Helping a complex world connect

Spirent Communications plc
Annual Report 2014

In a world that is increasingly reliant on new technologies, the ability to think ahead, and think differently is key.

Inspiring ideas sit at the heart of everything we do. We are a global leader in communications test and measurement. We develop hardware and software solutions that help our customers innovate their products, systems and networks.

Contents

Results and highlights

Financial highlights

– Group revenue up 11% to $457.2 million (2013 $413.5 million) acquisitions contributed $18.6 million, with growth in all operating divisions and in all geographic regions.

– Book to bill ratio 103 (2013 105).

– Group adjusted operating profit $46.0 million (2013 $50.1 million) after absorbing $24.4 million increased organic investment in product development, sales and marketing and support services.

– Dividend up 10%. Final dividend proposed of 2.21 cents per Ordinary Share, giving full year dividend of 3.89 cents per Ordinary Share.

– Free cash flow $10.7 million (2013 $43.9 million) affected by high activity in December and investment in new improved leasehold facilities; cash closed at $99.8 million after acquisition consideration of $85.9 million and share buyback and dividends totalling $38.6 million.

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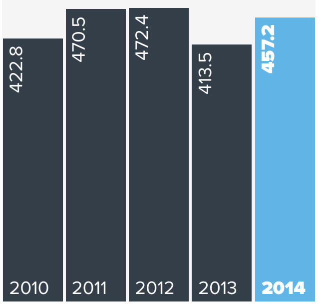
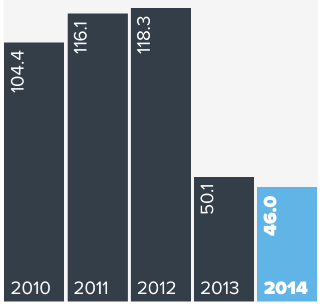
http://corporate.spirent.com/

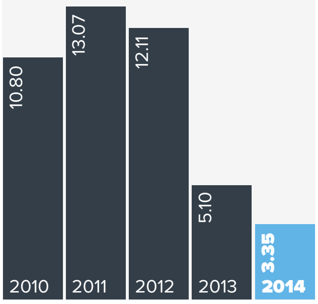
Revenue[4]
$457.2m



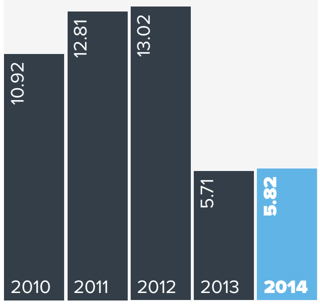
Adjusted operating profit[1,4]
$46.0m



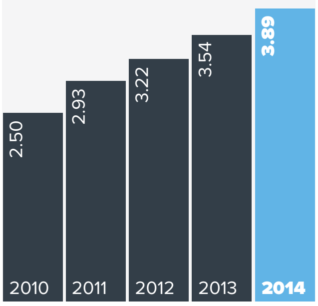
Basic earnings per share[4]
3.35c



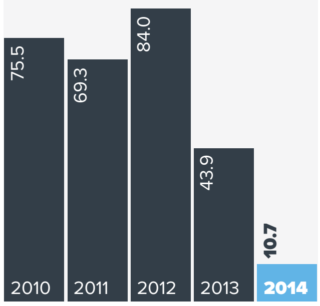
Adjusted earnings per share[1,2,4]
5.82c



Dividend per share
3.89c

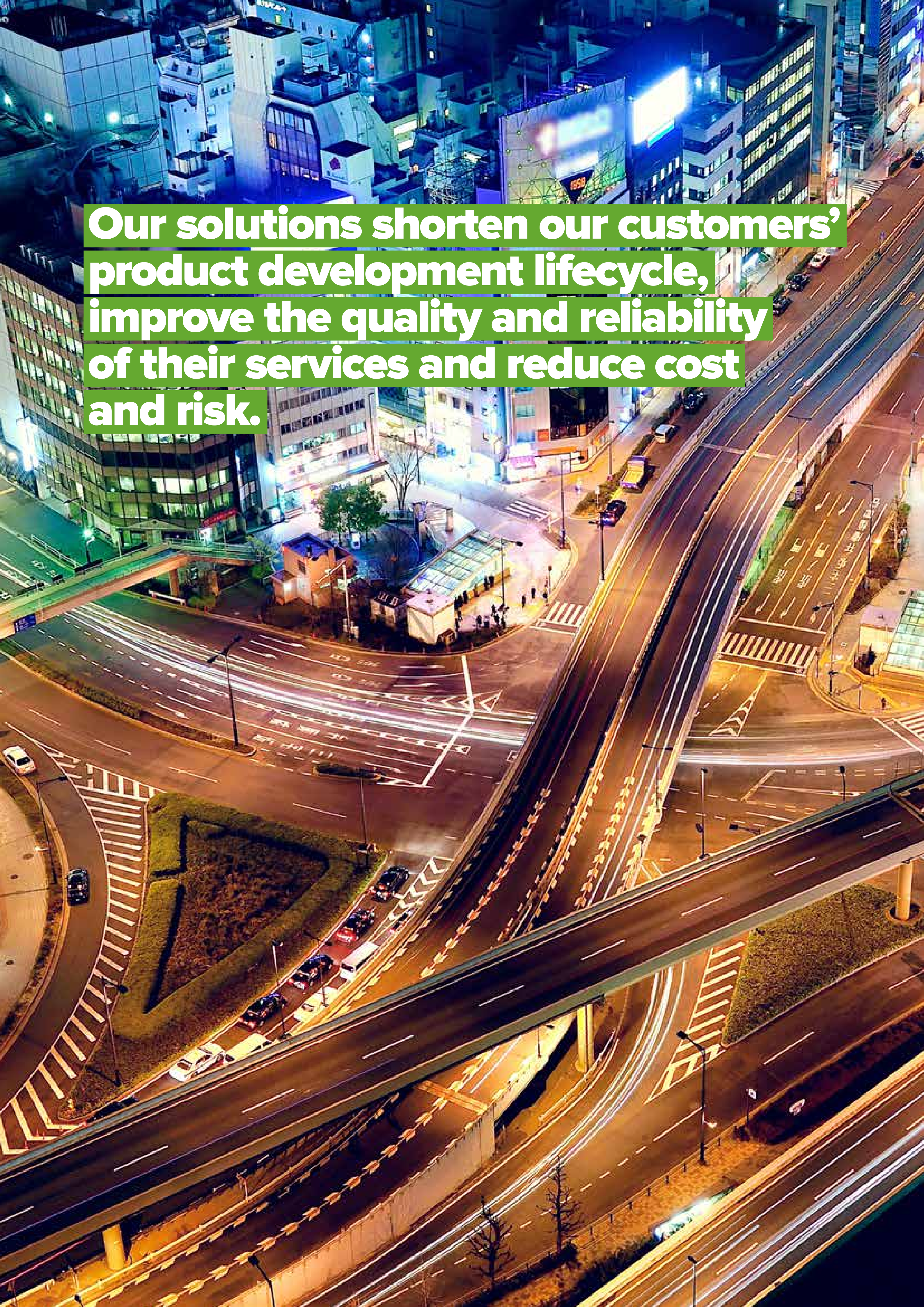


Free cash flow[3,4]
$10.7m



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

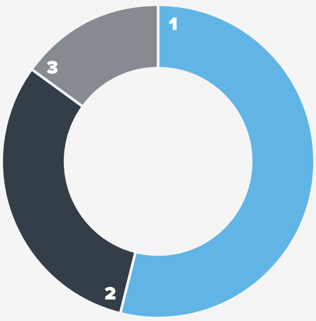
Our solutions shorten our customers' product development lifecycle, improve the quality and reliability of their services and reduce cost and risk.



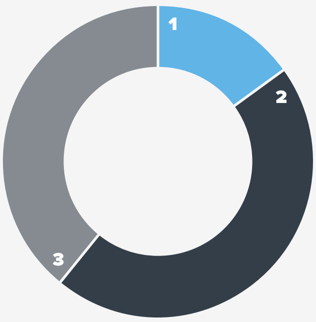
1. **Spirent serves the needs of the rapidly expanding data technology markets providing the world with the ability to verify the networks that utilise more and more digital information.**
2. **Spirent has an unrivalled breadth of expertise in data communications test and assurance methodologies.**
3. **Spirent has a proven track record in adoption to change in technologies and their deployment as well as to structural change in the industry.**
4. **Spirent has consistently reported profit and generated positive cash flows.**
5. **Spirent is well placed to provide the next-generation solutions required to accelerate and optimise the virtualization of data networks, new wireless technologies and the explosion in the number of connected devices.**

Our broad portfolio of innovative products and services is organised into three operating segments that address a wide range of our customers' needs.

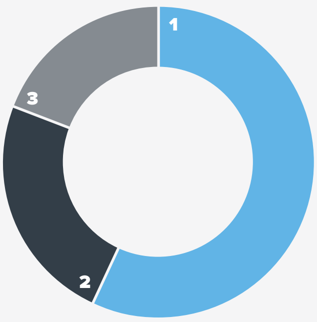
Revenue
– $457.2m
1 Americas – 54%
2 Asia Pacific – 31%
3 Europe, Middle East & Africa – 15%



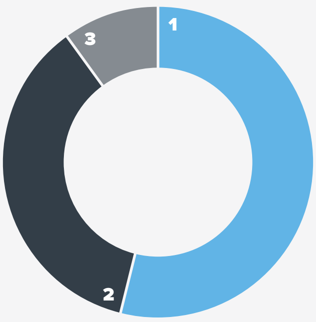
Operating profit by division[1]
– $46.0m
1 Networks & Applications – 15%
2 Wireless & Service Experience – 46%
3 Service Assurance – 39%



Employees by region
– 1,727
1 Americas – 57%
2 Asia Pacific – 24%
3 Europe, Middle East & Africa – 19%



Employees by division
– 1,727
1 Networks & Applications – 54%
2 Wireless & Service Experience – 36%
3 Service Assurance – 10%



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

Networks & Applications

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

Our broad solutions portfolio addresses data centers, cloud computing, virtualized environments, applications and security, high speed Ethernet networks and services, and virtual/physical test automation and management.

Divisional focus
– Ethernet
– Data center/cloud/virtualization
– Applications and security
– Test automation, orchestration and management
– Mobility and wireless infrastructure

Revenue
$221.5m

Addressable market
$874m

Spirent's market share
25%

Annual market growth
8%

What we test

Cloud and Virtualization
Managing the complexity of the demands on shared infrastructure and validating the end-user experience of cloud services, as data centers are upgraded with high speed Ethernet and technologies such as SDN are introduced.

Applications and Security
Addressing the proliferation of application and vulnerability concerns for enterprise, government and service provider networks, Spirent's application and 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 such as VoLTE, and mobility across 4G/3G/2G and Wi-Fi with peerless realism and scale.

Test Automation
Spirent's solutions and services enable orchestration and management to deliver an efficient, scalable and cost-effective physical and virtual build, test and deployment environment.

Wireless & Service Experience

Spirent's wireless & 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.

Our solutions carry out this testing under real-world conditions in the lab prior to commercial launch. The portfolio also includes services and tools for end-to-end measurement of the mobile experience on live networks, on any device and on any operating system, helping our customers to minimise the risks associated with deployment of new technologies, devices and services.

Divisional focus

- Wireless devices
- Wireless services, including VoLTE
- Satellite navigation and global positioning
- Wireless service experience

Revenue
$178.6m

Addressable market
$710m

Spirent's market share
25%

Annual market growth
7%

What we test

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.

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

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.

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

Spirent's service assurance solutions allow service providers to diagnose, troubleshoot and determine how to resolve issues with networks and systems within the entire live network – whether virtualized or not.

Spirent is also a leading provider of mobile device management, device analytics and intelligence solutions for mobile operators. Spirent's customer experience management solutions software enables mobile and wireline service providers to understand and quickly resolve their customers user experience issues.

Divisional focus

- Ethernet business services
- Field test solutions
- Mobile device management and analytics
- Customer experience management

Revenue
$57.1m

Addressable market
$460m

Spirent's market share
12%

Annual market growth
15%

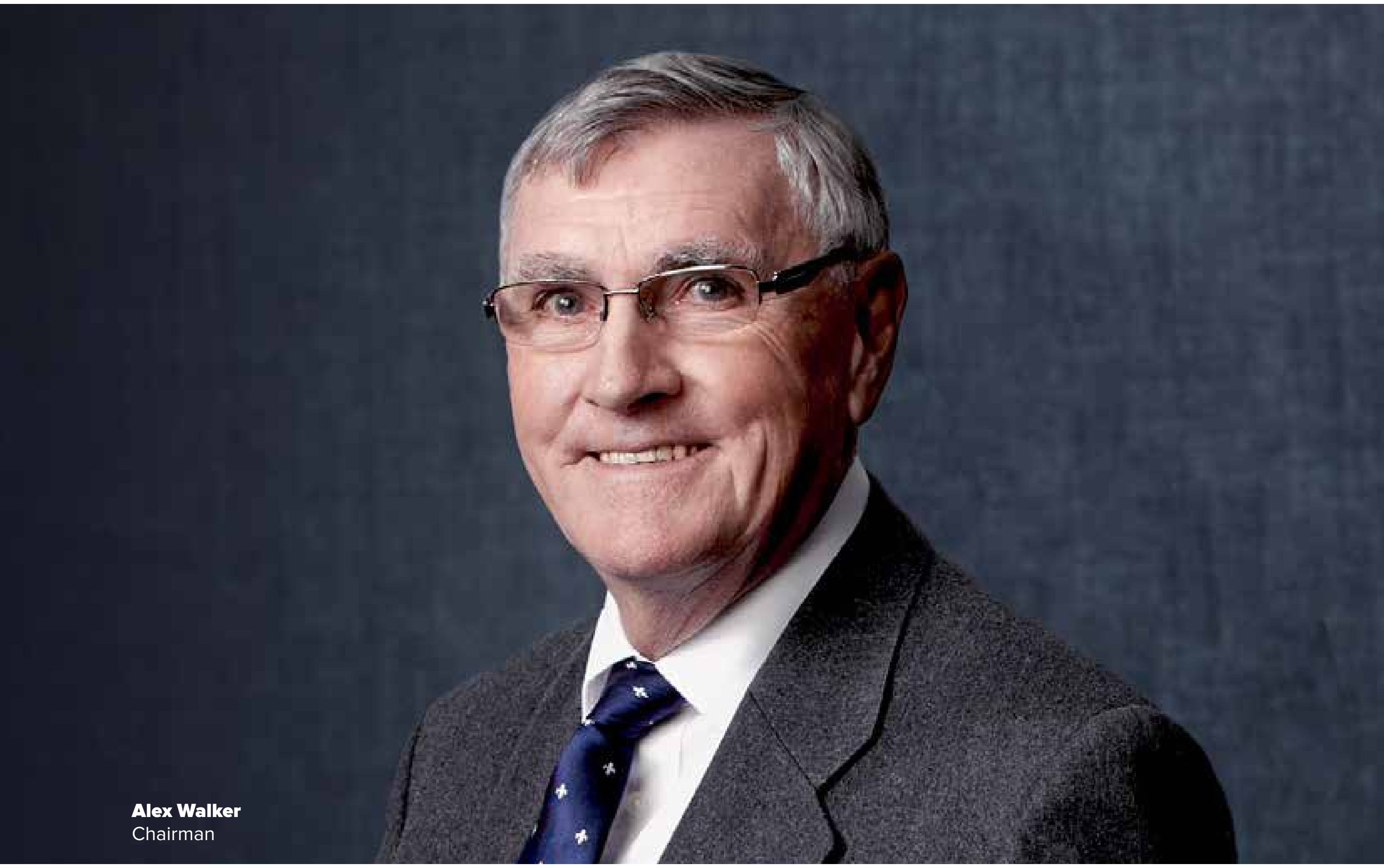
What we test

Network Service Assurance
Spirent's service assurance solutions allow service providers around the world to diagnose, troubleshoot and rapidly 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.

Mobile Device Management
Spirent's mobile device management solutions allow operators to correctly detect mobile devices, configure them for data usage, analyse device population trends, and run marketing campaigns helping to increase average revenue per user.

Customer Experience Management
Spirent's customer experience and service quality management solution helps service providers to reduce churn by aggregating and analysing data from multiple sources to provide real-time insights into their customers' experience.



Alex Walker
Chairman

In 2014 we have laid the foundations for returning the Group to growth

Positioning the Group for growth

Last year, we set out our strategy to restore revenue to growth in 2014 which would fund the necessary investment in product development and expansion of sales and marketing activities for the long term growth of the business. We highlighted that we had undertaken a radical reorganisation of the activities within Spirent with the key strategic objective of creating long term value by harnessing Spirent's leading capabilities and talent and that this would take time to be fully reflected in the financial performance of the Company. 2014 was Eric Hutchinson's first full year as Chief Executive. He and his new team have re-energised the Company and laid the foundations for future growth.

It is pleasing to report that Group revenue increased by 11 per cent to $457.2 million (2013 $413.5 million) of which $18.6 million came from acquisitions made during the year. Revenue grew in all divisions and in all regions. This achievement was against a backdrop of some strong headwinds and changes in the markets that we serve, particularly in the third quarter. After achieving 16 per cent growth in revenue in the first half of 2014, we saw a significant slowdown in the second half in our service provider ecosystem in North America as a major customer reorganised and paused in its investment cycle.

We also saw structural changes in the smartphone market and intense competition over a lower level of demand. Whilst the year-on-year increase in the second half slowed to 6 per cent, the fourth quarter saw strong demand with revenue up 9 per cent over the same period in 2013.

The growth in revenue has enabled us to fund the planned additional investment in product development and in sales and marketing that we highlighted in last year's Annual Report. Innovation is at the heart of any technology company and Spirent invested $115.4 million in product development in 2014, an organic increase of 8 per cent over 2013. During the year, as part of Spirent's continuing strategic investment programme, we released 85 new solutions and functionality which enhance our competitive advantage and spearhead future sales growth.

Additional investment of $12.9 million in sales and marketing, excluding the effect of acquisitions during the year, has enabled us to build on our customer relationships, drive development of and access to markets, and to gain market share.

Return on sales based on adjusted operating profit was 10 per cent for the Group, down from 12 per cent last year, reflecting the impact of the investment in the business to drive recovery and long term growth.

Basic earnings per share for the Group decreased in 2014 to 3.35 cents per share (2013 5.10 cents). Adjusted basic earnings per share was 5.82 cents (2013 5.71 cents); this is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment and share-based payment.

The Group's free cash flow generation was $10.7 million in 2014 (2013 $43.9 million), a cash conversion ratio of 0.5 times reported earnings (2013 1.3 times). The Company has no debt and cash balances were $99.8 million at 31 December 2014.

Acquisitions

Spirent made good progress in its strategy of acquiring new capabilities and technologies, completing a number of focused acquisitions during 2014 for a total consideration of $85.9 million funded out of Spirent's existing cash resources. As a Board we evaluate each acquisition opportunity to ensure that it meets our strategic objectives as well as the financial hurdles set for investment.

In February 2014 Spirent acquired DAX Technologies Corp. and also a majority stake of 58 per cent of Testing Technologies IST GmbH. In July, we acquired the assets of the Radvision Technology Business Unit and then finally in September Mobilethink A/S and its wholly owned subsidiary, Tweakker ApS. These acquisitions are discussed in the Financial review. All of our 2014 acquisitions are on track to deliver revenue and profit growth.

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

Employees

Spirent is its employees. We have highly skilled and creative employees and as a communications technology company, our employees and their capabilities hold the key to the long term prosperity of the Company. I would like to thank all our employees for their hard work and commitment to the future success of the Group.

Dividends

The final dividend recommended is 2.21 cents per share compared with 2.01 cents per share in 2013. This brings the total dividend for 2014 to 3.89 cents per share compared with 3.54 cents for 2013. The increase in total dividend per share is 10 per cent. In sterling terms this also represents an increase in the distribution to our shareholders of 10 per cent.

Board changes

In February 2014, we welcomed Rachel Whiting to the Board as Chief Financial Officer. Ian Brindle, our Senior Independent Director, and Chair of the Audit Committee, was appointed to the Board in December 2006 and has signalled his intention to step down from the Board. We are in the process of recruiting his replacement and we are delighted to report that Sue Swenson has agreed to succeed Ian as Senior Independent Director.

Outlook

Following the sharp slowdown in the United States at some of our customers in the third quarter of 2014, we saw a marked uplift in business at the end of the year.

Whilst there continue to be near term uncertainties and volatility we expect to see an increased level of demand for our solutions and services as the year unfolds, which will result in a greater than usual second half weighting. This will be exacerbated by the later timing of the shipment of a major contract for hand-held test tools of $16 million in the second half of 2015 compared with $12 million shipped in the first quarter of 2014.

The Board remains confident that further progress will be achieved during 2015 and that the Group will benefit from continued investment to create long term strategic value. We have a number of major new solutions that will be delivered to the market in the second half of 2015 and we will continue to pursue areas of opportunity to expand the markets we serve.

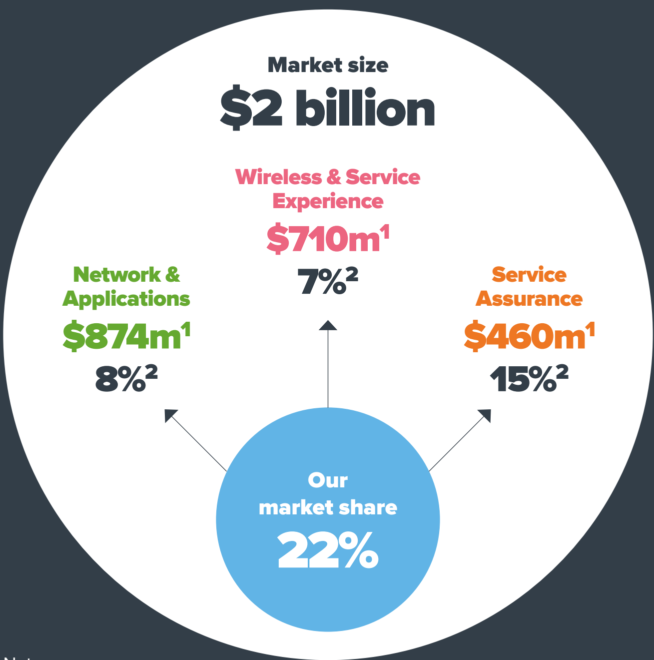
Alex Walker
Chairman

We are pursuing the many opportunities to grow that exist within our served and adjacent markets through a strategy of continued investment in product development, partnerships and acquisitions.

Market potential

We continue to grow our share of addressable markets covering Ethernet networks and services, cloud and virtualization, wireless and mobility, security, satellite navigation, and positioning and customer experience management and in 2014 we had a combined market share of 22 per cent across our primary addressable markets totalling $2 billion.

How we will grow our market share
— pages 14 and 15



Notes
1 Sprent's addressable market
2 Annual market growth rate

The changing requirements of mobile connectivity

Mobile connectivity is served by Spirent's Wireless & Service Experience division and the Mobility business within Networks & Applications.

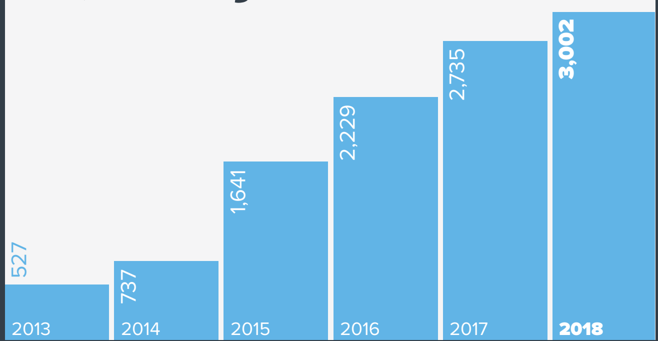
New trends in mobile voice, video, data and devices are coming at a time when consumers are using their mobile services in ways that previous generations did not, by constantly tapping the mobile networks. The industry is moving beyond debating the benefits of voice over LTE ("VoLTE") to discuss strategies for deployment. According to research, worldwide VoLTE services revenue is expected to reach $6.8 billion by 2018, with a significant proportion coming from Asia Pacific.

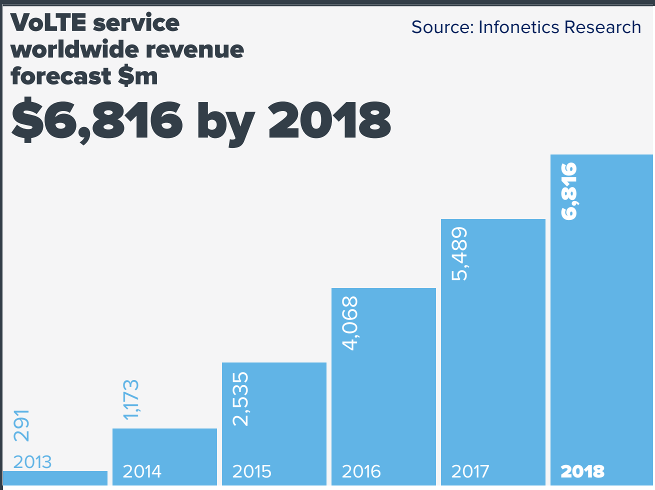
The opportunity for carrier Wi-Fi hotspots is heating up, as mobile operators position Wi-Fi as equivalent to mobile broadband. The overwhelming demand for mobile data services is making mobile operators seek ways to closely integrate Wi-Fi with the mobile network – either by offering carrier hotspots or by offloading some mobile data traffic to a Wi-Fi network. In 2015 we expect to witness Wi-Fi supporting the same service priorities as mobile broadband services. Infonetics Research predicts revenue to hit $3.0 billion by 2018 with a five-year compound annual growth rate ("CAGR") of 42 per cent.

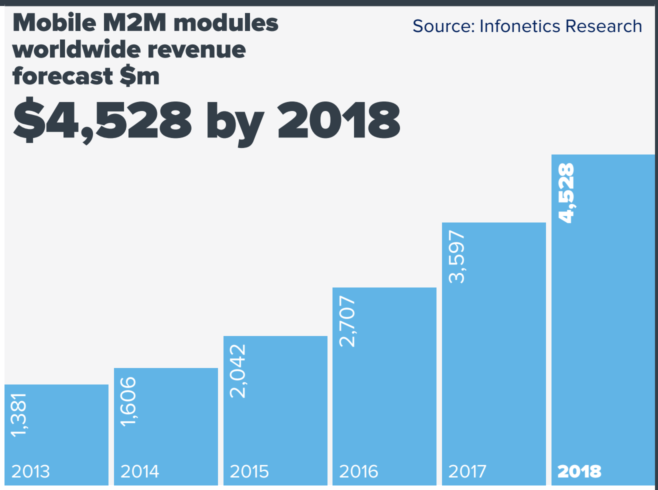
Carrier Wi-Fi equipment worldwide market revenue forecast $m

Source: Infonetics Research

$3,002 by 2018



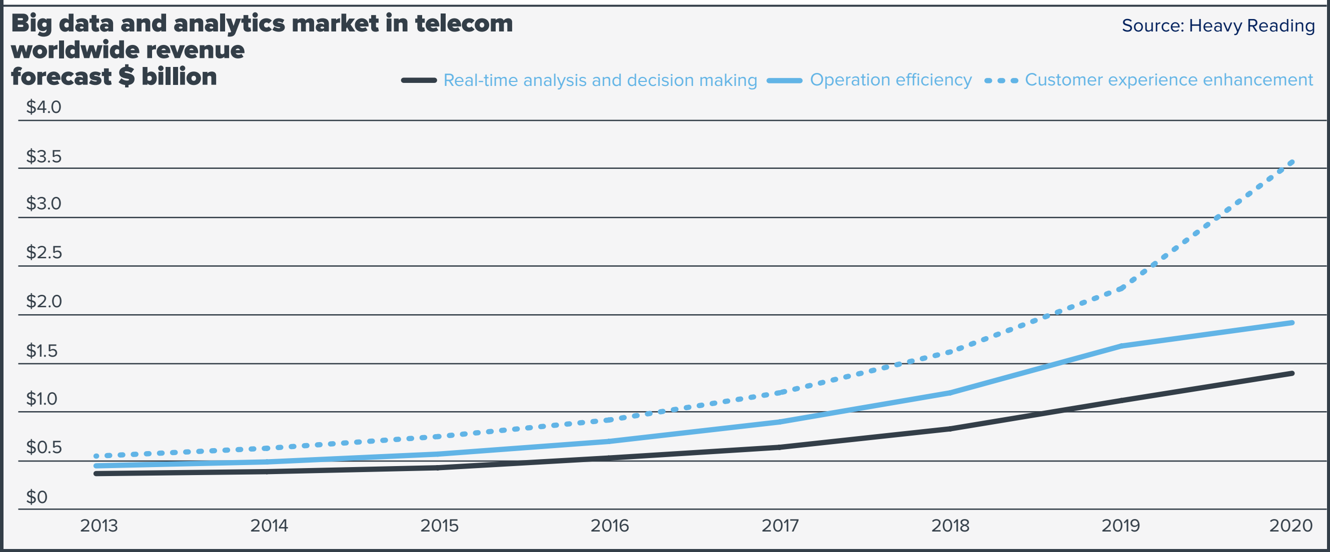


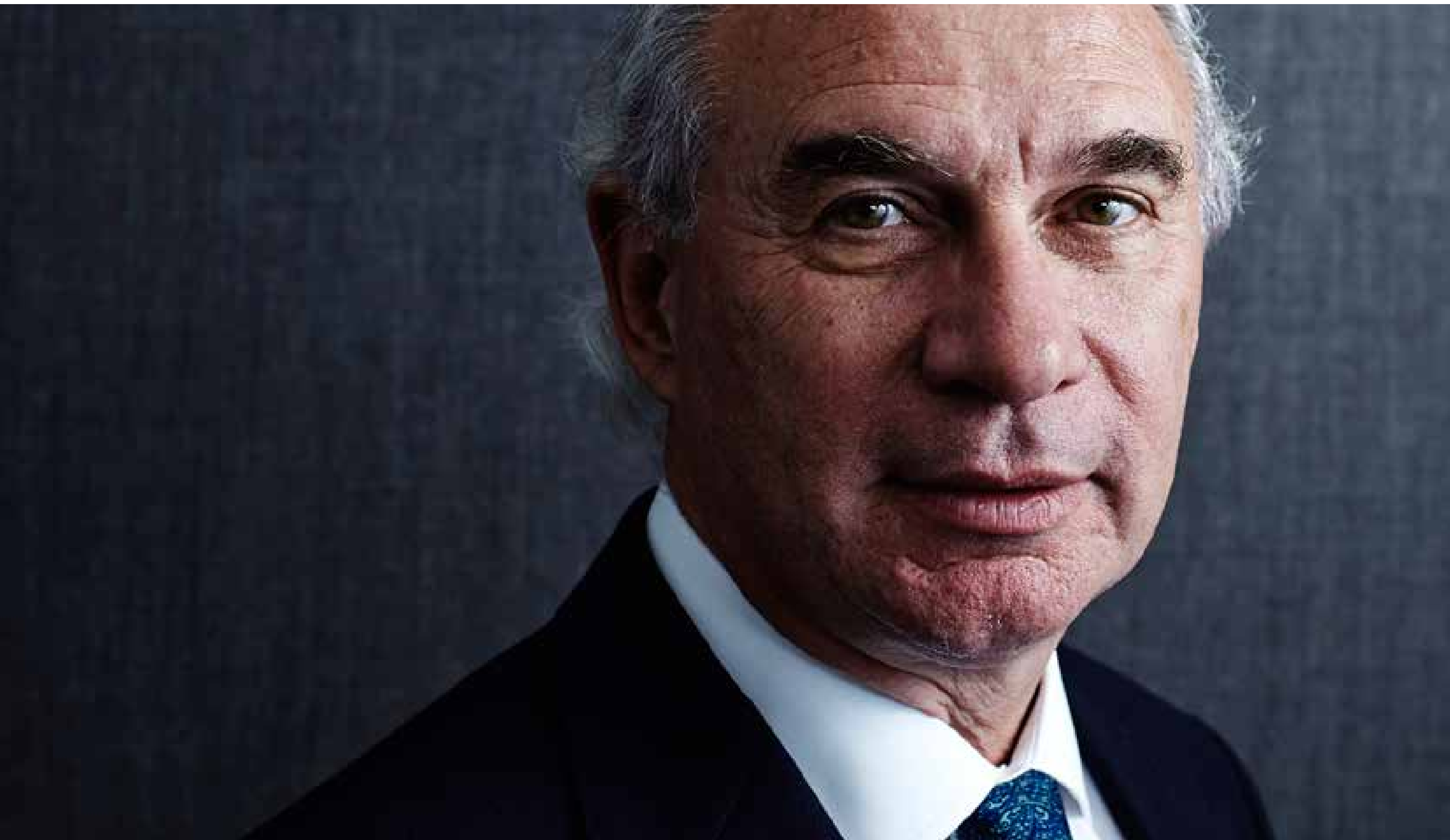


2014 was when the communications ecosystem surged ahead towards an age of hyper-connectivity with machine-to-machine ("M2M") and the internet of things ("IoT") leading the way. Starting with home security systems controlled via the smartphone to connected vehicles, M2M and IoT are transforming industries and creating tremendous opportunities. According to Infonetics Research, mobile M2M module-based solutions are most successful for use in cases that require mobility, rapid deployment and wide area coverage. Automotive, transport and logistics has many use cases with these requirements. Infonetics predicts that the mobile M2M modules market will grow from $2 billion in 2015 to $4.5 billion in 2018.

