("Metrico") for a cash consideration of \$52.2 million. Metrico is included within the Performance Analysis division.

The acquisition brings together Spirent's strength in the lab with Metrico's focus on subscriber-level device testing in the field, resulting in a unique end-to-end test portfolio. This offering enables Spirent to address the needs of service providers and device manufacturers who must contend with new and emerging technologies including 4G data, voice over LTE and the cloud. It enables service providers and their suppliers to minimise time to market, improve subscriber satisfaction and loyalty, and reduce device return rates.

From the date of acquisition to 31 December 2012, Metrico contributed \$6.4 million of revenue and \$0.5 million of profit before tax to the results of the Group before charging \$0.4 million of acquisition related costs and \$1.3 million of acquired intangible asset amortisation. If the combination had occurred at the beginning of the financial year additional revenue of \$18.7 million and a profit before tax of \$4.8 million would have been included in the Group result.

The goodwill arising of \$30.9 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place.

The goodwill recognised is expected to be deductible for income tax purposes.

The intangible assets acquired represent computer software, customer relationships, database and brands and these have been assigned lives of between 2.5 and 7 years.

Acquisition related costs in relation to both acquisitions were \$1.2 million and these have been expensed and are included in administration costs.

Prior year acquisition

In 2011 the Group acquired 100 per cent of the share capital of the Fanfare Group, Inc.

32. Business combinations continued

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

			2012 \$ million	2011 \$ million
	Mu	Metrico	Total	Total
Net assets acquired				
Intangible fixed assets	13.9	20.5	34.4	6.6
Tangible fixed assets	–	0.5	0.5	–
Deferred tax asset	9.3	0.9	10.2	8.1
Inventories	0.1	–	0.1	–
Trade and other receivables	1.3	3.3	4.6	0.5
Trade and other payables	(4.6)	(3.9)	(8.5)	(4.1)
Deferred tax liability	(4.9)	–	(4.9)	(0.8)
Total identifiable net assets	15.1	21.3	36.4	10.3
Goodwill	24.7	30.9	55.6	4.2
Total consideration	39.8	52.2	92.0	14.5
Satisfied by				
Cash	39.8	52.2	92.0	14.5

33. Disposals**Systems division**

On 1 November 2012 the Group completed the disposal of the assets and liabilities of its Systems division to Curtiss-Wright Corporation

The assets and liabilities sold, the proceeds and the resulting profit on disposal are shown below

	2012 \$ million
	Systems
Cash consideration	63.2
Less	
Net assets sold	
Tangible fixed assets	1.2
Inventories	8.5
Trade and other receivables	7.9
Trade and other payables	(4.7)
Total net assets sold	12.9
Other items	
Disposal costs	(3.3)
Curtailment loss <i>note 11</i>	(1.3)
Exchange differences transferred from equity	(1.2)
Profit on sale of operations	44.5
Cash flows in respect of the disposal of operations are as follows	
Cash consideration	63.2
Cash disposal costs	(3.3)
Net proceeds from the disposal of operations	59.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. 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"

	2012 \$000	2011 \$000
Short term employee benefits	2,457	2,837
Share-based payment	673	279
Post retirement benefits	10	10
	3,140	3,126

In 2012 Eric Hutchinson made gains on the exercise of share incentives of \$468,000 (2011 \$44,000)

In 2012 Bill Burns made gains on the exercise of share incentives of \$691,000 (2011 \$627,000)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRENT COMMUNICATIONS PLC

We have audited the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2012 which comprise the parent Company balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012,

- 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 Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

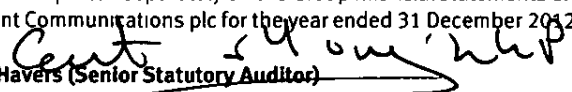
Matters on which we are required to report by exception

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 Directors' Remuneration Report 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 2012.


Karl Havers (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 February 2013

Notes

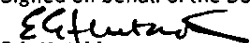
- 1 The maintenance and integrity of the Spirent Communications plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the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

PARENT COMPANY BALANCE SHEET**AT 31 DECEMBER 2012**

	Notes	2012 £ million	2011 £ million
Fixed assets			
Intangible assets	4	3 1	3 7
Tangible assets	5	1 1	2 0
Investments	6	302 0	257 3
		306 2	263 0
Current assets			
Stocks	7	2 5	6 6
Debtors	8	5 4	16 6
Cash at bank and in hand		17 2	23 8
		25 1	47 0
Creditors' amounts falling due within one year			
Trade and other creditors	9	(10 1)	(15 6)
Net current assets		15 0	31 4
Total assets less current liabilities		321 2	294 4
Creditors' amounts falling due after more than one year	10	(66 7)	(58 6)
Provisions	12	–	(0 1)
Net assets (excluding defined benefit pension plan (deficit)/surplus)		254 5	235 7
Defined benefit pension plan deficit	3	(12 1)	(6 2)
Net assets		242 4	229 5
Capital and reserves	15		
Called up share capital		21 7	22 2
Share premium account		20 2	20 2
Capital redemption reserve		11 8	11 3
Profit and loss account		188 7	175 8
Shareholders' funds – equity		242 4	229 5

The notes on pages 119 to 135 form part of these financial statements

Signed on behalf of the Board



Eric Hutchinson

Director

28 February 2013

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Significant accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention modified for measurement of derivative financial instruments at fair value and in accordance with applicable UK law and UK Generally Accepted Accounting Principles (UK GAAP)

As the Company is included in the consolidated financial statements, made up to 31 December each year, it is not required to present a separate profit and loss account as provided by Section 408 of the Companies Act 2006

Cash flow statement

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

Intangible assets

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

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

Tangible assets

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

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

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

Investments

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

Leases

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

Inventories

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

1. Significant accounting policies continued

Trade and other debtors

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

Provisions

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

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

Revenue recognition

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

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

Foreign currencies

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

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

Product development

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

Financial instruments

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

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

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.

