



Registered in England No 470893

# CONNECTING A SMARTER FUTURE

SPIRENT COMMUNICATIONS PLC  
ANNUAL REPORT 2015

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**SPIRENT COMMUNICATIONS ENABLES INNOVATIONS  
IN COMMUNICATIONS TECHNOLOGIES THAT  
CONNECT THE SMARTER WORLD. WHETHER IT IS  
SERVICE PROVIDER NETWORKS, DATA CENTERS,  
ENTERPRISE IT, MOBILE COMMUNICATIONS,  
CONNECTED VEHICLES OR THE INTERNET OF THINGS,  
SPIRENT SOLUTIONS ARE WORKING BEHIND THE  
SCENES TO HELP THE WORLD COMMUNICATE AND  
COLLABORATE FASTER, BETTER AND MORE SECURELY.**

THE WORLD'S LEADING INNOVATORS RELY ON SPIRENT'S  
EXPERTISE TO HELP THEM DESIGN, DEVELOP AND DELIVER  
BEST-IN-CLASS SOLUTIONS TO THEIR CUSTOMERS

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## Results and highlights

REVENUE<sup>4</sup>  
**\$477.1M**

ADJUSTED OPERATING PROFIT<sup>1 4</sup>  
**\$42.1M**

BASIC EARNINGS PER SHARE<sup>4</sup>  
**2.18C**

ADJUSTED EARNINGS PER SHARE<sup>1 2 4</sup>  
**5.00C**

DIVIDEND PER SHARE  
**3.89C**

FREE CASH FLOW<sup>3 4</sup>  
**\$35.3M**

- Networks & Applications gained momentum through the year increasing revenue by 9 per cent with notably strong demand for high speed Ethernet
- Wireless & Service Experience revenue decreased by 6 per cent with growth in Positioning and Service Experience offset by softness in Wireless
- Service Assurance revenues increased by 16 per cent reflecting the full year benefit from 2014 acquisitions
- Regionally, revenue in the Americas and APAC was strong, with EMEA somewhat weaker
- 23 new products and solutions launched across all divisions including first to market 2 5G, 5G and 50G-based Ethernet switch testing solutions

## Notes

- 1 Before charging exceptional items acquisition related costs acquired intangible asset amortisation and impairment goodwill 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

## Cautionary statement regarding forward-looking statements

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

## **DELIVERING OPPORTUNITIES**

SPIRENT INVESTS IN ITS SOLUTION PORTFOLIO TO ADDRESS KEY INDUSTRY TRENDS AND WIN NEW BUSINESS. 2015 HIGHLIGHTS INCLUDED THE FOLLOWING

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### **HIGHEST DENSITY 100GBE TEST MODULES**

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**Both top-of-rack and aggregation switches are adopting 100GbE links to deal with the exploding demand for bandwidth**

Spirent launched the industry's highest density 100GbE test modules to support cloud computing applications that enable testing of next-generation hyperscale data center infrastructure

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### **PROVIDING A SUPERIOR VOLTE CUSTOMER EXPERIENCE**

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**Unique analytics solution helps to effectively resolve VoLTE service experience issues**

New InTouch Customer and Network Analytics platform enables operators to provide superior customer experience and troubleshooting with support for 2/3/4G technologies including VoLTE and the Internet of Things

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### **THE IMPACT OF LATENCY ON HIGH SPEED ETHERNET NETWORKS**

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**Industry's first 100G impairment emulator helps reduce the effect of latency in high speed Ethernet networks.**

Network latency or delay can dramatically reduce throughput and affect high speed links carrying applications such as real-time gaming, streaming video, and financial trading transactions. The Spirent Attero 100G enables equipment manufacturers and service providers to emulate a network or network elements with precision accuracy and repeatability

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## EXPANSION OF USER EXPERIENCE EVALUATION ECOSYSTEM TO ASIA PACIFIC

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### **Enabling operators and manufacturers to evaluate the user experience of the latest generation of IP-enabled services and devices**

Spirent made a multi-million dollar investment to support the development of a new "Fit4Launch" Lab in Beijing and deployment of user experience servers that link to live mobile networks across the Asia Pacific region

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## UNDERSTANDING THE VOWI-FI USER EXPERIENCE

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### **Benchmark study provides unique insights into the user experience of VoWi-Fi and performance differences in various VoLTE-enabled devices**

Spirent worked with Signals Research Group to provide unique insight into VoWi-Fi call quality using both residential and public venue access points. Tests included the impact of network loading and comparisons with VoLTE, 3G HD Voice, and Skype.

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## DEALING WITH GPS VULNERABILITIES

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### **Robust Positioning, Navigation and Timing ("PNT") test framework evaluates GPS and GNSS security vulnerabilities**

Threats to GNSS and related PNT applications are becoming more sophisticated, with the motivation to disrupt or cause financial loss. Spirent's test framework improves PNT robustness, enabling threats to be detected in the field, taken into the lab and re-synthesised.

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## ENABLING OPERATORS TO MINIMISE NETWORK OUTAGES

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### **A smarter approach to managing network performance, improving customer loyalty and driving revenue growth**

New Spirent Landslide solutions for Diameter, Edge and Core testing allow mobile network operators to deploy and operate in real time, maximising operational efficiency and protecting customer experience and revenues.

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## MEETING THE CHALLENGE OF WI-FI/LTE MOBILITY

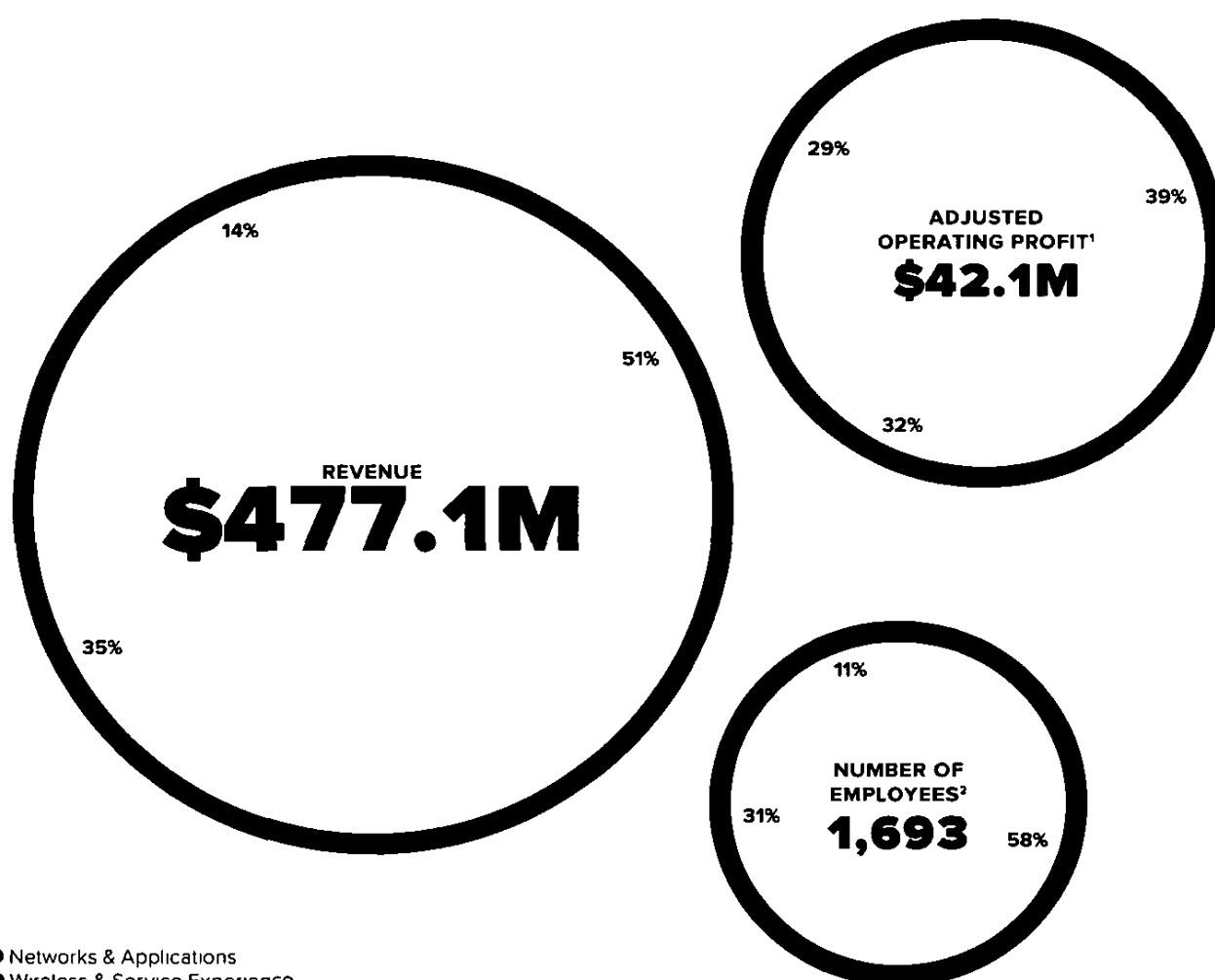
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### **Mobility and end-to-end interoperability testing of VoWi-Fi and Wi-Fi Offload available on a single test platform**

The new solution extends Spirent Elevate's unique ability to test multiple devices end-to-end on a single platform to cover Wi-Fi/LTE mobility and interoperability testing.

## OUR BUSINESS AT A GLANCE

OUR BROAD PORTFOLIO OF INNOVATIVE PRODUCTS AND SERVICES IS ORGANISED INTO THREE DIVISIONS THAT ADDRESS A WIDE RANGE OF OUR CUSTOMERS' NEEDS



### Notes

- Adjusted operating profit is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment, goodwill impairment and share-based payment
- At 31 December 2015

## OUR DIVISIONS

### 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 and in the live network.

Our broad solutions portfolio addresses data centers, cloud computing, network virtualisation, applications and security, high speed Ethernet networks and services, and test automation and management

#### DIVISIONAL FOCUS

- High speed Ethernet in data center and wide area networks
- Cloud and network virtualisation
- Applications and security
- Test automation orchestration and management
- Mobility and wireless infrastructure

#### WHAT WE TEST

- Cloud and virtualisation
- Applications and security
- Mobility
- Test automation

#### REVENUE

**\$241.9M**

#### ADDRESSABLE MARKET

**\$964M**

#### SPIRENT'S MARKET SHARE

**25%**

#### 2015 ANNUAL MARKET GROWTH

**9%**

#### 2015 SPIRENT'S REVENUE GROWTH

**9%**

### WIRELESS & SERVICE EXPERIENCE

Wireless & Service Experience solutions test the functionality and performance of 4G LTE and 3G mobile devices and services, and satellite positioning devices. We provide test systems to conduct testing in the lab prior to commercial launch, and also products and services for assessing the service experience on live networks, helping our customers to accelerate the time to develop and launch services, to reduce costs, and to reduce the risks associated with launching new technologies, devices and services.

#### DIVISIONAL FOCUS

- Wireless devices
- Wireless services, including voice over LTE ("VoLTE")
- Satellite navigation and global positioning
- Wireless service experience

#### WHAT WE TEST

- Positioning, navigation and timing
- VoLTE
- Device performance
- Service experience

#### REVENUE

**\$168.7M**

#### ADDRESSABLE MARKET

**\$740M**

#### SPIRENT'S MARKET SHARE

**23%**

#### 2015 ANNUAL MARKET GROWTH

**-10%**

#### 2015 SPIRENT'S REVENUE GROWTH

**-6%**

### SERVICE ASSURANCE

Service Assurance has distributed service assurance and analytic systems that allow service providers to turn-up new services and to diagnose and troubleshoot network and customer issues. We provide systems for mobile device management, device analytics and intelligence solutions for mobile operators

#### DIVISIONAL FOCUS

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

#### WHAT WE TEST

- Network service assurance
- In-home network and field testing
- Mobile device management
- Customer experience management

#### REVENUE

**\$66.5M**

#### ADDRESSABLE MARKET

**\$790M**

#### SPIRENT'S MARKET SHARE

**8%**

#### 2015 ANNUAL MARKET GROWTH

**10%**

#### 2015 SPIRENT'S REVENUE GROWTH

**16%**

## A YEAR OF PROGRESS

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Networks & Applications division was a notable performer with a 9 per cent increase in revenue

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### PROGRESS IN 2015

Last year we maintained the focus on investing in enhancing our product ranges to meet the rapidly changing needs of customers and to address new areas for growth. The increase of 4 per cent in revenue to \$4771 million and the increasingly large number of new solutions launched, particularly in the second half, are evidence of good progress being achieved.

Networks & Applications, representing over half of our revenue, performed notably well with revenue growing by 9 per cent. On the other hand the market served by our Wireless business contracted causing revenue to fall. To meet this challenge decisive action was taken in the fourth quarter to reshape the operational cost base.

It was good to see a stronger than expected finish to 2015 across the whole Group.

### DIVIDEND

Although investment has been high over the last two years, this has been undertaken from a strong financial position. The Company has no debt and cash balances of \$102.0 million as at 31 December 2015. The final dividend recommended by the Board is 2.21 cents, resulting in a total dividend for 2015 of 3.89 cents per share.

### BOARD CHANGES

We have made a number of changes to the composition of the Board in 2015. In May we welcomed Tom Lantzsich to the Board as a non-executive director. Tom brings a wealth of technology experience to the Board, currently serving as the Executive Vice President of Strategy at ARM Holdings Plc. He has also held senior positions at a range of leading technology companies.

Ian Brindle stepped down from the Board in August 2015 after having served since December 2006. We miss his knowledge, wisdom and counsel. In June this year we

were pleased to welcome Jonathan Silver to the Board, and Jonathan has now taken Ian's place as the Chairman of the Audit Committee. Jonathan brings over 25 years of experience as the Chief Financial Officer of Laird plc, together with valuable experience as a non-executive director.

We announced in November that Rachel Whiting, our Chief Financial Officer, had decided to retire and would step down from the Board at this year's AGM. On behalf of the Board I would like to express our gratitude for all her hard work and her contribution to the Board and to the success of the Group. The search for Rachel's replacement is underway and we will make an announcement in due course about the identity of her successor.

### BOARD VISITS

Members of the Board visited a number of our offices this year and met with the management teams of many of our business units. We have been impressed by the dedication, flair and inventiveness demonstrated by our employees which enables us to deliver the complex solutions customers seek. On behalf of the Board I would like to thank everyone in the Group for their contribution this year and we look forward to continuing momentum in 2016.

### OUTLOOK

The Board is confident that we are set on the path to achieve overall order and revenue growth for Spirent as our R&D focus on the most attractive market segments continues to deliver and as we begin to see the returns from our sales and marketing investments accelerate.

**ALEX WALKER**  
Chairman



## STRATEGIC DEVELOPMENT – DELIVERING ON OUR INVESTMENTS

2015 saw further structural changes in the test and measurement industry driven by shifts in technological developments, such as the move from lab-based testing to live deployments, heightened emphasis on virtual products and cloud infrastructure, the maturity of the market for smartphones in developed regions, and continued consolidation of major customers. The relentless growth in data volumes continues requiring higher speed Ethernet deployments to provide enhanced capacity and resilience against a background of an increasing cyber security threat.

### FINANCIAL HIGHLIGHTS

Group revenue grew by 4 per cent in 2015 to \$477.1 million (2014 \$457.2 million), whilst the order intake for the Group was 3 per cent higher at \$482.0 million (2014 \$469.4 million) with a book to bill ratio of 101 (2014 103).

Revenue growth was strong in Networks & Applications, up 9 per cent, and in Service Assurance, up 16 per cent. Wireless & Service Experience revenue decreased by 6 per cent, as it was impacted by the change in demand for smartphone development and validation testing. Regionally the Americas and APAC were strong, with EMEA somewhat weaker.

The year started slowly with first half revenues down \$2.3 million compared to 2014. Momentum improved during the second half with revenue growing \$22.2 million, up 9 per cent over the same period last year. This was even more exaggerated at the level of adjusted operating profit: first half profit decreasing by \$14.6 million to \$6.0 million, but the strong revenue growth combined with expense constraint in the second half year delivered a \$10.7 million increase in profit to \$36.1 million, up 42 per cent over the second half of 2014. This resulted in full year adjusted operating profit of \$42.1 million.

In 2015 the increased level of product development was maintained at \$118.3 million (2014 \$115.4 million), with a marked increase in sales and marketing activities at \$127.2 million (2014 \$113.5 million). Spirent delivered 23 new product solutions to market in the year, created a new platform for big data analytics, delivered leading 100G Ethernet and SDN protocol test solutions, and significantly enhanced its cyber security capabilities. The expansion in sales and marketing delivered growth in major accounts and resulted in the addition of 498 new customers in the year.

Return on sales was 9 per cent for the year, a reduction against the 10 per cent recorded for 2014, reflecting the significant increase in sales and marketing efforts to create new market opportunities for the longer term.

Basic earnings per share for the Group decreased in 2015 to 2.18 cents per share (2014 3.35 cents). Adjusted basic earnings per share was 5.00 cents (2014 5.82 cents).

Free cash flow generation was strong at \$35.3 million in 2015 (2014 \$10.7 million), a cash conversion ratio of 2.7 times reported earnings (2014 0.5 times). The Company has no debt and cash balances were \$102.0 million at 31 December 2015 (2014 \$99.8 million).

The final dividend recommended is 2.21 cents per share, unchanged from 2014. The total dividend for 2015 is also unchanged at 3.89 cents per share.

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Momentum improved in the second half with revenue growth up 9 per cent over the same period last year.

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As experts we work closely  
with industry thought  
leaders, standard setting  
bodies and researchers

”

#### STRATEGY

The second year of implementing our strategy to invest for long term growth has delivered a record range of new products, solutions and services to address the radically changing requirements for verification, assurance and security of data communications. Investments have been made in customer service and support, product development, marketing and in acquiring new technologies. The aim is to enhance Spirent's competitive differentiation, to expand the solutions set to gain market share and to win new customers. A long term objective is to expand revenues through software subscription, services and royalties in addition to our core business providing capital equipment as part of the sale of test systems.

Customers come to Spirent when they have a need to test a network device or service they supply, either prior to or during deployment and we develop a wide range of innovative solutions to make that happen. We remain committed to our strategy and as explained below have made progress in all areas of our strategic priorities during 2015. Those priorities are to

- expand the markets we serve
- establish and maintain technology leadership
- deepen our customer relationships
- acquire new capabilities and technologies
- invest in our people, and
- maintain financial strength and flexibility

#### STRATEGIC DEVELOPMENT AND GROWTH INITIATIVES

Spirent is recognised as an expert in test methodologies and the provision of new efficient and effective solutions for live virtual and high speed, high density network deployment utilising a wide range of access technologies. As experts we work closely with industry thought leaders, standard setting bodies and researchers. This sets the priorities for investment in the business to adapt and change in order for it to remain competitive and sustainable.

There continue to be a number of themes which are driving change in our industry and where we see opportunities for Spirent to build revenue streams that are sustainable with long term growth potential. The following major themes remain the key objectives for our strategic development throughout 2016.

#### HIGH SPEED ETHERNET

Order intake grew 10 per cent year-on-year in 2015. Spirent offers leading test solutions for 100G and 400G Ethernet and is well positioned for the continued exponential growth in network bandwidth. The latest innovation to increase capacity in data centers is through the development of high speed Ethernet variants based on 25G, which will stimulate growth in our core business operations. Spirent was first to launch 2.5G and 5G based Ethernet switch testing solutions and in the fourth quarter of 2015 was first to market with a 50G test solution. In addition we added Wi-Fi test capability to Spirent TestCenter™, and

updated and enhanced the user interface to support software as a service ("SaaS") and web-based applications.

#### CLOUD AND VIRTUALISATION

This represented 2 per cent of our business in 2015 and is an area expected to grow rapidly. We have developed and launched new solutions for testing cloud infrastructures and virtualisation. Proof of concept trials are in progress at major service providers, web services companies and e-commerce providers. The trials address the needs for telecom operators to test, measure and validate the migration of network functions and services to run in a cloud infrastructure. This is an important part of our strategy to expand our served customer base. These offerings include a SaaS solution running multiple application methodologies, such as Cloud Stress.