As service providers strive to do more than just offer larger pipes, their ability to leverage customer data becomes a key competitive advantage. Spirent entered this market with the acquisition of DAX technologies in 2014. According to Heavy Reading, while service providers do not have a dearth of data, they are nonetheless lacking actionable insight from that data. Using analytics, service providers are able to pierce through the mountain of data to get actionable insight that will help them increase revenues, reduce CAPEX, build customer loyalty and improve customer experience. The Heavy Reading report states that of the three identified business application categories, customer experience enhancement will grow the most – from $546 million in 2013 to $3.6 billion in 2020, with a CAGR of approximately 31 per cent.

Spirent's portfolio of solutions gives us the unique ability to test, validate, and analyse communication networks, connected devices and emerging services in a world of expanding interconnectivity and complexity. Our focus on testing emerging wireless technology, automotive networking and M2M communications, as well as delivering customer and network analytics, allows us to meet the challenges of the changing communications ecosystem and the opportunities it presents.





Eric Hutchinson
Chief Executive Officer

Our vision
To be recognised as the leading experts in test methodologies and solutions for data communications.

How we will achieve our vision
— pages 14 and 15

We saw many fundamental changes in the data communications industry in 2014, which in turn caused uncertainty and volatility in demand across all sectors, customer types and regions. Changes in technologies and deployment of virtual networks challenge established products and business models, but change also creates opportunity, driving new business for Spirent. Constantly evolving and developing data technologies demand new test methodologies and solutions, the lifeblood of Spirent's business.

There are a number of major themes which are driving these changes, and it is in these areas that we see significant opportunities for our business. We have divided these opportunities into six specific growth categories, as follows:

High speed Ethernet
One of the major themes for fundamental change in our industry is the continued exponential growth in network bandwidth. In particular, the transport of video across our networks has continued to create the need for faster networks. In 2015, we will see widespread deployment of 100G networks by the service providers and the trialling of 400G.

Maintaining performance at these speeds requires precise equipment and sophisticated testing techniques. Spirent will continue to invest in its core products to help its customers meet these rapidly growing bandwidth demands.

Cloud and virtualization
Many parts of the service providers' networks are being virtualized. This virtualization is causing the established ways of deployment of data technologies (through ever-increasing capital investment in complex hardware) to become a commoditised market. This, in turn, means that service providers, multiple service operators and internet service suppliers are significantly reorganising their business processes and seeking new ways to provide content to subscribers, beyond traditional data networks. The virtualization of networks, also referred to as software-defined networking ("SDN") or network functions virtualization ("NFV"), is aimed at increasing the elasticity of network provisioning to provide on-demand service creation through a dynamic programmable network. It is blurring the boundaries that exist in current legacy networks.

Spirent's test solutions ensure that the performance of the virtual network can be assessed, the availability of the services can be ascertained, that the provision is secure and scalability can be measured. The emerging virtual network will need to coexist with the legacy network for an extended period of time. Here Spirent enables the emulation in laboratory modelling to be taken into the live network to provide continuous assurance in the hybrid virtual/physical world.

Security
The concern over cyber security is ever present and becoming more challenging. The interconnection of devices, systems and networks that were never originally intended to be connected is creating new vulnerabilities for enterprise, government and in critical infrastructures. The constant availability of network services is the over-arching concern and cyber security threats, intrusion and denial of service attacks all impact on network availability.

In this area, Spirent's ability to provide realism in test traffic enables our customers to optimise the balance between defence and the continued service provision. Spirent has invested in the development of more realistic emulation of real-world traffic to test applications and security and will add more capabilities through 2015.

In addition, Spirent has the technology to test satellite navigation vulnerability, not only to allow the strengthening of defences in navigation but also to test the resilience of systems that utilise satellite navigation time signals in critical systems. Security will be a major line of business for Spirent in the near future.

Mobility
Mobile communications continues to see rapid deployment of new high speed high density data communications. Existing revenue streams from telephony are altering with the deployment of digital technologies across all networks, wireline or wireless. The polarisation of the smartphone market is well documented as is the rise of new manufacturers challenging the position of newly dominant suppliers. Wireless carriers need to optimise their investment in the deployment of 4G LTE, Wi-Fi offload and small cell. They are also deploying digital voice through VoLTE, which in turn enables the provision of rich communication services.

Interoperability challenges are now the main theme in this industry and Spirent has developed the world's first test platform to enable interoperability test on device-to-device systems and on emulated network domains. Our leading capabilities in mobile infrastructure test are facilitating the rapid deployment of 4G LTE networks which allows wireless carriers to model traffic patterns in advance of significant capital expenditure, meaning they optimise their investment and provide the best quality of service to subscribers.

Analytics
There is more data than ever being generated on the network, at the cell site and on user equipment. Service providers are keen to analyse this data as it helps them improve customer retention, increase revenue and strengthen market share. Data analytics also improve information accuracy and increases operational efficiency, all of which leads to an enhanced experience for the service providers' customers.

For customers trying to analyse the experience across their network, disparate data silos make it hard to get a complete view. Spirent's Customer Experience Management ("CEM") solutions bring together data from different silos, helping our customers to pinpoint and resolve problems fast. Additionally, our device analytics offerings improve decision making in all areas of the operator's business, including marketing, sales, customer care and network infrastructure, and as input for targeted campaigns.

Adjacent markets
The acquisition of key protocols and test tools and solutions have reinforced our capabilities to assure the testing of the provision of connectivity for machine-to-machine, the internet of things, indeed, the internet of everything.

Spirent has made inroads into providing new capabilities in automotive data and connected cars, again acquiring technologies during the year. These are laying the foundations for long term market expansion and diversification.

Our approach
The vision for Spirent is to be recognised as the leading expert in test methodologies for data communications. Spirent has the technical capabilities to satisfy the needs created by all of the above opportunities and is differentiated compared with other test and measurement suppliers in having such a wide portfolio of capabilities. Spirent exists to create solutions to solve customers' problems, to reduce time to market, to ensure quality of service and of experience, to create value through more efficient and effective development engineering and operations and to optimise our customers' capital expenditure and ensure their customers' brand reputation is protected. The implementation of Agile software development, continuous integrated test optimization and automation by our customers is transitioning Spirent's business to be consultative, to focus on the business case for the customer and to create test solutions and methodologies utilising all the capabilities across the Spirent portfolio and the integration of third party products and services. Nowhere is this more pertinent than in the move to NFV and SDN. The implementation of these technologies enables far more rapid system provisioning, to turn up new services, more effective utilisation of resources and lower costs to operators. Spirent has leading capabilities in virtual test methodologies, working closely with the innovators in this industry to develop test standards.

The dynamic nature of the markets which Spirent serves can be seen in this review. We are making investment decisions to target those areas which offer the most value to our existing and future customers. This in turn will deliver the best return on investment for the Company. Uncertainty and volatility are expected to continue through the near term followed by a renewed level of demand for services and solutions as the industry invests in the next wave of deployment.

Eric Hutchinson
Chief Executive Officer

Spirent is a leading expert in test methodologies and solutions for data communications.

In a fast moving environment where everyone and everything is connected, Spirent provides hardware and software solutions, services and test methodologies that address customers' complex testing needs – from network management in a cloud data center to mobile device performance and user experience in the lab or on live networks. Spirent's customers worldwide are the network equipment manufacturers, the service providers, the mobile device manufacturers, governments and enterprises, all of which face numerous challenges in satisfying the ever-increasing demand for data capacity, reliability and security by all members of society.

Spirent's strategy focuses on harnessing the best resources to generate solutions, services and customer support through continuous innovation and to create easy-to-use solutions to complex problems delivering a high return on investment for our customers.

Our business model is built on our key strengths – the resources and relationships which are critical in enabling Spirent to compete effectively in the markets we serve and ultimately create value for our shareholders and other stakeholders.

Resources and relationships

Our people

Our highly skilled people are vital to our organisation: they provide the expert knowledge needed to develop Spirent's market-leading solutions. Our value-creating culture is critical in providing the right environment to foster this innovation.

Spirent attracts and retains talented people by offering career development, a non-discriminatory workplace, and fair and competitive remuneration within a non-bureaucratic culture. We recognise that our competitive advantage can only be maintained by both developing our own talent internally and recruiting the best skills from outside the organisation. We offer internships and work-experience programmes that not only help students develop professional knowledge, but also provide a pool of future talent for our entire organisation.

Innovation

In our business we must continuously innovate; this is what protects our market position, enhances our organic growth and drives our future revenues, profits and cash generation. Consequently, Spirent invests a significant amount in product development engineering each year, in the region of 25 per cent of revenue. Spirent also adds capability through the acquisition of businesses and intellectual property.

We innovate through the endeavours of our highly skilled and creative people who build on decades of experience. External inputs are also important both through our engagement with industry standards bodies and our close alignment with our customers who lead innovation in the industries we serve. Spirent has created a large body of intellectual property, patented and proprietary, so raising the barriers of entry to competition.

Customers

The strong and lasting relationships we have with our customers are a fundamental element of Spirent's business model. Spirent's customers are some of the largest global telecommunications corporations, and maintaining and expanding these close relationships are vital to Spirent's reputation and success.

We also strive to provide our customers with the highest possible quality of support and service. We work very closely alongside our customers and this gives us a deep understanding of the challenges they face and means that we focus on bringing the right solutions to market at the time when our customers need them most.

Financial discipline

To underpin our strengths and ensure that Spirent has the financial flexibility to be able to invest for the future, both organically and through strategic acquisition, we maintain strong internal controls and a robust balance sheet with a significant cash balance and no debt.

Spirent's emphasis on strong cash generation enables us to reinvest in the business to drive future top-line growth even when our markets show some weakness.

Value-creation

Spirent's value proposition is based on providing our customers with easy-to-use solutions for testing and measuring their complex systems. We have a broad portfolio of test solutions which span the entire product lifecycle from concept to commercial availability, delivering efficiency and that enable development engineers to make better use of their scarce resources.

Our customers attain key value-creation through using our solutions to:

- reduce the time taken to get their products and systems to market;
- gain competitive advantage and maximise revenue;
- ensure the quality of their products, systems and services;
- protect their brand reputation; and
- increase the efficiency of their operations through the automation and utilisation of data that optimises their activities and capital expenditure.

Our solutions enable customers to test the security of their systems, networks and processes in a world where cyber attacks, denial of service and falsification of positioning data are increasing every day.

Much of Spirent's revenue comes from follow on business with 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 our emphasis on providing first class professional service and support. All of the above, with the optimal utilisation of our own resources, supports the sustainability of the high gross margins Spirent achieves. Annual support and maintenance fees and royalty income are further important sources 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 typically high for the business, which gives Spirent the capacity to reinvest organically through product development, by the acquisition of technology, or through access to new served markets.

Outputs

Our people

More than
200
new employees

85
internships

4.4%
voluntary employee turnover below industry average

Innovation

Product development
$115.4m
25% of revenue

85
new products launched

5
acquisitions completed, total consideration $86m

Customers

326
new customers added in 2014

3%
increase in service revenues

Financial discipline

$99.8m
cash and no debt

$41.7m
net cash flow from operations

Shareholder returns

In order to maintain a sustainable business Spirent follows a course of continuous reinvestment to both evolve and reinvent its capabilities funded by the revenue stream that generates profit and cash. We aim to balance this reinvestment, and therefore the opportunities for future capital growth, with returns to shareholders through dividends and share repurchase. In investing in the business Spirent targets those markets which it considers have the highest growth opportunities and the best returns commensurate with the Board's risk appetite and financial hurdles. Our dividend policy is to maintain a sustainable, dividend to shareholders as we consider the dividend to be a core component of shareholder return and one on which they can depend.

Performance against our strategy

Our vision and strategy

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

Our vision

To be recognised as the leading experts in test methodologies and solutions for data communications.

Spirent operates in a rapidly changing business environment and therefore we regularly review our strategy to ensure that it has a clear focus and direction based on the expected future market trends, opportunities and the challenges we face.

Our strategy

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 complex systems.

Key actions

We have identified the key strategic priorities that we believe are critical in order to achieve our strategy and ultimately our vision. Progress made during 2014 and what we are aiming to achieve in 2015 are summarised in this section.

On pages 16 to 21 which follow, a number of case studies have been provided demonstrating the progress we have achieved and how our solutions are addressing our customers' needs.

Strategic priorities

Expand the markets we serve

This will be achieved through the 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.

Establish and maintain technology leadership

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 we will maintain and enhance our expertise. We aim to 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.

Deepen our customer relationships

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 with an emphasis on quality of service, delivery and support. New relationships will be established with the expansion of our sales and marketing reach into new vertical segments and geographic regions.

Acquire new capabilities and technologies

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

Invest in our people

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

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 dividends to shareholders. We operate in markets that deliver high operating returns and operating performance and cash generation are closely aligned.

Key achievements in 2014	Plan for 2015	Risks
– We expanded into new verticals including automotive (through the acquisition of Testing Tech). **See Case study 3.** – We have added value to our customers with our automation and infrastructure test optimization (“ITO”) capability by applying demonstrable solutions to real business problems. – Through the acquisitions of DAX and Mobilethink we now offer more analytics that provide actionable answers from our customers’ “Big Data”.	We plan to further extend our capabilities in the areas of virtualization, data analytics, cyber security, mobile infrastructure and automotive.	– Compatibility of next-generation systems with current and legacy solutions may extend development timescales and cost. – The scarcity of technically skilled engineers may constrain the pace of development. **Principal risks – Technology change and Our people see pages 25 and 27 for mitigation actions.**
Spirent invested $115.4 million in product development engineering; 85 new products and additions to functionality were released including: – Spirent Elevate Test Framework, a revolutionary advance in testing wireless and M2M devices and services which provides a unique open test architecture. – The Spirent GSS9000 Multi-Frequency, Multi-GNSS RF Constellation Simulator which offers a new benchmark in performance, capability and flexibility. **See Case study 6.** – Spirent was the first vendor to show a working 400G Ethernet test capability to meet early design needs. **See Case study 1.**	We plan to maintain the underlying rate of investment in product development in 2015 which will be centred on the following: – applications and cyber security – mobile infrastructure – cloud virtualization and IP – VoLTE and RCS – enhanced Wi-Fi capabilities – data analytics	– Scarcity of resources and demands to enhance current solutions to serve customers’ needs for current technologies may extend development timescales. **Principal risks – Technology change and Our people see pages 25 and 27 for mitigation actions.**
– We aligned our services teams more closely with critical technology developments by our customers. – We expanded our resources to better respond to our customers’ growing challenges with the complexity of systems and networks through software automation and expert test methodologies. – For mobility testing we continued to be the choice of industry leaders, as China Mobile Research Institute used our Landslide Solution. **See Case study 2.**	– Implement a new customer relationship management software platform to enhance Spirent’s focus and operational effectiveness providing best-in-class tools. – Continue to develop our global account management programme.	– Execution risk around a major system implementation may delay the achievement of increased operational effectiveness. – Failure to deliver leading edge solutions in a timely fashion may undermine customer confidence. – Reorganisation by customers combined with changes to their strategic direction may disrupt relationships. **Principal risks – Customer dependence and Business continuity see pages 26 and 27 for mitigation actions.**
The acquisitions completed in 2014 all add new capability to the business: – DAX a provider of CEM solution software enabling mobile and wireline service providers to understand and quantify services as experienced by their customers. – Testing Tech which provides standardised and customer-specific software-based testing tools and also participates in the connected vehicle market. – Radvision TBU which offers a complete test suite for voice and video over IP communications. – Mobilethink and its subsidiary Tweakker, providers of mobile device management, device analytics and intelligence solutions for mobile operators. **See Case study 5.** – Metrico Wireless acquired in 2012 gave Spirent market-leading expertise in VoLTE. **See Case study 4.**	– Continue to extend our capabilities through partnership, licensing and acquisition of businesses. – Extend our interoperability with open technologies. – Outsource some development activities to give flexibility.	– Our partners may be subject to change of control causing cessation of activity with us. – Target businesses may be acquired by others. **Principal risk – Acquisitions see page 27 for mitigation actions.**
– Investments in training and developing our employees were expanded, primarily in the areas of culture management, evolving technologies such as LTE and cloud, and solution-centric selling focused on the customer. – Enhancements to the Spirent Learning Centre’s resources supported newly joined employees in their assimilation to our team and in their speed-to-productivity. – Hired new people in functions that are critical to achieving the strategy for example cyber security.	Focus our efforts on maintaining the forward momentum of our cultural transformation, building our technical proficiency and reputation as leading experts, and implementing improvements to our performance management and employee engagement metrics.	– Employee voluntary turnover may be high due to the high demand for scarce skillsets in the industry. – There may be an adverse impact on employee morale if growth objectives are not met which adversely affect incentive payments. **Principal risk – Our people see page 27 for mitigation actions.**
We achieved a positive operating cash flow while supporting: – Increase in investment in product development, sales and marketing and support services of $24.4 million. – Acquisition spend of $85.9 million. – Increase in full year dividend of 10 per cent.	– Increase cash generation through growth, which in turn will support additional investment in the business.	– Demand for leasing of test equipment by start-up businesses in new technology areas. – Transition of the business model to annual subscription licences may impact cash generation. – Extension of credit terms demanded by dominant customers.

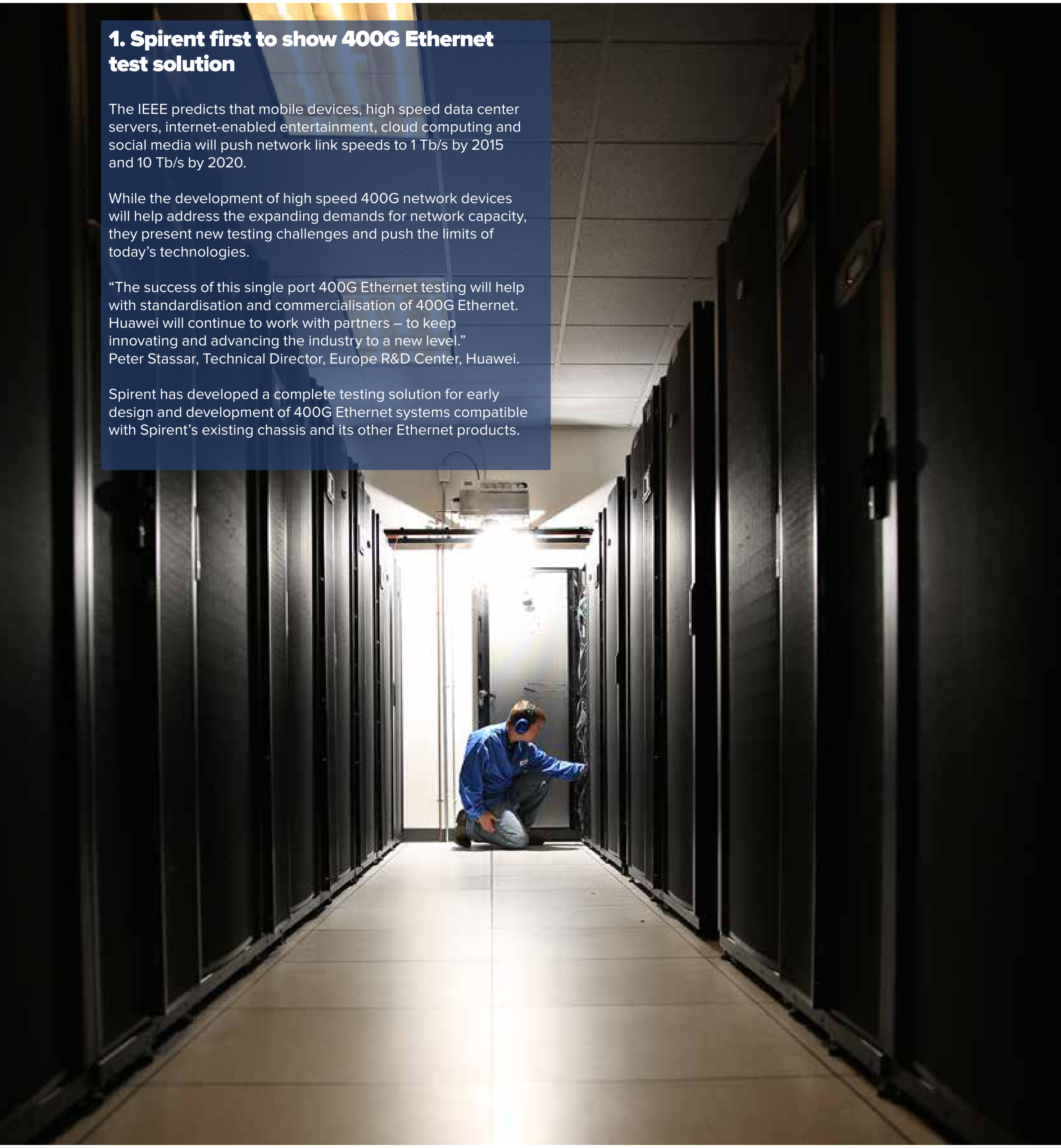
1. Spirent first to show 400G Ethernet test solution

The IEEE predicts that mobile devices, high speed data center servers, internet-enabled entertainment, cloud computing and social media will push network link speeds to 1 Tb/s by 2015 and 10 Tb/s by 2020.

While the development of high speed 400G network devices will help address the expanding demands for network capacity, they present new testing challenges and push the limits of today's technologies.

"The success of this single port 400G Ethernet testing will help with standardisation and commercialisation of 400G Ethernet. Huawei will continue to work with partners – to keep innovating and advancing the industry to a new level."
Peter Stassar, Technical Director, Europe R&D Center, Huawei.

Spirent has developed a complete testing solution for early design and development of 400G Ethernet systems compatible with Spirent's existing chassis and its other Ethernet products.



2. China Mobile Research Institute evolved packet core network testing

By emulation of real-world calls from millions of smartphones, Spirent enables China Mobile to ensure that its mobile core network delivers a high quality of service, and will accommodate growth in new subscribers and traffic, as well as helping to resolve issues in their multi-vendor ecosystem.

Spirent Landslide is the only solution in the industry which is able to emulate the complex behaviour of today's smartphone subscribers. The solution enables carriers to generate BHCA (Busy Hour Call Attempt) models, including VoLTE mobility scenarios, LTE to 3G to Wi-Fi handovers and mobile application traffic, helping them reduce the risk of network outages and offer a better user experience.

Spirent Landslide is used by the top mobile network operators and equipment suppliers around the world and is widely recognised as the leader in the EPC/mobile packet core performance test market.

3. Spirent helps Ruetz offer extensive compliance, performance and security testing of in-vehicle networking

The “connected car” has gained major importance. In particular, Ethernet networking in automobiles opens up a realm of opportunities while placing new requirements on component conformance and cyber security.

“Cooperation with Spirent allows us to combine our experience in automotive engineering with Spirent’s expertise in Ethernet testing. And our clients in the automotive industry receive a service offering which accommodates the high quality and safety expectations of the sector.” Wolfgang Malek, founding member of Ruetz System Solutions.

Ruetz’s test lab includes Spirent’s Automotive Test Platform with support for BroadR-Reach®, the automotive Ethernet physical layer interface standard. The company will also leverage Spirent for layer 2-3 conformance and performance testing.

4. Benchmark study reveals VoLTE outperforms both 3G circuit switched voice and Skype

With OTT services such as Skype being readily available to mobile users, the driver behind VoLTE deployment is the opportunity for wireless carriers to provide a guaranteed quality of service for voice services on their LTE network. A study validated that, although both VoLTE and Skype support HD Voice, VoLTE-specific features deliver a much higher quality service to the mobile user.

“Although conceptually I understood the potential benefits of VoLTE, it wasn’t until we analysed the results that we collected with Spirent that I truly appreciated the incremental benefits that VoLTE offers.” Michael Thelander, President of Signals Research Group.

In this study, Spirent Nomad was used to measure call quality and to control and capture performance data. Spirent Quantum was used to measure power consumption, current drain and the implied battery life. Spirent Datum was used to simulate real-world data usage.

5. Cloud-based mobile device customer care connectivity solutions

Teleena delivers innovative managed mobile solutions to its customer base of cable companies, mobile network operators ("MNOs"), mobile virtual network operators ("MVNOs"), retailers and mobile devices manufacturers.

"Teleena's mantra is to provide worldclass, cost-cutting mobile business solutions to its customer base, by partnering with Spirent Tweakker, our customers can vastly reduce mobile connectivity care costs and better manage and support the diverse portfolio of devices in their networks." Camilo Castano, Chief Product Officer leading product development at Teleena.

The Spirent Tweakker cloud-based platform contains one of the largest customer connectivity portfolios in the world. This also includes mobile device analytics and plug-and-play device platforms allowing customers to better understand and manage devices in their networks and to provide mobile users with anytime-anywhere online guides for self-service care.

6. The path to full operational capacity: Testing ESA's Galileo

When complete, Galileo, Europe's Global Navigation Satellite System ("GNSS"), will join GPS, GLONASS and other systems in providing positioning services across the world.

Thales Alenia Space has been involved with the delivery of the European Space Agency's ("ESA") Galileo programme to assist with the development of the Galileo receivers.

"The Spirent solution was selected because it met our very demanding quality and performance criteria. And since taking delivery of the simulator in our labs it has met our expectations and worked very well." Tiziano Sassorossi, Program Manager at Thales Alenia Space.

A Spirent Multi-Constellation Simulator was chosen to meet the company's unique testing needs. This solution provided accuracy, flexibility and reliability allowing the ongoing development of Europe's GNSS. Galileo is a joint initiative between the European Space Agency and the European Commission.

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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 2014 compared to the prior year; trends over a number of years must also be considered. KPIs relate to continuing operations only.

Book to bill ratio

2014	**103**
2013	105
2012	97
2011	103
2010	105

Revenue ($ million)

2014	**457.2**
2013	413.5
2012	472.4
2011	470.5
2010	422.8

Adjusted operating profit[1] ($ million)

2014	**46.0**
2013	50.1
2012	118.3
2011	116.1
2010	104.4

Return on sales[1] (%)

2014	**10.1**
2013	12.1
2012	25.0
2011	24.7
2010	24.7

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

2014	**5.82**
2013	5.71
2012	13.02
2011	12.81
2010	10.92

Product development as a percentage of revenue (%)

2014	**25.2**
2013	24.3
2012	18.2
2011	17.7
2010	17.9

Number of engineering and product milestones achieved

2014	**34**
2013	26
2012	30
2011	31
2010	31

Voluntary employee turnover below industry average (%)

2014	**4.4**
2013	3.3
2012	3.7
2011	3.2
2010	2.8

Free cash flow[3] ($ million)

2014	**10.7**
2013	43.9
2012	84.0
2011	69.3
2010	75.5

Notes
1 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment 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.

Reason for measurement	Performance	Relevance to strategy
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. The ratio was 103, reflecting the higher level of demand experienced by the Group during the fourth quarter of 2014.	The book to bill ratio is an indicator of whether future activity levels are rising or slowing, and therefore how effective we have been in the execution of our strategy.
Spirent monitors growth in revenue as this shows how successful Spirent has been in expanding its markets and growing its customer base.	The goal is to achieve year-on-year top-line growth and revenue for the Group increased in total by 11 per cent in 2014. Excluding acquisitions growth was 6 per cent. All of our divisions grew revenue in 2014, despite a background of much change in our industry.	Our revenue growth demonstrates all the aspects of our strategy; our success in expanding our markets both organically and through acquisition; maintaining technology leadership; and our strong relationships with our customers, all of which ensure that we continue to win and maintain business.
Adjusted operating profit is the measure used to evaluate the overall performance of the Group as well as each of the operating segments.	The goal is to achieve year-on-year growth and despite revenue growth adjusted operating profit fell to $46.0 million. Gross margin was maintained at 69 per cent of revenue however, as announced in 2013, Spirent stepped up its investment in product development, sales and marketing and support services which grew organically by $24.4 million.	Adjusted operating profit is a direct consequence of our success in growing revenue but it also impacts our financial strength and therefore our ability to invest in the business for future growth.
This is a measure of the Group's overall profitability. Spirent operates in markets which have high operating returns and strives to achieve best-in-class operating returns compared with its peers.	Return on sales was lower at 10 per cent as a result of the planned increase in investment and the effect of the overheads in the acquired businesses of $12.9 million. For 2015 the aim is to improve the return through good cost management; however, Spirent must also remain mindful of the need to invest for future growth.	This is a measure of how successful we are in our overall strategy and demonstrates our ability to grow revenue and sustain or improve margin through efficient operations whilst being mindful of the need to invest for the future.
Long term growth in adjusted EPS is a fundamental driver to increasing shareholder value.	Spirent's aim is to achieve growth in adjusted EPS year-on-year. Adjusted basic EPS for 2014 was 5.82 cents, up from 5.71 cents, in the prior year. A component of the executive directors' incentives is dependent on achieving an EPS target. See page 55 to 71 for Report on directors' remuneration.	This is a measure of how successful we are overall in our strategy and ultimately how Spirent increases value for its shareholders.
To maintain its competitive position Spirent must continue to invest in order to support future organic growth initiatives in line with the strategic objectives.	Investment in product development grew organically by $8.3 million to $115.4 million. See pages 28 to 33 for the Operational review which includes a discussion of the product launches and development in 2014.	It is critical that Spirent's product development investment keeps pace with the speed of change in technology, and of course that it is directed at the right key technology areas; it enables us to expand our markets and to maintain our technology leadership.
The Board sets quarterly engineering milestones which are selected to represent the next critical stages in the achievement of Spirent's long term strategic objectives.	In 2014 34 milestones were achieved. It was a year of intense activity and increased investment with 85 releases of new solutions and functionality added. These milestones are included as targets in the senior executives' incentive plans.	To expand our markets and maintain technology leadership it is vital that Spirent's solutions must be first to market to ensure a competitive advantage and this of course is dependent on the achievement of its product milestones.
Spirent's success is dependent on its talented employees and therefore retaining them is extremely important. Voluntary employee turnover compared to industry average is the measure used to assess how well the Group has performed.	Staff turnover remained below the industry average of 12.4 per cent and the measure improved compared to the prior year. See pages 41 to 43 for how we develop and reward our employees.	We cannot avoid the fact that some of our employees will move on but we can avoid a skills shortage by appropriately managing, recognising and rewarding our people. This KPI is a measure of how successful Spirent is in its strategy of investing in its people.
Cash generation is a measure of the quality of Spirent's earnings. The aim is to achieve a high conversion of earnings into cash.	Cash conversion was lower in 2014 at 0.5 times (2013 1.3 times) reported earnings. This was a consequence of a number of factors, including: – large increase in working capital with higher activity skewed towards the end of 2014; and – high capital investment which includes cost of new improved leasehold facilities of $9.5 million on the expiry of the previous leases.	Having strong free cash generation reflects Spirent's ability to generate funds for future investment. It allows us to maintain financial strength and flexibility.

Strong risk management underpins everything we do

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 process 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.

Further information on Spirent's internal control systems can be found in the Directors' statement on corporate governance.

