HELPING THE WORLD CONNECT

Spirent Communications plc
Annual Report 2013

Welcome

Welcome to the Spirent Group annual report for 2013.

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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 for the communications industry. Our solutions shorten our customers' product development lifecycle, improve the quality and reliability of their new and existing services, whilst reducing their associated cost and risk.

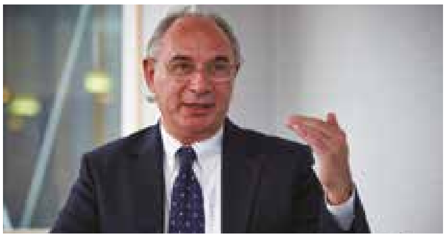
Spirent employs 1,500+ talented people working in 15 countries who serve our 1,200 customers worldwide.

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

Spirent VR5 quality assurance

1

STRATEGIC REPORT

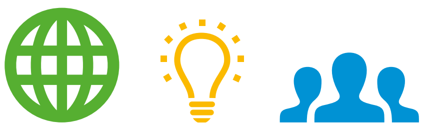


CHIEF EXECUTIVE'S REVIEW 8

Our CEO discusses the market trends in 2013 and explains the organisational changes made following his appointment in September 2013.

2

GOVERNANCE



OUR STRATEGY 16

In this section we discuss the key components of our strategy, what we have achieved in 2013 and what we plan to achieve in 2014 in order to ultimately realise our vision.

3

FINANCIAL STATEMENTS

OTHER INFORMATION

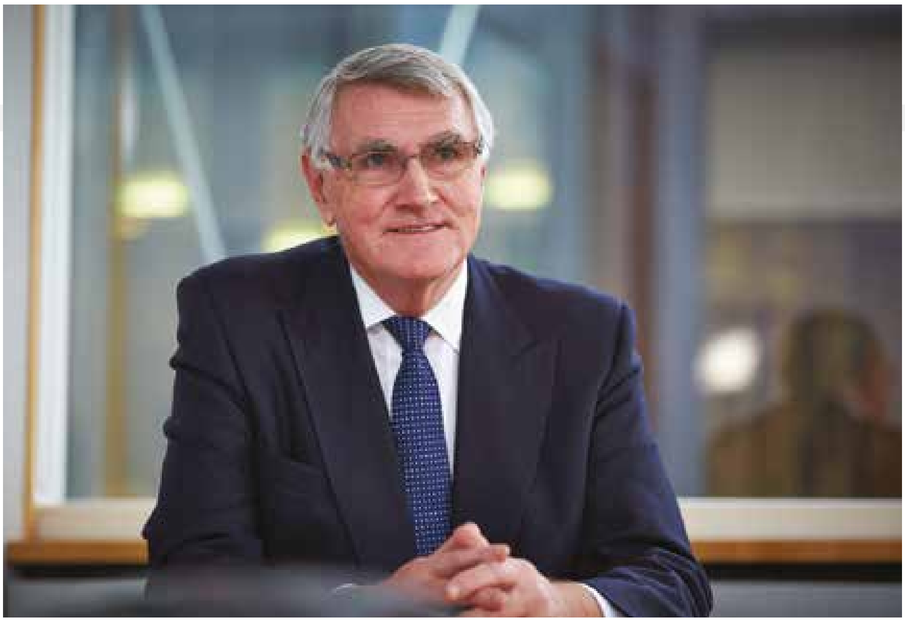
Chairman's statement

The changes made in 2013 will take time to be fully reflected in the financial performance of the Company, but it is planned to restore revenue to growth in 2014 which will fund the necessary investment in product development and in the expansion of the sales and marketing activities for the long term growth of the business.

Total dividend

3.54¢

+10%



Alex Walker
Chairman

2013 is a year that marks a turning point for the Company. The impact on the business due to the significant changes in our markets and accelerating shifts in the structure of the industry we serve has been marked. These trends manifested themselves through intense competition in the data center market, wireless device vendors seeing lower profitability combined with a lull in new technology and service launches. In addition, under investment in development of new test systems in some parts of the business in previous years and the lack of expansion of our products into new markets has had a negative impact. In response, we have undertaken a radical reorganisation of the activities within Spirent with the key strategic objective to create long term value by harnessing Spirent's leading capabilities and talent. It will take time to be fully reflected in the financial performance of the Company, but it is planned to restore revenue to growth in 2014 which will fund the necessary investment in product development and in the expansion of the sales and marketing activities for the long term growth of the business.

Group revenue reduced to $413.5 million (2012 $472.4 million). This resulted in a considerable fall in reported profit before tax to $39.1 million (2012 $108.4 million). The first half-year saw revenue fall by 19 per cent, but the rate of decline slowed in the second half-year with revenues down by 6 per cent and underlying stability in order intake. The order book increased by $21.4 million in 2013 (2012 a reduction of $14.5 million). Operational highlights included the release of next-generation products for Ethernet test, the launch of our advanced applications and security test system Avalanche NEXT and the delivery of test solutions for China's regional satellite navigation system, BeiDou.

Return on sales based on adjusted operating profit was 12 per cent for the Group, down from 25 per cent last year, reflecting the impact of the fall in revenues and the investment in the business to drive recovery and long term growth. This investment was in the expansion of our operating capabilities: product development expenditure has been increased by $14.4 million and sales and marketing by $4.9 million.

Basic earnings per share for the continuing Group decreased in 2013 to 5.10 cents per share (2012 12.11 cents). Adjusted basic earnings per share was 5.71 cents (2012 13.02 cents); this is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

The Group's free cash flow generation was $43.9 million in 2013, (2012 $84.0 million); this is a cash conversion ratio of 1.3 times reported earnings (2012 1.1 times continuing operations). The Company has no debt and cash balances were $216.2 million at 31 December 2013.

The Board aims to achieve a high return on capital employed in the business. The operating return on capital employed in the continuing Group in 2013 was 16 per cent, excluding cash balances. The target set for return on investment in acquired businesses is 16 per cent. Returns are low to negligible on cash balances, which are retained to allow surety of completion for acquisition negotiations. Whilst the Company continues to expect to invest in acquisitions which are in line with the strategy, it is also committed to returning surplus capital as appropriate. To that end, during 2013 the balance of the proceeds of the divestment of the Systems business, approximately $33 million, was applied to the repurchase of Spirent shares in the market for cancellation and the programme extended beyond this. In total 29.2 million shares were repurchased for $55.5 million in 2013. No further buybacks are currently planned.

I am delighted to report the completion of the acquisition of the business of DAX Technologies Corp. ("DAX") for a cash consideration of $37.0 million. The acquisition of DAX will enable Spirent to combine measurements and data from its solutions in the lab and in live networks, delivering high value solutions and expertise that help customers deploy and manage complex new networks and services faster and more effectively.

In addition, today we are announcing the completion of the acquisition of a majority stake of 58 per cent of Testing Technologies IST GmbH ("Testing Tech") for a cash consideration of Euro 2.0 million. This acquisition, although small in size, is an important step in the progression of Spirent's strategy to enter the automotive market.

We very much welcome the employees of both these companies into the Spirent Group.

The final dividend recommended is 2.01 cents per share compared with 1.83 cents per share in 2012. This brings the total dividend for 2013 to 3.54 cents per share compared with 3.22 cents for 2012. The increase in total dividend per share is 10 per cent. In sterling terms this represents an increase in the distribution to our shareholders of 5 per cent.

Board changes

September 2013 saw a change in senior management with Bill Burns stepping down as Chief Executive Officer and replaced in the role by Eric Hutchinson. Rachel Whiting, who has extensive financial experience and long service with Spirent, was welcomed to the Board in February 2014 as Chief Financial Officer.

Outlook

The disruption and structural changes experienced in our markets in the first half of 2013 stabilised during the second half-year. The reorganisation of the Group in the fourth quarter of 2013 has released creativity and energy, which is driving a dynamic change in the responsiveness and agility of our businesses. We continue to see opportunities arising through infrastructure investment in the wireless networks worldwide and in the development and rollout of virtual and cloud based services.

In 2014, we anticipate that Spirent's revenue will be linked to recovery in China, growth in the Americas and expected stability in the European market and we look to achieve high single digit organic growth.

This year the Group intends to make an additional investment of around $33.0 million in future growth, in particular through a 15 per cent increase in product development, extending the sales channel to break into new areas, expanding Spirent's capabilities in the core markets that it serves and by entering new markets including automotive and enterprise. Whilst there continue to be near term uncertainties, activity levels at the beginning of 2014 are in line with our expectations. The Board remain confident that progress will be achieved and that the Group will benefit from the investment to create long term strategic value.

Results and highlights

The disruption and structural changes experienced in our markets in the first half of 2013 stabilised during the second half-year. The reorganisation of the Group in the fourth quarter of 2013 has released creativity and energy, which is driving a dynamic change in the responsiveness and agility of our businesses.

Revenue[4] ($ million)

09	369.4
10	422.8
11	470.5
12	472.4
13	413.5

Adjusted operating profit[1,4] ($ million)

09	79.8
10	104.4
11	116.1
12	118.3
13	50.1

Basic earnings per share[4] (cents)

09	12.92
10	10.80
11	13.07
12	12.11
13	5.10

Adjusted basic earnings per share[1,2,4] (cents)

09	10.39
10	10.92
11	12.81
12	13.02
13	5.71

Dividend per share (cents)

09	1.93
10	2.50
11	2.93
12	3.22
13	3.54

Free cash flow[3,4] ($ million)

09	76.4
10	75.5
11	69.3
12	84.0
13	43.9

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

- Group revenue of $413.5 million (2012 $472.4 million); with a sequential improvement of 17% in the second half-year compared with the first half of 2013.
- Book to bill ratio was 105 (2012 97) reflecting the improving market dynamics in the second half of 2013 and Spirent's key product launches.
- Group adjusted operating profit of $50.1 million (2012 $118.3 million) on lower revenue and after increased investment in product development and sales and marketing of $19.3 million compared to the prior year.
- Dividend increased by 10%. Final dividend proposed of 2.01 cents per Ordinary Share, giving a full year dividend of 3.54 cents per Ordinary Share.
- Free cash flow of $43.9 million (2012 $84.0 million); cash closed at $216.2 million after share buybacks and dividends totalling $76.9 million.

Operational and strategic

There were strong headwinds in certain market segments and geographies exacerbated by historical under investment in certain parts of the business given the significant changes in the industry:

- Intense competition in the data center market and spending shifting to virtual and cloud based services.
- Wireless device vendors experienced lower profitability and a lull in new technology and service launches.
- Adverse macro-economic conditions in Europe coupled with spending caution by Chinese customers earlier in the year.

In spite of these challenges there were areas of progress:

- Structural reorganisation of the Group into business units to create maximum focus on meeting customers' changing needs as reported in January 2014.
- Service providers increased infrastructure spending on high density core routers and 100G Ethernet.
- Spirent introduced a family of next-generation high speed Ethernet test solutions, incorporating market leading realism and scale, to address increasing complexity and the explosion of data traffic in service provider and data center networks.
- Launched Avalanche NEXT, a powerful, easy-to-use solution that tests the performance, scalability and security of application-aware network infrastructures with positive feedback from customers.
- Underscored our industry leadership in GNSS testing with the first commercially available support for the Chinese BeiDou satellite navigation system.

Post balance sheet events

- Acquisition of the business of DAX Technologies Corp. ("DAX") for a cash consideration of $37.0 million announced on 18 February 2014. DAX is a leading provider of customer experience management solutions and will be reported within our Service Assurance division.
- Completion of the acquisition of a majority stake of 58% in Testing Technologies IST GmbH for a cash consideration of Euro 2.0 million on 20 February 2014. The company, based in Berlin, Germany, develops and markets standards based and customer-specific software testing tools which support the development of mission-critical products and workflow steps.

Spirent at a glance

Spirent has a broad portfolio of innovative products and services and is organised into three operating segments:

Networks & Applications

Spirent's networks and applications solutions put innovation to the test within labs, networks and IT organisations.

We enable our customers' success in development and deployment of communications networks, services and applications. Our broad solutions portfolio addresses data centers, cloud computing, virtualized environments, security, high speed Ethernet networks and services, and infrastructure test optimization.

Wireless & Service Experience

Spirent's wireless and service experience solutions apply our innovation to functional and performance testing of 4G/LTE and 3G mobile devices, services and infrastructure, and satellite positioning devices, under real-world conditions in the lab prior to commercial launch.

The portfolio also includes tools and services for end-to-end measurement of the mobile experience on live networks, on any device and on any operating system. These solutions help our customers to minimise the risks associated with deployment of new technologies, devices and services.

Service Assurance

Spirent's service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network.

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.

Divisional focus

- Ethernet
- Data center/cloud computing
- Applications and security
- Test optimization
- Wireless infrastructure

Revenue

$213.4M

(2012 $259.5M)

Page 30 for the full Operational review for Networks & Applications

Divisional focus

- Wireless devices
- Wireless channel emulation
- Satellite navigation and global positioning
- Wireless service experience

Revenue

$167.7M

(2012 $174.5M)

Page 32 for the full Operational review for Wireless & Service Experience

Divisional focus

- Ethernet business services
- Wireless backhaul
- Field test solutions
- Customer experience management

Revenue

$32.4M

(2012 $38.4M)

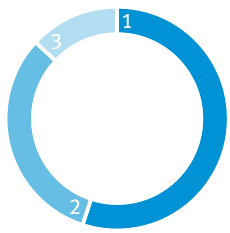
Page 34 for the full Operational review for Service Assurance

We serve 1,200 customers worldwide and have built a world-class organisation that enables Spirent to develop and maintain strong customer relationships around the globe.

Revenue

$413.5M

(2012 $472.4M)

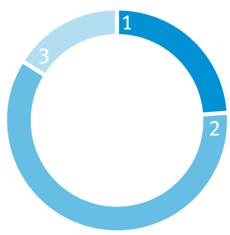


1 Americas 55%
2 Asia Pacific 32%
3 Europe, Middle East and Africa 13%

Operating profit by division[1]

$50.1M

(2012 $118.3M)

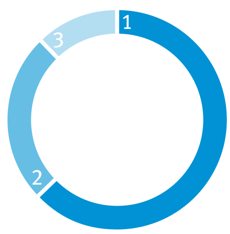


1 Networks & Applications 24%
2 Wireless & Service Experience 60%
3 Service Assurance 16%

Employees by location

1,525

(2012 1,486)



1 Americas 63%
2 Asia Pacific 25%
3 Europe, Middle East and Africa 12%

Note

1 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

Chief Executive's review

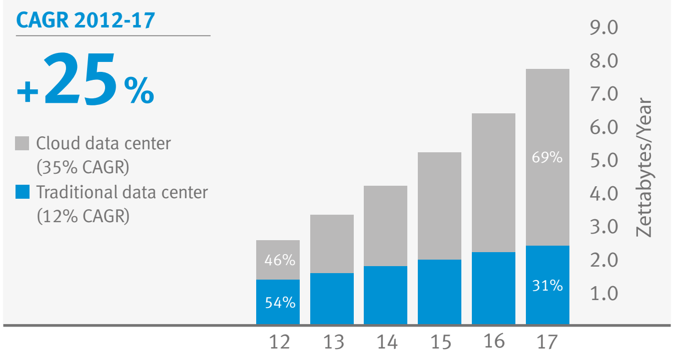
The key objectives in reorganising the Group are to enable agile decision making, to unleash the creativity and innovation of Spirent's expert and talented people and to devolve responsibility and accountability to customer facing management teams. The result will be an organisation that is more effective in delivering expert solutions that are easy-to-use by customers to manage and deploy their complex systems.

Product development

$100.5M
+17%

Eric Hutchinson
Chief Executive Officer

Cloud data center traffic will grow at a faster rate than traditional data center traffic (zettabytes per year)



Source: Cisco Global Cloud Index.

Market conditions

It has been a challenging year for Spirent; revenues have decreased and profit has been impacted significantly. The Company has lost some market share in its core markets. Technologies have been in a rapid transition and some customers have faced great difficulties, with the business performance of a number of major customers declining markedly, reducing demand for our test systems. There has been a structural change in the shape of the wireless mobile device industry, resulting in a market characterised by a very small number of profitable manufacturers. The rapid shift to deployment of a single global standard for wireless technologies, 4G/LTE, while continuing to represent an opportunity for Spirent, has also eroded the 3G technology niches where Spirent had a high market share. Regionally demand has been weak in Europe, China and in some market segments in North America. The impact of the market challenges described above was exacerbated by historical under investment by Spirent in the development of core technologies, in channels to market and in customer support.

Strategy and organisational structure

The vision for Spirent is to consolidate its position as the leading expert in test and measurement for information technology communications worldwide. In order to achieve this aim, a number of areas are an important focus of Spirent's future investment. These include: the development of new product solutions in its core businesses in Networks & Applications, Wireless & Service Experience and Service Assurance; establishment of an enterprise sales channel; enhancements to Spirent's cyber security test offering; and new solutions directed towards automotive technologies and related connectivity testing.

Furthermore, better alignment of the business internally will allow Spirent to maximise the growth areas that offer the most significant future opportunities. To this end, a number of management changes have been completed to provide a streamlined, decentralised and simplified organisational structure. These internal changes have been made to create a more agile and responsive business that better serves customer needs as well as to sharpen the business' focus on anticipating customers' requirements for the future. The Group is managed as three operating segments: Networks & Applications, Wireless & Service Experience and Service Assurance. Each segment is comprised of business units focused on delivery of particular technology solutions. Each of these business units are led by a management team under a general manager responsible for all the activities required to serve customers.

Networks & Applications

The businesses in Networks & Applications specialise in Ethernet test, applications test and network performance, cyber security, Wi-Fi offload and mobile packet core. The development of virtual test solutions to address the emerging needs of software-defined networks ("SDN") and network functions virtualization ("NFV") are a key part of the division's product portfolio. In addition, a new Infrastructure Test Optimization ("ITO") & Solutions business unit has been created to deliver test automation and professional services. This business unit will address the demands by customers for greater efficiency and effectiveness through providing lab management tools, expert analysis of data from test and measurement systems and testing services. Another new business unit has been established to apply our test technology expertise, including cloud based testing-as-a-service, to enterprise customers.

Wireless & Service Experience

Within this division the wireless business unit serves the test needs of the wireless device ecosystem. This business unit is in transition as the key served market centred on carrier acceptance test for mobile devices, 3G CDMA and UMTS mobile test requirements, has moved into long term decline, being replaced by the development and deployment of 4G/LTE technologies. Solutions now under development in the wireless business unit address the needs of those developing and deploying the next-generation of services enabled by 4G/LTE technologies and which provide for the evaluation of the mobile user's service level of experience. The positioning test business unit designs the world's leading satellite navigation simulation systems for use by equipment manufacturers and system developers that utilise the various different global and regional satellite navigation and positioning technologies. The service experience business unit's focus is on the performance of devices in the live carrier network, providing detailed analysis of the subscriber experience that allows wireless service providers and their suppliers to successfully roll out new devices and services. A new business unit has also been set up to develop solutions for emerging needs in the automotive technology market, including related connectivity challenges.

Service Assurance

For Service Assurance the primary business is the provision of live network monitoring systems for diagnostics and assurance of service levels for wireline, wireless service providers and multi-service cable operators.

The key objectives in reorganising the Group are to enable agile decision making, to unleash the creativity and innovation of Spirent's expert and talented people and to devolve responsibility and accountability to customer facing management teams. The result will be an organisation that is more effective in delivering expert solutions that are easy-to-use by customers to manage and deploy their complex systems. This will enable the Group to return to growth and to enhance the long term value of its business.

Market trends

2013 was a turning point for our industry as the shift from network and transport to applications and services accelerated, with a renewed focus on the user experience. We moved beyond just getting connected towards the age of hyper-connectivity, the internet of things and machine-to-machine ("M2M") communications, and global connectedness is just getting started...

Ethernet cemented its role as the common building block for service provider, enterprise and critical infrastructure networks. Cloud moved from being a convenience to an essential part of many people's lives as the disruptive business models of cloud service providers made a major impact. The cloud and data center segments were also impacted by new technologies such as software-defined networking ("SDN").

The move to virtualization accelerated, including strong service provider interest in the potential for network functions virtualization ("NFV") to lower costs, raise efficiency and increase agility. The entire industry faced continuing escalation of cyber-security threats, with frequent reports of high profile attacks. Security was also an issue in the Positioning technologies market, as concern grew over the vulnerability of Global Navigation Satellite System ("GNSS") applications.

Although smartphone growth continued, its focus shifted to emerging markets which caused profitability challenges for all but a very few device vendors. 4G/LTE networks were deployed at a rapid pace around the world, as the industry prepared for widespread roll outs of important new services such as Voice over LTE ("VoLTE"), looking to ensure a positive experience for users.

As a result, the testing needs of our customers have continued to increase in complexity. With its broad portfolio of products and services in the lab and in live networks, Spirent is uniquely positioned to help address this complexity, enabling the shift to application and user experience testing.

2000	2005	2008	2011	2012	2013
1ST smartphone	1BN people using the internet	0.4EB mobile data traffic	5.6BN mobile subscribers	10M new connected vehicles	954M new smartphones
			9BN connected devices		2.7BN people using the internet

Key
BN Billion
EB Exabyte
GB Gigabyte
M Million

Nigel Wright
Vice President International Sales and Marketing

"With our expertise, solutions and global reach we're a strong partner to our customers, helping them to address the internet of things, cloud and virtual roll outs."

2020

47% entertainment info in the cloud

24BN connected devices

3.1 connected devices per person

2015

300M smartmeters

52EB mobile data traffic

2016

1.6BN new smartphones

1.6GB monthly per smartphone user

2017

10BN mobile subscribers

1.4 mobile devices per person

2018

67M new connected vehicles

Source: Cisco VNI, ITU, GSMA, Gartner, US Census Bureau, Berg Insight, and others.

What we test

The boundaries of how fast, far and accurately voice and data can be transmitted have yet to be reached, or even defined – but Spirent is leading the way.

Spirent Communications is where the world's leading communications companies come to test and evaluate their next-generation devices and applications. In fact, most of the industry's significant advances have been made using our tests as the benchmark.

In an environment where everything is connected, Spirent provides hardware and software solutions, services and test methodologies that address customers' testing needs – from network equipment in a cloud data center to mobile device performance and user experience in the lab and on live networks.

Spirent is 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 addresses the demands of virtualized data centers by testing performance, availability, security and scalability, emulating the actions of millions of real-world subscribers and services to help ensure the quality of experience is maintained.

Spirent is leading the validation of software-defined networking ("SDN")/network functions virtualization ("NFV") technologies with unparalleled realism and scale and accelerating their adoption in service provider, data center and enterprise environments. We develop test methodologies to deliver business benefits without impacting the quality of service ("QoS") of the network or the user experience.

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 also provides live network monitoring systems for diagnostics and assurance of service levels for wireline, wireless service providers and multi-service cable operators, helping them to deploy and maintain efficient, cost effective and high performing networks and to reduce subscriber churn.

Spirent's services help customers around the world accelerate development and deployment by maximising their investment in Spirent test solutions through support, education and professional services.

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.

With its broad portfolio of solutions and services Spirent is uniquely positioned to address its customers' complex testing needs in areas that include:

Networks & Applications

Cloud Computing
Services moving to the cloud require end user experience to be validated as data centers are upgraded with high speed Ethernet and technologies such as SDN are introduced.

Applications & Security
Addressing the proliferation of application and vulnerability concerns for enterprise, government and service provider networks, Spirent's security test solutions offer unprecedented realism and ease-of-use.

Mobility
Spirent's unique mobility test solutions and methodologies address the mobile data explosion, growth in applications, and mobility across LTE, 2G/3G and Wi-Fi with realism and scale.

Enterprise Business
Spirent's solutions enable tuning of enterprise networks across multiple sites to maintain maximum performance, reduce IT spending, enhance scalability and resolve issues faster.

Wireless & Service Experience

Positioning Technologies
Spirent is the global leader in testing multiple positioning technologies such as GPS in mobile devices and other receivers used in an ever-increasing range of commercial and government applications.

Device Performance
Spirent works with the world's leading carriers to develop methodologies, automated solutions and services that ensure device performance meets strict acceptance criteria in the lab and on live networks.

Voice over LTE ("VoLTE")
Launching complex new 4G services like VoLTE puts extraordinary demands on networks and devices. Spirent is a leader in ensuring the successful end-to-end deployment of VoLTE and other IMS services.

Service Experience
In an age of exploding complexity and growth in mobile services, Spirent's solutions objectively predict end user quality of experience on any device, any operating system and any network.

Service Assurance

Network Service Assurance
Spirent's service assurance solutions allow service providers around the world to diagnose, troubleshoot and determine resolution of issues within mobile backhaul, business services and global IP networks to support Ethernet service delivery.

Field Testing
Spirent's field test product for service providers enables qualification of the service and troubleshooting of transport and service related issues within the consumer's home and in the outside plant.

Customer Experience Management
Spirent's customer experience and service quality management solution for service providers, aggregates and analyses data from sources including probes, network equipment, end user devices, and business systems providing real-time insights into their customers' experience.

Our business model

Spirent is an expert in communications test and measurement technology.

How Spirent creates value

Spirent's customers are the global network equipment manufacturers, service providers, mobile device manufacturers, government and enterprises, all of whom face numerous challenges to satisfy the ever-increasing demand for data capacity, reliability and security by all members of society.

Spirent's solutions enable 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 first class professional services and support. All of the above, with the optimal utilisation of our own resources, supports the sustainability of the margins Spirent achieves. Annual support and maintenance fees are an important source of continuing revenue for Spirent. Most of our manufacturing is outsourced to sub-contractors and our business is not capital intensive; hence the conversion of earnings into cash is high for the business.

An industry expert

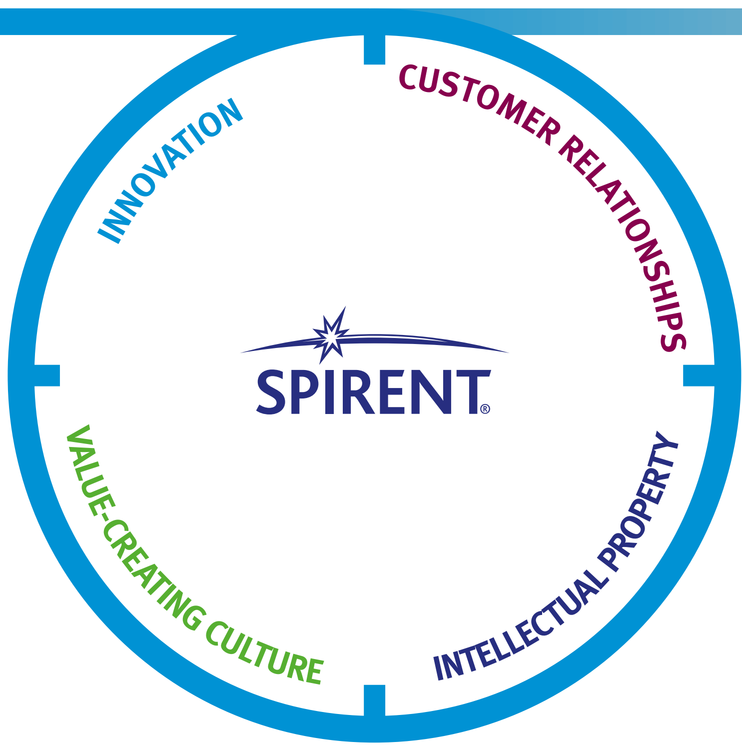
Our highly skilled people are our major resource; it is they who provide the expert knowledge needed to develop these complex solutions. Our value-creating culture is critical in providing the right environment to foster their innovation.

We maintain and build on our expertise through investment in product development engineering, the extension of our engagement with industry standards bodies, and close alignment with our customers who lead innovation in the industries we serve.

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.

Caroline Lee
EMEA HR Director



Our key strengths

At the cornerstone of Spirent's business model are the key strengths which support the strategy and are the enablers for the creation of value for shareholders and other stakeholders:

Innovation

We innovate through the endeavours of our highly skilled and creative people who build on decades of experience. External inputs are important through our technology partners as is being located in the world's leading centres for technological development.

In September 2013 Spirent launched Avalanche NEXT, a powerful, easy-to-use solution that tests the performance, scalability and security of today's application-aware network infrastructures by generating authentic traffic and attacks. The new interface is simple and streamlined, but leverages all the power of Spirent's Avalanche and Studio Performance traffic generation engines.

Test in progress using Avalanche NEXT.

Customer relationships

Customer relationships are key. Spirent's customers are the leading providers of new technologies for data communications in the world. Our strategy is focused on providing our customers with easy-to-use solutions for testing and measuring their complex systems. We also strive to provide our customers with the highest quality of support and service possible.

In October 2013 Spirent joined network equipment vendor, Huawei and independent testing lab, EANTC to conduct a large scale, high density 6.4 terabit/second core router test at Huawei's IP Technology Gala and the Broadband World Forum. This test verified the performance, scalability and resiliency of Huawei's NetEngine 5000E core router with a fully loaded 400G line card.

Gene Zhang – VP and General Manager APAC.

Value-creating culture

We have embedded a culture aimed at creating value for stakeholders and shareholders, which encourages rational risk taking. We attract and retain talented people, offering career development, a non-discriminatory workplace and fair and competitive remuneration, within a non-bureaucratic culture.

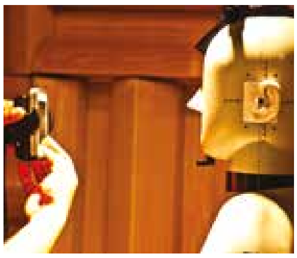
In 2013 Spirent's Positioning operation received the Investors in People Silver award. This was achieved through good planning, strong leadership and people management, excellent learning and development support, and good evaluation processes, all of which ensure we get the very best from our employees.

Spirent's Positioning team Paignton, Devon.

Intellectual property

We have created a large body of intellectual property, patented and proprietary raising the barriers of entry to competition. Our new developments are evolutionary in nature and build on our existing expertise as well as expanding our capabilities both organically and through acquisition.

Successful deployment of VoLTE requires voice quality and call performance to be as good as, and preferably better than, the services they are replacing. In August 2013 we launched an integrated test solution capable of fully quantifying the end user quality of experience and testing with realistic scenarios prior to commercial deployment. This solution is backed by years of voice quality measurement expertise in live networks from Metrico, a market leading company acquired by Spirent in 2012.



Top: Tech-X Flex in-home test solution from Service Assurance.
Bottom: Acoustic lab at Service Experience facility.

Our strategy

Our vision provides a simple definition of Spirent's ultimate goal and our strategy describes how we will achieve this vision.

Vision

To be the leading experts in test and measurement technology in the data communication market worldwide.

Spirent operates in a rapidly changing business environment and therefore we regularly review our strategy to ensure it has a clear focus and direction based on the expected future market trends, opportunities and the challenges we face. In September 2013 Eric Hutchinson was appointed as CEO which led Spirent to refresh the strategy and the key actions for its achievement.

Strategy

To continuously innovate in test and measurement technologies to develop leading products and services for fixed and mobile voice, data and video applications and networks.

To be recognised by customers for the ease-of-use and simplicity of our solutions for testing and measuring their complex systems.

Key actions

We have identified a number of key actions that we believe are critical in order for Spirent to achieve the strategy and ultimately the vision, recognising at the same time that Spirent must utilise its resources as efficiently as possible.