#### MOBILITY INFRASTRUCTURE

Order intake grew 31 per cent in 2015. We have accelerated development to continue to grow in the lab test market for mobile core Wi-Fi, IMS, Diameter and virtualisation. There are a large number of proof-of-concept trials in progress and we have secured new contract wins across the world with major service providers. Landslide EDGE has been developed to facilitate cell site turn-up and deliver remote and end-to-end validation in live networks. We have also added a key partnership for network visibility making a \$5 million investment to take a 28 per cent stake in Jolata, Inc. The increasing trend for data usage driven

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The objective is to expand  
our served customer base  
in carriers worldwide

”

by video requirements is being satisfied with a new acceleration module to offer a massive increase in data test performance. Channels to market have been expanded as has the technical capacity to support many more customer engagements.

#### CYBER SECURITY

This represented 6 per cent of our business in 2015 and is expected to grow rapidly. More and more breaches are reported on a daily basis with increasing levels of damage impacting commercial, government and infrastructure networks and services. Aspects of security and safety concerns for connected vehicles are demanding new security test processes to which Spirent is actively responding. Security consulting has been added to provide threat detection services to test, measure and manage security risks initially prioritising networks, wireless, applications, Internet of Things and automotive. We are utilising our expertise to supplement research efforts for the addition of new malware threat and fuzzing capabilities to our solutions. It is planned to enhance marketing initiatives to help expand our served markets to include enterprise customers in the financial services, healthcare and hospitality industries.

Vulnerability of the signals emanating from satellite navigation constellations is of increasing concern in critical safety infrastructure and commercial systems. Further resources are being applied to offer test systems, including a cyber threat intelligence library to allow customers to

deliver robust position, navigation and timing metrics to their applications and infrastructure networks.

#### ANALYTICS

Big data analytics and virtualisation are changing the landscape of service provision and assurance. Advances here have opened up the possibility not only to find errors rapidly but also to predict them so that issues can be averted. In addition, virtualisation enables test probes to be cost effectively inserted at any point in the network. Spirent's leadership position in the service assurance market, along with our field proven analytics platform, presents a unique opportunity in the analytics market. In 2015 we developed and launched our first virtual probe and won a first contract with our new high performance analytics solution, InTouch CNA. This is a more versatile, easier to use and cost effective implementation of our powerful Customer Experience Management software system to address the rapid growth market in the next-generation service assurance market. The objective is to expand our served customer base in carriers worldwide and to give additional competitive advantage to the deployment of Spirent technologies in live networks.

#### ADJACENT MARKETS (LONG TERM GROWTH INITIATIVES)

##### Internet of Things

Our Internet of Things ("IoT") initiatives combine capabilities across the Spirent portfolio as well as the specific

development of new capabilities. As billions of devices become connected, mobile network operators and service providers face major challenges to manage service provision and quality levels. Spirent has products and services to enable and accelerate the development, launch and operations of devices, network management and optimisation. We plan to supply embedded software, test and assurance tools and systems to enable the development of the IoT. The initial offerings, to be announced from early 2016, will be software as a client, connectivity and analytical tools.

#### Automotive

Our strategy to enter the test market for automotive data networks is to utilise Spirent's expertise in Ethernet testing to focus initially on the development and deployment of Ethernet for in-vehicle system communications. We will also continue to serve automotive needs through positioning technologies and tools to test emergency call requirements.

#### ERIC HUTCHINSON

Chief Executive Officer

## UNDERSTANDING OUR MARKET AND GLOBAL TRENDS

### THE CHANGING REQUIREMENTS OF MOBILE CONNECTIVITY

Consumers are using new services in ways that drive mobile operators to increase capacity and reduce latency. The industry is moving beyond debating the benefits of voice over LTE ("VoLTE") to face the challenges of launching and managing these services. GSA reported 30 operators have commercially launched VoLTE high definition voice in 21 countries, and 111 operators are investing in VoLTE deployments trials or studies in 52 countries (21 October 2015)<sup>1</sup>

The opportunity for carrier Wi-Fi hotspots is heating up as mobile operators seek ways to integrate Wi-Fi with their mobile network, either by offering hotspots or offloading some mobile data traffic to a Wi-Fi network. Recent technology advances (802.11ac) and newly freed up Wi-Fi spectrum (5GHz) enable new service configurations, including in-home video networks and voice over Wi-Fi ("VoWi-Fi") calling with handoff to the external cellular network. Infonetics Research predicts the carrier Wi-Fi equipment market will grow from \$609 million in 2014 to \$2.6 billion in 2019, which represents a compound annual growth rate ("CAGR") of 34 per cent (27 April 2015)<sup>2</sup>

The communications industry surged ahead towards an age of hyper-connectivity with the Internet of Things ("IoT"). IoT will bring new opportunities and challenges as large numbers and a wide variety of devices will be connected to networks. This will drive a need for faster, cheaper ways to connect to the network to securely and cost-effectively communicate information and to manage the networks to provide the level of service required for these applications to run efficiently. Machina Research estimated there would be 5.5 billion connections at the end of 2015 and forecasts there will be 10.8 billion connections at the end of 2018, this is a CAGR (2013-2018) of 24.5 per cent. They estimated revenues of \$563 billion in 2015 and forecast

revenues of \$984 billion in 2018, this is a CAGR (2013-2018) of 21.5 per cent, the device and installation revenue will grow at a CAGR of 23 per cent and the service revenue will grow at a CAGR of 21 per cent<sup>3</sup>

As service providers strive to do more than 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. Using analytics, service providers are able to get actionable insight that will help them increase revenues, reduce capex, improve customer experience and build customer loyalty.

### ETHERNET SPEEDS

The past four decades of Ethernet has seen a steady increase in speeds from 1G Ethernet through 10G, 40G, 100G and Spirent was first-to-market with a 400G Ethernet test solution. However it's not all about the highest absolute bandwidth as purpose-specific speed increases will drive multiple refresh cycles across the Ethernet spectrum. Cloud providers, Telco Network Virtualisation and leading enterprise data centers will be the driving force behind a rapid transition from servers with multi-core processors and 10G connections to 25G and 50G Ethernet in the next few years. While in the enterprise campus area the bandwidth increases and reliance on Wi-Fi are the driving force behind the move from 1G to 2.5G and 5G Ethernet for Wi-Fi access point connectivity. Spirent leads development in this area with new 25G and 50G Ethernet test solutions released in 2015 and 2.5G/5G planned for early 2016.

### CLOUD AND NETWORK VIRTUALISATION

The agility and efficiency with which cloud providers launch new applications and services has been a driving force of innovation in the telecom industry for the last four years. Service providers have gone from small trials, network functions virtualisation

("NFV") to run on cloud infrastructure with software defined networks ("SDN"), to deployments of complete virtualised enhanced mobile packet core ("vEPC") networks for new mobile data services for connected cars. IHS Infonetics expects the total service provider NFV market will grow from \$950 million in 2014 to \$11.6 billion in 2019, with a 2014-2019 CAGR of 65 per cent<sup>4</sup>. Spirent leads the market with performance and scale validation solutions for dozens of virtual network functions as well as benchmarking solutions for the underlying NFV infrastructure.

### SECURITY BREACHES GETTING PERSONAL

Recent headlines announce the critical nature of network security and the importance of protecting customer data from harm. According to data from the Identity Theft Resource Center, during 2015 there were over 780 major breaches in the US, and nearly 170 million records exposed<sup>5</sup>. The Ponemon Institute claims an average cost to business of \$6.5 million per data breach. No sector remained untouched as breaches impacted all sectors including government, technology, healthcare and entertainment<sup>6</sup>.

Fuelled by the ever-changing nature of cyber security attacks, Spirent customers in the network equipment development, service providers and enterprise space are investing in advanced network threat prevention. According to IHS Infonetics, network advanced threat prevention spend is set to reach \$1.3 billion in 2019, a 2014-2019 CAGR of 22 per cent<sup>7</sup>. Innovation is happening at multiple levels from leveraging analytics to detect zero day attacks quicker to new network security services operated from the cloud. With its network application performance and security threat detection validation solutions, Spirent is providing the industry with the latest up-to-date and most relevant attack simulation capabilities.

1 Source: GSA, 4G Market and Technology Update (October 2015)

2 Source: Infonetics Research, Carrier Wi-Fi Equipment Biannual Worldwide and Regional Market Share, Size and Forecasts 1st Edition (April 2015)

3 Source: Machina Research, M2M Global Forecast Analysis 2014-2024 (June 2015)

4 Source: IHS Infonetics, NFV Hardware, Software and Services (July 2015)

5 Source: Identity Theft Resource Center, 2015 Data Breach Category Summary (January 2016)

6 Source: Ponemon Institute, 2015 Cost of Data Breach Study, United States (May 2015)

7 Source: IHS Infonetics, Content Security Gateway Appliances, Software and SaaS Market Share and Forecasts 3Q15 Edition (December 2015)

## WHAT THIS MEANS FOR OUR BUSINESS

### NETWORKS & APPLICATIONS

Market-leading solutions for functional, performance and security testing and validation of next-generation networks, applications and security that simulate real-world conditions, ensuring commercial deployment success

#### KEY MARKET DRIVERS

- New Ethernet speeds across applications 2.5G, 5G, 25G, 50G and 400G  
Carriers looking to virtualisation to increase pace of new service introduction
- Cyber security market spend continues to increase  
IoT embedded devices increase cyber security risks

#### MARKET CHALLENGES

- Service providers needing to keep up with the scale and performance of cloud services
- 4G VoLTE and IoT bringing additional demands for mobile networks
- The critical nature of network security and of protecting customer data

#### OPPORTUNITIES

- Support needed for all new Ethernet speeds
- Compute, storage and network functions enabling technologies such as SDN and NFV to become mainstream
- Customers demanding Test Automation
- Expand security solution platforms and attack simulation capabilities
- New deployments of Ethernet and time-sensitive networking for automotive
- Continue to leverage mobility lab test capabilities in the operational market

### WIRELESS & SERVICE EXPERIENCE

Innovative test systems for functional and performance testing of 4G LTE mobile devices, services, connected devices and satellite positioning devices, and for the measurement of the user experience of services on live networks.

#### KEY MARKET DRIVERS

- Accelerating time-to-market and reducing cost to develop and launch new devices and services
- Smartphone market reaching maturity
- Mobile operators seeking ways to integrate Wi-Fi with their mobile network
- Growing opportunities and challenges in IoT
- Increasing awareness of global navigation satellite system vulnerabilities

#### MARKET CHALLENGES

- Consolidation of top-tier global smartphone, chipset and network equipment vendors
- Developing, connecting and operating IoT devices and applications on mobile and non-cellular networks

#### OPPORTUNITIES

- China 4G LTE ecosystem solutions
- Reducing test time and costs
- New products and services for IoT to accelerate the development of connected devices
- Building leadership in testing user experience of converged services and devices
- Industry-leading products for new challenges facing the positioning navigation and timing industry

### SERVICE ASSURANCE

Distributed systems that enable service providers to turn-up new services, diagnose, troubleshoot and reduce time to resolve issues with networks and services, and continuously monitor their performance and user experience through end-to-end visibility and real-time analytics

#### KEY MARKET DRIVERS

- Increasing emphasis on deployment and assurance of the provision of services
- Shift in focus continues from legacy networks to evaluation of virtualisation
- Need to reduce time to resolve customer experience degradation
- Reducing the need to dispatch technicians to the customer's premises
- Growing need for Wi-Fi network quality monitoring

#### MARKET CHALLENGES

- Growing network complexity
- Caution around virtualisation
- Increased carrier competition drives focus on customer experience

#### OPPORTUNITIES

- Capitalise on new virtualised and 100Gbps service assurance systems
- Expand footprint for Customer Experience Management analytics solution
- Assuring carrier Wi-Fi services and access point monitoring
- Mobile device management solutions for mobile virtual network operators
- Reduce time to characterise network performance and user experience



## OUR BUSINESS MODEL IS BUILT ON OUR PASSION FOR TECHNOLOGICAL INNOVATION

### THE MARKETS WE TARGET

We target fast growing, complex, technical niche markets. We aim to be first to market and to register intellectual property to create a high barrier to entry for competition and maintain our high margin, high value position in the market.



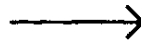
EVALUATION OF  
CUSTOMER NEEDS



CREATION



MANUFACTURE



CUSTOMER  
TRIALS



Before time and money is spent developing a product or solution, Spirent has a rigorous process to ensure that a profitable return will be made.

Spirent largely employs its own talented engineering team to innovate products and solutions. Some outsourcing of non-core skills takes place.

A very high proportion of our manufacturing is outsourced. We use world class contract manufacturers to ensure quality and timeliness of supply.

Our products and solutions often have a sales cycle which involves the customer evaluating the product before they buy it.



### CUSTOMERS SELLING PROPOSITION

Our customers attain key value-creation through using our products and 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 their data that optimises their activities and capital expenditure.

## WE ARE EXPERTS IN UNDERSTANDING AND ADDRESSING OUR CUSTOMERS' COMPLEX TECHNICAL REQUIREMENTS

### CONTINUING DEMAND FOR OUR PRODUCT AND SOLUTIONS

We operate in a fast moving, technologically demanding environment where everyone and everything is connected. This constant change is what drives the requirement for new products and solutions from our customers. Data speeds, complexity and the innovation of our customers and their customers' further drives the requirement for our products and solutions.



The vast majority of our sales are through our technical direct sales team. Where selling direct is not financially viable, we use specialist distributors and agents.

Wherever possible and when financially advantageous, we will ship direct to the customer from our contract manufacturer.

Our products and solutions often require professional services for installation and training. We also sell yearly maintenance and support.

Much of Spirent's revenue is follow-on business from existing customers. Long term customer retention is key to Spirent's success.



### VALUE-CREATION CULTURE FOR OUR STAKEHOLDERS AND SHAREHOLDERS

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

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.





## HOW WE DRIVE OUR BUSINESS FORWARD

### 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 STRATEGIC ACTIONS

We have identified six key strategic priorities that we believe are critical in order to achieve our strategy and ultimately our vision

1	2	3
EXPAND THE MARKETS WE SERVE	ESTABLISH AND MAINTAIN TECHNOLOGY LEADERSHIP	STRENGTHEN OUR CUSTOMER RELATIONSHIPS
<b>DESCRIPTION</b> Extend our test product portfolio to serve new markets such as <ul style="list-style-type: none"> <li>• Network and applications security</li> <li>• Mobile communications quality of service in the live network</li> <li>• Development of microchip technologies for data communications</li> </ul>	<b>DESCRIPTION</b> <ul style="list-style-type: none"> <li>• Continue appropriate levels of investment in product development engineering</li> <li>• Extend our engagement with industry standards bodies</li> <li>• Close alignment with our customers who lead innovation in the industries we serve</li> <li>• Maintain and enhance our expertise</li> </ul>	<b>DESCRIPTION</b> <ul style="list-style-type: none"> <li>• Active partnering with our customers</li> <li>• Create innovative solutions for customers' future needs</li> <li>• Extend the capabilities of our in-house expertise</li> <li>• Continued focus on quality of service delivery and support</li> </ul>
<b>IMPORTANCE</b> In order to increase the level of revenue growth that we can achieve, it is key that we expand into both adjacent and new markets	<b>IMPORTANCE</b> We operate in highly competitive niche markets and if we fail to invest in the business at a sufficient level then we will see our market share decrease	<b>IMPORTANCE</b> If we work closely with our customers then we have the best chance of understanding both their current and future requirements. We want our customers to view Spirent as the expert that they turn to in order to solve their problems
<b>PERFORMANCE</b> <b>REVENUE GROWTH</b> <b>\$477.1M</b> 2014 \$457.2M	<b>PERFORMANCE</b> <b>INVESTMENT IN PRODUCT DEVELOPMENT</b> <b>\$118.3M</b> 2014 \$115.4M	<b>PERFORMANCE</b> <b>REVENUE FROM TOP 20 CUSTOMERS</b> <b>\$241.8M</b> 2014 \$208.9M
<b>COMMENTARY</b> We continue to target new markets in a very structured manner and ensure that we have a healthy balance between maintaining our existing core markets and customers, and expanding into new markets and <u>winning new customers</u>	<b>COMMENTARY</b> In our largest markets we currently believe that we have strong technology leadership positions after the investment in the business <u>over</u> the last two years. We have achieved significant product milestones in the year as a result of this investment	<b>COMMENTARY</b> In 2015 we have implemented the Salesforce customer relationship management software to improve our interaction with customers and in 2016 we expect to see the full benefits
<b>RISK</b> Technology change and employee skillbase (see pages 24 and 25 for mitigation actions)	<b>RISK</b> Technology change and employee skillbase (see pages 24 and 25 for mitigation actions)	<b>RISK</b> Customer dependence and business continuity (see pages 24 and 25 for mitigation actions)



## 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

4	5	6
ACQUIRE NEW CAPABILITIES AND TECHNOLOGIES	INVEST IN OUR PEOPLE	MAINTAIN FINANCIAL STRENGTH AND FLEXIBILITY
<p><b>DESCRIPTION</b> Expand our portfolio through</p> <ul style="list-style-type: none"> <li>• Partnerships</li> <li>• Licensing of technologies</li> <li>• Purchase of businesses</li> </ul>	<p><b>DESCRIPTION</b> Our employees are central to our strategy and success and we aim to</p> <ul style="list-style-type: none"> <li>• Find and attract highly qualified and skilled employees</li> <li>• Engage our employees through exciting work and opportunities</li> <li>• Retain the expertise and knowledge that we have built</li> </ul>	<p><b>DESCRIPTION</b> A robust balance sheet and strong cash generation allows us to</p> <ul style="list-style-type: none"> <li>• Invest in organic growth</li> <li>• Pursue strategic acquisitions</li> <li>• Pay sustainable dividends to shareholders</li> </ul>
<p><b>IMPORTANCE</b> In order to be technology leaders we have to be aware of other technologies we need which have been developed outside Spirent which we either don't have the skills or the necessary time to develop</p>	<p><b>IMPORTANCE</b> Our employees are our business and without the best possible team, we will not be able to deliver on our strategy. Every element of our strategy is built around staff innovation and expertise</p>	<p><b>IMPORTANCE</b> Having financial strength and flexibility means that we are able to act quickly when we see an opportunity in any of our strategic priorities</p>
<p><b>PERFORMANCE</b></p> <p><b>INVESTMENT IN M&amp;A</b></p> <p><b>\$6.7M</b></p> <p>2014 \$85.9M</p>	<p><b>PERFORMANCE</b></p> <p><b>VOLUNTARY EMPLOYEE TURNOVER</b></p> <p><b>7.3%</b></p> <p>2014 4.4%</p>	<p><b>PERFORMANCE</b></p> <p><b>FREE CASH FLOW</b></p> <p><b>\$35.3M</b></p> <p>2014 \$10.7M</p>
<p><b>COMMENTARY</b> After heavy investment in 2014 we bedded in those acquisitions in 2015. We added an acquisition and an investment in an associate during the year. Our business leaders have a strong input into any expansion of our portfolio.</p>	<p><b>COMMENTARY</b> During 2015 we evolved our employee skillbase to ensure we have the right people with the right skills for our 2016 opportunities.</p>	<p><b>COMMENTARY</b> We value strong financial diligence within the Group and ensuring that profit turns to cash is always a top priority.</p>
<p><b>RISK</b> Acquisitions (see page 25 for risk mitigation actions)</p>	<p><b>RISK</b> Employee skillbase (see page 25 for mitigation actions)</p>	<p><b>RISK</b> Macro-economic (see page 24 for mitigation actions)</p>

FOCUSED ON

# HIGH SPEED ETHERNET SECURITY

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Consumption of applications and content has dramatically increased the bandwidth demands on organisations' network infrastructure. Networks are also becoming oversaturated as the volume of data center traffic jumps more than 10X, calling for next-generation firewall appliances with core network bandwidth capabilities approaching 100 GbE and beyond.