1. Significant accounting policies continued**Pensions**

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

For defined benefit pension plans full actuarial valuations are carried out every three years using the projected unit credit method, and updates are performed at each balance sheet date. The cost of providing benefits under these plans is determined separately for each plan, and attributes entitlement to benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations).

Past services are recognised in the profit and loss account on a straight line basis or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued), or a curtailment (reducing future obligations as a result of a material reduction in the plan membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit pension plan cost represents the change in present value of plan obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year.

The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on plan assets, adjusted for the effect on the fair value of plan assets of contributions received, and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the profit and loss account as finance costs or finance income.

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

The defined benefit pension plan asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds denominated in the same currency and whose term is consistent with the estimated term of the obligation). Fair value is based on market price information and, in the case of quoted securities, is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Company expects to recover, by way of reductions in the future contributions or refunds from the plan that have been agreed by the trustees.

Treasury shares

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

Employee benefits

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

Dividends paid

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

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 the Hull-White Trinomial 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 55 to 67 for disclosures relating to the emoluments, share incentives and long term incentive interests and pensions of the directors.

3. Pensions

Defined benefit plans

The funded defined benefit pension plans are in the United Kingdom and comprise the Spirent Communications plc Staff Pension & Life Assurance Plan ("Staff Plan") and the Spirent Communications plc Retirement Cash & Life Assurance Plan ("Cash Plan"). The Staff Plan is the Company's most significant plan. There is in addition an unfunded plan.

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

i) The key financial assumptions

The assumptions used for both plans were as follows

	2012 %	2011 %
Inflation – RPI	2.9	3.0
Inflation – CPI	2.2	2.0
Rate of increase in pensionable salaries	2.9	3.0
Rate of increase for pensions in payment pre 2001 service	3.6	3.6
Rate of increase for pensions in payment 2001 to 5 April 2005 service	2.8	2.9
Rate of increase for pensions post 5 April 2005 service	1.9	2.0
Rate of increase in deferred pensions	2.2	2.0
Rate used to discount plan liabilities	4.3	4.6
Expected rate of return on plan assets (weighted for both plans)	5.0	5.5

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

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are such that a member currently aged 65 (2011 aged 65) will live on average for a further 23.3 years (2011 21.9 years) if they are male and for a further 25.5 years (2011 23.8 years) if they are female. For a member who retires in 2032 (2011 in 2021) at age 65 (2011 age 65) the assumptions are that they will live on average for a further 24.2 years (2011 22.9 years) after retirement if they are male and for a further 26.6 years (2011 24.7 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 would increase past service liabilities by £2.5 million
- Increasing the RPI inflation assumption by 0.1 per cent would increase the plans' liabilities by £0.8 million
- Increasing the life expectancy of a member by one year (by modifying the standard mortality tables using an appropriate scaling factor) would increase past service liabilities by £6.4 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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

3. Pensions continued

i) The assets and the liabilities in the plans were as follows

	Long term rate of return expected %	2012 £ million	Long term rate of return expected %	2011 £ million
Staff Plan				
Equities	8.3	44.5	8.7	47.3
Government bonds	2.5	32.8	2.6	33.3
Corporate bonds	3.6	24.9	4.1	24.7
Cash benchmarked bonds	3.5	30.8	4.3	20.3
Insured annuities	4.3	3.5	4.6	3.2
Property	7.3	14.0	7.7	14.0
Cash and other	1.0	0.6	1.8	1.3
Fair value of plan assets	5.1	151.1	5.6	144.1
Present value of defined benefit pension plan obligations		(166.3)		(152.2)
Deficit in the plan		(15.2)		(8.1)
Cash Plan				
Equities	8.3	2.3	8.7	2.1
Government bonds	2.5	2.2	2.7	2.3
Insured annuities	4.3	0.2	4.6	0.2
Cash and other	1.0	2.0	1.8	2.1
Fair value of plan assets	4.0	6.7	4.3	6.7
Present value of defined benefit pension plan obligations		(6.7)		(6.2)
Surplus in the plan		–		0.5
Surplus restriction		–		(0.2)
Surplus recognised		–		0.3
Total net deficit recognised		(15.2)		(7.8)
Unfunded plan				
Present value of unfunded obligations		(0.5)		(0.4)
Net pension plan deficit		(15.7)		(8.2)
Deferred tax asset <i>note 11</i>		3.6		2.0
Net pension plan deficit on the balance sheet		(12.1)		(6.2)

The recognition of the surplus is restricted in 2011 to the present value of the economic benefits available in the form of refunds from the Plan or reductions in future contributions to the Plan. As a result only £0.3 million of the surplus in the Cash Plan was recognised at 31 December 2011.