Directors' statement on corporate governance
– page 47 to 50

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 that risk may occur using the following classifications:

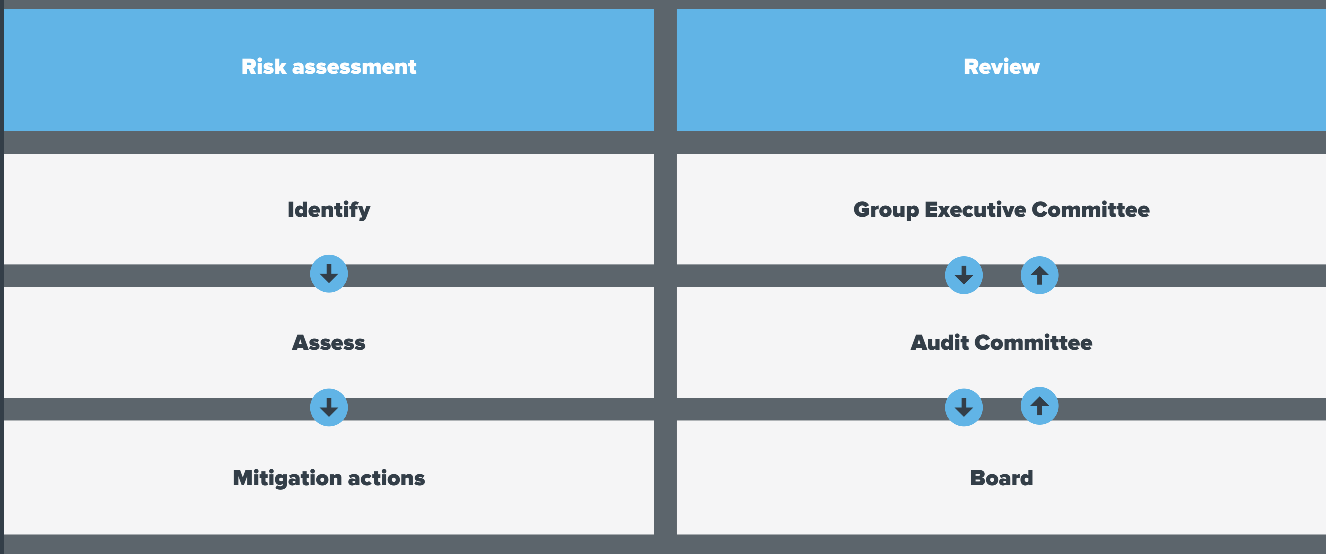
Impact	High/Medium/Low
Likelihood of occurrence	Likely/Possible/Unlikely

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 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 with the prior year has also been provided.

Risk management structure

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 Executive 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.

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 material business units within the Group 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.



The Board has identified the following principal risks, each of which is discussed below:

Risk	Impact	Likelihood	Change*
Macro-economic	High	Likely	↔
Technology change	High	Likely	↔
Customer dependence	Medium	Likely	↑
Competition	Medium	Possible	↔
Acquisitions	Medium	Possible	↔
Business continuity	High	Possible	↔
Our people	Medium	Possible	↔

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

Risk	Potential impact	Mitigation actions
Macro-economic 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.	Deterioration in economic 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.	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 large number of geographically diverse customers, which mitigates the impact.
Technology change 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. 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 to enabling Spirent to compete successfully.	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. Intellectual property claims can result in significant defence costs, and may affect Spirent's ability to market its products.	All Spirent's businesses work very closely with customers and remain focused on their requirements. Each business makes investment decisions specifically related to their solutions portfolio based on market needs. This happens through our formalised Gate Process that has been in place for many years. Spirent continues to make a significant investment in product development. In 2014 the investment was increased to $115.4 million in order to underpin organic growth initiatives. Spirent has active intellectual property protection programmes in place to obtain appropriate intellectual property protection in a cost-effective manner.

Risk	Potential impact	Mitigation actions
Customer dependence The Group sells its solutions and services to a wide range of companies and seeks to continually expand its customer base. In 2014 no one customer accounted for 10 per cent or more of Group revenue although the top 10 customers represented 35 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 timescale, are vital to Spirent's reputation and success. Changes in our major customers' priorities in technology investments can also have a significant impact on their spending on Spirent products by those in the customers' supply chain. 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 significant 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. Changes in our customers' technology investments can result in reduced spending on our existing solutions before customers, and those in the supply chain, ramp up spending on new technologies.	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 and 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.
Competition All Spirent's businesses operate in highly competitive markets which experience rapid technological changes. Establishing and maintaining technological differentiation in our solutions is key to our success. 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 could also affect Spirent's competitive position, thereby reducing revenue and consequently affecting financial results.	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 the development of differentiated products. Competitor activity is closely monitored with a view to maintaining clear differentiation based on Spirent's products, services and global reach.

Risk	Potential impact	Mitigation actions
Acquisitions 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.	Underperformance by acquisitions will impact the Group's results and may lead to impairment of goodwill and/or intangible assets. During 2014 Spirent has completed five acquisitions, details of which are provided in note 32 of Notes to the consolidated financial statements.	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 reviews post-acquisition performance.
Business continuity 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. The incidence of cyber security crime is on the rise. Spirent is dependent on its information technology systems for both internal and external communications as well as for its day-to-day operations.	A significant natural disaster could disrupt the Group's ability to conduct business and adversely impact 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. If a cyber attack were to be successful it could result in loss of data, confidential information and damage to Spirent's intellectual property, causing major disruption to the business.	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 sub-contractor has worldwide multiple sites and comprehensive business continuity plans. Regular meetings are held with contract manufacturers and an 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. A cyber security and cybercrime diagnostics review has been performed during 2014. A new next-generation firewall has been installed which provides a high level of protection to the network.
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.	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. Further information on our employees is provided in Resources and relationships on pages 41 to 43.

The risks associated with achieving Spirent's strategy are also considered in "Our strategy" on pages 14 and 15.

Networks & Applications

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

Networks & Applications snapshot

Strategy
- Leadership in virtual, SDN/NFV and high speed Ethernet
- Invest in mobility, especially VoLTE, Wi-Fi and signalling
- Increase investment in application and cyber security testing
- Simplify lab testing through automation and test orchestration tools

Key market drivers
- Growth in mobile data and high speed Ethernet
- Virtualization, SDN/NFV on the rise everywhere
- Cyber security more critical than ever

Performance highlights
- Major customer reorganised slowing revenue in third quarter
- Growth in mobility revenue
- Built leadership in SDN and NFV
- Success with virtual solutions

Revenue
$221.5m
+4% (2013 $213.4m)

Operating profit
$5.3m
–54% (2013 $11.6m)

Operating profit before exceptional items
$7.6m
–42% (2013 $13.2m)

Return on sales before exceptional items
3.4%
(2013 6.2%)

Market conditions

The growth of video and other bandwidth-intensive services once again drove the requirement for faster networks, with 100G Ethernet deployments under way and many more expected in 2015, along with an increase in trials of 400G Ethernet. We also saw 100G Ethernet push into data centers, expanding beyond its presence in core routers. 4G LTE network roll outs and the proliferation of applications and services continued to contribute to the rapid growth in mobile data as well as in signalling traffic. As 4G LTE coverage increased, deployment of VoLTE and other IMS-enabled services began in earnest in North America, and are expected to continue globally into 2015 and beyond. Access networks evolved with Wi-Fi offload solutions and deployment of the latest Wi-Fi technologies. Virtualization remained a major trend across all our markets. Service providers and their vendors continued to intensively explore how SDN and NFV can best be utilised to accelerate delivery of products and services. As a result, at least one top-tier service provider reorganised and paused its capital spending, with the associated impact on its vendors, while it undertook an organisation-wide investigation into a software-driven network based on SDN and NFV. In the applications and security space, 2014 saw numerous high profile attacks and breaches, from large retailers to media companies and financial institutions. These showcased the intense need to prevent cyber intrusions and led to a sharp rise in spending on cyber security by enterprise, government and large service providers. Along with the widespread adoption of Agile development processes has come the growth in “DevOps”, in which development engineers and operations participate together, from design to product test and support. Spirent’s ITO solutions are playing a key role in helping to automate these increasingly complex environments, reducing costs and accelerating time to market.

Revenue

Revenue in Networks & Applications grew by 4 per cent to $221.5 million from $213.4 million in 2013, with a book to bill ratio of 103 (2013 105).

On the back of the 4G LTE and VoLTE development trends identified above, we saw an increase in revenue for our mobility solutions in 2014. There was also growth in our high speed Ethernet solutions for service providers and data centers, revenue in our application and security market was flat, while our virtual solutions grew at triple digit rates. Support services revenue was 9 per cent up compared with 2013. Our ITO & Solutions business saw strong growth from professional services and from innovative continuous integration solutions for Agile development environments. From a regional perspective, revenue was down slightly in North America and APAC and up strongly in EMEA.

Profitability

Operating profit before exceptional items was down to $7.6 million from $13.2 million in 2013. Increased investment of $13.6 million in product development, sales and marketing and support services offset gross margin from revenue growth. Gross margin increased to 68.3 per cent (2013 68.0 per cent) of revenue. Exceptional items of $2.3 million were charged for reorganisation expenses.

We think about the next big thing after the next big thing.

As bandwidth demand continues to grow, Ethernet speeds increase and the migration to virtual environments forges ahead, the need remains to deliver optimal performance, scalability and security.

Spirent is at the forefront of delivering innovative test solutions for the development of technologies such as 400G Ethernet, long before they are implemented in a live environment. We are committed to delivering a flexible, scalable test architecture and efficient lab management to an emerging generation of cloud service providers and their vendors.

Product development

Spirent continued to expand its leadership in virtual, SDN and NFV, launching first to market SDN capabilities for service providers on Spirent TestCenter, helping to ensure a smooth migration to SDN while achieving optimal performance. In the mobility space, we announced expanded VoLTE and IMS test capabilities and new Wi-Fi test capabilities for our Landslide solution, together with a Landslide Virtual solution. Spirent made further contributions to advancing ultra-high bandwidth networking with release of a new high density 100G test solution supporting the latest-generation CFP4 optical transceiver interface. We also announced new MX2 modules for 10/40G Ethernet testing with best-in-class performance and realism, enabling enhanced reliability and security testing. In Applications and Security, we launched multiple enhancements to the Avalanche solution, including fuzzing, and the Avalanche NEXT solution won a 2014 Best of INTEROP award. Spirent announced the first fully integrated test solution to support the emerging industry standard for automotive Ethernet, reflecting the evolution of in-vehicle networks to support increasingly sophisticated electronics, including driver assistance technologies, infotainment systems and connected cars. Our ITO & Solutions business announced Velocity (a 2014 Best of INTEROP award finalist), a virtual lab environment that helps validate SDN/NFV technologies and deployments, helping customers accelerate time to market and reduce the costs associated with traditional virtual and physical test beds.

Strategy

For 2015, we will focus our investments to align with the continued rapid growth in network bandwidth requirements, in the virtualization of networks and in mobile access. We will grow our leadership in virtual, SDN and NFV, addressing not only our core network equipment manufacturer and service provider customer base, but also the new opportunities presented by "white box" vendors, cloud and virtualization specialists and software vendors, and a new generation of cloud service provider. For mobility, we will invest to address the development of software-centric evolved packet core networks and leverage our investment in VoLTE and Wi-Fi as these services roll out globally. Our applications and security test focus is on cyber security and the challenges of migrating to the cloud for enterprise, government and solution vendors, applying Spirent's key strengths of realism and performance at scale. As the drivers for faster networks continue to intensify, Spirent will build its leadership in 100G Ethernet networking. Spirent was the first test and measurement vendor to show a working test solution for 400G Ethernet, and we plan to continue our key role in enabling high speed Ethernet technologies and the associated industry standards. We will expand our ITO & Solutions business to address the opportunities presented by automation, DevOps, virtualization test and lab management, positioning Spirent as a trusted partner throughout our customers' project lifecycle.

Wireless & Service Experience

Applying our innovation to functional and performance testing of 4G LTE mobile devices, services, satellite positioning devices and wireless infrastructure, as well as to end-to-end measurement of the mobile experience on live networks.

Wireless & Service Experience snapshot

Strategy

– Reduce time to market for new devices and services
– Build leadership in user experience testing of converged services
– Expand test capabilities across the entire lifecycle

Key market drivers

– Economic pressure on top-tier smartphone vendors
– 4G LTE services growth with VoLTE and RCS
– Increased GNSS interference vulnerability awareness

Performance highlights

– Government spending restrictions limit Positioning growth
– China 4G LTE ecosystem drives Wireless business
– VoLTE and RCS test leadership for Wireless & Service Experience

Revenue
$178.6m
+6% (2013 $167.7m)

Operating profit
$23.1m
–32% (2013 $33.8m)

Operating profit before exceptional items
$24.0m
–29% (2013 $33.8m)

Return on sales before exceptional items
13.4%
(2013 20.2%)

Market conditions

In our Wireless & Service Experience markets, the economic pressure on top-tier global smartphone vendors continued into 2014, a year characterised by local smartphone vendors' market share gains in key growth markets such as China and India. However, Spirent benefitted from the development phase of important 4G LTE services and the focus on user experience of those services, especially VoLTE and other IMS-enabled services such as Rich Communication Suite ("RCS"). 2014 saw the first large scale VoLTE and RCS roll outs in North America, with global deployments following in 2015 and beyond as LTE coverage becomes ubiquitous. Enhancements to 4G technology ("LTE-Advanced") such as carrier aggregation were also widely deployed to improve performance, spectrum utilisation and coverage. 4G network build-outs continued apace in China and impressive subscriber growth followed, with China Mobile claiming more than 90 million 4G subscribers by the end of the year. The importance of wireless M2M connectivity continued to rise as the internet of things became a reality and began to change the way in which people live, from smart homes to connected vehicles. In our Positioning markets, applications grew for multi-GNSS technologies, such as BeiDou with GPS and GLONASS, and were a significant driver for both government and commercial customers, including the emerging "wearable" technology sector. The growing concern over the vulnerability of GNSS receivers to interference, including jamming and spoofing (attempting to deceive a GNSS receiver by broadcasting counterfeit GNSS signals), is becoming an important market driver.

Revenue

Wireless experienced modest growth in its mobile device test markets as a result of strength in 4G carrier ecosystems in China, and continued worldwide investment in 4G LTE technologies and services, especially in VoLTE. Service Experience also grew, primarily in North America, as a result of expanding its portfolio to include more services for device vendors. Positioning also saw modest growth year-on-year, with a strong performance in commercial markets due to the launch of innovative new solutions that took market share being offset by government spending restrictions in some regions. The former Radvision TBU acquired by Spirent in July contributed $4.2 million in revenue, and Testing Technologies IST GmbH $2.3 million. Overall revenue was up by $10.9 million to $178.6 million from $167.7 million in 2013 giving an organic revenue growth rate of 3 per cent for this division. Book to bill ratio grew to 102 from 101 at the end of 2013.

Profitability

Operating profit before exceptional items was $24.0 million compared with $33.8 million in 2013, as high gross margin on the increased revenue was more than offset by the increase in investment in product development, sales and marketing and support services of $9.4 million. Gross margin was 68.0 per cent compared with 69.4 per cent in 2013 due to product mix. The resulting return on sales reduced to 13.4 per cent compared with 20.2 per cent in 2013. Exceptional reorganisation costs of $0.9 million were charged in 2014.

Product development

Our Wireless & Service Experience business invested to address the industry's needs, against a background of large scale deployment of 4G LTE-enabled services and the continued surge

We think about the internet of everything.

Smartphones have become ubiquitous, and Spirent plays a major role in ensuring the performance of these devices and the services they enable, yet to date only a tiny fraction of all the "things" in the world that could be connected to the internet have been.

With a broad and deep expertise in wireless connectivity and services, Spirent is well positioned to advance the development of wireless machine-to-machine communications that underpins the "internet of things", accelerating its deployment in everything from smart homes to connected vehicles.

in smartphones and M2M devices. With the deployment of services such as VoLTE and RCS, legacy test solutions are no longer able to support the associated increases in complexity, interoperability challenges and time to market requirements. To address this evolving need, in September Spirent announced its Elevate Test Framework, a powerful network of resources designed to address the wireless industry's increasingly complex testing challenges and scale demands. Elevate's unique open test architecture disrupts the status quo in test and measurement, with its ability to evaluate device, service and user experience performance in the lab earlier in the development lifecycle and generate meaningful analytics that can be shared across global development teams. Elevate also incorporates the ProLab test suite, an asset acquired with Radvision's TBU. ProLab is a widely accepted solution in the industry which leverages the Radvision TBU team's expertise in voice and video over IP, including VoLTE. We launched an Acoustic Verification System, the industry's first bench-top system that enables operators to incorporate sophisticated acoustic speech analysis into their forward and reverse device logistics processes, driving substantial cost savings and an improved user experience. The business also launched Quantum, an automated system for measuring and driving improvements in the battery life of mobile devices under typical consumer use cases, as well as a new IP analytics capability for improving the user experience of VoLTE and other IP-based services. Our Positioning business significantly extended its industry leadership with the launch of the GSS9000, a high-end multi-GNSS solution which offers unrivalled performance, flexibility and cost-effectiveness.

Strategy

The strategy for Wireless & Service Experience centres around radically reducing time to market for new devices and services for its global customers and ecosystems while helping to ensure the highest quality and user experience. Spirent Elevate, the unique toolsets from Spirent's Developer Tools (formerly Radvision TBU) business, and recent additions to its powerful portfolio of GNSS platforms are all examples of Spirent's capability to help its customers reduce time to market for their products and services. Spirent is building leadership in testing the user experience of converged services and the devices that support them, including video, data and voice (such as VoLTE and voice over Wi-Fi) across the entire lifecycle, from development to initial deployment to issues that arise over the lifetime, including device returns. The addition of powerful analytic capabilities enabling customers to gain new insights into test data and correlate user experience metrics with IP-layer performance metrics accelerates the resolution of issues and improves the user experience.

Service Assurance

Enabling service providers to diagnose, troubleshoot and reduce time to resolve issues with production networks and services, and continuously monitor production network performance and end-user experience through end-to-end visibility and real-time automation.

Service Assurance snapshot

Strategy
- Reduce time to solve user experience degradation
- Combine service assurance, CEM and Device Intelligence assets
- Leverage CEM analytics capabilities across the portfolio

Key market drivers
- Growing complexity and customer churn fears
- Caution around virtualization
- Increased carrier competition drives customer experience focus

Performance highlights
- Revenue up significantly on field test strength
- Ethernet sales maintained but virtualization causes spending caution
- Second phase of large field test project received for delivery in the second half of 2015

Revenue
$57.1m
+76% (2013 $32.4m)

Operating profit
$20.5m
+128% (2013 $9.0m)

Operating profit before exceptional items
$20.7m
+130% (2013 $9.0m)

Return on sales before exceptional items
36.3%
(2013 27.8%)

Market conditions

Overall service provider spend remained cautious. With investment in legacy now almost at a standstill, major carriers shifted their focus to research and evaluation of virtualization and how best to evolve their networks to incorporate its benefits. These trends resulted in a pause in investment in traditional probes by some key customers and early stage growth in demand for virtualized solutions. The rapid growth of video services and mobile subscriber data led to the need for more Ethernet "pipes" in backbone networks, increasing pressure to move to higher Ethernet speeds and better data analytics. Continued growth in the complexity of networks and services, coupled with intense competition between service providers and the fear of customer churn, has led to greater emphasis on customer experience management and on the value of big data analytics. It has also driven demand for powerful yet easy-to-use tools that technicians can employ to help manage the increasingly complex end point of the network: the customer's home. Mobile operators struggle to keep abreast of the capabilities and technical requirements of the ever-expanding pool of new devices and OS versions coming onto their networks. To maintain a consistent, cost-efficient service and maximise their top-line, they are moving beyond device management to obtain intelligence on the limitations and potential of every device on their network. Spirent acquired Mobilethink in September 2014 to enable it to address this trend.

Revenue

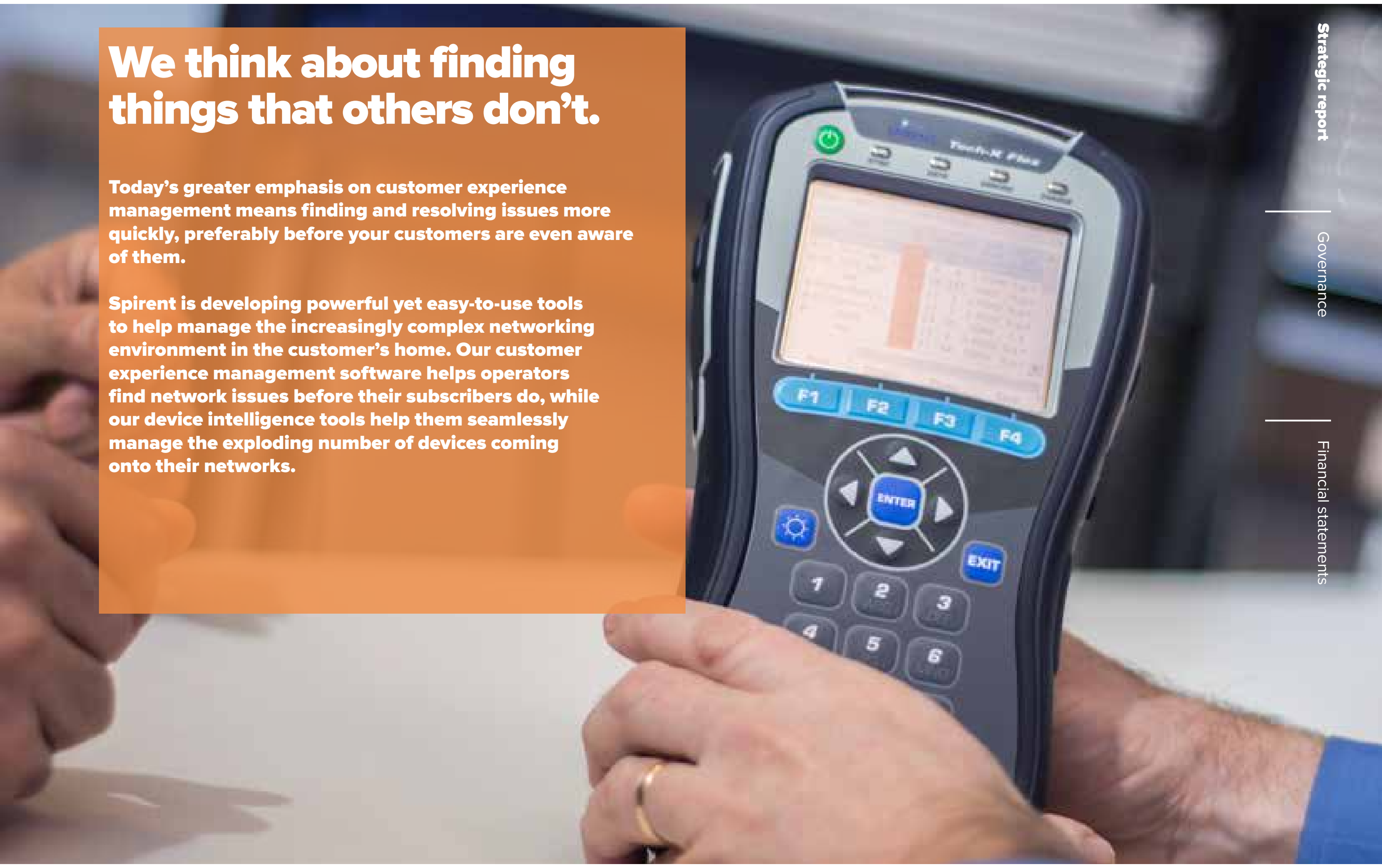
Overall revenue was up strongly by $24.7 million to $57.1 million in 2014, compared with $32.4 million in 2013. $12.6 million of this growth was organic, while the CEM business, acquired from DAX Technologies in February, contributed $10.1 million, growing its business at a major US service provider. The Device Intelligence business, acquired as Mobilethink in September, contributed $2.0 million in revenue in 2014. For our core Service Assurance business, field test revenue was particularly strong as we delivered a large 2013 order to a major North American service provider for a new version of our Tech-X Flex product. A second, larger order was placed in December by the same customer for delivery in the second half of 2015. The book to bill was 104 due to the large field test order and CEM projects awaiting completion.

Profitability

Adjusted operating profit was $20.7 million compared with $9.0 million in 2013 as a result of the significantly increased revenue. Gross margin was 76.2 per cent compared with 77.8 per cent in 2013. The resulting return of sales increased to 36.3 per cent compared with 27.8 per cent in 2013.

Product development

We shipped a new version of our Tech-X Flex field test product that supports the latest generation of Wi-Fi technology (802.11ac) and in-home networking standard (MoCA 2.0), and incorporates new network data performance test methodologies. Current development work on field test solutions is focused on incorporating additional test methodologies and further improving ease of use, enabling use by technicians of all skill levels. In response to the increasingly important role played by SDN and NFV in cable and telecom operator networks, Spirent also announced Spirent TestCenter Live Virtual Probe which is, as the name suggests, a virtualized distributed Ethernet probe.



We think about finding things that others don’t.

Today’s greater emphasis on customer experience management means finding and resolving issues more quickly, preferably before your customers are even aware of them.

Spirent is developing powerful yet easy-to-use tools to help manage the increasingly complex networking environment in the customer’s home. Our customer experience management software helps operators find network issues before their subscribers do, while our device intelligence tools help them seamlessly manage the exploding number of devices coming onto their networks.

In conjunction with the Spirent TestCenter Live Ethernet services platform, it allows operators to extend performance management to all points of their network, as well as to respond to the rapidly changing demands of new virtual environments and today’s fast paced network operations conditions. Our CEM business released new capability for LTE.

Strategy

The complexity of today’s networks and services and fierce competitive environment result in the need for service providers to assure the user experience of services end-to-end. Spirent aims to enable its customers to radically reduce time to resolve user experience degradation through end-to-end visibility and real-time automation and response. It will accomplish this by combining the Ethernet and in-home service assurance assets from Spirent’s core Service Assurance business with the analytics and CEM systems from the DAX Technologies acquisition and the device intelligence capabilities from the Mobilethink acquisition. As a result, Spirent will be able to assure networks and services at all layers of the protocol stack and to employ its analytics and CEM expertise to find and resolve user experience issues more quickly and efficiently. Spirent’s device intelligence and new predictive capabilities within its CEM systems will enable service providers to identify issues before subscribers are even aware of them, helping to maximise service revenues and minimise subscriber churn. Spirent enables its customers to get the turn-up of new services right first time, ensuring that they work at the bearer and transport layers and also at the increasingly complex end point of the network, the subscriber’s home, through Spirent’s unique field test offerings. We will also expand the scalability and cost-effectiveness of the solutions offered by our CEM business, expanding its analytics capabilities to applications across the Spirent portfolio. This will enable customers to correlate user experience metrics with IP-layer performance metrics to accelerate the resolution of issues and improve the user experience.

Rachel Whiting
Chief Financial Officer

Our strong balance sheet has enabled us to invest for the future both organically and through acquisition.

Revenue

Group revenue increased by 11 per cent compared with the prior year to $457.2 million (2013 $413.5 million). The Group's 2014 acquisitions contributed revenue of $18.6 million during the year and excluding this effect the organic increase in revenue was 6 per cent. Trading improved towards the end of the year in all divisions, after a slow third quarter, as our customers released capital budgets and some of the new product launches gained traction. The structural changes in Spirent's markets and the consequential caution some of our customers are understandably exhibiting in their investment plans have delayed revenue growth in 2014. However, Spirent's 2014 investments were focused on building on the many opportunities that exist in our markets. Spirent had some major successes in 2014 and market conditions and performance in each of Spirent's divisions are discussed in the Operational review.

Excluding the effect of acquisitions order intake grew by 3 per cent compared with 2013 and the book to bill ratio was above 100, at 103 (2013 105). Both orders and revenue grew organically in all divisions. In Service Assurance revenue of $12.0 million was recognised in the first half from a large field test order received in 2013, and a follow on order of $16.2 million was booked in the fourth quarter of 2014 for delivery in the second half of 2015.

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

	2014	2013	Change (%)
Book to bill ratio[1]	**103**	105	
Revenue ($ million)	**457.2**	413.5	11
Gross profit margin (%)	**69.2**	69.4	
Adjusted operating profit[2] ($ million)	**46.0**	50.1	(8)
Return on sales[2] (%)	**10.1**	12.1	
Adjusted basic earnings per share[3] (cents)	**5.82**	5.71	2
Free cash flow[4] ($ million)	**10.7**	43.9	(76)

Notes
1 Ratio of orders booked to revenue billed.
2 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment and share-based payment.
3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 12 of Notes to the consolidated financial statements.
4 Operating cash flow after tax, net interest and net capital expenditure.

Geographically, the United States is our largest market accounting for 51 per cent of Group revenue. Revenue increased by 8 per cent period-on-period in this region. Asia Pacific amounts to 31 per cent of Group revenue and increased by 8 per cent over 2013 primarily due to strong activity in China driven by the China carrier ecosystem. Europe represents 14 per cent of Group revenue and was 29 per cent up as we saw recovery after a difficult 2013. The rest of the world represents the remaining 4 per cent.

$ million	2014	%	2013	%
United States	**233.2**	**51**	215.8	52
Asia Pacific, Rest of World	**158.7**	**35**	146.9	36
Europe	**65.3**	**14**	50.8	12
	457.2	**100**	413.5	100

Operating profit

Reported operating profit was $23.7 million compared with $39.1 million in 2013. Operating profit before exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment and share-based payment ("adjusted operating profit"), which is the measure of profit the Group uses to evaluate performance, decreased by 8 per cent to $46.0 million compared with $50.1 million in 2013 primarily as a result of the planned increase in product development, sales and marketing and support services of $24.4 million to drive future growth.

A reconciliation is set out below:

$ million	2014	2013
Adjusted operating profit	**46.0**	50.1
Exceptional items:		
Reorganisation expenses in response to market changes	**(4.1)**	–
Review of Group's organisational structure	**–**	(3.4)
Abortive acquisition costs	**–**	(0.4)
Acquisition related costs	**(3.8)**	–
Acquired intangible asset amortisation and impairment	**(13.7)**	(8.4)
Share-based payment	**(0.7)**	1.2
Reported operating profit	**23.7**	39.1

Return on sales, based on adjusted operating profit was 10.1 per cent (2013 12.1 per cent).

Cost of sales and operating expenses

Gross margin reduced slightly to 69.2 per cent (2013 69.4 per cent) due to product mix and the increased investment in support services.

In the 2013 Annual Report Spirent announced that it would make an additional investment of around $33 million in product development, sales and marketing and support services for future growth. The actual amount invested was an additional $24.4 million excluding acquisitions, or 5 per cent of revenue: $3.2 million for support services (included in cost of sales); $8.3 million for product development; and $12.9 million for sales and marketing. Our investment was mainly in our core markets focusing on virtual test solutions and cyber security and to also to fund new initiatives such as automotive.

Administration expenses were $41.4 million in 2014 compared with $39.6 million in 2013 before charging the following items (which are added back for the purposes of the calculation of adjusted operating profit):

- exceptional items of $4.1 million (2013 $3.8 million);
- acquired intangible asset amortisation and impairment of $13.7 million (2013 $8.4 million) which reflects a pro-rata amortisation charge for the 2014 acquisitions;
- acquisition related costs of $3.8 million (2013 nil); and
- a share-based payment charge of $0.7 million (2013 credit of $1.2 million).

Total reported administration expenses were $63.7 million compared with $50.6 million, after charging the items above.

The 2014 acquisitions have added a total of $12.9 million to reported operating expenses in the year.

It is planned to maintain the underlying rate of investment in product development in 2015 and to increase the investment in sales and marketing by approximately $7 million. This will support new product releases, build on the global opportunities provided by the 2014 acquisitions and enable us to implement a new customer relationship management software platform to enhance operational effectiveness.

Exceptional items and intangible asset impairment

In 2014, following dynamic changes in Spirent's markets and the need to ensure that the Group is investing in the right areas to maximise its potential, Spirent undertook a series of steps to reallocate resources in its worldwide operations at a cost of $4.1 million. The annualised cost savings from these actions is $12 million of which we have reinvested $5 million, giving a net saving of $7 million.