Spirent TestCenter and Avalanche were used for performance evaluation of the world's first 100Gbps Ethernet, Data Center Firewall Appliance.

**"Fortinet is enabling organisations to deploy core firewalling in high speed, high data volume environments, without compromising overall performance and security. This is not just a claim. By leveraging Spirent's test methodology and services, we are able to objectively demonstrate the outstanding performance and quality of the FortiGate-3810D."**

**ANDREA ZAWORSKI**  
Lab Director at PCTEST

FOCUSED ON

# SCALING THE MOBILE INFRASTRUCTURE

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The “always on” Internet of Things (“IoT”) and other connected devices are driving huge levels of signalling traffic in the mobile network. Surges or storms, congestion, service degradation and inter-carrier issues can lead to slow or dropped connections, lost billing data, dissatisfied customers, and in the worst case network wide outages.

Landslide Diameter is a comprehensive solution that tests signalling protocols at extreme scale so carriers can ensure efficient and optimised services.

**“As more operators deploy LTE VoLTE and enhanced IP services the amount of Diameter messages within and between operators is growing. Optimising the signalling plane has become a necessity. Solutions such as Spirent’s Landslide Diameter enable operators to ensure efficient and optimised Diameter signalling.”**

**DIANE MYERS**

Principal Analyst Infonetics, part of IHS Inc

FOCUSED ON

# ENHANCING THE CUSTOMER EXPERIENCE

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Spirent InTouch collects and analyses a wide array of customer, network and reference information for the purpose of proactively identifying, troubleshooting and resolving emerging subscriber quality of experience issues

By integrating Tableau authoring and publishing capabilities Spirent will enable operators to rapidly customise their own dashboards and workflows to support a richer set of user cases and projects

**“This partnership is great news for telecom operators who want to better see and understand their data. It combines Spirent’s Customer Experience Management analytics with Tableau’s powerful visual analytics to help people at all levels in the organisation discover insights and make data-driven decisions.”**

**SCOTT JONES**

Senior Vice President, Americas Sales at Tableau Software

FOCUSED ON

# THE CONNECTED CAR

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Driver assistance features such as 360° video cameras and advanced driver assist systems require new in-car networks, which also provide cost and efficiency benefits to both users and manufacturers

Spirent helped Renault implement advanced infotainment and driver assistance technology that provide drivers and passengers with the multiple benefits of connected cars

**“Renault is at the forefront of technology and is constantly looking to provide drivers and passengers with new features to create a ‘Passion for Life’. Automotive Ethernet will help provide a lot of these features and benefits.”**

**ALAIN COUVREUX**  
EE Architecture Expert Leader of Renault



## OUR GOALS AND TARGETS

### THE BOARD HAS IDENTIFIED THE FOLLOWING KEY PERFORMANCE INDICATORS 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 2015 compared to the prior year, trends over a number of years must also be considered. Key performance indicators relate to continuing operations only.

<b>BOOK TO BILL RATIO</b>	<p><b>REASON FOR MEASUREMENT</b> 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.</p> <p><b>PERFORMANCE</b> The Group aims to maintain a book to bill ratio of 100 or higher. The 2015 ratio of 101 is a positive result.</p>	<b>RELEVANCE TO STRATEGY</b> 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.
<b>REVENUE \$ MILLION</b>	<p><b>REASON FOR MEASUREMENT</b> Spirent monitors growth in revenue as this shows how successful Spirent has been in expanding its markets and growing its customer base.</p> <p><b>PERFORMANCE</b> Growth of 4 per cent in 2015 following growth of 11 per cent in 2014 demonstrates that our overall strategy is delivering top-line growth.</p>	<b>RELEVANCE TO STRATEGY</b> 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.
<b>ADJUSTED OPERATING PROFIT<sup>1</sup> \$ MILLION</b>	<p><b>REASON FOR MEASUREMENT</b> Adjusted operating profit is the measure used to evaluate the overall performance of the Group as well as each of the operating segments.</p> <p><b>PERFORMANCE</b> Continued investment in product development, sales and marketing and support services to ensure sustainable revenue growth suppressed short term profitability.</p>	<b>RELEVANCE TO STRATEGY</b> 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.
<b>RETURN ON SALES<sup>1</sup> %</b>	<p><b>REASON FOR MEASUREMENT</b> 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.</p> <p><b>PERFORMANCE</b> The continued investment for future growth was higher than the revenue growth and surpassed the return on sales.</p>	<b>RELEVANCE TO STRATEGY</b> 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.

<b>ADJUSTED BASIC EARNINGS PER SHARE ("EPS")<sup>1,2</sup> CENTS</b>	<p><b>REASON FOR MEASUREMENT</b> Long term growth in adjusted EPS is a fundamental driver to increasing shareholder value</p> <p><b>PERFORMANCE</b> Spirent's aim is to achieve growth in adjusted EPS. Part of Executive Directors' remuneration is dependent on achieving EPS targets</p>	<b>RELEVANCE TO STRATEGY</b> This is a measure of how successful we are overall in our strategy and ultimately how Spirent increases value for its shareholders
<b>PRODUCT DEVELOPMENT AS A PERCENTAGE OF REVENUE %</b>	<p><b>REASON FOR MEASUREMENT</b> To maintain its competitive position Spirent must continue to invest in order to support future organic growth initiatives in line with the strategic objectives</p> <p><b>PERFORMANCE</b> In 2015 we continued to invest in the 24-25 per cent range to ensure sustainable growth</p>	<b>RELEVANCE TO STRATEGY</b> 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
<b>NUMBER OF ENGINEERING AND PRODUCT MILESTONES ACHIEVED</b>	<p><b>REASON FOR MEASUREMENT</b> The CEO sets quarterly engineering milestones which are selected to represent the next critical stages in the achievement of Spirent's long term strategic objectives</p> <p><b>PERFORMANCE</b> The inclusion of engineering milestones for acquisitions has contributed to record levels of achievement</p>	<b>RELEVANCE TO STRATEGY</b> 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
<b>VOLUNTARY EMPLOYEE TURNOVER %</b>	<p><b>REASON FOR MEASUREMENT</b> 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</p> <p><b>PERFORMANCE</b> Staff turnover remained below the industry average of 13.1 per cent</p>	<b>RELEVANCE TO STRATEGY</b> 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
<b>FREE CASH FLOW<sup>3</sup> \$ MILLION</b>	<p><b>REASON FOR MEASUREMENT</b> Cash generation is a measure of the quality of Spirent's earnings. The aim is to achieve a high conversion of earnings into cash</p> <p><b>PERFORMANCE</b> Strong working capital performance and less capital investment resulted in a cash conversion ratio of 2.7 times reported earnings (2014 0.5 times)</p>	<b>RELEVANCE TO STRATEGY</b> Having strong free cash generation reflects Spirent's ability to generate funds for future investment. It allows us to maintain financial strength and flexibility

## Notes

- 1 Before exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment, goodwill 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

## **STRONG RISK MANAGEMENT UNDERPINS EVERYTHING WE DO**

### **THE PRINCIPAL RISKS AND UNCERTAINTIES CURRENTLY FACED BY THE SPIRENT GROUP**

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 is an integral component of the internal control system.

The risk assessment process starts in the businesses where up-to-date risk registers are maintained and updated as 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.

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:

Risk	Impact
Impact	<b>High</b> <b>Medium</b> <b>Low</b>
Likelihood of occurrence	<b>Likely</b> <b>Possible</b> <b>Unlikely</b>

The Board takes the view that a High impact risk could lead to a 10 per cent or more reduction in turnover, a Medium impact risk a 5 to 10 per cent reduction in turnover and a Low impact risk a reduction of up to 5 per cent of turnover.

The Audit Committee reviews and monitors the Group's risk processes and reports to the Board on their 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. The Audit Committee challenges and debates 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 had 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 / Customer investment plans	Medium	Likely	^
Competition	Medium	Possible	< >
Acquisitions	Medium	Possible	< >
Business continuity	High	Possible	< >
Employee skillbase	Medium	Possible	< >

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

## RISK APPETITE AND DEVELOPING THE VIABILITY STATEMENT

Provision C 2.2 of the 2014 UK Corporate Governance Code requires the Board to assess the viability of the Group over a suitable period. It was determined that a three year period should be used when assessing viability as explained on page 76 of this Annual Report.

This new Code Provision has acted as a catalyst for the Board to more clearly articulate its risk appetite. The Board has sought to frame its risk appetite in terms of the markets and technologies in which it is prepared to make significant investments and those in which it would expect its scale of investment to be more modest. Except where very attractive opportunities were to present themselves to achieve greater scale in well-known markets, the Board would expect to maintain a significant net cash position.

Management together with members of the Board considered which of the principal risks, either alone or in

combination, might threaten the Group's viability. The impacts of Technology change, Competition, Customer dependence and Macro-economic change were modelled. A severe but plausible combination of those risks was considered for the purposes of deciding what turnover and free cash flow scenarios should be stress-tested. The impacts were modelled over the three year period with emphasis on a stressed scenario in years two and three, given the management's view that such risks were unlikely to materialise in year one, as the Group had just completed a detailed full year budget for 2016. Assumptions were made about the ability of the Group to take successful mitigation actions including the ability to make significant reductions in its non-fixed operating costs. The Board took into account the Company's significant cash balance of \$102.0 million as at 31 December 2015 and the ability of the Company to continue to generate positive free cash flow even in stressed scenarios.

The Board reviewed and discussed with management

- the process undertaken by management to decide which scenarios to stress test,
- the results of the stress testing performed including an illustration on the reduction in turnover and availability of cash, and
- the ability of management to successfully take the mitigating actions identified.

The resulting Viability Statement is set out in the Directors' report on page 76.

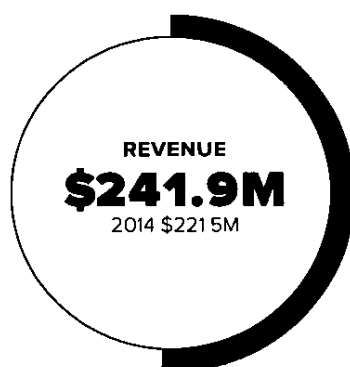
## Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	MITIGATION ACTIONS
<b>MACRO-ECONOMIC</b>		
<p>Spirent is a global business exposed to current world economic conditions over which it has no control. The business is also exposed to government spending priorities principally in the United States.</p>	<p>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.</p>	<p>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.</p> <p>In addition, Spirent has a large number of geographically diverse customers which may mitigate the impact.</p>
<b>TECHNOLOGY CHANGE</b>		
<p>Spirent sells complex solutions in industries that can be subject to rapid technological changes. Testing new technologies drives our business, but the opportunity also brings high risk since keeping at the forefront of these key future technologies is critical to our success and to ensuring that we remain competitive in our markets.</p> <p>It is critical that our product development investment is directed at the right areas in order to deliver the solutions that our customers need when they need them.</p> <p>Spirent's success is dependent in part on proprietary technology which may be infringed by others. Protecting the Group's proprietary technology is important to enabling Spirent to compete successfully.</p>	<p>If product development investment does not keep pace with the speed of change in technologies or if it is not directed at the right key areas, our competitive position and financial performance will suffer.</p> <p>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.</p> <p>Changes in technologies may lead to a short term pause by our customers investing in our solutions.</p> <p>Intellectual property claims can result in significant defence costs and may affect Spirent's ability to market its products.</p>	<p>All Spirent's businesses work very closely with customers and remain focused on their requirements.</p> <p>Each business makes investment decisions specifically related to their solutions portfolio based on market needs. This happens through our formalised Gate Process.</p> <p>Spirent continues to make a significant investment in product development. In 2015 the investment was \$118.3 million (2014 \$115.4 million).</p> <p>Spirent has active intellectual property protection programmes in place to obtain appropriate protection in a cost-effective manner.</p>
<b>CUSTOMER DEPENDENCE / CUSTOMER INVESTMENT PLANS</b>		
<p>The Group sells its products and services to a wide range of companies and continually seeks to expand its customer base. In 2015, no one customer accounted for more than 10 per cent of Group revenue, although the top 10 customers represented 39 per cent of Group revenue (2014 35 per cent). In some of our markets, certain customers have a dominant market share which makes doing business with these customers and their suppliers critical to the success of our business.</p> <p>In addition, many of the companies with which we do business are some of the largest global telecommunications corporations. Therefore, meeting our development obligations, producing high quality products, and being on time are vital to Spirent's reputation and success.</p> <p>Changes in our major customers' priorities in technology investments can also have a significant impact on their spending on Spirent products and by those in the customers' supply chain.</p> <p>The industry continues to experience consolidation which can disrupt the spending patterns of affected customers.</p>	<p>Loss of one or more of Spirent's major customers could have a significant impact on Spirent's financial results.</p> <p>Spending on Spirent's products is often capital in nature and so customer spend can fluctuate significantly from year-to-year.</p> <p>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.</p> <p>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.</p> <p>Changes in our customers' technology investments can result in reduced spending on our existing solutions before customers and those in the customer's supply chain ramp up spending on new technologies.</p>	<p>Strong customer relationships are critical to Spirent. We aim to provide innovative solutions which meet customers' needs and we place great emphasis on providing professional service and support.</p> <p>One of the Group's strategic objectives is to invest in deepening our customer relationships. We place engineers on-site with our customers, undertake site surveys of the use and intended plans for the use of test solutions in their business.</p> <p>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 approach is to play a key part in the wider supply chain to our key service provider customers by aligning with early adopters of technology.</p>
<b>COMPETITION</b>		
<p>Spirent operates in a range of highly competitive niche markets which experience rapid technological change. In order to compete effectively it is necessary to establish and maintain technological differentiation in our solutions.</p> <p>The Group faces competition from new market start-ups as well as more established and well-resourced companies.</p> <p>Industry consolidation amongst our direct competitors may bring about a shift in competitive advantage.</p>	<p>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.</p>	<p>The Group's broad solution portfolio, market-leading capabilities and customer focus continue to address this risk.</p> <p>Spirent aims to maintain market-leading positions through significant investment in the development of differentiated products.</p> <p>Competitor activity is closely monitored with a view to maintaining clear differentiation based on Spirent's products, services and global reach.</p>

RISK	POTENTIAL IMPACT	MITIGATION ACTIONS
<b>ACQUISITIONS</b>		
<p>A key element of Spirent's strategy is to develop new capabilities and technologies sometimes through acquisition</p> <p>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</p>	<p>Underperformance by acquisitions will impact the Group's results and may lead to impairment of goodwill and/or intangible assets</p>	<p>Rigorous strategic and financial evaluations of all acquisition opportunities are carried out. Detailed financial and commercial due diligence is 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</p> <p>Integration plans and processes are carefully considered prior to acquisition</p> <p>The Board reviews post-acquisition performance</p>
<b>BUSINESS CONTINUITY</b>		
<p>Operational risks are present in the Group's businesses including 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</p> <p>Contract manufacturers are used for the manufacture of a substantial amount of Spirent's products. Spirent's major contract manufacturer is located in Thailand</p> <p>The incidence of cyber 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</p>	<p>A significant natural disaster could disrupt the Group's ability to conduct business and adversely impact revenue and operating results</p> <p>Disruption, financial problems of contract manufacturers or limitations in their manufacturing capacity could limit supply and/or increase cost</p> <p>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. There would also be a potential impact to Spirent's image, especially as we raise our profile in the security market</p>	<p>An important component of Spirent's corporate governance is its risk management strategy. IT disaster recovery plans are in place for all core business systems and ensure that the wider operations are all fully covered</p> <p>Regular meetings are held with contract manufacturers and a regular on-site presence is maintained. In addition, the Group's largest manufacturing subcontractor has multiple worldwide sites and comprehensive business continuity plans</p> <p>During 2015 we improved our processes and procedures encompassing cyber security diagnostics and we implemented training and awareness campaigns</p>
<b>EMPLOYEE SKILLBASE</b>		
<p>Spirent is its employees. 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</p>	<p>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</p>	<p>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</p> <p>Succession planning for senior posts in the Company is regularly reviewed by the Board</p> <p>Appropriate career paths and internal recognition programmes are developed for both technical and non-technical staff</p> <p>Regular reviews are performed to ensure that all elements of compensation across the Group are competitive with the market</p>

## NETWORKS & APPLICATIONS

### SPIRENT'S NETWORKS & APPLICATIONS SOLUTIONS PUT INNOVATION AND SECURITY TO THE TEST WITHIN LABS AND ON SERVICE PROVIDER AND ENTERPRISE NETWORKS



**OPERATING PROFIT**  
**\$15.8M**  
2014 \$5.3M

**OPERATING PROFIT BEFORE  
EXCEPTIONAL ITEMS**  
**\$18.4M**  
2014 \$7.6M

**RETURN ON SALES BEFORE  
EXCEPTIONAL ITEMS**  
**7.6%**  
2014 3.4%

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

#### WHAT WE TEST

**CLOUD AND VIRTUALISATION**  
Whether data center operators, cloud or service provider, our customers are always looking to leverage cloud-enabled network services and innovations like software defined networks ("SDN") and network functions virtualisation ("NFV"). Spirent's solutions help them validate high speed network infrastructures up to 400G Ethernet speeds ensuring network functions and services can scale to millions of subscribers

**APPLICATIONS AND SECURITY**  
Addressing the proliferation of application and vulnerability concerns for enterprise government and service provider networks, Spirent's application and security test services and solutions offer unprecedented realism, threat modelling and ease of use

**MOBILITY**  
Spirent's mobility solutions emulate subscribers and adjacent nodes to enable active testing of mobile core, Wi-Fi, internet protocol multimedia subsystems and Diameter networks in the lab and in operations

**TEST AUTOMATION**  
Spirent's industry leading lab-as-a-service and automation solutions deliver efficient, scalable and cost-effective physical and virtual build, test and deployment environments to wireline and wireless service providers, network equipment manufacturers or anyone actively developing software-enabled virtual networks

#### STRATEGY

- Invest in software as a service SDN and NFV test methodologies
- Leadership in data center and WAN high speed Ethernet
- Invest in Spirent Security Labs consulting service
- Leverage mobility lab-test portfolio to enter operational market
- Focus automation and test orchestration on mobile lab infrastructure

#### KEY MARKET DRIVERS

- New Ethernet speeds across applications, 2.5G, 5G, 25G, 50G and 400G
- Carriers looking to virtualisation to increase pace of new service introduction
- LTE network operators now investing in services – voice over LTE ("VoLTE"), video over LTE, Internet of Things ("IoT")
- Cyber security market spend continues to increase
- IoT embedded devices increase cyber security risks

#### PERFORMANCE HIGHLIGHTS

- Continued double digit growth in mobile infrastructure and network security testing
- Carriers adapting virtual test solutions globally in NFV trials
- Strong demand for 100G Ethernet test solution from switch and router to firewall testing

#### MARKET CONDITIONS

The growth of cloud services from bandwidth-hungry content and hosting services and applications, to "always-connected" social media drives innovation at a rapid pace. Service providers worldwide are investing in their networks to keep up with these performance demands. We saw strong demand for 100G Ethernet testing by data center network equipment suppliers as they move to four 25G lanes from ten 10G lanes per 100G interface. As 4G LTE rolls out globally there is wider commercial deployment of VoLTE, more 3G and LTE connected vehicles and an increase in IoT applications. Each of these brings revenue opportunities for service

providers as well as scale and performance demands for mobile networks, driving demand for innovative wireless infrastructure test solutions. Service providers and enterprises are spending on network security in response to high profile incidents. This has led to increased demand for security testing solutions in areas such as new 100G firewalls

The internet protocol network industry is in the midst of a revolutionary technology transformation with virtualisation enabling technologies such as SDN and NFV becoming mainstream. This is driving new processes for developing and delivering the products and services customers demand. Processes and best practices around Agile development have spawned an increase in DevOps, the aim of which is to create tighter linkages between developers, operations and testers through the use of automation and communication.

#### REVENUE

Revenue was up 9 per cent to \$241.9 million (2014 \$221.5 million) driven by growth in high speed Ethernet testing. High activity levels at the end of the period, particularly in the mobile infrastructure space, helped to increase order intake by 10 per cent to \$249.8 million from \$227.5 million in 2014. The increase in the order book of \$7.9 million resulted in a book to bill ratio of 103 (2014 103). From a regional perspective, revenue grew strongly in North America and APAC, more than offsetting weakness in EMEA.