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**

	2012 £ million	2011 £ million
Analysis of amount charged to operating costs		
Current service cost	0.2	0.2
Curtailment loss	0.8	–
Amount charged to operating costs	1.0	0.2
Expected return on pension plans' assets	7.6	7.9
Interest on pension plans' liabilities	(7.2)	(7.5)
Finance income	0.4	0.4
Net profit and loss charge/(credit)	0.6	(0.2)

iv) Analysis of amount recognised directly in equity

	2012 £ million	2011 £ million
Actual return on pension plans' assets	12.0	8.6
Less expected return on pension plans' assets	7.6	7.9
Experience gains on plans' assets	4.4	0.7
Experience gains/(losses) arising on plans' liabilities	0.7	(1.7)
Changes in assumptions underlying the present value of plans' liabilities	(13.9)	(14.9)
Changes in assumptions underlying the present value of unfunded plan's liabilities	(0.1)	–
Movement in surplus restriction	0.2	3.9
Actuarial losses recognised directly in equity	(8.7)	(12.0)

The cumulative amount of actuarial gains and losses recognised since 1 January 2003 in the Company's statement of total recognised gains and losses is £32.3 million loss (2011 £23.6 million loss). The directors are unable to determine how much of the pension plan deficit recognised on 1 January 2003 and taken directly to equity of £41.9 million in the Company is attributable to actuarial gains and losses since inception of those pension plans. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Company's statement of recognised gains and losses before 1 January 2003.

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

	2012 £ million	2011 £ million
At 1 January	158.4	140.6
Current service cost	0.2	0.2
Curtailment loss	0.8	–
Interest cost	7.2	7.5
Employee contributions	0.1	0.1
Benefit payments	(6.9)	(6.6)
Actuarial loss	13.2	16.6
Present value of funded defined benefit pension plans' obligations	173.0	158.4

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

3. Pensions continued

vi) Movements in the fair value of plans' assets

	2012 £ million	2011 £ million
At 1 January	150.8	146.9
Expected return on plans' assets	7.6	7.9
Employer contributions	1.8	1.8
Employee contributions	0.1	0.1
Benefit payments	(6.9)	(6.6)
Actuarial gain	4.4	0.7
Fair value of plans' assets	157.8	150.8

vii) History of experience gains and losses

	2012 £ million	2011 £ million	2010 £ million	2009 £ million	2008 £ million
Present value of defined benefit pension plans' obligations	(173.0)	(158.4)	(140.6)	(137.4)	(126.5)
Fair value of plans' assets	157.8	150.8	146.9	137.9	129.3
Net (deficit)/surplus in plans	(15.2)	(7.6)	6.3	0.5	2.8
Experience gain/(loss) on plans' liabilities					
Amount (£ million)	0.7	(1.7)	(0.4)	(2.5)	(0.4)
Percentage of plans' liabilities (%)	0.4	(1.1)	(0.3)	(1.8)	(0.3)
Experience gain/(loss) on plans' assets					
Amount (£ million)	4.4	0.7	7.1	7.5	(15.4)
Percentage of plans' assets (%)	2.8	0.5	4.8	5.4	(11.9)

Expected cash contributions for 2013 for these plans are £1.7 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 2012 of £0.5 million (2011 £0.4 million). This represents the actuarial value, as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a market value basis in line with the main plan valuation and adjusted each year. There were no experience gains or losses on the unfunded plan in the period from 2008 to 2012.

Defined contribution plans

The Company also maintains defined contribution pension plans for employees. Employer contributions into these plans for 2012 were £0.8 million (2011 £0.9 million).

4. Intangible assets

	£ million
	Goodwill
Cost	
At 1 January 2012 and 31 December 2012	6.8
Amortisation	
At 1 January 2012	3.1
Provided during the year	0.6
At 31 December 2012	3.7
Net book value at 31 December 2011	3.7
Net book value at 31 December 2012	3.1

5. Tangible fixed assets

	£ million			
	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
Cost				
At 1 January 2012	0.6	5.0	2.6	8.2
Additions	0.1	0.3	0.1	0.5
Disposals	–	(3.0)	(1.5)	(4.5)
At 31 December 2012	0.7	2.3	1.2	4.2
Depreciation and impairment				
At 1 January 2012	0.1	3.9	2.2	6.2
Provided during the year	0.1	0.5	0.1	0.7
Disposals	–	(2.4)	(1.4)	(3.8)
At 31 December 2012	0.2	2.0	0.9	3.1
Net book value at 31 December 2011	0.5	1.1	0.4	2.0
Net book value at 31 December 2012	0.5	0.3	0.3	1.1

6. Investments

	£ million		
	Shares in subsidiaries	Loans to subsidiaries	Total
Cost			
At 1 January 2012	974.0	3.6	977.6
Additions	48.4	–	48.4
Disposals	(3.0)	–	(3.0)
Repayments	–	(0.4)	(0.4)
At 31 December 2012	1,019.4	3.2	1,022.6
Provisions			
At 1 January 2012	720.3	–	720.3
Increase in provision	–	0.3	0.3
At 31 December 2012	720.3	0.3	720.6
Net book value at 31 December 2011	253.7	3.6	257.3
Net book value at 31 December 2012	299.1	2.9	302.0

7. Stocks

	2012 £ million	2011 £ million
Raw materials	–	3.3
Work in progress	0.2	0.7
Finished goods	2.3	2.6
	2.5	6.6

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

8. Debtors

	2012 £ million	2011 £ million
Due within one year		
Trade debtors	1.3	5.8
Owed by subsidiaries	1.7	5.5
Other debtors	0.2	0.7
Prepayments and accrued income	0.3	0.4
	3.5	12.4
Due after more than one year		
Deferred tax asset <i>note 11</i>	1.9	4.2
	5.4	16.6

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

	2012 £ million	2011 £ million
Trade creditors	0.5	4.1
Owed to subsidiaries	0.3	0.2
Accruals and deferred income	4.0	5.6
Share buyback obligation	5.0	5.0
Other taxes and social security costs	0.3	0.7
	10.1	15.6

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

	2012 £ million	2011 £ million
Owed to subsidiaries	66.4	58.3
Deferred income	0.3	0.3
	66.7	58.6

11. Deferred tax

	£ million
At 1 January 2012	4.2
Reversed in the year	(2.3)
At 31 December 2012	1.9

The deferred tax asset is in relation to short term timing differences of £0.2 million (2011 £0.3 million) and tax losses of £1.7 million (2011 £3.9 million). The Company has tax losses of £37.1 million (2011 £38.0 million) that are available for offset against suitable future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. These losses can be carried forward indefinitely.