In 2013 the Group undertook a review of its organisational structure on the appointment of a new Chief Executive Officer at an exceptional cost of $3.4 million and also incurred abortive acquisition costs of $0.4 million.

In 2014 an intangible asset impairment charge of $1.0 million has been incurred in respect of the development asset arising on the acquisition of NetGend. The asset had been acquired at a pre-production stage and, although the intention is to use this technology to enhance Spirent's solutions, the extent and the means by which this will be achieved had not been determined at 31 December 2014 resulting in an impairment charge.

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 $6.3 million (2013 $5.9 million) before exceptional items of $0.7 million (2013 $2.2 million) for the year.

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 2014 was $0.4 million compared with $0.9 million in 2013. Surplus funds are held principally in the United Kingdom and in the United States and earn market rates of interest which remain negligible.

Finance costs were nil in 2014. They were $0.9 million in 2013, which was the defined benefit pension plan interest cost.

Tax

For the Group taxable profits principally arise in the United States. The tax charge for the Group in 2014 was $3.5 million (2013 $6.4 million), representing a current year effective tax rate of 22.0 per cent (2013 25.8 per cent) of pre-tax profit, excluding a prior year tax credit of $1.8 million (2013 $3.7 million). The effective tax rate is lower in 2014 as a result of the geographic mix of taxable profit as well as the effect of Research and Experimental tax credits in the United States. At 31 December 2014 deferred tax assets amounting to $20.5 million (31 December 2013 $18.3 million) have been recognised on the balance sheet. At 31 December 2014 there are deferred tax assets amounting to a tax value of $17.1 million (31 December 2013 $17.7 million) which remain unrecognised.

For 2015 it is expected that the effective tax rate will be in the region of 25 per cent.

Earnings per share

Adjusted basic earnings per share was 5.82 cents compared with 5.71 cents for 2013. There were 611.2 million (2013 640.6 million) weighted average Ordinary Shares in issue. Basic earnings per share was 3.35 cents for 2014 compared with 5.10 cents for 2013.

A reconciliation is provided below:

$ million	**2014**	2013
Profit for the year attributable to owners of the parent Company	**20.5**	32.7
Exceptional items	**4.1**	3.8
Acquisition related costs	**3.8**	–
Acquired intangible asset amortisation and impairment	**13.7**	8.4
Share-based payment	**0.7**	(1.2)
Tax effect on the above items	**(5.4)**	(3.4)
Prior year tax credit	**(1.8)**	(3.7)
Adjusted profit for the year attributable to owners of the parent Company	**35.6**	36.6
Adjusted basic earnings share (cents)	**5.82**	5.71

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.

Acquisitions

The following acquisitions were completed in 2014:

- The business of DAX Technologies Corp. ("DAX") for a cash consideration of $36.9 million which completed on 19 February 2014. DAX is a leading provider of customer experience management solutions and is reported within the Service Assurance division.
- A majority stake of 58 per cent in Testing Technologies IST GmbH ("Testing Tech") for a cash consideration of Euro 1.8 million ($2.4 million) on 20 February 2014. 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 is exercisable between 1 January and 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, the option has been assigned a fair value of Euro 2.2 million ($2.7 million). This acquisition is reported within the Wireless & Service Experience division.

- On 31 July 2014 Spirent completed the acquisition of the assets of Radvision's Technology Business Unit ("TBU"), the part of the Radvision business responsible for delivering industry-leading developer solutions, for a cash consideration of $25.9 million. The business unit is based in Tel Aviv, Israel, and offers a complete development and test suite for voice and video over IP communications, including VoLTE. This acquisition is reported within the Wireless & Service Experience division.
- On 12 September 2014 Spirent acquired Mobilethink A/S ("Mobilethink") and its wholly owned subsidiary, Tweakker ApS ("Tweakker") for a cash consideration of $20.1 million. Headquartered in Aarhus, Denmark, Mobilethink is a provider of mobile device management, device analytics and intelligence solutions for mobile operators. This acquisition is reported within the Service Assurance division.

In addition, Spirent acquired the net assets of NetGend LLC in September, a Texas based entity, for a cost of $1.0 million.

Acquisition expenses of $3.8 million, which have been expensed, were incurred in relation to these transactions.

Financing and cash flow

The Group remains cash generative, and this gives Spirent the financial flexibility to invest in organic growth, pursue strategic acquisitions and pay sustainable dividends to shareholders.

Cash and cash equivalents were $99.8 million at 31 December 2014 compared with $216.2 million at 31 December 2013 with no debt. Cash and cash equivalents are held as cash on demand or in short term bank deposits and 57 per cent of the balance was denominated in US dollars.

Cash generated from operating activities was lower in 2014 at $48.9 million (2013 $73.5 million) as the activity was skewed to the end of the fourth quarter resulting in an increase in working capital of $6.7 million for the year (2013 reduction of $12.1 million). This working capital increase is expected to unwind during the first quarter of 2015. Free cash flow conversion represents 0.5 times (2013 1.3 times) reported earnings.

Free cash flow is set out below:

$ million	**2014**	2013
Cash flow from operations	**48.9**	73.5
Tax paid	**(7.2)**	(6.1)
Cash inflow from operating activities	**41.7**	67.4
Interest received	**0.6**	0.8
Net capital expenditure	**(31.6)**	(24.3)
Free cash flow	**10.7**	43.9

Net capital expenditure was higher by $7.3 million than in 2013. This increase was due to the move to new improved leasehold facilities in the United States on the expiry of the previous lease terms at a cost of $9.5 million. For 2015 capital expenditure is expected to be in the region of $20 million.

The cash generated has been utilised to pay dividends to shareholders and for the return of capital through the share buyback programme. In 2014 a final dividend for 2013 and an interim dividend for 2014 totalling $22.2 million (2013 $22.2 million) were paid. Share repurchases during the early part of 2014 have resulted in a cash outflow of $16.4 million (2013 $54.7 million). Cash consideration for acquisitions amounted to $85.9 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 fewer than ten active members.

The accounting valuation of these plans at the end of 2014 was a net deficit of $13.7 million compared with a net deficit of $2.5 million at 31 December 2013 and was based on the latest triennial actuarial valuation at 1 April 2012. The increase in the deficit is mainly a result of changes in the underlying assumptions, principally the discount rate, net of a rise in the value of the assets.

The Group has also reported a liability of $0.8 million (31 December 2013 $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.

In 2014 the Company repurchased 9.7 million Ordinary Shares at a cost of $15.6 million (2013 29.2 million at a cost of $55.5 million). All shares repurchased were cancelled. No further buybacks are currently planned.

Dividend

The Board is recommending the payment of a final dividend for 2014 of 2.21 cents (1.43 pence) per Ordinary Share which, with the interim dividend of 1.68 cents (0.99 pence) per Ordinary Share paid in September 2014, brings the full year dividend to 3.89 cents (2.42 pence) per Ordinary Share. The dividend is covered 1.5 times by adjusted earnings. This is an increase of 10 per cent over the full year dividend for 2013 of 3.54 cents per Ordinary Share.

Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 8 May 2015 to Ordinary shareholders on the register at 6 March 2015. Payment to ADR holders will be made on 18 May 2015.

It is our highly skilled, motivated and empowered employees that drive the success of the business.

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.

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

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.

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.

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; embedding a culture of health and safety; minimising our impact on the environment; supporting, developing and rewarding our employees; and supporting and engaging with the communities in which we operate.

Ethics and human rights

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 and expect high standards of respect and integrity in all our business dealings.

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 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 monitored as part of the Group's internal control process.

Health and safety

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 our 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.

The Chief Financial Officer is the director nominated 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 2014. 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 acquisitions made during 2014 had a similar risk profile to the existing Group.

The Group continued to have very low accident rates in 2014 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 periodically at selected business units. Regular designated health and safety awareness training programmes are also carried out.

Environmental

Sustainability remains an important issue for the Group. The strategy was reviewed and updated in 2014 to ensure Spirent continues to manage all material sustainability issues and to direct the programme of action for the coming years. Whilst compliance with environmental legislation and our sustainability policy remain a key priority, our focus on opportunities and innovation has yielded good results, particularly at the Low Carbon Centre of Excellence at Paignton, and in innovation in product design and functionality in the Elevate Test Framework.

Growth in revenue and property estate in 2014 has seen a 5 per cent increase in our absolute carbon emissions from 2013 to 6,831 tonnes CO_2e; however, the carbon intensity of our operations has continued to fall per m^2 and \$m revenue basis, down 9 per cent and 21 per cent respectively.

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, to eco-efficiency, and to adopt responsible environmental practices.

The Group is also committed to compliance with all applicable environmental regulation in each 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. External consultants are periodically used to assist in this area.

The full policy can be found at http://corporate.spirent.com/Corporate-Responsibility/Our_Policies

Sustainability strategy

In 2014, the key update to the Group's sustainability strategy is to expand from a programme of eco-efficiency and legal compliance, and to also understand and help address customers' sustainability challenges.

Our work with external consultants led us to revise our sustainability strategy, which now has four key strands:

- Minimise our environmental impacts from our properties;
- Provide our people with the skills and resources to address sustainability issues effectively;
- Incorporate sustainability thinking into products, through;
  - innovation in product design and manufacture; and
  - new products and services to address customers' sustainability challenges; and
- Minimise sustainability impacts from the supply chain.

2014 performance and trends

During 2014 we have made progress across all areas of our sustainability strategy, in particular in the property and product design areas.

We have continued to drive sustainability into our property estate, installing further retrofit technologies at the Low Carbon Centre of Excellence in Paignton and incorporating best practice in the design and fit-out of our new site in Liberty Canyon, California. We have also undertaken site energy audits at our Beijing sites.

Property

Paignton – Low Carbon Centre of Excellence

Since designating our Paignton site as the Group's Low Carbon Centre of Excellence in 2012, we have made significant reductions in the site's energy and carbon footprint through technology and behavioural change.

The majority of the site's energy needs are met from grid electricity, and as such the focus has been on energy reduction programmes. From the 2011 baseline, purchased electricity has reduced by 27 per cent at Paignton. This has been achieved through a programme of staff awareness and technology investment.

In May 2014, voltage optimisation equipment was installed and ceiling insulation laid in the office areas. Although the labs, the key energy-using areas at Paignton, have been extended, there was an 11 per cent year-on-year reduction in total energy use, including a 44 per cent reduction in gas use from 2013.

The site Green Team has continued to run energy reduction and environmental awareness programmes as an integral part of the sites ISO 14001:2004 certified management system.

Although energy usage on-site decreased between 2013 and 2014, the site's associated carbon emissions increased by around 8 per cent, from 171 tonnes CO_2e to 184 tonnes CO_2e. This was due to an increase in the carbon intensity of the UK national grid and a small increase in purchased electricity use this year. The long term trend remains downward, with total CO_2e emissions down 18 per cent from the 2011 baseline.

27% reduction in purchased electricity, 2011 – 2014

13% of Paignton's electricity generated from on-site solar PV in 2014

Work to incorporate sustainability thinking into our products has led to a revolutionised design for our new Elevate product, designed to help our customers measure and minimise energy use in mobile devices.

Products

Elevate Test Framework – sustainability improvements through innovative product design

The Elevate Test Framework represents a radical innovation in how Spirent products are designed. Elevate breaks the "box" model by separating hardware from software, organising elements into a network of test resources that not only delivers faster and more efficient testing, but also significantly reduces energy use, heat, noise and product footprint.

Unit	B200	Q100	% reduction from B200
Noise (dBA)	60	40	33
Power (watts)	650	200	69
Heat (watts)	650	200	69
Weight (kgs)	142	14	90
Size – volume (cm^3)	1,077,736	20,353	98

Through network functions virtualization, it has been possible to develop a small, lightweight device with a market-leading footprint. The new Spirent WTS122 network emulator operates in standalone mode for R&D testing and is used as the main component of the new Spirent 8100 Q100 system for carrier acceptance testing. The Q100 has reduced energy use and heat output by 69 per cent compared with the previous B200 model, at 10 per cent of the weight and 2 per cent of the total size.

Further environmental performance improvements have been achieved in the Elevate solution for IMS/RCS/VoLTE as hardware can be scaled independently from software, allowing the Q100 series to support multiple handsets requiring fewer, smaller test devices. The 200W Q100 system reduces the power per handset tested by 13 times compared with the four B200 units required to test 4 handsets.

Q100: 69% reduction in power from B200

Q100: 90% reduction in weight from B200

Q100: only 2% of the size (volume) of the B200

Compliance statements

The Group's business units comply with the Waste Electrical and Electronic Equipment Regulations 2013, 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. Measures are in place to ensure Spirent Communications' hardware products will be in compliance with the RoHS Directive at such time as 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.

The Group will be required to comply with the Energy Savings Opportunity Scheme ("ESOS") Regulations 2014 and has put measures in place to meet its obligations in 2015.

Procurement

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 was responsible for 66.4 per cent of our production in 2014 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.

	2013	2012
Change in greenhouse gas emissions in CO_2e (%)	-4.3%	+11%

Greenhouse gas emissions

Carbon emissions are a material sustainability issue for the Group and we remain committed to reporting emissions and taking action to combat climate change. The Group once again responded to the Carbon Disclosure Project in 2014, completing both the Climate Change and Supply Chain questionnaires for the calendar year 2013.

The greenhouse gas ("GHG") emissions for 2013 and 2014 are set out in the table below.

Global GHG emissions data for the year ended 31 December 2014

	2014 Tonnes of CO_2e	2013 Tonnes of CO_2e
Emissions from:		
Combustion of fuel and operation of facilities	**228**	238
Electricity, heat, steam and cooling purchased for own use	**6,603**	6,127
Total emissions	**6,831**	6,365
Company's chosen intensity measurement: Emissions reported above normalised to per m^2 of gross internal area of our facilities	**0.14**	0.15
Emissions reported above normalised to per £ million of revenues	**12.48**	15.76

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated financial 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 the UK Government's GHG Conversion Factors for Company Reporting 2015.

2015 programme

The work programme for 2015 will focus on the four strands of the Group's sustainability strategy:

Property

A pilot programme to test automatic energy metering technology will be undertaken at Paignton in early 2015, which will be rolled out across major sites during the year. Continued efforts to incorporate energy efficiency technology and practices will be made across the Group's estate, with particular consideration to new sites.

Products

Analysis of product sustainability will be undertaken and a programme to assess and improve performance will be examined. Opportunities to make sustainability improvements to existing and future products will also be explored.

Procurement

A programme to determine the key impact areas in the Group's supply chain will be undertaken and initiatives to reduce pollution, energy and material use will be introduced.

People

A programme to further engage staff across the Group on sustainability issues will be undertaken, and opportunities to expand the participation in sustainability initiatives will be reviewed.

Targets and objectives

A target reduction of 5 per cent has been set for Group energy use, carbon emissions and an intensity metric of carbon emitted per million dollar of revenue. All three will be assessed against the baseline year of 2014.

Our employees

As a business which relies on our employees to drive the understanding development, and sales of complex technologies, Spirent understands that its future growth is directly tied to the motivation and drive of our people. Accordingly we strive to recruit, train, develop and retain the best talent in our industry. It is imperative to our future success that Spirent is a company that people want to work for as well as do business with, and our employees lie at the heart of making that happen.

Our 1,700+ talented employees, working in 33 locations in 17 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 drive a competitive spirit in our business.

To attract, keep and grow our people, we regularly review our benefits, retention, development programmes and career growth opportunities. Our efforts continue to bear positive fruit, with global voluntary turnover at 8 per cent compared to an industry average of 12.4 per cent (Radford Trends Report – Technology edition, Q4 2014).

Rewarding our people
Our compensation and benefit schemes are aligned with performance and are regularly benchmarked to ensure that Spirent rewards employees competitively in each 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.

In addition, we provide project-based incentives to recognise and reward employees for extraordinary work on critical projects.

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 2014 we continued to develop our 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 2014, 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 2014 Spirent offered 36 internships in the United States, seven in Europe and 42 in Asia.

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

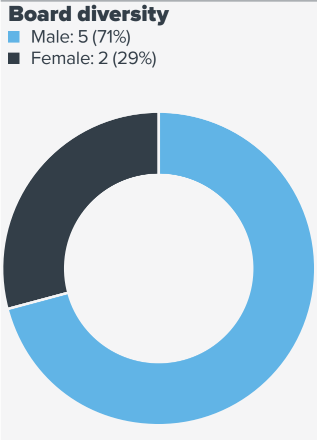
In 2014 employees in all regions participated in courses designed to enhance our ability to service the customer and to create innovative, leading products. Leadership bench strength was developed through various programmes including 360 degree feedback, succession management, organisational and individual 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
Spirent regularly canvasses its employees' views on a range of matters related to their employment in both formal and informal ways. In 2014, Spirent conducted one of its regular all-employee surveys to gauge the level of employee satisfaction in the business. The participation rate was good at 77 per cent. We aim to identify the key drivers of increased employee engagement, and based on the survey results, drivers of employment engagement continued to be learning and development, leadership and direction, culture and collaboration. The feedback from the survey is distilled to actionable tasks, which we expect will enhance our employees' experience. In addition to the more formal survey, informal meetings are regularly held between many of Spirent's senior management team and small groups of employees, with the aim of sharing perspectives among a broad cross-section of our team members.

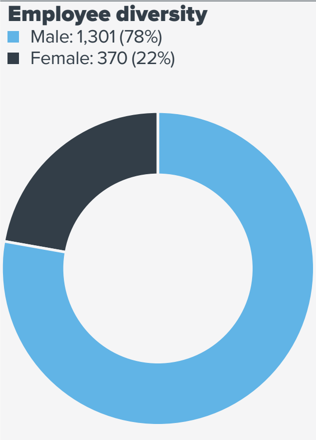
Diversity
Diversity means understanding and reflecting the community in which we operate, building loyalty with our colleagues and customers. Age, gender, ethnicity, physical appearance, religion, education and beliefs are all valued and everyone has the opportunity to contribute to our success as a business and fulfil their potential. Our aim is to ensure that all our employees are respected as individuals. We have a diverse employee population and believe that this variety of backgrounds, experience, beliefs, personalities, knowledge skills and ideas helps to deliver the innovation and creativity necessary for us to succeed.

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.

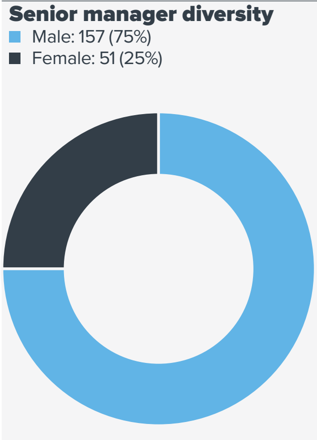
Board diversity



Employee diversity



Senior manager diversity



Our key values

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

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

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

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

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, we are committed to ensuring that disabled employees are fairly treated in respect of training and career development and promotion. 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.

Community

Spirent encourages employees to participate in charitable programmes within their communities, supporting their efforts financially in some cases, but also in North America and Europe through a Voluntary Time Off policy, which allows employees to donate up to two working days each year to a charitable organisation close to their hearts.

Making a commitment to our local communities takes many forms at Spirent, from donating books to the Johns Hopkins Children's Center to joining with the United Way of Monmouth County in their continuing work to help rebuild families' homes around New Jersey in the wake of Superstorm Sandy.

Our commitment to being good stewards of our environment also extends to our community support networks: employees at our Calabasas, California site and their families participated in the International Coastal Cleanup again in September 2014, forming part of a global effort which collected a total of 564.7 tonnes of waste from coastlines and inland waterways in California alone.

In total, Spirent made charitable cash donations of $84,333 during 2014.

Pages 1 to 43 form part of the Strategic report.

By Order of the Board
Angus Iveson
Company Secretary & General Counsel
26 February 2015

A strong leadership team

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.

Until August 2006 Alex was Chief Executive of Yule Catto & Co. plc, 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 and until May 2014, he was a Non-executive Director of Zotefoams plc.

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.

Before this appointment, Eric joined the Company in 1983 and worked in various roles in the finance function prior to his appointment as Chief Financial Officer.

He is a Fellow of the Association of Chartered Certified Accountants and a member of the Financial Reporting Review Panel.

Rachel Whiting
Chief Financial Officer

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

Rachel joined the Company in 1986, working in various roles within finance, before being appointed Head of Group Tax in 2003, and adding the role of Company Secretary in 2009.

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.

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 and has acted as Senior Independent Director since 2006.

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

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.

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.

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

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.

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 and the CFA Institute.

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

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.

Sue is a Non-executive Director of Wells Fargo and sits on their Audit & Examination Committee and Governance & Nominating Committee. She also serves as Non-executive Director on the boards of Harmonic, Inc., serving as Chair of the Nominating & Governance Committee and sitting on their Audit & 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.

Chairman's introduction to governance

Alex Walker
Chairman

Dear Shareholder,
As I mentioned in my Chairman's introduction, this has been a year of significant activity under the leadership of Eric Hutchinson, our Chief Executive Officer. The Board has been working to support the business by ensuring that the appropriate investment and structures are in place to position the business to achieve its strategic plan.

The Board seeks to build and maintain good governance structures and thereby appropriately manage risk in the business. Our goal is to achieve the returns our shareholders expect. As such, the Board continues to be committed to high standards of corporate governance and fully supports the principles laid down in the UK Corporate Governance Code. The corporate governance reports which follow set out the activities of the Board and its Committees and explain how we operate.

I look forward to meeting any shareholders who can join us at our Annual General Meeting ("AGM") in May and extend my thanks to you all for your continued support as we look forward to the year ahead.

Alex Walker
Chairman
26 February 2015

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 the updated UK Corporate Governance Code issued in September 2014 (the "New Code"), which applies to financial periods beginning on or after 1 October 2014, both of which are 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 reported in last year's Annual Report. This has now been replaced with a standard 12 month rolling contract as described more fully in the Report on directors' remuneration on page 68. The Board also considers that it complies with certain aspects of the New Code to the date of this Report and is working towards full compliance by the next reporting cycle.

Governance framework

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 51

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 auditor

Committee report – pages 52 to 54

Remuneration Committee

Four independent non-executive directors

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

Committee report – pages 55 to 71

Board activities during 2014

At each Board meeting, the Chief Executive Officer presents an 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.

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.

During the period under review, the Board focussed on the following matters:

Strategy	Financial management	Governance
– Reviewed analysis of test & measurement market – Received and discussed updates on corporate strategy and acqusiitions – Reviewed proposed acquisitions and monitored integration programmes – Reviewed business unit reorganisations – Discussed capital policy, in particular the Company's share buyback programme – Discussed a proposal for business process and systems upgrade	– Reviewed and approved full year and half-year results announcements and presentations and interim management statements – Reviewed and approved Annual Report 2013 – Reviewed and approved budget for 2015 – Reviewed and approved continuing dividend policy – Reviewed policy on management of Company investments – Reviewed intra-Group pricing policy	– Reviewed the schedule of matters reserved to the Board and Committee terms of reference – Reviewed independent status of NEDs – Considered Audit Committee review of internal controls and risk management – Reviewed policy for identification of PDMRs – Reviewed external governance reports on Annual Report 2013 in preparation for the 2014 AGM – Reviewed and discussed results of the Board evaluation – Reviewed Group insurance coverage

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 annually.

As Chairman, Alex Walker presides over the Board and is responsible for its leadership and overall effectiveness. In doing so he encourages and helps to maintain an effective working relationship between the executive and non-executive directors.

As Chief Executive Officer, Eric Hutchinson has responsibility for the day-to-day management of the Company's business and the implementation and delivery of the Board strategy.

This separation of roles enhances the independent oversight of executive management by the Board and more closely aligns the Board with shareholders. It also means that no one individual within the Company has unfettered powers of decision.

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.

The Chairman holds regular discussions with the non-executive directors without the executive directors present to ensure a free and frank exchange of views on the effectiveness of the executive directors and senior management.

Spirent's Group policy is to hire the best candidates for all positions at all levels throughout the business, irrespective of gender, including candidates at Board level. With two female directors, namely Rachel Whiting and Sue Swenson, 29 per cent of the current Board is female. Further information and statistics on gender diversity can be found within our CSR statement on page 42. The Board has not set any specific aspirations or quotas in respect of gender diversity. However, the Board recognises the benefits of diversity, of which gender is one aspect, and it will continue to ensure that this is taken into account when considering any particular appointment, whilst ensuring appointments are made on merit and ability to enhance the performance of the business.

Independence

The independence of each director is reviewed on appointment and at least annually. The Board determined that the non-executive directors are each independent in character and judgement, save for the Chairman who was deemed independent by the Board at the date of his appointment. 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 68), 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 the Code requirement, stating that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors, is satisfied.

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.

Our current SID, Ian Brindle, will reach the nine-year anniversary of his appointment to the Board in December 2015 which will, in terms of the UK Corporate Governance Code, mean that he will cease to be considered independent. As explained on page 51, the Nomination Committee is in the process of recruiting a new non-executive director and Mr Brindle has agreed to continue in role until that process is completed. As such, he will seek re-election at the 2015 AGM.

When Mr Brindle steps down from the Board, Sue Swenson has been asked by the Board to become the SID subject to her re-election at the 2015 AGM.

Biographical details for each of the directors are set out on pages 44 and 45 and can also be found on the Company's website at http://corporate.spirent.com/About-Us/Our_Board_of_Directors

Attendance

The attendance of individual directors at Board and Committee meetings held during 2014 was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Alex Walker	8/8	–	–	3/3
Eric Hutchinson	8/8	–	–	–
Rachel Whiting[1]	7/7	–	–	–
Ian Brindle	8/8	3/3	9/9	3/3
Duncan Lewis[2]	7/8	3/3	9/9	3/3
Tom Maxwell[2]	7/8	3/3	9/9	3/3
Sue Swenson[3]	8/8	3/3	9/9	2/2

Notes
1 Rachel Whiting was appointed to the Board on 1 February 2014.
2 Duncan Lewis and Tom Maxwell were unable to attend an ad hoc meeting of the Board as they conflicted with meetings already in their diary for other listed companies. Both directors received all papers relating to the meeting and had the opportunity to discuss issues arising directly with the Chairman. Both directors appointed Alex Walker as their proxy for the duration of the meeting.
3 Sue Swenson did not attend that part of the Nomination Committee meeting which considered her election by the other non-executive directors to the role of SID.

Board procedures

During 2014, eight 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. All of the directors are free to seek clarification or elaboration of the information provided from the management team if they feel it to be necessary. Minutes of meetings are circulated to all Board members and, subject to their agreement, approved at the following Board meeting.

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). Following the internal review undertaken in 2013, the Board focused on the following during 2014:

- continuing to review and advance strategic planning;
- providing 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;
- building greater visibility and connection with the business units to develop a mutual understanding of roles and challenges; and
- strengthening 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.

During 2014, the Board assessed its own effectiveness through an internal Board evaluation. The 2014 evaluation was facilitated by the Chairman, assisted by the Company Secretary. All directors completed a questionnaire, followed by meetings with the Chairman to discuss views in more detail and consider training and development needs. Committee effectiveness was also assessed separately. Results were presented to the Board and the following areas for improved effectiveness were identified:

- further develop understanding of strategic positioning and competitive issues facing the Group in view of ongoing changes in our industry;
- obtain further insight into performance metrics on acquisitions and organic investments;
- continue to focus on strengthening the Board with non-executive directors with specific industry sector and relevant geographic business knowledge; and
- gain greater visibility on depth of management bench strength below Board level given changes to the management team in 2014.

The SID met with the other independent non-executive directors on 11 November 2014, 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 2014.

In line with Code Provision B.6.2, it is anticipated that the 2015 review will be conducted by an external provider.

Directors' conflicts

Procedures are in place for the disclosure by directors of any interest that conflicts, or may possibly conflict, with the Company's interests and for the appropriate authorisation to be sought if a conflict arises in accordance with the Company's Articles of Association. In deciding whether to authorise a conflict or potential conflict of interest only non-interested directors (ie those that have no interest in the matter under consideration) will be able to take the relevant decisions. In taking such a decision the directors must act in a way they consider most likely to promote the success of the Company and may impose such limits or conditions as they see fit. The Board has reviewed the procedures in place and considers that they continue to operate effectively. There were no actual or potential conflicts of interest which were required to be authorised by the Board during 2014 or to the date of this Report.

Service contracts and letters of appointment

The terms of executive directors' service contracts are disclosed in the Report on directors' remuneration on pages 55 to 71. Directors' interests in the shares of the Company are disclosed on page 59.

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 2015 AGM.

Re-election of directors

Non-executive directors are appointed on three-year terms in accordance with the Company's Articles of Association.

In accordance with Code Provision B.7.1, all directors are also subject to election or annual re-election by shareholders at the 2015 AGM. The Board recommends to shareholders the re-appointment of all directors who are retiring at the 2015 AGM and who are offering themselves for re-election. The Board believes that they are all effective directors of the Company and demonstrate the appropriate level of commitment in their respective roles.

Company Secretary

In October 2014, Angus Iveson joined Spirent as Company Secretary & General Counsel, releasing Rachel Whiting to focus entirely on her role as Chief Financial Officer. The Company Secretary 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.

Induction and development

On appointment, directors undertake a structured induction programme, in the course of which they receive information about the operations and activities of the Group, the role of the Board and the matters reserved to its decision, the Group's corporate governance practices and procedures and their duties, responsibilities and obligations as directors of a listed public limited company. This is supplemented by visits to key locations and meetings with, and presentations by, senior executives.

Training for directors is available as required and is provided mainly by means of external courses, internal computer-based training, briefings from specific consultants or in-house presentations. In addition, directors' knowledge of the legal and regulatory environment is updated through the provision of information by the Group's advisers and by means of regular updates from the Company Secretary & General Counsel.

New directors are encouraged to take advantage of opportunities to meet with major shareholders and attend presentations to analysts where possible.

Directors' indemnification

In accordance with its Articles of Association, 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.

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. Also, in October 2014, the Company held an Investor and Analyst Day at which senior executives presented updates on the markets in which Spirent operates.

The Strategic report on pages 1 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 at investor.relations@spirent.com for detailed enquiries and to access our website at http://corporate.spirent.com/ for our Company reports and business information.

Any concerns raised by shareholders or their representatives, whether expressed directly or through voting patterns at the Company's AGM, are discussed by the directors and an appropriate response given either specifically to the concerned party or, if it is felt to be of wider benefit, made available to all shareholders via the Company's website.

Annual General Meeting

The Company's AGM will be held at 1pm on Tuesday 5 May 2015 at the offices of UBS at 100 Liverpool Street, London EC2M 2RH.

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 will be in attendance and all directors will be available to respond to questions at the AGM.

The Board looks forward to welcoming all our shareholders to our 2015 AGM and to updating them on our business developments.

Nomination Committee

Responsibilities
The Nomination Committee's main focus is on supporting the Board and its Committees and ensuring that they have the necessary skills, knowledge, experience and diversity. The Nomination Committee aims to hire the best available candidates, irrespective of age, gender, ethnicity, physical appearance, religion, education or beliefs.

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.

Committee activity in 2014:

- the appointment of Rachel Whiting as Chief Financial Officer and to the Board; and
- planning for Board succession, with particular attention to a replacement of the Chair of the Audit Committee.

Priorities for 2015:

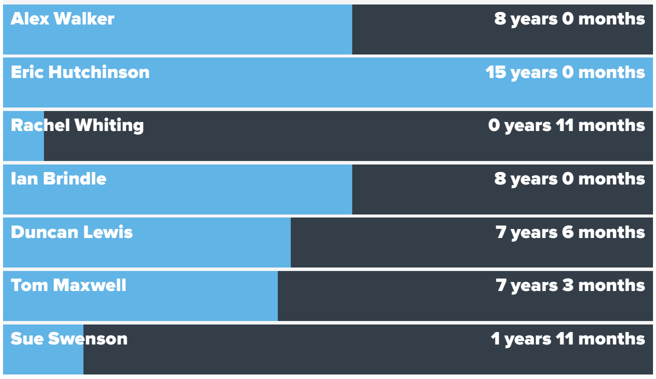
- concluding the search process for new non-executive directors; and
- continuing the management of succession planning of non-executive directors and senior management.

Succession planning and appointment of directors
Succession planning takes place at Board and senior management level to ensure that the Group is managed by executives with the necessary skills, experience and knowledge. The Board has a role to play in overseeing the development of management resources in the Group. Specifically, the Board wants to see depth and quality in management and robust processes are in place to help the Board in this task.