#### PROFITABILITY

Gross margin improved to 69.2 per cent (2014 68.3 per cent) due to the increased sales volume and a positive product mix.

Operating profit before exceptional items increased significantly to \$18.4 million compared with \$7.6 million in 2014, notwithstanding increased investment in product development of \$1.0 million and in sales and marketing of \$4.4 million. Exceptional items of \$2.6 million were charged in 2015 (2014 \$2.3 million).

#### PRODUCT DEVELOPMENT

Spirent grew its leadership in high speed Ethernet, winning a major industry award for the industry's first public interoperability demonstration of 400G Ethernet implementations, in conjunction with Huawei. In addition, we launched a 100G test solution supporting the latest optical transceivers, helping drive further 100G adoption with a small form factor and support of 25G lanes.

In the area of cellular and Wi-Fi convergence we expanded our market with a Wi-Fi radio frequency interface and voice over Wi-Fi (VoWi-Fi) capability on Spirent Landslide,

enabling carriers to validate VoWi-Fi to VoLTE handovers. We increased our focus on the important issue of predicting and preventing signalling storm outages caused by "always-connected" applications and smartphones that disconnect to save battery life, with the release of a Diameter performance and scale testing solution for mobile operators.

A major software release of our Avalanche security performance test solutions focused on ease-of-use of security test methodologies, now enables service providers and enterprises to validate their network perimeter devices' security performance.

The release of our CLEAR DevOps Continuous Test solution for accelerating product development and delivery has been met with great enthusiasm, including recognition from CIO Review as one of the "20 Most Promising DevOps Companies of 2015".

#### STRATEGY

For 2016, we will continue to invest in test solutions for rapidly advancing Ethernet markets. In the enterprise campus market, higher Wi-Fi speeds are driving new 2.5G and 5G Ethernet standards. In the data center market, cloud providers are driving the need for 50G, 100G, 200G and 400G Ethernet and enterprise from 10G to 25G Ethernet. In the automotive market we also see a move to Ethernet as a single efficient and lighter weight infrastructure. Spirent's support for these new Ethernet speeds began in the middle of 2015 and will continue into 2016.

Building on Spirent's award-winning virtual test solutions we will further enhance our software solutions with features and test methodologies enabling service providers to successfully deploy NFV and enterprises to optimise their data centers and make them software-defined. In 2015 we supported successful tests for vendors and mobile operators of virtual evolved packet cores, which are being deployed to handle the increased number of machine-to-machine connections. We expect network virtualisation rollouts to increase in 2016 with additional use cases such as virtual customer premises equipment, for which Spirent's Performance and Security virtual test solutions are well positioned.

Further advances to our mobile and security infrastructure test solutions are also planned for 2016. The addition of Spirent Landslide EDGE and CORE to our mobile infrastructure test solution, which enables mobile operators to take a smarter approach to network performance management to minimise network outages, are the first example of our 2016 strategy in this area.

## SAFEGUARDING THE NETWORK AGAINST OUTAGES WITH LANDSLIDE EDGE/CORE

Network congestion and overload is the second biggest reason for outages in the mobile network, especially given the explosive growth in the numbers of subscribers using connected devices, applications, and services. Spirent's Landslide EDGE and CORE suite of solutions uses a proactive approach that gives operators performance visibility across their networks and detects degradations before they impact customers. The end result is faster time to market for new services and improved network performance for better customer service, which ultimately drives loyalty from existing customers.

"According to industry sources, mobile operators are spending around \$15 billion a year globally dealing with all kinds of network degradation and outages, including those related to congestion and overload," said John Baker, General Manager of Spirent Communications' Mobility group. "By using Landslide CORE and EDGE carriers can greatly improve the real-time visibility of the network control and data plane as well as validate the impact of each node in the network on individual services from a quality of experience perspective."



## WIRELESS & SERVICE EXPERIENCE

### SPIRENT'S WIRELESS & SERVICE EXPERIENCE SOLUTIONS APPLY OUR INNOVATION TO PERFORMANCE TESTING OF MOBILE DEVICES



#### OPERATING PROFIT

**\$6.1M**  
2014 \$23.1M

#### OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS

**\$15.5M**  
2014 \$24.0M

#### RETURN ON SALES BEFORE EXCEPTIONAL ITEMS

**9.2%**  
2014 13.4%

Develops innovative test systems for functional and performance testing of 4G LTE mobile devices, services, connected devices and satellite positioning devices and for the measurement of the user experience of services on live networks

#### WHAT WE TEST

##### POSITIONING, NAVIGATION AND TIMING ("PNT")

Spirent is the global leader in testing all positioning technologies, such as global positioning systems ("GPS") in mobile devices and other receivers used in commercial and government applications including detecting and analysing vulnerabilities to help protect global navigation systems

##### 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 Internet protocol multimedia subsystem ("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

#### STRATEGY

- Develop products and services that accelerate the time to market and reduce the costs to develop and launch new devices and services
- Build business in user experience testing of converged services

- Expand leadership in positioning test business with new solutions to detect and analyse vulnerabilities in global navigation satellite systems ("GNSS")

#### KEY MARKET DRIVERS

- Economic pressure and consolidation of top-tier chipset, smartphone and network equipment vendors
- 4G LTE services growth with VoLTE and rich communication services ("RCS")
- Growing opportunities and challenges in the Internet of Things ("IoT")
- Increasing awareness of GNSS vulnerabilities

#### PERFORMANCE HIGHLIGHTS

- Performance affected by impact of market changes in wireless device test
- China 4G LTE ecosystem drives wireless business
- VoLTE and RCS test leadership for Wireless & Service Experience
- Strong growth in US for GNSS business

#### MARKET CONDITIONS

Spirent targets a wireless test market focused on development and deployment of new mobile devices and services. The market has annual revenues close to \$10 billion, but with low single-digit growth. Economic pressure and consolidation of top-tier global smartphone, chipset and network equipment vendors continued in 2015, resulting in a fiercely challenging competitive market. Spirent benefited from the development phase of 4G LTE services, such as VoLTE, and voice over Wi-Fi ("VoWi-Fi") and the focus on the user experience.

Spirent also targets the market for test systems for GNSS, with a focus on expert users in military, government and commercial applications. The market is in the region of \$100 million with low single-digit growth, with peaks of incremental revenue driven by government spending or the introduction of new constellations. 2015 saw growing awareness of the vulnerabilities and potential threats to GNSS receivers, systems and

applications, creating opportunities for solutions that can detect, analyse and deal with these threats

The importance of wireless IoT connectivity continues to rise in a variety of segments from connected vehicles, homes and industry to smart cities. This results in challenges in developing, connecting and operating IoT devices and applications on mobile and non-cellular networks resulting in an attractive new market opportunity for Spirent

### REVENUE

Revenue was down 6 per cent at \$168.7 million (2014 \$178.6 million). Demand for positioning products and service experience solutions was strong but this was more than offset by weakness in Wireless. Revenue from wireless device test products and service experience solutions has been affected by significant changes in the smartphone market and in particular a major customer in Asia did not repeat the high level of spend we saw in 2014. Although we saw reduced spend at many wireless customers, our business with Asian technology and chipset providers grew especially in the Greater China region. Positioning revenue benefited from US Government procurement of high-end tailored solutions. Service Experience opened a new Fit4Launch Lab in Beijing which helped to increase revenue from the China region. Book to bill ratio grew to 103 (2014 102).

### PROFITABILITY

Gross margin was lower at 67.5 per cent (2014 68.0 per cent) due to product and services mix and the lower sales volume

Operating profit before exceptional items was lower at \$15.5 million compared with \$24.0 million in 2014 as a result of the lower sales volume and reduction in gross margin. Cost reduction actions resulted in an exceptional charge of \$9.4 million in 2015 (2014 \$0.9 million). The cost reduction actions were primarily focused on improving profitability in response to changes in the wireless device test and carrier acceptance market. The most significant action taken was to outsource engineering services in Wireless & Service Experience to provide a more cost effective and flexible resource in future.

### PRODUCT DEVELOPMENT

We continued to develop innovative solutions for testing connected devices that address challenges to accelerate time to market and reduce test time for new services and applications, like VoLTE and VoWi-Fi.

We invested in our Elevate Test Framework, designed to address the increasingly complex challenges and scale demands of wireless devices and services, expanded our 8100 carrier acceptance and conformance test portfolio, and launched our next-generation fader. The latter emulates the radio frequency channel between transmitter and receiver to test performance of the latest complex antenna and receiver designs.

We expanded our leadership in user experience solutions for evaluating any internet protocol-based device or service by opening a new Fit4Launch Lab in Beijing and deploying user experience servers that link to live mobile networks across the Asia Pacific region.

In the Positioning business, we invested in solutions to detect and analyse vulnerabilities in GNSS. The robust PNT Test Framework enables threats to be detected in the field, taken into the lab and re-synthesised along with GPS and other GNSS signals.

### STRATEGY

Our strategy focuses on accelerating time to market and reducing cost to develop and launch new devices and services, while helping to ensure the highest service quality and user experience.

We are investing in new products and services for the IoT to accelerate the development of connected devices, to test and qualify devices to ensure they can connect to the network and operate reliably, and to monitor, analyse and troubleshoot IoT networks and applications.

We are building leadership in testing user experience of converged services and devices that support them including video, data and voice, from development to deployment, to issues that arise in operation. Spirent's powerful analytic capabilities enable correlation of user experience metrics with IP-layer performance metrics to accelerate resolution of issues and improve the user experience. We are expanding our served markets by providing industry-leading products for new challenges facing the positioning, navigation and timing industry. We have expanded into the GNSS vulnerabilities market to enable development of robust receivers, equipment, applications and systems and to detect interference or spoofing in operational environments.

## MOBILE USER EXPERIENCE CAPABILITIES EXTENDED TO ASIA PACIFIC

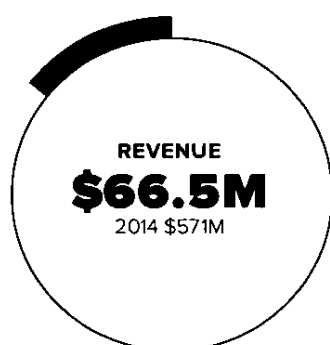
Spirent enables operators and their device supplier ecosystems to collaborate and improve the user experience of voice, data and video services. Spirent invested in a new Fit4Launch Lab in Beijing and in the deployment of user experience servers that link to live mobile networks across the Asia Pacific region.

Before launch, each new mobile device model is ranked relative to all previously released device models for metrics such as speech quality, call success and retention, web browsing speed, video quality and battery life, in both live network and lab-based evaluation. If a device ranks poorly, the manufacturer and Spirent work together to implement and evaluate improvements.

"Fit4Launch has helped multiple tier-1 operators measurably improve the user experience of their devices and services," said Des Owens, General Manager of Service Experience and Assurance at Spirent. "At one US operator, more than 15 major user experience issues were identified and fixed in just 12 months. At another operator, speech quality across all devices was improved by nearly 10 per cent over a two year period."

## SERVICE ASSURANCE

OUR SERVICE ASSURANCE SOLUTIONS ALLOW SERVICE PROVIDERS TO DIAGNOSE AND DETERMINE HOW TO RESOLVE ISSUES WITH NETWORKS.



OPERATING PROFIT

**\$13.4M**

2014 \$20.5M

OPERATING PROFIT BEFORE  
EXCEPTIONAL ITEMS

**\$14.0M**

2014 \$20.7M

RETURN ON SALES BEFORE  
EXCEPTIONAL ITEMS

**21.1%**

2014 36.3%

Develops distributed systems that enable service providers to turn-up new services, diagnose, troubleshoot and reduce time to resolve issues with production networks and services and continuously monitor their production network performance and user experience through end-to-end visibility and real-time analytics

### WHAT WE TEST

#### NETWORK SERVICE ASSURANCE

Spirent's service assurance solutions allow service providers around the world to turn-up new services and diagnose and troubleshoot issues within mobile backhaul, business services and global internet protocol ("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 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 management solution helps service providers to identify critical network issues affecting customers and reduce churn by aggregating and analysing data from multiple sources to provide real-time insights into their customers' experience

### STRATEGY

- Reduce time and cost to solve user experience problems
- Provide solutions for virtualised network functions and provide innovative new virtualised solutions

- Expand network coverage to provide end-to-end visibility and isolation
- Leverage analytics to provide proactive and predictive customer and business insights

### KEY MARKET DRIVERS

- Growing complexity and customer churn fears
- Caution around virtualisation
- Increased carrier competition drives focus on customer experience

### PERFORMANCE HIGHLIGHTS

- TestCenter Live Ethernet sales maintained and virtualisation product complete and in trials
- New InTouch Customer and Network Analytics ("CNA") product completed launched and first customer booking received

### MARKET CONDITIONS

Long term evolution ("LTE") and voice over LTE ("VoLTE") services are being rolled out by network operators with deployments of rich communications services ("RCS") underway and 5G services on the horizon. We continue to develop innovative performance management and troubleshooting systems for these new services to reduce our customers' capex and opex costs and radically accelerate the time to launch new services, provision new subscribers, and troubleshoot problems.

Service provider spending remained cautious as the shift continued from legacy networks to virtualisation and how best to realise potential benefits. 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 exploitation of big data analytics. We address three market segments: service assurance, customer experience management and device management and intelligence.

Spirent targets the mobile service management, performance management and probe-based systems sub-segments with an addressable market of approximately \$340 million in 2015. The customer analytics and big data market had an estimated size of \$3 billion in 2015. We sell analytics solutions primarily into the wireless market, with a focus on network engineering groups at top-tier operators in North America and EMEA. Spending is shifting towards solutions that predict and avoid network service issues, calls to customer care, or customer churn.

We enjoy a market-leading position in mobile device management solutions for mobile virtual network operators ("MVNOs"). The MVNO market is expected to continue to grow rapidly from 1 200 service providers in 2015 to 4 000 in 2020.

#### REVENUE

Revenue increased by \$9.4 million to \$66.5 million in 2015 from \$57.1 million in 2014. The main reason for this increase was the full year contribution from our 2014 acquisitions, Device Intelligence and Customer Experience Management ("CEM"). They added \$6.9 million of revenue in 2015 compared to the post acquisition period in 2014. Our core Service Assurance business benefited from the fulfilment of the final phase of the major contract for hand-held test tools of \$16.0 million.

#### PROFITABILITY

Gross margin was down slightly at 75.8 per cent (2014 76.2 per cent) due to a different product mix.

Operating profit before exceptional items was \$14.0 million compared with \$20.7 million in 2014. The decrease was due to the investments we are making in our 2014 acquisitions and in the core Service Assurance business to expand our served markets. Exceptional costs of \$0.6 million and \$0.2 million were charged in 2015 and 2014 respectively.

#### PRODUCT DEVELOPMENT

We invested in a broad portfolio to assure the whole service, covering the core, backhaul, home mobility locations and devices from the physical to the service layers. Our service assurance system TestCenter Live, for assuring Ethernet services is used by service providers to turn-up and monitor Ethernet networks. In 2015, we completed the development of our TestCenter Live virtual probe and 100G probe, which is in trials at leading operators.

We provide a customer and network analytic software system, InTouch, to telecom operators enabling them to analyse the quality of their customers experience and identify network improvements. In 2015 we invested in a new flagship analytics solution InTouch CNA focused on customer experience assurance and troubleshooting with support for 2/3/4G technologies including VoLTE and the Internet of Things ("IoT").

To address the challenges in assuring carrier Wi-Fi services we acquired Eptiro, a pioneer and leader in the rapidly growing Wi-Fi experience monitoring market. This transaction builds on the success of a strategic partnership which led to multiple deployments, including at a tier-1 US service provider.

#### STRATEGY

Our strategy focuses on radically reducing the time and cost to turn-up new services and to diagnose, troubleshoot and resolve issues with production networks and services. We cover the network topology and support legacy and new technologies and services. TestCenter Service Live and InTouch CNA are product lines that highlight our commitment to this strategy.

We enable our customers to radically reduce time to characterise network performance and to identify and resolve user experience problems through end-to-end visibility and real-time analytics.

We will continue to develop new solutions that capitalise on the benefits that virtualisation enables. We will enhance the field portable test tools reducing the need to dispatch technicians and enabling problems to be resolved more quickly and effectively. This improves customer satisfaction and retention while reducing the cost and complexity of operating and managing the network. We will provide systems to enable IoT devices and applications to connect to the network seamlessly reducing the time and cost of pre-deployment qualification and using analytics to manage the on-boarding and scaling of IoT devices and applications on the network.

## ANALYTICS SOLUTION BREAKS THROUGH INFORMATION SILOS

The InTouch CNA solution focuses on customer experience assurance and troubleshooting. It is the evolution of the field-tested InTouch platform, which has been deployed in networks exceeding 100 million subscribers and focuses on customer experience assurance and troubleshooting, with support for 2/3/4G technologies including VoLTE and the IoT.

"Our solution is unique in that it allows operators to build and leverage quality of scores using data mining techniques which can prevent churn," said Frank Galuppo, General Manager of Spirent's CEM business unit. "This allows them to rapidly identify and resolve issues before customers complain or leave."

This new solution provides a subscriber-level view of quality of experience through understanding its relationship to network data. This enables mobile operators engineering, customer care and marketing groups to proactively identify and resolve wireless customer experience issues spanning 4G LTE networks and services like VoLTE. Several operators are already deploying beta versions of InTouch CNA, especially for new services like VoLTE and IoT.

## REVENUE GROWTH WITH STRONG CASH GENERATION

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

	2015	2014	Change (%)
Book to bill ratio <sup>1</sup>	101	103	
Revenue (\$ million)	477.1	457.2	4
Gross profit margin (%)	69.5	69.2	
Adjusted operating profit <sup>2</sup> (\$ million)	42.1	46.0	(8)
Return on sales <sup>2</sup> (%)	8.8	10.1	
Adjusted basic earnings per share <sup>3</sup> (cents)	5.00	5.82	
Free cash flow <sup>4</sup> (\$ million)	35.3	10.7	

### Notes

- 1 Ratio of orders booked to revenue billed
- 2 Before exceptional items: acquisition related costs, acquired intangible asset amortisation and impairment, goodwill impairment and share-based payment amounting to \$32.0 million in total (2014 \$22.3 million)
- 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

### REVENUE

Group revenue increased by 4 per cent to \$477.1 million (2014 \$457.2 million). Growth was driven by Networks & Applications, up 9 per cent and by Service Assurance, up 16 per cent. Wireless & Service Experience revenue declined by 6 per cent where weakness in wireless device test revenue more than offset growth in revenue from our Positioning products driven by US government spend.

Order intake for the Group was 3 per cent higher at \$482.0 million (2014 \$469.4 million) with a book to bill ratio of 101 (2014 103).

Geographically, the Americas are our largest market accounting for 56 per cent of Group revenue. Revenue grew by 9 per cent in this region due to increased demand in Networks & Applications and US government orders in Positioning more than offsetting weakness in wireless device test. Asia Pacific was unchanged as a percentage of Group revenue but in dollar terms increased by 4 per cent compared to 2014. Highlights in the Asia Pacific region were China, where we experienced 16 per cent growth, driven predominantly by Wireless & Service Experience, and also India due to Networks & Applications, which together more than offset a reduction in spending by some of our major customers in Korea and Japan. EMEA represents 13 per cent of Group revenue, down from 15 per cent, as we continued to experience weakness in this region.

\$ million	2015	%	2014	%
Americas	268.1	56	245.0	54
Asia Pacific	148.2	31	142.5	31
Europe, Middle East and Africa	60.8	13	69.7	15
	477.1	100	457.2	100

## COST OF SALES AND OPERATING EXPENSES

Gross margin increased to 69.5 per cent (2014 69.2 per cent) buoyed by the performance of Networks & Applications where gross margin was up one per cent. In Wireless & Service Experience and Service Assurance gross margin was down slightly due to volume and product mix.