Progress made during 2013 and what we are aiming to achieve in 2014 are summarised in this section:

Expand the markets we serve

Through extension of our test product portfolio to serve network and applications security, mobile communications quality of service in the live network, development of microchip technologies for data communications, and monitoring systems for live network deployments for service providers and enterprise.

Key achievements in 2013

We expanded our solutions portfolio and served markets with an integrated applications and security test platform, as well as innovative test solutions for software-defined networking ("SDN")/OpenFlow, Wi-Fi offload and mobile device R&D. We applied our expertise to the needs of the enterprise market with a new powerful, easy-to-use network test platform. We also integrated the measurement tools for live networks acquired with Metrico with test solutions from our Wireless business to address the lab-based quality of experience testing requirements of our mobile device customers.

Plan 2014

We plan to further extend our cloud and data center capabilities in SDN and network functions virtualization ("NFV"), differentiate in end-to-end testing, expand into new verticals including machine-to-machine ("M2M"), critical infrastructure, enterprise and automotive, add value to our customers with automation and infrastructure test optimization ("ITO"), and offer more analytics that provide actionable answers from our customers' "Big Data".

Acquire new capabilities and technologies

Through expansion of our portfolio through partnerships, licensing technologies and/or the purchase of businesses.

Key achievements in 2013

Although there were no acquisitions in 2013, good progress was made in the integration of technology and expertise acquired in 2012 with Mu and Metrico. In September 2013 Avalanche NEXT was launched which combines the powerful performance testing of Spirent Avalanche with Spirent Studio's threats and application emulation using capabilities acquired with Mu. In August an integrated test solution capable of quantifying the mobile end user quality of experience and testing with realistic scenarios prior to commercial deployment was released, taking advantage of the expertise in user experience testing in live networks acquired with Metrico.

Plan 2014

Further expansion of our partnership programme will take place in 2014 and targeted technology acquisitions are planned in areas of strategic importance. In 2014 to date, two acquisitions have been announced.

Pages 26 to 29 for Financial review for more details on these acquisitions

Embed a culture of responsible and sustainable business practices

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.

Key achievements in 2013

We established an employee value proposition in order to clearly communicate our brand to current and prospective employees, and thereby retain and attract the best people. Leadership bench strength was developed through various programmes including 360 degree feedback, succession management, organisational and individual accountability and financial acumen training. Employees in all regions around the globe participated in courses, designed to enhance our ability to service the customer and to create innovative, leading products.

Plan 2014

Expansion of our training and development programmes is included in our operating budget for 2014. In order to align all levels of the organisation with our vision and strategy as we respond to the rapidly changing business environment, emphasis will be placed upon communicating the Company's key objectives to every individual, and driving the culture and technical expertise needed to attain them.

Deepen our customer relationships

Through emphasis on quality of service, delivery and support. Our partnership with our customers will be strengthened through new innovative solutions for their future needs and by extending the capabilities of our in-house expertise. New relationships will be established with the expansion of our sales and marketing reach into new vertical segments and geographic regions.

Key achievements in 2013

A Customer Engagement programme focused on customer satisfaction and improved alignment with our key service provider and equipment manufacturer customers and has resulted in market share gains in some of our most important accounts. Customer satisfaction was also enhanced through an integrated approach of on-site resources and collaborative testing that drove improved quality of our solutions.

Plan 2014

We will align our services teams more closely with the critical technology developments of our customers. We will expand our resources to put our experts closer to our customers and enhance our response to their growing challenges with the complexity of systems and networks through software automation and expert test methodologies.

Establish and maintain technology leadership

Through investment in product development engineering expertise, the extension of our engagement with industry standards bodies, and close alignment with our customers who lead innovation in the industries we serve. We will expand our competencies in test automation, efficiency and methodology, high performance test, scalability and in the replication of and use of live real-world traffic and conditions.

Key achievements in 2013

In 2013 we increased our investment in product development engineering by $14.4 million over the prior year. In 2013 Spirent released multiple important new products and additions to functionality in key areas such as SDN/NFV, applications and security, Ethernet service assurance and satellite positioning.

Plan 2014

We plan to expand our capabilities by increasing investment in product development by an additional $15 million, by growing our recognition as experts in test and measurement though enhancing our global presence and driving more industry standards, through the acquisition of intellectual property and by the acquisition of new software and solution capabilities.

Maintain financial strength and flexibility

Having a robust balance sheet and strong cash generation gives Spirent the ability to invest in organic growth, pursue strategic acquisitions and pay sustainable progressive dividends to shareholders. We operate in markets that deliver high operating returns and operating performance and cash generation are closely aligned.

Key achievements in 2013

Free cash flow for 2013 was $43.9 million, representing 1.3 times reported earnings and the closing cash balance was $216.2 million and there was no debt. Share buybacks and dividends to shareholders amounted to $76.9 million. The strong balance sheet ensured that Spirent was still able to meet its product development investment plans despite the lower levels of trading in 2013.

Plan 2014

In 2014 Spirent plans to make an additional investment of around $33 million to support the future organic growth of the business. This additional expenditure will be funded from cash generated from operating activities.

It is important that in the execution of our strategy we act responsibly and consider our impact on all of our stakeholders. In this way Spirent will remain an efficient, well managed and well respected organisation – a business that our employees, customers and communities delight in engaging with.

Employees pages 36 to 37 and CSR pages 38 to 43 for further information

Key performance indicators

The Board has identified the following key performance indicators (“KPIs”) to measure the Group’s strategic progress.

Spirent’s strategy focuses on medium to long term growth and therefore its achievement cannot just be measured by looking at performance in 2013 compared to the prior year, trends over a number of years must also be considered. KPIs relate to continuing operations only.

To read about the strategic points associated with these KPIs go to pages 16 and 17

Book to bill ratio

09	102
10	105
11	103
12	97
13	105

Description
The ratio of orders booked to revenue billed is a measure of the visibility of future revenues at current levels of activity and provides an indication of the underlying trend in Spirent’s future revenue stream.

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

Commentary
The ratio was 105 for 2013 (2012 97) which reflects the improving levels of demand experienced by the Group during the second half of 2013 as customers began to increase their investment in new technologies and Spirent launched some key new products.

Revenue ($ million)

09	369.4
10	422.8
11	470.5
12	472.4
13	413.5

Description
Growth in revenue measures Spirent’s ability to expand its markets and grow its customer base. The goal is to achieve year-on-year growth in revenue.

Commentary
Revenue for the Group reduced by 12 per cent in 2013. Trading was mixed due to changing market dynamics exacerbated by historical under investment in some parts of the business. There was strategic progress and growth in certain market segments such as the mobility testing market and Positioning.

Pages 30 to 35 for Operational review

Adjusted operating profit[1] ($ million)

09	79.8
10	104.4
11	116.1
12	118.3
13	50.1

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

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

Commentary
Adjusted operating profit fell to $50.1 million in 2013, due to the loss of high gross margin on reduced revenue, and increased investment in product development and sales and marketing for future growth.

Return on sales[1] (%)

09	21.6
10	24.7
11	24.7
12	25.0
13	12.1

Description
This is a measure of our overall profitability. Spirent operates in markets which have high operating returns and we strive to achieve best-in-class operating returns compared with our peers. The ability to sustain these returns is dependent on maintaining a strong market position and good cost management, but to also be mindful of the need to invest for future growth.

Commentary
Return on sales was lower at 12.1 per cent as a result of the 12 per cent reduction in revenue in 2013 and the planned increase in investment in product development and sales and marketing of $19.3 million.

Adjusted basic earnings per share[1,2] (cents)

09	10.39
10	10.92
11	12.81
12	13.02
13	5.71

Description

Long term growth in EPS is a fundamental driver to increasing shareholder value. Consequently, Spirent's aim is to achieve growth in adjusted EPS year-on-year.

A component of the executive directors' incentives is dependent on achieving an EPS target.

Commentary

Adjusted basic EPS was 5.71 cents down from 13.02 cents for 2012, and reduced as a result of all the factors previously discussed.

Pages 58 to 76 for Report on directors' remuneration

Engineering and product milestones achieved (%)

10	100
11	94
12	94
13	87

Description

The Board sets quarterly engineering milestones and dates by which these should be achieved. These are selected to represent the next critical stages in the achievement of Spirent's long term strategic objectives. These milestones are included as targets in its executive directors' incentive plans.

This measure has been tracked since 2010.

Commentary

Of the 30 milestones set in 2013, 26 were achieved on time. The remaining four were achieved, but slightly later than planned mainly due to technical issues. Many of these engineering targets are linked to Spirent's formalised Gate Process whereby a development project is split into individual stages each of which must be passed before moving onto the next.

Pages 58 to 76 for Report on directors' remuneration

Free cash flow[3] ($ million)

09	76.4
10	75.5
11	69.3
12	84.0
13	43.9

Description

Cash generation is a measure of the quality of Spirent's earnings. The aim is to achieve a high conversion of earnings into cash each year. Having strong cash generation allows Spirent to maintain its financial strength and flexibility.

Commentary

Cash generation reflects the lower operating result but cash conversion was good with free cash flow of $43.9 million for 2013, which represents 1.3 times reported earnings. At 31 December 2013 cash balances were $216.2 million (31 December 2012 $248.6 million) and there was no debt. In 2013 Spirent used $22.2 million of cash for dividends and $54.7 million for share buybacks.

Product development as a percentage of revenue (%)

09	19.2
10	17.9
11	17.7
12	18.2
13	24.3

Description

To maintain its competitive position Spirent must continue to invest in order to support future organic growth initiatives in line with the strategic objectives.

Commentary

We grew our investment in product development in 2013 by $14.4 million to $100.5 million. However, under investment in previous years has been noted as a contributing factor to the 2013 performance.

Pages 16 and 17 fo Our strategy

Pages 30 to 35 for Operational review for discussion on product launches and development in 2013

Voluntary employee turnover (%)

10	5.9
11	6.8
12	7.7
13	8.3

Description

Spirent's success is dependent on its people, it is therefore important that we attract and retain talented employees by appropriately managing and rewarding them. We monitor our success in terms of voluntary employee turnover which is a good indicator of staff retention. This measure has been tracked since 2010.

Commentary

Although up on the prior year staff turnover remained low at 8.3 per cent. In 2013 succession planning and talent management processes were further enhanced to ensure that Spirent has the right people in order to deliver on the strategy. At 31 December 2013 there were 1,525 employees (2012 1,486).

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 and net capital expenditure.

Our principal risks and uncertainties

Like all businesses, Spirent is exposed to a number of risks and uncertainties.

These risks may arise from internal factors, but some will be a result of external factors over which the Group has little or no direct control. It is the effective management of these risks that supports Spirent in delivering on its strategic objectives, safeguards the Group's assets and, over time, will also enhance shareholder value. The processes to identify and manage the principal risks and uncertainties of the Spirent Group are an integral component of the internal control system and are described below.

Pages 54 to 57 for Audit Committee for further information on Spirent's internal control systems. Pages 48 to 52 for Directors' statement on corporate governance

The principal risks and uncertainties which the directors believe are currently faced by the Spirent Group are discussed below together with the actions which have been developed to mitigate the effects.

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.

The Board has classified the principal risks by the impact the risk would be expected to have on the Group should it occur, and the anticipated likelihood that the risk may occur using the following classifications:

Impact	High/Medium/Low
Likelihood of occurrence	Likely/Possible/Unlikely

Likelihood of occurrence is based on qualitative factors such as past experience and current market conditions. Impact is based on the estimated degree of change in financial KPIs. The Board's view of the change in likelihood of occurrence and/or in the impact on the Group (combined) of each risk compared to the prior year has also been provided.

Identifying, evaluating and managing risk

The Board

The Board has overall responsibility for internal control and risk management and for reviewing its effectiveness.

Audit Committee

The Audit Committee reviews and monitors the Group's risk process and reports to the Board on its effectiveness. Risk is considered by the Audit Committee at least three times per year, at which time risk registers for both the Group and the individual businesses are reviewed by the Committee. The Audit Committee challenge and debate the risks with reference to risk tolerance and appetite, as set by the Board. Progress made and any further actions to be taken regarding mitigation plans, as well as any changes to the risk profile, are discussed in detail.

Pages 54 to 57 for Audit Committee

Group Risk Review Committee

The risk registers from the businesses are reviewed regularly by the Group Risk Review Committee. The purpose of the Committee is to identify which risks are critical to the Spirent Group and also to highlight corporate wide risks that may not have been otherwise considered. The Committee, which comprises the Chief Executive Officer, the Chief Financial Officer, the Executive Vice President ("EVP") Networks, Applications & Infrastructure, the EVP Wireless & Service Experience and the Vice President Group Finance, challenge and debate the individual business risks and meet with each business periodically to discuss the risk assessment process. The Committee will assess each risk and rank each according to the estimated impact on the Group and the likelihood of occurrence. They are also responsible for developing and ensuring that appropriate risk mitigation processes are in place for each risk. This Committee is responsible for preparing the Corporate Risk Register to present to the Audit Committee and to the Board.

Individual business risk committees

The risk assessment process starts in the businesses where up-to-date risk registers are maintained as an integral part of the normal operating and control procedures. Each business identifies its key risks and nominates a risk owner. The impact and the likelihood of occurrence of each risk is ranked, which assists the Group Risk Review Committee in assessing the importance of each risk to the Spirent Group as a whole. Once risks have been assessed an appropriate risk mitigation response is determined for each risk identified. The individual businesses are required to update their risk registers as new or emerging risks are identified.

Operational

Risk	Potential impact	Impact/ Likelihood	Change*
Macro-economic and industry sector Spirent is a global business exposed to the current world economic conditions, over which it has no control. The business is also exposed to government spending priorities, principally in the United States. 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.	Deterioration in economic or sector conditions may lead to a reduction in the level of demand for Spirent's products and services and cause customers to delay their purchasing decisions. During 2013 disruption and structural changes were experienced in our markets which have impacted Spirent's performance. **Mitigation actions** The Group closely monitors both market and geographic trends in order to respond to changes in demand and be 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 which may mitigate the impact.	High/Likely	↑

Risk	Potential impact	Impact/ Likelihood	Change*
Competition All Spirent's businesses operate in highly competitive markets which experience rapid technological changes. The Group faces competition from new market start-ups as well as the more established and well-resourced companies. Industry consolidation amongst our direct competitors may bring about a shift in competitive advantages.	Actions by competitors and increased competition can bring about pressure on Spirent's gross margin. These factors will also affect Spirent's competitive position, thereby reducing revenue and consequently affecting the financial results. **Mitigation actions** In 2013 we saw intense competition in some of our markets and lost some market share. The Group's broad solution portfolio, market leading capabilities and customer focus continue to address this risk. Spirent aims to maintain market leading positions through significant investment in product development which is being stepped up in 2014. Competitor activity is closely monitored with a view to maintaining clear differentiation based on Spirent's products, services and global reach.	Medium/ Possible	↑

* The Board's view of how the likelihood of occurrence and/ or impact has changed compared to the prior year.

Our principal risks and uncertainties continued

Operational

Risk	Potential impact	Impact/ Likelihood	Change*
Customer dependence The Group sells its solutions and services to a wide range of companies and seeks to continually expand its customer base. In 2013 no one customer accounted for 10 per cent or more of Group revenue although the top ten customers represented 38 per cent of Group revenue. In some of our markets certain customers have a dominant market share, which makes doing business with these customers critical to the success of our business. In addition, many of the companies with which we do business are some of the largest global telecommunications corporations and therefore meeting our development obligations, producing high quality products, and in an appropriate time scale, are vital to Spirent's reputation and success. The industry continues to experience consolidation which can disrupt the spending patterns of those customers affected.	Loss of one or more of Spirent's major customers could have a substantial impact on Spirent's financial results. Significant failings in either quality or being able to deliver in the appropriate timescale could cause long lasting damage to Spirent's reputation and relationships. Customer consolidation could result in delays in spending thereby reducing demand for Spirent's solutions and services and also reduce the potential number of customers to whom those solutions and services could be sold. **Mitigation actions** Spirent's strong customer relationships are critical as is providing innovative solutions which meet customers' needs and Spirent's emphasis on providing professional service and support. Many customers have worked with the Group for a number of years. One of the Group's strategic objectives is to deepen our customer relationships. We place engineers on-site with our customers, undertake site surveys of the use and intended plans for the use of test solutions in their business. We seek to establish thought leadership in our industry through participation in standards bodies and industry forums, which in turn creates additional links with customers. Our strategy is to play a key part in the ecosystem of supply in our served markets by aligning with early adopters of technology and with chip developers.	Medium/ Possible	**New Risk**

Operational

Risk	Potential impact	Impact/ Likelihood	Change*
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. Contract manufacturers are used for the manufacture of a substantial amount of Spirent's products. The major contract manufacturer is located in Thailand.	A significant natural disaster could disrupt the Group's ability to conduct business and impact adversely revenue and operating results. Disruption or financial problems of contract manufacturers or limitations in the manufacturing capacity at contract manufacturers could either limit supply or increase cost. **Mitigation actions** 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 and 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. Regular meetings are held with contract manufacturers and a regular on-site presence is maintained. 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.	High/ Possible	⟷

Risk	Potential impact	Impact/ Likelihood	Change*
Intellectual property Spirent's success is dependent in part on proprietary technology which may be infringed by others inadvertently or otherwise. Protecting the Group's proprietary technology is important in enabling Spirent to compete successfully. 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. **Mitigation actions** Spirent has 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. The Group also consults internal and external legal counsel experienced in intellectual property matters.	Low/ Possible	⟷

* The Board's view of how the likelihood of occurrence and/or impact has changed compared to the prior year.

Our principal risks and uncertainties continued

Strategic

Risk	Potential impact	Impact/ Likelihood	Change*
Expand the markets we serve An important component of the Group's strategy is to leverage Spirent's competencies and capabilities into new and expanding markets and new vertical market segments.	Failure to identify, and execute on, these new market opportunities will limit Spirent's capability to achieve its strategy, grow its revenue and maintain its market share. **Mitigation actions** Organisational changes have been made in 2013 to better align the businesses internally so that Spirent can more effectively identify those areas which offer the most significant growth opportunities. In addition, in order to further facilitate knowledge of new market areas outside our served market, individual managers are designated responsibility for investigation, review and to develop action plans arising from such initiatives.	Medium/ Possible	**New Risk**

Risk	Potential impact	Impact/ Likelihood	Change*
Establish and maintain technology leadership 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 product development investment is directed at the right areas to enable Spirent to develop those solutions that our customers need in a timely manner.	If product development investment does not keep pace with the speed of change in technology, or if it is not directed at the right key areas, our competitive position and financial performance will suffer. If Spirent's solutions take longer to develop than anticipated or longer to develop than our competitors then our competitive position and financial performance will also suffer. **Mitigation actions** Under investment in previous years is one of the factors that caused revenue to fall in 2013. This is being addressed by increasing our investment in product development in order to underpin our organic growth initiates and by reorganising the structure of the business, to sharpen our focus on anticipating our customers' requirements for the future. We also intend to grow our recognition as experts in test and measurement through our increased engagement with industry standards bodies and our close alignment with our customers.	High/Likely	↑

Strategic

Risk	Potential impact	Impact/ Likelihood	Change*
Invest in our people Spirent is its employees. So attracting and retaining highly qualified and skilled employees is essential in enabling the Group to deliver on its strategy and to the success of the business.	Intense competition is faced for personnel from other companies and organisations and the loss of key employees, the failure to attract and retain other highly skilled employees, or the failure to adequately plan for succession may impair Spirent's ability to run and expand the business effectively. **Mitigation actions** Investing in people is at the core of the Group's strategy. The aim is 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 incentive plans are competitive. Succession planning for senior posts in the Company is regularly reviewed by the Board. Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff. Pages 36 to 37 for further information on Our employees	Medium/ Possible	⇔

Risk	Potential impact	Impact/ Likelihood	Change*
Acquire new capabilities and technologies A key element of Spirent's strategy is to acquire new capabilities and technologies, and this may be 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 market conditions or sometimes deficiencies arising in the due diligence processes. **Mitigation actions** Rigorous strategic and financial evaluations of all acquisition opportunities are carried out. 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.	Medium/ Possible	⇔

* The Board's view of how the likelihood of occurrence and/or impact has changed compared to the prior year.

Financial review

Rachel Whiting
Chief Financial Officer

Spirent's policy on capital structure is to maintain a strong balance sheet to support operational flexibility and fund investment for long term growth.

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

	2013	2012[1]	Change (%)
Continuing operations			
Book to bill ratio[2]	105	97	
Revenue ($ million)	413.5	472.4	(12)
Gross profit margin (%)	69.4	71.3	
Operating profit[3] ($ million)	50.1	118.3	(58)
Return on sales[3] (%)	12.1	25.0	
Adjusted basic earnings per share[4] (cents)	5.71	13.02	(56)
Free cash flow[5] ($ million)	43.9	84.0	(48)

Notes
1 Restated for the implementation of IAS 19 "Employee Benefits".
2 Ratio of orders booked to revenue billed.
3 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.
4 Adjusted basic earnings per share is based on adjusted earnings as set out in note 13 of Notes to the consolidated financial statements.
5 Operating cash flow after tax, net interest and net capital expenditure.

A review of the Group's organisational structure has resulted in a change to the segmental reporting in 2013 as explained in note 2 of Notes to the consolidated financial statements. Spirent is now reporting three operating segments: Networks & Applications; Wireless & Service Experience (previously referred to as Wireless & Positioning in our 2013 Half-Year Report) and Service Assurance. Comparatives have been restated accordingly.

Revenue

Group revenue was down 12 per cent compared to the prior year at $413.5 million (2012 $472.4 million). Although trading was mixed as a consequence of structural changes in Spirent's markets, there were some bright spots, namely an improvement in the mobility testing market and also for our GNSS products, driven by a recovery in government spending, new high end testing needs and the BeiDou Chinese satellite system. Spirent's professional services and support revenues also grew year-on-year by 15 per cent and now represents 31 per cent of Group revenue. Market conditions are described in the operational review which follows. After a poor first half of 2013, in which revenue was down 19 per cent, trading improved in the second half-year as customers began to increase their investment in new technologies and Spirent launched some key new products.

Geographically, the United States is our largest market and accounts for 52 per cent of Group revenue. Revenue decreased 10 per cent period-on-period in this region. Asia Pacific is a major market for Spirent, and one in which we have seen significant growth in previous years. Revenue in this region declined 12 per cent, being particularly weak in both China and India. Asia Pacific represents 32 per cent of Group revenue. Europe represents 12 per cent of Group revenue and was 24 per cent lower compared with 2012 as difficult macro-economic conditions persisted in this region, although there was some improvement towards the end of the year. The rest of the world represents the remaining 4 per cent.

$ million	2013	%	2012	%
United States	215.8	52	239.2	51
Asia Pacific, Rest of World	146.9	36	166.0	35
Europe	50.8	12	67.2	14
	413.5	100	472.4	100

Order intake was 5 per cent lower overall for the continuing Group compared with 2012. Order intake from several of our major customers increased, whilst others did not repeat the high levels of spend seen in 2012 or deferred projects until 2014. The resulting book to bill ratio was 105 compared with 97 for 2012, with order book growing by $21.4 million over the position at 31 December 2012.

Operating profit

Reported operating profit for continuing operations was $39.1 million compared with $108.1 million in 2012. 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, decreased by 58 per cent to $50.1 million compared with $118.3 million in 2012 as a result of the loss of high gross margin on lower turnover as well as a significant increase in product development investment of $14.4 million to drive future growth.

A reconciliation is set out below:

$ million	2013	2012
Adjusted operating profit	50.1	118.3
Exceptional items:		
Inventory provision – Service Assurance	–	(1.4)
Reorganisation costs – Service Assurance	–	(1.5)
Review of Group's organisational structure	(3.4)	–
Abortive acquisition costs	(0.4)	–
Acquisition related costs	–	(1.2)
Acquired intangible asset amortisation	(8.4)	(4.5)
Share-based payment	1.2	(1.6)
Reported operating profit	39.1	108.1

Return on sales, based on adjusted operating profit was 12.1 per cent (2012 25.0 per cent).

Cost of sales and operating expenses

Gross margin reduced to 69.4 per cent (2012 71.3 per cent) due to lower volumes, product mix and also the effect of a full year's sales contributed by the former Metrico Wireless business, which attract slightly lower margins.

Spirent's strategic priority is to generate growth both organically as well as through acquisitions. Additional investment is critical for Spirent to accelerate the development of its existing capabilities as well as to expand the markets we serve and to ensure that Spirent brings products to market in a timely manner in order to meet the needs of its customers. Investment in product development was increased in 2013 by 17 per cent to $100.5 million, representing 24 per cent of revenue, from $86.1 million and 18 per cent of revenue in 2012.

Other operating expenses were higher at $147.2 million in 2013 compared with $142.5 million in 2012, 36 per cent of sales (2012 30 per cent). These costs include exceptional items of $3.8 million in 2013 of which $3.4 million relates to a number of management and structural changes which were made in the period. The balance of $0.4 million is in respect of abortive acquisition costs. In 2012 exceptional reorganisation expenses of $1.5 million were charged within Service Assurance.

Other operating expenses also include acquired intangible asset amortisation of $8.4 million (2012 $4.5 million) which reflects a full year charge for the 2012 acquisitions of Mu Dynamics and Metrico Wireless, and in 2012 a charge of $1.2 million for the expenses for these acquisitions. Share-based payment is a credit of $1.2 million (2012 charge $1.6 million) as the expense has been reversed for certain awards which are now not expected to vest.

Financial review continued

Excluding exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment, other operating costs were $136.2 million compared with $133.7 million in 2012, an increase of 2 per cent.

In 2014 Spirent plans to make an additional investment of around $33.0 million in future growth. This increase comprises of:

- Product development – up $15 million.
- Sales and marketing – up $12 million.
- Support services – up $6 million.

Of the total increase $16 million will support our core business and $17 million is to fund new initiatives.

The areas where this additional spend will be focused include virtual test systems, software-defined networking solutions, expansion of the enterprise channel, enhancements to Spirent's cyber security test offering as well as advancements in automotive software and related connectivity testing.

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 $5.9 million (2012 $6.5 million) before exceptional items for the year. Corporate costs for 2012 have been restated for the effect of the revised Accounting Standard IAS 19 "Employee Benefits" which was implemented in 2013. The effect of this standard for Spirent for 2013 has been an increase in corporate costs of $0.7 million and an increase in net interest expense of $1.2 million.

Currency impact

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

Finance income and costs

Finance income for 2013 was $0.9 million compared with $0.8 million in 2012. Surplus funds are held principally in the United Kingdom and United States and earn market rates of interest which remain negligible.

Finance costs comprise $0.9 million (2012 $0.5 million) of net defined benefit pension plan interest cost.

It is estimated that there will be no net interest expense for the pension plans for 2014.

Tax

For the Group taxable profits principally arise in the United States. The tax charge for the continuing Group in 2013 was $6.4 million (2012 $29.0 million), representing a current year effective tax rate of 25.8 per cent (2012 28.4 per cent) of pre-tax profit, excluding a prior year tax credit of $3.7 million (2012 $1.8 million). This rate is lower than the prior year principally due to the benefit of 2012 Research and Experimental tax credits in the United States which fall into 2013 and the spread across different territories. At 31 December 2013 deferred tax assets amounting to $18.3 million (31 December 2012 $28.4 million) have been recognised on the balance sheet. At 31 December 2013 there are deferred tax assets amounting to a tax value of $17.7 million (31 December 2012 $16.3 million) which remain unrecognised.

For 2014 it is expected that the effective tax rate will be in the region of 28 per cent.

Earnings per share

Adjusted basic earnings per share was 5.71 cents compared with 13.02 cents for 2012. There were 640.6 million (2012 655.7 million) weighted average Ordinary Shares in issue. Basic earnings per share was 5.10 cents for 2013 compared with 12.11 cents for 2012.

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

$ million	2013	2012
Profit for the period attributable to owners of the parent Company	32.7	79.4
Exceptional items	3.8	2.9
Acquisition related costs	–	1.2
Acquired intangible asset amortisation	8.4	4.5
Share-based payment	(1.2)	1.6
Tax effect on the above items	(3.4)	(2.4)
Prior year tax credit	(3.7)	(1.8)
Adjusted profit for the period attributable to owners of the parent Company	36.6	85.4
Adjusted basic earnings per share	5.71	13.02

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 were $216.2 million at 31 December 2013 compared with $248.6 million at 31 December 2012. Spirent continues to be debt free. Cash and cash equivalents are held as cash on demand or in short term bank deposits and 84 per cent of the balance was denominated in US dollars.

Spirent remains cash generative, despite the lower revenue in 2013, and this gives Spirent the financial flexibility to invest in organic growth, pursue strategic acquisitions and pay sustainable, progressive dividends to shareholders.

In 2013 operating activities generated $73.5 million (2012 $120.3 million continuing operating activities) of cash during the year. Free cash flow conversion represents 1.3 times (2012 1.1 times) reported earnings. Working capital reduced by $12.1 million (2012 increased by $6.2 million) during the year.

Free cash flow for continuing operations is set out below:

$ million	2013	2012
Cash flow from operations	73.5	120.3
Tax paid	(6.1)	(23.1)
Cash inflow from operating activities	67.4	97.2
Net interest received	0.8	0.6
Net capital expenditure	(24.3)	(13.8)
Free cash flow	43.9	84.0

Net capital expenditure has increased in 2013 to $24.3 million from $13.8 million in 2012 in line with investment plans. In 2012 the net cash outflow from acquisitions and disposal of businesses was $32.1 million. In 2013 there were no acquisitions or disposals.

The cash generated has been utilised to pay dividends to shareholders and for the return of capital through the share buyback programme. In 2013 a final dividend for 2012 and an interim dividend for 2013 totalling $22.2 million (2012 $20.3 million) were paid. Share repurchases during the year have resulted in a cash outflow of $54.7 million (2012 $31.6 million).

Defined benefit pension plans

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

The accounting valuation of these plans at the end of 2013 was a net deficit of $2.5 million compared with a net deficit of $24.8 million at 31 December 2012 and was based on the latest triennial actuarial valuation at 1 April 2012. The improvement in the deficit is a result of changes in the underlying assumptions and a rise in the value of the assets.

The triennial actuarial valuation of the plans at 1 April 2012 was completed in the period. To fund the deficit the Company has agreed to pay additional contributions of £2.8 million ($4.6 million) per annum, which will be paid on a monthly basis together with a one-off contribution of £1.0 million ($1.6 million) which was paid in July 2013. A further one-time contribution of £2.5 million ($4.2 million) is also payable no later than 1 July 2016 depending on the funding of the plan at that time.

The Group has also reported a liability of $0.8 million (31 December 2012 $0.8 million) in respect of United Kingdom unfunded plan liabilities.

Capital structure

Spirent's policy on capital structure is to maintain a strong balance sheet to support operational flexibility and fund investment for long term growth.

During 2013 the balance of the proceeds from the divestment of the Systems business, approximately $33 million, were applied to the repurchase of Spirent shares in the market for cancellation and the programme extended beyond this. In total during 2013 the Company repurchased 29.2 million shares at a cost of $55.5 million (2012 13.4 million at a cost of $30.8 million) of which $0.8 million was settled in 2014. Shares were repurchased at an average share price of 119 pence per share. All shares repurchased were cancelled. Since the period end a further 9.7 million shares have been repurchased at a cost of $15.6 million. No further buybacks are currently planned.