There is a deferred tax asset at 31 December 2012 of £3.6 million (2011 asset of £2.0 million) in relation to the pension plans (note 3).

12. Provisions

	£ million
Lease provisions	
At 1 January 2012	0.1
Transferred	(0.1)
At 31 December 2012	–

Provisions are analysed as follows

	2012 £ million	2011 £ million
Current	–	0.1

These provisions were in respect of dilapidations for properties under operating leases

13. Operating lease commitments

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

	2012 £ million	2011 £ million
In the second to fifth years	0.1	0.5

14. Derivative financial instruments

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

15. Capital and reserves

	£ million				
	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account ²	Total
At 1 January 2012	22.2	20.2	11.3	175.8	229.5
Share cancellation	(0.5)	–	0.5	–	–
Profit for the year ³	–	–	–	49.6	49.6
Share-based payment ⁴	–	–	–	1.0	1.0
Actuarial loss recognised on defined benefit pension plans	–	–	–	(8.7)	(8.7)
Deferred tax on defined benefit pension plans	–	–	–	1.6	1.6
Share repurchase	–	–	–	(19.3)	(19.3)
Equity dividends	–	–	–	(12.7)	(12.7)
Employee share ownership trust	–	–	–	1.4	1.4
At 31 December 2012	21.7	20.2	11.8	188.7	242.4

Notes

- 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.
- The Company's profit and loss account of £188.7 million (2011 £175.8 million) includes no non-distributable reserves (2011 £6.9 million).
- The profit for the year dealt with in the financial statements of the Company was £49.6 million (2011 £41.8 million) which after dividends of £12.7 million (2011 £10.9 million), gave a retained profit of £36.9 million (2011 £30.9 million).
- Share based payment has been recorded for subsidiary companies whose incentives are satisfied by the Company's shares.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

15. Capital and reserves continued

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

	Number of Ordinary Shares million
Issued and fully paid Ordinary Shares of 3¹/₂ pence each at 1 January 2012	664.0
Cancelled during the year ¹	(13.4)
Issued and fully paid Ordinary Shares of 3¹/₂ pence each at 31 December 2012	650.6

Note

- 1 During 2012, under the programme of returning capital to shareholders, the Company repurchased 13.4 million (2011 13.2 million) Ordinary Shares on market which were subsequently cancelled

During 2012 and 2011 no Ordinary Shares were transferred from the SST to satisfy options exercised under the UK all employee share schemes and in 2012 5.6 million Ordinary Shares were transferred from the ESOT to satisfy options exercised under the Spirent Stock Incentive Plan and 2005 Employee Incentive Plan (2011 0.4 million Ordinary Shares). 4.4 million Ordinary Shares were purchased and placed into the ESOT during 2011.

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2012 and 28 February 2013, the date on which these financial statements have been signed.

Investment in own Ordinary Shares

At 31 December 2012, the ESOT held 2.3 million Ordinary Shares (2011 7.9 million Ordinary Shares) to satisfy awards under various share incentive plans. In addition at 31 December 2011 the ESOT held 0.1 million Ordinary Shares which were the beneficial property of an employee/shareholder. At 31 December 2012, the SST held 0.5 million Ordinary Shares (2011 0.5 million Ordinary Shares) to satisfy awards made to UK based employees under an all employee share scheme. The market value of own Ordinary Shares held in trust, being in total 2.8 million Ordinary Shares (2011 8.5 million Ordinary Shares), at 31 December 2012 was £4.2 million (2011 £10.0 million).

Capital redemption reserve

During 2012 the Company cancelled 13.4 million Ordinary Shares (2011 13.2 million Ordinary Shares) that had been the subject of the on market share repurchase programme and transferred £0.5 million (2011 £0.4 million) to the capital redemption reserve.

Share repurchase

During 2012 the Company repurchased 13.4 million Ordinary Shares on market at a cost of £19.3 million (2011 17.6 million Ordinary Shares at a cost of £21.7 million). All shares repurchased in 2012 (2011 13.2 million) were subsequently cancelled. In 2011 4.4 million Ordinary Shares were placed into the ESOT.

Share buyback obligation

On 31 December 2012 the Company entered into an irrevocable agreement with UBS Limited to purchase up to a maximum of 3.4 million Ordinary Shares at no more than 105 per cent of the average market value of a share for the five business days immediately preceding the day on which the share is purchased, and at a maximum price of 145 pence per share, from 10 January 2013 to 27 February 2013, on their behalf. This agreement entered into in respect of share buybacks during the close period has been recognised as a financial liability of £5.0 million.

As at the close of business on 27 February 2013, 0.1 million shares had been repurchased under this buyback programme at 145 pence per share for a total consideration of £0.2 million. The remaining liability expired at close of business on 27 February 2013.

15. Capital and reserves continued**Employee share plans**

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

Movements in share incentives during the year to 31 December 2012 are shown below.