The investment in product development was maintained at \$118.3 million (2014 \$115.4 million) and selling and distribution costs increased to \$127.2 million (2014 \$113.5 million). Some of this can be attributed to the overheads of the 2014 acquisitions but we also made some additional investments in sales and marketing, specifically to support new product releases and expand our customer base.

It is planned to maintain the overall underlying rate of investment in product development and in sales and marketing in 2016.

Administration expenses were \$44.2 million in 2015 compared with \$41.4 million in 2014 before charging the items added back for the purposes of the calculation of adjusted operating profit, being exceptional items, acquisition related costs, acquired intangible asset amortisation and impairment, goodwill impairment and share-based payment, amounting to \$32.0 million in total (2014 \$22.3 million). Total reported administration expenses were \$76.2 million compared with \$63.7 million after charging these items.

## OPERATING PROFIT

Reported operating profit was \$10.1 million compared with \$23.7 million in 2014. Adjusted operating profit, which is the measure of profit the Group uses to evaluate performance, decreased by 8 per cent to \$42.1 million compared with \$46.0 million in 2014, primarily as a result of the planned increase in sales and marketing referred to above.

A reconciliation between adjusted and reported operating profit is set out below.

\$ million	2015	2014
<b>ADJUSTED OPERATING PROFIT</b>	<b>42.1</b>	<b>46.0</b>
Exceptional items	(12.5)	(4.1)
Acquired intangible asset amortisation and impairment	(14.8)	(13.7)
Goodwill impairment	(3.8)	–
Acquisition related costs	(0.1)	(3.8)
Share-based payment	(0.8)	(0.7)
<b>REPORTED OPERATING PROFIT</b>	<b>10.1</b>	<b>23.7</b>

Return on sales based on adjusted operating profit was 8.8 per cent (2014 10.1 per cent).

## EXCEPTIONAL ITEMS AND GOODWILL IMPAIRMENT

As a result of the changes in the wireless device test and carrier acceptance market, which impacted revenues in 2015 and we expect to further impact revenue in 2016, targeted cost reduction actions were taken in the fourth quarter. The most significant action taken was to outsource engineering services in Wireless & Service Experience to provide a more cost effective and flexible resource for the future. The full cost of these actions of \$13.1 million, net of the release of \$0.6 million of the 2014 exceptional restructuring provision, has been taken as an exceptional item of \$12.5 million in the year. We expect them to deliver annualised cost savings in the order of \$25.0 million from 2016, which are being utilised to invest in growth areas.

Also in 2015 a goodwill impairment charge of \$3.8 million was incurred in respect of the Device Intelligence business as a result of a change in our expectations for market expansion with tier-2 mobile network operators.

## CORPORATE COSTS

Corporate costs are those expenses which cannot be attributed to the Group's operating segments and comprise the costs of the Board and other corporate activities. These costs were \$5.8 million (2014 \$6.3 million) before an exceptional credit of \$0.1 million (2014 \$0.7 million exceptional cost) 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 2015 was unchanged compared to 2014 at \$0.4 million. Surplus funds are held principally in the United Kingdom and United States and earn market rates of interest which remain minimal.

Finance costs of \$0.5 million in 2015 comprised the interest cost on the defined benefit pension plan (2014 nil).

## SHARE OF LOSS OF ASSOCIATE

During the year Spirent acquired 28 per cent of the share capital of Jolata, Inc ("Jolata") (see below). The 2015 consolidated financial statements include the Group's share of the total comprehensive income of Jolata from the date of acquisition. Spirent's share of post-acquisition results of Jolata amounted to a loss of \$0.4 million (2014 nil).

## TAX

Taxable profits for the Group principally arise in the United States. The tax charge for the Group in 2015 was a credit of \$3.9 million (2014 \$3.5 million charge), representing a current year effective tax rate of 25.0 per cent (2014 22.0 per cent) of pre-tax profit, excluding a prior year tax credit of \$6.3 million (2014 \$1.8 million). At 31 December 2015 deferred tax assets amounting to \$25.6 million (31 December 2014 \$20.5 million) have been recognised on the balance sheet. At 31 December 2015 there are deferred tax assets amounting to a tax value of \$22.0 million (31 December 2014 \$17.1 million) which remain unrecognised.

For 2016 it is expected that the effective tax rate will continue to be in the region of 25.0 per cent.

## Financial review continued

### EARNINGS PER SHARE

Adjusted basic earnings per share was 5.00 cents compared with 5.82 cents for 2014. There were 610.5 million (2014 611.2 million) weighted average Ordinary Shares in issue. Basic earnings per share was 2.18 cents for 2015 compared with 3.35 cents for 2014.

A reconciliation is provided below:

\$ million	2015	2014
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY</b>	<b>13.3</b>	<b>20.5</b>
Exceptional items	12.5	4.1
Acquisition related costs	0.1	3.8
Acquired intangible asset amortisation and impairment	14.8	13.7
Goodwill impairment	3.8	–
Share-based payment	0.8	0.7
Tax effect on the above items	(8.5)	(5.4)
Prior year tax credit	(6.3)	(1.8)
<b>ADJUSTED PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY</b>	<b>30.5</b>	<b>35.6</b>
<b>ADJUSTED BASIC EARNINGS PER SHARE (CENTS)</b>	<b>5.00</b>	<b>5.82</b>

### 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 27 of Notes to the consolidated financial statements.

### ACQUISITIONS AND INVESTMENT IN ASSOCIATE

On 7 October 2015 Spirent made a \$5.0 million investment to take a 28 per cent stake in Jolata, Inc., a pre-revenue company based in San Jose, California, which aims to develop a market leadership position in network visibility for latency management. The Group has significant influence, but not control, over the financial and operating policies and therefore the investment in Jolata will be equity accounted and reflected as an investment in associate in Spirent's financial statements.

On 16 November 2015 Spirent acquired Epiro Group Limited ("Epiro") for an initial cash consideration of \$1.7 million. Deferred consideration of up to \$0.3 million is payable one year after acquisition based on the achievement of certain orders targets and product development milestones. The product development milestones were achieved in December 2015 and Spirent paid \$0.1 million of the deferred consideration in January 2016. Epiro, based in Cardiff, is a pioneer and leader in the rapidly growing Wi-Fi experience monitoring market and the acquisition builds on the success of an existing strategic partnership. This acquisition is reported within Service Assurance.

## FINANCING AND CASH FLOW

The Group is 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 \$102.0 million at 31 December 2015 compared with \$99.8 million at 31 December 2014 with no debt. Cash and cash equivalents are held as cash on demand or in short term bank deposits and 60 per cent of the balance at 31 December 2015 was denominated in US dollars.

Cash generated from operating activities was higher in 2015 at \$57.8 million (2014 \$48.9 million) as we benefited from the unwind of the working capital increase we experienced in the fourth quarter of 2014. This resulted in a net decrease in working capital of \$2.1 million for the full year (2014 increase of \$6.7 million). Free cash flow conversion represents 2.7 times (2014 0.5 times) reported earnings.

Free cash flow is set out below:

\$ million	2015	2014
Cash flow from operations	57.8	48.9
Tax received/(paid)	2.6	(7.2)
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>60.4</b>	<b>41.7</b>
Interest received	0.4	0.6
Net capital expenditure	(25.5)	(31.6)
<b>FREE CASH FLOW</b>	<b>35.3</b>	<b>10.7</b>

Cash generated from operations includes a cash outflow of \$1.8 million for the implementation of the exceptional cost reduction actions taken in 2015. The total cash cost of these actions is \$8.8 million with the balance to be paid in 2016.

Net capital expenditure was lower by \$6.1 million than in 2014 which included the move to new improved leasehold facilities in the United States on the expiry of the previous lease terms. For 2016 capital expenditure is expected to be in the region of \$20 million.

In 2015 the final dividend for 2014 and an interim dividend for 2015 totalling \$23.5 million (2014 \$22.2 million) were paid. There were no share repurchases during 2015 (2014 \$16.4 million outflow). Cash consideration for acquisitions and investment in associate amounted to \$6.7 million (2014 \$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 to new entrants some time ago and the principal plan now has fewer than ten active members.

The accounting valuation of these plans at the end of 2015 showed a net deficit of \$19.1 million compared with a net deficit of \$13.7 million at 31 December 2014. The higher deficit was principally due to a decline in the fair value of plan assets as a result of market conditions. The accounting valuation is based on the preliminary results of the actuarial valuation dated 1 April 2015 which will be finalised in 2016.

The Group has also reported a liability of \$0.7 million (31 December 2014 \$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.

No share buybacks were transacted in 2015. In 2014 the Company repurchased 9.7 million shares at a cost of \$15.6 million. All shares repurchased in 2014 were cancelled. No further buybacks are currently planned.

### DIVIDEND

The Board is recommending the payment of a final dividend for 2015 of 2.21 cents (1.59 pence) per share which, together with the interim dividend of 1.68 cents (1.08 pence) per share paid in September 2015, brings the full year dividend to 3.89 cents (2.67 pence) per share. The dividend is covered 1.3 times by adjusted earnings. This maintains the full year dividend for 2015 at the same level as 2014, which was also 3.89 cents per share.

Subject to approval by the shareholders at the Annual General Meeting, the final dividend will be paid on 6 May 2016 to shareholders on the register at 4 March 2016. Payment to ADR holders will be made on 16 May 2016.

### CHANGE IN OPERATING SEGMENTS

There will be a change in operating segments effective 1 January 2016. See note 4 to Notes to the consolidated financial statements for an explanation of the change.



## PROMOTING A CULTURE OF RESPONSIBILITY

### PRINCIPLES AND THEMES

The way we behave when we do business is central to our long term success. Conducting our business responsibly enables us to meet our obligations to our stakeholders and delivers real business benefits, creating long term value for shareholders by

- protecting our reputation and ability to grow,
- helping us to win business from customers who value strong Environmental, Social and Governance ("ESG") performance,
- enhancing our efficiency,
- enabling our people to work productively in a safe and ethical environment,
- helping us to attract and retain talent, and encouraging employees to take pride in working for us and
- reducing the risk of incidents and their associated costs

### SUSTAINABILITY MANAGEMENT AND POLICY

Our sustainability management is governed by an overarching sustainability policy. The policy can be found at <http://corporate.spirent.com>

The policy commits all Group business units to compliance with high standards of ethics and business integrity, environmental management and employee and community welfare

The Chief Executive Officer is responsible for the sustainability policy and the Board has appointed external advisers to support the design and implementation of improvement programmes

### FOCUSING ON KEY ISSUES: STRATEGY AND MATERIALITY ANALYSIS

Our sustainability strategy is focused on the material ESG issues for the Group. These issues have been identified through a materiality assessment based on the AccountAbility AA 1000 5-part materiality methodology. This analysis is reviewed biannually

### SUSTAINABILITY: OUR PROGRESS IN 2015

In 2015 we launched FuturePositive, our sustainability improvement programme. The objectives are to embed sustainability management across our organisation and to create value by supporting customers to address their sustainability challenges

Building on the improvements in energy and carbon management in 2014, the FuturePositive launch has introduced new sustainable product design standards, supply chain sustainability audits and enhanced stakeholder communication and transparency

Further details can be found in our 2015 ESG report, which is available to download at <http://corporate.spirent.com>

### Environmental

Our industry faces a wide range of environmental challenges including climate change, the use of hazardous materials and increasing environmental legislation. Our programme of environmental management in 2015 included audits of environmental performance and management at our new sites in Frederick, MD and Calabasas, CA, a pilot of energy monitoring software at our Low Carbon Centre of Excellence in Paignton, UK, and environmental audits of the Group's main contract manufacturer

### ENVIRONMENTAL MANAGEMENT AND POLICY

The Group Environmental Policy commits the Group to prevention and control of pollution, minimising environmental impacts, eco-efficiency, and adoption of responsible environmental practices

The Group is also committed to compliance with all applicable environmental regulations 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

### COMPLIANCE

The Group's business units comply with the EU's Waste Electrical and Electronic Equipment Regulations 2013 and Batteries Directive and the California Electronic Waste Recycling Programme

Although Spirent Communications' hardware products are classified as Category Nine (Monitor and Control Equipment) and are out of scope with the RoHS Directive until June 2017, new products are designed to meet the EU's Restriction of Hazardous Substances Directive ("RoHS"). Measures are in place to ensure the Group's hardware products will be in compliance with the RoHS Directive at such time as they are brought into 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 in place to ensure that it would be in

compliance if it were brought in within the scope of this legislation. The Group will be subject to the EU Directive on Conflict Minerals when it is enacted in national legislation in the UK and other European countries. We are monitoring the development of compliance requirements and are confident our existing practices will meet the standards required.

The Group is not required to comply with the UK Energy Savings Opportunity Scheme ("ESOS") Regulations 2014.

#### 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 ("CDP") in 2015, completing both the Climate Change and Supply Chain questionnaires for the calendar year 2014.

Improved sustainability reporting has been a key theme this year, and we increased our CDP performance band to a C and have improved our disclosure score to 95, having achieved year-on-year improvement since 2013 as shown in the table on page 38.

#### PERFORMANCE AGAINST TARGET

The Group set a target to reduce carbon emissions in absolute terms, as well as in relation to revenue and internal area. We have not achieved these targets. Energy use and absolute emissions have increased by 3.9 per cent and 3.4 per cent respectively, whilst carbon emissions per \$m of revenues decreased by one per cent. Fifteen of our 46 sites have however achieved absolute reductions in GHG emissions of 5 per cent or more.

There are two principal reasons for these increases: improved data availability which allowed us to use actual rather than estimated energy use for a number of our sites, including our engineering facility in Frederick, USA, with 2015 emissions materially higher than estimates, and business growth and expansion in research and development, which also increased energy usage.

#### METHODOLOGY

Reporting on emission sources is required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and these sources fall within our consolidated financial statements. We are not responsible for any emission sources that are not included in our consolidated financial statements. We report under the GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition) with data gathered under these Regulations and emission factors under the UK Government's GHG Conversion Factors for Company Reporting 2015.

Greenhouse gas emissions for both 2014 and 2015 have been assured using the AA 1000 AS (2008) standard. The assurance statement can be found in our 2015 ESG report at <http://corporate.spirent.com>.

#### 2015 CASE STUDY

##### Product

A core objective for 2015 was to determine how best to measure product sustainability performance and how to formally embed sustainability considerations into product development.

A pilot project was run in our Positioning business unit in the UK to develop standardised protocols to measure the sustainability performance of products and to incorporate sustainability criteria into the product development Gateway Process.

Protocols have been defined to measure key product metrics of energy use, noise size and weight and the performance. Significant improvements have been identified in the new GSS9000 product, especially when a large number of channels are under test.

#### SOCIAL

##### HEALTH AND SAFETY

The Board has designated the Chief Financial Officer as responsible for health and safety performance within the Group and procedures are in place for incidents to be reported through the Audit Committee to the Board as necessary.

The health and safety risk profile for the Group remained low during 2015, with very low accident rates and no incidents which required hospitalisation.

## GSS9000 SUSTAINABILITY IN PRODUCT DESIGN

Spirent supply a market-leading range of Global Navigation Satellite System ("GNSS") simulators for R&D integration, verification and product testing. The reliance on a growing number of GNSS constellations for both generic navigation requirements and Location Based Service applications has meant that designers, manufacturers and systems integrators need increasingly comprehensive and sophisticated testing systems.

Spirent launched the GSS9000 to meet these significant increases in testing complexity and incorporated key product sustainability improvements to reduce material and energy use across the product's lifespan.

The more capable GSS9000 is 69 per cent lighter, 74 per cent smaller and has a 54 per cent reduction in maximum power demand than the comparable GSS8000 system specification.

## Corporate responsibility continued

Year	Programme	Disclosure Score	Climate Change Performance Band
2015	Climate Change 2015	95	C
2014	Climate Change 2014	73	D
2013	Climate Change (Investor CDP)	66	D

### GLOBAL GHG EMISSIONS DATA FOR THE YEAR ENDED 31 DECEMBER 2015

Emissions from	2015 Tonnes of CO <sub>2</sub> e	2014 <sup>1</sup> Tonnes of CO <sub>2</sub> e
Combustion of fuel and operation of facilities (scope 1)	256.1	265.2
Electricity heat steam and cooling purchased for own use (scope 2)	6,747.1	6,510.4
<b>TOTAL EMISSIONS</b>	<b>7,003.2</b>	<b>6,775.6</b>
Emissions intensity measurement		
Normalised to per square metre of gross internal area of our facilities	0.15	0.14
Normalised to per \$m of revenues	14.68	14.82

#### Note

1 The improved data collection processes put in place this year have made more precise emissions data available for 2014. The 2014 figures have been revised accordingly.

#### DIVERSITY AND EQUALITY

The Group employs a diverse workforce and prides itself in providing equal opportunities for all. High value is placed on rewarding our people for their commitment, their integrity and their service. We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic and national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age.

The Board supports the aims, objectives and recommendations outlined in Lord Davies' report "Women on Boards" and it continues to be the Board's policy to make new appointments based on merit, recognising that gender remains an important aspect of the overall diversity which is crucial to creating an optimal board in terms of balance and composition.

#### TRAINING

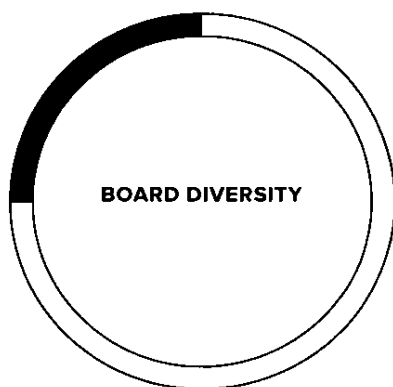
The Group provides a wide variety of learning and training opportunities, ranging from workshops and mentoring to online resources and internal and external training courses. Personal development planning and identification of training and development needs form a key part of our annual performance review process.

#### ENGAGEMENT

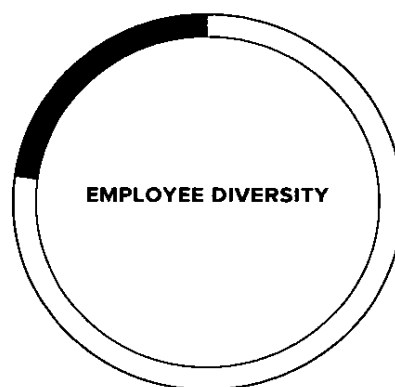
The Group conducted an all employee survey in 2014 and benchmarked results against global norms for our industry sector. One of the action points that arose from the 2014 survey was a desire to improve information sharing and collaboration across the Group. To build on the existing communication tools available, a new intranet platform *InsideSpirent* has been developed and has received extremely positive feedback from employees.

#### DISABILITY

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.



○ Male 6 (75%)  
● Female 2 (25%)



○ Male 1,268 (77.4%)  
● Female 371 (22.6%)



○ Male 194 (89.8%)  
● Female 22 (10.2%)

#### CHARITABLE GIVING AND VOLUNTEERING

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 running in the Beijing Marathon to cycling in the American Diabetes Association's Tour de Cure in Hawaii. Our New Jersey employees continue their commitment to help with the rebuilding of homes devastated by Hurricane Sandy back in 2012

#### GOVERNANCE ETHICS

The Group's core values and principles and the standards of behaviour to which every employee across the Group is expected to work, are set out in the Group's Ethics Policy, which has been approved by the Board and is available on our website at <http://corporate.spirent.com>. These values and principles are applied to all dealings with our customers, suppliers and other stakeholders

The Group has a zero tolerance approach to all forms of bribery and corruption. As a UK company, Spirent Communications plc is bound by the laws of the UK including the Bribery Act 2010, in respect of our conduct both at home and abroad. In addition, we will uphold all laws relevant to countering bribery and corruption in all jurisdictions in which we operate

#### HUMAN RIGHTS

Spirent seeks to uphold all internationally recognised human rights wherever its operations are located. Within this framework, we comply with the requirements of the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act 2010. We require slavery and human trafficking to be eradicated from our direct supply chain for the products we sell

#### DATA PROTECTION

Spirent takes data security and privacy seriously and we continually review the security of our data systems and procedures in order that we can react to areas of heightened risk promptly and effectively

Pages 1 to 39 form part of the Strategic Report

**BY ORDER OF THE BOARD  
ANGUS IVESON**

Company Secretary & General Counsel  
25 February 2016

## THE RIGHT MIX OF SKILLS AND EXPERIENCE

### 1 ALEX WALKER

#### CHAIRMAN

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

Until August 2006 Alex was Chief Executive of Yule Catto & Co. plc. until April 2010 he was a non-executive director of Rotork plc and until May 2014 he was a non-executive director of Zotefoams plc.