Dividend

The Board are recommending the payment of a final dividend for 2013 of 2.01 cents (1.20 pence) per Ordinary Share which, with the interim dividend of 1.53 cents (1.01 pence) per Ordinary Share paid in September 2013, brings the full year dividend to 3.54 cents (2.21 pence) per Ordinary Share. The dividend is covered 1.6 times by adjusted earnings. This is an increase of 10 per cent over the full year dividend for 2012 of 3.22 cents per Ordinary Share.

Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 25 April 2014 to Ordinary shareholders on the register at 7 March 2014. Payment to ADR holders will be made on 2 May 2014.

Events after the balance sheet date

On 19 February 2014 Spirent completed the acquisition of the business of DAX Technologies Corp. ("DAX"), privately held by Dragos Alexe and others, for a cash consideration of $37.0 million. Based in Matawan, New Jersey, DAX is a leading provider of customer experience management solution software that enables mobile and wireline service providers to understand and quantify services as experienced by their customers.

The addition of DAX positions Spirent well to help service providers with the unprecedented challenges they face when developing and managing new services in mobile and wireline network environments of rapidly increasing complexity. This acquisition will enable us to strengthen our Service Assurance portfolio, expanding Spirent's addressable market in the live network.

On 20 February 2014 Spirent completed the acquisition of 58 per cent of the share capital of Testing Technologies IST GmbH ("Testing Tech") which was in private ownership, for a cash consideration of Euro 2.0 million. The company develops and markets standardised and customer-specific software-based testing tools which support the development of mission-critical products and workflow steps. Testing Tech also participates in the connected vehicle market which will facilitate Spirent's progress in this market. The minority stake of 42 per cent of the share capital is the subject of a put and call option which expires on 31 March 2016. The consideration is based on the 2015 performance of Testing Tech and set at a minimum amount of Euro 1.4 million. Testing Tech will be reported within our Wireless & Service Experience division.

As both acquisitions have only very recently completed neither the fair values of the assets and liabilities acquired, nor the consideration, have yet been determined.

Operational review

Networks & Applications

Networks & Applications develops innovative solutions for functional and performance testing of next-generation networks and applications that simulate real-world conditions in the lab, before a commercial launch.

Market conditions

- Intense competition in data center
- 4G/LTE driving mobile data and signalling growth
- Virtualization on the rise everywhere
- Intense interest in cyber security, SDN and NFV

In 2013, 4G/LTE network rollouts drove continued rapid growth in mobile data as well as in signalling traffic, due to the proliferation of “chatty” applications. We saw access networks evolving to accommodate the growth, employing small cells and Wi-Fi offload, which led to new mobility testing needs. Mobile also played a role in driving service provider infrastructure spending growth, with intense competition amongst multiple players for next-generation high density core router and 100G Ethernet optical transport network (“OTN”) business. In the cloud and data center market we saw the rise of software-defined networking (“SDN”) and of cloud service providers with innovative business models, while virtualization and intense competition led to price erosion in the traditional switch market. In the applications and security space, cyber security and bring your own device to work (“BYOD”) continued to grab headlines, leading to intense interest in the enterprise, government and large service provider space and to advances in next-generation firewalls. Virtualization continues to be a major trend across all our markets, with the move to network virtualization and strong service provider interest in network functions virtualization (“NFV”).

Performance

- Growth in mobility revenue offset by decline in data center
- Built leadership in SDN and NFV
- Regional challenges in APAC and EMEA
- Historical under investment in parts of the business

Revenue

On the back of the mobile trends identified above, we saw growth in our mobility solutions in 2013. Service provider infrastructure business was also up modestly, while revenue in our application and security market was flat. However, the growth was more than offset by a sharp fall in data center revenue, with customer investments shifting to virtual and intense competition. From a regional perspective, revenue was flat in North America, slightly down in APAC and considerably down in EMEA, although we saw a modest rebound in APAC and EMEA during the fourth quarter. Under investment in new test systems and lack of expansion into new markets in prior years also had an effect on the results of this business in 2013. Our Infrastructure Test Optimization (“ITO”) business saw growth on the back of Spirent professional services and large service providers standardising on our iTest® solution. Revenue was down at $213.4 million from $259.5 million in 2012, while we built the order book with a book to bill ratio of 105 (2012 94).

Profitability

Operating profit before exceptional items was down to $13.2 million from $59.7 million in 2012 on the reduced revenue and with an increased investment in product development of $5.3 million compared with the

Results

Revenue

$213.4M
(2012 $259.5M)

Operating profit before exceptional items

$13.2M
(2012 $59.7M)

Return on sales before exceptional items

6.2%
(2012 23.0%)

previous year. Exceptional items of $1.6 million were charged in relation to reorganisation expenses in the fourth quarter.

Product development

In January 2013 Spirent launched Axon, a new solution for the enterprise market that enables new applications and services to be deployed more quickly and with greater confidence. In May, we launched a family of next-generation high speed Ethernet test solutions, with new high density 10/40/100G test modules to address increasing complexity and exploding data traffic in service provider and data center networks with market leading realism and scale. In September we launched Spirent Avalanche NEXT, a powerful, easy-to-use solution that tests the performance, scalability and security of today's application-aware network infrastructures by generating realistic traffic and attacks. We also built a leadership position in SDN/OpenFlow, which included hosting the Open Networking Foundation PlugFest at our Sunnyvale, California facility in November.

Strategy in action
Innovation runs throughout our organisation.

Page 14 for Our business model

Strategy

- Invest in mobility, especially VoLTE and Wi-Fi
- Increase investment in application and cyber security testing
- Gain leadership in virtual, SDN and NFV

For 2014, we plan to shift our investment focus to better align with that of our customers. For mobility, we will address new opportunities presented by VoLTE and Wi-Fi. We also plan to increase our investment in applications and security, building out our Avalanche NEXT solution, focusing on cyber security and critical infrastructure, developing the government market, and growing cloud based testing-as-a-service offerings. Our service provider infrastructure focus will be on next-generation core routers and SDN/NFV rollouts, with leadership in coverage and scale. We also plan to play a key role in technology and standards definition for 400G Ethernet. In cloud and data center we will target the fast growing cloud service provider space, and gain leadership in virtual and SDN. We have established a focused ITO & Solutions business to address key service provider ecosystems and align with market trends including lab consolidation and agile development. Our Enterprise business will build out its channels to market and develop customer demand.

(from left to right) Ahmed Murad – General Manager
Angus Robertson – Senior Director of Segment Marketing.

Operational review continued

Wireless & Service Experience

Wireless & Service Experience develops solutions for functional and performance testing of next-generation mobile wireless and satellite positioning devices in the lab before commercial launch, and for measurement of the mobile experience on live networks.

Market conditions

- Many smartphone vendors experiencing business challenges
- New 4G voice services poised for widespread deployment
- BeiDou and vulnerability concerns drive Positioning markets

In our Wireless & Service Experience markets, the focus of smartphone growth shifted to more price sensitive regions which, coupled with the increasing dominance of a few manufacturers, led to profitability challenges for many vendors. 2013 saw initial deployments of important new 4G services and technologies, including VoLTE and LTE-Advanced, with large scale rollouts expected in 2014. China awarded its 4G licences in December, mandating the use of TD-LTE technology. Wireless machine-to-machine ("M2M") connectivity continued to expand into everything from domestic appliances to medical and vehicle applications. In our Positioning markets, the application of multi-GNSS technologies grew, with the Chinese BeiDou system joining established GPS and GLONASS. Another market driver was the growing concern over the vulnerability of GNSS receivers to jamming and other attacks.

Performance

- Wireless revenue declines on weak carrier driven business
- Service Experience flat in an integration year
- Positioning benefits from government spending

Revenue

Wireless experienced a sharp decline in its mobile device test markets as a result of device vendors' profitability challenges, a lull in new technology and service launches, fierce competition and continued investment shift from 3G to 4G/LTE technologies. Service Experience had a flat year as we focused on integrating the Metrico business, acquired in September 2012. Positioning experienced growth in its markets as a result of US government business recovery, new high end testing needs from applications and the BeiDou Chinese satellite navigation system. Including a full year contribution from the Metrico business of $25.8 million (2012 $6.4 million), overall revenue was down by $6.8 million to $167.7 million from $174.5 million in 2012. Book to bill ratio grew to 101 from 97 at the end of 2012.

Profitability

Operating profit was $33.8 million compared with $56.7 million in 2012 due to loss of high gross margin on the reduced revenue together with an increase in investment in product development of $8.3 million. The resulting operating margin reduced to 20.2 per cent compared with 32.5 per cent in 2012.

Product development

Our Wireless & Service Experience businesses invested to address the industry's needs as it prepared for large scale deployment of 4G/LTE-enabled services such as VoLTE. We released lab-based test

Results

Revenue

$167.7M
(2012 $174.5M)

Operating profit

$33.8M
(2012 $56.7M)

Return on sales

20.2%
(2012 32.5%)

Strategy in action
Innovation runs throughout our organisation.

Page 16 for Our strategy

solutions for VoLTE and other IMS services, as well as tools and services for both the lab and live networks that measure audio quality (including HD voice and VoLTE), video performance and battery life as experienced by mobile subscribers. Other new solutions addressed E911 emergency requirements for VoLTE in the US, and the TD-LTE technology testing needs of markets such as China and India. Our Positioning business underscored its industry leadership with the first commercial release of test solution support for the Chinese BeiDou satellite navigation system.

Strategy

- Invest in machine-to-machine market opportunities
- Expand our offerings that ensure performance of new devices and services
- Focus on new positioning technologies and high end applications

Our Wireless business will focus on enabling our customers to improve both the realisation and management of their mobility services through application of technology, expertise, and analytics. We also will apply the wireless and application expertise gained in the smartphone cellular market to the M2M connectivity market. Our Service Experience business will add more analytics to its portfolio of services and solutions that help network operators ensure the performance of new devices and services as they come to market, as well as focusing on business development in Asia Pacific and Europe. Our Positioning business will focus on the expanding high end, leading edge technologies that lead to new applications, as well as on the challenges surrounding the vulnerability of GNSS in critical infrastructure.

(from left to right)
Pat Petillo – Vice President Sales, Wireless
Rob VanBrunt – General Manager, Wireless
Guy Merritt – Vice President of the Wireless Products Group.

Operational review continued

Service Assurance

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.

Market conditions

- Continued caution by service providers around legacy spending
- In-home complexity drives more field testing needs
- Downward pressure on support contract renewals

Service providers remain cautious with their spending, particularly around legacy technologies, and are also applying greater pricing pressure on support contract renewals. The growth in mobile data subscribers and 4G/LTE technology is driving Ethernet speeds ever higher and requiring better data analytics. Increasing in-home complexity for triple play services resulted in a need for better tools to manage this, one of the most challenging parts of the distribution network. The rapid evolution of cloud services, data center virtualization, SDN and NFV is greatly increasing the importance of in-network testing.

Performance

- Revenue down due to legacy and service contract pressure
- Strong growth in Ethernet space
- New field test solution attracts large order, $12.0 million revenue delayed until 2014

Revenue

Overall revenue was down, primarily due to continued carrier caution in their legacy TDM, triple play in-network probes and support contract spend. Ethernet was a strong growth area for Service Assurance in 2013, particularly in the intelligent software areas. Although field test revenue fell, 2013 saw a large order from a major North American service provider for a new version of our Tech-X Flex product, for which revenue will not be recognised until 2014. Overall revenue fell $6.0 million to $32.4 million in 2013, compared with $38.4 million in 2012. The book to bill was 127 due to large revenue deferrals around field test and Ethernet solutions, hence the outlook for Service Assurance revenue heading into 2014 is positive.

Strategy in action
Innovation runs throughout our organisation.

Page 12 for What we test

Results

Revenue

$32.4M
(2012 $38.4M)

Operating profit before exceptional items

$9.0M
(2012 $8.4M)

Return on sales before exceptional items

27.8%
(2012 21.9%)

Profitability

Operating profit increased in Service Assurance to $9.0 million from $8.4 million in the prior year despite the lower revenue in 2013. The increase in profit is mainly due to abnormally high gross margin as a result of a higher proportion of service revenue, as well as lower overhead costs. Gross margin for 2014 is likely to be in the region of 75 per cent. Our investment in product development has increased in this division by $0.8 million compared to 2012.

Product development

Development focus remained on Ethernet service assurance as well as expansion of our field test solutions and an entry into the service provider data center market. The capabilities of Spirent TestCenter Live, our Ethernet service assurance solution, are expanding to include performance monitoring for LTE and VoLTE, as well as a new 100G Ethernet probe and software to enable testing further up the protocol stack. We developed a greatly enhanced version of our Tech-X Flex field test unit which will ship to customers early in 2014. We also invested in development of Data Center Live, our comprehensive virtual network monitoring and troubleshooting solution aimed at the latest highly complex and versatile data center networks, building on Spirent's wide ranging expertise to test every aspect of a data center cloud, which we will also bring to market in 2014.

Strategy

- Invest in solutions for mobile and enterprise services
- Launch new field test tool to address in-home issues
- Enter the service provider data center market

Spirent will invest in our customers' most pressing operational issues in the core of the Ethernet network, in the field and with emerging cloud/data center networks. Spirent TestCenter Live will continue to benefit from service provider investments that remain focused on growth areas such as 4G/LTE mobile and higher bandwidth enterprise business services. We will go to market with our enhanced field test tool to greatly improve the efficiency and effectiveness of installation and maintenance teams when addressing in-home network issues. Lastly, as service providers ramp up their investments in their cloud services and associated data centers we will introduce a solution that allows them to dissect problems inside and outside the data center simultaneously.

(From left to right)
Jeff Schmitz – Executive Vice President, Wireless & Service Experience
Brian Ketchum – Vice President Engineering and Product Development, Service Assurance.

Our employees

Spirent is its employees – it is our highly skilled, motivated and empowered employees that drive the success of the business. For more than 75 years, Spirent has sustained a globally effective organisation and provided a great place to work through career advancement opportunities, workforce diversity and transparent communication.

Our key values

Competitive

Engage and develop our employees to relentlessly out-execute the competition every time, whilst maintaining the highest ethical standards.

Creative

Innovation that inspires our customers, our customers' customers, our employees and shareholders.

Customer focused

Dedicated to every customer's, every employee's and every shareholder's success.

Collaborative

One global team, sharing knowledge, ideas, technology, resources and talents to achieve and sustain profitable growth.

Our 1,500+ talented employees, working in 29 locations in 15 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.

To attract, keep and grow our people, we constantly review and improve our benefits, retention, development programmes and career growth opportunities. Our efforts continue to bear positive fruit, with global voluntary turnover at 8 per cent.

Rewarding our people

Our compensation and benefit schemes are aligned with performance and are regularly benchmarked to ensure that Spirent rewards employees competitively in every country in which we operate.

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.

Another way in which 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.

Employees in our Crawley, West Sussex Corporate office.

In addition, we provide project based incentives to recognise and reward employees for extraordinary work that results in significant overachievement of critical projects. The Patent Award programme rewards employees for being innovative, while protecting the Company's investment and intellectual property rights. In 2013 Spirent awarded 20 patent based incentives to our employees.

Growing our talent

We recognise that our competitive advantage can only be maintained by developing our own talent internally as well as recruiting the best skills from outside of our organisation.

In 2013 we established an Employee Value Proposition in order to clearly communicate our brand to current and prospective employees, and thereby retain and attract the best people. Spirent is large enough to provide a wide range of career possibilities, but small enough for individuals to be noticed and recognised, we offer an ideal environment for people to unleash their innovative spirits and collaborate to discover the future together.

Throughout 2013, we continued to support education by offering internships and work experience programmes that not only help students develop professional knowledge, but also to provide future talent for our entire organisation. In 2013 Spirent offered 28 internships in the US, seven in Europe and 20 in Asia.

Our challenging work environment inspires innovation, with continuous learning as an essential part of our human resources philosophy.

In 2013 employees in all regions around the globe participated in courses designed to enhance our ability to service the customer and to create innovative, leading products. Leadership bench strength was developed through various programmes including 360 degree feedback, succession management, organisational and individual accountability, and financial acumen. Our career development emphasises tailored, flexible pathways that give employees the opportunity to explore their potential in the right direction and at the right speed.

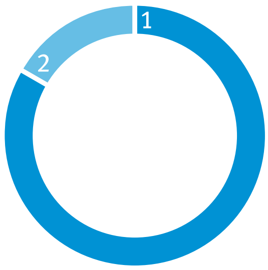
Employee engagement

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

Diversity

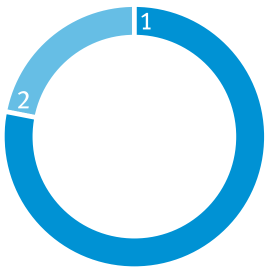
Spirent is committed to upholding human rights and fully believes that diversity fuels business success in a multicultural world. Our rich diversity is reflected in our work environment – including ethnicity, race, gender, age, sexual orientation, faith, culture and global experiences. We believe that 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.



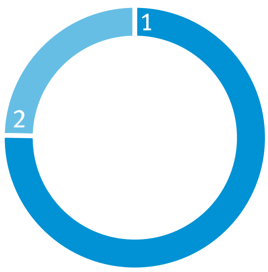
Board diversity

	2013	2012
1 Male	5	5
2 Female	1	1
1 Male	83%	83%
2 Female	17%	17%



Employee diversity

	2013	2012
1 Male	1,194	1,172
2 Female	331	314
1 Male	78%	79%
2 Female	22%	21%



Senior manager diversity

	2013	2012
1 Male	157	160
2 Female	51	48
1 Male	75%	77%
2 Female	25%	23%

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.

Corporate social responsibility statement

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

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

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.

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.

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 http://corporate.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.

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 remained low during 2013. 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 2013 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 that it is important 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.

Corporate social responsibility statement continued

Sustainability and environmental

The Group continues to make significant progress in integrating sustainability and environmental strategy into its operations. Environmental and sustainability performance has improved in a number of areas throughout 2013 with the focus reflecting the issues considered material by the Group. Existing initiatives on logistics and power consumption in products were extended, and several energy efficient and low-carbon technologies have been installed across the Group's global estate. The Group has also continued 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 it operates.

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: http://corporate.spirent.com.

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 installation of energy efficient and low-carbon technologies, and improved waste management. There have also been a number of initiatives at different business units to reduce environmental impacts, particularly those related to energy consumption. The Group has also continued to reduce total floor space used:

	2013	2012
Floor space reduction (%)	10.4	4.2

Almost all products continue to be produced by external contract manufacturers and the environmental performance of suppliers is monitored through audits and surveys. Our largest contract manufacturer is responsible for 65.5 per cent of our production and they have an ISO 14001 certified environmental management system, alongside an extensive carbon reduction programme. The table below shows their emissions performance for the last two years for which data is available.

	2012	2011
Change in greenhouse gas emissions in CO_2e (%)	+11	–9

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 10G products, the following reductions in watts per port have been achieved:

	2013	2012
Reduction in 10G product power consumption (%)	9	33

The Group's 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.

The Group is not directly required to comply with or report under Section 1502 of the Dodd-Frank Act, the US Conflict Minerals Law. However, it has robust procedures to ensure that it would be in compliance if it were brought in within the scope of this legislation.

Environment strategy and materiality

The Group commissioned external consultants to perform a comprehensive review of our sustainability strategy and management in 2011. The review included a materiality assessment identifying the business critical sustainability issues and this study continues to inform the Group's understanding of the impacts that it has on the environment and on the communities in which it operates.

The following material issues were identified:

- greenhouse gas emissions and climate change;
- energy consumption in offices and manufacturing;
- environmental management; and
- environmental reporting.

The key environmental issues of energy consumption and greenhouse gas emissions continued to be the main focus of the Group's efforts in 2013.

Significant progress was made in 2013 by the Group managing sustainability issues and improving performance, building on the work of 2011 and 2012 to act on greenhouse gas emissions in the UK business and to broaden our sustainability project to cover more of our global estate.

2013 work progamme

During 2013 the emphasis of the project has been on driving forward the Group's strategic sustainability objectives and taking concrete steps to improve sustainability performance. The Group has also continued the programme begun in 2012 to develop the Paignton location as a low carbon centre of excellence.

The 2013 work programme comprised:

- continuing performance improvement at the low carbon centre of excellence at the site at Paignton, UK;
- site energy audits at the Group's corporate headquarters in the UK and at four major US sites;
- environmental legal compliance reviews at the Group's corporate headquarters in the UK and at four major US sites; and
- participating in the Carbon Disclosure Project for the first time, completing both the Investor Climate Change return and the Supply Chain return.

Paignton: low carbon centre of excellence

The Positioning 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. This location was therefore selected to act as a low carbon centre of excellence for the Group in 2012 and it has since piloted a number of sustainability initiatives. LED lighting has been installed across the site and ceiling insulation, voltage optimization and smart metering is scheduled to occur in early 2014.

The installation of a solar PV array in late 2012 has been successful in its first full year of operation and the array generated the following in 2013:

	kWh generated	% of electricity consumption	Greenhouse gas emissions avoided (kg CO_2e)
2013	39,658	10.9	17,667

There has also been a revitalisation of employee engagement and the employee Green Team at Paignton in 2013. Regular internal reporting of environmental KPIs and a committed team are in place to ensure that the position of the Paignton site as a centre of excellence is maintained and that environmental performance continues to improve.

Site energy audits and environmental compliance reviews

Energy audits were carried out at the corporate headquarters in Crawley, UK, and in four of the Group's largest US sites during the year. These audits consisted of a thorough review of the buildings, building services and associated energy use and opportunities to improve energy efficiency were identified at each site. A preliminary review of the potential for on-site renewables was also carried out, based on local climatic, market and regulatory factors.

Environmental compliance reviews were also carried for these sites to ensure that the Group had the necessary understanding of environmental regulatory requirements and to identify any areas where practices could be improved. It was found that overall knowledge of and compliance with environmental requirements was strong with no material issues noted. Some opportunities to improve current practices were noted and these are currently being addressed.

The actions resulting from the energy audits and the compliance reviews form the basis of the 2014 work programme for sustainability at these sites. The toolkits developed for these reviews will also be rolled out to the rest of the Group's material locations over the course of 2014.

Carbon disclosure project and greenhouse gas reporting

The Group responded to the Carbon Disclosure Project for the first time in 2013, completing both the Climate Change and Supply Chain questionnaires for the calendar year 2012.

The Group also reports greenhouse gas emissions for 2012 and 2013 in its Annual Report this year for the first time.

Global GHG emissions data for the year ended 31 December 2013

Emissions from:	2013 tonnes of CO_2e	2012 tonnes of CO_2e
Combustion of fuel and operation of facilities	238	216
Electricity, heat, steam and cooling purchased for own use	6,268	6,359
Total emissions	6,506	6,576
Company's chosen intensity measurements:		
Emissions reported above normalised per square metre of gross internal area of our facilities	0.15	0.15
Emissions reported above normalised per £ million of revenues	15.76	13.92

Corporate social responsibility statement continued

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated statements. We do not have responsibility for any emission sources that are not included in our consolidated statements.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under these Regulations, and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2013.

2014 work programme

The work programme for 2014 has three main areas of focus:

- implementing recommended actions from the 2013 site energy audits and environmental compliance reviews;
- undertake energy and compliance audits on all other material sites across the Group's estate; and
- review and update of environmental strategy and management.

As discussed above, a significant part of the 2014 project will consist of implementing the recommendations generated from the in-depth site reviews carried out in 2013 and further driving environmental performance improvement at these locations.

The toolkits that were developed for these reviews in 2013 will also be utilised at the Group's other locations to embed sustainable business processes across the Group and ensure that potential environmental impact and cost reductions are identified and realised.

In addition to these specific measures to reduce the impact of the global estate, the Group will also review and update environmental strategy. This exercise was last undertaken in 2011 and an update will enable the Group to incorporate changes in the strategic landscape and continue to focus on the material issues for the Group and its key stakeholders.

Community

Spirent supports technical education and local charitable programmes, and encourages employee volunteerism and participation within the communities where they live and work.

Employees not only donate their time – they enthusiastically embrace the true spirit of volunteerism in their local communities, where they support a broad variety of causes. These include 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.

In 2013 we introduced the Voluntary Time Off ("VTO") policy, part of the Giving Back programme. The purpose of this programme is to support activities that enhance and serve communities in which we live and work. The VTO policy encourages employee involvement in volunteer efforts supporting the community. At the same time, participating in these sorts of activities enriches the lives of employees.

Employees from our Fort Worth office join with the Trinity Habitat for Humanity programme.

In October, several employees from the Fort Worth, USA office chose to make a difference in their community by joining forces with the Trinity Habitat for Humanity programme. The employees spent a full day framing out the interior and roof of a home already in progress. The teamwork was grueling and challenging for all involved but the progress made towards the completed project was worth the reward of contributing towards a safe and decent place for an underprivileged family to live.

To help students prepare for the future, Spirent works with local public and private non-profit educational organisations.

In addition to internships, our managers routinely work with local universities and industry groups to assist in other ways.

The Ashington Cougars under 13s football team are supported by Spirent.

Spirent has a long history of helping those in need and throughout 2013, continued to provide aid to charitable and non-profit organisations through corporate sponsorships and contributions.

Following the devastation of Typhoon Haiyan, we responded with a donation of $10,000 to the International Committee of the Red Cross to assist with the disaster relief efforts in the Philippines.

Spirent is proud of its employees, who generously donate their time, expertise, and money to many different organisations around the globe.

Our Calabasas team raised $17,434 for the American Cancer Society's Relay for Life of Calabasas. Employees and their families from all departments participated in the 24-hour walk in support of the Society's efforts in research, education, advocacy and patient services.

Employees from the Eatontown office used some of their VTO to participate in an event coordinated by Jersey Cares, enabling local corporations to support the community where they live.

In September 21 Spirent employees and family members participated in one of the largest volunteer events in California, Coastal Cleanup Day. During the three hour event, volunteers collected tons of rubbish and debris from shorelines and inland locations.

In total during 2013, Spirent made charitable cash donations of $104,000.

Spirent supports organisations that serve the local community in the vicinity of its offices worldwide. In 2013 this included the sponsorship of the Ashington Cougars Football Club under 13s football team in Sussex. Ashington Cougars FC is an FA Charter Development Standard club which provides children from the ages of 5 to 16 with the opportunity to play football in a safe and enjoyable environment.

Pages 2 to 43 form part of the Strategic Report.

By Order of the Board

Rachel Whiting

Rachel Whiting
Company Secretary
27 February 2014

Chairman's introduction

Alex Walker
Chairman

"Chairmen are encouraged to report personally in their annual statements how the principles relating to the role and effectiveness of the board have been applied."

UK Corporate Governance Code, 2012

Dear Shareholder,

In the revised UK Corporate Governance Code issued in September 2012, company chairmen were encouraged to relate the role and effectiveness of their company's board to the opening sections of the Code dealing with leadership and effectiveness so allow me to take this opportunity of so doing.

During 2013, your Board continued to focus on strategy and business development, with a dedicated strategy summit held at our Germantown, MD facility in May. We reviewed and analysed market conditions and technology trends and openly debated 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 and regular site visits give us the opportunity to talk directly with Spirent's employees and also its customers.

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 this year were revenue growth, margins, earnings growth and cash generation (some of our key performance indicators as set out more fully on pages 18 to 19 as well as ensuring that sufficient investment is made in product development opportunities so that Spirent's one year plan aligns with its long term strategy.

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. 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.

Further details of the Board's activities during the year can be found on page 49 of this Report.

As discussed in the Strategic Report on pages 2 to 43 of this Annual Report, 2013 marks a turning point for the Company and in response to the challenges experienced we have undertaken a radical reorganisation of the activities within Spirent. Your Board are confident that, in our Executive Directors, we have two highly-skilled, capable individuals who we are pleased to have had the opportunity to work with. Eric and Rachel, while both relatively new to their current roles, have deep knowledge and experience of the Company, its operations and history. They are both committed to delivering an agile, responsive Spirent and I look forward to the Board playing a full and constructive role in the development and determination of the Group's strategy and overall commercial objectives.

The role of chairman is a vital one. We can provide a sounding board for our non-executive directors, while also maintaining a dialogue with our executive directors, so that the board's focus and debate can be developed both within the boardroom and also between meetings. Board effectiveness should not just be about ticking boxes on a checklist; just as important is a robust culture of openness and respect, which I have certainly been witness to at Spirent board meetings.

As a Board, we are conscious of our obligations to think deeply, thoroughly and on a continuing basis regarding our duties. Our Non-executive Directors do so from a strong position of independence, scrutinised on a regular basis by reflecting specifically on the definition of independence contained within the Code. Our Executive Directors also must challenge their teams to encourage this positive debate throughout the Company.

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. Biographical details of our directors can be found on pages 46 to 47 of this Report.

We are well aware that Spirent's greatest resource is its employees: Spirent's people create and drive our innovation. 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.

As I have already mentioned, our new Chief Executive Officer and new Chief Financial Officer have both been internal promotions who have extremely detailed knowledge of the Company's operations. The Board receives updates on developments in market trends, developments in law, corporate governance and best practice and are actively encouraged to ask questions or seek training on any matter they feel could advantage them and the Board. A fuller description of induction and development can be found on page 51 of the Report.

The Board are in agreement with the recommendation of the Code that all directors should be submitted to re-election at regular intervals and, indeed, all Spirent directors have stood for re-election since 2011.

It is a failing of our industry as a whole that technology companies have a tendency to live in a world of jargon and acronym and every year we make an extra effort to present our Annual Report in a way that is accessible to all our stakeholders. The glossary on pages 140 to 142 goes some way to help on the technology side, but we also work to make our Corporate Governance and Financial Statements clearer. It is not just in order to comply with the UK Corporate Governance Code that we strive for our Annual Report to be fair, balanced and understandable; if we are truly to "help the world connect", we must do as we say in all our areas of communications.

Alex Walker
Chairman
27 February 2014

Board of directors

1. Alex Walker 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.

2. Eric Hutchinson Chief Executive Officer
Eric was appointed to the Board in January 2000 as Chief Financial Officer and appointed Chief Executive Officer in September 2013.

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

Before this appointment, Eric had been Spirent's Chief Financial Officer since January 2000, having joined the Company in 1983, working in various roles within the finance function.

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.

3. Rachel Whiting Chief Financial Officer
Rachel was appointed to the Board in February 2014.

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

Before her appointment to the Board, Rachel was Company Secretary and Head of Group Tax and will continue to be Company Secretary until a successor can be appointed. She joined the Company in 1986 and worked in various roles within the finance function, before being appointed Head of Group Tax in 2003 adding the role of Company Secretary in 2009.

Rachel holds a degree in Economics from the University of Bristol. She is a Fellow of the Institute of Chartered Accountants in England & Wales and an Associate of the Chartered Institute of Taxation and of the Institute of Chartered Secretaries and Administrators.

4. Ian Brindle 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 a Non-executive Director of Elementis plc.

5. Duncan Lewis 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.

6. Tom Maxwell 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 Chairman 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.

7. Sue Swenson 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., serving as Chair of the Nominating and Governance Committee and 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.