After a period of adjustment and internal reorganisation following the promotion of Eric Hutchinson from the role of Chief Financial Officer to Chief Executive Officer, 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 the Company.

The current Board composition in relation to non-executive directors at 31 December 2014 in terms of length of service and current term is set out below.

Directors' tenure at 31 December 2014



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 an appropriate balance of skills, knowledge and experience on the Board is maintained. When discussions relate to the appointment of the Company Chairman, the SID chairs the Committee.

During 2014, the Committee appointed JCA Group to begin a search process for new non-executive directors in order that there be an orderly succession in place to both refresh the balance of the Board's skills, experience, independence and knowledge and to find suitable candidates to step into specific roles, such as the chairing of the Audit Committee. JCA Group has no other connection with the Company.

Diversity
The Board is committed to the merits of diversity in all its forms at Board level and throughout the Group. Although neither the Nomination Committee nor the Board has set specific targets or objectives for diversity, the benefits of a diverse Board are reviewed prior to the commencement of recruitment processes at all levels. Currently women represent 29 per cent of the Board and the Nomination 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.

Audit Committee

Ian Brindle
Chairman of the Audit Committee

Dear Shareholder,
On the following pages we set out the Audit Committee's Report for 2014.

The principal aims of the Committee are to support, with diligent oversight, the maintenance and development of a strong control environment across the Group and to ensure the integrity of the financial information provided to our shareholders in the context of a business with ambitious plans and a growing global footprint. We believe that strong and effective risk management and control procedures underpin Spirent's ability to execute and implement its strategy.

Our aspiration is not just to respond to changes, but to support and challenge management to develop controls as they anticipate future opportunities and risks.

Whilst the Board is responsible for the preparation of an Annual Report that is fair, balanced and understandable, the Committee supports the Board in meeting that responsibility and ensuring the integrity of the Group's financial statements. As a result of the Committee's work during the year, it has concluded that the processes and controls in place are appropriate and provide positive assurance to the Board.

Ian Brindle
Chairman of the Audit Committee
26 February 2015

Fair, balanced, understandable
In making its recommendation to the Board that the Annual Report, taken as a whole, is fair, balanced and understandable, the Committee applied its robust governance arrangements, which include:
– comprehensive Group and subsidiary accounts processes, with written confirmations provided by business unit management teams on the health of the financial control environment;
– reviews of the Annual Report undertaken at different levels of the Group and by the senior management team that aim to ensure consistency and overall balance;
– external audit review;
– clear guidance and instruction of the disclosure requirement provided to contributors;
– inclusion of a new additional written confirmation that information provided has been done so on a fair and balanced basis and provides the information necessary to assess the Company's performance, business model and strategy;
– additional scrutiny by senior management including focused review of risk registers; and
– additional committee reviews of the draft Annual Report in advance of final sign-off in the context of the revised Code provision.
Final sign-off of the Annual Report is provided by the Board, on the recommendation of the Committee.

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 auditor.

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

Composition of the Audit 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 Audit Committee, Ian Brindle (who acts as Committee Chairman) and Tom Maxwell, provide recent, significant and relevant financial experience.

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 Audit Committee.

In addition, the Audit Committee gives each of the Company's external auditor and the Group Vice President, Finance the opportunity to meet without management present.

Committee activity in 2014
The Audit Committee's activities principally related to financial reporting, internal control and risk management and the external audit. In addition, the Audit Committee considered other specific matters such as the Group's approach to IT controls and cyber security.

Financial reporting and significant issues
During the year, the Audit Committee:

– reviewed the full year and half-year financial statements, interim management 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 83 to 88) and recommended the financial statements to the Board for approval;
– reviewed whether the Annual Report taken as a whole is fair, balanced and understandable and formed an opinion thereon prior to recommending it to the Board;
– reviewed and considered assumptions in relation to the going concern basis for preparation of financial statements;
– reviewed the external auditor's report on the interim review and year end audit and management's responses to the issues raised; and
– reviewed the treatment of purchase price allocation for acquisitions during the period.

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

Significant financial issues considered
The Audit Committee has reviewed each of the following key significant financial risks by:

– Reviewing papers and management updates;
– Holding discussions with management and key finance staff to challenge assumptions made;
– Debating alternative treatments;
– Receiving periodic reports on key areas of judgement;
– Discussing with external auditor; and
– Considering analysts' presentations to assess for inconsistencies or areas of bias.

Revenue recognition

The Committee is aware that the potential complexity of accounting, as well as the pressure on management to meet certain targets, may result in inappropriate recognition of revenue and associated balances. Additional training and a programme of awareness-raising has been rolled out across the business units, as part of their audit procedures agreed with the Committee Ernst & Young LLP ("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 by operating in a number of jurisdictions with differing tax regulations, there is a risk that the Group may incorrectly recognise tax charges in the income statement for the period and in deferred tax assets. 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.

Acquisition accounting – PPA and opening balance sheets

The Committee acknowledges that the five acquisitions completed during 2014 were of varying complexity, with the acquisition of Testing Tech in particular requiring estimates to be made as regards the put and call options over the non-controlling interest. The Committee noted that for all acquisitions management performs a purchase price allocation exercise and assesses the intangible assets to be recognised in the acquisition accounting based on judgements around future revenue and profit generated by the entity and identification of the potential intangible assets. Management also sought advice from external experts when dealing with complex judgements.

Acquisition accounting – Goodwill

The Committee considers that management's assessment of goodwill in the acquired business units is not overstated but, in the light of the limited headroom, in particular in the Device Intelligence and Service Experience units, has asked management to monitor the situation closely and report to them regularly.

The Committee noted that EY had included these areas of significant risk in the Auditor's Report on pages 75 to 77 of this Annual Report and was satisfied with the results of the procedures followed.

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

During the year, the Audit Committee:

– monitored and reviewed internal control and risk management systems;
– reviewed and approved the internal audit programme for 2014;
– reviewed the Company's Whistleblowing Policy and anti-bribery and corruption procedures; and
– reviewed regular reports on taxation, treasury operations, health and safety and cyber security.

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 financial, operational and compliance controls 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. This is in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014. 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 "Principal risks and uncertainties" section on pages 24 to 27, the Group Risk Owners and their executive management review the key risks facing the business. The Group Risk Owners, which include representation from each of the key business areas, are currently:

– Chief Executive Officer;
– Chief Financial Officer;
– Executive Vice President, Networks & Applications;
– Executive Vice President, Wireless & Service Experience;
– Group Vice President, Finance; and
– Company Secretary & General Counsel.

The Group Risk Owners 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 analysis and ranking together with Company-wide risks to form a robust corporate risk register. This corporate risk register is then presented to the Audit Committee three times each year. 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. The Ethics Policy includes sections relating to bribery and corruption to ensure that all of Spirent's systems, controls and training comply with the anti-bribery and corruption legislation in 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

During the year, the Audit Committee:

– reviewed the policy on the engagement of EY to supply non-audit services; and
– reviewed and recommended to the Board 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.

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 auditor: their performance in discharging the audit and interim review of financial statements, their independence and objectivity, and their re-appointment and remuneration.

Consideration of the effectiveness of the external auditor 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 auditor, EY, provided the Committee with their plan for undertaking the year end audit at the Committee meeting in November 2014. 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 are identified on pages 52 and 53. 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 2015. 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 auditor, 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. Although EY or its predecessor firms have been the Company's auditor for more than 25 years, the firm periodically changes its audit partners at Group, divisional and country level, in accordance with professional and regulatory standards, in order to protect independence and objectivity and provide fresh challenges to the business. Such changes are carefully planned to ensure that the Company benefits from continuity of staffing without incurring undue risk or inefficiency. Karl Havers was appointed as EY lead audit partner in 2011 and a new divisional partner has been attached to the Networks & Applications business for the 2014 audit.

The Committee noted the introduction of audit tendering provisions in the September 2014 UK Corporate Governance Code and the applicable date by which the external audit should be put out to tender. The Committee continues to consider on an annual basis if the audit should be put out to tender ahead of the date when this becomes compulsory, but confirms that there are no contractual obligations that restrict the Company's current choice of external auditor.

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 relating 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 Committee believes the issue of non-audit services is linked to external auditor independence and objectivity. That said, the Committee accepts that certain work of a non-audit nature may be best undertaken by the external auditor. 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 (2014 $0.6 million (2013 $0.6 million)). Any amounts in excess of this limit must be approved in advance by the Audit Committee.

The Committee considers that notwithstanding the non-audit services provided during the year totalling $0.2 million (2013 $0.2 million), EY's objectivity and independence as external auditor was not impaired.

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 2014.

This Report has been prepared on behalf of the Board by the Remuneration Committee and has been approved by the Board.

Last year we introduced a number of changes to our Directors' report on remuneration and we were pleased with the levels of shareholder support shown for our Remuneration Policy and report at the 2014 AGM (see page 62). We do not propose any changes to our shareholder-approved Remuneration Policy this year but we have made some refinements to our practices in line with the move towards compliance with the UK Corporate Governance Code published in 2014 and developing best practice.

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

Committee activities in 2014

– In order to retain his services beyond May 2015, Eric Hutchinson's fixed term contract has been replaced with a 12 month rolling contract in compliance with the Company's Remuneration Policy. By removing the fixed term nature of his appointment, the Company returns to full compliance with the UK Corporate Governance Code 2012;
– The Employee Incentive Plan ("EIP"), the share incentive plan used to make awards to selected employees, including executive directors, on a discretionary basis, was approved by shareholders and introduced in 2005 for a period of ten years. The Committee has reviewed best practice both in our industry and market-wide in this area and, in the light of the continuing developments arising from the 2014 UK Corporate Governance Code and guidance published by institutional investors, has decided that the interests of shareholders would be best served by seeking an extension to the operating period of the EIP for one additional year.

  While seeking this extension on broadly the same terms as the existing plan, the Committee has however introduced malus and clawback provisions. This will enable unvested or vested EIP awards to be withheld in certain circumstances where there has been found to be misconduct by an individual or there has been a requirement to restate financial results due to inaccurate or misleading reporting. In order to ensure that the Company's executive directors are subject to these provisions, as required by the UK Corporate Governance Code applicable to the 2015 period, the Committee will not make any awards to either Eric Hutchinson or Rachel Whiting until after shareholders have been given the opportunity to approve the extended EIP. Similar malus and clawback provisions will also be applied to the executive directors' annual cash incentive for 2015 and beyond. The Committee is aware of a developing view among investors that would see a holding period of two years following the vesting of awards under long term incentive plans, and will engage with key shareholders towards the end of 2015 to gather their input prior to seeking shareholder approval of a new long term incentive plan at the 2016 AGM;

– We have approved stretching annual cash incentive targets for the executive directors and quarterly cash incentive targets for senior management, then monitored and reviewed performance against those targets;
– We have reviewed the Committee's terms of reference in the light of the updated UK Corporate Governance Code issued in 2014;
– The UK Employee Share Purchase Plan ("UK ESPP"), which is an HMRC-approved share incentive plan available to all UK employees, including executive directors, was approved by shareholders in 2005 for a period of ten years. The UK ESPP has being operating successfully since November 2010 alongside similar all-employee share purchase plans around the world and provides an opportunity for employees to become shareholders, which the Committee wishes to encourage. The Committee therefore seeks shareholder approval to continue to operate the UK ESPP.

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

Tom Maxwell
Chairman of the Remuneration Committee
26 February 2015

Compliance statement

This Report on directors' remuneration for the year ended 31 December 2014 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) (Amendment) Regulations 2013 and 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 68, the Board has complied with the provisions of the UK Corporate Governance Code issued in September 2012 during the period under review.

The Report is presented in two parts: the Directors' Annual Remuneration Report and the Directors' Remuneration Policy.

The Directors' Annual Remuneration Report sets out details of how our remuneration policy was implemented for the year ended 31 December 2014 and how it will be applied for the year ended 31 December 2015. At the 2015 AGM to be held on 5 May 2015 the Directors' Annual Remuneration Report on pages 56 to 63 will be put to an advisory shareholder vote.

The Directors' Remuneration Policy was approved by a binding vote at the 2014 AGM and became effective on 24 April 2014. For ease of reference, we are including the Policy in this year's Report on directors' remuneration. Cross-references to page numbers have been updated but other than that the Policy is the same as stated in the 2013 Report on directors' remuneration; in accordance with the reporting regulations, the illustrations of the application of the remuneration policy on page 70 are the same as included in that 2013 report.

Directors' Annual Remuneration Report 2014

Statement of implementation of Remuneration Policy in 2015 (unaudited)

Information on how the Company intends to implement the Directors' Remuneration Policy in 2015 is set out below.

The Committee has continued to monitor the executive Remuneration Policy, having regard to evolving market practice whilst also seeking to ensure that there is continuity to the structure of executive pay. Accordingly, the existing Remuneration Policy and fundamental structure of the executive remuneration package remains largely unchanged and the overall quantum of the annual and long term incentive opportunity has not increased.

Salary

	2015	2014
Eric Hutchinson	£400,000	£400,000
Rachel Whiting	£250,000	£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 per cent 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 per cent of base salary.

Annual cash incentive

The Committee has set stretching targets for the year focused on order intake and trading profit growth. Although the target detail is considered commercially sensitive, the weightings for the year ended 31 December 2015 are as follows:

Trading profit	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

It is anticipated that awards will be made under the EIP in 2015, subject to the extension of the EIP's operation by shareholders at the 2015 AGM, as follows:

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

The awards are made in the form 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 67 of this Report.

Audited information

Single figure of total remuneration for 2014

The table below provides a single figure of total remuneration for 2014 and 2013 for the executive directors:

	Salary[1] $000	Benefits[2] $000	Performance related incentive[3] $000	Long term incentive[4] $000	Pension[5] $000	Total 2014 $000
Eric Hutchinson	**660.0**	**28.3**	**–**	**–**	**132.0**	**820.3**
Rachel Whiting[6]	**378.1**	**1.6**	**–**	**–**	**53.0**	**432.7**

	Salary[1] $000	Benefits[2] $000	Performance related incentive[3] $000	Long term incentive[4] $000	Pension[5] $000	Total 2013 $000
Bill Burns[7]	586.2	29.6	–	–	10.2	626.0
Eric Hutchinson[8]	540.8	27.0	38.1	–	108.0	713.9

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 Rachel Whiting was appointed to the Board as CFO on 1 February 2014.
7 Bill Burns stepped down as CEO on 3 September 2013.
8 Eric Hutchinson became CEO on 3 September 2013.

Annual performance incentives

During 2014, cash incentives were only 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.

Growth targets in the Company's order intake and EPS, representing 80 per cent and 20 per cent of the incentive respectively, determined the maximum incentive which could be earned in respect of the annual incentive element. The targets, with minimum performance thresholds of 7.71 cents EPS growth and order intake of $476.2 million, were not achieved and therefore no cash incentive awards were earned by the executive directors. In the prior year, targets were also not achieved, with no awards earned.

Total pension entitlements

Eric Hutchinson receives a taxable cash allowance in lieu of pension of 20 per cent of base salary. For 2014, the allowance paid was £80,000 ($132,000 at an average exchange rate of $1.65:£1) (2013 £69,233 ($108,000 at an average exchange rate of $1.56:£1)). Rachel Whiting receives a taxable cash allowance in lieu of pension of 14 per cent of base salary. For 2014, the allowance paid was £32,083 ($52,938 at an average exchange rate of $1.65:£1).

Payments to past directors
Bill Burns stepped down as Chief Executive Officer on 3 September 2013. His termination payments were 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 received 11 months' base salary ($660,000) in ten equal monthly instalments of $66,000 each commencing in December 2013; however, this was 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"), leading to a reduction in the monthly payment from $66,000 to $51,416 for the months after April 2014. Monthly COBRA premium payments of $1,840 were also payable for the duration of the Severance Period but were also subject to a set-off for health insurance provided by an alternative employer during the Severance Period and therefore these payments ceased after April 2014. During 2013 the Company paid $8,000 in respect of Mr Burns' legal fees. All outstanding unvested share awards granted to Mr Burns' lapsed on termination, however, the Committee exercised its discretion under the Plan Rules of the EIP to allow Mr Burns vested and unfettered share awards to continue to be exercisable during the 12 month period following termination as these awards had been retained by Mr Burns as part of his shareholding to meet the Committee's shareholding guideline for executive directors. On 19 February 2014 Mr Burns exercised this remaining award of 374,000 EIP stock appreciation rights granted at a base price of 50.5 pence on 7 November 2008. The applicable fair market value of 104.6 pence resulted in a gain of £202,334.00 ($335,923.07).

Payments for loss of office
There were no payments for loss of office during the year under review other than those payments to Bill Burns set out above.

Non-executive director fees
Details of fees paid to non-executive directors in 2014 and 2013 are as follows:

	2014 £000	2013 £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**	40.0
Total	**340.0**	340.0

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 2014:

	Guideline holding	Beneficially owned shares	Unfettered share incentives	Guideline met?
Eric Hutchinson	100% of base salary	1,306,209	56,600	Yes
Rachel Whiting	100% of base salary	84,937	60,348	No

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 2013 Ordinary Shares[1]	At 31 December 2014 Ordinary Shares	At 26 February 2015 Ordinary Shares[2]
Executive directors			
Eric Hutchinson	1,302,775	1,306,209	1,306,797
Rachel Whiting[3]	n/a	84,937	85,231
Non-executive directors			
Ian Brindle	4,525	38,396	38,396
Duncan Lewis	–	–	–
Tom Maxwell	50,000	50,000	50,000
Sue Swenson	–	–	–
Alex Walker	180,481	214,530	214,530

Notes

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

2 Events since 31 December 2014:
On 26 January 2015, Eric Hutchinson and Rachel Whiting acquired 294 and 147 Ordinary Shares respectively under the UK Employee Share Purchase Plan at a price of 85.00 pence per share.
On 24 February 2015, Eric Hutchinson and Rachel Whiting acquired 294 and 147 Ordinary Shares respectively under the UK Employee Share Purchase Plan at a price of 85.08 pence per share.

3 Rachel Whiting joined the Board on 1 February 2014.

Outstanding share incentive awards[1]

The share incentive interests of executive directors who served during the period 1 January 2014 to the date of this Report are set out below:

Eric Hutchinson						
Plan type	EIP	EIP	EIP	EIP	EIP	EIP
Award type	SAR	PS	PS	PS	SAR	PS
Award date	25 Aug 2005	23 Mar 2011	21 Mar 2012	8 May 2013	8 May 2013	28 Apr 2014
At 1 January 2014 (or at date of appointment)	56,600	109,366	142,235	172,531	86,266	
Granted during the period	–	–	–	–	–	493,583
Vested during the period	–	–	–	–	–	–
Exercised during the period	–	–	–	–	–	–
Lapsed during the period	–	109,366[2]	–	–	–	–
Any other adjustments during period	–	–	–	–	–	–
At 31 December 2014 (or at date of cessation)	56,600	–	142,235	172,531	86,266	493,583
Market price at date of award (£)	0.53	1.432	1.531	1.291	1.291	1.013
Face value of award granted in period (£)	–	–	–	222,737	111,369	500,000
Exercise price (£)	0.53	Nil[3]	Nil[3]	Nil[3]	1.291	Nil[3]
Subject to performance conditions?	Yes	Yes	Yes	Yes	Yes	Yes
Performance condition	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR	50% EPS, 50% TSR	EPS	50% EPS, 50% TSR
Performance condition testing date[4]	25 Aug 2008	23 Mar 2014	21 Mar 2015	8 May 2016	8 May 2016	28 Apr 2017
Result of performance condition testing	100% vest	0% vesting[2]	–	–	–	–
Market price at vesting date (£)[5]	0.80	1.02	–	–	–	–
Exercise date	–	–	–	–	–	–
Market price at exercise date (£)	–	–	–	–	–	–
Gain on exercise (£)	–	–	–	–	–	–
Expiry date	24 Aug 2015	23 Mar 2014	21 Mar 2015	8 May 2016	8 May 2023	28 Apr 2017

Rachel Whiting					
Plan type	EIP	EIP	EIP	EIP	EIP
Award type	SAR	PS	PS	PS	PS
Award date	5 May 2006	23 Mar 2011	21 Mar 2012	8 May 2013	28 Apr 2014
At 1 January 2014 (or at date of appointment)[6]	60,348	21,873	19,928	24,262	–
Granted during the period	–	–	–	–	148,075
Vested during the period	–	–	–	–	–
Exercised during the period	–	–	–	–	–
Lapsed during the period	–	21,873[2]	–	–	–
Any other adjustments during period	–	–	–	–	–
At 31 December 2014 (or at date of cessation)	60,348	–	19,928	24,262	148,075
Market price at date of award (£)	0.475	1.432	1.531	1.291	1.013
Face value of award granted in period (£)	–	–	–	31,322	150,000
Exercise price (£)	0.475	Nil[3]	Nil[3]	Nil[3]	Nil[3]
Subject to performance conditions?	Yes	Yes	Yes	Yes	Yes
Performance condition	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR	50% EPS, 50% TSR	50% EPS, 50% TSR
Performance condition testing date[4]	5 May 2009	23 Mar 2014	21 Mar 2015	8 May 2016	28 Apr 2017
Result of performance condition testing	100% vest	0% vesting[2]	–	–	–
Market price at vesting date (£)[5]	0.595	1.02	–	–	–
Exercise date	–	–	–	–	–
Market price at exercise date (£)	–	–	–	–	–
Gain on exercise (£)	–	–	–	–	–
Expiry date	5 May 2016	23 Mar 2014	21 Mar 2015	8 May 2016	28 Apr 2017

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 The awards of EIP Performance Shares granted on 23 March 2011 were due to vest on 23 March 2014. However, after the testing of performance conditions attached to these awards, the Remuneration Committee confirmed that the performance condition thresholds had not been met, resulting in the lapsing of the awards in full.

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

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

5 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.

6 Rachel Whiting was appointed to the Board on 1 February 2014; some of the awards shown were awarded prior to her appointment as Chief Financial Officer.

Scheme interests awarded during the year

In 2014, the Committee approved an award of Performance shares to Mr Hutchinson and Mrs Whiting equivalent to 125 per cent and 60 per cent of base salary respectively.

Policy for Performance shares granted in 2014

The performance conditions for Performance shares awarded in 2014 under the EIP are calculated over a three-year performance period as set out in the following table:

50 per cent 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 per cent 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.

Share interests vesting during 2015

Awards which are due to vest on 21 March 2015 and are subject to an EPS performance condition have not passed that condition and will lapse on that date.

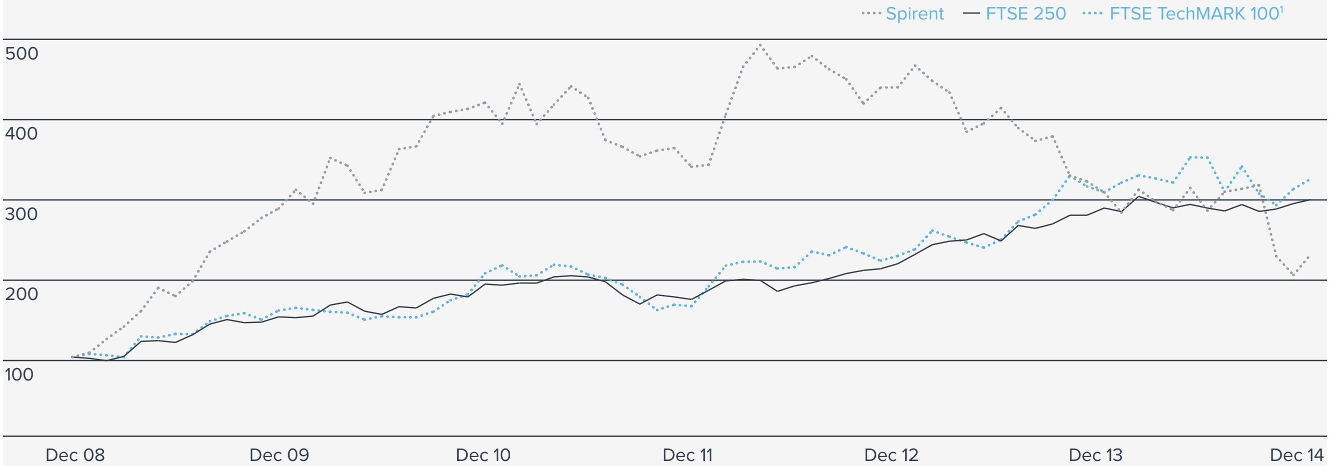
Awards which are due to vest on 21 March 2015 and are subject to a TSR performance condition will have that performance condition tested on 21 March 2015.

Unaudited information

Total Shareholder Return performance

The graph below shows the TSR performance for the last six 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.

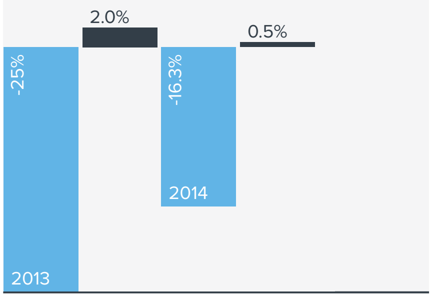
Six-year TSR performance – Spirent vs FTSE TechMARK 100[1] and FTSE 250



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

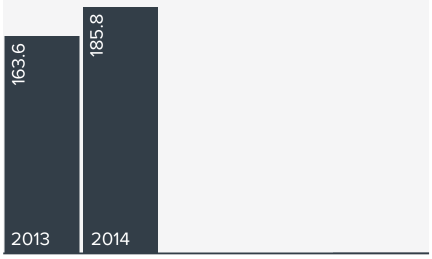
The middle market price of an Ordinary Share at the close of business on 2 January 2014 and 31 December 2014 (being the first and last days the London Stock Exchange was open for trading in 2014) was 99.65 pence and 75.75 pence respectively, and during that period ranged between a high of 110.80 pence and a low of 66.15 pence.

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]

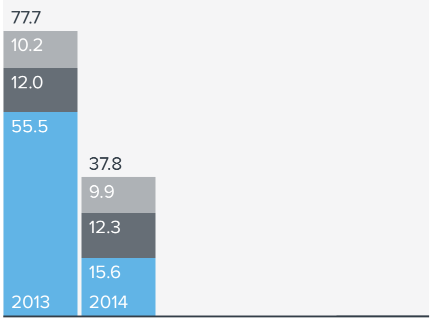


- CEO
- Average Group employee

Remuneration paid to all employees ($m) during 2014[2]



Returns to shareholders ($m) during 2014



- On-market share repurchase[3]
- Final dividend[4]
- Interim dividend[4]

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 2013 and 2014.
2 Total as set out in Note 9 to the consolidated financial statements. Note: the increase in remuneration paid to all employees during the period reflects the additional employees that have joined the Group as a result of acquired businesses.
3 Total as set out in Note 28 to the consolidated financial statements.
4 Total as set out in Note 13 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 %
2014	Eric Hutchinson	820.3	–	–
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 Bill Burns stepped down as Chief Executive Officer.

Statement of shareholder voting

At the 2014 AGM on 23 April 2014:

The results of the binding vote regarding the remuneration policy for the year to 31 December 2014, as set out in the Annual Report 2013, were:

Votes for[1]		Votes against			
Number	%	Number	%	Votes cast	Votes witheld[2]
466,013,882	99.02	4,633,694	0.98	470,647,576	775,063

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.

The results of the advisory vote regarding the Report on directors' remuneration for the year to 31 December 2014 were:

Votes for[1]		Votes against			
Number	%	Number	%	Votes cast	Votes witheld[2]
459,488,798	99.30	3,248,537	0.70	462,737,335	8,685,304

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.

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. The Company Secretary serves as Secretary to the Committee. All members are considered independent within the meaning of the UK Corporate Governance Code (the "Code").

Advisers to the Committee

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

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 2014 for the Remuneration Committee totalled £2,850 (2013 £17,460) and were based on time and materials.

Directors' Remuneration Policy (unaudited)

Our Remuneration Policy was approved by shareholders at the Company's 2014 AGM held on 23 April 2014 with 99.02 per cent of all votes cast in favour. Accordingly, it had a binding effect on the Company from that date.

The Committee is satisfied that the refinements do not provide for any additional payments above those permitted in the approved policy, are in line with best practice and are in the interests of shareholders.

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.

	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Fixed pay	Base salary			
	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 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 an individual's 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 2015 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 wellbeing	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 healthcare 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
Fixed pay	Pension (or cash allowance)			
	To provide cost-effective 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 per cent of base salary is provided to the Chief Executive Officer and 14 per cent 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
Variable pay	Annual incentive			
	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 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 per cent of base salary for Chief Executive Officer subject to a cap of 150 per cent of base salary On target opportunity of 50 per cent of base salary for Chief Financial Officer subject to a cap of 75 per cent of base 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 2015, 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 per cent and 100 per cent 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			
	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 per cent and 125 per cent of base salary for awards of SARs and Performance Shares respectively Limit of 250 per cent 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

	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 per cent 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.

2015 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 2015

Having reviewed the performance parameters for awards under the EIP, the Committee has determined that for awards to be made in 2015, the following parameters are appropriate:

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 per cent 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 per cent 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

At the 2005 AGM, shareholders approved the operation of the EIP for a period of ten years subject to further approval being required on the use of new issue shares or any material changes to the plan. In order to undertake a full review of incentive arrangements across the Group during 2015, the Board will be seeking shareholder approval at the 2015 AGM to extend the operation of the EIP for a period of one year. This would be with a view to consulting with shareholders prior to seeking approval of a new long term incentive plan at the 2016 AGM.

In order to comply with the revised Code published in September 2014 and applicable to our 2015 reporting period, the EIP has been amended to include provisions which permit the Committee to reduce unvested or, in the case of options, unexercised awards in the event of employee misconduct or where there has been a requirement to restate financial results due to inaccurate or misleading reporting. Where an award has vested, the Committee has discretion to require that the participant return any shares received or an equivalent cash amount. Any awards made in 2015 to executive directors will be made after the 2015 AGM, thereby including these provisions.

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 64 to 66 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 below.

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. 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 Provision D.1.5 of the Code with regard to the length of service agreements for executive directors. The Company therefore entered into a fixed term contract with Eric Hutchinson for two years, which was due to expire on 31 May 2015.

In order to retain Mr Hutchinson's services beyond the expiry date, in December 2014 Mr Hutchinson entered into a new 12 month rolling contract which is in compliance with the Remuneration Policy approved by shareholders at the 2014 AGM. Accordingly, the Company is now in full compliance with the Code.

Both Eric Hutchinson and Rachel Whiting currently have a service agreement with Spirent Communications plc, and, being UK residents, 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 Mrs Whiting. Eric Hutchinson's service agreement dated 8 December 2014 may be terminated on 12 months' notice from the Company and six months' notice from Mr Hutchinson.

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 2015 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	2017 AGM
Tom Maxwell	1 October 2007	2017 AGM
Sue Swenson	1 February 2012	2015 AGM
Alex Walker	22 December 2006	2015 AGM

Both Mr Brindle and Mr Walker were elected to the Board on 22 December 2006, and so will be reaching their ninth anniversary of appointment before the 2016 AGM. Mr Brindle will be seeking re-election at the 2015 AGM in order to assist with the handover to a new Chair of the Audit Committee. Mr Walker, although not required by the Code to meet the same level of independence as the Chairman, will be seeking re-election at the 2015 AGM.

The letters of appointment of non-executive directors are available for inspection on request and will be available for inspection at the 2015 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 2015, having been frozen since 1 January 2008. It was determined that the basic annual fee for non-executive directors would remain at £40,000 per annum for 2015. Fees for the Chairman, which are determined by the Remuneration Committee, would remain at £160,000 per annum for 2015, 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. As explained on page 48, the Board has asked Sue Swenson to become the new Senior Independent Non-executive Director when Ian Brindle steps down from the Board. At such time as Sue Swenson becomes the Senior Independent Non-executive Director, she will receive an additional fee of £7,500 per annum in recognition of the increased time commitment of this role.

Fees for non-executive directors and the Chairman will be reviewed again for the period effective 1 January 2016 onwards.

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 not performing their duties to the standard required by the Board 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 73);
- 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.