### 2 ERIC HUTCHINSON

#### CHIEF EXECUTIVE OFFICER

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

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.

### 3 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.

### 4 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 a non-executive director of JQW plc and Tribal Group plc and director of several other companies.

**5 TOM LANTZSCH****INDEPENDENT NON-EXECUTIVE DIRECTOR**

Tom was appointed to the Board in May 2015. He is a member of the Audit, Nomination and Remuneration Committees.

He is currently Executive Vice President Strategy at ARM Holdings and has held a variety of senior leadership roles in technology industries over the last 30 years.

**6 TOM MAXWELL****INDEPENDENT NON-EXECUTIVE DIRECTOR**

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

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.

**7 SUE SWENSON****SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR**

Sue was appointed to the Board in February 2012. She is a member of the Audit, Nomination and Remuneration Committees and was appointed Senior Independent Director in August 2015.

Sue is CEO and Chairman of Novatel Wireless Inc. and a non-executive director of Wells Fargo and Harmonic Inc. Sue has also been appointed by the US National Telecommunications and Information Administration as a founding Board member of the First Responder Network Authority.

**8 JONATHAN SILVER****INDEPENDENT NON-EXECUTIVE DIRECTOR**

Jonathan was appointed to the Board in June 2015. He is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Jonathan stepped down from his role as Chief Financial Officer at Laird plc in 2015 where he held a variety of senior positions over the last 30 years. Since 2007 he has also been a non-executive director at Invesco Income Growth Trust plc where he is also Chair of their Audit Committee.

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## Chairman's introduction to governance

### DEAR SHAREHOLDER

The Board recognises that it is essential to have appropriate corporate governance processes to support prudent and effective management that can deliver long-term success for the Company. This Governance Statement explains our approach in more detail.

### BOARD CHANGES

We have made a number of changes to the composition of the Board in 2015. In May we welcomed Tom Lantzsch to the Board as a non-executive director. Tom brings a wealth of technology experience to the Board, currently serving as the Executive Vice President of Strategy at ARM Holdings Plc. He has also held senior positions at a range of leading technology companies.

Ian Brindle stepped down from the Board in August 2015 after having served since December 2006. We miss his knowledge, wisdom and counsel. In June this year we were pleased to welcome Jonathan Silver to the Board, and Jonathan has now taken Ian's place as the Chairman of the Audit Committee. Jonathan brings over 25 years of experience as the Chief Financial Officer of Laird plc, together with valuable experience as a non-executive director.

We announced in November that Rachel Whiting, our Chief Financial Officer, had decided to retire and would step down from the Board at this year's AGM. Rachel has been with the Group for 30 years and in that time has served in a number of senior roles. On behalf of the Board I would like to express our gratitude for all her hard work and her contribution to the Board and to the success of the Group. The search for Rachel's replacement is underway and we will make an announcement in due course about the identity of her successor.

### EXTERNAL EVALUATION OF BOARD PERFORMANCE

This annual evaluation is an important means of ensuring that the executive and non-executive directors are working closely and effectively together. This year we have undertaken an external review which has provided insight into our priorities for 2016. In particular, we will continue to focus on effectively selecting the investment opportunities which we believe are most likely to deliver the maximum returns for our shareholders.

### RISK APPETITE

It is a stated aim of the Group to seek to acquire new technologies in our core and adjacent markets. Whilst looking for the best opportunities for the Group, the Board has always been conscious of the longer term risks that any significant acquisition or partnership may bring. The new Corporate Governance Code requirement to make a statement regarding the longer term viability of the Group has been the catalyst for the Board to more fully articulate our risk appetite with the executive team. This has helped to progress the framework within which we consider future investment decisions.

I look forward to meeting shareholders who are able to attend our AGM in May.

### ALEX WALKER

Chairman  
25 February 2016

# **COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE**

As a premium listed company on the London Stock Exchange the Company is reporting in accordance with the UK Corporate Governance Code (the "Code") published in September 2014 which sets out standards of good practice in relation to board leadership and effectiveness remuneration, accountability and relations with shareholders. The Code is published by the UK Financial Reporting Council (FRC) and a copy of the Code is available from the FRC website at [www.frc.org.uk](http://www.frc.org.uk)

The Board confirms that the Company has complied in full with the Code throughout the period under review

## **LEADERSHIP**

### **THE BOARD**

The Board of Directors is collectively responsible to the Company's shareholders for the direction and oversight of the Company to ensure its long-term success

The Board met regularly throughout the year to approve the Group's strategic objectives to lead the Group within a framework of effective controls which enable risk to be assessed and managed and to ensure that sufficient resources are available to meet the objectives set

There are a number of matters which are specifically reserved for the Board's approval. These are set out in a clearly defined schedule which includes matters relating to the Group's strategic plan approving the annual business strategy and objectives, the nature and extent of principal risks to be taken to achieve the strategic objectives, changes relating to structure and capital, approval of trading statements, half-year results final results and annual report and accounts declaring interim dividends and recommending final dividends, the Group's policies and systems of internal control and risk management approving capital projects acquisitions and disposals valued at over \$2 million, and provision of adequate succession planning

The schedule of matters reserved for the Board was reviewed during the year and approved and adopted at the February 2015 Board meeting

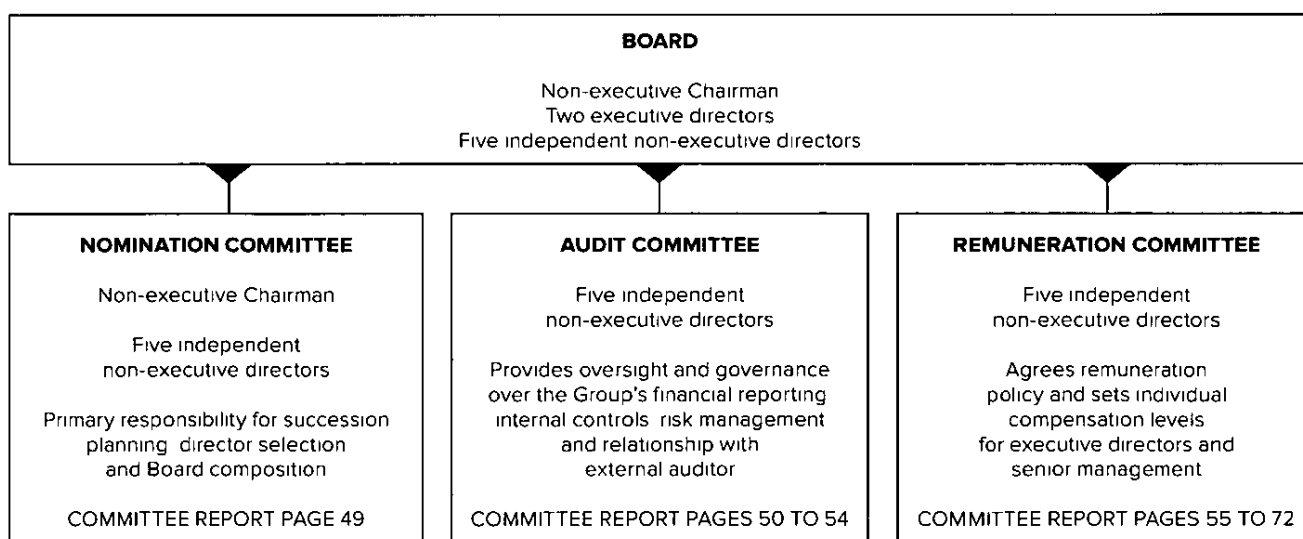
Certain specific responsibilities are delegated to the committees of the Board notably the Audit, Nomination and Remuneration Committees, which operate within clearly defined terms of reference and report regularly to the Board. For further details, please see the reports of each Committee that follow this statement

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles of the Chairman and the Chief Executive Officer are separately held and the division of their responsibilities is clearly established set out in writing, and agreed by the Board to ensure that no one has unfettered powers of decision. The Chairman, Alex Walker is responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda. The Chief Executive Officer, Eric Hutchinson is responsible for leading and managing the Group's business within a set of authorities delegated by the Board and the implementation of Board strategy and policy

Authority for the operational management of the Group's business has been delegated to the Chief Executive Officer for execution or further delegation by him for the effective day-to-day running and management of the Group. The Executive Vice President of each business division within the Group has authority for that business and reports directly to the Chief Executive Officer

## **GOVERNANCE FRAMEWORK**





## Directors' statement on corporate governance continued

### SENIOR INDEPENDENT DIRECTOR

Following the retirement of Ian Brindle on 7 August 2015 Sue Swenson is now the Company's recognised Senior Independent Director. The role of Senior Independent Director is to act as a sounding board for the Chairman and to serve as an intermediary for other directors as necessary. She is also available to shareholders should a need arise to convey concerns to the Board which they have been unable to convey through the Chairman or through the executive directors. During the year led by the Senior Independent Director, the non-executive directors have met without the presence of the Chairman (including to appraise the Chairman's performance).

### NON-EXECUTIVE DIRECTORS

In addition to their responsibilities for strategy and business results, the non-executive directors play a key role in providing a solid foundation for good corporate governance and ensure that no individual or group dominates the Board's decision-making. They each occupy, or have occupied, senior positions in industry bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to Board decision-making. The formal letters of appointment of non-executive directors are available for inspection at the Company's registered office.

### BOARD COMMITTEES

The Board has established three principal Board committees to which it has delegated certain of its responsibilities. These are the Audit Committee, the Nomination Committee and the Remuneration Committee. The membership, responsibilities and activities of these committees are described later in this corporate governance statement and, in the case of the Remuneration Committee in the Report on directors' remuneration beginning on page 55. Membership of these committees is reviewed annually and minutes of committee meetings are made available to all directors on a timely basis.

The chairmen of the Audit, Nomination and Remuneration Committees intend to be present at the Annual General Meeting to answer questions on the work of their respective committees.

The written terms of reference for the Audit, Nomination and Remuneration Committees, all of which were reviewed and updated during the year, are available on the Company's website at <http://corporate.splrent.com>.

### ELECTION AND RE-ELECTION OF DIRECTORS

In accordance with the Code's recommendations, all directors will be proposed for election or re-election at the 2016 Annual General Meeting to be held in May with the exception of Rachel Whiting who, as previously announced, will be stepping down from the Board prior to the meeting.

### COMPANY SECRETARY

Angus Iveson joined Splrent as Company Secretary & General Counsel in October 2014. 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.

### BOARD MEETINGS

The Board held a total of seven meetings during the year, including a two-day strategy meeting held at the Company's premises in Frederick, MD.

Senior executives below Board level are invited, when appropriate, to attend Board meetings and to make presentations on the results and strategies of their business units. Papers for Board and Committee meetings are generally provided to directors a week in advance of the meeting.

The attendance of the directors at Board and Committee meetings during the year under review is shown in the table below. Where a director is unable to participate in a meeting either in person or remotely, the Chairman solicited their views on key terms of business in advance of the relevant meeting, so that that these could be shared with the meeting and contribute to the debate.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Alex Walker	7/7	–	–	4/4
Eric Hutchinson	7/7	–	–	–
Rachel Whiting	7/7	–	–	–
Ian Brindle <sup>1</sup>	5/5	2/2	4/4	3/3
Tom Lantzsich <sup>2</sup>	4/4	2/2	4/4	2/2
Duncan Lewis <sup>3</sup>	7/7	3/3	6/7	4/4
Tom Maxwell	7/7	3/3	7/7	4/4
Jonathan Silver <sup>4</sup>	3/3	2/2	4/4	1/1
Sue Swenson <sup>3</sup>	7/7	3/3	6/7	4/4

#### Notes

- 1 Ian Brindle retired from the Board with effect from 7 August 2015.
- 2 Tom Lantzsich was appointed to the Board with effect from 11 May 2015.
- 3 Mr Lewis and Ms Swenson were unable to attend the *ad hoc* Remuneration Committee meeting held on 18 March 2015 but received all papers relating to the meeting and had the opportunity to discuss issues arising directly with the Committee Chairman.
- 4 Jonathan Silver was appointed to the Board with effect from 25 June 2015.

### DIRECTORS' INDEMNITY PROVISIONS

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.

### BOARD ACTIVITIES DURING 2015

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 ongoing 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.

**EFFECTIVENESS****BOARD COMPOSITION**

At the date of this Report, the Board comprises a non-executive Chairman, five 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.

**INDEPENDENCE**

The independence of each non-executive director is reviewed on appointment and at least annually. The Board determined that the current 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 58) 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.

**APPOINTMENTS TO THE BOARD**

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Details are available in the Nomination Committee report on page 49 which also provides details of the Committee's role and activities.

**KEY BOARD ACTIVITIES DURING 2015****STRATEGY**

- Review and analysis of communications test and measurement market
- Review of updates on corporate strategy and acquisitions

**PERFORMANCE MONITORING**

- Receipt of regular reports from the Chief Executive Officer
- Receipt of senior management presentations from each of the Group business areas
- Review and approval of budget for 2016
- Analysis of feedback on directors' meetings with institutional investors
- Review of reports from the Chairmen of Board committees
- Examination of Company's investment management policy
- Evaluation of Group insurance coverage
- Discussions on Company's capital policy

**GOVERNANCE AND RISK**

- Review and approval of full year and half-year results announcements and presentations and trading updates and Annual Report 2014 in particular to ensure statements are fair, balanced and understandable

- Oversight of viability statement processes
- Assessment and approval of continuing dividend policy
- Consideration of Audit Committee review of internal controls and risk management
- Review and appraisal of the Board's performance
- Review of schedule of matters reserved to the Board and Committee terms of reference
- Consideration of regular regulatory updates

**ACQUISITIONS/DISPOSALS**

- Review of acquisition proposals
- Oversight of integration programmes

**CORPORATE RESPONSIBILITY**

- Approval of disclosures required by Modern Slavery Act 2015
- Receipt of regular updates on health, safety and environmental issues referred by the Audit Committee
- Preparation for compliance with Market Abuse Regulation and other upcoming regulations

**PEOPLE**

- Appointments of Tom Lantzsich and Jonathan Silver as independent non-executive directors
- Review of independent status of continuing and new non-executive directors
- Revision of policy for identification of Persons Discharging Management Responsibility
- Consideration of Board level and senior succession planning and resource activities

**VARIOUS**

- Review of external governance reports on Annual Report 2014 in preparation for the 2015 AGM and subsequent discussion of voting patterns and issues arising from that meeting

#### COMMITMENT

The letters of appointment for the Chairman and non-executive directors set out the expected time commitment required of them and are available for inspection at the Company's registered office and at the annual general meeting. Other significant commitments of the Chairman and non-executive directors are disclosed on appointment and require approval thereafter.

#### BOARD DEVELOPMENT

On appointment, directors undertake a structured induction programme, during 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.

Further training for directors is available as required and can be provided 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.

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

#### INFORMATION FLOW

The Company Secretary & General Counsel manages the provision of information to the Board at appropriate times in consultation with the Chairman and Chief Executive Officer. In addition to formal meetings, the Chairman and Chief Executive Officer maintain regular contact with all directors. The Chairman also holds

informal meetings with non-executive directors without any of the executives being present, to discuss any issues affecting the Group. If this is thought necessary, Regular management updates are sent to directors to keep the non-executive directors informed of events throughout the Group between Board meetings and to ensure that they are kept fully advised of the latest issues affecting the Group.

#### CONFLICTS OF INTEREST PROCEDURES

The Company has procedures in place, which were reviewed and updated during the year, to deal with the situation where a director has a conflict of interest. As part of this process, the Board

- considers each potential conflict situation separately on its particular facts,
- considers the potential conflict situation in conjunction with the rest of the individual directors' duties under the Companies Act 2006,

## BOARD PERFORMANCE EVALUATION

An evaluation to assess the performance of the Board as a whole, its committees and that of the individual directors is conducted annually.

In accordance with the Code requirement that the evaluation should be conducted by an external facilitator at least every three years, Useful Thinking Limited ("UTL") was engaged to undertake a review of the Board and its Committees. UTL is independent with no other connection with the Company. The review took place in the final quarter of the year.

#### PROCESS

Following a scoping exercise with the Chairman and the Company Secretary to agree the priority areas and issues to be addressed in the review, the directors completed an online questionnaire compiled by UTL, centring on themes including the strengths and values of the Board, the quality of succession planning, the interaction of the Board members with the Group's various business units, the process of management strategic planning and the management of risk.

During the year, the implementation of a number of recommended action points arising from the 2014 evaluation was overseen by the Chairman and included the following actions:

#### 2015 ACTIONS

- Further developed understanding of strategic positioning and competitive issues facing the Group in view of ongoing changes in our market sectors,
- Gain further insight into performance metrics on acquisitions and organic investments,
- Focus on strengthening the Board with non-executive directors with specific industry sector and relevant geographic business knowledge and
- Increased visibility on depth of management bench strength below Board level given changes to the management team in 2014.

Based on the outcome of the 2015 review it was concluded that the Board continues to work very effectively as a cohesive body with a good balance of support, challenge and mutual trust between the executive and non-executive directors.

It was also the Board's view that, overall, the principal committees continued to function efficiently and effectively. Each of the directors was considered to be making a valuable contribution and with proper commitment, including of time to their respective roles.

A list of action points arising from the 2015 review on how the Board can become even more effective was offered by UTL and subsequently agreed by the Board. These agreed action points in the form of a Board development plan are being implemented under the direction of the Chairman and include the following actions:

#### 2016 OBJECTIVES

- Prioritisation of resources on market segments which provide greatest growth opportunities,
- Provision of increased visibility on the progress of the most significant product development & acquisition investments,
- Focus on Board succession in light of Non-executive director and Chairman tenure, and
- Further assess senior leadership bench strength.

- keeps records and Board minutes as to authorisations granted by directors and the scope of any approvals given and
- regularly reviews conflict of interest

## ACCOUNTABILITY

### FINANCIAL AND BUSINESS REPORTING

The Board recognises its responsibility to present a fair, balanced and understandable assessment of Spirent in all of our reporting obligations. This responsibility covers the Annual Report and extends to the half-year report and other regulatory announcements. The Directors consider this Annual Report, taken as a whole, to be fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's performance, business model and strategy. In arriving at this position the Board asked the Audit Committee to review and confirm the process is in place to support this assessment. The Audit Committee confirmed that a robust approach is in place to support the fair, balanced and understandable assessment, details of which can be found in the Audit Committee's report on pages 50 to 54.

### BUSINESS MODEL

A description of the Company's business model for sustainable growth is set out in the Group business model and strategy section on pages 12 to 19. These sections provide an explanation of the basis on which the Group generates value and preserves it over the long term and its strategy for delivering its objectives.

### GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly and consistent with the guidance contained in the document titled 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC, they continue to adopt the going concern basis in preparing the annual financial statements.

### INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibilities for the Group's system of internal control to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the Group's

assets. The directors recognise that they are responsible for providing a return to shareholders, which is consistent with the responsible assessment and mitigation of risks.

Effective controls ensure that the Group's exposure to avoidable risk is minimised, that adequate accounting records are maintained, that the financial information used within the business is reliable and that the consolidated accounts preparation and financial reporting processes comply with all relevant regulatory reporting requirements. The dynamics of the Group and the environment within which it operates are continually evolving, together with its exposure to risk. Internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors confirm that there is an ongoing, robust process for identifying, evaluating and managing the principal risks faced by the Group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly reviewed the system of risk management and internal controls utilising the review process set out below.

The directors confirm that a robust assessment of the principal risks facing the Company has been carried out, including those risks that would threaten its business model, future performance, solvency or liquidity. More details are set out in the Group's Principal risks and uncertainties on pages 22 to 25 of this Annual Report.