Directors' statement on corporate governance

Compliance statement

The Board fully supports the principles laid down in the UK Corporate Governance Code as issued by the Financial Reporting Council in September 2012, which applies to financial years beginning on or after 1 October 2012 (the "Code") and is available at www.frc.org.uk.

This Report describes how the principles of the Code are applied and reports on the Company's compliance with the Code's provisions.

The Board considers that it has been in compliance with the provisions of the Code throughout the period under review except for Code Provision D.1.5 in relation to Eric Hutchinson's fixed term contract, as described more fully in the Report on directors' remuneration on page 64.

Governance framework

Shareholders

3,557 shareholders
as at 27 February 2014

Board

Non-executive Chairman

Two executive directors

Four independent non-executive directors

Nomination Committee

Non-executive Chairman

Four independent non-executive directors

Primary responsibility for succession planning, Board/director selection and Board composition

Committee report – page 53

Audit Committee

Four independent non-executive directors

Provides oversight and governance over the Group's annual reporting, internal controls, risk management and relationship with external auditors

Committee report – pages 54 – 57

Remuneration Committee

Four independent non-executive directors

Agrees remuneration policy and sets individual compensation levels for executive directors and senior management

Committee report – pages 58 – 76

Board

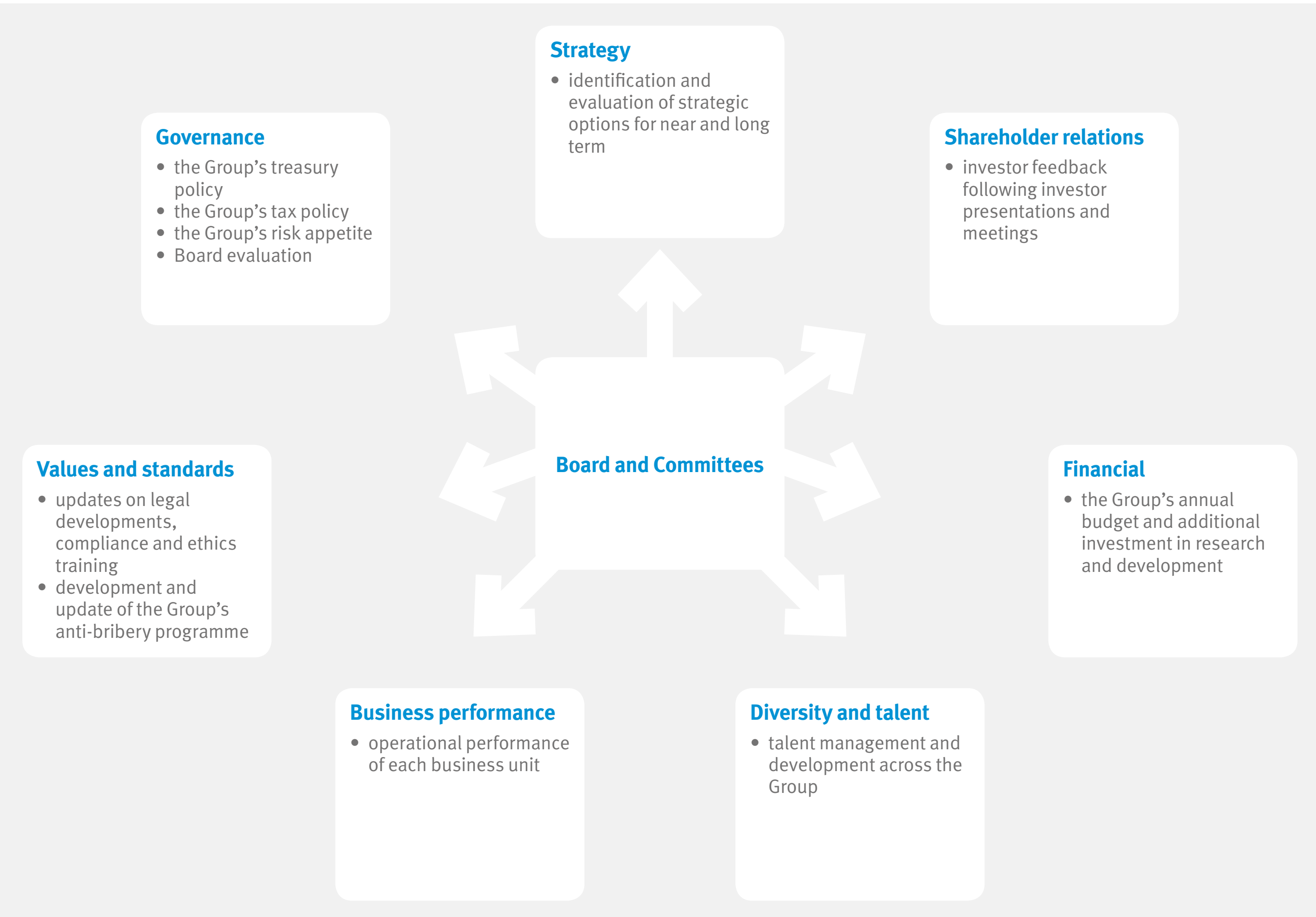
Leadership
The Board has a formal schedule of matters reserved for its decision which was reviewed and updated during the course of the year. The Board's primary responsibility is to promote the long term success of the Company by creating and delivering sustainable shareholder value. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight and direction to the management team. The Board considers the impact of its decisions on wider stakeholders including employees, suppliers and the environment.

Division of responsibilities
There is a clear division of responsibilities at the Company between the running of the Board, undertaken by the Non-executive Chairman, and the executive responsibility for the running of the Company's business, which is in the hands of the Chief Executive Officer. This division of roles is reviewed and approved by the Board.

Senior Independent Director
The role of Senior Independent Non-executive Director ("SID") provides a sounding board for the Chairman and an intermediary for the other non-executive directors, if needed. The SID is also available to meet with shareholders upon request if they feel that 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.

Board activity during the period
At each Board meeting, the Chief Executive Officer presents a comprehensive update on the performance, strategy and business issues across the Group and the Chief Financial Officer presents a detailed analysis of the financial performance of the business units. Senior executives below Board level attend relevant parts of Board meetings in order to make presentations on their areas of responsibility; this gives the Board access to a broader group of executives and helps the directors make assessments of the Group's succession plans. The Board has a rolling programme of visits to business unit locations to deepen its appreciation of the different opportunities and challenges that each unit faces, in order that strategy discussions can reflect a greater understanding.

During the period under review, the Board in particular reviewed:



Directors' statement on corporate governance continued

Composition of the Board

At the date of this Report, the Board comprises a non-executive Chairman, four independent non-executive directors and two executive directors.

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.

Independence

The independence of each director is reviewed on appointment and at least annually with particular reference to the considerations set out in Code Provision B.1.1. The Board determined that the non-executive directors are each independent in character and judgement; none have been employed by the Company previously in any capacity or have any material business relationship with any Group company. Non-executive directors at Spirent receive no remuneration from the Company other than their fees (detailed in the Report on directors' remuneration on page 65), and each non-executive director has confirmed that they do not represent any significant shareholder in the Company. No individual or group of individuals dominates the Board's decision making and Code Provision B.1.2, stating that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors, is satisfied.

Board procedures

During 2013, ten Board meetings were held. The agenda is set by the Chairman together with the Chief Executive Officer and all members of the Board are supplied in advance with appropriate, clear and accurate information in a timely manner covering matters which are to be considered. Minutes of meetings are circulated to all Board members and, subject to their agreement, approved at the following Board meeting.

Attendance

The attendance of individual directors at Board meetings held during 2013 was as follows:

	Number of meetings held	Number of meetings attended
Alex Walker (Chairman)	10	10
Bill Burns[1]	5	5
Eric Hutchinson	10	10
Ian Brindle[2]	10	8
Duncan Lewis	10	10
Tom Maxwell	10	10
Sue Swenson	10	10

Notes

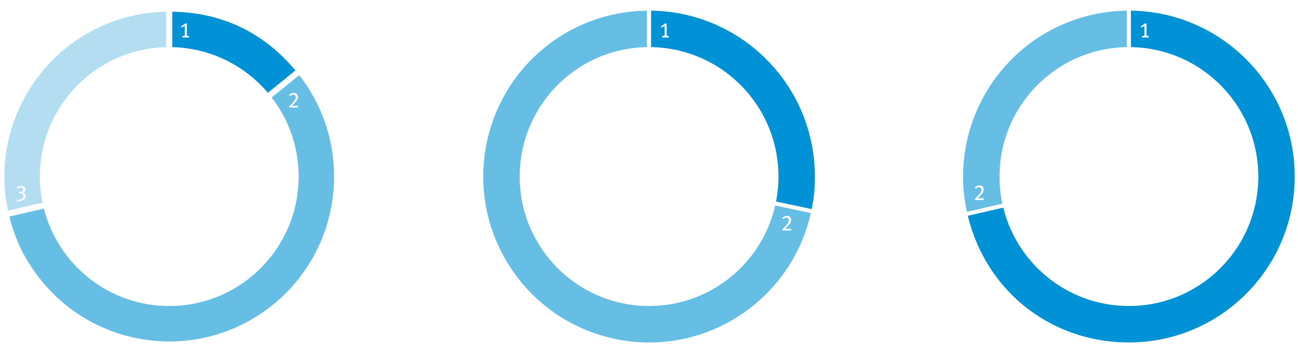
1 Mr Burns stepped down from the Board on 3 September 2013.

2 Mr Brindle was unable to attend two *ad hoc* meetings of the Board as they conflicted with meetings already in his diary for other listed companies. Mr Brindle received all papers relating to the meetings and had the opportunity to discuss issues arising directly with the Chairman. He also appointed Alex Walker as his proxy for the duration of the meetings.

Biographical details for each of the directors are set out on pages 46 and 47 and can also be found on the Company's website at http://corporate.spirent.com/About-Us/Our_Board_of_Directors.

Re-election of directors

In accordance with Code Provision B.7.1, all directors will be subject to election or annual re-election by shareholders at the 2014 AGM. The Board recommends to shareholders the re-appointment of all directors retiring at the 2014 AGM on the basis that they are all effective directors of the Company and demonstrate the appropriate level of commitment in their respective roles.



Board composition[1]
1. Chairman
2. Independent non-executive directors (4)
3. Executive directors (2)

Length of tenure of directors[1]
1. Less than 3 years (2)
2. More than 5 years (5)

Gender diversity[1]
1. Male (5)
2. Female (2)

Note

1 At the date of this Annual Report.

Service contracts and letters of appointment

The terms of executive directors' service contracts are disclosed in the Report on directors' remuneration on pages 58 to 76. Directors' interests in the shares of the Company are disclosed on page 70.

Executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the Company's registered office and will be available at the AGM, which will take place on 23 April 2014.

Induction and development

Following the appointment of any new director, the Chairman and Company Secretary ensure that a full, formal and tailored induction to the Company is made available. The Company Secretary is on hand to answer any questions which may arise. All directors receive regular updates on key administrative issues and changes in the law, corporate governance and best practice. Directors are given the opportunity to highlight specific areas where they feel their skills or knowledge would benefit from development as part of the Board evaluation process.

Company Secretary

The Company Secretary, who was appointed by the Board, is responsible for advising and supporting the Chairman and the Board on corporate governance matters as well as ensuring that there is a smooth flow of information to enable effective decision making. All directors have access to the advice and services of the Company Secretary and can take independent professional advice in respect of their duties, at the Company's expense.

Directors' indemnification

In accordance with its Articles, the Company has granted a qualifying third party indemnity, to the extent permitted by law, to each director. The Company also maintains directors' and officers' liability insurance.

These provisions are qualifying third-party indemnity provisions as defined in section 234 of the Companies Act 2006. Neither the Company's indemnity nor the insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently.

Board performance evaluation

Every year, the Board and its committees (Audit, Nomination and Remuneration) evaluate their performance in accordance with Code Provision B.6.1. In 2012, the evaluation was conducted by Useful Thinking Ltd. (Useful Thinking Ltd has no other connection with the Company). The Board reflected on the points raised by the process and during 2013 focused in particular on the development of strategic planning and increasing the diversity both on the Board itself and within the Company's executive team. This year the process was managed internally in the form of a confidential questionnaire which focused on all areas of Board and Committee activities. The results were discussed by the Board and as a result of this year's evaluation, the Board intends to look at the following during 2014:

- to continue to review and advance strategic planning;
- to provide more opportunities for non-executive directors to meet with executives and senior managers below Board level to assist in the identification of internal talent for succession planning;
- to build greater visibility and connection with the business units to develop a mutual understanding of roles and challenges; and
- to strengthen the Board with the appointment of additional non-executive directors in order to ensure orderly succession for appointments and to ensure progressive refreshing of the Board.

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 standards, including each having sufficient time to discharge their responsibilities effectively.

Directors' statement on corporate governance continued

The Senior Independent Non-executive Director met with the other independent Non-executive Directors on 6 November 2013, in the absence of the Chairman, to assess the Chairman's effectiveness. After considering and discussing the tasks undertaken by the Chairman during the period under review, the independent Non-executive Directors agreed that Mr Walker gave appropriate time and commitment to his role as Chairman of the Company and was effective in that role throughout 2013.

Directors' conflicts

Under the Companies Act 2006, the directors have a statutory duty to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. Directors of public companies may authorise conflicts and potential conflicts where appropriate, if the Articles of Association contain a provision to this effect.

The Board is aware of the other commitments of its directors and is satisfied that these do not conflict with their duties as directors of the Company.

The Board believes that the following process shown below and established to monitor conflicts of interest is operating effectively.

Shareholder engagement

The Board is committed to maintaining good communications with shareholders. The Chairman, Chief Executive Officer and Chief Financial Officer have regular dialogue with individual institutional shareholders in order to develop an understanding of their views which is then discussed with the Board. All directors are offered the opportunity to meet with major shareholders to listen to their views and Executive Directors receive regular reports prepared by an independent capital markets advisory firm which provides comprehensive information relating to the Company's major shareholders.

Presentations are made to analysts, investors and prospective investors covering the full-year and half-year results and the Company seeks to maintain a dialogue with the various bodies which monitor the Company's governance policies and procedures. The Strategic Report on pages 2 to 43 details the financial performance of the Company as well as setting out the risks it faces.

The Company is always keen to hear the views of its private shareholders and we encourage them to use our shareholder mailbox – investor.relations@spirent.com – for detailed enquiries and to access our website – www.spirent.com – for our Company reports and business information.

Any concerns raised by shareholders, whether directly or expressed through voting patterns at the Company's AGM are discussed by the directors and an appropriate response given.

Annual General Meeting

The Company's AGM will be held at 10.30am on Wednesday 23 April 2014 at the offices of UBS, 1 Finsbury Avenue, London, EC2M 2PP.

At the AGM, the Chief Executive Officer gives an update on the positioning and outlook for the Company. Shareholders are invited to ask questions formally during the meeting and to follow up these discussions with directors on a one-to-one basis afterwards. The Chairmen of each of the committees of the Board and the Senior Independent Director will be in attendance and will be available to respond to questions at the AGM.

The Board looks forward to welcoming all our shareholders to our 2014 AGM and to updating them on our business developments.

Directors are responsible for notifying the Company Secretary if they become aware of any actual or potential conflict situations or a change in circumstances relating to an existing authorisation

Any conflicts identified are presented to the Board for consideration and, as appropriate, authorised in accordance with the Companies Act and the Company's Articles of Association

Directors are required to review and approve a register of potential conflicts on appointment and annually thereafter

Nomination Committee

Responsibilities

The Nomination Committee's main focus is on strengthening, balancing and understanding the range of skills, experience and diversity of the Board, its Committees and key roles below Board level.

The full terms of reference of the Committee are available at http://corporate.spirent.com/Governance/Board_Committees or from the Company Secretary at the registered office.

Composition of the Committee

At the date of this Report, the Nomination Committee comprises the Company Chairman, who also acts as Committee Chairman, and four independent Non-executive Directors.

Meetings and attendance

The Committee meets at least two times each year and at other times as necessary. During 2013, three meetings were held, with individual members' attendance as follows:

	Number of meetings held	Number of meetings attended
Alex Walker (Chairman)	3	3
Ian Brindle[1]	3	2
Duncan Lewis	3	3
Tom Maxwell	3	3
Sue Swenson	3	3

Note

1 Mr Brindle was unable to attend an *ad hoc* Committee meeting as it conflicted with a meeting already in his diary for another listed company. Mr Brindle received all papers relating to the meeting and had the opportunity to discuss issues arising direct with the Chairman. In this instance, he also appointed Alex Walker as his proxy for the duration of the meeting.

Committee activity during the period

The Committee considered and made recommendations to the Board in respect of:

- the appointment of Eric Hutchinson as Chief Executive Officer;
- the appointment of Rachel Whiting as Chief Financial Officer and to the Board;
- the appointment of senior executives resulting from the Group's internal reorganisation;
- matters relating to succession planning in the light of the tenure of current non-executive directors; and
- the results of the evaluation of the Board, its Committees and the directors, including the review of the continued independent status of the non-executive directors.

Appointment of directors

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board under which the Committee interviews suitable candidates who are proposed either by existing Board members or by an executive search firm. The search for candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity. When the Committee has found a suitable candidate, the Committee proposes the appointment to the whole Board, which retains responsibility for all such appointments.

Careful consideration is given to ensure that proposed appointees for non-executive roles have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained. When discussions relate to the appointment of the Company Chairman, the Senior Independent Non-executive Director chairs the Committee.

On 3 September 2013, when Bill Burns stepped down as Chief Executive Officer, the Nomination Committee considered the skills and experience of the Company's Chief Financial Officer, Eric Hutchinson, in particular his knowledge of the Company and its operations, and unanimously recommended to the Board his appointment as Chief Executive Officer.

After a period of adjustment and internal reorganisation, the Committee reviewed the role of Chief Financial Officer and generated a set of criteria upon which to base recruitment. As an internal candidate, Rachel Whiting was already well-known to the Board and Committee, however, in order to validate her skills and experience against the criteria, the Committee appointed Spencer Stuart to carry out a benchmarking process on her suitability for the role. On receiving a formal report substantiating her suitability for the role of Chief Financial Officer, the Committee was pleased to unanimously recommend her appointment as Chief Financial Officer and to the Board. Spencer Stuart has no other connection with Company.

Following the internal reorganisation undertaken by the Chief Executive Officer in the second half of 2013, the Committee will be developing an updated succession plan in 2014 to take account of new roles and reporting lines.

Diversity

The Committee and, indeed, the Board, recognises the benefits of having diversity across all areas of the Group and believes that this contributes to the Company's strategic advantage. Neither the Committee nor the Board sets specific targets or objectives for diversity. However, when considering the optimum composition of the Board, the benefits of a diverse Board are appropriately reviewed and balanced, where possible, including in terms of differences in skills, industry experience, business model experiences, gender, race, disability, age, nationality, background and other contributions that individuals may bring. The Committee continues to focus on encouraging diverse skill sets, capabilities and experience, recognising that directors from different geographical and cultural backgrounds may enhance the performance of the Board.

When identifying suitable candidates, the Committee will seek candidates from a range of backgrounds, with the final decision being based on merit over objective criteria.

With the appointment of Rachel Whiting to the Board on 1 February 2014, women currently represent 29% of our Board; further details of the gender diversity within the Company can be found in the "Our Employees" section on pages 36 to 37 of this Annual Report.

Committee performance evaluation

Having reviewed the results of the Board's and the Committee's performance evaluations, the Committee has confirmed to the Board that the present Board and its Committees continue to operate effectively and that all of the non-executive directors remained independent in accordance with the Code and should stand for re-election at the 2014 AGM.

Audit Committee

Ian Brindle
Chairman of the Audit Committee

Dear Shareholder,

In this Audit Committee report, you will find details of the work of the Audit Committee ("the Committee") during the year and in particular details of how it has discharged its responsibilities as set out in the UK Corporate Governance Code in respect of the following three principal areas of focus:

- how the significant accounting issues that the Committee has considered in relation to the financial statements for the year have been addressed;
- how the Committee has assessed the effectiveness of the external audit process and the approach that has been taken to the appointment of EY as external auditor; and
- how EY's objectivity and independence has been safeguarded in relation to their provision of non-audit services.

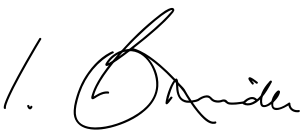
In addition, during 2013, the Board and the Committee have been briefed on and considerable attention has been given to the recently introduced governance requirements for the Annual Report taken as a whole to be fair balanced and understandable. The Board and Committee understand that 'fair' should mean reasonable and impartial, 'balanced' should mean even handed in terms of being positive and negative and 'understandable' should mean simple, clear and free from jargon or unnecessary clutter.

The Board and Committee consider that the Annual Report for 2013, taken as a whole, is fair, balanced and understandable, with appropriate signposting being made throughout the various sections to assist shareholders and others understand the information and disclosures contained within them.

The Committee's focus areas for the rest of 2014 are:

- monitoring revenue recognition policy;
- challenging the corporate risk appetite as it moves into new business areas and testing the risk tolerance of the Company's strategy; and
- assessing the Company's response to the changing regulations relating to the tendering of the external audit.

Also in 2014, we are welcoming a new Chief Financial Officer, Rachel Whiting, to the Board. Rachel has worked in several roles at Spirent and has a deep-rooted understanding of the financial reporting structure throughout the Company and the Committee is confident that she will provide a robust approach to the high standards that it has come to expect from the Finance team.



Ian Brindle
Chairman of the Audit Committee
27 February 2014

Responsibilities

The Board has delegated to the Audit Committee responsibility for overseeing the financial reporting, internal risk management and control functions and for making recommendations to the Board in relation to the appointment of the Company's external auditors.

The full terms of reference of the Committee are available at http://corporate.spirent.com/Governance/Board_Committees or from the Company Secretary at the registered office.

Composition of the Committee

At the date of this Report, the Audit Committee comprises four independent non-executive directors, one of whom acts as Committee Chairman.

The Board considers that two members of the Committee, Ian Brindle (who acts as Committee Chairman) and Tom Maxwell, provide recent, significant and relevant financial experience.

Further biographical details of the Committee members can be found on pages 46 and 47.

Meetings and attendance

The Committee meets at least two times each year and at other times as necessary. During 2013, three meetings were held, with individual members' attendance as follows:

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

The Company's external auditor, the Chairman, Chief Executive Officer, Chief Financial Officer, Group Vice President, Finance, Head of Financial Reporting and Company Secretary, who is Secretary to the Committee, were in attendance at each meeting of the Committee.

In addition, the Committee meets regularly with the Company's external auditor and with the Group Vice President, Finance without management present.

Committee activity during the period

The Committee discharged its responsibilities to the Board and communicated with them on the following matters during the period under review:

- review of the full-year and half-year financial statements, key accounting policies and significant financial reporting judgements contained therein (with particular reference to the critical accounting assumptions and judgements as set out in Note 2 of the consolidated financial statements on pages 87 to 93) and recommendation of such financial statements to the Board for approval;
- review of whether the Annual Report taken as a whole is fair, balanced and understandable and forming an opinion thereon prior to recommending it to the Board;
- review and consideration of assumptions in relation to the going concern basis for preparation of financial statements;
- review of the external auditor's report on the interim review and year end audit and management's responses to the issues raised;
- review of the policy on the engagement of EY to supply non-audit services;
- review and recommendation to the Board of the re-appointment of EY as external auditor and approval of their fees, in particular in light of the UK Corporate Governance Code's recommendations regarding the tender of the external audit contract;
- review of recommendations on segmental reporting in accordance with IFRS 8 and the impact of IAS19 (revised);
- review and approval of restructuring of the Finance team in light of business unit reorganisation;
- monitoring and review of internal control and risk management systems;
- review and approval of the internal audit programme for 2013;
- review of risk assessment of cyber security;
- review of the Company's Whistleblowing Policy and anti-bribery and corruption procedures; and
- review of regular reports on taxation, treasury operations and health and safety.

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

Financial reporting and significant financial issues

Following discussions with management with regard to their own review of accounting policies and internal controls, the Audit Committee concluded that there were two significant financial issues arising from the financial statements which would require particular consideration during the year:

- Revenue recognition
  Having discussed the impact that complex commercial arrangements entered into by the Group could have on the recognition of revenue and associated balances, the Committee noted that a review of current procedures in the light of current trading should be undertaken. As part of their audit procedures EY would examine the allocation of revenue and review specific large and complex transactions to ensure that revenue has been recognised appropriately.

- Tax accounting
  The Committee recognises that the complexity associated with the Group operating in a number of tax jurisdictions may lead to an incorrect tax charge being recognised in the income statement for the period and deferred tax assets being inappropriately recognised. The Committee noted that EY would be performing a detailed review of the deferred tax recognised and tax provisions to ensure the appropriateness of tax disclosures in the Group accounts as part of their audit review.

The Committee noted that EY had included these areas of significant risk in the Auditor's Report on pages 80 to 81 of this Annual Report and was satisfied with the results of the procedures followed.

Audit Committee continued

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 it being approved by the Board.

Internal control

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 this Report.

The primary aim of the Group's internal controls is to operate a system which is appropriate to the business and which can support the Group in delivering its strategic objectives, safeguard the Group's assets and, over time, enhance shareholder value. 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.

As disclosed in the "Our principal risks and uncertainties" section on pages 20 to 25, the Group risk review committee reviews the key risks facing the business. Membership of the Group risk review committee, which includes representation from each of the key business areas, is currently:

- Chief Executive Officer;
- Chief Financial Officer;
- Executive Vice President, Networks, Applications and Infrastructure;
- Executive Vice President, Wireless and Service Experience; and
- Group Vice President, Finance

Members of the Group risk review committee meet with each business unit periodically to challenge and debate the assessment of risk within each business unit, who then submit local risk registers for the committee to analyse and rank together with company-wide risks to form a robust corporate risk register. This corporate risk register is then presented to the Audit Committee at each of its meetings. Actions arising from the Audit Committee's review of the corporate risk register can then be fed back to the business units for their management.

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. Detailed updates on specific areas, such as cyber security or business continuity, are provided by the Group Vice President, Finance at the Committee's request.

Risk management

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

External audit

The Committee places great importance on ensuring that high standards of quality and effectiveness are maintained within the external audit process. It considers a number of areas in relation to the external auditors: their performance in discharging the audit and interim review of financial statements, their independence and objectivity, and their reappointment and remuneration.

Consideration of the effectiveness of the external auditors also forms part of the Audit Committee's performance evaluation questionnaire and is discussed regularly with management to enable prompt feedback to be given.

The Company's external auditors, Ernst & Young LLP ("EY"), provided the Committee with their plan for undertaking the year end audit at the Committee meeting in November 2013. This highlighted the proposed approach and scope of the audit for the year and identified the areas of significant risk and other financial statement risk, including the audit approach for these areas in some detail. The areas of significant risk were primarily identified as issues of judgement and complexity and included revenue recognition and tax accounting. The Committee reviewed and appropriately challenged the basis for these before agreeing the proposed approach and scope of the external audit identified.

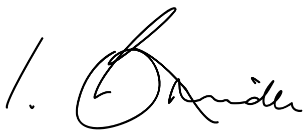
EY prepared a detailed report of their audit findings, which was presented to the Committee at its meeting in February 2014. The findings were reviewed and discussed in detail by the Committee, in particular in relation to the areas that had been highlighted at the planning stage. As part of the review, the external auditor was questioned and challenged by the Committee about the work undertaken, its findings and what key assumptions had been made during the audit, especially with regard to the key areas of audit risk identified.

Prior to recommending their re-appointment as external auditors, the Committee considers EY's independence and objectivity in the light of relevant UK professional and regulatory requirements, specifically in the light of the Competition Commission's investigation into the market for statutory audit services for large companies and also the EU's review of the audit services market. EY have been the Company's external auditors for more than 25 years and the audit has not been tendered during that time, although it was noted that as a result of EY's policy on rotating audit partners there had been a new Audit Partner in 2011. The Committee determined that given the developing nature of the regulations relating to audit tendering provisions from the Competition Commission and the EU, and that there are no contractual obligations that restrict the Company's current choice of external auditor, it would not be appropriate to instigate a tender process at the present time.

Policy on non-audit services

The Committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a policy in relation to the provision of non-audit services by the external auditor. Taking into account relevant ethical guidance this policy precludes a number of non-audit services 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, including audit-related fees, tax-related fees and other fees, are set on an annual basis (2013 $0.6 million (2012 $0.6 million)). Any amounts in excess of this limit must be approved in advance by the Audit Committee.

Requests for approval of any permitted non-audit service are reviewed and, if necessary challenged by the Company Secretary, who reports to the Committee all non-audit services undertaken at each Committee meeting so that it can monitor the types of services being provided and the fees incurred. Details of the fees paid to the external auditor for non-audit services can be found in Note 5 to the consolidated financial statements. The Committee considers that notwithstanding the non-audit services provided during the year totalling $0.2 million (2012 $0.4 million), EY's objectivity as external auditor was not impaired.



Ian Brindle
Chairman of the Audit Committee
27 February 2014

Report on directors' remuneration

Tom Maxwell
Chairman of the Remuneration Committee

Dear Shareholder,

As Chairman of the Remuneration Committee, I am pleased to present our Remuneration Report for the year ended 31 December 2013.

Last year's Remuneration Report anticipated many of the new remuneration reporting requirements which were in draft form at that time. This Report has been prepared in accordance with the now finalised requirements and we hope that you find it comprehensive, clear and informative.

The Committee aims to operate a simple and transparent remuneration structure comprising base salary, a cash incentive plan and a long term incentive plan which provide a clear link between remuneration and the Group's strategic priorities. In support of this, 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.

As a Committee, we believe it is essential that directors' remuneration is aligned with the Company's strategic framework, the interests of shareholders and the external competitive market.

As outlined earlier in this Annual Report, it has been a challenging year for Spirent, with decreasing revenues and a significant impact on profit. 2013 also marks a turning point for the Company and this was reflected in the activities for the Committee which, in addition to routine matters set out in the report, included:

- reviewing and settling Bill Burns' termination arrangements in line with his service agreement; and
- reviewing the future policy for cash incentive arrangements for executive directors and determining that to drive longer term focus, cash incentives will now be based on annual performance only with no quarterly incentive.

With the introduction of the new reporting requirements there continues to be a significant focus on transparency of reporting on executive pay. 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. As set out later in this Report, our 2012 Report on directors' remuneration received a strong level of support at the Company's AGM in May 2013 with 98.77 per cent of shareholders voting in favour of the advisory resolution.

The main priorities for the Committee for 2014 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;
- to set incentive targets that support the long term strategy for the Group, are stretching, appropriate, and achievable;
- to commence a review of our Employee Incentive Plan which is due to expire in 2015, seeking investor views as appropriate before seeking shareholder approval in 2015; and
- reviewing malus and clawback provisions to ensure that we are in line with best practice.

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

Tom Maxwell
Chairman of the Remuneration Committee
27 February 2014

Compliance statement

This Report on directors' remuneration for the year ended 31 December 2013 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) as amended in 2013, the relevant sections of the Companies Act 2006 and meets the requirements of the Listing Rules of the Financial Conduct Authority. The Report also describes how, except with regard to Eric Hutchinson's service contract, as more fully described on page 64, the Board has complied with the provisions of the UK Corporate Governance Code issued in September 2012.

The Report is presented in two parts:

Part A sets out the Remuneration Policy and provides the details of the remuneration policy that we propose will apply following the 2014 AGM subject to obtaining shareholder approval at the AGM on 23 April 2014.