Illustrations of the application of our Remuneration Policy in 2015

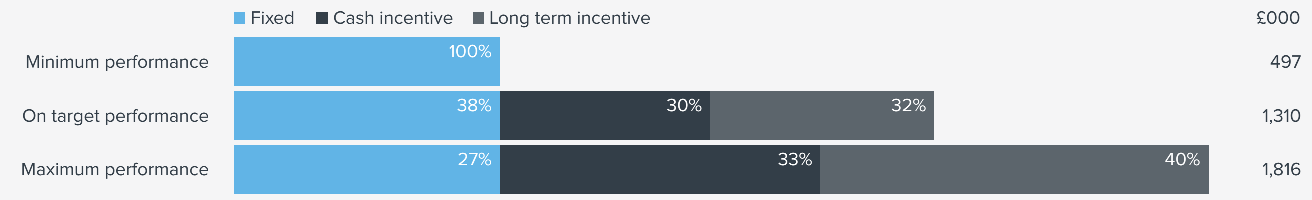
The charts below show an illustration of the proportion of total remuneration made up of each component of the Remuneration Policy and the value of each component.

Three scenarios have been illustrated for each executive director:

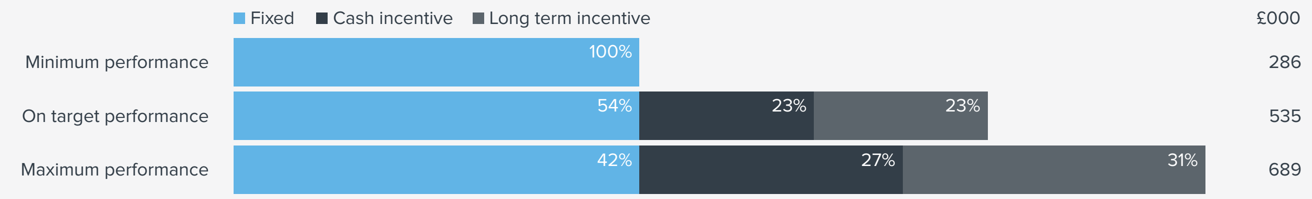
Minimum performance	–Fixed remuneration[1] –No cash incentive[2] –No vesting under the Employee Incentive Plan[3]
On target performance	–Fixed remuneration[1] –100 per cent of target cash incentive paid[2] –65 per cent vesting under the Employee Incentive Plan[3]
Maximum performance	–Fixed remuneration[1] –150 per cent 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 2015 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 2014. 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 2015



Chief Financial Officer policy for 2015



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 2015.

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 all-employee pay increases and takes these into account when reviewing executive pay. An employee engagement survey was undertaken in 2014 and the results reviewed by senior management.

Further details of employee remuneration arrangements can be found in the "Our employees" section on pages 41 to 43 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 director interests are aligned.

In particular, the Committee will be consulting key shareholders in relation to the development of a new long term incentive plan prior to seeking approval by shareholders at the 2016 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 Employee Share Ownership Trust ("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 0.6 per cent when comparing the positions at 31 December 2014 (8.3 per cent) and 31 December 2013 (8.9 per cent). The overall number of share incentives outstanding has risen by 1.2 million during the year to 6.6 million at 31 December 2014 (2013 5.4 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 when, in the view of the Committee, it would be disproportionate to seek specific approval from shareholders in general meeting. It is intended that this discretion be used only in the event of changed circumstances or strategy that has not been provided for in the Remuneration Policy.

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.

On 3 April 2014, the Remuneration Committee announced that following discussions with shareholder representatives, the Committee wished to clarify that any additional cash or share-based awards offered on recruitment of an executive director which may fall outside the policy statement on pages 60 to 62 of the Annual Report 2013 would be performance-related and would therefore be regarded as variable remuneration and fall within the Company's standard 400 per cent cap.

The Remuneration Committee can confirm that no discretion was used either during the period or to the date of this Report and that it does not envisage any cash payment being offered which could be construed as a "golden hello".

Signed on behalf of the Board
Tom Maxwell
Chairman of the Remuneration Committee
26 February 2015

Pages 44 to 74 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.

As permitted by section 414C (II) of the Companies Act 2006, the following information required in the Directors' report has been included in the Strategic report as the directors consider the information to be of strategic importance:

Information	Location in Annual Report
Development costs	90
Directors' indemnity arrangements	50
Disability	43
Employees	41
Financial risk management	36
Future developments	14
Greenhouse gas emissions	41
Treasury policy	36

Political donations

In accordance with the Group's Ethics Policy, no political donations were made during the year (2013 nil).

Share capital

The Company has a single class of share which is divided into Ordinary Shares of 3⅓ pence each. Each Ordinary Share carries one vote and all of the Ordinary Shares rank pari passu. There are no special control rights relating to any of the Ordinary Shares. At the date of this Report, 611.7 million Ordinary Shares of 3⅓ pence each had been issued which are fully paid up and are listed on the London Stock Exchange. The Company also operates a Level 1 American Depositary Receipt ("ADR") programme with each ADR representing four Ordinary Shares. The ADRs trade on the US over-the-counter market and BNY 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 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 2014 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 AGM, the directors seek authority to allot shares for cash and to disapply pre-emption rights within prescribed limits. At the 2015 AGM, authority will be sought to allot new Ordinary Shares up to a nominal value of £6,797,132, which is equal to approximately 33.3 per cent of the Company's issued share capital as at 6 March 2015.

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 2014 AGM remains valid until the earlier of the 2015 AGM or 30 June 2015. Since the Company began returning capital to shareholders in May 2006, a total of £270.2 million has been returned, through the repurchase of 397.6 million Ordinary Shares.

During 2014 9.7 million Ordinary Shares, each with a nominal value of 3⅓ pence were repurchased for an aggregate consideration of $15.6 million and cancelled immediately following repurchase. This represents 1.6 per cent of the Company's issued Ordinary Share capital at the beginning of 2014.

The Company will seek authority to repurchase up to 9.99 per cent of its own Ordinary Shares at the 2015 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 2014:

	Date of notification	Total holding	% of Company's total voting rights
Ameriprise Financial, Inc	21 October 2014	73,957,502	12.09
Prudential plc	29 January 2014	67,877,796	11.10
AXA Investment Managers SA	18 October 2011	47,515,946	7.77
Aviva plc	22 January 2014	40,597,969	6.64
Artemis Investment Management Limited	17 September 2010	32,940,888	5.38
Standard Life Investments Limited	27 January 2011	32,370,026	5.29
Fidelity International	11 July 2014	30,998,000	5.07
Schroders plc	9 October 2014	26,986,598	4.41
Sun Life Assurance Company of Canada (UK) Limited	5 December 2008	23,382,347	3.82
Norges Bank	30 May 2013	19,516,804	3.19

The following notifications have been received during the period 1 January 2015 to 26 February 2015:

	Date of notification	Total holding	% of Company's total voting rights
Fidelity International	28 January 2015	29,483,020	4.81

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

No post balance sheet events are required to be disclosed in 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 24 to 27 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 54 of the Audit Committee report, the Board will be proposing a resolution to re-appoint EY as auditor at the 2015 AGM.

Annual General Meeting

The 2015 AGM will be held at 1pm on Tuesday 5 May 2015 at the offices of UBS at 100 Liverpool Street, London EC2M 2RH.

By Order of the Board

Angus Iveson
Company Secretary
26 February 2015

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 the 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 ("IAS") 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
Chief Financial Officer
26 February 2015

Independent auditor's report to the members of Spirent Communications plc

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited
We have audited the Group financial statements of Spirent Communications plc for the year ended 31 December 2014 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, the related notes 1 to 33 and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements 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 74, 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.

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;
- 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 an 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; and
- acquisition accounting, as there have been a number of acquisitions in 2014 for which the value of consideration is significant this has been an area of audit focus in the current year. The assessment around the purchase price allocation of goodwill and intangible assets involves judgment around future revenue and profit generated by the entity and the identification of the potential intangible assets. The acquisitions are of varying complexity and there is a risk around the incorrect accounting of contract terms. In addition there is an assessment to be made with regards to the opening balance sheets acquired and there is a risk that required adjustments are not made or that they are incorrect. Lastly there is judgement involved in forecasting future cash flows and underlying assumptions in relation to current and past acquisitions to support their carrying value and thus there is a risk that goodwill could become impaired.

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 planning materiality for the Group to be $1.65 million (2013 $2.25m), which is 5% of profit before tax adjusted for non-recurring items for the year ending 31 December 2014. Non-recurring items relate to exceptional items and acquisition related costs. We note that planning materiality has decreased from the prior year due to a reduction in profit before tax. 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 planning materiality, namely $1.2 million (2013 $1.7m). Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of $1.65 million for the financial statements as 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 $0.09m (2013 $0.1m) and differences below that threshold which, in our view warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

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 12 locations which represent the principal business units within the Group's three reportable segments; Networks & Applications, Wireless & Service Experience and Service Assurance and account for 95% of the Group's total net assets and 89% of the Group's profit before tax. The number of locations has increased from 10 in the prior year due to the acquisitions made. For the remaining locations, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The audit work at the 12 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.

Detailed instructions were sent to all auditors in these locations. These instructions covered the significant areas that should be addressed by the component team auditors (which included the relative risks of material misstatement detailed above) and set out the information to be reported back to the Group audit team. 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. In addition for all in-scope locations, the component audit teams participated in the Group team's planning event including discussion of fraud and error. Telephone meetings were also held throughout the year with all in-scope locations to monitor audit progress, audit quality and to assess which items required direct involvement from the Group team. The Group audit team attended all local close meetings. We also required detailed reporting on audit results and audit procedures on higher risk areas and performed reviews of local audit work of high risk area working papers on revenue recognition, whilst all work on tax and acquisition accounting was performed at Group level.

The way in which we scoped our response to the risks identified above was as follows:

Revenue recognition:
- we have carried out audit procedures on 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; and
- we have carried out audit procedures on cut off in relation to revenue recognised close to the year end and with particular focus in China and India which might be caused by import challenges, including direct confirmations of customers where considered necessary.

Tax accounting:
- assessment of the consistency and robustness of tax provisions, particularly in the light of any expected resolution of older issues and changes in local regulations; and
- we have challenged management's assessment of 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.

Acquisition accounting:
- we have challenged management's assessment of control, to ensure the decision to fully consolidate the acquiree is appropriate;
- we have reviewed management's purchase price allocation and challenged the underlying assumptions; this included a review of external valuation experts, employed by management, and meeting with management and these experts to discuss the results;
- we have carried out audit procedures over the opening balance sheet as well challenging the adjustments made;
- we have reviewed the sale and purchase agreements to ensure the acquisitions have been accounted for in accordance with the contract terms; and
- we have reviewed management's annual impairment review in relation to the acquisitions made for indicators of impairment challenging management's underlying assumptions.

Opinion on other matter 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 report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the 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:

- 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 73, 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.

Karl Havers (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London
26 February 2015

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 2014

	Notes	2014 $ million	2013 $ million
Continuing operations			
Revenue	3, 4	**457.2**	413.5
Cost of sales		**(140.9)**	(126.7)
Gross profit		**316.3**	286.8
Product development	4	**(115.4)**	(100.5)
Selling and distribution		**(113.5)**	(96.6)
Administration		**(63.7)**	(50.6)
Operating profit	4	**23.7**	39.1
Finance income	7	**0.4**	0.9
Finance costs	8	**–**	(0.9)
Profit before tax	4, 5	**24.1**	39.1
Tax	11	**(3.5)**	(6.4)
Profit for the year		**20.6**	32.7
Attributable to:			
Owners of the parent Company		**20.5**	32.7
Non-controlling interest		**0.1**	–
Profit for the year		**20.6**	32.7
Earnings per share			
Basic	12	**3.35**	5.10
Diluted		**3.35**	5.09

The notes on pages 83 to 115 and page 129 form part of these financial statements.

Consolidated statement of comprehensive income
Year to 31 December 2014

	Notes	**2014 $ million**	2013 $ million
Profit for the year		**20.6**	32.7
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on retranslation of foreign operations		**(4.2)**	(0.7)
Items that will not subsequently be reclassified to profit or loss:			
Re-measurement of the net defined benefit pension liability	10	**(16.0)**	17.8
Income tax effect	11	**3.3**	(4.2)
		(12.7)	13.6
Other comprehensive income		**(16.9)**	12.9
Total comprehensive income for the year		**3.7**	45.6
Attributable to:			
Owners of the parent Company		**3.6**	45.6
Non-controlling interest		**0.1**	–
Total comprehensive income for the year		**3.7**	45.6

The notes on pages 83 to 115 and page 129 form part of these financial statements.

Consolidated balance sheet
At 31 December 2014

	Notes	2014 $ million	2013 $ million
Assets			
Non-current assets			
Intangible assets	14	**273.3**	198.8
Property, plant and equipment	15	**52.2**	39.6
Trade and other receivables	19	**4.2**	4.4
Cash on deposit	20	**–**	0.1
Defined benefit pension plan surplus	10	**0.8**	0.6
Deferred tax asset	22	**20.5**	18.3
		351.0	261.8
Current assets			
Inventories	18	**26.5**	31.6
Trade and other receivables	19	**122.9**	102.7
Current tax asset		**6.7**	–
Cash and cash equivalents	20	**99.8**	216.2
		255.9	350.5
Total assets		**606.9**	612.3
Liabilities			
Current liabilities			
Trade and other payables	21	**(127.2)**	(130.7)
Current tax liability		**(3.9)**	(3.6)
Provisions	25	**(6.7)**	(6.0)
		(137.8)	(140.3)
Non-current liabilities			
Trade and other payables	23	**(12.6)**	(15.2)
Other financial liabilities	24	**(2.7)**	–
Deferred tax liability	22	**(2.5)**	–
Defined benefit pension plan deficit	10	**(15.3)**	(3.9)
Provisions	25	**(1.6)**	(0.5)
		(34.7)	(19.6)
Total liabilities		**(172.5)**	(159.9)
Net assets		**434.4**	452.4
Capital and reserves	28		
Share capital		**31.8**	34.4
Share premium account		**31.5**	33.5
Capital redemption reserve		**20.6**	21.3
Other reserves		**2.1**	(3.2)
Translation reserve		**19.1**	23.3
Retained earnings		**329.2**	343.1
Total equity attributable to owners of the parent Company		**434.3**	452.4
Non-controlling interest		**0.1**	–
Total equity		**434.4**	452.4

The notes on pages 83 to 115 and page 129 form part of these financial statements.

Signed on behalf of the Board

Rachel Whiting
Director
26 February 2015

Consolidated cash flow statement
Year to 31 December 2014

	Notes	**2014 $ million**	2013 $ million
Cash flows from operating activities			
Cash flow from operations	31	**48.9**	73.5
Tax paid		**(7.2)**	(6.1)
Net cash inflow from operating activities		**41.7**	67.4
Cash flows from investing activities			
Interest received		**0.6**	0.8
Transfer from long term deposit		**0.1**	0.3
Purchase of intangible assets	14	**(0.6)**	(2.4)
Purchase of property, plant and equipment		**(32.2)**	(22.9)
Proceeds from the sale of property, plant and equipment		**1.2**	1.0
Acquisition of subsidiaries and businesses net of cash acquired	32	**(85.9)**	–
Net cash used in investing activities		**(116.8)**	(23.2)
Cash flows from financing activities			
Dividend paid	13	**(22.2)**	(22.2)
Proceeds from the issue of share capital and Employee Share Ownership Trust		**–**	0.2
Share repurchase		**(16.4)**	(54.7)
Loan repayment		**(0.1)**	–
Net cash used in financing activities		**(38.7)**	(76.7)
Net decrease in cash and cash equivalents		**(113.8)**	(32.5)
Cash and cash equivalents at the beginning of the year		**216.2**	248.6
Effect of foreign exchange rate changes		**(2.6)**	0.1
Cash and cash equivalents at the end of the year	20	**99.8**	216.2

The notes on pages 83 to 115 and page 129 form part of these financial statements.

Consolidated statement of changes in equity

	Notes	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to owners of the parent Company								$ million
At 1 January 2013		35.3	32.9	19.4	(1.6)	24.0	385.6	495.6	–	495.6
Profit for the year		–	–	–	–	–	32.7	32.7	–	32.7
Other comprehensive income (a)		–	–	–	–	(0.7)	13.6	12.9	–	12.9
Total comprehensive income		–	–	–	–	(0.7)	46.3	45.6	–	45.6
Share-based payment	30	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Employee Share Ownership Trust	28	–	–	–	–	–	0.2	0.2	–	0.2
Share cancellation	28	(1.5)	–	1.5	–	–	–	–	–	–
Share repurchase	28	–	–	–	–	–	(55.5)	(55.5)	–	(55.5)
Share buyback obligation	28	–	–	–	–	–	(10.1)	(10.1)	–	(10.1)
Equity dividends	13	–	–	–	–	–	(22.2)	(22.2)	–	(22.2)
Exchange adjustment		0.6	0.6	0.4	(1.6)	–	–	–	–	–
At 1 January 2014		**34.4**	**33.5**	**21.3**	**(3.2)**	**23.3**	**343.1**	**452.4**	**–**	**452.4**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**20.5**	**20.5**	**0.1**	**20.6**
Other comprehensive income (b)		**–**	**–**	**–**	**–**	**(4.2)**	**(12.7)**	**(16.9)**	**–**	**(16.9)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(4.2)**	**7.8**	**3.6**	**0.1**	**3.7**
Share-based payment	30	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**	**–**	**0.7**
Tax charge on share incentives	11	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**
Share cancellation	28	**(0.5)**	**–**	**0.5**	**–**	**–**	**–**	**–**	**–**	**–**
Share repurchase	28	**–**	**–**	**–**	**–**	**–**	**(15.6)**	**(15.6)**	**–**	**(15.6)**
Share buyback obligation	28	**–**	**–**	**–**	**–**	**–**	**18.2**	**18.2**	**–**	**18.2**
Equity dividends	13	**–**	**–**	**–**	**–**	**–**	**(22.2)**	**(22.2)**	**–**	**(22.2)**
Other movements	24	**–**	**–**	**–**	**–**	**–**	**(2.7)**	**(2.7)**	**–**	**(2.7)**
Exchange adjustment		**(2.1)**	**(2.0)**	**(1.2)**	**5.3**	**–**	**–**	**–**	**–**	**–**
At 31 December 2014		**31.8**	**31.5**	**20.6**	**2.1**	**19.1**	**329.2**	**434.3**	**0.1**	**434.4**

(a) 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.

(b) The amount included in other comprehensive income for 2014 of $12.7 million represents re-measurement losses of the net defined benefit pension liability of $16.0 million net of a tax credit of $3.3 million.
The amount included in the translation reserve of $4.2 million represents other comprehensive income related to the translation of foreign operations.

The notes on pages 83 to 115 and page 129 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 2014 were authorised for issue by the Board of directors on 26 February 2015. 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 116 to 129 and the accounting policies in respect of the Company are set out on pages 117 to 119.

2. Significant accounting policies

Accounting convention

The consolidated financial statements are prepared on a historical cost basis apart from certain financial instruments that have been measured at fair value.

Going concern

At 31 December 2014 the Group had cash balances of $99.8 million and no debt.

The directors have reviewed the detailed financial projections for a period of 12 months from the date of this report and the business plans for the 2016 and 2017 financial years. They have also considered the principal risks and uncertainties that the Group face and its current financial position and are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the going concern basis continues to be used in the preparation of the financial statements.

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.

International Accounting Standards ("IAS/IFRS")	
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 32	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
IAS 39 and IFRS 9	Amendments to IAS 39 and IFRS 9 – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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. Principal subsidiaries and divisions are listed on page 129.

Subsidiary undertakings are entities that are directly or indirectly controlled by the Group. The Group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

The separable net assets, including intangible assets of newly acquired subsidiaries are incorporated into the consolidated financial statements based on their fair values at the effective date of control.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.
Business combinations are accounted for using the acquisition method.

At acquisition date the identifiable assets acquired and liabilities assumed, including intangible assets, are measured at their fair values. The cost of an acquisition is measured as the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree. Non-controlling interests are measured at the proportionate share of the acquiree's identifiable net assets.

2. Significant accounting policies continued

Acquisition costs are expensed and included in administration costs.

Goodwill arising on the acquisition of subsidiaries, representing the excess of cost over the net fair value of the net assets 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.

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 2014 and 31 December 2013 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.

2. Significant accounting policies continued

Inventories

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

Provisions

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

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

Foreign currencies

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

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

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

Financial instruments

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

Trade receivables

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

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.

2. Significant accounting policies continued

Retirement benefits

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

For defined benefit pension plans full actuarial valuations are carried out every three years using the projected unit credit method, and updates are performed at each balance sheet date. 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.

Revenue from sales or usage-based royalties is recognised as the subsequent sale or usage occurs.

Contractual arrangements are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other, because they are capable of being provided separately from one another and it is possible to attribute reliable fair values to every component. To the extent that a separate component comprises a product sale of hardware or software, revenue is recognised as described above. Revenue is recognised on other components as the Group fulfils its contractual obligations and to the extent that it has earned the right to consideration.

Employee benefits

When an employee has rendered services to the Group during an accounting period, short term benefits expected to be paid in exchange for those services are recognised in the same accounting period.

Share-based payment

The Group operates various equity-settled share-based compensation plans and accounts for these awards in accordance with IFRS 2 "Share-based Payment".

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

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

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 other comprehensive income or 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.

2. 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.

Business combinations and goodwill

The fair values of the identifiable assets acquired and liabilities assumed is based on a number of assumptions and judgements by management. In establishing the fair value of intangible assets recognised at acquisition and their estimated useful lives the Group considers each entity acquired. Valuation estimates are used to determine the fair values of intangible assets and this includes estimation of future cash flows, weighted average cost of capital, external royalty rates and useful lives.

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

Defined benefit pension plans

The pension cost and the defined benefit 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 10.

Revenue recognition

For revenue recognition purposes contractual arrangements are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other, because they are capable of being provided separately from one another and it is possible to attribute reliable fair values to every component. 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 22.

2. 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
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an investor and its Associate or Joint Venture	1 January 2016
IFRS 10 and 12 and IAS 28	Investment Entities: Applying the Consolidated Exception	1 January 2016
IFRS 11	Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 1	Disclosure Initiative	1 January 2016
IAS 16 and 38	Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 19	Amendments to IAS 19 – Employee Contributions	1 July 2014
IAS 27	Amendments to IAS 27 – Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements		
2010–2012 Cycle		1 July 2014
2011–2013 Cycle		1 July 2014
2012–2014 Cycle		1 January 2016

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application other than in relation to IFRS 15 "Revenue from Contracts with Customers", which is discussed below.

The Group is currently undertaking a project to determine the effect of implementation of IFRS 15. This project will be ongoing throughout 2015 and therefore the Company has not yet determined the effect this Standard will have on the results of the Group.

3. Revenue

	2014 $ million	2013 $ million
Sale of goods	**325.7**	286.2
Maintenance and support services	**130.6**	127.3
Royalty income	**0.9**	–
Total revenue	**457.2**	413.5

4. Operating segments

The Group's organisational structure is based on differences in the products and services offered by each segment and information regularly reviewed by the Group's Chief Executive Officer, its chief operating decision maker, is presented on this basis. The Group's operating segments follow this structure.

The Group's reportable operating segments are Networks & Applications, Wireless & Service Experience and Service Assurance. The Group evaluates segment operating profit before exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment 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 reportable operating segments are as follows:

- Networks & Applications develops innovative solutions for functional, performance and security 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 4G LTE mobile devices, services, satellite positioning devices and wireless infrastructure as well as the end-to-end measurement of the mobile experience on live networks.
- Service Assurance provides solutions to enable service providers to diagnose, troubleshoot and reduce time to resolve issues with production networks and services, and continuously monitor production network performance and end-user experience through end-to-end visibility and real-time automation.

4. Operating segments continued

	Notes	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	2014 $ million Total
Revenue						
External revenue		**221.5**	**178.6**	**57.1**	**–**	**457.2**
There were no inter-segment sales.						
Profit before tax						
Total reportable segment profit/(loss) before exceptional items		**7.6**	**24.0**	**20.7**	**(6.3)**	**46.0**
Exceptional items	6	**(2.3)**	**(0.9)**	**(0.2)**	**(0.7)**	**(4.1)**
Total reportable segment profit/(loss)		**5.3**	**23.1**	**20.5**	**(7.0)**	**41.9**
Unallocated amounts						
Acquisition related costs						**(3.8)**
Acquired intangible asset amortisation						**(12.7)**
Impairment of intangible R&D asset	14					**(1.0)**
Share-based payment	30					**(0.7)**
Operating profit						**23.7**
Finance income						**0.4**
Profit before tax						**24.1**
Other information						
Product development		**59.7**	**43.2**	**12.5**	**–**	**115.4**
Expenditure on intangibles	14	**1.0**	**30.1**	**61.5**	**–**	**92.6**
Expenditure on property, plant and equipment	15	**16.9**	**12.6**	**4.2**	**0.1**	**33.8**
Intangible asset amortisation – other		**–**	**1.3**	**–**	**–**	**1.3**
Depreciation	15	**9.7**	**8.9**	**0.9**	**0.2**	**19.7**

	Notes	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	2013 $ million Total
Revenue						
External revenue		213.4	167.7	32.4	–	413.5
There were no inter-segment sales.						
Profit before tax						
Total reportable segment profit/(loss) before exceptional items		13.2	33.8	9.0	(5.9)	50.1
Exceptional items	6	(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	30					1.2
Operating profit						39.1
Finance income						0.9
Finance costs						(0.9)
Profit before tax						39.1
Other information						
Product development		55.1	37.6	7.8	–	100.5
Expenditure on intangibles	14	–	2.4	–	–	2.4
Expenditure on property, plant and equipment	15	10.7	11.2	1.0	–	22.9
Intangible asset amortisation – other		–	1.5	–	–	1.5
Depreciation	15	8.7	6.6	1.0	0.2	16.5

4. Operating segments continued

	2014 $ million	2013 $ million
Revenue by market		
United States	**233.2**	215.8
Asia Pacific, Rest of World	**158.7**	146.9
Europe	**65.3**	50.8
	457.2	413.5

Europe includes United Kingdom revenue of $11.6 million (2013 $9.8 million).

Revenues are attributed to countries based on customer location.

	2014 $ million	2013 $ million
Non-current assets		
United States	**263.3**	228.0
Asia Pacific, Rest of World	**34.4**	7.1
Europe	**27.8**	3.3
	325.5	238.4

Europe includes United Kingdom non-current assets of $2.3 million (2013 $2.1 million).

No one customer accounted for 10 per cent or more of total Group revenue in either 2014 or 2013.

5. Profit before tax

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

	Notes	2014 $ million	2013 $ million
Employee benefit costs	9	**211.1**	183.8
Costs of inventories recognised as an expense		**91.3**	82.3
Write-down of inventories to net realisable value	18	**0.8**	0.3
Amortisation of intangible assets	14	**14.0**	9.9
Depreciation of property, plant and equipment			
Owned assets	15	**19.7**	16.5
Operating leases			
Minimum lease payments		**9.0**	8.4
Product development costs		**115.4**	100.5
Net foreign exchange (gain)/charge		**(1.1)**	0.4

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

	2014 $ million	2013 $ million
Audit services		
Group audit fee	**0.9**	0.8
Audit of subsidiaries	**0.1**	–
Total audit fee	**1.0**	0.8
Other fees to auditors		
Other assurance services	**0.1**	–
Taxation advisory services	**0.1**	0.2
	0.2	0.2
	1.2	1.0

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 52 to 54 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

6. Exceptional items

	2014 $ million	2013 $ million
Reorganisation in response to market changes	**4.1**	–
Review of the Group's organisational structure	**–**	3.4
Abortive acquisition costs	**–**	0.4
	4.1	3.8

In 2014, following dynamic changes in Spirent's markets and the need to ensure the Group was investing in the right areas to maximise its potential, Spirent undertook a series of steps to reallocate resources in its worldwide operations.

In 2013, on the appointment of the new Chief Executive Officer, the Group undertook a review of its operational structure in order to deliver a streamlined, decentralised and more simplified business.

The tax effect of exceptional items is a credit of $1.2 million (2013 $0.8 million). The cash outflow in respect of exceptional items was $3.3 million (2013 $1.2 million).

7. Finance income

	2014 $ million	2013 $ million
Bank interest receivable	**0.4**	0.9

8. Finance costs

	Note	2014 $ million	2013 $ million
Net defined benefit pension plan interest	10	**–**	0.9

9. Employees

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

	2014 Number	2013 Number
Manufacturing	**356**	339
Product development	**705**	596
Selling and distribution	**461**	394
Administration	**205**	185
	1,727	1,514

Employee benefit costs were:

	Note	2014 $ million	2013 $ million
Remuneration		**185.8**	163.6
Social security costs		**17.0**	14.9
Pension and other related costs		**7.6**	6.5
Expense/(credit) of share-based payment	30	**0.7**	(1.2)
		211.1	183.8

Please refer to the Report on directors' remuneration on pages 55 to 71 and note 33 for disclosures relating to the emoluments, share incentives and pensions of the directors.

10. 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 (Old Section) 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. 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 2015 are $4.4 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: $4.1 million per annum from 1 July 2013 to 30 June 2019, plus a further contribution of up to $3.9 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.

ii) Amounts in the financial statements

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

	2014 $ million	2013 $ million
Assets		
UK defined benefit pension plan – Cash Plan	**0.8**	0.6
Liabilities		
UK defined benefit pension plan – Staff Plan	**(14.5)**	(3.1)
UK unfunded plan	**(0.8)**	(0.8)
	(15.3)	(3.9)

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

10. Pensions continued

a) The assets and liabilities in each plan

	2014 $ million	2013 $ million
Staff Plan		
Quoted		
Equities	**76.0**	89.4
Unquoted		
LDI funds	**39.3**	23.9
Cash benchmarked bonds	**108.9**	120.4
Insured annuities	**5.3**	5.5
Property	**15.0**	25.4
Cash and other	**22.7**	0.8
Fair value of plan assets	**267.2**	265.4
Present value of defined benefit pension plan obligations	**(281.7)**	(268.5)
Deficit in the plan on the balance sheet	**(14.5)**	(3.1)
Cash Plan		
Quoted		
Equities	**4.5**	4.5
Government bonds	**4.4**	3.3
Unquoted		
Insured annuities	**0.3**	0.3
Cash and other	**3.1**	4.0
Fair value of plan assets	**12.3**	12.1
Present value of defined benefit pension plan obligations	**(11.5)**	(11.5)
Surplus in the plan on the balance sheet	**0.8**	0.6

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

The fair values of the quoted equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of the other assets are not.

b) Analysis of the amounts charged to the income statement

	2014 $ million	2013 $ million
Plan administration expenses	**0.7**	0.7
Current service cost	**0.2**	0.2
Amount charged to operating costs	**0.9**	0.9
Net interest on the net defined benefit pension liability	**–**	0.9
Net charge to the income statement	**0.9**	1.8

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

	2014 $ million	2013 $ million
Re-measurement gain on plans' assets	**16.3**	11.2
Actuarial gain arising from experience	**0.8**	–
Actuarial (loss)/gain arising from changes in financial assumptions	**(33.1)**	6.6
Re-measurement of the net defined benefit pension liability	**(16.0)**	17.8

10. Pensions continued

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

	2014 $ million	2013 $ million
At 1 January	**280.0**	282.0
Current service cost	**0.2**	0.2
Interest cost	**12.2**	11.4
Benefit payments	**(12.9)**	(11.7)
Actuarial gain arising from experience	**(0.8)**	–
Actuarial loss/(gain) arising from changes in financial assumptions	**33.1**	(6.6)
Exchange adjustment	**(18.6)**	4.7
Present value of funded defined benefit pension plans' obligations	**293.2**	280.0

e) Movements in the fair value of plans' assets

	2014 $ million	2013 $ million
At 1 January	**277.5**	257.2
Interest income on plans' assets	**12.2**	10.5
Employer contributions	**4.8**	5.3
Benefit payments	**(12.9)**	(11.7)
Plan administration expenses	**(0.7)**	(0.7)
Re-measurement gain on plans' assets	**16.3**	11.2
Exchange adjustment	**(17.7)**	5.7
Fair value of plans' assets	**279.5**	277.5

f) The key financial assumptions

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

	2014 %	2013 %
Inflation – RPI	**2.9**	3.3
Inflation – CPI	**1.8**	2.2
Rate of increase in pensionable salaries	**3.0**	3.1
Rate of increase for pensions in payment pre 2001 service	**3.6**	3.6
Rate of increase for pensions in payment 2001 to 5 April 2005 service	**2.8**	3.1
Rate of increase for pensions post 5 April 2005 service	**2.0**	2.2
Rate of increase in deferred pensions	**1.8**	2.2
Rate used to discount plan liabilities	**3.6**	4.5

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 (2013 aged 65) will live on average for a further 23.5 years (2013 23.5 years) if they are male and for a further 25.7 years (2013 25.6 years) if they are female. For a member who retires in 2034 (2013 in 2033) at age 65 (2013 age 65) the assumptions are that they will live on average for a further 24.4 years (2013 24.3 years) after retirement if they are male and for a further 26.8 years (2013 26.7 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 $4.1 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 $11.7 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.