	2005 Employee Incentive Plan		Spirent Stock Incentive Plan		1995 Executive Share Option Scheme	
	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence
Incentives outstanding at 31 December 2010	1.8	17	0.7	53	1.2	135
Granted	0.5	2	–	–	–	–
Exercised	(0.3)	–	(0.1)	65	–	–
Cancelled	(0.1)	–	–	–	–	–
Expired	–	–	–	–	(0.1)	305
Incentives outstanding at 31 December 2011	1.9	16	0.6	50	1.1	116
Granted	0.6	8	–	–	–	–
Exercised	(0.3)	4	(0.6)	50	(1.0)	123
Cancelled	(0.6)	–	–	–	–	–
Incentives outstanding at 31 December 2012	1.6	21	–	–	0.1	69
Incentives exercisable at 31 December 2011	0.6	50	0.6	50	1.1	116
Incentives exercisable at 31 December 2012	0.5	50	–	–	0.1	69

The weighted average share price at exercise date was 154.8 pence (2011 119.4 pence).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

15. Capital and reserves continued

The following information relates to outstanding share incentives at 31 December 2012

Share plan	Exercise period (as at 31 December)	Range of exercise prices pence	Weighted average exercise price pence	Number of share incentives outstanding million	2012		2011	
					Weighted average remaining contractual life years	Weighted average exercise price pence	Number of share incentives outstanding million	Weighted average remaining contractual life years
2005 Employee Incentive Plan ¹	25 08 08 – 20 03 22	0–53	18	1.6	7.4	15	1.9	4.6
Spirent Stock Incentive Plan	25 08 06 – 09 08 13	43–53	–	–	–	49	0.6	1.1
	30 06 05 – 17 04 14	59–69	–	–	–	60	–	1.8
1995 Executive Share Option Scheme	30 06 07 – 29 06 14	69	69	0.1	1.5	69	0.2	2.5
	02 04 05 – 01 05 12	113–134	–	–	–	125	0.9	0.3
				1.7			3.6	

Note

1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance shares in aggregate. No exercise price is payable on the vesting of a Performance share.

Description of employee share plans

Discretionary Plans

2005 Employee Incentive Plan ("EIP")

The EIP, which was approved by shareholders and introduced in 2005, is available for selected employees, including executive directors, on a discretionary basis.

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

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

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 55 to 67.

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

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

15. Capital and reserves 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 SSIP awards made to Bill Burns prior to his appointment as Chief Executive Officer and to certain other key senior managers within the Communications group, were subject to the Company meeting EPS growth targets over the vesting periods. All outstanding awards have now passed their EPS performance conditions and remain exercisable until they expire on the seventh anniversary of their respective grant dates.

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

1995 Executive Share Option Scheme ("ESOS")

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

Under the ESOS awards of share options, including HMRC approved options, were on a discretionary basis. No price was payable on the grant of an option and no options were granted at a discount to the market price.

The normal exercise period for options granted under the ESOS is between the third and tenth anniversary of the date of grant. Options awarded under the ESOS were subject to the achievement of an EPS performance condition before they could be exercised. All outstanding options have now passed their EPS performance conditions and remain exercisable until they expire on the tenth anniversary of their respective grant dates.

*All Employee Plans**UK Employee Share Purchase Plan ("UK ESPP")*

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

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

2005 Sharesave Scheme

The 2005 Sharesave Scheme was approved by shareholders in 2005 and was introduced following the expiry of the Savings Related Share Option Scheme. The scheme is an HMRC approved Save-As-You-Earn scheme open to all UK employees, subject to a qualifying service period. 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. No invitations have yet been made under this scheme.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

16. Share-based payment

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

	2012 £ million	2011 £ million
2005 Employee Incentive Plan	0.6	0.3

All schemes are equity-settled

For 2012 the fair value of share incentives has been estimated as at the date of grant using the Hull-White trinomial model

The following table gives the assumptions made in arriving at the share-based payment charge and the fair value

	2012	2011
Weighted average share price (pence)	153.1	143.2
Weighted average exercise price (pence)	7.6	1.9
Weighted average fair value (pence)	92.6	133.7
Expected volatility (%)	35.0	36.5
Option life (years)		
Performance shares	3	3
Options and SARs	10	10
Suboptimal exercise factor	1.5	–
Risk free rate (%)	2.4	2.0–3.6
Dividend yield (%)	1.6	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 risk free rate is calculated by reference to UK government bonds.

17. Related party transactions

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

18. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 135 of this Annual Report.

19. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2012 or 31 December 2011.

Spirent Communications plc has provided indemnities of £0.1 million (2011 £0.2 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

PRINCIPAL DIVISIONS AND SUBSIDIARIES

	% held at 31 December 2012
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
Japan	
Spirent Communications Japan KK (Tokyo)	100
People's Republic of China	
Spirent Communications Technology (Beijing) Limited*	100
Singapore	
Spirent Communications Singapore Pte Limited	100
Taiwan	
Spirent Communications Taiwan Limited (Taipei)	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	
Germantown, Maryland	

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.