Part B sets out the Directors' annual remuneration report and includes details of how our remuneration policy was implemented for the year ended 31 December 2013 and how it will be applied for the year ended 31 December 2014.

At the Annual General Meeting to be held on 23 April 2014 there will be two resolutions in respect of this Remuneration Report:

- the Directors' Remuneration Policy Report set out in Part A on pages 59 to 67 will be put to a binding shareholder vote; and
- the Directors' Annual Report on Remuneration in Part B on pages 68 to 76 will be put to an advisory shareholder vote.

Part A: Remuneration Policy

Components of executive director remuneration

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.

Report on directors' remuneration continued

Future policy table

The table below sets out the executive remuneration policy that we intend to apply, subject to shareholder approval, from 24 April 2014 and summarises the various elements of executive remuneration:

	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
			Base salary	
Fixed pay	To provide fixed remuneration for each role which reflects the size and scope of the executive director's responsibilities and their individual skills and experience Set at levels to attract and retain the high calibre talent necessary to develop and deliver the Group's strategy	Base salaries are normally reviewed annually, with changes effective from 1 January Salaries are typically set after considering the salary levels in companies of a similar size and complexity, the responsibilities of each individual role, progression within the role, individual performance and experience and with regard to salary levels in the country in which the executive resides. Our overall policy, having had due regard to the factors noted, is normally to target salaries at the median market level	Salary levels for current incumbents for the 2014 financial year are: Chief Executive Officer £400,000 per annum Chief Financial Officer £250,000 per annum Salaries may be adjusted and any increase will ordinarily be (in percentage of salary terms) in line with those of the wider workforce having particular regard to the increases in the country in which the individual resides Increases beyond those granted to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances, for example where there is a change in responsibility, progression in the role, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group	Individual and business performance are considered when determining salary levels, together with experience, scope of responsibility and salary increases of employees in the country of residence of the director
			Benefits	
	To provide market levels of benefits on a cost-effective basis To support personal health and well-being	May include private health cover for the executive and their family, life insurance cover, typically up to four times annual base salary, permanent health insurance and a car allowance Other benefits may be offered from time to time broadly in line with local market practice in the country of residence of the executive director Global relocation support and any associated costs or benefits may also be provided if considered by the Committee to be appropriate and reasonable to meet the requirements of the business	Private health care benefits are provided through third party providers and therefore the cost to the Company and the value to the director may vary from year to year It is intended that the maximum value of benefits offered will remain broadly in line with market practice	None

	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
	Pension (or cash allowance)			
Fixed pay	To provide cost-effective and competitive post-retirement benefits	Defined contribution scheme or cash allowance in lieu of Company pension contributions or a combination of both Other post-retirement benefits may be offered from time to time broadly in line with local market practice in the country of residence of the executive director	An annual taxable cash allowance of 20% of base salary is provided to the Chief Executive Officer and 14% of base salary is provided to the Chief Financial Officer either as a contribution to a defined contribution plan or as a taxable salary supplement in lieu of pension Base salary only is pensionable but the percentage allowance may increase in line with market practice	None
	Annual incentive			
Variable pay	To reward and incentivise the achievement of annual financial and strategic goals The performance measures are selected to align the strategy of the business with shareholder value creation	Measures and targets are set annually, payments are then determined by the Remuneration Committee after the year end based on performance against those targets The annual incentive is payable in cash	On target opportunity of 100% of base salary for Chief Executive Officer subject to a cap of 150% of base salary On target opportunity of 50% of base salary for Chief Financial Officer subject to a cap of 75% of salary The Remuneration Committee may, in exceptional circumstances, amend the payments should this not, in the view of the Committee, reflect overall business performance or individual contribution but they would not exceed the maximum opportunity set out above	For 2014, the annual incentive is based on financial targets only, reflecting the focus for the Group. Future annual incentives may be based on a mix of financial and individual business objectives with the majority of the weighting being given to financial metrics A sliding scale between 0% and 100% of the maximum incentive applies for achievement between threshold and maximum performance under the annual incentive. The exact measures, weightings and targets are determined by the Remuneration Committee each year taking into account the Group's key strategic priorities and the approved budget for the year
	Long term incentives			
Variable pay	To incentivise executives to achieve enhanced returns for shareholders To encourage long term retention of key executives To align the interests of executives and shareholders	Discretionary awards of conditional awards, nil cost options or stock appreciation rights ("SARS") may be granted annually as a percentage of base salary. Vesting is based on performance measured over three years. The performance period normally starts at the beginning of the financial year in which the grant is awarded in respect of EPS conditions or shortly before the date of award in respect of TSR conditions	Limits of 250% and 125% of base salary for awards of SARs or share options and Performance Shares respectively Limit of 250% of base salary for combined awards where one Performance Share is equivalent to two SARs or share options	Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate. If employment ceases during a performance period, awards may be tested on a pro rata basis under certain "good leaver" circumstances at the discretion of the Remuneration Committee A full description of the performance conditions applicable to long term incentive awards under the Employee Incentive Plan ("EIP") can be found below this table

Report on directors' remuneration continued

	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Variable pay	**All-Employee share plans**			
	To provide all employees with the opportunity to become shareholders on similar terms	Executive directors are eligible to participate, on the same basis as other employees, in the Company's HMRC-approved Share Incentive Plan (known as the Employee Share Purchase Plan) or any other all-employee share plan operated in the future Employee Share Purchase Plan: All eligible employees in participating locations are invited to participate Partnership shares are held in trust and can be released at any time subject to appropriate tax treatment of proceeds	Participation by all employees in any all-employee share plan operated now or in the future is limited to the maximum award levels permitted by relevant legislation	None
	Relocation			
	To offer assistance to executive directors who are required to relocate by the Company to enable the Company to attract and retain talent	Global relocation support and any associated costs or benefits may be provided The Company may also provide tax equalisation arrangements	There are a number of variables affecting the amount that may be payable, but the Committee would pay no more than it judged reasonably necessary in the light of all applicable circumstances	None
	Share ownership			
	To align the interests of executive directors with shareholders and promote a long term approach	Executive directors are expected to hold shares in the Company to the value of a minimum of 100% of base salary over time. These can include shares and unfettered share incentive awards Except for those sold to cover subscription costs, income tax and national insurance contributions, executive directors are encouraged to retain shares arising from share schemes until the minimum level of ownership has been achieved	None	None

Notes to the policy table

Performance conditions for awards under the Employee Incentive Plan ("EIP")

The Committee reviews the appropriateness of performance parameters for each award under the EIP and sets stretching performance conditions in the light of the Company's current and expected performance over the vesting cycle.

2014 Policy on share incentive awards

The Committee expects to approve an award of Performance Shares to Eric Hutchinson and Rachel Whiting equivalent to 125 per cent and 60 per cent of annual base salary respectively.

Performance conditions for awards expected to be made in 2014

Having reviewed the appropriateness of the performance parameters for awards under the EIP, the Committee has determined that for awards to be made in 2014, the following parameters are apposite:

Performance shares

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

50% of award:

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:

Absolute TSR	Proportion of Performance shares vesting (%)
Up to 25% growth	0
At 25% growth but below 65% growth	On a straight line basis between 30 and 100
At or above 65% growth	100

In determining TSR for the Company, 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, where awarded, would continue to be 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 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.

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 2014 AGM to continue to operate this plan. However, we expect to seek shareholder approval at the 2015 AGM for an extension to the EIP's operating period.

Report on directors' remuneration continued

Approach to recruitment remuneration

In the event that the Company recruits a new executive director (either from within the organisation or externally), when determining the appropriate remuneration arrangements, the Committee will take into consideration all relevant factors (including but not limited to quantum, the type of remuneration being offered and the jurisdiction which the candidate was recruited from) to ensure that arrangements are in the best interests of both the shareholders and the Company without paying more than is necessary to recruit an executive of the required calibre.

The Committee would generally seek to align the remuneration package offered with our remuneration policy outlined in the table above. However, the Committee retains discretion to make proposals on hiring a new executive director which are outside the standard policy. In the first year of appointment, the Committee may offer additional remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual. Such remuneration may be in the form of cash or share-based awards which may vest immediately or at a future point in time. Vesting may be subject to performance conditions selected by the Committee.

The Committee may make awards on appointing an executive director to "buy-out" remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to those awards, the form in which they were granted and the time over which they would have vested. Generally buy-out awards would be made on a comparable basis to those forfeited.

In the event of recruitment, the Committee may also grant an award to a new executive under Listing Rule 9.4.2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment or retention of an executive director, without seeking prior shareholder approval.

The maximum level of variable pay which may be awarded to new executive directors would normally be in line with the maximum level of variable pay set out in the policy table on pages 60 to 62 but in any event would be limited to 400 per cent of base salary, excluding any buy-out awards.

For an internal appointment, any variable pay element awarded in respect of the previous role may either continue on its original terms or be adjusted to reflect the new appointment.

When recruiting non-executive directors, the remuneration arrangements offered would normally be in line with those paid to existing non-executive directors, details of which are set out on page 65.

Service contracts

Executive directors

In normal circumstances, it is the Company's policy that service contracts for 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. However, following the termination of Bill Burns' service agreement on 3 September 2013, the Board determined that in order to provide certainty and stability, it was in the best interests of promoting the long-term success of the Company not to comply with Code Provision D.1.5. of the UK Corporate Governance Code with regard to the length of service agreements for executive directors. The Company therefore entered into a fixed term contract with Eric Hutchinson, which at the date of this Report has an unexpired term of 15 months and will expire on 31 May 2015. Following its expiration in 2015, and in line with normal policy, the service agreement with Eric Hutchinson would be renewed on 12 months' notice.

Both Eric Hutchinson and Rachel Whiting currently have a service agreement with Spirent Communications plc, and, being UK resident, both their contracts are in line with UK employment practice and are governed by the laws of England. Rachel Whiting's service agreement, dated 1 February 2014 may be terminated on 12 months' notice from the Company and six months notice from Rachel. Eric Hutchinson's service agreement may be terminated on six months from Eric.

Until his termination on 3 September 2013, Bill Burns had a service agreement with Spirent Communications Inc. governed by the laws of California.

The Company recognises that its executive directors may, from time to time, 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 Eric Hutchinson nor Rachel Whiting holds any such external positions.

The service agreements of the executive directors are available for inspection on request and will be available for inspection at the 2014 AGM.

Non-executive directors

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	2014 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 2014 AGM. An example of a letter of appointment for a non-executive director is available on the Company's website at http://corporate.spirent.com/Governance.

Remuneration policy for Non-executive Directors

The Board aims to recruit high calibre non-executive directors, with broad commercial, international or other relevant experience.

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 inclusive. Fees for the Chairman, which are determined by the Remuneration Committee, were set at £160,000 per annum for 2012 to 2014 inclusive, 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 per annum 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.

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.

When recruiting non-executive directors, the remuneration arrangements offered will generally be in line with those set out above.

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 and will continue to be in line with market practice in the country in which the executive director resides:

- Service contracts contain provisions for the removal of the director without compensation for poor performance or material misconduct;
- Payment in lieu of notice may be paid under service contracts 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/her to serve it;
- Unless provided for in the service contract, the Company would seek to apply practical mitigation measures to any payment of compensation on termination, for example by reducing payments to reflect payments received in respect of alternative employment, taking into account all relevant circumstances;
- Service contracts do not contain provision for additional compensation on termination following a change of control (as detailed in the Change of Control provisions set out on page 78);
- Service contracts do not contain provision for liquidated damages of any kind;
- 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; and
- Incentives:
  - Cash incentives: unless otherwise provided in the service contract, to be consistent with market practice in the country in which the executive resides, executives are not entitled to accrued cash incentives payable following termination;
  - Employee Incentive Plan (EIP): Leaver provisions were approved by shareholders when they approved the EIP. Unvested awards will generally lapse at the point of exit. Participants who leave due to special circumstances including redundancy, ill-health, injury or disability, retirement, death, the Participant's employing company ceasing to be under the Control of the Group, a transfer of the undertaking in which the Participant works and any other reason, if the Committee so decides in general or in any particular case may be considered 'good leavers' under the EIP Plan Rules. In such circumstances, performance conditions are assessed by the Committee at the point of exit by testing the performance conditions up to the date of exit for TSR performance and to the end of the most recent financial period for EPS performance. Vesting is then pro rated for time and vested awards may be exercised within 12 months following the date of termination of employment.

Report on directors' remuneration continued

Illustrations of the application of our remuneration policy in 2014

The charts below show an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

Three scenarios have been illustrated for each executive director:

Minimum performance	• Fixed remuneration[1] • No cash incentive[2] • No vesting under the Employee Incentive Plan[3]
On target performance	• Fixed remuneration[1] • 100% of target cash incentive paid[2] • 65% vesting under the Employee Incentive Plan[3]
Maximum performance	• Fixed remuneration[1] • 150% of target cash incentive paid[2] • Full vesting under the Employee Incentive Plan[3]

Notes

1 Fixed remuneration comprises salary and benefit provision as set out in the policy table.

2 Cash incentive is annual bonus for 2014 as set out in the policy table.

3 Vesting of awards under the Employee Incentive Plan assumes full vesting for awards subject to EPS performance conditions for on target and maximum performance. The share price is assumed to increase in line with the implied price earnings ratio at 31 December 2013. For awards subject to Absolute TSR performance conditions, vesting is assumed to be 30 per cent for on target performance and 100 per cent for maximum performance. The share price is assumed to increase in line with the performance condition required under each scenario. Depending on share price performance, the actual outcome may be different.

Chief Executive Officer policy for 2014

	Fixed	Cash incentive	Long term incentive	£000
Minimum performance	100%			497
On target performance	38%	30%	32%	1,310
Maximum performance	27%	33%	40%	1,816

Chief Financial Officer policy for 2014

	Fixed	Cash incentive	Long term incentive	£000
Minimum performance	100%			286
On target performance	54%	23%	23%	535
Maximum performance	42%	27%	31%	689

Consideration of employee remuneration arrangements elsewhere in the Group

When setting the policy for directors' remuneration, the Committee has regard to the pay and employment conditions elsewhere within the Group, particularly in the jurisdictions in which the executive directors are based. The Committee is kept informed on a regular basis of salary increases for the general employee population and takes these into account when determining salary increases for executive directors. No salary increase has been awarded for the role of either Chief Executive Officer or Chief Financial Officer for 2014.

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. An employee engagement survey is scheduled for 2014.

Further details of employee remuneration arrangements can be found in the "Our Employees" section on pages 36 to 37 of this Annual Report.

Consideration of the views of shareholders in setting remuneration policy

The Committee is mindful of the views of shareholders in determining appropriate levels of remuneration and in ensuring that shareholder and director interests are aligned. The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are proposed to remuneration arrangements. In particular, the Committee consulted with major shareholders regarding the appropriate performance measures for awards granted under the Employee Incentive Plan in both 2010 and 2013 and will continue to do so when changes are proposed to ensure both shareholder and directors' interests are aligned. In particular, the Committee expects to consult key shareholders in relation to the possible extension of the Employee Incentive Plan's operating period, prior to making a decision on whether to seek approval by shareholders at the 2015 AGM.

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 0.7 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 0.1 per cent when comparing the positions at 31 December 2013 (8.9 per cent) and 31 December 2012 (9.0 per cent). The overall number of share incentives outstanding has fallen by 0.3 million during the year to 5.5 million at 31 December 2013 (2012 5.8 million).

Legacy matters

For the avoidance of doubt, in approving this Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of pension or the unwinding of legacy share schemes) that have or will have been disclosed to shareholders in remuneration reports before this Policy takes effect. Details of any payments will be set out in the Annual Report on Remuneration as they arise.

Committee discretion

The Committee has powers delegated by the Board under which it operates. In addition, it complies with rules which have either been approved by shareholders (the Employee Incentive Plan) or by the Board (annual cash incentives). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Remuneration Policy is fair both to the individual director and to shareholders, taking overall performance and the position of the Company into account. The Committee also has discretions to set components of remuneration within a range from time to time. The extent of such discretions are set out in the relevant rules or in the maximum opportunity and performance metrics sections of the Policy Table.

In addition, the Committee requires discretion to deal with genuinely exceptional or unforeseen circumstances. This form of discretion will only be applied in the best interests of the Company and is intended to provide for changed circumstances or strategy that has not been provided for in the Remuneration Policy, when it would be disproportionate to seek specific approval from a general meeting of shareholders.

The Remuneration Committee will not exercise discretion to reward failure and will report on any exercise of discretion that changes the amount of remuneration paid in any year.

Report on directors' remuneration continued

Part B: Annual Report on Remuneration for 2013
Audited Information

Single figure of total remuneration for 2013

The table below provides a single figure of total remuneration for 2013 and 2012 for the executive directors:

2013	Salary[1] $000	Benefits[2] $000	Performance related cash incentive[3] $000	Long term incentive[4] $000	Pension[5] $000	Total 2013 $000
Bill Burns[6]	586.2	29.6	–	–	10.2	626.0
Eric Hutchinson[7]	540.8	27.0	38.1	–	108.0	713.9

2012	Salary[1] $000	Benefits[2] $000	Performance related cash incentive[3] $000	Long term incentive[4] $000	Pension[5] $000	Total 2012 $000
Bill Burns	700.0	29.2	425.5	307.6[8]	10.0	1,472.3
Eric Hutchinson	495.1	26.2	150.2	123.6[8]	98.9	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 which comprise private healthcare, permanent health insurance, life insurance and car allowance.
3 Performance related incentive: cash incentive payable in respect of the year.
4 Long term incentive: value of Performance shares vesting in the year based on the performance condition that ends in the year.
5 Pension: cash value in lieu of pension or US 401(k) plan contribution.
6 Bill Burns stepped down as CEO on 3 September 2013.
7 Eric Hutchinson became CEO on 3 September 2013.
8 On 30 November 2012, 129,260 and 51,926 Performance Shares vested and were alloted 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.

Quarterly and annual performance incentives

During 2013, the cash 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.

Growth targets in the Company's EPS and order intake, representing 70 per cent and 30 per cent of the incentive respectively, determined the maximum incentive which could be earned in respect of the annual incentive element.

Quarterly incentives were structured in two stages. Growth targets in the Company's quarterly EPS and order intake formed the first stage and determined the maximum incentive which could be earned in respect of each quarter. Performance against key strategic goals including engineering and product milestones, and other financial targets, determined the actual incentive earned by each executive director in each quarterly performance period. The engineering and product milestones in particular provide the roadmap to the Group's long term strategic direction and success.

The annual growth targets for EPS and order intake for an on target award for 2013 were 5.6 per cent and 10.3 per cent respectively. These targets were not achieved and accordingly no award was earned. The quarterly targets for EPS, order intake and individual goals are set prior to the commencement of each quarter. The targets set for EPS and order intake were not met in the first three quarters of 2013 and accordingly, no award was earned in respect of those quarters. In the fourth quarter, the EPS and order intake goals were partially met and all engineering and other personal goals were achieved, resulting in an award of £24,400 to Eric Hutchinson. Engineering and product milestone goals were 84 per cent achieved during the year. Other specific target detail for quarterly incentives is considered to be commercially sensitive. In the prior year, cash incentive payments of $425,500 and $150,200 were paid to Bill Burns and Eric Hutchinson respectively.

For 2014, cash incentives will only be available to executive directors on an annual basis, with a maximum total cash incentive available for Eric Hutchinson and Rachel Whiting of 150 per cent and 75 per cent of base salary respectively.

Total pension entitlements

During 2013 and prior to his termination, Bill Burns participated in the Spirent Communications 401(k) Pension Plan ("the Plan"), which is a defined contribution plan established under the provisions of Section 401(k) of the US Internal Revenue Code ("US IRC"). The Group makes matching contributions of up to 4 per cent of the maximum compensation permitted for these purposes under the US IRC. For 2013, the maximum permitted compensation was $255,000 and accordingly the contribution made to the Plan for the period up to Bill Burns' termination was $10,200 (2012 contribution $10,000). Eric Hutchinson receives a taxable cash allowance in lieu of pension of 20 per cent of base salary. For 2013, the allowance paid was £69,233 ($108,000 at an average exchange rate of $1.56:£1) (2012 £62,570 ($98,860 at an average exchange rate of $1.58:£1)).

Payments to past directors

There were no payments to past directors during the year under review.

Payments for loss of office

Bill Burns stepped down as Chief Executive Officer on 3 September 2013. His termination payments are as set out in his service agreement and as disclosed in previous Reports on director's remuneration. He received one month's base salary ($60,000) as pay in lieu of notice and will receive 11 months' base salary ($660,000) in ten equal monthly instalments of $66,000 each commencing in December 2013, subject to set-off for any base salary earned from alternative employment during the 12 month period following termination on 3 September 2013 (the "Severance Period"). Monthly COBRA premium payments of $1,840 are also being paid for the duration of the Severance Period subject to a set off for health insurance provided by an alternative employer during the Severance Period. The Company paid $8,000 in respect of Bill Burns' legal fees. All outstanding unvested share awards granted to Bill lapsed on termination, however, the Committee exercised its discretion under the Plan Rules of the EIP to allow Bill's vested and unfettered share awards to continue to be exerciseable during the 12 month period following termination as these awards had been retained by Bill as part of his shareholding to meet the Committee's shareholding guideline for executive directors.

Non-executive director fees

Details of fees paid to non-executive directors in 2013 and 2012 are as follows:

	2013 £000	2012 £000
Alex Walker (Chairman)	160.0	160.0
Ian Brindle	51.0	51.0
Duncan Lewis	40.0	40.0
Tom Maxwell	49.0	49.0
Sue Swenson	40.0	36.6
Total	340.0	336.6

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 and unfettered share incentive awards which may be built up over time following appointment as an executive director. The table below sets out the holdings of the executive directors who served during the year at 31 December 2013 and to the date of this Report at their respective date of termination, 31 December 2013 or date of appointment as applicable.

	Guideline holding	Beneficially owned shares	Unfettered share incentives	Guideline met?
Bill Burns[1]		223,484	374,000	n/a
Eric Hutchinson	100% of base salary	1,302,775	56,600	Yes
Rachel Whiting[2]		83,353	60,348	No

Note
1 The holding shown for Bill Burns is as at the date when he stepped down as CEO, 3 September 2013.
2 The holding shown for Rachel Whiting is as at the date of her appointment to the Board, 1 February 2014.

Report on directors' remuneration continued

Statement of Directors' share holdings and share interests

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

	At 31 December 2012 Ordinary Shares[1]	At 31 December 2013 Ordinary Shares	At 27 February 2014 Ordinary Shares[2]
Executive directors			
Eric Hutchinson	1,300,379	1,302,775	1,303,285
Rachel Whiting	n/a	n/a	83,475[3]
Bill Burns	218,850	223,484[4]	n/a
Non-executive directors			
Ian Brindle	4,525	4,525	4,525
Duncan Lewis	–	–	–
Tom Maxwell	26,955	50,000	50,000
Sue Swenson	–	–	–
Alex Walker	80,481	180,481	180,481

Notes

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

2 Events since 31 December 2013:
On 24 January 2014, Eric Hutchinson acquired 266 Ordinary Shares under the UK Employee Share Purchase Plan at a price of 93.8381 pence per share.
On 24 February 2014, Eric Hutchinson acquired 244 Ordinary Shares and Rachel Whiting acquired 122 Ordinary Shares, both under the UK Employee Share Purchase Plan at a price of 102.46 pence per share.

3 Rachel Whiting joined the Board on 1 February 2014.

4 The holding shown for Bill Burns is as at the date when he stepped down as CEO, 3 September 2013.

Outstanding share incentive awards[1]

The share incentive interests of executive directors who served during the period 1 January 2013 to the date of this Report are set out below:

Eric Hutchinson

Plan Type	EIP	EIP	EIP	EIP	EIP
Award Type	SAR	PS	PS	PS	SAR
Award date	25 August 2005	23 March 2011	21 March 2012	8 May 2013	8 May 2013
At 1 January 2013 (or at date of appointment)	56,600	109,366	142,235	–	–
Granted during the period	–	–	–	172,531	86,266
Vested during the period	–	–	–	–	–
Exercised during the period	–	–	–	–	–
Lapsed during the period	–	–	–	–	–
Any other adjustments during period	–	–	–	–	–
At 31 December 2013 (or at date of cessation)	56,600	109,366	142,235	172,531	86,266
Market price at date of award (£)	0.53	1.432	1.531	1.291	1.291
Face value of award granted in period (£)	–	–	–	222,737	111,369
Exercise price (£)	0.53	Nil[2]	Nil[2]	Nil[2]	1,291
Subject to performance conditions?	Yes	Yes	Yes	Yes	Yes
Performance condition	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR	50% EPS, 50% TSR	EPS
Performance condition testing date[3]	25 August 2008	23 March 2014	21 March 2015	8 May 2016	8 May 2016
Result of performance condition testing	100% vest	–	–	–	–
Market price at vesting date (£)[4]	0.80	–	–	–	–
Exercise date	–	–	–	–	–
Market price at exercise date (£)	–	–	–	–	–
Gain on exercise (£)	–	–	–	–	–
Expiry date	24 August 2015	23 March 2014	21 March 2015	8 May 2016	8 May 2023

Rachel Whiting

Plan Type	EIP	EIP	EIP	EIP
Award Type	SAR	PS	PS	PS
Award date	5 May 2006	23 March 2011	21 March 2012	8 May 2013
At 1 January 2013 (or at date of appointment)[5]	60,348	21,873	19,928	–
Granted during the period	–	–	–	24,262
Vested during the period	–	–	–	–
Exercised during the period	–	–	–	–
Lapsed during the period	–	–	–	–
Any other adjustments during period	–	–	–	–
At 31 December 2013 (or at date of cessation)	60,348	21,873	19,928	24,262
Market price at date of award (£)	0.475	1.432	1.531	1.291
Face value of award granted in period (£)	–	–	–	31,322
Exercise price (£)	0.475	Nil[2]	Nil[2]	Nil[2]
Subject to performance conditions?	Yes	Yes	Yes	Yes
Performance condition	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR	50% EPS, 50% TSR
Performance condition testing date[3]	5 May 2009	23 March 2014	21 March 2015	8 May 2016
Result of performance condition testing	100% vest	–	–	–
Market price at vesting date (£)[4]	0.595	–	–	–
Exercise date	–	–	–	–
Market price at exercise date (£)	–	–	–	–
Gain on exercise (£)	–	–	–	–
Expiry date	5 May 2016	23 March 2014	21 March 2015	8 May 2016

Report on directors' remuneration continued

Bill Burns

Plan Type	EIP	EIP	EIP	EIP	EIP
Award Type	SAR	PS	PS	PS	SAR
Award date	7 November 2008	23 March 2011	21 March 2012	8 May 2013	8 May 2013
At 1 January 2013 (or at date of appointment)	374,000	255,859	287,287	–	–
Granted during the period	–	–	–	360,183	180,091
Vested during the period	–	–	–	–	–
Exercised during the period	–	–	–	–	–
Lapsed during the period	–	255,859	287,287	360,183	180,091
Any other adjustments during period	–	–	–	–	–
At 31 December 2013 (or at date of cessation)[6]	374,000	–	–	–	–
Market price at date of award (£)	0.505	1.432	1.531	1.291	1.291
Face value of award granted in period (£)	–	–	–	464,996	232,498
Exercise price (£)	0.505	Nil[2]	Nil[2]	Nil[2]	1.291
Subject to performance conditions?	Yes	Yes	Yes	Yes	Yes
Performance condition	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR	50% EPS, 50% TSR	EPS
Performance condition testing date[3]	7 November 2011	3 September 2013	3 September 2013	3 September 2013	3 September 2013
Result of performance condition testing	100% vest	0% vest	0% vest	0% vest	0% vest
Market price at vesting date (£)[4]	1.246	1.346	1.346	1.346	1.346
Exercise date	–	–	–	–	–
Market price at exercise date (£)	–	–	–	–	–
Gain on exercise (£)	–	–	–	–	–
Expiry date	3 September 2014	3 September 2013	3 September 2013	3 September 2013	3 September 2013

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 14 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 awarded as conditional share awards.
2 There is no exercise price payable for a Performance share upon vesting. Further details on Performance shares are provided above.
3 Awards which have passed the date first exercisable have vested and are unfettered, having passed the relevant performance conditions.
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.
5 Rachel Whiting was appointed to the Board on 1 February 2014, the awards shown were awarded prior to her appointment as Chief Financial Officer.
6 Bill Burns stepped down from the Board on 3 September 2013.

Scheme interests awarded during the year

In 2013, the Committee approved 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.

Policy for Performance shares granted in 2013

The performance conditions for Performance shares awarded in 2013 under the EIP are calculated over a three year performance period as set out in the following table:

50% of award:

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 comprises 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 considered that the selected comparator group provided 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.

Policy for SARs and share options granted in 2013

The performance condition for SARs and share options awarded in 2013 under the EIP 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 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.

Share interests vesting during 2014

Awards which are due to vest on 23 March 2014 and are subject to an EPS performance condition have not passed that condition and will lapse on that date.

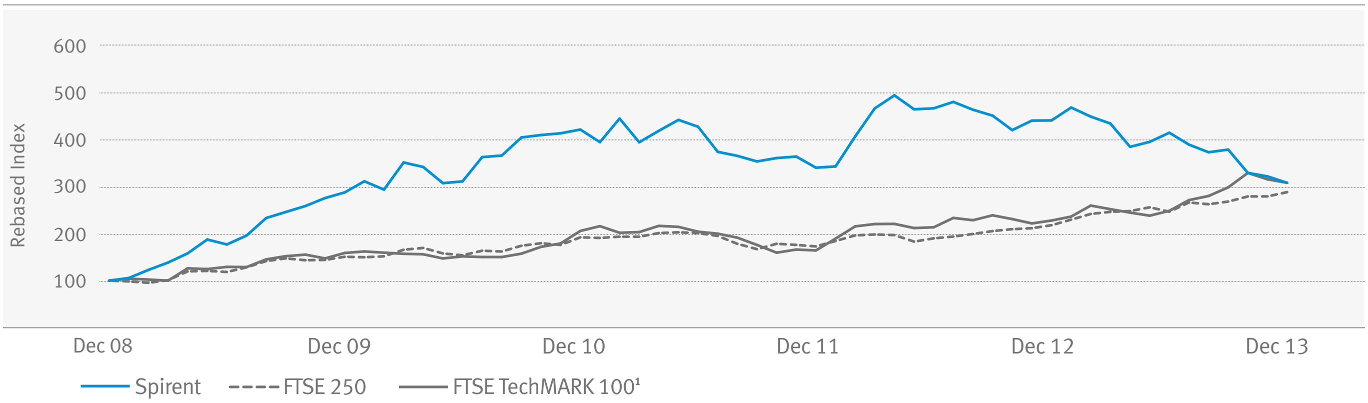
Awards which are due to vest on 23 March 2014 and are subject to a TSR performance condition will have that performance condition tested on 23 March 2014.

Unaudited Information

Total Shareholder Return performance

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

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

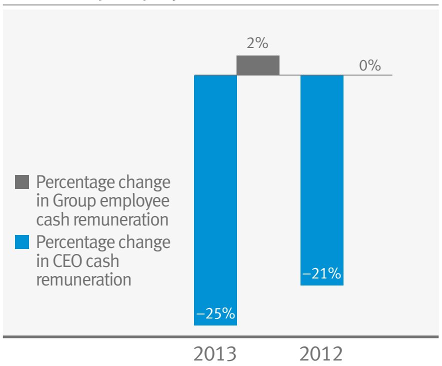


Note
1 As of 1 January 2009, excluding FTSE100 companies.