10. Pensions continued

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 (2013 15 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 2014 were $1.2 million (2013 $1.4 million).

United States

The Group maintains a defined contribution pension plan for employees of its United States subsidiaries. This plan, also known as a 401(k) Plan, allows employees to defer a percentage of their salary for retirement. The investment choices offered by the plan are a selection of diversified mutual funds offering a broad mix of investment return potential with varying levels of risk. In aggregate, the Group's contributions to the US plan totalled $3.7 million for 2014 (2013 $3.3 million). Total assets in the defined contribution plan at the end of 2014 were $222.5 million (2013 $204.6 million). There were no defined benefit plans in the United States in 2014 or 2013.

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 2014 in respect of these plans amounted to $1.2 million (2013 $0.9 million).

Total employer contributions to defined contribution plans were $6.1 million (2013 $5.6 million).

Directors' pension arrangements

The pension arrangements of the executive directors are described in detail in the Report on directors' remuneration on pages 55 to 71.

11. Tax

	2014 $ million	2013 $ million
Tax charge in the income statement		
Current income tax		
UK tax	**0.1**	–
Foreign tax	**3.8**	5.1
Amounts overprovided in previous years	**(1.4)**	(3.7)
Total current income tax charge	**2.5**	1.4
Deferred tax		
Recognition of deferred tax assets	**(0.6)**	–
Reversal of temporary differences	**2.0**	5.0
Adjustments in respect of prior years	**(0.4)**	–
Total deferred tax charge	**1.0**	5.0
Tax charge in the income statement	**3.5**	6.4

The tax charge for the year ended 31 December 2014 was $3.5 million (2013 charge $6.4 million) this was after a prior year tax credit of $1.8 million (2013 credit $3.7 million) resulting from the expiration and reassessment of open tax positions for previous years. Excluding the prior year tax credit the effective tax rate was 22.0 per cent (2013 25.8 per cent).

11. Tax continued

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

	2014 $ million	2013 $ million
Deferred tax on share incentives	**0.2**	0.6
Current tax on share incentives	**(0.1)**	(0.6)
Tax charge on share incentives	**0.1**	–
Deferred tax on defined benefit pension plan	**(3.3)**	4.2

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 21.5 per cent (2013 lower and 23.25 per cent). The differences are reconciled below:

	2014 $ million	2013 $ million
Accounting profit before tax	**24.1**	39.1
Accounting profit multiplied by the UK standard rate of corporation tax of 21.5 per cent (2013 23.25 per cent)	**5.2**	9.1
Share-based payment	**0.1**	–
Differences in overseas rates and other adjustments	**2.0**	1.1
Tax overprovided in prior years	**(1.8)**	(3.7)
Recognition of deferred tax assets	**(0.6)**	–
US Research and Experimental tax credit	**(1.4)**	–
Use of pension fund and other UK adjustments	**–**	(0.1)
Total tax charge reported in the income statement	**3.5**	6.4

12. 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.

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.

	2014 $ million	2013 $ million
Profit for the year attributable to owners of the parent Company	**20.5**	32.7

	Number million	Number million
Weighted average number of Ordinary Shares in issue – basic	**611.2**	640.6
Dilutive potential of employee share incentives	**1.5**	1.4
Weighted average number of Ordinary Shares in issue – diluted	**612.7**	642.0

	Cents	Cents
Earnings per share		
Basic	**3.35**	5.10
Diluted	**3.35**	5.09

12. Earnings per share continued

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 and impairment
- share-based payment
- tax effect on the above items
- prior year tax

A reconciliation is provided below:

		2014		2013	
	Notes	**$ million**	**EPS cents**	$ million	EPS cents
Profit for the year attributable to owners of the parent Company		**20.5**	**3.35**	32.7	5.10
Exceptional items	6	**4.1**		3.8	
Acquisition related costs		**3.8**		–	
Acquired intangible asset amortisation and impairment		**13.7**		8.4	
Share-based payment	30	**0.7**		(1.2)	
Tax effect on the above items		**(5.4)**		(3.4)	
Prior year tax credit	11	**(1.8)**		(3.7)	
Adjusted basic		**35.6**	**5.82**	36.6	5.71
Adjusted diluted			**5.81**		5.70

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.

13. Dividends paid and proposed

	2014 $ million	2013 $ million
Declared and paid in the year		
Equity dividend on Ordinary Shares		
Final dividend paid for the year ended 31 December 2013 of 2.01 cents (1.20 pence) per Ordinary Share (31 December 2012 1.83 cents (1.21 pence))	**12.3**	12.0
Interim dividend 2014 1.68 cents (0.99 pence) per Ordinary Share (2013 1.53 cents (1.01 pence))	**9.9**	10.2
	22.2	22.2
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Equity dividend on Ordinary Shares		
Final dividend 2014 2.21 cents (1.43 pence) per Ordinary Share (2013 2.01 cents (1.20 pence))	**13.5**	12.3

The directors are proposing a final dividend in respect of the financial year ended 31 December 2014 of 2.21 cents per Ordinary Share (1.43 pence) (2013 2.01 cents (1.20 pence)), which will absorb an estimated $13.5 million of shareholders' funds (2013 $12.3 million). It will be paid on 8 May 2015 to Ordinary shareholders who are on the Register of Members at close of business on 6 March 2015. Payment will be made to ADR holders on 18 May 2015. 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 2014 was $1.55: £1 (2013 $1.67:£1).

14. Intangible assets

	Note	Goodwill	Customer list	Current technology	R&D asset	Database	Brand names	Non-compete covenant	Licences	Total
										$ million
Cost, net of accumulated amortisation and impairment losses										
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 1 January 2014		**169.0**	**7.7**	**16.7**	**–**	**1.3**	**1.2**	**–**	**2.9**	**198.8**
Acquisitions	32	**56.6**	**10.2**	**19.3**	**1.0**	**2.9**	**0.9**	**1.1**	**–**	**92.0**
Additions		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Impairment		**–**	**–**	**–**	**(1.0)**	**–**	**–**	**–**	**–**	**(1.0)**
Amortisation for the year		**–**	**(3.8)**	**(7.2)**	**–**	**(1.1)**	**(0.5)**	**(0.1)**	**(1.3)**	**(14.0)**
Exchange adjustment		**(2.4)**	**(0.1)**	**(0.4)**	**–**	**(0.2)**	**–**	**–**	**–**	**(3.1)**
At 31 December 2014		**223.2**	**14.0**	**28.4**	**–**	**2.9**	**1.6**	**1.0**	**2.2**	**273.3**
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
At 31 December 2014										
Cost (gross carrying amount)		**627.1**	**21.3**	**44.2**	**1.0**	**5.3**	**2.6**	**1.1**	**11.9**	**714.5**
Amortisation and accumulated impairment losses		**(403.9)**	**(7.3)**	**(15.8)**	**(1.0)**	**(2.4)**	**(1.0)**	**(0.1)**	**(9.7)**	**(441.2)**
Net carrying amount		**223.2**	**14.0**	**28.4**	**–**	**2.9**	**1.6**	**1.0**	**2.2**	**273.3**

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.

Goodwill has been allocated to seven CGUs as follows:

	2014 $ million	2013 $ million
Networks & Applications, an operating segment	**85.0**	86.0
Wireless & Positioning, product lines within the Wireless & Service Experience operating segment	**51.5**	52.1
Service Experience, a product line within the Wireless & Service Experience operating segment	**30.9**	30.9
Testing Technologies, a product line within the Wireless & Service Experience operating segment	**2.1**	–
Developer Tools, a product line within the Wireless & Service Experience operating segment	**19.0**	–
Customer Experience Management, a product line within the Service Assurance operating segment	**23.8**	–
Device Intelligence, a product line within the Service Assurance operating segment	**10.9**	–
	223.2	169.0

Estimated useful lives

Acquired intangible assets, being customer list, current technology, database, brand names and non-compete covenant, are amortised on a straight line basis over their estimated useful lives and the charge is included within administration expenses in the income statement. Licences are amortised over their useful lives or term, and are expensed within cost of sales or selling costs.

14. Intangible assets continued

The estimated useful lives of the intangible assets and the amortisation expiry dates are as follows:

	Useful life	Expiry date
Customer list	**2–7 years**	**2019**
Current technology	**5–7 years**	**2021**
Database	**2.5–7 years**	**2021**
Brand names	**5 years**	**2019**
Non-compete covenant	**4 years**	**2018**
Licences	**3–5 years**	**2017**

Annual impairment test

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

– revenue growth rates;
– gross margin;
– operating expenses;
– discount rate; and
– growth rate used to extrapolate cash flows beyond the five-year period covered by management's projections.

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. Cash flows in subsequent years have been extrapolated using a steady 2.0 per cent growth rate for Developer Tools, as this is considered to be a more mature business, and 2.75 per cent for all other CGUs (2013 2.75 per cent for all CGUs) which management estimates to be the approximate average long term growth rate for the industries in which these units operate.

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 the increased risk of investing in equities. In making this adjustment, the inputs required are the equity market risk premium, beta, and the risk adjustment applied to reflect the risk of Spirent relative to the market as a whole. The discount rate is adjusted to reflect the systematic risk of the specific CGU, taking into account the relative size of the CGU and the territories in which it operates.

The cash flows have been discounted using the following pre-tax discount rates:

	2014 %	2013 %
Networks & Applications	**14.3**	13.8
Wireless & Positioning	**14.5**	13.8
Service Experience	**17.1**	13.8
Testing Technologies	**14.7**	–
Developer Tools	**13.5**	–
Customer Experience Management	**17.5**	–
Device Intelligence	**16.0**	–

For Spirent the key factor in the cash flow forecasts is the ability to forecast revenue. All CGUs operate in the data technology market and generate a high gross profit (gross margin); consequently changes in revenue can have a significant impact on the operating profit and cash flows. Revenue growth rates used in the 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, industry forecasts and macro-economic conditions in the territories in which the CGUs operate. As Testing Technologies, Developer Tools, Customer Experience Management and Device Intelligence were all acquired in 2014, management has also considered the detailed projections and information that was prepared during the due diligence processes and the post-acquisition performance to date. Gross margin and operating expenses are based on historical values adjusted for the effect of revenue growth and recent acquisitions.

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.

14. Intangible assets continued

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 value in use of the Networks & Applications, Wireless & Positioning, Testing Technologies, Developer Tools and Customer Experience Management CGUs to fall below carrying value.

The headroom on the Service Experience and Device Intelligence CGUs was $6.3 million and $1.3 million, respectively.

Revenue growth is projected to be higher in year 1 than the growth experienced in 2014 for the Service Experience CGU as management has invested in infrastructure and undertaken new initiatives during 2014 to position this product line for growth in 2015 and beyond. In addition, new product launches are expected to benefit 2015.

The Device Intelligence CGU is projecting significant revenue growth in year 1 in line with the acquisition plan. The strategy behind this acquisition was to combine Spirent's multiple offerings in solutions to target a larger global customer base and the acquisition will also benefit from the sales channels available in the Spirent Group.

Sensitivity analysis around the key assumptions has indicated that for these CGUs, the following changes in assumptions (in isolation) would cause the value in use to fall below the carrying values:

	Year ended 31 December 2014 change required to trigger impairment
Service Experience	
Forecast revenue[1]	**10.5% decrease**
Long term growth rate	**4.0 percentage point decrease to -1.3%**
Discount rate	**1.8 percentage point increase to 18.9%**
Device Intelligence	
Forecast revenue[1]	**4.7% decrease**
Long term growth rate	**1.2 percentage point decrease to 1.5%**
Discount rate	**0.7 percentage point increase to 16.7%**

Note

1 Cumulative effect of a decrease in revenue in year 1 and continuing to apply the forecast growth rates to subsequent years.

In 2013 there were no reasonable possible changes that would have led to impairment.

Intangible asset impairment

An intangible asset impairment charge of $1.0 million has been incurred in respect of the R&D asset arising on the acquisition of NetGend. The asset had been acquired at a pre-production stage and, although the intention is to use this technology to enhance Spirent's solutions, the extent and the means by which this will be achieved had not been determined at 31 December 2014, resulting in an impairment charge. Following this impairment the recoverable amount of NetGend was nil.

The impairment charge has been expensed to administrative expenses in the income statement.

15. Property, plant and equipment

	Note	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
					$ million
Cost, net of accumulated depreciation and accumulated impairment					
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 1 January 2014		**2.3**	**28.9**	**8.4**	**39.6**
Additions					
Owned assets		**11.0**	**17.1**	**5.7**	**33.8**
Disposals		**–**	**(1.2)**	**–**	**(1.2)**
Acquisitions	32	**–**	**0.1**	**0.1**	**0.2**
Depreciation charge for the year		**(1.3)**	**(14.1)**	**(4.3)**	**(19.7)**
Exchange adjustment		**(0.1)**	**(0.4)**	**–**	**(0.5)**
At 31 December 2014		**11.9**	**30.4**	**9.9**	**52.2**
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
At 31 December 2014					
Cost		**22.6**	**91.6**	**47.9**	**162.1**
Accumulated depreciation and accumulated impairment		**(10.7)**	**(61.2)**	**(38.0)**	**(109.9)**
Net carrying amount		**11.9**	**30.4**	**9.9**	**52.2**

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

16. Capital commitments and contingent liabilities

The Group had capital commitments of $3.1 million at 31 December 2014 (31 December 2013 $1.3 million).

The Group has provided indemnities of $0.1 million (2013 $0.1 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

The Group has provided guarantees totalling $1.7 million (Euro 1.4 million) (2013 nil) in respect of the minimum consideration for the acquisition of minority shareholdings in Testing Technologies IST GmbH and which expire on 31 March 2016 (see note 24).

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 129 of these financial statements.

18. Inventories

	2014 $ million	2013 $ million
Raw materials	**6.5**	13.0
Work in progress	**0.9**	1.0
Finished goods	**19.1**	17.6
	26.5	31.6

An expense of $0.8 million (2013 $0.3 million) has been recognised in the period for inventory write-downs. There were no reversals of prior period inventory write-downs (2013 nil).

No inventories are carried at fair value less costs to sell (2013 nil).

19. Trade and other receivables

	2014 $ million	2013 $ million
Non-current assets		
Trade receivables	–	0.4
Other receivables	**3.8**	3.5
Prepayments, accrued income and deferred costs	**0.4**	0.5
	4.2	4.4
Current assets		
Trade receivables	**107.8**	89.6
Other receivables	**4.9**	4.2
Prepayments, accrued income and deferred costs	**10.2**	8.9
	122.9	102.7
	127.1	107.1

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

	2014 $ million	2013 $ million
At 1 January	**1.0**	0.8
Charge for the year	**0.3**	0.4
Released in the year	**(0.2)**	(0.2)
At 31 December	**1.1**	1.0

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

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

20. Cash and cash equivalents

	2014 $ million	2013 $ million
Cash at bank and in hand	**94.8**	172.1
Short term bank deposits	**5.0**	44.1
	99.8	216.2

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

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

At the end of 2014 the currency split of cash and cash equivalents was US dollar 57 per cent (2013 84 per cent), sterling 30 per cent (2013 10 per cent) and other currencies 13 per cent (2013 6 per cent).

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

	2014 $ million	2013 $ million
Non-current		
Cash on deposit	–	0.1

At 31 December 2013 $0.1 million was held in a blocked trust account 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, were settled.

21. Trade and other payables – current

	Note	2014 $ million	2013 $ million
Trade payables		**17.8**	18.3
Payments received on account		**1.2**	0.2
Other taxes and social security costs		**3.9**	4.5
Share buyback obligation	28	**–**	18.2
Accruals		**40.2**	38.2
Deferred income		**64.1**	51.3
		127.2	130.7

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.

22. Deferred tax

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

	Notes	Temporary differences	Tax losses	UK pension plans	Total $ million
At 1 January 2013		2.9	19.6	5.9	28.4
Charged in the year	11	(0.9)	(3.4)	(0.7)	(5.0)
Deferred tax on defined benefit pension plan	11	–	–	(4.2)	(4.2)
Deferred tax on share incentives recognised in equity	11	(0.6)	–	–	(0.6)
Exchange adjustment		–	–	(0.3)	(0.3)
At 1 January 2014		**1.4**	**16.2**	**0.7**	**18.3**
Charged in the year	11	**2.9**	**(3.1)**	**(0.8)**	**(1.0)**
Deferred tax on defined benefit pension plan	11	**–**	**–**	**3.3**	**3.3**
Deferred tax on share incentives recognised in equity	11	**(0.2)**	**–**	**–**	**(0.2)**
Acquisitions	32	**(2.3)**	**–**	**–**	**(2.3)**
Exchange adjustment		**0.1**	**0.1**	**(0.3)**	**(0.1)**
At 31 December 2014		**1.9**	**13.2**	**2.9**	**18.0**
Amounts on the balance sheet:					
At 31 December 2013					
Deferred tax asset		1.4	16.2	0.7	18.3
At 31 December 2014					
Deferred tax asset		**4.4**	**13.2**	**2.9**	**20.5**
Deferred tax liability		**(2.5)**	**–**	**–**	**(2.5)**
		1.9	**13.2**	**2.9**	**18.0**

A deferred tax asset of $20.5 million has been recognised at 31 December 2014 (2013 $18.3 million). $6.4 million is in the United Kingdom (2013 $5.2 million), $13.0 million is in the United States (2013 $12.0 million) and $1.1 million is in the rest of the world (2013 $1.1 million).

The deferred tax asset includes $0.4 million (2013 $0.7 million) in respect of the tax deduction which may be available on the future exercise of share incentives.

Deferred tax assets on temporary differences of $5.8 million arising in the rest of the world (2013 $4.7 million) have not been recognised.

The Group has tax losses arising in the United Kingdom of $56.4 million (2013 $65.1 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. United Kingdom tax losses can be carried forward indefinitely. In total deferred tax assets amounting to $17.1 million (2013 $17.7 million) have not been recognised.

The Group also has capital losses carried forward of $1,284.3 million (2013 $1,366.6 million) for which no deferred tax asset is recognised on the balance sheet. These capital losses have no expiry date.

22. Deferred tax continued

Future changes in tax rates

The UK current tax rate was reduced from 23 per cent to 21 per cent with effect from 1 April 2014. Under the Finance Act 2013, the UK current tax rate will reduce 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 2015 have been based on the existing 21 per cent rate; those being realised or settled after 1 April 2015 have been based on a rate of 20 per cent.

23. Trade and other payables – non-current

	2014 $ million	2013 $ million
Other payables	**1.6**	2.2
Accruals	**0.5**	0.4
Deferred income	**10.5**	12.6
	12.6	15.2

24. Other financial liabilities

	2014 $ million	2013 $ million
Put option	**2.7**	–

In relation to the acquisition of Testing Technologies IST GmbH in 2014 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 revenue performance of Testing Tech and set at a minimum amount of Euro 1.4 million.

A financial liability of Euro 2.2 million ($2.7 million) has been recorded to reflect the fair value of the exercise price of the option, measured at recurring fair value through profit and loss and considered to be categorised within level 3 as no observable market data is available.

The fair value of the put option over the non-controlling interest has been measured using discounted cash flows with inputs derived from the projected financial performance in accordance with the agreement.

An increase or decrease in the projected financial performance used in the put option measurements by 10 per cent would increase or decrease the liability by $0.2 million.

25. Provisions

	Lease provisions	Restructuring provisions	Other provisions	Total
				$ million
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 1 January 2014	**2.7**	**1.9**	**1.9**	**6.5**
Charged in the year	**–**	**4.1**	**0.3**	**4.4**
Asset retirement obligation	**1.6**	**–**	**–**	**1.6**
Released in the year	**(0.1)**	**(0.1)**	**–**	**(0.2)**
Utilised in the year	**(0.5)**	**(3.3)**	**–**	**(3.8)**
Exchange difference	**(0.1)**	**–**	**(0.1)**	**(0.2)**
At 31 December 2014	**3.6**	**2.6**	**2.1**	**8.3**

	2014 $ million	2013 $ million
Current	**6.7**	6.0
Non-current	**1.6**	0.5
	8.3	6.5

The lease provisions are for the continuing obligations under leases in respect of properties which have been vacated by the Group and property dilapidation and restoration provisions. Where material, lease obligations are discounted. The Group expects these provisions to be utilised over one to nine 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. 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:

	Notes	**2014 $ million**	2013 $ million
		Loans and receivables at amortised cost	Loans and receivables at amortised cost
Non-current cash on deposit	20	**–**	0.1
Non-current trade and other receivables	19	**3.8**	3.9
Cash and cash equivalents	20	**99.8**	216.2
Current trade and other receivables	19	**112.7**	93.8
Financial assets		**216.3**	314.0
Non-current other payables and accruals	23	**2.1**	2.6
Current trade payables and accruals	21	**58.0**	56.5
Share buyback obligation	21	**–**	18.2
Other financial liabilities	24	**2.7**	–
Provisions	25	**8.3**	6.5
Financial liabilities		**71.1**	83.8

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 2014 and 2013 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.

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

	2014		2013	
	Effective interest rate %	**$ million**	Effective interest rate %	$ million
Fixed rate				
Fixed deposits	**0.24**	**5.0**	0.27	44.1
Floating rate				
Cash at bank and in hand		**94.8**		172.1

26. Financial instruments and financial risk management continued

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.

At 31 December 2013 $0.1 million was held in a blocked trust account and was earning interest of 0.44 per cent. The maturity of the deposit was three months; at maturity the interest rate was reset.

Interest receivable for the year was $0.4 million (note 7) (2013 $0.9 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 2014 would increase or reduce interest income and equity by $0.2 million (2013 $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 undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters using forward foreign currency exchange contracts. The main exposures arise in relation to US dollar receivables and cash balances held by non-US operations. Group treasury, by means of forward foreign currency exchange contracts, carries out transaction hedging. A 10 per cent appreciation or depreciation of sterling and euro against the US dollar would increase or reduce profit before tax by $1.1 million (2013 $0.8 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 $99.8 million (2013 $216.3 million).

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

The Group has no significant concentration of credit risk attributable to its trade receivables as the exposure is spread over a large number of customers with no one customer accounting for more than 10 per cent of total Group revenue. The maximum credit exposure at the balance sheet date in relation to trade receivables is equal to the carrying value of $107.8 million (2013 $90.0 million).

26. Financial instruments and financial risk management continued

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

	2014 $ million	2013 $ million
Neither impaired nor past due	**68.2**	59.9
Past due but not impaired:		
Less than 30 days overdue	**20.5**	15.5
30 to 60 days	**7.9**	5.1
Over 60 days	**11.2**	9.5
Trade receivables	**107.8**	90.0

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 19. The value of impaired trade receivables is $1.1 million (2013 $1.0 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 2014 the Group had cash and cash equivalents of $99.8 million (2013 $216.2 million) of which $94.8 million (2013 $170.9 million) is available on demand and $5.0 million matures within three months (2013 $45.3 million on one months' notice or matures within three months).

During 2014 the Group generated $41.7 million of cash from operating activities (2013 $67.4 million) and considers that with current cash resources, no debt and positive cash flow from its operating activities it has adequate resources available to it to remain in operational existence for the foreseeable future.

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:

	2014 $ million	2013 $ million
Sale of US dollars against sterling	**6.3**	3.5

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). In addition, the Group has a liability in respect of a put and call option with a fair value of $2.7 million which will be settled in 2016 (see note 24).

The Group does not have any other material financial contractual commitments.

d) Fair value of financial instruments

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

Derivative financial instruments are stated at fair value although the amounts at 31 December 2014 and 2013 were immaterial.

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

e) Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. During 2014 and 2013 the Company has been operating an on market share repurchase programme. In 2014 the Company repurchased 9.7 million of its Ordinary Shares at a cost of $15.6 million (2013 29.2 million at a cost of $55.5 million). No further share buybacks are currently planned.

Spirent's policy on the payment of dividends to shareholders is to maintain a sustainable 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:

	2014 $ million	2013 $ million
Within one year	**9.1**	8.2
In the second to fifth years	**18.1**	12.3
Over five years	**13.8**	3.2
	41.0	23.7

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 3⅓ pence each:

	Number of Ordinary Shares million	$ million
At 1 January 2013	650.6	35.3
Cancelled during the year	(29.2)	(1.5)
Exchange adjustment		0.6
At 1 January 2014	**621.4**	**34.4**
Cancelled during the year	**(9.7)**	**(0.5)**
Exchange adjustment		**(2.1)**
At 31 December 2014	**611.7**	**31.8**

During 2014 and 2013 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2014 0.2 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 (2013 1.4 million Ordinary Shares).

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 2014, the ESOT held 0.7 million Ordinary Shares (2013 0.9 million Ordinary Shares) to satisfy awards under various share incentive plans. At 31 December 2014, the SST held 0.5 million Ordinary Shares (2013 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 1.2 million Ordinary Shares (2013 1.4 million Ordinary Shares), at 31 December 2014 was $1.4 million (2013 $2.5 million).

Capital redemption reserve
During 2014 the Company cancelled 9.7 million Ordinary Shares (2013 29.2 million Ordinary Shares) that had been the subject of the on market share repurchase programme, and transferred $0.5 million (2013 $1.5 million) to the capital redemption reserve.

Share repurchase
During 2014 the Company repurchased 9.7 million (2013 29.2 million) Ordinary Shares on market at a cost of $15.6 million (2013 $55.5 million) which were subsequently cancelled.

28. Equity 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 $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 at 31 December 2013.

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 2014 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 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**	**–**	**–**
Exercised	**(0.4)**	**51**	**(0.1)**	**60**	**–**	**–**
Granted	**4.0**	**47**	**–**	**–**	**–**	**–**
Forfeited	**(2.4)**	**81**	**–**	**–**	**–**	**–**
Incentives outstanding at 31 December 2014	**6.6**	**63**	**–**	**–**	**–**	**–**
Incentives exercisable						
At 31 December 2013	0.5	50	0.1	60	–	–
At 31 December 2014	**0.2**	**50**	**–**	**–**	**–**	**–**

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 104.3 pence (2013 143.7 pence).

The following information relates to outstanding share incentives at 31 December 2014:

				2014				2013
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	**25.08.08–16.11.24**	**0–72**	**3**	**3.2**	**8.5**	11	2.4	7.4
	23.03.14–27.04.24	**101–169**	**120**	**3.4**	**8.6**	137	3.0	8.8
Spirent Stock Incentive Plan	**12.01.07–13.11.15**	**37–57**	**–**	**–**	**–**	53	0.1	1.9
Total				**6.6**			5.5	

29. Employee share plans continued
Description of employee share plans
Discretionary plans
2005 Employee Incentive Plan ("EIP")
The EIP, which was approved by shareholders and introduced in 2005, is available for selected employees, including executive directors, on a discretionary basis.

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

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

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration on pages 55 to 71.

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 2014, 3.6 million EIP SARs with an average base price of 116 pence were outstanding and no SSIP SARs remained outstanding (2013 2.8 million EIP SARs and 0.1 million SSIP SARs with an average base price of 127 pence and 60 pence respectively). During 2014, 0.5 million EIP and SSIP SARs were exercised resulting in the transfer from the ESOT of 0.2 million Ordinary Shares (2013 1.1 million Ordinary Shares were issued or transferred on the exercise of 1.6 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 four ways to provide Ordinary Shares to employees: free shares, partnership shares, matching shares and dividend shares. The UK ESPP operates in conjunction with a trust, which holds the shares on behalf of participants.

29. Employee share plans continued

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

US Employee Stock Purchase Plan ("US ESPP")

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

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

Global All Employee Share Purchase Plan ("GAESPP")

The GAESPP was initially approved by shareholders in 2001 with amendments being approved by shareholders in 2005 and 2011. The GAESPP enables the Company to invite employees in countries other than the US or UK to acquire Ordinary Shares in the Company on market using deductions from payroll. In September 2011, the first such invitation was made to all employees in Canada, Hong Kong, France and Germany and subsequent invitations have been made on a six-monthly basis since 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

	2014 $ million	2013 $ million
2005 Employee Incentive Plan	**0.7**	(1.2)

All schemes are equity-settled.

4.0 million share incentives were granted during 2014 (2013 3.3 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:

	2014	2013
Weighted average share price (pence)	**97.1**	129.1
Weighted average exercise price (pence)	**46.6**	73.3
Weighted average fair value (pence)	**47.8**	59.0
Expected volatility (%)	**34–38**	33.0
Option life (years)		
Performance shares	**3**	3
Options and SARs	**10**	10
Suboptimal exercise factor	**1.5**	1.5
Risk free rate (%)	**2.1–2.8**	1.6
Dividend yield (%)	**1.7**	1.3

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous two years which management considers to be the period which is likely to be most representative of future volatility. The risk free rate is calculated by reference to UK government bonds.

31. Reconciliation of profit to cash generated from operations

	2014 $ million	2013 $ million
Profit before tax	**24.1**	39.1
Adjustments for:		
Finance income	**(0.4)**	(0.9)
Finance costs	**–**	0.9
Intangible asset amortisation and impairment	**15.0**	9.9
Depreciation of property, plant and equipment	**19.7**	16.5
Share-based payment	**0.7**	(1.2)
Changes in working capital		
Deferred income received	**2.7**	12.9
Increase in receivables	**(17.0)**	(6.0)
Decrease in inventories	**4.7**	2.4
Decrease in payables	**2.9**	2.8
Increase in provisions	**0.4**	1.5
Defined benefit pension plan	**(3.9)**	(4.4)
Cash flow from operations	**48.9**	73.5

32. Business combinations

The following acquisitions were completed in 2014. There were no acquisitions in 2013.

DAX Technologies Corp. ("DAX")

The assets of DAX were acquired for a cash consideration of $36.9 million on 19 February 2014. 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. DAX is reported within the Group's Service Assurance division.

Converging multi-technology 3G and 4G LTE networks and services, such as VoLTE, require the use of big data analytics to fully understand the customer experience. 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 its customers deploy and manage complex new networks and services faster and more effectively.

From the date of acquisition to 31 December 2014, DAX contributed $10.1 million of revenue and $3.7 million of profit before tax to the results of the Group before charging $0.7 million of acquisition related costs and $2.9 million of acquired intangible asset amortisation. If the combination had occurred at the beginning of the financial year revenue of $10.5 million and profit before tax of $3.4 million would have been included in the Group result before $0.7 million of acquisition related costs and $3.3 million of acquired intangible asset amortisation.

The goodwill arising of $23.8 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place. The goodwill recognised is expected to be deductible for income tax purposes.

Radvision Technology Business Unit ("TBU")

On 31 July 2014 Spirent completed the acquisition of the assets of Radvision's TBU for a cash consideration of $25.9 million. The Radvision TBU offers a complete test suite for voice and video over IP communications, including VoLTE, expanding Spirent's leading portfolio of VoLTE solutions to address needs from early development through to deployment. The Radvision TBU pioneered the introduction of voice and video over IP with a range of embedded technologies and test solutions, combining unique expertise in signalling, multimedia and IMS. Used by developers of mobile chipsets, mobile devices and communications infrastructure, as well as service providers worldwide, the Radvision TBU's solutions have helped enable the majority of today's voice and video over IP deployments. The Radvision TBU is reported within the Wireless & Service Experience division.

VoLTE testing is already a critical element in many of Spirent's test solutions. Spirent's customers' transition from circuit-switched voice networks to all-IP networks presents huge opportunities for VoLTE and RCS services on mobile devices. The addition of Radvision's TBU will expand Spirent's test solution portfolio to meet the needs of customers, from early in the development cycle right through to deployment, helping to save development time and cost.