### STANDARDS

There are guidelines on the minimum Group-wide requirements for health and safety and environmental standards. There are also guidelines on the minimum level of internal control that each of the divisions should exercise over specified processes. Each business has developed and documented policies and procedures to comply with the minimum control standards established, including procedures for monitoring compliance and taking corrective action. The management of each business is required to confirm twice yearly that it has complied with these policies and procedures.

### HIGH LEVEL CONTROLS

All businesses prepare annual operating plans and budgets which are updated regularly. Performance against budget is monitored at operational level and centrally, with variances being reported promptly. The cash position at Group and operational level is monitored constantly and variances from expected levels are investigated thoroughly.

Clearly defined guidelines have been established for capital expenditure and investment decisions. These include the preparation of budgets, appraisal and review procedures and delegated authority levels.

### FINANCIAL REPORTING

Detailed management accounts are prepared every month, consolidated in a single system and reviewed by senior management and the Board. They include a comprehensive set of financial reports and key performance indicators covering commercial and operational issues. Performance against budgets and forecasts is discussed regularly at Board meetings and at meetings between operational and Group management. The adequacy and suitability of key performance indicators is reviewed regularly.

### INTERNAL AUDIT

All of the internal audit activities are co-ordinated centrally by the Group's VP, Finance, who is accountable to the Audit Committee. The Audit Committee keeps this approach under review and is satisfied with the current arrangement.

All Group businesses are required to comply with the Group's financial control framework that sets out minimum control standards. A key function of the Group's internal audit resource is to undertake audits to ensure compliance with the financial control framework and make recommendations for improvement in controls where appropriate.

The VP, Finance meets with the Chairman of the Audit Committee as appropriate but at least annually without the presence of executive management, and has direct access to the Chairman.

#### **REMUNERATION**

The Directors' report on remuneration is set out on pages 55 to 72 and provides details of our remuneration policy and how it has been implemented together with the activities of the Remuneration Committee

#### **ARTICLES OF ASSOCIATION AND SHARE CAPITAL**

Information in relation to share capital the appointment and powers of directors and the issue and buy back of shares and significant interests in share capital is set out in the Directors' report on pages 73 to 76

#### **RELATIONS WITH SHAREHOLDERS**

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

Presentations are made to analysts, investors and prospective investors covering the full year and half-year results and the Company seeks to maintain a dialogue with the various bodies which monitor the Company's governance policies and procedures.

The Company is always keen to hear the views of its private shareholders and we encourage them to access our website at <http://corporate.spirent.com/> for our Company reports and business information and to use our shareholder mailbox at [investor.relations@spirent.com](mailto:investor.relations@spirent.com) for detailed enquiries.

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 2016 Annual General Meeting ("2016 AGM") will be held at 1.00pm on 4 May 2016 at the offices of UBS at 1 Finsbury Avenue, London EC2M 2PP.

The Board views the AGM as a valuable opportunity to communicate with private shareholders in particular for whom it provides the opportunity to hear about the general development of the business and to ask questions of the Chairman and, through him, the chairmen of the key committees and other directors.

The Board looks forward to welcoming all our shareholders to our 2016 AGM and to updating them on our business developments.

## Nomination Committee

### MEMBERS

During the year and at the date of this report

- Alex Walker (Chairman)
- Ian Brindle (retired 7 August 2015)
- Tom Lantzsich (appointed 11 May 2015)
- Duncan Lewis
- Tom Maxwell
- Jonathan Silver (appointed 25 June 2015)
- Sue Swenson

### KEY DUTIES

In accordance with its terms of reference the Nomination Committee's key duties include

- leading the search process and making recommendations to the Board for the appointment of new directors
- regularly reviewing the Board structure, size and composition (including the skills, knowledge independence experience and diversity), recommending any necessary changes and considering plans for orderly succession and
- making recommendations to the Board about suitable candidates for the role of Senior Independent Director and membership of the Audit and Remuneration Committees in consultation with the Chairmen of the relevant Committees

### HOW THE COMMITTEE OPERATES

Members of the Nomination Committee are appointed by the Board from the directors of the Company. The Committee comprises a minimum of three independent non-executive directors. A quorum consists of two members being either two independent non-executive directors or one independent non-executive director and the Chairman.

Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive Officer and external advisers may be invited to attend meetings when appropriate.

When dealing with the appointment of the Chairman, the Committee is chaired by an Independent non-executive director elected by the remaining members.

The terms of reference of the Nomination Committee, which were updated and approved during the year, are available on the Company's website at <http://corporate.spirant.com>

### BOARD APPOINTMENTS PROCESS

The Chairman leads the process for new appointments with external, independent consultants engaged to conduct a search for potential candidates. These are then considered on the basis of their skills, experience and fit with the existing members of the Board. Procedures for appointing a non-executive or an executive director are set out in the Committee's terms of reference.

### MEETINGS

The Nomination Committee met four times during the year under review.

### COMMITTEE ACTIVITIES DURING 2015 APPOINTMENT OF NEW INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year, the Chairman led the process for the appointment of two new independent non-executive directors as part of the progressive refreshing of the Board.

The services of external executive consulting firm JCA Group ("JCA"), were retained to identify candidates. JCA is independent, with no other connection to the Company and is a signatory to the "Voluntary Code of Conduct for Executive Search Firms" on gender diversity and best practice.

Following a rigorous process of interviews and assessments and, on the recommendation of the Nomination Committee, the Board approved the appointments of Tom Lantzsich with effect from 11 May 2015 and Jonathan Silver with effect from 25 June 2015.

### APPOINTMENT OF NEW EXECUTIVE DIRECTOR

Following the announcement in November 2015 of Rachel Whiting's intention to retire from the Board prior to the 2016 AGM, a search for a replacement was initiated. The services of external executive search firm, Odgers Berndtson, were retained to assist with the process. Odgers Berndtson is independent with no other connection to the Company and is a signatory to the "Voluntary Code of Conduct for Executive Search Firms" on gender diversity and best practice. The Company will report on progress in due course.

### DIVERSITY POLICY AT BOARD LEVEL

The Board recognises that diversity is key for introducing different perspectives into board debate and decision-making. A genuinely diverse board comprises individuals with a range of personal attributes, perspectives, skills, experience and backgrounds, as well as representing differences in nationality, race and gender.

It continues to be the Board's policy to make new appointments based on merit, recognising that gender remains an important aspect of the overall diversity which is crucial to creating an optimal board in terms of balance and composition. Candidates for future board appointments will be considered from the widest possible pool.

### RE-ELECTION OF DIRECTORS

The Committee reviewed the results of the annual Board performance evaluation that related to the composition of the Board and whether the time needed to fulfil the roles of Chairman, Senior Independent Director and non-executive director was appropriate. It was satisfied that all members of the Board are devoting sufficient time to their duties and remain independent in nature.

The Committee considered the re-election of directors prior to their recommendation for approval by shareholders at the AGM. The Committee was particularly mindful of the independence of longer-serving members of the Board.

### PERFORMANCE REVIEW

The performance of the Committee was evaluated as part of the annual Board performance evaluation and it was found to be operating effectively.

## Audit Committee

### DEAR SHAREHOLDER,

I am delighted to have taken on the role of Chairman of the Audit Committee (the "Committee") in August this year. I would like to thank Ian Brindle for his eight years of leadership of the Committee, during which time he has skilfully guided the Board through numerous developments in financial and governance regulations.

2015 saw the introduction of the new requirement to make a viability statement concerning the Group. The Committee has worked closely with the executive management team to adapt and enhance robust processes to assess the viability of the Group over the three year period selected and make an appropriate recommendation to the Board.

2016 will see the retirement of Rachel Whiting and the appointment of a new Chief Financial Officer. Rachel has been of great help to me since my appointment and I am sorry that our time working together could not have been longer. She leaves behind a cohesive and effective finance team and she can be proud of playing her part over a career of 30 years with Spirent. I wish her well.

I will be available at the 2016 AGM to respond to any questions that shareholders may have on this report or on the Committee's activities.



**JONATHAN SILVER**  
Chairman, Audit Committee  
25 February 2016

### 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,
- a verification process applied to factual content with the aim of providing 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.

Final approval of the Annual Report is provided by the Board, on the recommendation of the Committee.

## MEMBERS

During the year and at the date of this report

- Ian Brindle (Committee Chairman until retirement 7 August 2015)
- Tom Lantzsch (appointed 11 May 2015)
- Duncan Lewis
- Tom Maxwell
- Jonathan Silver (appointed 25 June 2015, appointed Committee Chairman 7 August 2015)
- Sue Swenson

The Audit Committee comprises a minimum of three members, all of whom are independent non-executive directors of the Company who have the necessary range of financial and commercial expertise to challenge management. Two members constitute a quorum. The membership of the Audit Committee has changed over the last few months. Tom Lantzsch was appointed as a member of the Committee on 11 May 2015, and Jonathan Silver, appointed to the Committee on 25 June 2015, became Chairman of the Committee on 7 August 2015 on the retirement of Ian Brindle.

The Code requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies) with recent and relevant financial experience. Currently, the Committee Chairman fulfils this requirement.

## KEY DUTIES

In accordance with its terms of reference, the Audit Committee's key duties include

- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Company's performance, reviewing significant financial reporting judgements contained in them before their submission to the Board for approval,
- on matters of financial reporting reviewing and challenging where necessary the consistency of and any changes to accounting and treasury policies, for example whether the Group has followed appropriate accounting policies and made appropriate estimates and judgements, the clarity and completeness of disclosure, significant

adjustments resulting from the audit and the going concern assumption and compliance with auditing standards

- at the request of the Board, reviewing the content of the Annual Report and Accounts and advising the Board on whether taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy,
- where requested by the Board, assisting in relation to the Board's assessment of the principal risks facing the Company and the prospects of the Company for the purposes of disclosures required in the Annual Report and Accounts
- reviewing the effectiveness of the Group's internal financial controls, including the policies and overall process for assessing established systems of internal financial control and timeliness and the effectiveness of corrective action taken by management
- overseeing the Group's policies, procedures and controls for preventing bribery, identifying money laundering and the Group's arrangements for whistleblowing, and
- overseeing the relationship with the Group's external auditors, reporting to the Board each year whether it considers the audit contract should be put out to tender taking into account any legal requirements for tendering or rotation of the audit contract, reviewing and monitoring their objectivity and independence including seeking information from the external auditor on an annual basis about its policies and procedures for maintaining independence, agreeing the scope of their work and fees paid to them for audit, assessing the effectiveness of the audit process, and agreeing the policy in relation to the provision of non-audit services

## HOW THE COMMITTEE OPERATES

All Committee members are expected to be financially literate and to have an understanding of the following areas

- the principles of, and developments in, financial reporting including applicable accounting standards and statements of recommended practice

- key aspects of the Company's operations including corporate policies and the Group's internal control environment,
- matters which may influence the presentation of accounts and key figures
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation,
- the role of internal and external auditing and risk management, and
- the regulatory framework for the Group's businesses

The Committee invites the Chief Executive Officer, Chief Financial Officer, Group VP Finance and senior representatives of the external auditors to attend its meetings in full, although it reserves the right to request any of these individuals to withdraw.

During the year the Committee held three meetings with the external auditors without any executive members of the Board being present.

The Committee has unrestricted access to Company documents and information, as well as to employees of the Company and the external auditors.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process.

The terms of reference of the Audit Committee were reviewed and updated during the year and can be viewed on the Company's website at <http://corporate.spirit.com>

## MEETINGS

The Audit Committee met three times during the year, with the Committee agenda linked to events in the Group's financial calendar.

## ACTIVITIES DURING 2015

The Audit Committee's activities principally related to financial reporting, internal control and risk management, the preparation for publishing a viability statement 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, trading updates, 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) 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 and
- reviewed the external auditor's report on the interim review and year end audit and management's responses to the issues raised

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 presentations to analysts to assess for inconsistencies or areas of bias

The Committee noted that Ernst & Young LLP ("EY") had included these areas of significant risk in the Auditor's Report on pages 78 to 83 of this Annual Report and was satisfied with the results of the procedures followed

## 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, 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 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.

## GOODWILL IMPAIRMENT

As indicated in 2014, the Committee was aware of limited headroom in the Device Intelligence business unit and would keep this under review. After considering various scenarios, the Committee have concluded that the Company should make a \$3.8 million goodwill impairment charge due to a change in market expectations with tier-2 mobile network operators. The Committee remains of the view that management's assessment of goodwill in the other acquired business units is not overstated.

## RESTRUCTURING COSTS

The Committee recognises that it is important that restructuring costs arising from decisions taken in December 2015 are properly accounted for. Although a high degree of judgement is involved in identifying the appropriate accounting treatment, the Committee is satisfied that this has been done appropriately.

## MISSTATEMENTS

Management reported to the Committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular outcome. The auditors reported to the Committee the misstatements that they had found in the course of their work. After due consideration, the Committee concurred with management that no adjustments were required.

## INTERNAL CONTROL AND RISK MANAGEMENT

During the year, the Audit Committee

- monitored and reviewed internal control and risk management systems,
- reviewed and approved the internal audit programme for 2015,
- reviewed the Company's Ethics 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.

The Group VP 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.

An individual has been identified as responsible for monitoring each principal risk or uncertainty.

The Group Executive Committee meet with each business unit periodically to challenge and debate the assessment of risk within each business unit, who then submit local risk registers for 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 VP, 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 VP 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 VP, Finance at the Committee's request.

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.

#### ACQUISITIONS AND DIVESTMENTS

A disciplined due diligence process and post-acquisition integration programme.

#### WHISTLEBLOWING AND FRAUD

The Group's "whistleblowing" policy, which forms part of the Ethics Policy, contains arrangements for a confidential reporting facility for reporting to the Audit Committee as appropriate. The Audit Committee reviews any reports and the actions arising therefrom.

The Group's anti-fraud policy has been communicated to all employees and states that all employees have a responsibility for fraud prevention and detection. Any suspicion of fraud should be reported immediately and will be investigated vigorously.

#### EXTERNAL AUDIT

During the year, the Audit Committee

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

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.

#### AUDITOR APPOINTMENT

The Committee is aware of the Competition and Markets Authority's Order ("CMA Order") relating to its investigation of the statutory audit services market for large companies published in 2014. EY, or its predecessor firms, have acted as the Company's auditor for more than 25 years. As such, under the transitional provisions contained within the CMA Order, the deadline for the appointment of a new auditor as a result of a tender process is set as 2021.

The Committee members consider that, given the appointment of a new Committee Chairman in 2015 and with a new Chief Financial Officer to be appointed in 2016, it would be preferable for operational reasons to recommend to shareholders that EY be re-appointed as auditors of the Company at the 2016 AGM. The Committee will keep this matter under review on an annual basis.

There are no contractual obligations in existence that restrict the Company's choice of auditor.

#### **AUDITOR EFFECTIVENESS**

To assess the effectiveness of the external auditors, the Committee reviewed

- the external auditors' fulfillment of the agreed audit plan and variations from it
- reports highlighting the major issues that arose during the course of the audit,
- feedback from the businesses evaluating the performance of each assigned audit team, and
- a report from the Audit Quality Review Team of the Financial Reporting Council

The Audit Committee holds private meetings with the external auditors after each Committee meeting to review key issues within their sphere of interest and responsibility

To fulfil its responsibility for oversight of the external audit process, the Audit Committee reviewed

- the terms, areas of responsibility associated duties and scope of the audit as set out in the external auditors engagement letter,
- the overall work plan and fee proposal,
- the major issues that arose during the course of the audit and their resolution
- key accounting and audit judgements,
- the level of errors identified during the audit, and
- recommendations made by the external auditors in their management letters and the adequacy of management's response

The Committee reviewed and appropriately challenged the basis for these before agreeing the proposed approach and scope of the external audit identified

As part of the review the external auditors 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

#### **AUDITOR INDEPENDENCE**

The Committee has formally reviewed the Independence of its auditors. EY has provided a letter confirming that it believes it remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards

To fulfil its responsibility to ensure the independence of the external auditors the Committee reviewed

- changes in external audit executives in the audit plan for the current year,
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest, and
- the extent of non-audit services provided by the external auditors

#### **POLICY ON NON-AUDIT SERVICES**

The Committee's responsibility to monitor and review the objectivity and independence of the external auditors are supported by a policy relating to the provision of non-audit services by the external auditors. Taking into account relevant ethical guidance this policy precludes a number of non-audit services, including those 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 accepts that certain work of a non-audit nature may be best undertaken by the external auditors. 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 (2015 \$0.6 million (2014 \$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 \$0.1 million (2014 \$0.2 million), EY's objectivity and independence as external auditors was not impaired.

## DEAR SHAREHOLDER,

As Chairman of the Remuneration Committee (the "Committee") I am pleased to present our Remuneration Report for the year ended 31 December 2015. This Report has been prepared on behalf of the Board by the Committee and has been approved by the Board.

In 2015 the Committee has focused on

- designing a new long-term incentive plan ("LTIP"),
- placing more emphasis on profitability in the 2016 annual cash incentives, and
- updating our Remuneration Policy to incorporate the new LTIP while retaining flexibility for the Company.

## LONG-TERM SHARE INCENTIVES

When drawing up our new LTIP, the Committee aimed to ensure that rewards only accrue as value is delivered to shareholders. The Committee concluded that it would take the opportunity to simplify arrangements but retain the existing performance metrics as they provide strong alignment between management and shareholders. We consulted with major shareholders and shareholder representatives on our plans for the new LTIP as it remains the wish of the Committee to retain strong shareholder support for our approach to remuneration.

## PERFORMANCE METRICS

The Committee proposes to continue using Target EPS and Absolute TSR performance targets for LTIP awards. We believe that these measures provide an appropriate balance between rewarding successful strategy execution and creating value for our shareholders. The proposed targets set out on page 57 reflect a significant increase from prior years as we seek to encourage delivery of profitable growth. The Committee is confident that only exceptional performance above typical market growth will be rewarded with the targets we have set.

## QUANTUM

To reflect the significant increase in stretch targets, we have increased the quantum of awards for 2016 to 150% of base salary for the CEO (2015 125%). Our market review also demonstrated that our current award level to the CFO was behind market and we expect to make awards at a level of 100% (2015 60%) when a new CFO is appointed.

The Committee is satisfied that the additional upside this makes available to executive directors will be directly linked to performance achievable only in a scenario where the Company attains outstanding results for shareholders.

## SIMPLIFICATION

Under previous plans, the Company was able to grant a range of awards to management. While Spirent continues to compete for talent with sector peers based in the US (where practices differ from the UK general market), under the new LTIP, executive directors will be granted conventional performance shares only in line with practice at the vast majority of FTSE-listed companies.

## HOLDING PERIODS

The Committee considered post-vesting holding periods and also whether the shareholding guideline for executive directors was still appropriate. We concluded that in an industry with a pace of change such as ours, the three year vesting period was sufficiently long. Although it is important for directors to have a significant shareholding, our market review of similarly sized companies suggested our existing guideline as set out on page 59 was appropriate.

## ANNUAL CASH INCENTIVES

In line with the Company's strategy for 2016 of focusing on driving profitability across the Group, the annual cash incentives for executive directors this year have stretching targets that are weighted 70% on trading profit and 30% on order intake (2015 20% and 80% respectively).

## REMUNERATION POLICY

As the Company will be seeking shareholder approval for the new LTIP at the 2016 AGM, we will also be seeking approval for a revised Remuneration Policy. While changes were necessary to reflect the new LTIP, we have also taken the opportunity to make changes to ensure that we have a workable policy over its three year lifespan and also to clarify certain issues such as Committee discretion, where market practice has developed since our existing Policy was approved in 2014.

I hope you find this Report clear and informative. I will be available at the 2016 AGM to respond to any questions that shareholders may have.

**TOM MAXWELL**

Chairman, Remuneration Committee  
25 February 2016

## Report on directors' remuneration continued

### COMPLIANCE STATEMENT

This Report on directors' remuneration for the year ended 31 December 2015 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 the Board has complied with the provisions of the 2014 UK Corporate Governance Code.