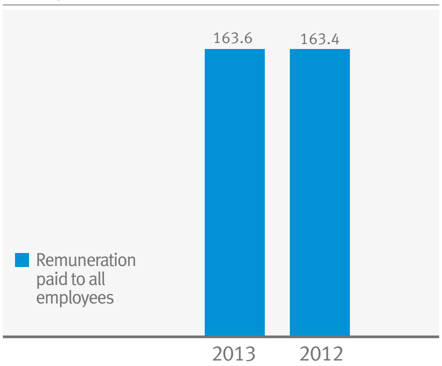
The middle market price of an Ordinary Share at the close of business on 2 January 2013 and 31 December 2013 (being the first and last days the London Stock Exchange was open for trading in 2013) was 153.8 pence and 103.8 pence, respectively, and during that period ranged between a high of 169.2 pence and a low of 98.5 pence.

Report on directors' remuneration continued

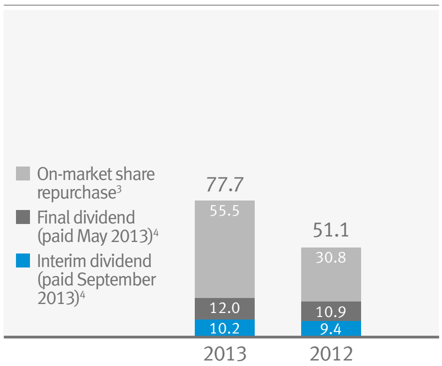
Percentage change in the remuneration of the director undertaking the role of CEO compared to the percentage change in remuneration of all Group employees[1]



Remuneration paid to all employees ($m) during 2013[2]



Returns to shareholders ($m) during 2013



Notes
1 The graph shows the change in CEO's annual cash remuneration, defined as base salary, taxable benefits and cash incentive, compared to that of the average Group employee for 2012 and 2013.
2 Total as set out in Note 10 to the consolidated financial statements.
3 Total as set out in Note 28 to the consolidated financial statements.
4 Total as set out in Note 14 to the consolidated financial statements.

Table of CEO remuneration

Year	CEO	CEO single figure of total remuneration	Annual bonus payout against maximum opportunity %	Long term incentive vesting rates against maximum opportunity
2013	Eric Hutchinson	291.5[1]	12.0	–
2013	Bill Burns	626.0[2]	–	–
2012	Bill Burns	1,472.3	40.5	34
2011	Bill Burns	2,095.4	93.3	84
2010	Bill Burns	1,971.1	100.0	100
2009	Bill Burns	1,566.5	93.9	100

Notes
1 Eric Hutchinson took up the position of Chief Executive Officer on 3 September 2013.
2 Earnings disclosed are to 3 September 2013, when Mr Burns stepped down as Chief Executive Officer.

Statement of implementation of remuneration policy in 2014

The following components of remuneration are effective from 1 January 2014 or date of appointment if later:

Salary

Eric Hutchinson £400,000
Rachel Whiting £250,000

Benefits

Private healthcare cover for executive and family
Permanent health insurance
Life insurance cover of four times annual base salary
Car allowance (CEO only)

Retirement benefits

Eric Hutchinson will receive a taxable cash sum in lieu of pension at a rate of 20% of base salary.

Rachel Whiting will receive a contribution to a defined contribution arrangement of her choice or a taxable cash sum in lieu of pension at a rate of 14% of base salary.

Annual cash incentive

The Committee has set stretching targets for the year focused on order intake and earnings per share growth. Although the target detail is considered commercially sensitive, the weightings for the year ended 31 December 2014 are as follows:

Earnings per share	20%
Order intake	80%

On target and maximum annual cash incentive payments are as follows:

	On target performance % of base salary	Maximum % of base salary
Eric Hutchinson	100	150
Rachel Whiting	50	75

Award under Employee Incentive Plan (EIP)

It is anticipated that awards will be made under the EIP in 2014 as follows:

	Anticipated value of award £000
Eric Hutchinson	500
Rachel Whiting	150

The awards are valued on the basis of performance shares, which are valued at the share price on the date of grant.

The performance measures and targets are set out on page 63 of this Report.

Statement of shareholder voting

At the 2013 AGM on 1 May 2013 the results of the advisory vote regarding the Report on directors' remuneration for the year to 31 December 2012 were:

Votes for[1]		Votes against			
Number	%	Number	%	Votes cast	Votes withheld[2]
512,859,440	98.77	6,407,015	1.23	519,266,455	645,149

Notes
1 The "For" vote includes those giving the Company Chairman discretion.
2 A vote withheld is not a vote in law and is not counted in the calculation of the votes "For" and "Against" the resolution.

Votes "For" and "Against" are expressed as a percentage of total votes cast.

Report on directors' remuneration continued

Remuneration Committee

Responsibilities

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 full terms of reference of the Committee are available at http://corporate.spirent.com/Governance/Board_Committees or from the Company Secretary at the registered office.

Composition of the Committee

At the date of this Report, the Remuneration Committee comprises four independent non-executive directors, one of whom acts as Committee Chairman.

Meetings and attendance

The Committee meets at least four times each year and at other times as necessary. During 2013, five meetings were held, with individual members' attendance as follows:

	Number of meetings held	Number of meetings attended
Tom Maxwell (Committee Chairman)	5	5
Ian Brindle[1]	5	4
Duncan Lewis	5	5
Sue Swenson	5	5

Note

1 Mr Brindle was unable to attend an *ad hoc* Committee meeting as it conflicted with a meeting already in his diary for another listed company. Mr Brindle received all papers relating to the meeting and had the opportunity to discuss issues arising direct with the Committee Chairman. In this instance, he also appointed Alex Walker as his proxy for the duration of the meeting.

The Company's Chairman was also in attendance at each of the meetings.

Advisers to the Committee

Kepler Associates Limited, who were appointed by the Committee some years ago, provided the results of TSR testing to determine the vesting of share incentives.

Kepler Associates Limited is a member of the Remuneration Consultants Group and complies 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 and has no other connection to the Company. The Committee considers them to be independent in their approach.

The fees paid to Kepler Associates Limited to carry out work during 2013 for the Remuneration Committee totalled £17,460 and were based on time and materials.

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

Signed on behalf of the Board
Tom Maxwell
Chairman of the Remuneration Committee
27 February 2014

Report of the directors

Pages 44 to 79 inclusive (together with the sections of the Annual Report incorporated by reference) form part of the Directors' Report which is presented in accordance with, and with reliance upon, applicable English company law. The liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Other information, which forms part of the Directors' Report, can be found in the following sections of the Annual Report:

Political donations

In accordance with the Group's Ethics Policy, no political donations were made during the year (2012 nil).

Share capital

The Company has a single class of share which is divided into Ordinary Shares of $3^1/_3$ pence each. Each Ordinary Share carries one vote and all of the Ordinary Shares rank *pari passu*. There are no special control rights relating to any of the Ordinary Shares. At the date of this Report, 611.9 million Ordinary Shares of $3^1/_3$ pence each had been issued which are fully paid up and are listed on the London Stock Exchange. The Company also operates a Level 1 American Depositary Receipt ("ADR") programme with each ADR representing four Ordinary Shares. The ADRs trade on the US over-the-counter market and The Bank of New York Mellon is the authorised depositary bank for the programme. Further details on share capital are set out in Note 28 to the consolidated financial statements and Note 14 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 http://corporate.spirent.com/ or can be obtained from Companies House or by writing to the Company Secretary. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The most recent changes to the Articles of Association were approved at the 2010 AGM and became effective at the close of that meeting on 5 May 2010.

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 1 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 14 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.

Restrictions on share transfers

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 Conduct 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.

Powers for issue of new shares

During the year to 31 December 2013 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 disapply pre-emption rights within prescribed limits. At the 2014 AGM, authority will be sought to allot new Ordinary Shares up to a nominal value of £6,797,132, which is equal to 33.3 per cent of the Company's issued share capital as at 7 March 2014.

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 2013 AGM remains valid until the earlier of the 2014 AGM or 30 June 2014. Since the Company began returning capital to shareholders in May 2006, a total of £260.8 million has been returned, through the repurchase of 387.9 million Ordinary Shares.

Report of the directors continued

During 2013 29.2 million Ordinary Shares, each with a nominal value of $3^{1}/_{3}$ pence were repurchased for an aggregate consideration of £34.9 million and cancelled immediately following repurchase. This represents 4.49 per cent of the Company's issued Ordinary Share capital at the beginning of 2013. The Company repurchased a further 10.0 million Ordinary Shares between 1 January 2014 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 2014 AGM to facilitate any further return of capital if the Board concludes that it is in the best interests of shareholders to do so.

Substantial shareholdings

In accordance with 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 2013:

	Date of notification	Total holding	% of Company's total voting rights
Prudential plc	9 September 2013	70,463,646	11.34
BlackRock Inc.	11 July 2013	64,825,665	10.43
AXA Investment Managers SA	18 October 2011	47,515,946	7.65
Aviva plc	16 December 2013	40,696,410	6.55
Schroders plc	5 August 2013	34,270,136	5.52
Artemis Investment Management Limited	17 September 2010	32,940,888	5.30
Standard Life Investments Ltd	27 January 2011	32,370,026	5.21
Ameriprise Financial, Inc.	11 December 2013	31,590,545	5.08
Sun Life Assurance Company of Canada (UK) Ltd	5 December 2008	23,382,347	3.76
Norges Bank	30 May 2013	19,516,804	3.14

The following notifications have been received during the period 1 January 2014 to 27 February 2014:

	Date of notification	Total holding	% of Company's total voting rights
Aviva plc	22 January 2014	40,597,969	6.57
Prudential plc	29 January 2014	67,877,796	11.00

Change of control provisions

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

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.

Post balance sheet events

Details of post balance sheet events are included in Note 35 to the consolidated financial statements.

Going concern

After making appropriate enquiries and taking into account the matters set out in the Principal Risks and Uncertainties section on pages 20 and 25 of this Annual Report, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis on preparing the financial statements.

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.

Independent auditors

As described in more detail on page 57 of the Audit Committee report, the Board will be proposing a resolution to re-appoint EY as auditors at the 2014 AGM.

Annual General Meeting

The 2014 AGM will be held at 10.30am on Wednesday 23 April 2014 at the offices of UBS, 1 Finsbury Avenue, London EC2M 2PP.

By Order of the Board

Rachel Whiting

Rachel Whiting
Company Secretary
27 February 2014

Spirent Communications plc
Company number: 470893

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report, the Report on directors' remuneration, 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 are sufficient to show and explain the Company's transactions and 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 strategic report, 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.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

This Annual Report complies with the Disclosure and Transparency Rules ("DTR") of the Financial Conduct 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

Rachel Whiting

Rachel Whiting
Chief Financial Officer
27 February 2014

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 2013 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of comprehensive income, the Consolidated cash flow statement and the Consolidated statement of changes in equity and the related notes 1 to 35. 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 79, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- revenue recognition, in relation to correct allocation to components for multi-element contracts and appropriate cut off; and
- tax accounting, as the Group operates in a number of jurisdictions with different tax regulations and available credits there is an increased risk of non-compliance with local tax regulations which may result in the understatement of tax provisions and liabilities including those arising from penalties and charges. In addition, there is a risk that inappropriate use of brought forward tax losses and volatility in forecast sales may result in incorrect recognition and risks around recoverability of deferred tax assets.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be $2.25 million (2012 $5.7 million), which is approximately 5% of profit before tax for the year ending 31 December 2013. On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality for the Group should be 75% of materiality, namely $1.7 million (2012 $4.3 million). Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of $2.25 million for the financial statements as a whole. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.1 million (2012 $0.3 million) and differences below that threshold which, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we have scoped in 10 locations which present the principal business units within the Group's three reportable segments; Networks and Applications, Wireless and Service

Experience and Service Assurance and account for 94% of the Group's total assets and 94% of the Group's profit before tax.

The audit work at the 10 locations was performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that senior members of the audit team including the Senior statutory auditor visit certain material or high risk locations on a rotational basis. All material or high risk locations have been visited during the current year aside from Asia which was visited in the prior year. For all in-scope locations, the Group audit team participated in the component team's planning event including discussion of fraud and error.

The principal ways in which we responded to the risks described above included:

Revenue recognition:

- we have carried out audit procedures on the allocation of revenue in relation to sales contracts specifically focusing on the service element of multiple element sales contracts as well as contracts with separate components consisting of hardware and subsequent software upgrades;
- we have carried out audit procedures on specific large and complex transactions together with a sample of regular transactions at each location;
- we have carried out audit procedures on deferred revenue and other revenue associated balances to ensure they have been recognised in accordance with Group accounting policies and IFRS as adopted by the EU; and
- we have carried out audit procedures on cut off in relation to revenue recognised close to year end and with particular focus in China and India which might be caused by import challenges.

Tax Accounting:

- we have assessed the consistency and robustness of tax provisions, particularly in the light of any expected resolution of older issues; and
- we have reviewed the future profit forecasts and the underlying assumptions and we have assessed the utilisation of unrecognised brought forward losses to calculate the recognition of deferred tax assets.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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 78, 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.

Other matter

We have reported separately on the parent Company financial statements of Spirent Communications plc for the year ended 31 December 2013 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
27 February 2014

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 2013

	Notes	2013 $ million	Restated 2012[1] $ million
Continuing operations			
Revenue	3, 4	413.5	472.4
Cost of sales		(126.7)	(135.7)
Gross profit		286.8	336.7
Product development	4	(100.5)	(86.1)
Selling and distribution		(96.6)	(91.7)
Administration		(50.6)	(50.8)
Operating profit	4	39.1	108.1
Finance income	8	0.9	0.8
Finance costs	9	(0.9)	(0.5)
Profit before tax	4, 5	39.1	108.4
Tax	12	(6.4)	(29.0)
Profit for the year after tax for continuing operations		32.7	79.4
Discontinued operations	6	–	47.1
Profit for the year attributable to owners of the parent Company		32.7	126.5
Earnings per share (cents)	13		
Continuing operations			
Basic		5.10	12.11
Diluted		5.09	12.07
Discontinued operations			
Basic		–	7.18
Diluted		–	7.15
Total Group			
Basic		5.10	19.29
Diluted		5.09	19.22

Note
1 Restated for the implementation of IAS 19 "Employee Benefits".

The notes on pages 87 to 120 and page 135 form part of these financial statements.

Consolidated statement of comprehensive income

Year to 31 December 2013

	Notes	2013 $ million	Restated 2012[1] $ million
Profit for the year attributable to owners of the parent Company		32.7	126.5
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on retranslation of foreign operations		(0.7)	3.2
Exchange differences recycled on disposal	33	–	1.2
		(0.7)	4.4
Items that will not subsequently be reclassified to profit or loss:			
Re-measurement of the net defined benefit pension liability	11	17.8	(11.7)
Income tax effect	12	(4.2)	2.5
		13.6	(9.2)
Other comprehensive income		12.9	(4.8)
Total comprehensive income for the year attributable to owners of the parent Company		45.6	121.7

Note

1 Restated for the implementation of IAS 19 “Employee Benefits”.

The notes on pages 87 to 120 and page 135 form part of these financial statements.

Consolidated balance sheet
At 31 December 2013

	Notes	2013 $ million	2012 $ million
Assets			
Non-current assets			
Intangible assets	15	198.8	207.4
Property, plant and equipment	16	39.6	34.1
Trade and other receivables	20	4.4	4.9
Cash on deposit	21	0.1	0.4
Defined benefit pension plan surplus	11	0.6	–
Deferred tax	23	18.3	28.4
		261.8	275.2
Current assets			
Inventories	19	31.6	34.0
Trade and other receivables	20	102.7	95.6
Cash and cash equivalents	21	216.2	248.6
		350.5	378.2
Total assets		612.3	653.4
Liabilities			
Current liabilities			
Trade and other payables	22	(130.7)	(107.3)
Current tax		(3.6)	(8.5)
Provisions and other liabilities	25	(6.0)	(4.4)
		(140.3)	(120.2)
Non-current liabilities			
Trade and other payables	24	(15.2)	(11.4)
Defined benefit pension plan deficit	11	(3.9)	(25.6)
Provisions and other liabilities	25	(0.5)	(0.6)
		(19.6)	(37.6)
Total liabilities		(159.9)	(157.8)
Net assets		452.4	495.6
Capital and reserves	28		
Share capital		34.4	35.3
Share premium account		33.5	32.9
Capital redemption reserve		21.3	19.4
Other reserves		(3.2)	(1.6)
Translation reserve		23.3	24.0
Retained earnings		343.1	385.6
Total equity attributable to owners of the parent Company		452.4	495.6

The notes on pages 87 to 120 and page 135 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
27 February 2014

Consolidated cash flow statement
Year to 31 December 2013

	Notes	2013 $ million	2012 $ million
Cash flows from operating activities			
Cash flow from operations	31	73.5	128.2
Tax paid		(6.1)	(23.1)
Net cash inflow from operating activities		67.4	105.1
Cash flows from investing activities			
Interest received		0.8	0.9
Transfer from long term deposit		0.3	0.3
Purchase of intangible assets	15	(2.4)	–
Purchase of property, plant and equipment	16	(22.9)	(16.4)
Proceeds from the sale of property, plant and equipment		1.0	2.1
Acquisition of subsidiaries and businesses	32	–	(92.0)
Net proceeds from the disposal of operations	33	–	59.9
Net cash used in investing activities		(23.2)	(45.2)
Cash flows from financing activities			
Interest paid		–	(0.3)
Dividend paid	14	(22.2)	(20.3)
Proceeds from the issue of share capital and employee share ownership trust		0.2	2.2
Share repurchase		(54.7)	(31.6)
Net cash used in financing activities		(76.7)	(50.0)
Net (decrease)/increase in cash and cash equivalents		(32.5)	9.9
Cash and cash equivalents at the beginning of the year		248.6	236.5
Effect of foreign exchange rate changes		0.1	2.2
Cash and cash equivalents at the end of the year	21	216.2	248.6

The notes on pages 87 to 120 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 2012	34.3	31.3	17.7	2.7	19.6	316.6	422.2
Profit for the year (restated[1])	–	–	–	–	–	126.5	126.5
Other comprehensive income (restated[1]) (a)	–	–	–	–	4.4	(9.2)	(4.8)
Total comprehensive income	–	–	–	–	4.4	117.3	121.7
Share-based payment *note 30*	–	–	–	–	–	1.6	1.6
Tax on share incentives *note 12*	–	–	–	–	–	(1.0)	(1.0)
Employee share ownership trust *note 28*	–	–	–	–	–	2.2	2.2
Share cancellation *note 28*	(0.7)	–	0.7	–	–	–	–
Share repurchase *note 28*	–	–	–	–	–	(30.8)	(30.8)
Equity dividends *note 14*	–	–	–	–	–	(20.3)	(20.3)
Exchange adjustment	1.7	1.6	1.0	(4.3)	–	–	–
At 1 January 2013	35.3	32.9	19.4	(1.6)	24.0	385.6	495.6
Profit for the year	–	–	–	–	–	32.7	32.7
Other comprehensive income (b)	–	–	–	–	(0.7)	13.6	12.9
Total comprehensive income	–	–	–	–	(0.7)	46.3	45.6
Share-based payment *note 30*	–	–	–	–	–	(1.2)	(1.2)
Employee share ownership trust *note 28*	–	–	–	–	–	0.2	0.2
Share cancellation *note 28*	(1.5)	–	1.5	–	–	–	–
Share repurchase *note 28*	–	–	–	–	–	(55.5)	(55.5)
Share buyback obligation *note 28*	–	–	–	–	–	(10.1)	(10.1)
Equity dividends *note 14*	–	–	–	–	–	(22.2)	(22.2)
Exchange adjustment	0.6	0.6	0.4	(1.6)	–	–	–
At 31 December 2013	34.4	33.5	21.3	(3.2)	23.3	343.1	452.4

Note
1 Restated for the implementation of IAS 19 "Employee Benefits".

(a) The amount included in other comprehensive income for 2012 of $9.2 million represents re-measurement losses of the net defined benefit pension liability of $11.7 million 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.

(b) The amount included in other comprehensive income for 2013 of $13.6 million represents re-measurement gains of the net defined benefit pension liability of $17.8 million net of a tax charge of $4.2 million.

The amount included in the translation reserve of $0.7 million represents other comprehensive income related to the translation of foreign operations.

The notes on pages 87 to 120 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 2013 were authorised for issue by the Board of directors on 27 February 2014. 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 122 to 135 and the accounting policies in respect of the Company are set out on pages 123 to 126.

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 2012 other than in relation to IAS 19 "Employee Benefits" discussed below.

Change to segmental reporting

IFRS 8 "Operating Segments" requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been determined, in Spirent's case, to be the Chief Executive Officer, as he is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments.

A review of the Group's organisational structure, which was completed in 2013, has resulted in a change to the segmental information provided to the Chief Operating Decision Maker and this has required a change to Spirent's segmental reporting structure. Spirent is now reporting three operating segments: Networks & Applications; Wireless & Service Experience; and Service Assurance. Previously Networks & Applications and Wireless & Service Experience were reported as one segment, Performance Analysis. Comparatives have been restated accordingly.

New accounting standards

The following new standards, amendments to standards and interpretations have been adopted by the Group with no significant impact on its consolidated results or financial position other than in relation to IAS 19 "Employee Benefits".

International Accounting Standards ("IAS/IFRS")	
IAS 1	Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
IAS 1	Amendments to IAS 1 – Clarification of the Requirements for Comparative Information
IAS 16	Amendments to IAS 16 – Classification of Servicing Equipment
IAS 19	Employee Benefits
IAS 32	Amendments to IAS 32 – Tax Effect of Distribution to Holders of Equity Instruments
IAS 36	Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
IFRS 1	Amendments to IFRS 1 – Borrowing Costs
IFRS 1	Amendments to IFRS 1 – Government Loans
IFRS 7	Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
Annual Improvements 2009–2011 Cycle	

IAS 19 "Employee Benefits"

With effect from 1 January 2013 the Group has implemented the amendments to the accounting standard IAS 19 "Employee Benefits" in relation to its United Kingdom defined benefit pension plans. Comparative numbers have been restated accordingly.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Under the revised accounting standard, the principal change is that the expected returns on defined benefit pension plan assets are not recognised in profit or loss. Instead, interest on the net defined benefit pension obligation is recognised in profit or loss, calculated using the discount rate used to measure the pension obligation. For Spirent this change has caused net interest income on the defined benefit pension plans, under the previous standard, to become a net finance cost, under the revised standard. In addition, certain administrative expenses of running the plans are expensed to operating costs, having been deducted from the return on assets under the previous standard. Plan asset administration costs are recognised as re-measurement adjustments in other comprehensive income.

The implementation of IAS 19 has had no effect on the prior year consolidated balance sheet or consolidated cash flow statement.

Impact on total comprehensive income for the year of application

	2013 $ million	2012 $ million
Impact on profit for the year		
Increase in administration costs	(0.7)	(1.1)
Decrease in finance income	(0.3)	(0.7)
Increase in finance expense	(0.9)	(0.5)
Tax	0.4	–
Decrease in profit for the year	(1.5)	(2.3)
Impact on other comprehensive income		
Increase in re-measurement of the net defined benefit pension liability	1.9	2.3
Income tax effect	(0.4)	–
Increase/(decrease) in total comprehensive income for the year	–	–
Impact on earnings per share		
Basic earnings per share (cents)	(0.23)	(0.35)
Diluted earnings per share (cents)	(0.23)	(0.35)

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.

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.

2. Summary of significant accounting policies continued

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 2013 and 31 December 2012 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.

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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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.

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 re-measured 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. 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.

2. Summary of significant accounting policies continued

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. Re-measurement, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if relevant) and the return on plan assets (excluding interest), is reflected immediately in the balance sheet liability or asset with a charge or credit recognised in other comprehensive income in the period in which they occur. Re-measurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit pension liability or asset, taking account of any changes in the net defined benefit pension liability during the period as a result of contribution and benefit payments. Defined benefit pension costs are categorised as:

- service cost (including current service cost, past service cost and gains and losses on curtailments or settlements);
- net interest expense or income; and
- re-measurement.

The Group presents the first two components of defined benefit pension costs in profit or loss.

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 satisified.

The Group has an employee share trust for the granting of certain share incentives to employees. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity.

Tax

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

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

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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 (taxable temporary differences only) 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 pension 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 and longevity. Differences arising from actual experience or future changes in assumptions will be reflected in future periods. The effect of changing these assumptions is described in note 11.

Revenue recognition

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

2. Summary of significant accounting policies continued

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date for the Group after the date of these financial statements:

International Accounting Standards ("IAS/IFRS")		Effective for annual periods beginning on or after
IAS 19	Amendments to IAS 19 – Employee Contributions	1 July 2014
IAS 32	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9	Financial Instruments	to be confirmed
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 10,12 and IAS 27	Amendments to IFRS 10 and 12 and IAS 27 – Investment Entities	1 January 2014
IAS 39 and IFRS 9	Amendments to IAS 39 and IFRS 9 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21	Levies	1 January 2014
Annual Improvements		
2010–2012 Cycle		1 July 2014
2011–2013 Cycle		1 July 2014

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

3. Revenue

	2013 $ million	2012 $ million
Sale of goods	286.2	362.0
Maintenance and support services	127.3	110.4
Total revenue from continuing operations	413.5	472.4

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.

As explained in note 2 the Group has amended its operating segments for 2013 and comparative information has been restated. The Group's continuing reportable operating segments are Networks & Applications, Wireless & Service Experience and Service Assurance. Its Systems segment was sold during 2012 and is disclosed as a discontinued operation. 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:

- Networks & Applications develops innovative solutions for functional and performance testing of next-generation networks and applications that simulate real-world conditions in the lab, before a commercial launch.
- Wireless & Service Experience develops innovative solutions for functional and performance testing of next-generation mobile wireless and satellite positioning devices in the lab before a commercial launch, and measurement of the mobile experience on live networks.
- Service Assurance provides solutions to allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the live network and to monitor live network performance.

Notes to the consolidated financial statements continued

4. Operating segments continued

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

2013 $ million	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Total
Revenue					
External revenue	213.4	167.7	32.4	–	413.5

There were no inter-segment sales.

2013 $ million	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Total
Profit before tax					
Total reportable segment profit/(loss) before exceptional items	13.2	33.8	9.0	(5.9)	50.1
Exceptional items *note 7*	(1.6)	–	–	(2.2)	(3.8)
Total reportable segment profit/(loss)	11.6	33.8	9.0	(8.1)	46.3
Unallocated amounts					
Acquired intangible asset amortisation					(8.4)
Share-based payment *note 30*					1.2
Operating profit					39.1
Finance income					0.9
Finance expense					(0.9)
Profit before tax					39.1
Other information					
Product development	55.1	37.6	7.8	–	100.5
Expenditure on intangibles *note 15*	–	2.4	–	–	2.4
Expenditure on property, plant and equipment	10.7	11.2	1.0	–	22.9
Intangible asset amortisation – other	–	1.5	–	–	1.5
Depreciation	8.7	6.6	1.0	0.2	16.5

4. Operating segments continued

	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Restated 2012 $ million Total
Revenue					
External revenue	259.5	174.5	38.4	–	472.4

There were no inter-segment sales.

	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Total
Profit before tax					
Total reportable segment profit/(loss) before exceptional items	59.7	56.7	8.4	(6.5)	118.3
Exceptional items *note 7*	–	–	(2.9)	–	(2.9)
Total reportable segment profit/(loss)	59.7	56.7	5.5	(6.5)	115.4
Unallocated amounts					
Acquisition related costs					(1.2)
Acquired intangible asset amortisation					(4.5)
Share-based payment *note 30*					(1.6)
Operating profit					108.1
Finance income					0.8
Finance costs					(0.5)
Profit before tax					108.4
Other information					
Product development	49.8	29.3	7.0	–	86.1
Expenditure on intangibles *note 15*	38.6	51.4	–	–	90.0
Expenditure on property, plant and equipment	9.5	6.2	0.1	0.1	15.9
Intangible asset amortisation – other	–	1.6	–	–	1.6
Depreciation	8.4	5.0	1.1	0.1	14.6

Geographical information

	2013 $ million	2012 $ million
Revenue by market		
United States	215.8	239.2
Asia Pacific, Rest of World	146.9	166.0
Europe	50.8	67.2
	413.5	472.4

Europe includes United Kingdom revenue of $9.8 million (2012 $13.4 million).

Revenues are attributed to countries based on customer location.

	2013 $ million	2012 $ million
Non-current assets		
United States	228.0	232.4
Asia Pacific, Rest of World	7.1	5.7
Europe	3.3	3.4
	238.4	241.5

Europe includes United Kingdom non-current assets of $2.1 million (2012 $2.2 million).

No one customer accounted for 10 per cent or more of total Group revenue in either 2013 or 2012.

Notes to the consolidated financial statements continued

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:

	2013 $ million	Restated 2012 $ million
Employee benefit costs *note 10*	183.8	186.2
Costs of inventories recognised as an expense	82.3	119.6
Write-down of inventories to net realisable value *note 19*	0.3	3.7
Amortisation of intangible assets *note 15*	9.9	6.1
Depreciation of property, plant and equipment		
Owned assets *note 16*	16.5	15.2
Loss on disposal of property, plant and equipment	–	0.1
Operating leases		
Minimum lease payments	8.4	7.7
Sublease income	–	(0.1)
Product development costs	100.5	90.1
Net foreign exchange charge	0.4	0.8

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

	2013 $ million	2012 $ million
Audit services		
Group audit fee	0.8	0.8
Other fees to auditors		
Taxation advisory services	0.2	0.2
Taxation advisory relating to corporate finance transactions	–	0.2
	0.2	0.4
	1.0	1.2

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 54 to 57 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

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.

	2013 $ million	2012 $ million
Revenue	–	43.9
Cost of sales	–	(27.6)
Gross profit	–	16.3
Expenses	–	(12.0)
Operating profit	–	4.3
Profit on sale of operations *note 33*	–	44.5
Profit before tax	–	48.8
Tax *note 12*	–	(1.7)
Profit for the year after tax for discontinued operations	–	47.1

6. Discontinued operations continued

The net cash flows for discontinued operations were as follows:

	2013 $ million	2012 $ million
Operating *note 31*	–	7.9
Investing	–	(0.5)
Net cash inflow	–	7.4

Revenue by market for discontinued operations was as follows:

	2013 $ million	2012 $ million
Revenue by market		
United States	–	17.3
Asia Pacific, Rest of World	–	15.6
Europe	–	11.0
	–	43.9

Europe includes United Kingdom revenue of nil (2012 $1.5 million).

Revenues are attributed to countries based on customer location.

7. Exceptional items

	2013 $ million	2012 $ million
Review of the Group's organisational structure	3.4	–
Reorganisation expenses – Service Assurance	–	1.5
Excess inventory provision – Service Assurance	–	1.4
Abortive acquisition costs	0.4	–
	3.8	2.9

In the fourth quarter of 2013 the Group undertook a review of its operational structure. This resulted in a number of management and structural changes being made in order to deliver a streamlined, decentralised and more simplified business. These internal changes have been made to create a more agile and responsive organisation to better serve Spirent's customers as well as sharpen the business's focus on anticipating customers' requirements for the future.