FINANCIAL HISTORY

	\$ million				
	2012	2011	2010	2009	2008
Summary income statement					
Continuing operations					
Revenue	472.4	470.5	422.8	369.4	415.7
Operating profit	109.2	113.0	103.9	78.9	82.1
Net finance income/(costs)	1.5	1.3	(0.5)	(1.9)	5.0
Exceptional net finance costs	—	—	—	—	(3.3)
Profit before tax	110.7	114.3	103.4	77.0	83.8
Tax	(29.0)	(26.4)	(30.9)	8.5	(0.6)
Exceptional tax	—	—	—	—	47.3
Profit from continuing operations after tax	81.7	87.9	72.5	85.5	130.5
Discontinued operations	47.1	6.7	6.6	5.7	7.9
Profit attributable to owners of parent Company	128.8	94.6	79.1	91.2	138.4
Summary balance sheet					
Intangible assets	207.4	123.2	112.0	112.4	111.7
Property, plant and equipment	34.1	35.5	29.1	23.6	26.8
Working capital (excluding cash and deferred tax)	7.3	13.8	10.4	8.3	23.0
Operating assets	248.8	172.5	151.5	144.3	161.5
Derivative financial instruments (net)	—	—	(0.2)	0.8	(8.1)
Net funds including long term cash	249.0	237.2	225.0	175.7	89.6
Provisions and other liabilities	(5.0)	(4.5)	(7.6)	(11.4)	(17.1)
Deferred tax	28.4	29.4	31.3	42.5	17.5
Defined benefit pension plan (deficit)/surplus	(25.6)	(12.4)	7.1	(0.1)	2.8
Net assets	495.6	422.2	407.1	351.8	246.2
Total equity	495.6	422.2	407.1	351.8	246.2
Summary cash flows					
Cash flow from operating activities	105.1	98.7	99.4	96.1	88.3
Net interest received	0.6	0.9	0.8	0.6	2.6
Net capital expenditure	(14.3)	(23.5)	(17.6)	(10.2)	(12.8)
Free cash flow	91.4	76.1	82.6	86.5	78.1
Acquisitions and disposals	(32.1)	(14.5)	—	—	—
Share capital and share repurchase	(29.4)	(33.0)	(15.0)	2.7	(112.9)
Dividends paid	(20.3)	(17.5)	(13.7)	(12.1)	(6.4)
Transfer from long term deposit	0.3	0.4	0.6	2.2	2.2
Net increase/(decrease) in cash and cash equivalents	9.9	11.5	54.5	79.3	(39.0)

	\$ million				
	2012	2011	2010	2009	2008
Other information – continuing operations					
Expenditure on property, plant and equipment	15.9	20.1	17.5	9.8	13.0
Depreciation	14.6	12.7	11.4	12.9	15.6
Product development	86.1	83.3	75.8	70.8	79.6
Share information					
Earnings per share from continuing operations (cents)					
Basic	12.46	13.17	10.79	12.82	17.67
Diluted	12.41	13.07	10.69	12.75	17.55
Adjusted basic ^{1,2}	13.38	12.92	10.90	10.28	11.04
Total dividend per Ordinary Share (cents)	3.22	2.93	2.50	1.93	1.85
Fully paid Ordinary Shares in issue at year end (number million)	650.6	664.0	674.9	678.1	671.8
Segmental analysis – continuing operations					
Revenue					
Performance Analysis	434.0	416.4	365.8	316.8	353.7
Service Assurance	38.4	54.1	57.0	52.6	62.0
	472.4	470.5	422.8	369.4	415.7
Operating profit					
Performance Analysis	116.4	115.1	97.9	78.3	83.1
Service Assurance	8.4	7.0	13.0	7.5	8.9
Corporate – non-segmental	(5.4)	(5.2)	(5.2)	(4.9)	(5.8)
Operating profit ¹	119.4	116.9	105.7	80.9	86.2
Exceptional items – Service Assurance	(2.9)	–	–	–	–
Acquisition related costs	(1.2)	(1.2)	–	–	–
Acquired intangible asset amortisation	(4.5)	(1.6)	(1.4)	(1.4)	(1.3)
Share-based payment	(1.6)	(1.1)	(0.4)	(0.6)	(2.8)
	109.2	113.0	103.9	78.9	82.1
Geographical information – continuing operations					
Revenue by market					
United States	239.2	238.8	230.0	195.9	220.3
Asia Pacific, Rest of World	166.0	159.1	126.3	117.9	121.4
Europe	67.2	72.6	66.5	55.6	74.0
	472.4	470.5	422.8	369.4	415.7

Notes

1 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share based payment

2 Before tax effect of items in note 1 and prior year tax

SHAREHOLDER INFORMATION

Financial calendar 2013

28 February 2013	Preliminary results and final dividend announcement
6 March 2013	Final dividend – ex-dividend date
8 March 2013	Final dividend – record date
1 May 2013	Annual General Meeting and interim management statement
3 May 2013	Final dividend – payment date (Ordinary shareholders)
10 May 2013	Final dividend – payment date (ADR holders)
30 June 2013	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 2013	Financial year end
February/March 2014	2013 Preliminary results and final dividend announcement

Ordinary shares and American depositary receipts

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

Annual General Meeting

The Company's 2013 Annual General Meeting ("2013 AGM") will be held at 10.30am on Wednesday 1 May 2013 at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, United Kingdom.

Dividends

Shareholders are able to choose how they receive their dividends

- direct to their bank account,
- reinvested in Ordinary Shares through the Company's Dividend Reinvestment Plan (see below),
- paid by cheque, or
- paid in foreign currencies

The quickest and most efficient way to receive your dividends is to have them paid direct to your bank account. It saves waiting for funds to clear and reduces the paper and postage we use. To change how you receive your dividends please contact the Company's registrar, Equiniti, on 0871 384 2268 or log on to www.shareview.co.uk

Dividend reinvestment plan

The Company has a Dividend Reinvestment Plan ("DRIP") delivered by Equiniti Financial Services Limited. The DRIP allows eligible shareholders to use their cash dividend to buy additional shares in the Company, so increasing their shareholding. If you would like additional information, please contact the Company's registrar, Equiniti, on 0871 384 2268 or log on to www.shareview.co.uk

Electronic communications

All of the Company's communications with shareholders are conducted in line with our environmental approach. We hold the majority of our events via webcast and conference calls and we encourage all of our investors to receive communications electronically. Shareholders who do not currently receive Company mailings electronically but wish to do so should notify the Company's registrar, Equiniti, on 0871 384 2126 or via www.shareview.co.uk

Company's registrar

Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to the Company's registrar, Equiniti, on 0871 384 2126. Equiniti also provide a range of online shareholder information services at www.shareview.co.uk, where shareholders can check their holdings and find practical help on transferring shares or updating their details.