32. Business combinations continued

From the date of acquisition to 31 December 2014, the Radvision TBU contributed $4.2 million of revenue and $0.5 million of profit before tax to the results of the Group before charging $1.9 million of acquisition related costs and $0.5 million of acquired intangible asset amortisation. If the combination had occurred at the beginning of the financial year revenue of $11.7 million and profit before tax of $2.9 million would have been included in the Group result before charging $1.9 million of acquisition related costs and $1.2 million of acquired intangible asset amortisation.

The goodwill arising of $19.0 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place. The goodwill recognised is expected to be deductible for income tax purposes.

Mobilethink A/S ("Mobilethink")

On 12 September 2014 Spirent completed the acquisition of 100 per cent of the share capital of Mobilethink and its wholly owned subsidiary, Tweakker ApS ("Tweakker") for a cash consideration of $20.1 million. Headquartered in Aarhus, Denmark, Mobilethink is a provider of mobile device management, device analytics and intelligence solutions for mobile operators. Tweakker is a cloud-based mobile device configuration solution specifically targeted at Mobile Virtual Network Operators ("MVNOs"). Mobilethink's solutions allow operators to correctly detect mobile devices, configure them for data usage, analyse device population trends, and run marketing campaigns with the goal of increasing average revenue per user. This acquisition is reported within the Service Assurance division.

Hosted and cloud-enabled device intelligence solutions give operators and MVNOs the ability to significantly improve subscriber service experience. The acquisition of Mobilethink, combined with Spirent's extensive portfolio of mobile device performance and CEM solutions, will help drive Spirent's overall growth with additional recurring revenue potential.

From the date of acquisition to 31 December 2014, Mobilethink and Tweakker contributed $2.0 million of revenue and a $0.3 million loss before tax to the results of the Group before charging $0.6 million of acquisition related costs and $0.7 million of acquired intangible asset amortisation. If the combination had occurred at the beginning of the financial year revenue of $7.6 million and profit before tax of nil would have been included in the Group result before charging $0.6 million of acquisition related costs and $2.4 million of acquired intangible asset amortisation.

The goodwill arising of $11.5 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place. The goodwill recognised is not expected to be deductible for income tax purposes.

Other acquisitions

From the date of acquisition to 31 December 2014, other acquisitions contributed $2.3 million of revenue and $0.5 million of profit before tax to the results of the Group before charging $0.6 million of acquisition related costs, $0.2 million of acquired intangible asset amortisation and $1.0 million of intangible asset impairment. If the combination had occurred at the beginning of the financial year revenue of $2.6 million and a profit before tax of $0.6 million would have been included in the Group result before charging $0.6 million of acquisition related costs, $0.2 million of acquired intangible asset amortisation and $1.0 million of intangible asset impairment.

Testing Technologies IST GmbH ("Testing Tech")

On 20 February 2014 Spirent completed the acquisition of 58 per cent of the Ordinary Share capital of Testing Tech which was in private ownership, for a cash consideration of Euro 1.8 million ($2.4 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. This acquisition is reported within the Wireless & Service Experience division.

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 (note 24).

32. Business combinations continued

NetGend LLC ("NetGend")

On 15 September 2014 Spirent completed the acquisition of the net assets of NetGend, a Texas based entity, for a cash consideration of $1.0 million. Deferred consideration is payable based on revenue generated during the four-year period commencing in 2015. The fair value of the deferred consideration has been estimated as immaterial. NetGend provides a scalable and flexible application performance testing platform that runs on both cloud infrastructure and hardware and its results are reported within the Networks & Applications division.

The goodwill arising on these other acquisitions of $2.3 million consists largely of the synergies and economies of scale expected from the combination of the entities together with intangible assets not qualifying for separate recognition such as workforce in place.

The following table summarises the consideration paid and the assets and liabilities acquired at the acquisition date. Since the acquisitions of the Radvision TBU and Mobilethink have taken place fairly recently the net assets acquired and consideration given below are provisional.

					$ million
	DAX	Radvision TBU	Mobilethink	Other	Total
Intangible assets	**14.1**	**7.2**	**12.1**	**2.0**	**35.4**
Tangible fixed assets	**0.1**	**0.1**	**–**	**–**	**0.2**
Deferred tax asset	**0.6**	**–**	**–**	**–**	**0.6**
Trade and other receivables	**–**	**1.8**	**4.1**	**0.1**	**6.0**
Cash and cash equivalents	**–**	**–**	**–**	**0.4**	**0.4**
Trade and other creditors	**(1.7)**	**(2.2)**	**(5.0)**	**(1.0)**	**(9.9)**
Borrowings	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Deferred tax liability	**–**	**–**	**(2.6)**	**(0.3)**	**(2.9)**
Total identifiable net assets	**13.1**	**6.9**	**8.6**	**1.1**	**29.7**
Goodwill	**23.8**	**19.0**	**11.5**	**2.3**	**56.6**
Consideration	**36.9**	**25.9**	**20.1**	**3.4**	**86.3**
Cash flows:					
Consideration	**36.9**	**25.9**	**20.1**	**3.4**	**86.3**
Cash acquired	**–**	**–**	**–**	**(0.4)**	**(0.4)**
	36.9	**25.9**	**20.1**	**3.0**	**85.9**

For trade and other receivables the gross contractual amounts are $7.6 million in total for all acquisitions.

The intangible assets acquired represent software technology, customer list, data base, non-compete covenant and brands and these have been assigned provisional lives of between two to seven years.

The non-controlling interest has been measured as the proportionate share of the acquirer's identifiable net assets and was nil on acquisition.

Acquisition related costs were $3.8 million and these have been expensed to administration costs.

33. 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":

	2014 $ 000	2013 $ 000
Short term employee benefits	**1,814**	1,860
Contribution to defined contribution scheme (post employment benefits)	**–**	10
Compensation for loss of office (termination benefits)	**514**	136
Statutory disclosures	**2,328**	2,006
Share-based payment	**198**	(350)
	2,526	1,656

	Notes	2014 £ million	2013 £ million
Fixed assets			
Intangible assets	4	**1.8**	2.4
Tangible assets	5	**1.0**	1.1
Investments	6	**346.2**	310.2
		349.0	313.7
Current assets			
Stocks	7	**1.7**	1.6
Debtors	8	**9.7**	7.0
Cash at bank and in hand		**21.6**	14.2
		33.0	22.8
Creditors: amounts falling due within one year			
Trade and other creditors	9	**(10.9)**	(18.4)
Net current assets		**22.1**	4.4
Total assets less current liabilities		**371.1**	318.1
Creditors: amounts falling due after more than one year			
Trade and other creditors	10	**(74.2)**	(75.0)
Net assets (excluding defined benefit pension plan deficit)		**296.9**	243.1
Defined benefit pension plan deficit	3	**(7.4)**	(1.6)
Net assets		**289.5**	241.5
Capital and reserves	14		
Called up share capital		**20.4**	20.7
Share premium account		**20.2**	20.2
Capital redemption reserve		**13.1**	12.8
Profit and loss account		**235.8**	187.8
Shareholders' funds – equity		**289.5**	241.5

The notes on pages 117 to 129 form part of these financial statements.

Signed on behalf of the Board

Rachel Whiting
Director
26 February 2015

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").

The financial statements have been prepared on a going concern basis.

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 that 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 that 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.

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.

1. Significant accounting policies continued

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 is recognised in the profit and loss account during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit pension plan cost represents the change in present value of plan obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year.

The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on plan assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the profit and loss account as finance costs or finance income.

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

1. Significant accounting policies continued

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.

The tax currently payable represents the amount expected to be paid or recovered in respect of taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on an undiscounted basis on all timing differences that have originated but not reversed at the balance sheet date except as referred to below. Amounts provided are calculated with reference to tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not provided on gains on the disposal of fixed assets that have been rolled over into replacement assets, unless there is a binding agreement to dispose of the assets concerned. Provision will not be made where it is considered more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold.

2. Employees

Please refer to the Report on directors' remuneration on pages 55 to 71 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:

	2014 %	2013 %
Inflation – RPI	**2.9**	3.3
Inflation – CPI	**1.8**	2.2
Rate of increase in pensionable salaries	**3.0**	3.1
Rate of increase for pensions in payment pre 2001 service	**3.6**	3.6
Rate of increase for pensions in payment 2001 to 5 April 2005 service	**2.8**	3.1
Rate of increase for pensions post 5 April 2005 service	**2.0**	2.2
Rate of increase in deferred pensions	**1.8**	2.2
Rate used to discount plan liabilities	**3.6**	4.5
Expected rate of return on plan assets (weighted for both plans)	**3.4**	4.6

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 (2013 aged 65) will live on average for a further 23.5 years (2013 23.5 years) if they are male and for a further 25.7 years (2013 25.6 years) if they are female. For a member who retires in 2034 (2013 in 2033) at age 65 (2013 age 65) the assumptions are that they will live on average for a further 24.4 years (2013 24.3 years) after retirement if they are male and for a further 26.8 years (2013 26.7 years) after retirement if they are female.

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

- Reducing the discount rate by 0.1 per cent per annum would increase past service liabilities by £2.6 million.
- Increasing the RPI inflation assumption by 0.1 per cent would increase the plans' liabilities by £1.1 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 £7.5 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.

3. Pensions continued

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

	Note	2014 Long term rate of return expected %	2014 £ million	2013 Long term rate of return expected %	2013 £ million
Staff Plan					
Equities		**6.2**	**48.7**	7.4	53.9
LDI funds		**0.9**	**25.2**	1.3	14.4
Cash benchmarked bonds		**1.1**	**69.8**	3.0	72.5
Insured annuities		**3.6**	**3.4**	4.5	3.3
Property		**4.3**	**9.6**	5.5	15.3
Cash and other		**0.9**	**14.6**	1.3	0.5
Fair value of plan assets		**3.4**	**171.3**	4.6	159.9
Present value of defined benefit pension plan obligations			**(180.6)**		(161.8)
Deficit in the plan			**(9.3)**		(1.9)
Cash Plan					
Equities		**6.2**	**2.9**	7.4	2.7
Government bonds		**2.0**	**2.8**	3.2	2.0
Insured annuities		**3.6**	**0.2**	4.5	0.2
Cash and other		**0.9**	**2.0**	1.3	2.4
Fair value of plan assets		**3.3**	**7.9**	4.2	7.3
Present value of defined benefit pension plan obligations			**(7.4)**		(6.9)
Surplus in the plan			**0.5**		0.4
Total net deficit recognised			**(8.8)**		(1.5)
Unfunded plan					
Present value of unfunded obligations			**(0.5)**		(0.5)
Net pension plan deficit			**(9.3)**		(2.0)
Deferred tax asset	11		**1.9**		0.4
Net pension plan deficit on the balance sheet			**(7.4)**		(1.6)

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

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

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

	2014 £ million	2013 £ million
Analysis of amount charged to operating costs		
Current service cost	**0.1**	0.1
Expected return on pension plans' assets	**7.1**	7.5
Interest on pension plans' liabilities	**(7.4)**	(7.3)
Finance (expense)/income	**(0.3)**	0.2
Net profit and loss charge/(credit)	**0.4**	(0.1)

3. Pensions continued

iv) Analysis of amount recognised directly in equity

	2014 £ million	2013 £ million
Actual return on pension plans' assets	**16.9**	13.5
Less expected return on pension plans' assets	**7.1**	7.5
Experience gains on plans' assets	**9.8**	6.0
Experience gains arising on plans' liabilities	**0.5**	–
Changes in assumptions underlying the present value of plans' liabilities	**(20.1)**	4.2
Actuarial (losses)/gains recognised directly in equity	**(9.8)**	10.2

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 £31.9 million loss (2013 £22.1 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

	2014 £ million	2013 £ million
At 1 January	**168.7**	173.0
Current service cost	**0.1**	0.1
Interest cost	**7.4**	7.3
Benefit payments	**(7.8)**	(7.5)
Actuarial loss/(gain)	**19.6**	(4.2)
Present value of funded defined benefit pension plans' obligations	**188.0**	168.7

vi) Movements in the fair value of plans' assets

	2014 £ million	2013 £ million
At 1 January	**167.2**	157.8
Expected return on plans' assets	**7.1**	7.5
Employer contributions	**2.9**	3.4
Benefit payments	**(7.8)**	(7.5)
Actuarial gain	**9.8**	6.0
Fair value of plans' assets	**179.2**	167.2

vii) History of experience gains and losses

	2014 £ million	2013 £ million	2012 £ million	2011 £ million	2010 £ million
Present value of defined benefit pension plans' obligations	**(188.0)**	(168.7)	(173.0)	(158.4)	(140.6)
Fair value of plans' assets	**179.2**	167.2	157.8	150.8	146.9
Net (deficit)/surplus in plans	**(8.8)**	(1.5)	(15.2)	(7.6)	6.3
Experience gain/(loss) on plans' liabilities					
Amount (£ million)	**0.5**	–	0.7	(1.7)	(0.4)
Percentage of plans' liabilities (%)	**0.3**	–	0.4	(1.1)	(0.3)
Experience gain on plans' assets					
Amount (£ million)	**9.8**	6.0	4.4	0.7	7.1
Percentage of plans' assets (%)	**5.5**	3.6	2.8	0.5	4.8

3. Pensions continued

Expected cash contributions for 2015 for these plans are £2.8 million.

The above plans are funded and have full UK HM Revenue & Customs ("HMRC") tax-exempt approval. Certain members, whose salaries were in excess of the HMRC statutory earnings cap, had their benefits increased through unapproved unfunded arrangements, to the level that would otherwise have applied in respect of basic salary only. The Company has contractually agreed to pay the additional retirement benefits itself and a provision is made in respect of this obligation in the balance sheet at 31 December 2014 of £0.5 million (2013 £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 2010 to 2014.

Defined contribution schemes

The Company also maintains defined contribution pension plans for employees. Employer contributions into these plans for 2014 were £0.7 million (2013 £0.9 million).

4. Intangible assets

	£ million Goodwill
Cost	
At 1 January 2014 and 31 December 2014	**6.8**
Amortisation	
At 1 January 2014	**4.4**
Provided during the year	**0.6**
At 31 December 2014	**5.0**
Net book value at 31 December 2013	2.4
Net book value at 31 December 2014	**1.8**

5. Tangible fixed assets

				£ million
	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
Cost				
At 1 January 2014	**0.7**	**2.6**	**1.1**	**4.4**
Additions	**–**	**0.2**	**–**	**0.2**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 31 December 2014	**0.7**	**2.7**	**1.1**	**4.5**
Depreciation and impairment				
At 1 January 2014	**0.2**	**2.2**	**0.9**	**3.3**
Provided during the year	**–**	**0.2**	**–**	**0.2**
At 31 December 2014	**0.2**	**2.4**	**0.9**	**3.5**
Net book value at 31 December 2013	0.5	0.4	0.2	1.1
Net book value at 31 December 2014	**0.5**	**0.3**	**0.2**	**1.0**

6. Investments

	Shares in subsidiaries	Loans to subsidiaries	£ million Total
Cost			
At 1 January 2014	**1,026.3**	**6.2**	**1,032.5**
Additions	**6.2**	**27.8**	**34.0**
Exchange adjustment	**–**	**1.9**	**1.9**
Share-based payment	**0.2**	**–**	**0.2**
At 31 December 2014	**1,032.7**	**35.9**	**1,068.6**
Provisions			
At 1 January 2014	**720.9**	**1.4**	**722.3**
Increase in provision	**0.1**	**–**	**0.1**
At 31 December 2014	**721.0**	**1.4**	**722.4**
Net book value at 31 December 2013	305.4	4.8	310.2
Net book value at 31 December 2014	**311.7**	**34.5**	**346.2**

7. Stocks

	2014 £ million	2013 £ million
Work in progress	**0.2**	0.3
Finished goods	**1.5**	1.3
	1.7	1.6

8. Debtors

	Note	**2014 £ million**	2013 £ million
Due within one year			
Trade debtors		**2.1**	1.7
Owed by subsidiaries		**5.8**	2.7
Other debtors		**0.7**	0.7
Prepayments and accrued income		**0.3**	0.5
		8.9	5.6
Due after more than one year			
Deferred tax asset	11	**0.8**	1.4
		9.7	7.0

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

	2014 £ million	2013 £ million
Trade creditors	**0.7**	1.0
Owed to subsidiaries	**2.6**	1.0
Accruals and deferred income	**5.2**	5.1
Share buyback obligation	**–**	10.9
Other taxes and social security costs	**2.4**	0.4
	10.9	18.4

10. Trade and other creditors: amounts falling due after more than one year

	2014 £ million	2013 £ million
Owed to subsidiaries	**74.2**	75.0

11. Deferred tax

	£ million
At 1 January 2014	**1.4**
Reversed in the year	**(0.6)**
At 31 December 2014	**0.8**

The deferred tax asset is in relation to short term timing differences of £0.2 million (2013 £0.2 million) and tax losses of £0.6 million (2013 £1.2 million). The Company has tax losses of £25.1 million (2013 £28.8 million) that are available for offset against suitable future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. These losses can be carried forward indefinitely.

There is a deferred tax asset at 31 December 2014 of £1.9 million (2013 asset of £0.4 million) in relation to the pension plans (note 3).

The Company also has capital losses carried forward of £823.3 million (2013 £823.3 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:

	2014 £ million	2013 £ million
In the second to fifth years	**0.2**	0.2

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.

14. Capital and reserves

£ million

	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total
At 1 January 2014	**20.7**	**20.2**	**12.8**	**187.8**	**241.5**
Share cancellation	**(0.3)**	**–**	**0.3**	**–**	**–**
Profit for the year[2]	**–**	**–**	**–**	**67.4**	**67.4**
Share-based payment[3]	**–**	**–**	**–**	**0.4**	**0.4**
Tax on share-based payment	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Actuarial loss recognised on defined benefit pension plans	**–**	**–**	**–**	**(9.8)**	**(9.8)**
Deferred tax on defined benefit pension plans	**–**	**–**	**–**	**2.0**	**2.0**
Share repurchase	**–**	**–**	**–**	**(9.4)**	**(9.4)**
Share buyback obligation	**–**	**–**	**–**	**10.9**	**10.9**
Equity dividends	**–**	**–**	**–**	**(13.4)**	**(13.4)**
At 31 December 2014	**20.4**	**20.2**	**13.1**	**235.8**	**289.5**

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 £67.4 million (2013 £47.4 million) which after dividends of £13.4 million (2013 £14.3 million), gave a retained profit of £54.0 million (2013 £33.1 million).
3 Share-based payment has been recorded for subsidiary companies whose incentives are satisfied by the Company's shares.

14. Capital and reserves continued

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

	Number of Ordinary Shares
	million
Issued and fully paid Ordinary Shares of 3⅓ pence each at 1 January 2014	**621.4**
Cancelled during the year	**(9.7)**
Issued and fully paid Ordinary Shares of 3⅓ pence each at 31 December 2014	**611.7**

During 2014 and 2013 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2014 0.2 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 (2013 1.4 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 2014 and 26 February 2015, the date on which these financial statements have been signed.

Investment in own Ordinary Shares

At 31 December 2014, the ESOT held 0.7 million Ordinary Shares (2013 0.9 million Ordinary Shares) to satisfy awards under various share incentive plans. At 31 December 2014, the SST held 0.5 million Ordinary Shares (2013 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 1.2 million Ordinary Shares (2013 1.4 million Ordinary Shares), at 31 December 2014 was £0.9 million (2013 £1.5 million).

Capital redemption reserve

During 2014 the Company cancelled 9.7 million Ordinary Shares (2013 29.2 million Ordinary Shares) that had been the subject of the on market share repurchase programme and transferred £0.3 million (2013 £1.0 million) to the capital redemption reserve.

Share repurchase

During 2014 the Company repurchased 9.7 million Ordinary Shares on market at a cost of £9.4 million (2013 29.2 million Ordinary Shares at a cost of £34.9 million). All shares repurchased in 2014 and 2013 were subsequently cancelled.

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 was 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.

14. Capital and reserves continued

Movements in share incentives during the year to 31 December 2014 are shown below:

	2005 Employee 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
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**	**–**	**–**
Granted	**0.8**	**12**	**–**	**–**
Exercised	**(0.3)**	**51**	**–**	**–**
Cancelled	**(0.6)**	**122**	**–**	**–**
Incentives outstanding at 31 December 2014	**1.7**	**23**	**–**	**–**
Incentives exercisable at 31 December 2013	0.5	50	–	–
Incentives exercisable at 31 December 2014	**0.2**	**50**	**–**	**–**

The weighted average share price at exercise date was 104.6 pence (2013 145.9 pence).

The following information relates to outstanding share incentives at 31 December 2014:

			2014			2013		
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]	**25.08.08–26.04.24**	**0–101**	**12.0**	**1.5**	**7.9**	21.0	1.3	6.6
	23.03.14–08.05.23	**129–153**	**134.0**	**0.2**	**8.1**	131.0	0.5	9.3
				1.7			1.8	

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.

15. Share-based payment

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

	2014 £ million	2013 £ million
2005 Employee Incentive Plan	**0.2**	(0.3)

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:

	2014	2013
Weighted average share price (pence)	**101.3**	129.1
Weighted average exercise price (pence)	**12.2**	54.7
Weighted average fair value (pence)	**61.8**	65.1
Expected volatility (%)	**34.0**	33.0
Option life (years)		
Performance shares	**3**	3
Options and SARs	**10**	10
Suboptimal exercise factor	**1.5**	1.5
Risk free rate (%)	**2.8**	1.6
Dividend yield (%)	**1.7**	1.3

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 129 of this Annual Report.

18. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2014 or 31 December 2013.

Spirent Communications plc has provided indemnities of £0.1 million (2013 £0.1 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

Spirent Communications plc has provided guarantees totalling £1.1 million (2013 nil) in respect of the minimum consideration for the acquisition of minority shareholdings in Testing Technologies IST GmbH and which expire on 31 March 2016.

Principal divisions and subsidiaries

	% held at 31 December 2014
Canada	
Spirent Communications of Ottawa Limited (Nepean, Ontario)	100
Denmark	
Spirent Holdings Denmark ApS (Aarhus)	100
France	
Spirent Communications SAS (Paris)	100
Germany	
Testing Technologies IST GmbH (Berlin)	58
Hong Kong	
Spirent Communications (Asia) Limited	100
India	
Spirent Communications (India) Pvt Limited (Bangalore)	100
Israel	
Spirent Communications Israel Limited* (Tel Aviv)	100
Japan	
Spirent Communications Japan KK (Tokyo)	100
People's Republic of China	
Spirent Communications Technology (Beijing) Limited*	100
Singapore	
Spirent Communications Singapore Pte Limited	100
Taiwan	
Spirent Communications Taiwan Limited (Taipei)	100
United Kingdom	
Spirent Communications (International) Limited (Crawley, West Sussex)*	100
Spirent Communications Positioning (Paignton, Devon)†	
United States	
Spirent Communications Hawaii, LLC (Honolulu, Hawaii)	100
Spirent Communications Inc	100
Calabasas, California	
Sunnyvale, California	
Eatontown, New Jersey	
Frederick, Maryland	
Spirent Federal Systems, Inc	100

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

The Company has taken advantage of section 410(2) of the Companies Act 2006 to list only its principal subsidiaries at 31 December 2014 whose results or financial position, in the opinion of the directors, principally affected the financial statements. All subsidiary companies are consolidated. A full list of subsidiary and other associated undertakings as at 31 December 2014 will be annexed to the Company's next annual return filed with the Registrar of Companies.

Financial history

					$ million
	2014	2013	2012	2011	2010
Summary income statement					
Continuing operations					
Revenue	**457.2**	413.5	472.4	470.5	422.8
Operating profit	**23.7**	39.1	108.1	112.2	102.6
Net finance income	**0.4**	–	0.3	1.4	0.9
Profit before tax	**24.1**	39.1	108.4	113.6	103.5
Tax	**(3.5)**	(6.4)	(29.0)	(26.4)	(30.9)
Profit from continuing operations after tax	**20.6**	32.7	79.4	87.2	72.6
Discontinued operations	**–**	–	47.1	6.7	6.6
Profit for the year	**20.6**	32.7	126.5	93.9	79.2
Summary balance sheet					
Intangible assets	**273.3**	198.8	207.4	123.2	112.0
Property, plant and equipment	**52.2**	39.6	34.1	35.5	29.1
Working capital (excluding cash and deferred tax)	**13.9**	(10.8)	7.3	13.8	10.4
Operating assets	**339.4**	227.6	248.8	172.5	151.5
Derivative financial instruments (net)	**–**	–	–	–	(0.2)
Net funds including long term cash	**99.8**	216.3	249.0	237.2	225.0
Provisions and other liabilities	**(8.3)**	(6.5)	(5.0)	(4.5)	(7.6)
Deferred tax	**18.0**	18.3	28.4	29.4	31.3
Defined benefit pension plan (deficit)/surplus	**(14.5)**	(3.3)	(25.6)	(12.4)	7.1
Net assets	**434.4**	452.4	495.6	422.2	407.1
Total equity	**434.4**	452.4	495.6	422.2	407.1
Summary cash flows					
Cash flow from operating activities	**41.7**	67.4	105.1	98.7	99.4
Net interest received	**0.6**	0.8	0.6	0.9	0.8
Net capital expenditure	**(31.6)**	(24.3)	(14.3)	(23.5)	(17.6)
Free cash flow	**10.7**	43.9	91.4	76.1	82.6
Acquisitions and disposals	**(85.9)**	–	(32.1)	(14.5)	–
Share capital and share repurchase	**(16.4)**	(54.5)	(29.4)	(33.0)	(15.0)
Dividends paid	**(22.2)**	(22.2)	(20.3)	(17.5)	(13.7)
Transfer from long term deposit and loan repayment	**–**	0.3	0.3	0.4	0.6
Net (decrease)/increase in cash and cash equivalents	**(113.8)**	(32.5)	9.9	11.5	54.5

	2014	2013	2012	2011	2010
					$ million
Other information – continuing operations					
Expenditure on property, plant and equipment	**33.8**	22.9	15.9	20.1	17.5
Depreciation	**19.7**	16.5	14.6	12.7	11.4
Product development	**115.4**	100.5	86.1	83.3	75.8
Share information					
Earnings per share from continuing operations (cents)					
Basic	**3.35**	5.10	12.11	13.07	10.80
Diluted	**3.35**	5.09	12.07	12.96	10.70
Adjusted basic[1,2]	**5.82**	5.71	13.02	12.81	10.92
Total dividend per Ordinary Share (cents)	**3.89**	3.54	3.22	2.93	2.50
Fully paid Ordinary Shares in issue at year end (number million)	**611.7**	621.4	650.6	664.0	674.9
Segmental analysis – continuing operations					
Revenue					
Networks & Applications	**221.5**	213.4	259.5	254.6	242.0
Wireless & Service Experience	**178.6**	167.7	174.5	161.8	123.8
Service Assurance	**57.1**	32.4	38.4	54.1	57.0
	457.2	413.5	472.4	470.5	422.8
Operating profit					
Networks & Applications	**7.6**	13.2	59.7	56.6	58.2
Wireless & Service Experience	**24.0**	33.8	56.7	58.5	39.7
Service Assurance	**20.7**	9.0	8.4	7.0	13.0
Corporate – non-segmental	**(6.3)**	(5.9)	(6.5)	(6.0)	(6.5)
Operating profit[1]	**46.0**	50.1	118.3	116.1	104.4
Exceptional items	**(4.1)**	(3.8)	(2.9)	–	–
Acquisition related costs	**(3.8)**	–	(1.2)	(1.2)	–
Acquired intangible asset amortisation and impairment	**(13.7)**	(8.4)	(4.5)	(1.6)	(1.4)
Share-based payment	**(0.7)**	1.2	(1.6)	(1.1)	(0.4)
	23.7	39.1	108.1	112.2	102.6
Geographical information – continuing operations					
Revenue by market					
United States	**233.2**	215.8	239.2	238.8	230.0
Asia Pacific, Rest of World	**158.7**	146.9	166.0	159.1	126.3
Europe	**65.3**	50.8	67.2	72.6	66.5
	457.2	413.5	472.4	470.5	422.8

Notes
1 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment and share-based payment.
2 Before tax effect of items in note 1 and prior year tax.

Financial calendar 2015

26 February	Preliminary results and final dividend announcement
5 March	Final dividend – ex-dividend date
6 March	Final dividend – record date
5 May	Annual General Meeting
8 May	Final dividend – payment date (Ordinary shareholders)
18 May	Final dividend – payment date (ADR holders)
30 June	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)
31 December 2015	Financial year end
February/March 2016	2015 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). BNY 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 2015 Annual General Meeting ("2015 AGM") will be held at 1pm on 5 May 2015 at the offices of UBS at 100 Liverpool Street, London EC2M 2RH.

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 26 February 2015, the number of registered shareholders was 3,349 and the number of Ordinary Shares in issue was 611.7 million.

Number of Ordinary Shares held	Number of Shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
1 – 5,000	2,405	71.81	3,276,548	0.54
5,001 – 10,000	341	10.18	2,529,628	0.41
10,001 – 50,000	364	10.87	7,848,116	1.28
50,001 – 100,000	60	1.79	4,328,454	0.71
100,001 – 250,000	51	1.52	8,282,902	1.35
250,001 – 500,000	33	0.99	12,537,586	2.05
500,001 – 1,000,000	30	0.90	21,919,556	3.58
1,000,001 – highest	65	1.94	551,019,098	90.08
Total	3,349	100.00	611,741,888	100.00

	Number of Shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
Individuals	2,688	80.26	13,034,230	2.13
Institutions	661	19.74	598,707,658	97.87
Total	3,349	100.00	611,741,888	100.00

Glossary

3G (Third Generation)	Third generation of mobile communications that delivers data rates of hundreds of kilobits per second to tens of megabits per second.
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.
Agile Software Development	A group of development methods in which requirements and solutions evolve through collaboration between self-organising, cross-functional teams. It promotes adaptive planning, evolutionary development, early delivery, continuous improvement, and encourages rapid and flexible response to change.
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	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.
Carrier Aggregation	A technique used in 4G mobile communications that allows expansion of the effective bandwidth delivered to a mobile user terminal by concurrent utilisation of resources across multiple radio carriers.
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.
Continuous Integrated Test Optimization	A practice in software development environments that employ continuous integration, in which code is built automatically and tests are run against a specific build, providing feedback to developers in a shorter timeframe to allow coding issues to be fixed or code changes to be rolled back to ensure stable code.
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.
Evolved Packet Core	An integrated IP-based mobile transport network with the ability to support 2G, 3G and LTE coexistence.
Fuzzing	A software testing technique commonly used to uncover security vulnerabilities in software, operating systems or networks by inputting large amounts of invalid, unexpected or random data to the system in an attempt to make it crash.
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	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.
Internet of Everything ("IoE")	An extension to today's internet that builds on the compound impact of connections among people, processes, data, and things, where each is intended to amplify the capabilities of the other three. This global connectedness is expected to create additional value as "everything" comes online.

Internet of Things ("IoT")	A network of physical objects or "things" embedded with electronics, software, sensors and connectivity to enable data exchange with the manufacturer, operator and/or other connected devices. Each thing is uniquely identifiable through its embedded computing system but is able to interoperate within existing internet infrastructure.
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	An incident of unauthorised access to data or an automated information system.
Jamming	The intentional emission of radio frequency signals to interfere with the operation of GNSS receiver by saturating it with noise or false information.
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.
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.
Rich Communication Suite ("RCS")	Also known as Rich Communications Services, RCS is a platform intended to enable mobile network operators to deliver integrated communication services, beyond voice and SMS, over all-IP networks, including instant messaging or chat, live video and file sharing, across any device on any network.
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 Network ("SDN")	An approach to networking in which control is decoupled from hardware and given to a software application called a controller.
Spoofing	An attempt to deceive a GNSS receiver's estimate of its position or time by broadcasting counterfeit GNSS signals, structured to resemble a set of normal GNSS signals, or by rebroadcasting genuine signals captured elsewhere or at a different time.
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.
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.
Wi-Fi Offload	A technique that helps operators manage mobile data growth by seamlessly offloading subscriber traffic from their primary 3G and 4G networks to Wi-Fi networks.
Wireline	Communication services provided over a physical connection, which may be copper or fibre.

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