The tax effect of exceptional items is a credit of $0.8 million (2012 $1.0 million).

8. Finance income

	2013 $ million	2012 $ million
Bank interest receivable	0.9	0.8

9. Finance costs

	2013 $ million	2012 $ million
Net defined benefit pension plan interest *note 11*	0.9	0.5

10. Employees

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

	2013 Number	2012 Number
Manufacturing	339	363
Product development	596	581
Selling and distribution	394	419
Administration	185	182
	1,514	1,545

Notes to the consolidated financial statements continued

10. Employees continued

Employee benefit costs were:

	2013 $ million	Restated 2012 $ million
Remuneration	163.6	163.4
Social security costs	14.9	14.3
Pension and other related costs	6.5	6.9
(Credit)/expense of share-based payment *note 30*	(1.2)	1.6
	183.8	186.2

Employee numbers and costs include discontinued operations in 2012.

Please refer to the Report on directors' remuneration on pages 58 to 76 and note 34 for disclosures relating to the emoluments, share incentives and pensions of the directors.

11. Pensions

Defined benefit plans

i) Characteristics and risks associated with the Plans

The Group sponsors two funded defined benefit pension plans in the United Kingdom: the Spirent Communications plc Staff Pension & Life Assurance Plan ("Staff Plan") and the Spirent Communications plc Retirement Cash & Life Assurance Plan ("Cash Plan"). These plans are funded and have full UK HM Revenue & Customs ("HMRC") tax-exempt approval. Both schemes are administered by a trustee board which is comprised of representatives from the employer, member nominated trustees and an independent trustee. The trustee board operates in accordance with the Trust Deed and Rules of each Plan and acts in the interests of all of its members.

- The Staff Plan is the Group's most significant plan, and it provides its members with retirement benefits based on their final salary and length of service. The Staff Plan was closed to new entrants on 1 October 2002.
- The Cash Plan is primarily a defined contribution arrangement, although there are some legacy defined benefits that have been valued for the purpose of these accounts in accordance with IAS 19 "Employee Benefits". Members who left service before 1992 are entitled to a cash lump sum on retirement that is based on their salary and length of service. Members of the Old Section are entitled to defined contribution benefits, but with an underpin based on salary and length of service.

There is also a United Kingdom unfunded plan, which consists of a contractual obligation for the Group to top up certain former employees' benefits whose salaries exceeded the statutory earnings cap.

As with a vast majority of similar arrangements in the United Kingdom, the Group ultimately underwrites the risks relating to the defined benefit plans. These risks include investment risks and demographic risks, such as the risks of members living longer than expected.

The plans hold a large proportion of their assets in equity and property investments. Strong future equity returns would be expected to reduce the Group's future cash contributions (and vice versa).

Expected contributions to the defined benefit plans in 2014 are $4.8 million. This includes the contributions agreed with the funded plans' trustees in accordance with UK legislation. Following the triennial valuations as at 1 April 2012, the Group has agreed to pay the following contributions in order to clear the funding deficit as assessed by the trustees' independent actuary.

- Staff Plan: $4.3 million per annum from 1 July 2013 to 30 June 2019, plus a further contribution of up to $4.2 million by July 2016 if the plan remains in deficit.
- Cash Plan: $0.3 million per annum from 1 July 2013 to 31 March 2015.

If the contributions currently agreed are insufficient to pay the benefits due, the Group will need to make further contributions.

11. Pensions continued

ii) Amounts in the financial statements

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

	2013 $ million	2012 $ million
Assets		
UK defined benefit pension plan – Cash Plan	0.6	–
Liabilities		
UK defined benefit pension plan – Staff Plan	(3.1)	(24.8)
UK unfunded plan	(0.8)	(0.8)
	(3.9)	(25.6)

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

a) The assets and liabilities in each plan

	2013 $ million	2012 $ million
Staff Plan		
Quoted		
Equities	89.4	72.5
UK Government index linked bonds	–	53.5
Corporate bonds	–	40.6
Unquoted		
Inflation only LDI funds	23.9	–
Cash benchmarked bonds	120.4	50.2
Insured annuities	5.5	5.7
Property	25.4	22.8
Cash and other	0.8	1.0
Fair value of plan assets	265.4	246.3
Present value of defined benefit pension plan obligations	(268.5)	(271.1)
Deficit in the plan on the balance sheet	(3.1)	(24.8)
Cash Plan		
Quoted		
Equities	4.5	3.7
Government bonds	3.3	3.6
Unquoted		
Insured annuities	0.3	0.3
Cash and other	4.0	3.3
Fair value of plan assets	12.1	10.9
Present value of defined benefit pension plan obligations	(11.5)	(10.9)
Surplus in the plan on the balance sheet	0.6	–

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

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of property and insured annuities are not.

Notes to the consolidated financial statements continued

11. Pensions continued

b) Analysis of the amounts charged to the income statement

	2013 $ million	Restated 2012 $ million
Plan administration expenses	0.7	1.1
Current service cost	0.2	0.3
Curtailment loss on sale of Systems	–	1.3
Amount charged to operating costs	0.9	2.7
Net interest on the net defined benefit pension liability	0.9	0.5
Net charge to the income statement	1.8	3.2

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

	2013 $ million	Restated 2012 $ million
Re-measurement gain on plans' assets	11.2	9.3
Actuarial gain arising from experience	–	1.1
Actuarial loss arising from the demographic assumptions	–	(13.0)
Actuarial gain/(loss) arising from changes in financial assumptions	6.6	(8.9)
Changes in assumptions underlying the present value of unfunded plan's liabilities	–	(0.2)
Re-measurement of the net defined benefit pension liability	17.8	(11.7)

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

	2013 $ million	Restated 2012 $ million
At 1 January	282.0	245.5
Current service cost	0.2	0.3
Curtailment loss on sale of Systems	–	1.3
Interest cost	11.4	11.4
Employee contributions	–	0.2
Benefit payments	(11.7)	(10.9)
Actuarial gain arising from experience	–	(1.1)
Actuarial loss arising from the demographic assumptions	–	13.0
Actuarial (gain)/loss arising from changes in financial assumptions	(6.6)	8.9
Exchange adjustment	4.7	13.4
Present value of funded defined benefit pension plans' obligations	280.0	282.0

e) Movements in the fair value of plans' assets

	2013 $ million	Restated 2012 $ million
At 1 January	257.2	233.7
Interest income on plans' assets	10.5	10.9
Employer contributions	5.3	2.8
Employee contributions	–	0.2
Benefit payments	(11.7)	(10.9)
Plan administration expenses	(0.7)	(1.1)
Re-measurement gain on plans' assets	11.2	9.3
Exchange adjustment	5.7	12.3
Fair value of plans' assets	277.5	257.2

11. Pensions continued

f) The key financial assumptions

The assumptions used for both plans using a weighted average were as follows:

	2013 %	2012 %
Inflation – RPI	3.3	2.9
Inflation – CPI	2.2	2.2
Rate of increase in pensionable salaries	3.1	2.9
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	3.1	2.8
Rate of increase for pensions post 5 April 2005 service	2.2	1.9
Rate of increase in deferred pensions	2.2	2.2
Rate used to discount plan liabilities	4.5	4.3

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 (2012 aged 65) will live on average for a further 23.5 years (2012 23.3 years) if they are male and for a further 25.6 years (2012 25.5 years) if they are female. For a member who retires in 2033 (2012 in 2032) at age 65 (2012 age 65) the assumptions are that they will live on average for a further 24.3 years (2012 24.2 years) after retirement if they are male and for a further 26.7 years (2012 26.6 years) after retirement if they are female.

iii) Amount, timing and uncertainty of future cash flows

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 $4.0 million.
- Increasing RPI inflation by 0.1 per cent would increase the plans' liabilities by $1.7 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 $10.8 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.

The sensitivity figures have been calculated to show the movement in the defined benefit obligation for each assumption change in isolation, and assuming no other changes in market conditions at the accounting date and may not be representative of the actual change as the changes in assumptions may not occur in isolation.

The weighted average duration of the defined benefit obligation is 15 years (2012 16 years).

Defined contribution plans

United Kingdom

The Group maintains defined contribution pension plans for employees in the United Kingdom. Employer contributions into these plans for 2013 were $1.4 million (2012 $1.3 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 $3.3 million for 2013 (2012 $3.4 million). Total assets in the defined contribution plan at the end of 2013 were $204.6 million (2012 $167.0 million). There were no defined benefit plans in the United States in 2013 or 2012.

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 2013 in respect of these plans amounted to $0.9 million (2012 $0.8 million).

Total employer contributions to defined contribution plans were $5.6 million (2012 $5.5 million).

Directors' pension arrangements

The pension arrangements of the executive directors are described in detail in the Report on directors' remuneration on pages 58 to 76.

Notes to the consolidated financial statements continued

12. Tax

	2013 $ million	2012 $ million
Tax charge in the income statement		
Current income tax		
UK tax	–	0.5
Foreign tax	5.1	23.5
Amounts overprovided in previous years – foreign tax	(3.7)	(1.8)
Total current income tax charge	1.4	22.2
Deferred tax		
Recognition of deferred tax assets	–	(1.4)
Reversal of temporary differences	5.0	9.9
Total deferred tax charge	5.0	8.5
Tax charge in the income statement	6.4	30.7
Attributable to:		
Continuing operations	6.4	29.0
Discontinued operations	–	1.7
Tax charge in the income statement	6.4	30.7

The tax charge for the year ended 31 December 2013 was $6.4 million (2012 charge $30.7 million) this was after a prior year tax credit of $3.7 million (2012 credit $1.8 million) resulting from the expiration and reassessment of open tax positions for previous years. Excluding the prior year tax credit the effective tax rate for continuing operations was 25.8 per cent (2012 28.4 per cent).

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

	2013 $ million	2012 $ million
Deferred tax on share incentives	0.6	1.0
Current tax on share incentives	(0.6)	–
Tax charge on share incentives	–	1.0
Deferred tax charge/(credit) on defined benefit pension plan	4.2	(2.5)

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 23.25 per cent (2012 lower and 24.5 per cent). The differences are reconciled below:

	2013 $ million	Restated 2012 $ million
Accounting profit before tax	39.1	157.2
Accounting profit multiplied by the UK standard rate of corporation tax of 23.25 per cent (2012 24.5 per cent)	9.1	38.5
Share-based payment	–	(2.5)
Differences in overseas rates and other adjustments	1.1	8.0
Tax overprovided in prior years	(3.7)	(1.8)
Recognition of deferred tax assets	–	(1.4)
Utilisation of previously unrecognised tax losses	–	(10.9)
Use of pension fund and other UK adjustments	(0.1)	0.8
Total tax charge reported in the income statement	6.4	30.7

13. Earnings per share

Basic

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

	2013			Restated 2012
	Total and continuing	Continuing operations	Discontinued operations	Total
Profit for the year attributable to owners of the parent Company ($ million)	32.7	79.4	47.1	126.5
Weighted average number of Ordinary Shares in issue (number million)	640.6	655.7	655.7	655.7
Basic earnings per share (cents)	5.10	12.11	7.18	19.29

Diluted

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

	2013			Restated 2012
	Total and continuing	Continuing operations	Discontinued operations	Total
Profit for the year attributable to owners of the parent Company ($ million)	32.7	79.4	47.1	126.5
Weighted average number of Ordinary Shares in issue (number million)	642.0	658.1	658.1	658.1
Diluted earnings per share (cents)	5.09	12.07	7.15	19.22

Adjusted

The Group is disclosing adjusted earnings per share for continuing operations attributable to owners of the 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:

	2013		Restated 2012	
	$ million	EPS cents	$ million	EPS cents
Continuing operations				
Profit for the year attributable to owners of the parent Company	32.7	5.10	79.4	12.11
Exceptional items *note 7*	3.8		2.9	
Acquisition related costs	–		1.2	
Acquired intangible asset amortisation	8.4		4.5	
Share-based payment *note 30*	(1.2)		1.6	
Tax effect on the above items	(3.4)		(2.4)	
Prior year tax credit *note 12*	(3.7)		(1.8)	
Adjusted basic for continuing operations	36.6	5.71	85.4	13.02
Adjusted diluted for continuing operations		5.70		12.97

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.

Notes to the consolidated financial statements continued

14. Dividends paid and proposed

	2013 $ million	2012 $ million
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend paid for the year ended 31 December 2012 of 1.83 cents (1.21 pence) per Ordinary Share (31 December 2011 1.67 cents (1.05 pence))	12.0	10.9
Interim dividend 2013 1.53 cents (1.01 pence) per Ordinary Share (2012 1.39 cents (0.89 pence))	10.2	9.4
	22.2	20.3
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2013 2.01 cents (1.20 pence) per Ordinary Share (2012 1.83 cents (1.21 pence))	12.3	11.9

The directors are proposing a final dividend in respect of the financial year ended 31 December 2013 of 2.01 cents per Ordinary Share (1.20 pence) (2012 1.83 cents (1.21 pence)), which will absorb an estimated $12.3 million of shareholders' funds (2012 $11.9 million). It will be paid on 25 April 2014 to Ordinary shareholders who are on the Register of Members at close of business on 7 March 2014. Payment will be made to ADR holders on 2 May 2014. 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 2013 was $1.67:£1 (2012 $1.51:£1).

15. Intangible assets

$ million

	Goodwill	Customer list	Current technology	Data-base	Brand names	Licences	Total
Cost, net of accumulated amortisation and impairment losses							
At 1 January 2012	114.2	1.8	3.6	–	–	3.6	123.2
Acquisitions *note 32*	55.6	9.2	21.0	2.6	1.6	–	90.0
Amortisation for the year	–	(1.3)	(2.8)	(0.3)	(0.1)	(1.6)	(6.1)
Exchange adjustment	0.3	–	–	–	–	–	0.3
At 1 January 2013	170.1	9.7	21.8	2.3	1.5	2.0	207.4
Additions	–	–	–	–	–	2.4	2.4
Amortisation for the year	–	(2.0)	(5.1)	(1.0)	(0.3)	(1.5)	(9.9)
Exchange adjustment	(1.1)	–	–	–	–	–	(1.1)
At 31 December 2013	169.0	7.7	16.7	1.3	1.2	2.9	198.8
At 31 December 2012							
Cost (gross carrying amount)	575.1	12.6	31.1	2.6	1.8	8.9	632.1
Amortisation and accumulated impairment losses	(405.0)	(2.9)	(9.3)	(0.3)	(0.3)	(6.9)	(424.7)
Net carrying amount	170.1	9.7	21.8	2.3	1.5	2.0	207.4
At 31 December 2013							
Cost (gross carrying amount)	574.0	11.4	25.4	2.6	1.6	11.3	626.3
Amortisation and accumulated impairment losses	(405.0)	(3.7)	(8.7)	(1.3)	(0.4)	(8.4)	(427.5)
Net carrying amount	169.0	7.7	16.7	1.3	1.2	2.9	198.8

Amortisation and impairment charges

Goodwill is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination.

The Group identifies CGUs at the lowest level at which cash flows are largely independent of other cash flows.

15. Intangible assets continued

Following the change to the Group's reportable segments described in note 2, goodwill has been reallocated to the following CGUs:

- Networks & Applications, an operating segment;
- Wireless & Positioning, product lines within the Wireless & Service Experience operating segment;
- Service Experience, a product line within the Wireless & Service Experience operating segment.

Goodwill has been allocated as follows:

	2013 $ million	2012 $ million
Networks & Applications	86.0	–
Wireless & Positioning	52.1	–
Service Experience	30.9	–
Performance Analysis	–	170.1
	169.0	170.1

This reallocation was based on the relative values for the Networks & Applications and for the Wireless & Positioning CGUs. For the Service Experience CGU goodwill has been based on historical cost due to the recent nature of this acquisition.

Acquired intangible assets, being customer list, current technology, database and brand names, 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. Licences 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 six and four years, respectively.

Annual impairment test

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 (2012 2.75 per cent) which management estimates to be the approximate average long term growth rate for the industries in which these units operate.

The cash flows have been discounted using a pre-tax discount rate of 13.8 per cent for all CGUs (2012 14.5 per cent).

The recoverable amount of each CGU was calculated on a value in use basis, and was in excess of its carrying value and consequently no impairment has been recognised.

Key assumptions for the annual impairment test

The key assumptions used in the value in use calculations 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.

Notes to the consolidated financial statements continued

15. Intangible assets continued

The discount rate applied to the cash flows is 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 the Networks & Applications, Wireless & Positioning and Service Experience CGUs to exceed their recoverable amount.

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 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 *note 32*	–	0.5	–	0.5
Disposal of operations *note 33*	–	(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 1 January 2013	3.0	22.6	8.5	34.1
Additions				
Owned assets	0.5	18.8	3.6	22.9
Disposals	–	(1.0)	–	(1.0)
Depreciation charge for the year	(1.2)	(11.5)	(3.8)	(16.5)
Exchange adjustment	–	–	0.1	0.1
At 31 December 2013	2.3	28.9	8.4	39.6
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
At 31 December 2013				
Cost	19.2	77.5	54.2	150.9
Accumulated depreciation and accumulated impairment	(16.9)	(48.6)	(45.8)	(111.3)
Net carrying amount	2.3	28.9	8.4	39.6

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 $1.3 million at 31 December 2013 (31 December 2012 $1.2 million).

The Group has provided indemnities of $0.1 million (2012 $0.1 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

	2013 $ million	2012 $ million
Raw materials	13.0	14.1
Work in progress	1.0	0.6
Finished goods	17.6	19.3
	31.6	34.0

An expense of $0.3 million (2012 $3.7 million) has been recognised in the period for inventory write-downs. There were no reversals of prior period inventory write-downs (2012 nil).

No inventories are carried at fair value less costs to sell (2012 nil).

20. Trade and other receivables

	2013 $ million	2012 $ million
Non-current assets		
Trade receivables	0.4	1.1
Other receivables	3.5	3.1
Prepayments, accrued income and deferred costs	0.5	0.7
	4.4	4.9
Current assets		
Trade receivables	89.6	84.9
Other receivables	4.2	3.4
Prepayments, accrued income and deferred costs	8.9	7.3
	102.7	95.6
	107.1	100.5

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

	2013 $ million	2012 $ million
At 1 January	0.8	0.9
Charge for the year	0.4	0.2
Released in the year	(0.2)	(0.3)
At 31 December	1.0	0.8

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

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

21. Cash and cash equivalents

	2013 $ million	2012 $ million
Cash at bank and in hand	172.1	204.5
Short term bank deposits	44.1	44.1
	216.2	248.6

Cash at bank and in hand earns interest at floating interest rates. Of this balance $1.2 million (2012 $40.0 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.

Notes to the consolidated financial statements continued

21. Cash and cash equivalents continued

At the end of 2013 the currency split of cash and cash equivalents was US dollar 84 per cent (2012 80 per cent), sterling 10 per cent (2012 10 per cent) and other currencies 6 per cent (2012 10 per cent).

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

	2013 $ million	2012 $ million
Non-current		
Cash on deposit	0.1	0.4

At 31 December 2013 $0.1 million (2012 $0.4 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

	2013 $ million	2012 $ million
Trade payables	18.3	15.9
Payments received on account	0.2	0.4
Other taxes and social security costs	4.5	4.1
Share buyback obligation *note 28*	18.2	8.1
Accruals	38.2	36.2
Deferred income	51.3	42.6
	130.7	107.3

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 2012	11.4	14.9	3.1	29.4
Recognised in the year *note 12*	–	1.4	–	1.4
Charged in the year *note 12*	(3.7)	(6.2)	–	(9.9)
Deferred tax on defined benefit pension plan *note 12*	–	–	2.5	2.5
Deferred tax on share incentives recognised in equity *note 12*	(1.0)	–	–	(1.0)
Deferred tax on acquisition *note 32*	(3.7)	9.0	–	5.3
Exchange adjustment	(0.1)	0.5	0.3	0.7
At 1 January 2013	2.9	19.6	5.9	28.4
Charged in the year *note 12*	(0.9)	(3.4)	(0.7)	(5.0)
Deferred tax on defined benefit pension plan *note 12*	–	–	(4.2)	(4.2)
Deferred tax on share incentives recognised in equity *note 12*	(0.6)	–	–	(0.6)
Exchange adjustment	–	–	(0.3)	(0.3)
At 31 December 2013	1.4	16.2	0.7	18.3

A deferred tax asset of $18.3 million has been recognised at 31 December 2013 (2012 $28.4 million). $5.2 million is in the United Kingdom (2012 $11.8 million), $12.0 million is in the United States (2012 $15.9 million) and $1.1 million is in the rest of the world (2012 $0.7 million).

23. Deferred tax continued

The deferred tax asset includes $0.7 million (2012 $2.0 million) in respect of the tax deduction which may be available on the future exercise of share incentives.

Deferred tax assets on temporary differences arising in Canada of $4.7 million (2012 $1.6 million) have not been recognised.

The Group has tax losses arising in the United Kingdom of $65.1 million (2012 $64.0 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. United Kingdom tax losses can be carried forward indefinitely. In total deferred tax assets amounting to $17.7 million (2012 $16.3 million) have not been recognised.

The Group also has capital losses carried forward of $1,366.6 million (2012 $1,340.3 million) for which no deferred tax asset is recognised on the balance sheet. These capital losses have no expiry date.

Future changes in tax rates

The UK current tax rate was reduced from 24 per cent to 23 per cent with effect from 1 April 2013. Under the Finance Act 2013, the UK current tax rate will reduce to 21 per cent with effect from 1 April 2014, and then to 20 per cent with effect from 1 April 2015. This will reduce future tax rates accordingly. These reductions in the current tax rate were substantively enacted on 2 July 2013.

In line with these rate changes, deferred tax assets and liabilities being realised or settled before 1 April 2014 have been based on the existing 23 per cent rate; those being realised or settled between 1 April 2014 and 1 April 2015 have been based on the new 21 per cent rate; and those being realised or settled after 1 April 2015 have been based on the new 20 per cent rate.

24. Trade and other payables – non-current

	2013 $ million	2012 $ million
Other payables	2.2	1.9
Accruals	0.4	0.9
Deferred income	12.6	8.6
	15.2	11.4

25. Provisions and other liabilities

$ million

	Lease provisions	Restructuring provisions	Other provisions	Total
At 1 January 2012	3.2	–	1.3	4.5
Charged in the year	1.3	–	0.6	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 1 January 2013	3.1	–	1.9	5.0
Charged in the year	0.5	3.1	–	3.6
Released in the year	(0.2)	–	–	(0.2)
Utilised in the year	(0.7)	(1.2)	–	(1.9)
At 31 December 2013	2.7	1.9	1.9	6.5

	2013 $ million	2012 $ million
Current	6.0	4.4
Non-current	0.5	0.6
	6.5	5.0

Notes to the consolidated financial statements continued

25. Provisions and other liabilities continued

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 two years.

Restructuring provisions relate to severance costs which are expected to be utilised within one year.

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:

	2013 $ million	2012 $ million
	Loans and receivables at amortised cost	Loans and receivables at amortised cost
Non-current cash on deposit *note 21*	0.1	0.4
Non-current trade and other receivables *note 20*	3.9	4.2
Cash and cash equivalents *note 21*	216.2	248.6
Current trade and other receivables *note 20*	93.8	88.3
Financial assets	314.0	341.5
Non-current other payables and accruals *note 24*	2.6	2.8
Current trade payables and accruals *note 22*	56.5	52.1
Share buyback obligation *note 22*	18.2	8.1
Provisions *note 25*	6.5	5.0
Financial liabilities	83.8	68.0

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 2013 and 2012 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.

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 %	2013 $ million	Effective interest rate %	2012 $ million
Fixed rate				
Fixed deposits	0.27	44.1	0.42	44.1
Floating rate				
Cash at bank and in hand		172.1		204.5

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, $0.1 million (2012 $0.4 million) was held in a blocked trust account and was earning interest of 0.44 per cent at 31 December 2013 (2012 0.44 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 $0.9 million (note 8) (2012 $0.8 million) and is under the effective interest method.

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

A movement of 25 basis points in interest rates based on levels of investment at 31 December 2013 would increase or reduce interest income and equity by $0.5 million (2012 $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 2013, nor at 31 December 2012, 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 2013 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.

At 31 December 2013 these balances amounted to $1.1 million (2012 $0.9 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 (2012 $0.1 million) based on the balance at the reporting dates.

b) Credit risk

Investment counterparties are subject to pre-approval by the Board with 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 $216.3 million (2012 $249.0 million).

Notes to the consolidated financial statements continued

26. Financial instruments and financial risk management continued

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 $90.0 million (2012 $86.0 million).

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

	2013 $ million	2012 $ million
Neither impaired nor past due	59.9	58.8
Past due but not impaired:		
Less than 30 days overdue	15.5	14.1
30 to 60 days	5.1	5.2
Over 60 days	9.5	7.9
Trade receivables	90.0	86.0

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 $1.0 million (2012 $0.8 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 2013 the Group had cash and cash equivalents of $216.2 million (2012 $248.6 million) of which $170.9 million (2012 $164.5 million) is available on demand and $45.3 million (2012 $84.1 million) of which is on one month's notice or matures within three months.

During 2013 the Group generated $67.4 million of cash from operating activities (2012 $105.1 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.

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:

	2013 $ million	2012 $ million
Sale of US dollars against sterling	3.5	3.6

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 2013 and 2012 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.

26. Financial instruments and financial risk management continued

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 2013 and 2012 the Company has been operating an on market share repurchase programme. In 2013 the Company repurchased 29.2 million of its Ordinary Shares at a cost of $55.5 million (2012 13.4 million at a cost of $30.8 million). The Group intends to continue to repurchase 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.

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:

	2013 $ million	2012 $ million
Within one year	8.2	7.9
In the second to fifth years	12.3	9.9
Over five years	3.2	0.3
	23.7	18.1

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.

28. Equity

a) Issued share capital

Issued and fully paid Ordinary Shares of 3 $^1/_3$ pence each.

	Number of Ordinary Shares million	$ million
At 1 January 2012	664.0	34.3
Cancelled during the year[1]	(13.4)	(0.7)
Exchange adjustment		1.7
At 1 January 2013	650.6	35.3
Cancelled during the year[1]	(29.2)	(1.5)
Exchange adjustment		0.6
At 31 December 2013	621.4	34.4

Note
1 During 2013, under the programme of returning capital to shareholders, the Company repurchased 29.2 million (2012 13.4 million) Ordinary Shares on market which were subsequently cancelled.

During 2013 and 2012 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2013 1.4 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 (2012 5.6 million Ordinary Shares).

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2013 and 27 February 2014, the date on which these financial statements have been signed.

Notes to the consolidated financial statements continued

28. Equity continued
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 2013, the ESOT held 0.9 million Ordinary Shares (2012 2.3 million Ordinary Shares) to satisfy awards under various share incentive plans. At 31 December 2013, the SST held 0.5 million Ordinary Shares (2012 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 1.4 million Ordinary Shares (2012 2.8 million Ordinary Shares), at 31 December 2013 was $2.5 million (2012 $6.9 million).

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

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

Capital redemption reserve
During 2013 the Company cancelled 29.2 million Ordinary Shares (2012 13.4 million Ordinary Shares) that had been the subject of the on market share repurchase programme, and transferred $1.5 million (2012 $0.7 million) to the capital redemption reserve.

Share repurchase
During 2013 the Company repurchased 29.2 million (2012 13.4 million) Ordinary Shares on market at a cost of $55.5 million (2012 $30.8 million) which were subsequently cancelled.

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 was 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.

On 23 December 2013 the Company entered into an irrevocable agreement with UBS Limited to purchase Ordinary Shares up to a maximum value of $18.2 million 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, with the maximum number of shares acquired on any dealing day not to exceed 250,000 shares, from 2 January 2014 to 26 February 2014, on their behalf. This agreement entered into in respect of share buybacks during the close period has been recognised as a financial liability of $18.2 million.

As at the close of business on 26 February 2014, 9.7 million shares had been repurchased under this buyback programme at an average price of 97 pence per share for a total consideration of $15.6 million. The remaining liability expired at close of business on 26 February 2014.

29. Employee share plans

Movements in share incentives over a two year period ending on 31 December 2013 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 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
Exercised	–	–	(1.7)	50	(0.1)	69
Granted	3.3	73	–	–	–	–
Forfeited	(1.8)	7	–	–	–	–
Incentives outstanding at 31 December 2013	5.4	82	0.1	60	–	–
Incentives exercisable						
At 31 December 2012	0.5	50	1.8	50	0.1	69
At 31 December 2013	0.5	50	0.1	60	–	–

Notes
1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance shares in aggregate.
2 Figures for the Spirent Stock Incentive Plan show both share options and stock appreciation rights in aggregate.

The weighted average share price at exercise date was 143.7 pence (2012 155.4 pence).

The following information relates to outstanding share incentives at 31 December 2013:

					2013			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	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	25.08.08–08.05.23	0–53	11	2.4	7.4	10	2.7	8.0
	23.03.14–08.05.23	129–169	137	3.0	8.8	150	1.2	8.9
Spirent Stock Incentive Plan	12.01.07–13.11.15	37–57	53	0.1	1.9	48	1.6	0.4
	04.11.05–12.08.16	59–79	–	–	–	73	0.2	2.4
1995 Executive Share Option Scheme	30.06.07–29.06.14	69	–	–	–	69	0.1	1.5
Total				5.5			5.8	

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.

Notes to the consolidated financial statements continued

29. Employee share plans continued

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 58 to 76.

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 some SSIP awards 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 2013, 2.8 million EIP SARs and 0.1 million SSIP SARs with an average base price of 127 pence and 60 pence respectively were outstanding (2012 1.7 million EIP SARs and 1.8 million SSIP SARs with an average base price of 118 pence and 50 pence respectively). During 2013, 1.6 million EIP and SSIP SARs were exercised resulting in the transfer of 1.1 million Ordinary Shares (2012 3.9 million Ordinary Shares were issued or transferred on the exercise of 5.6 million EIP and SSIP SARs).

1995 Executive Share Option Scheme ("ESOS")

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

Under the ESOS awards of share options, including HMRC-approved options, were on a discretionary basis. No price was payable on the grant of an option and no options were granted at a discount to the market price.

The normal exercise period for options granted under the ESOS is between the third and tenth anniversary of the date of grant. Options awarded under the ESOS were subject to the achievement of an EPS performance condition before they could be exercised. All outstanding options have now passed their EPS performance conditions and remain exercisable until they expire on the tenth anniversary of their respective grant dates.

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.

29. Employee share plans continued

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.

30. Share-based payment

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

	2013 $ million	2012 $ million
2005 Employee Incentive Plan	(1.2)	1.6

All schemes are equity-settled.

3.3 million share incentives were granted during 2013 (2012 2.0 million). 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:

	2013	2012
Weighted average share price (pence)	129.1	153.2
Weighted average exercise price (pence)	73.3	59.3
Weighted average fair value (pence)	59.0	78.1
Expected volatility (%)	33	35
Option life (years)		
Performance shares	3	3
Options and SARs	10	10
Suboptimal exercise factor	1.5	1.5
Risk free rate (%)	1.6	1.5–2.4
Dividend yield (%)	1.3	1.6

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.