Share dealing services

Equiniti Shareview Dealing is a service that provides a simple and convenient way of buying and selling the Company's Ordinary Shares. For telephone services call 08456 037 037 between 8 00am and 4 30pm, Monday to Friday and for internet services visit www.shareview.co.uk/dealing. A postal share dealing service for buying and selling Ordinary Shares is also available and a dealing form can be obtained by calling 0871 384 2248 or at www.shareview.co.uk.

Individual savings accounts

Information about investing in the Company's Ordinary Shares through an Individual Savings Account ("ISA") may be obtained from Equiniti on 0845 300 0430 or at www.shareview.co.uk. ISAs are also offered by other organisations.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in the Company's mailings or on our website. More detailed information can be found at www.fsa.gov.uk/consumerinformation.

Unsolicited mail

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

Company's website

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

SHAREHOLDER INFORMATION CONTINUED

Shareholder analysis

At 28 February 2013, the number of registered shareholders was 3,700 and the number of Ordinary Shares in issue was 650.5 million

Number of Ordinary Shares held	Number of shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
1–5,000	2,615	70.68	3,687,009	0.57
5,001–10,000	365	9.86	2,707,445	0.42
10,001–50,000	380	10.27	8,202,094	1.26
50,001–100,000	74	2.00	5,297,179	0.81
100,001–250,000	69	1.86	11,267,396	1.73
250,001–500,000	54	1.46	20,709,314	3.18
500,001–1,000,000	44	1.19	30,234,660	4.65
1,000,001–highest	99	2.68	568,377,718	87.38
Total	3,700	100.00	650,482,815	100.00

	Number of holders	% of total holders	Number of Ordinary Shares	% of total shares
Individuals	2,905	78.51	14,320,677	2.20
Institutions	795	21.49	636,162,138	97.80
Total	3,700	100.00	650,482,815	100.00

GLOSSARY

2G (Second Generation)	Second generation remains the most common type of wireless cellular communication in use globally. Although its primary focus has been voice service and short message service ("SMS"), it has also been enhanced to allow low rate data communication.
3G (Third Generation)	Third generation of mobile communications that promises data rates of hundreds of kilobits per second to tens of megabits per second.
4G (Fourth Generation)	Fourth generation of mobile communications that promises data rates of tens to hundreds of megabits per second. Future 4G technologies promise data rates in excess of one gigabit per second.
Application Security	The use of software, hardware and procedural methods to prevent security flaws in applications and protect them from external threats.
Backhaul	The portion of a network that comprises the intermediate links between the core network, or backbone, and the sub-networks at the "edge" of the entire hierarchical network.
BeiDou-2 (formerly Compass)	China's second generation global satellite navigation system, which is under construction but eventually planned to consist of 35 satellites. Service was launched in China during 2011, with plans to provide service globally by 2020.
Bluetooth	A wireless technology used to exchange data between devices over short distances, generally less than 10 metres (33 feet), using a low power, low cost transceiver in the devices.
Broadband	Generic term for bit rates greater than approximately 1.5 to 2 megabits per second.
CDMA (Code Division Multiple Access)	A digital cellular technology standard which allows numerous signals to occupy a single transmission channel, thus increasing network capacity, used in 2G and 3G radio communications.
Cellular Networks	Wireless communications networks consisting essentially of two parts: the Radio Access Network ("RAN"), which controls transmission and reception of radio signals, and the Core Network, which provides switching, transport and enhanced services for traffic emanating from and directed to the cellular network's RAN.
Chipset Platforms	A device (a chip or part of a chip) that comprises a baseband processor to manage the radio functions in a mobile device, which may include Wi-Fi and Bluetooth. Some chipset platforms may also integrate an application processor.
Cloud Computing	The delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a metered service over a network (typically the internet).
Content Delivery	The delivery of media content such as audio, video, software and video games over online delivery mediums, such as broadcasting or the internet.
Converged Network	A single network able to carry voice, video and data. Usually based on Internet Protocol ("IP").
Core Networks	A combination of high capacity switches and transmission facilities which form the backbone of a carrier network. End users gain access to the core of the network from the Edge Network.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
Deep Packet Inspection	A term used to describe the capabilities of a firewall or an intrusion detection system to look within the application payload of a packet or traffic stream and make decisions on the significance of that data based on the content of that data.

GLOSSARY CONTINUED

DSL (Digital Subscriber Line)	Technology that uses existing telephone/copper lines to transport high bandwidth data such as multimedia and video to service subscribers
Ethernet	A family of networking technologies originally developed for local area networks, which migrated to metro area networks and eventually became the dominant standard in wireline networks worldwide
Galileo	A global navigation satellite system being built by the European Union and European Space Agency that will offer users anywhere in the world “metre-class” geographic positioning when it becomes operational between 2014 and 2019
Gateway	An internetworking system capable of joining together two networks that use different base protocols
GbE (Gigabit Ethernet)	A transmission technology based on the Ethernet frame format and protocol used in local area networks that provides a data rate of 1 billion bits per second (one gigabit) and which is used as the backbone in many enterprise networks
GLONASS (Global Navigation Satellite System)	A global navigation satellite system operated by the Russian Federation. Deployment began in 1976 and, although the system fell into disrepair in the 1990s, full global service was restored in 2011
GNSS (Global Navigation Satellite Systems)	The standard generic term for satellite navigation systems that provide autonomous geo-spatial positioning with global coverage. GNSS allows users’ receivers to determine their location to within a few metres by employing a triangulation technique that uses information from multiple satellites
GPS (Global Positioning System)	A global navigation satellite system operated by the United States government for determining a user’s location and height at any point on the earth’s surface. A receiver uses minute differences in measured time signals from clocks on satellites to calculate these positions and altitudes
IMS (Internet Protocol Multimedia Subsystems)	A standardised next-generation architecture for telecoms operators who want to provide mobile and fixed multimedia services
Intrusion Detection/Prevention	A technology that gathers and analyses information across gateways, servers and desktops to identify possible security breaches that can occur from within or outside an organisation
IP (Internet Protocol)	A network protocol used on the internet and other network devices to facilitate and control the flow of data. Each computer (known as a host) has at least one IP address that uniquely identifies it from all other computers
Infrastructure Test Optimization	The practices required to ensure that infrastructures meet a defined quality of service and quality of experience that are necessary to meet strategic business objectives
Load Balancer	In server farms, a load balancer accepts IP packets and then distributes them among identical web servers, enabling web servers to be added or taken out of service as loads fluctuate
Location Based Services	The delivery of location specific information, mapping, business and public data over a wireless network. These services require the ability to locate a user’s mobile device by means of direct satellite or cellular assisted satellite signals
LTE (Long Term Evolution)	An advanced wireless data communications technology standard (sometimes called “4G”) which is an evolution of 3G UMTS standards. In addition to a new wireless interface specification, LTE uses a simplified flat IP-based network architecture

LTE-Advanced	An evolution of LTE technology, specified in 3GPP Release 10 and later specifications, regarded by some as the first true 4G technology
Mobile Packet Core	An integrated IP-based mobile transport network with the ability to support 2G, 3G and LTE coexistence
Multiple-System Operator	A company that owns more than one cable system, often in different locations. Most commonly used to refer only to companies that own a large number of cable systems
NFC (Near Field Communication)	A standard for smartphones and similar devices which allows them to establish radio communication with each other by touching them together or bringing them into close proximity, usually no more than a few centimetres. Applications include contactless transactions (such as payments) and data exchange
OpenFlow	An open standard network protocol from the Open Network Foundation ("ONF"). OpenFlow enables software-defined networking for programmable networks
OTA (Over-the-Air)	Any kind of event, transfer, or transaction that takes place wirelessly using the cellular network, as opposed to using a cable or other local connection. Testing of mobile device performance is commonly carried out using OTA techniques that take into account antenna design and implementation
Physical Layer	In the Open Systems Interconnection ("OSI") communications model, the physical layer supports the electrical or mechanical interface to the physical medium
RF (Radio Frequency)	A technology used for wireless broadcasting and/or communications that uses radio waves within the range over which they may be transmitted, from about 3 kilohertz to about 300,000 megahertz
SDN (Software Defined Networking)	An approach to networking in which control is decoupled from hardware and given to a software application called a controller
Small Cell	A generic term for microcells, picocells and femtocells. Small cells provide network coverage in dead zones within a macrocell (the coverage area of a traditional cellular base station) and extra network capacity by offloading mobile data traffic from macrocells
Switch	A mechanical, electrical or electronic device which opens or closes circuits, completes or breaks an electrical path, or selects paths or circuits
Switching Fabric	The component at the heart of a data communications switch that allows any input port to send data to any output port
TD-LTE (Time Division LTE)	LTE standards accommodate cellular network and subscriber transmissions in different frequency bands (Frequency Division Duplex), as well as in the same frequency band (Time Division Duplex, often referred to as TD-LTE). TD-LTE is expected to be widely deployed in major Asian markets such as China, India and Japan, as well as parts of North America and Europe
TDM (Time Division Multiplexing)	A digital transmission method that combines signals from multiple sources on a common path increasing capacity
Test Automation	The ability to control all elements of a test system from a single point in order to execute test cases automatically
Timing	Clock synchronization between the different elements in a communications network
UMTS (Universal Mobile Telecommunications System)	The most common 3G wireless technology globally, which uses WCDMA on its underlying air interface and offers support for data transfer rates from hundreds of kilobits per second to tens of megabits per second

GLOSSARY CONTINUED

Virtualization	Technologies designed to provide a layer of abstraction from the physical characteristics of computing resources to simplify the way in which other systems, applications, or end users interact with those resources
VoLTE (Voice over LTE)	A standards-based scheme adopted by the GSMA, the cellular industry's association, to provide voice service over data-only LTE networks. VoLTE's use of an IP Media Subsystem enables voice to be offered as part of a rich communications solution, integrated with services such as messaging, live video sharing and file transfer
WCDMA (Wideband CDMA)	An International Telecommunication Union standard derived from CDMA which is used globally in 3G mobile communications
Wi-Fi	A mechanism that enables devices such as personal computers, video game consoles, smartphones or digital audio players to exchange data wirelessly over a computer network and connect to network resources, such as the internet. Coverage ranges from a few rooms to several square miles, depending on the number of access points used

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