Notes to the consolidated financial statements continued

31. Reconciliation of profit to cash generated from operations

	2013 $ million	Restated 2012 $ million
Profit for the year	32.7	126.5
Adjustments for:		
Tax	6.4	30.7
Profit on the sale of operations	–	(44.5)
Finance income	(0.9)	(0.8)
Finance costs	0.9	0.5
Intangible asset amortisation	9.9	6.1
Depreciation of property, plant and equipment	16.5	15.2
Loss on the disposal of property, plant and equipment	–	0.1
Share-based payment	(1.2)	1.6
Changes in working capital		
Deferred income received/(released)	12.9	(3.4)
(Increase)/decrease in receivables	(6.0)	7.0
Decrease in inventories	2.4	1.6
Increase/(decrease) in payables	2.8	(11.4)
Increase in provisions	1.5	0.4
Defined benefit pension plan	(4.4)	(1.4)
Cash flow from operations	73.5	128.2
Cash flow from operations comprises:		
Continuing operating activities	73.5	120.3
Discontinued operating activities	–	7.9
Cash flow from operations	73.5	128.2

32. Business combinations

The Group made no acquisitions during 2013.

Prior year acquisitions

In 2012 the Group acquired 100 per cent of the share capital of Mu Dynamics, Inc. and Metrico Wireless, Inc.

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

			2012 $ million
	Mu Dynamics	Metrico Wireless	Total
Net assets acquired			
Intangible fixed assets	13.9	20.5	34.4
Tangible fixed assets	–	0.5	0.5
Deferred tax asset	9.3	0.9	10.2
Inventories	0.1	–	0.1
Trade and other receivables	1.3	3.3	4.6
Trade and other payables	(4.6)	(3.9)	(8.5)
Deferred tax liability	(4.9)	–	(4.9)
Total identifiable net assets	15.1	21.3	36.4
Goodwill	24.7	30.9	55.6
Total consideration	39.8	52.2	92.0
Satisfied by:			
Cash	39.8	52.2	92.0

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
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 *note 11*	(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)
	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".

	2013 $000	2012 $000
Short term employee benefits	1,666	2,457
Contribution to defined contribution scheme (post employment benefits)	10	10
Compensation for loss of office (termination benefits)	136	–
Statutory disclosures	1,812	2,467
Share-based payment	(350)	673
	1,462	3,140

In 2013 Eric Hutchinson made gains on the exercise of share incentives of nil (2012 $468,000) and Bill Burns made gains on the exercise of share incentives of nil (2012 $691,000).

35. Post balance sheet events

On 19 February 2014 Spirent completed the acquisition of the business of DAX Technologies Corp. ("DAX"), privately held by Dragos Alexe and others, for a cash consideration of $37.0 million. Based in Matawan, New Jersey, DAX is a leading provider of customer experience management solution software that enables mobile and wireline service providers to understand and quantify services as experienced by their customers.

The addition of DAX positions Spirent well to help service providers with the unprecedented challenges they face when developing and managing new services in mobile and wireline network environments of rapidly increasing complexity. This acquisition will enable us to strengthen our Service Assurance portfolio, expanding Spirent's addressable market in the live network.

On 20 February 2014 Spirent completed the acquisition of 58 per cent of the share capital of Testing Technologies IST GmbH ("Testing Tech") which was in private ownership, for a cash consideration of Euro 2.0 million. The company develops and markets standardised and customer-specific software-based testing tools which support the development of mission-critical products and workflow steps. Testing Tech also participates in the connected vehicle market which will facilitate Spirent's progress in this market. The minority stake of 42 per cent of the share capital is the subject of a put and call option which expires on 31 March 2016. The consideration is based on the 2015 performance of Testing Tech and set at a minimum amount of Euro 1.4 million. Testing Tech will be reported within our Wireless and Service Experience division.

As both acquisitions have only very recently completed neither the fair values of the assets and liabilities acquired, nor the consideration, have yet been determined.

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 2013 which comprise the parent Company balance sheet and the related notes 1 to 18. 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 79, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013;
- 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 Strategic and 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 2013.

Karl Havers (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 February 2014

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 2013

	Notes	2013 £ million	2012 £ million
Fixed assets			
Intangible assets	4	2.4	3.1
Tangible assets	5	1.1	1.1
Investments	6	310.2	302.0
		313.7	306.2
Current assets			
Stocks	7	1.6	2.5
Debtors	8	7.0	5.4
Cash at bank and in hand		14.2	17.2
		22.8	25.1
Creditors: amounts falling due within one year			
Trade and other creditors	9	(18.4)	(10.1)
Net current assets		4.4	15.0
Total assets less current liabilities		318.1	321.2
Creditors: amounts falling due after more than one year	10	(75.0)	(66.7)
Net assets (excluding defined benefit pension plan (deficit)/surplus)		243.1	254.5
Defined benefit pension plan deficit	3	(1.6)	(12.1)
Net assets		241.5	242.4
Capital and reserves	14		
Called up share capital		20.7	21.7
Share premium account		20.2	20.2
Capital redemption reserve		12.8	11.8
Profit and loss account		187.8	188.7
Shareholders' funds – equity		241.5	242.4

The notes on pages 123 to 135 form part of these financial statements.

Signed on behalf of the Board

Eric Hutchinson
Director
27 February 2014

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. Information on fees for non-audit services in respect of the parent Company accounts have not been disclosed as the Company prepares Group accounts which disclose information on fees for non-audit services on a consolidated basis.

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.

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.

Notes to the parent Company financial statements continued

1. Significant accounting policies continued

Provisions

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

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

Revenue recognition

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the 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 re-measured 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.

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 re-measured 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.

1. Significant accounting policies continued

The interest element of the defined benefit pension plan cost represents the change in present value of plan obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year.

The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on plan assets, adjusted for the effect on the fair value of plan assets of contributions received, and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the 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.

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.

Notes to the parent Company financial statements continued

1. Significant accounting policies continued

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 58 to 76 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 2012. 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:

	2013 %	2012 %
Inflation – RPI	3.3	2.9
Inflation – CPI	2.2	2.2
Rate of increase in pensionable salaries	3.1	2.9
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	3.1	2.8
Rate of increase for pensions post 5 April 2005 service	2.2	1.9
Rate of increase in deferred pensions	2.2	2.2
Rate used to discount plan liabilities	4.5	4.3
Expected rate of return on plan assets (weighted for both plans)	4.6	5.0

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 (2012 aged 65) will live on average for a further 23.5 years (2012 23.3 years) if they are male and for a further 25.6 years (2012 25.5 years) if they are female. For a member who retires in 2033 (2012 in 2032) at age 65 (2012 age 65) the assumptions are that they will live on average for a further 24.3 years (2012 24.2 years) after retirement if they are male and for a further 26.7 years (2012 26.6 years) after retirement if they are female.

3. 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 £2.4 million.
- Increasing the RPI inflation assumption by 0.1 per cent would increase the plans' liabilities by £1.0 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 £6.5 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 were as follows:

	Long term rate of return expected %	2013 £ million	Long term rate of return expected %	2012 £ million
Staff Plan				
Equities	7.4	53.9	8.3	44.5
Government bonds	–	–	2.5	32.8
Inflation-only LDI funds	1.3	14.4	–	–
Corporate bonds	–	–	3.6	24.9
Cash benchmarked bonds	3.0	72.5	3.5	30.8
Insured annuities	4.5	3.3	4.3	3.5
Property	5.5	15.3	7.3	14.0
Cash and other	1.3	0.5	1.0	0.6
Fair value of plan assets	4.6	159.9	5.1	151.1
Present value of defined benefit pension plan obligations		(161.8)		(166.3)
Deficit in the plan		(1.9)		(15.2)
Cash Plan				
Equities	7.4	2.7	8.3	2.3
Government bonds	3.2	2.0	2.5	2.2
Insured annuities	4.5	0.2	4.3	0.2
Cash and other	1.3	2.4	1.0	2.0
Fair value of plan assets	4.2	7.3	4.0	6.7
Present value of defined benefit pension plan obligations		(6.9)		(6.7)
Surplus in the plan		0.4		–
Total net deficit recognised		(1.5)		(15.2)
Unfunded plan				
Present value of unfunded obligations		(0.5)		(0.5)
Net pension plan deficit		(2.0)		(15.7)
Deferred tax asset *note 11*		0.4		3.6
Net pension plan deficit on the balance sheet		(1.6)		(12.1)

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

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

Notes to the parent Company financial statements continued

3. Pensions continued

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

	2013 £ million	2012 £ million
Analysis of amount charged to operating costs		
Current service cost	0.1	0.2
Curtailment loss	–	0.8
Amount charged to operating costs	0.1	1.0
Expected return on pension plans' assets	7.5	7.6
Interest on pension plans' liabilities	(7.3)	(7.2)
Finance income	0.2	0.4
Net profit and loss (credit)/charge	(0.1)	0.6

iv) Analysis of amount recognised directly in equity

	2013 £ million	2012 £ million
Actual return on pension plans' assets	13.5	12.0
Less expected return on pension plans' assets	7.5	7.6
Experience gains on plans' assets	6.0	4.4
Experience gains arising on plans' liabilities	–	0.7
Changes in assumptions underlying the present value of plans' liabilities	4.2	(13.9)
Changes in assumptions underlying the present value of unfunded plan's liabilities	–	(0.1)
Movement in surplus restriction	–	0.2
Actuarial gains/(losses) recognised directly in equity	10.2	(8.7)

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 £22.1 million loss (2012 £32.3 million loss). The directors are unable to determine how much of the pension plan deficit recognised on 1 January 2003 and taken directly to equity of £41.9 million in the Company is attributable to actuarial gains and losses since inception of those pension plans. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Company's statement of recognised gains and losses before 1 January 2003.

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

	2013 £ million	2012 £ million
At 1 January	173.0	158.4
Current service cost	0.1	0.2
Curtailment loss	–	0.8
Interest cost	7.3	7.2
Employee contributions	–	0.1
Benefit payments	(7.5)	(6.9)
Actuarial (gain)/loss	(4.2)	13.2
Present value of funded defined benefit pension plans' obligations	168.7	173.0

vi) Movements in the fair value of plans' assets

	2013 £ million	2012 £ million
At 1 January	157.8	150.8
Expected return on plans' assets	7.5	7.6
Employer contributions	3.4	1.8
Employee contributions	–	0.1
Benefit payments	(7.5)	(6.9)
Actuarial gain	6.0	4.4
Fair value of plans' assets	167.2	157.8

3. Pensions continued

vii) History of experience gains and losses

	2013 £ million	2012 £ million	2011 £ million	2010 £ million	2009 £ million
Present value of defined benefit pension plans' obligations	(168.7)	(173.0)	(158.4)	(140.6)	(137.4)
Fair value of plans' assets	167.2	157.8	150.8	146.9	137.9
Net (deficit)/surplus in plans	(1.5)	(15.2)	(7.6)	6.3	0.5
Experience gain/(loss) on plans' liabilities					
Amount (£ million)	–	0.7	(1.7)	(0.4)	(2.5)
Percentage of plans' liabilities (%)	–	0.4	(1.1)	(0.3)	(1.8)
Experience gain/(loss) on plans' assets					
Amount (£ million)	6.0	4.4	0.7	7.1	7.5
Percentage of plans' assets (%)	3.6	2.8	0.5	4.8	5.4

Expected cash contributions for 2014 for these plans are £2.9 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 2013 of £0.5 million (2012 £0.5 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 2009 to 2013.

Defined contribution schemes

The Company also maintains defined contribution pension plans for employees. Employer contributions into these plans for 2013 were £0.9 million (2012 £0.8 million).

4. Intangible assets

	£ million Goodwill
Cost	
At 1 January 2013 and 31 December 2013	6.8
Amortisation	
At 1 January 2013	3.7
Provided during the year	0.7
At 31 December 2013	4.4
Net book value at 31 December 2012	3.1
Net book value at 31 December 2013	2.4

Notes to the parent Company financial statements continued

5. Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
				£ million
Cost				
At 1 January 2013	0.7	2.3	1.2	4.2
Additions	–	0.3	–	0.3
Disposals	–	–	(0.1)	(0.1)
At 31 December 2013	0.7	2.6	1.1	4.4
Depreciation and impairment				
At 1 January 2013	0.2	2.0	0.9	3.1
Provided during the year	–	0.3	0.1	0.4
Disposals	–	(0.1)	(0.1)	(0.2)
At 31 December 2013	0.2	2.2	0.9	3.3
Net book value at 31 December 2012	0.5	0.3	0.3	1.1
Net book value at 31 December 2013	0.5	0.4	0.2	1.1

6. Investments

	Shares in subsidiaries	Loans to subsidiaries	Total
			£ million
Cost			
At 1 January 2013	1,019.4	3.2	1,022.6
Additions	7.4	3.0	10.4
Share-based payment	(0.5)	–	(0.5)
At 31 December 2013	1,026.3	6.2	1,032.5
Provisions			
At 1 January 2013	720.3	0.3	720.6
Increase in provision	0.6	1.1	1.7
At 31 December 2013	720.9	1.4	722.3
Net book value at 31 December 2012	299.1	2.9	302.0
Net book value at 31 December 2013	305.4	4.8	310.2

7. Stocks

	2013 £ million	2012 £ million
Work in progress	0.3	0.2
Finished goods	1.3	2.3
	1.6	2.5

8. Debtors

	2013 £ million	2012 £ million
Due within one year		
Trade debtors	1.7	1.3
Owed by subsidiaries	2.7	1.7
Other debtors	0.7	0.2
Prepayments and accrued income	0.5	0.3
	5.6	3.5
Due after more than one year		
Deferred tax asset *note 11*	1.4	1.9
	7.0	5.4

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

	2013 £ million	2012 £ million
Trade creditors	1.0	0.5
Owed to subsidiaries	1.0	0.3
Accruals and deferred income	5.1	4.0
Share buyback obligation	10.9	5.0
Other taxes and social security costs	0.4	0.3
	18.4	10.1

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

	2013 £ million	2012 £ million
Owed to subsidiaries	75.0	66.4
Deferred income	–	0.3
	75.0	66.7

11. Deferred tax

	£ million
At 1 January 2013	1.9
Reversed in the year	(0.5)
At 31 December 2013	1.4

The deferred tax asset is in relation to short term timing differences of £0.2 million (2012 £0.2 million) and tax losses of £1.2 million (2012 £1.7 million). The Company has tax losses of £28.8 million (2012 £37.1 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 2013 of £0.4 million (2012 asset of £3.6 million) in relation to the pension plans (note 3).

The Company also has capital losses carried forward of £823.3 million (2012 £822.3 million) for which no deferred tax asset is recognised on the balance sheet. These capital losses have no expiry date.

12. Operating lease commitments

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

	2013 £ million	2012 £ million
In the second to fifth years	0.2	0.1

13. 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.

Notes to the parent Company financial statements continued

14. Capital and reserves

£ million

	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total
At 1 January 2013	21.7	20.2	11.8	188.7	242.4
Share cancellation	(1.0)	–	1.0	–	–
Profit for the year[2]	–	–	–	47.4	47.4
Share-based payment[3]	–	–	–	(0.8)	(0.8)
Actuarial gain recognised on defined benefit pension plans	–	–	–	10.2	10.2
Deferred tax on defined benefit pension plans	–	–	–	(2.7)	(2.7)
Share repurchase	–	–	–	(34.9)	(34.9)
Share buyback obligation	–	–	–	(5.9)	(5.9)
Equity dividends	–	–	–	(14.3)	(14.3)
Employee share ownership trust	–	–	–	0.1	0.1
At 31 December 2013	20.7	20.2	12.8	187.8	241.5

Notes
1 The Company has taken advantage of the exemption given in section 408 of the Companies Act 2006 not to publish its profit and loss account.
2 The profit for the year dealt with in the financial statements of the Company was £47.4 million (2012 £49.6 million) which after dividends of £14.3 million (2012 £12.7 million), gave a retained profit of £33.1 million (2012 £36.9 million).
3 Share-based payment has been recorded for subsidiary companies whose incentives are satisfied by the Company's shares.

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

	Number of Ordinary Shares million
Issued and fully paid Ordinary Shares of $3^1/_3$ pence each at 1 January 2013	650.6
Cancelled during the year[1]	(29.2)
Issued and fully paid Ordinary Shares of $3^1/_3$ pence each at 31 December 2013	621.4

Note
1 During 2013, under the programme of returning capital to shareholders, the Company repurchased 29.2 million (2012 13.4 million) Ordinary Shares on market which were subsequently cancelled.

During 2013 and 2012 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2013 1.4 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 (2012 5.6 million Ordinary Shares).

There has been no material increase in the issued Ordinary Share capital, whether by exercise of share incentives or otherwise, between 31 December 2013 and 27 February 2014, the date on which these financial statements have been signed.

Investment in own Ordinary Shares
At 31 December 2013, the ESOT held 0.9 million Ordinary Shares (2012 2.3 million Ordinary Shares) to satisfy awards under various share incentive plans. At 31 December 2013, the SST held 0.5 million Ordinary Shares (2012 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 1.4 million Ordinary Shares (2012 2.8 million Ordinary Shares), at 31 December 2013 was £1.5 million (2012 £4.2 million).

Capital redemption reserve
During 2013 the Company cancelled 29.2 million Ordinary Shares (2012 13.4 million Ordinary Shares) that had been the subject of the on market share repurchase programme and transferred £1.0 million (2012 £0.5 million) to the capital redemption reserve.

Share repurchase
During 2013 the Company repurchased 29.2 million Ordinary Shares on market at a cost of £34.9 million (2012 13.4 million Ordinary Shares at a cost of £19.3 million). All shares repurchased in 2013 and 2012 were subsequently cancelled.

14. Capital and reserves continued

Share buyback obligation

On 23 December 2013 the Company entered into an irrevocable agreement with UBS Limited to purchase Ordinary Shares up to a maximum value of £10.9 million 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, with the maximum number of shares acquired on any dealing day not to exceed 250,000 shares, from 2 January 2014 to 26 February 2014, on their behalf. This agreement entered into in respect of share buybacks during the close period has been recognised as a financial liability of £10.9 million.

As at the close of business on 26 February 2014, 9.7 million shares had been repurchased under this buyback programme at an average price of 97 pence per share for a total consideration of £9.4 million. The remaining liability expired at close of business on 26 February 2014.

Employee share plans

The Company operates a number of employee share incentive plans which are described in note 29 of Notes to the consolidated financial statements. 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 2013 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 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
Granted	1.1	55	–	–	–	–
Exercised	–	–	–	–	(0.1)	69
Cancelled	(0.9)	–	–	–	–	–
Incentives outstanding at 31 December 2013	1.8	53	–	–	–	–
Incentives exercisable at 31 December 2012	0.5	50	–	–	0.1	69
Incentives exercisable at 31 December 2013	0.5	50	–	–	–	–

The weighted average share price at exercise date was 145.9 pence (2012 154.8 pence).

The following information relates to outstanding share incentives at 31 December 2013:

			2013			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	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]	25.08.08–08.05.23	0–53	21.0	1.3	6.6	18	1.6	7.4
	23.03.14–08.05.23	129–153	131.0	0.5	9.3	–	–	–
1995 Executive Share Option Scheme	30.06.07–29.06.14	69	–	–	–	69	0.1	1.5
				1.8			1.7	

Note
1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance shares in aggregate. No exercise price is payable on the vesting of a Performance share.

Notes to the parent Company financial statements continued

15. Share-based payment

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

	2013 £ million	2012 £ million
2005 Employee Incentive Plan	(0.3)	0.6

All schemes are equity-settled.

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:

	2013	2012
Weighted average share price (pence)	129.1	153.1
Weighted average exercise price (pence)	54.7	7.6
Weighted average fair value (pence)	65.1	92.6
Expected volatility (%)	33.0	35.0
Option life (years)		
Performance shares	3.0	3.0
Options and SARs	10.0	10.0
Suboptimal exercise factor	1.5	1.5
Risk free rate (%)	1.6	2.4
Dividend yield (%)	1.3	1.6

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.

16. 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.

17. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 135 of this Annual Report.

18. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2013 or 31 December 2012.

Spirent Communications plc has provided indemnities of £0.1 million (2012 £0.1 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

Principal divisions and subsidiaries

	% held at 31 December 2013
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
Republic of Korea	
Spirent Communications Korea Inc	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. A full list of subsidiary companies will be attached to the Company's Annual Return, which will be filed with Companies House in due course.
† Spirent Communications Positioning operates as a division of Spirent Communications plc.

Financial history

$ million

	2013	Restated 2012	Restated 2011	Restated 2010	Restated 2009
Summary income statement					
Continuing operations					
Revenue	413.5	472.4	470.5	422.8	369.4
Operating profit	39.1	108.1	112.2	102.6	77.8
Net finance income/(costs)	–	0.3	1.4	0.9	(0.1)
Profit before tax	39.1	108.4	113.6	103.5	77.7
Tax	(6.4)	(29.0)	(26.4)	(30.9)	8.5
Profit from continuing operations after tax	32.7	79.4	87.2	72.6	86.2
Discontinued operations	–	47.1	6.7	6.6	5.7
Profit attributable to owners of the parent Company	32.7	126.5	93.9	79.2	91.9
Summary balance sheet					
Intangible assets	198.8	207.4	123.2	112.0	112.4
Property, plant and equipment	39.6	34.1	35.5	29.1	23.6
Working capital (excluding cash and deferred tax)	(10.8)	7.3	13.8	10.4	8.3
Operating assets	227.6	248.8	172.5	151.5	144.3
Derivative financial instruments (net)	–	–	–	(0.2)	0.8
Net funds including long term cash	216.3	249.0	237.2	225.0	175.7
Provisions and other liabilities	(6.5)	(5.0)	(4.5)	(7.6)	(11.4)
Deferred tax	18.3	28.4	29.4	31.3	42.5
Defined benefit pension plan (deficit)/surplus	(3.3)	(25.6)	(12.4)	7.1	(0.1)
Net assets	452.4	495.6	422.2	407.1	351.8
Total equity	452.4	495.6	422.2	407.1	351.8
Summary cash flows					
Cash flow from operating activities	67.4	105.1	98.7	99.4	96.1
Net interest received	0.8	0.6	0.9	0.8	0.6
Net capital expenditure	(24.3)	(14.3)	(23.5)	(17.6)	(10.2)
Free cash flow	43.9	91.4	76.1	82.6	86.5
Acquisitions and disposals	–	(32.1)	(14.5)	–	–
Share capital and share repurchase	(54.5)	(29.4)	(33.0)	(15.0)	2.7
Dividends paid	(22.2)	(20.3)	(17.5)	(13.7)	(12.1)
Transfer from long term deposit	0.3	0.3	0.4	0.6	2.2
Net increase/(decrease) in cash and cash equivalents	(32.5)	9.9	11.5	54.5	79.3

$ million

	2013	Restated 2012	Restated 2011	Restated 2010	Restated 2009
Other information – continuing operations					
Expenditure on property, plant and equipment	22.9	15.9	20.1	17.5	9.8
Depreciation	16.5	14.6	12.7	11.4	12.9
Product development	100.5	86.1	83.3	75.8	70.8
Share information					
Earnings per share from continuing operations (cents)					
Basic	5.10	12.11	13.07	10.80	12.92
Diluted	5.09	12.07	12.96	10.70	12.86
Adjusted basic[1,2]	5.71	13.02	12.81	10.92	10.39
Total dividend per Ordinary Share (cents)	3.54	3.22	2.93	2.50	1.93
Fully paid Ordinary Shares in issue at year end (number million)	621.4	650.6	664.0	674.9	678.1
Segmental analysis – continuing operations					
Revenue					
Networks & Applications	213.4	259.5	254.6	242.0	198.1
Wireless & Service Experience	167.7	174.5	161.8	123.8	118.7
Service Assurance	32.4	38.4	54.1	57.0	52.6
	413.5	472.4	470.5	422.8	369.4
Operating profit					
Networks & Applications	13.2	59.7	56.6	58.2	36.6
Wireless & Service Experience	33.8	56.7	58.5	39.7	41.7
Service Assurance	9.0	8.4	7.0	13.0	7.5
Corporate – non-segmental	(5.9)	(6.5)	(6.0)	(6.5)	(6.0)
Operating profit[1]	50.1	118.3	116.1	104.4	79.8
Exceptional items	(3.8)	(2.9)	–	–	–
Acquisition related costs	–	(1.2)	(1.2)	–	–
Acquired intangible asset amortisation	(8.4)	(4.5)	(1.6)	(1.4)	(1.4)
Share-based payment	1.2	(1.6)	(1.1)	(0.4)	(0.6)
	39.1	108.1	112.2	102.6	77.8
Geographical information – continuing operations					
Revenue by market					
United States	215.8	239.2	238.8	230.0	195.9
Asia Pacific, Rest of World	146.9	166.0	159.1	126.3	117.9
Europe	50.8	67.2	72.6	66.5	55.6
	413.5	472.4	470.5	422.8	369.4

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.

The five year history has been restated to reflect the effect of IAS19 “Employee Benefits” on all years.

Shareholder information

Financial calendar 2014

27 February 2014	Preliminary results and final dividend announcement
5 March 2014	Final dividend – ex-dividend date
7 March 2014	Final dividend – record date
23 April 2014	Annual General Meeting and interim management statement
25 April 2014	Final dividend – payment date (Ordinary shareholders)
2 May 2014	Final dividend – payment date (ADR holders)
30 June 2014	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 2014	Financial year end
February/March 2015	2014 Preliminary results and final dividend announcement

Ordinary Shares and American depositary receipts

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

Annual General Meeting

The Company's 2014 Annual General Meeting ("2014 AGM") will be held at 10.30am on 23 April 2014 at the offices of UBS, 1 Finsbury Avenue, London EC2M 2PP.

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 analysis

At 27 February 2014, the number of registered shareholders was 3,557 and the number of Ordinary Shares in issue was 611.9 million.

Number of Ordinary Shares held	Number of shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
1–5,000	2,539	71.38	3,578,441	0.59
5,001–10,000	365	10.26	2,720,729	0.45
10,001–50,000	379	10.66	8,202,761	1.34
50,001–100,000	58	1.63	4,051,420	0.66
100,001–250,000	63	1.77	9,804,957	1.60
250,001–500,000	38	1.07	13,585,189	2.22
500,001–1,000,000	47	1.32	33,861,599	5.53
1,000,001–highest	68	1.91	536,089,534	87.61
Total	3,557	100.00	611,894,630	100.00

	Number of shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
Individuals	2,803	78.80	13,536,330	2.21
Institutions	754	21.20	598,358,300	97.79
Total	3,557	100.00	611,894,630	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 delivers data rates of hundreds of kilobits per second to tens of megabits per second.
3GPP (Third Generation Partnership Project)	A collaboration between groups of telecommunications associations from around the world, the scope of which is primarily to establish globally applicable third generation and beyond mobile phone system specifications.
4G (Fourth Generation)	Fourth generation of mobile communications that delivers data rates of tens to hundreds of megabits per second. Future 4G technologies promise data rates in excess of one gigabit per second.
Application	A software programme designed to perform a specific function for the end user which uses the services of the computer's operating system and other supporting programmes. Applications include database programmes, spreadsheets, web browsers, graphics programmes and word processors.
Attacks	Attempts to damage, disrupt, or gain unauthorised access to a computer, computer system, or electronic communications network.
BeiDou (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.
Cloud	A variety of computing concepts that involve a large number of computers connected through a real-time communication network such as the internet. Often used in reference to network-based services served up by virtual hardware, simulated by software running on one or more physical machines.
Code Division Multiple Access ("CDMA")	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.
Core Router	A router designed to operate in the internet backbone, able to support multiple telecommunications interfaces of the highest speed in use in the core internet, and to forward IP packets at full speed on all of them. It must also support the routing protocols being used in the core.
Cyber Security (aka IT Security)	The body of technologies, processes and practices designed to protect networks, computers, programmes and data from attack, damage or unauthorised access. In an IT context, the term security implies cyber security.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
Ethernet	A family of networking technologies originally developed for local area networks, which migrated to metro area networks and eventually became the dominant standard in wireline networks worldwide.
Gigabit Ethernet ("G")	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.
Global Navigation Satellite Systems ("GNSS")	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.
Global Positioning System ("GPS")	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.

GLONASS (The Russian 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.
High Definition Voice (“HD Voice”)	A technology, based on standards from the International Telecommunication Union (“ITU”), that delivers high definition voice quality compared to standard digital telephony.
Infrastructure Test Optimization (“ITO”)	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.
Internet Protocol (“IP”)	The primary network protocol used on the internet and on other network devices to facilitate and control the flow of data.
Internet Protocol Multimedia Subsystem (“IMS”)	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.
Load Balancer	A piece of hardware (or virtual hardware) for distributing network and/or application traffic across multiple computing resources, with the aim of optimizing resource use, maximising throughout and improving overall reliability of applications.
Long Term Evolution (“LTE”)	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.
Machine-to-Machine (“M2M”)	A technology that enables automated wireless (or wired) communication between mechanical or electronic devices.
Mobile Packet Core	An integrated IP-based mobile transport network with the ability to support 2G, 3G and LTE coexistence.
Network Functions Virtualization (“NFV”)	An initiative to provide a new network production environment which lowers cost, raises efficiency and increases agility by hosting network functions previously carried out by proprietary, dedicated hardware on virtual machines running on industry-standard commodity hardware.
OpenFlow	An open standard network protocol from the Open Network Foundation (“ONF”). OpenFlow enables software-defined networking for programmable networks.
Open Networking Foundation (“ONF”)	A non-profit, mutually beneficial trade organisation to improve networking through software-defined networking (“SDN”) and standardising the OpenFlow protocol and related technologies.
Optical Transport Network (“OTN”)	An efficient and globally-accepted approach, standardised by the ITU, to multiplexing communication services onto optical light paths, which can provide significant cost benefits to carriers.
Small Cells	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.
Software-Defined Networking (“SDN”)	An approach to networking in which control is decoupled from hardware and given to a software application called a controller.
Switch	A computer networking device used to connect many devices together on a computer network. Switches manage the flow of data across a network by only transmitting a received message to the device for which the message was intended.
Testing-as-a-Service (“TaaS”)	An outsourcing model in which testing activities associated with some of an organisation’s business activities are performed by a test service provider rather than employees. Services suited to a TaaS model include automated regression testing, performance testing, security testing, and monitoring/testing of cloud-based applications.

Glossary continued

Time Division LTE ("TD-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 the United States and Europe.
Time Division Multiplexing ("TDM")	A digital transmission method that combines signals from multiple sources on a common path increasing capacity.
Triple Play	Voice, video and data transmitted over a single transport medium.
Universal Mobile Telecommunications System ("UMTS")	The most common 3G wireless technology globally, which uses WCDMA on its underlying air interface and offers support for data transfer rates from hundreds of kilobits per second to tens of megabits per second.
Virtualization	Technologies designed to provide a layer of abstraction from the physical characteristics of computing resources to simplify the way in which other systems, applications, or end users interact with those resources.
Voice over LTE ("VoLTE")	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.
Wideband CDMA ("WCDMA")	An ITU 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.
Wireless Backhaul	The portion of a mobile network that provides connectivity between cellular base stations and the core network over wireline, fibre or radio links.
Wireline	Communication services provided over a physical connection, which may be copper or fibre.

Notes

Notes

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