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 2015 and how it will be applied for the year ended 31 December 2016. At the 2016 AGM to be held on 4 May 2016 the Directors' Annual Remuneration Report on pages 56 to 65 will be put to an advisory shareholder vote.

The current Directors' Remuneration Policy was approved by a binding vote at the 2014 AGM and became effective on 24 April 2014. An updated policy will be put to shareholders for approval at the 2016 AGM to incorporate the terms of the new Spirent Long-term Incentive Plan (the "LTIP") to formalise the alignment of the incentive plan with the policy. Following shareholder approval, the revised policy would become effective on 5 May 2016.

### DIRECTORS' ANNUAL REMUNERATION REPORT 2015

#### STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2016 (UNAUDITED)

Information on how the Company intends to implement the revised Directors' Remuneration Policy in 2016 is set out below.

#### SALARY

	2016	2015
Eric Hutchinson	£400,000	£400,000
Rachel Whiting <sup>1</sup>	£250,000	£250,000

Note

<sup>1</sup> Rachel Whiting will be retiring from the Board prior to the 2016 AGM and will therefore only receive a proportion of the figure shown for 2016.

#### 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 taxable cash sum in lieu of pension at a rate of 14 per cent of base salary.

#### ANNUAL CASH INCENTIVE

The Committee has set targets for the year focused on trading profit and order intake. Although the target detail is considered commercially sensitive, the weightings for the year ended 31 December 2016 are as follows:

Trading profit	70%
Order intake	30%

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 SPIRENT LONG-TERM INCENTIVE PLAN**

Subject to the LTIP's approval by shareholders at the 2016 AGM it is anticipated that the following award will be made under the new LTIP in 2016

	Anticipated value of award
Eric Hutchinson	£600,000

The awards are made in the form of performance shares, which are valued at the share price on the date of grant

Details of any award made to an incoming Chief Financial Officer will be disclosed in due course

Having reviewed the performance targets for awards under the LTIP the Committee has determined that for the Performance Shares awards to be made in 2016 the following parameters are appropriate, calculated over a three year performance period

50 per cent of award

Target EPS (adjusted) at the conclusion of the performance period	Proportion of Performance Shares vesting (%)
Below 8 cents	0
8 cents	25
Above 8 cents and below 12 cents	On a straight line basis between 25 and 100
12 cents or higher	100

The EPS performance period normally starts at the beginning of the financial year in which the award is made

50 per cent of award

Absolute TSR	Indicative share price <sup>1</sup>	Proportion of Performance Shares vesting (%)
Up to 25% growth	below 88 pence	0
At 25% growth but below 100% growth	88 pence	On a straight line basis between 25 and 100
100% growth or higher	140 pence	100

## Notes

1 Share price including reinvested dividends

In determining TSR growth for the Company share prices will be averaged over 90 day periods immediately prior to the announcement of the 2015 Full Year results on 25 February 2016 (70.35 pence) and the 2018 Full Year results

**AUDITED INFORMATION****SINGLE FIGURE OF TOTAL REMUNERATION FOR 2015**

The table below provides a single figure of total remuneration for 2015 and 2014 for the executive directors<sup>1</sup>

	Salary <sup>2</sup> £000	Benefits <sup>3</sup> £000	Annual cash incentive <sup>4</sup> £000	Long term incentive <sup>5</sup> £000	Pension <sup>6</sup> £000	Total 2015 £000
Eric Hutchinson	400.0	17.1	–	–	80.0	497.1
Rachel Whiting	250.0	0.3	–	–	35.0	285.3

	Salary <sup>2</sup> £000	Benefits <sup>3</sup> £000	Annual cash incentive <sup>4</sup> £000	Long term incentive <sup>5</sup> £000	Pension <sup>6</sup> £000	Total 2014 £000
Eric Hutchinson	400.0	17.1	–	–	80.0	497.1
Rachel Whiting <sup>7</sup>	229.2	1.0	–	–	32.0	262.2

## Notes

1 Both executive directors are UK based and paid in sterling therefore the data is presented in this currency. In the 2014 Report on directors remuneration the data was presented in US dollars at an average exchange rate of \$1.65 £1

2 Salary and fees cash paid in respect of the year

3 Benefits taxable value of all benefits in respect of the year which comprise private healthcare permanent health insurance life insurance and car allowance

4 Annual cash incentive cash incentive payable in respect of the year

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

6 Pension cash value in lieu of pension

7 Rachel Whiting was appointed to the Board as CFO on 1 February 2014

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## Report on directors' remuneration continued

### ANNUAL PERFORMANCE INCENTIVES

During 2015 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 trading profit 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. Minimum performance thresholds were set for order intake at \$462.0 million and trading profit at \$43.7 million. As the minimum trading profit was not achieved, 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 2015, the allowance paid was £80,000 (2014 £80,000). Rachel Whiting receives a taxable cash allowance in lieu of pension of 14 per cent of base salary. For 2015, the allowance paid was £34,999 (2014 £32,083).

### EXTERNAL APPOINTMENTS

Neither Eric Hutchinson nor Rachel Whiting held any external positions during the year under review or to the date of this Report.

### PAYMENTS TO PAST DIRECTORS

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

### PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office during the year under review.

### NON-EXECUTIVE DIRECTOR FEES

Details of individual appointments are as follows:

Director	First appointed as a director	Current appointment due to expire
Tom Lantzsch	11 May 2015	2016 AGM
Duncan Lewis	1 July 2007	2017 AGM
Tom Maxwell	1 October 2007	2017 AGM
Jonathan Silver	25 June 2015	2016 AGM
Sue Swenson	1 February 2012	2018 AGM
Alex Walker	22 December 2006	2018 AGM

Mr Walker was elected to the Board on 22 December 2006, and so reached his ninth anniversary of appointment before the 2016 AGM. Mr Walker, although not required by the Code to meet the same level of independence as non-executive directors, will be seeking re-election at the 2016 AGM.

Fees for the non-executive directors are normally reviewed by the Board once every three years and were last reviewed on 1 January 2016, 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 2016. Fees for the Chairman, which are determined by the Remuneration Committee, would remain at £160,000 per annum for 2016, 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 and the Senior Independent Non-executive Director receives an additional fee of £7,500 per annum in recognition of the increased time commitment of these roles.

Fees for non-executive directors and the Chairman will be reviewed again for the period effective 1 January 2017 onwards.

Details of fees paid to non-executive directors in 2015 and 2014 are as follows

	2015 £000	2014 £000
Alex Walker (Chairman)	160 0	160 0
Ian Brindle <sup>1</sup>	30 5	51 0
Tom Lantzsch <sup>2</sup>	25 6	–
Duncan Lewis	40 0	40 0
Tom Maxwell	49 0	49 0
Jonathan Silver <sup>3</sup>	24 9	–
Sue Swenson	43 0	40 0
Total	373 0	340 0

Notes

1 Ian Brindle retired from the Board on 7 August 2015

2 Tom Lantzsch joined the Board on 11 May 2015

3 Jonathan Silver joined the Board on 25 June 2015

**STATEMENT OF DIRECTORS' SHAREHOLDINGS 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 2014 Ordinary Shares	At 31 December 2015 Ordinary Shares <sup>1</sup>	At 25 February 2016 Ordinary Shares <sup>2</sup>
<b>Executive directors</b>			
Eric Hutchinson	1,306,209	1,366,809	1,367,513
Rachel Whiting	84,937	86,937	87,289
<b>Non-executive directors</b>			
Ian Brindle <sup>3</sup>	38,396	n/a	n/a
Tom Lantzsch <sup>4</sup>	n/a	–	–
Duncan Lewis	–	–	–
Tom Maxwell	50,000	50,000	50,000
Jonathan Silver <sup>5</sup>	n/a	30,000	30,000
Sue Swenson	–	–	–
Alex Walker	214,530	270,959	270,959

Notes

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

2 Events since 31 December 2015

On 25 January 2016 Eric Hutchinson and Rachel Whiting acquired 370 and 185 Ordinary Shares respectively under the UK Employee Share Purchase Plan at a price of 67.5 pence per share

On 24 February 2016 Eric Hutchinson and Rachel Whiting acquired 334 and 167 Ordinary Shares respectively under the UK Employee Share Purchase Plan at a price of 74.75 pence per share

3 Ian Brindle retired from the Board on 7 August 2015

4 Tom Lantzsch joined the Board on 11 May 2015

5 Jonathan Silver joined the Board on 25 June 2015

**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 2015

	Guideline holding	Beneficially owned shares	Unfettered share incentives	Guideline met?
Eric Hutchinson	100% of base salary	1,366,809	–	Yes
Rachel Whiting		86,937	60,348	No



## Report on directors' remuneration continued

### OUTSTANDING SHARE INCENTIVE AWARDS<sup>1</sup>

The share incentive interests of executive directors who served during the period 1 January 2015 to the date of this Report are set out below

#### ERIC HUTCHINSON

	Exercised	Lapsed	Unvested			
Plan Type	EIP	EIP	EIP	EIP	EIP	EIP
Award Type	CSOP-A	PS	PS	SAR	PS	PS
Award Date	25 Aug 2005	21 Mar 2012	8 May 2013	8 May 2013	28 Apr 2014	18 May 2015
At 1 January 2015 (or date of appointment)	56,600	142,235	172,531	86,266	493,583	–
Granted during the period	–	–	–	–	–	578,035
Vested during the period	–	–	–	–	–	–
Lapsed during the period	–	142,235 <sup>2</sup>	–	–	–	–
Any other adjustments during the period	–	–	–	–	–	–
At 31 December 2015 (or at date of cessation)	–	–	172,531	86,266	493,583	578,035
Market price at date of award (£) <sup>3</sup>	0.5300	1.5310	1.2910	1.2910	1.0130	0.8650
Face value of award granted in period (£)	–	–	222,737	111,369	500,000	500,000
Exercise price (£)	0.5300	Nil <sup>4</sup>	Nil <sup>4</sup>	1.2910	Nil <sup>4</sup>	Nil <sup>4</sup>
Subject to performance conditions?	Yes	Yes	Yes	Yes	Yes	Yes
Performance condition	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR	EPS	50% EPS, 50% TSR	50% EPS, 50% TSR
Performance condition testing date <sup>5</sup>	25 Aug 2008	21 Mar 2015	8 May 2016	8 May 2016	28 Apr 2017	18 May 2018
Result of performance condition testing	100% vest	0% vest	–	–	–	–
Market price at vesting date (£)	0.8000	0.8725	–	–	–	–
Exercise date	14 Aug 2015	–	–	–	–	–
Market price at exercise date (£)	0.805688	–	–	–	–	–
Gain on exercise (£)	15,442.33	–	–	–	–	–
Expiry date	24 Aug 2015	21 Mar 2015	8 May 2016	8 May 2016	28 Apr 2017	18 May 2018

RACHEL WHITING	Available to exercise	Lapsed	Unvested		
Plan Type	EIP	EIP	EIP	EIP	EIP
Award Type	SAR	PS	PS	PS	PS
Award Date	5 May 2006	21 Mar 2012	8 May 2013	28 Apr 2014	18 May 2015
At 1 January 2015 (or date of appointment) <sup>6</sup>	60,348	19,928	24,262	148,075	–
Granted during the period	–	–	–	–	173,410
Vested during the period	–	–	–	–	–
Lapsed during the period	–	19,928 <sup>2</sup>	–	–	–
Any other adjustments during the period	–	–	–	–	–
At 31 December 2015 (or at date of cessation)	60,348	–	24,262	148,075	173,410
Market price at date of award (£) <sup>3</sup>	0.4750	1.5310	1.2910	1.0130	0.8650
Face value of award granted in period (£)	–	–	31,322	150,000	150,000
Exercise price (£)	0.4750	Nil <sup>4</sup>	Nil <sup>4</sup>	Nil <sup>4</sup>	Nil <sup>4</sup>
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 <sup>5</sup>	5 May 2009	21 Mar 2015	8 May 2016	28 Apr 2017	18 May 2018
Result of performance condition testing	100% vest	0% vest	–	–	–
Market price at vesting date (£)	0.595	0.8725	–	–	–
Exercise date	–	–	–	–	–
Market price at exercise date (£)	–	–	–	–	–
Gain on exercise (£)	–	–	–	–	–
Expiry date	5 May 2016	21 Mar 2015	8 May 2016 <sup>7</sup>	28 Apr 2017 <sup>7</sup>	18 May 2018 <sup>7</sup>

## Notes

An explanation of each share plan and its operation is given in note 30 to the audited consolidated financial statements of the Group

## 1 Key to share plan and type of award

EIP CSOP A – 2005 Employee Incentive Plan HMRC-Approved Company Share Options

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 21 March 2012 were due to vest on 21 March 2015. 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 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

## 4 There is no exercise price payable for a Performance Share upon vesting

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

## 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

## 7 Rachel Whiting will be retiring from the Board prior to the 2016 AGM and outstanding share incentive awards will be dealt with in accordance with the Remuneration Policy effective on the date she leaves the employment of the Company

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## Report on directors' remuneration continued

### SCHEME INTERESTS AWARDED DURING THE YEAR

In 2015 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

The performance conditions for Performance Shares awarded in 2015 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 <sup>1</sup> 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

### SHARE INTERESTS VESTING DURING 2016

Awards which are due to vest on 8 May 2016 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 8 May 2016 and are subject to a TSR performance condition will have that performance condition tested on 8 May 2016

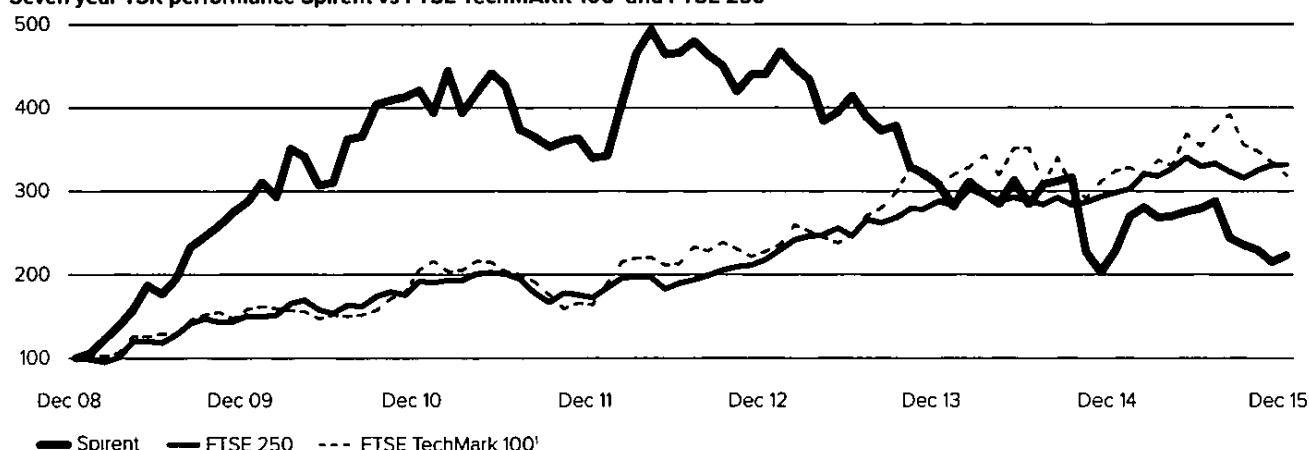
No new shares were issued during the year, with all exercises of share incentives being satisfied by the transfer of shares held by the Company's Employee Share Ownership Trust ("ESOT"). At the date of this Report, the ESOT holds 0.6 million Ordinary Shares for the purpose of satisfying the exercises of current and future awards by employees and former employees of the Group

### DILUTION

Overall shareholder dilution resulting from the Company's share incentive plans (on a rolling ten-year basis) has fallen by 0.9 per cent when comparing the positions at 31 December 2015 (7.4 per cent) and 31 December 2014 (8.3 per cent). The overall number of share incentives outstanding has increased by 3.1 million during the year to 9.7 million at 31 December 2015 (2014 6.6 million)

**UNAUDITED INFORMATION****TOTAL SHAREHOLDER RETURN PERFORMANCE**

The graph below shows the TSR performance for the last seven 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

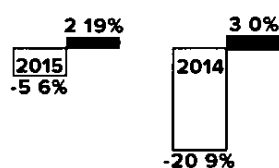
**Seven year TSR performance Spirent vs FTSE TechMARK 100<sup>1</sup> and FTSE 250**

Note

<sup>1</sup> As of 1 January 2009 excluding FTSE 100 companies

The middle market price of an Ordinary Share at the close of business on 2 January 2015 and 31 December 2015 (being the first and last days the London Stock Exchange was open for trading in 2015) was 77.25 pence and 71.50 pence respectively, and during that period ranged between a high of 96.25 pence and a low of 65.25 pence

**PERCENTAGE CHANGE IN THE REMUNERATION OF THE DIRECTOR UNDERTAKING THE ROLE OF CEO COMPARED TO THE PERCENTAGE CHANGE IN REMUNERATION OF AVERAGE UK EMPLOYEE**

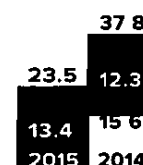


□ CEO<sup>1</sup>  
■ Average employee<sup>2</sup>

**REMUNERATION PAID TO ALL EMPLOYEES \$ MILLION<sup>3</sup>**



**RETURNS TO SHAREHOLDERS \$ MILLION**



□ On-market repurchase<sup>4</sup>  
■ Final dividend<sup>5</sup>  
■ Interim dividend<sup>5</sup>

Notes

- 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 UK employee for 2014 and 2015. Please also note that the 2014 figure for the CEO has been recalculated using sterling to remove the impact of currency fluctuations.
- The figure for Average employee shown is the average percentage merit increase awarded to UK employees in January 2015.
- 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.
- Total as set out in note 29 to the consolidated financial statements.
- Total as set out in note 13 to the consolidated financial statements.

## Report on directors' remuneration continued

### TABLE OF CEO REMUNERATION<sup>1</sup>

Year	CEO	CEO single figure of total remuneration £000	Annual bonus payout against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
2015	Eric Hutchinson	497.1	–	–
2014	Eric Hutchinson	521.6	–	–
2013	Eric Hutchinson <sup>2</sup>	186.9	12.0	–
2013	Bill Burns <sup>3</sup>	401.3	–	–
2012	Bill Burns	931.8	40.5	34
2011	Bill Burns	1,309.6	93.3	84
2010	Bill Burns	1,279.9	100.0	100
2009	Bill Burns	997.8	93.9	100

#### Notes

- 1 Prior year data in this table has been recalculated from US dollars to be presented in sterling at the following average exchange rates: 2014 \$1.65 £1, 2013 \$1.56 £1, 2012 \$1.58 £1, 2011 \$1.60 £1, 2010 \$1.54 £1, 2009 \$1.57 £1.
- 2 Eric Hutchinson took up the position of Chief Executive Officer on 3 September 2013.
- 3 Earnings disclosed are to 3 September 2013 when Bill Burns stepped down as Chief Executive Officer.

### STATEMENT OF SHAREHOLDER VOTING

At the 2015 AGM on 5 May 2015 the results of the advisory vote regarding the Report on directors' remuneration for the year to 31 December 2014 were:

Votes For <sup>1</sup>	%	Votes Against	%	Votes Cast	Votes Withheld <sup>2</sup>
480,558,525	99.79	1,004,673	0.21	481,563,198	22,642

#### 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 Remuneration Committee is responsible to the Board for determining:

- remuneration policy for the executive directors and Chairman taking into account remuneration trends across the Company,
- specific terms and conditions of employment of each individual executive director,
- overall policy for remuneration for the executive directors' direct reports,
- design and monitoring of the operation of any Company share incentive plans,
- setting stretching incentive targets to encourage enhanced performance,
- determining an approach that rewards fairly and responsibly contribution to the Company's long-term success, and
- other provisions of the executive directors' service agreements and ensuring that contractual terms on termination, and payments made, are fair to the individual and the Company and that failure is not rewarded and loss is mitigated.

The Committee's remit is set out in detail in its terms of reference, which are reviewed regularly and were approved in February 2015. They are available on the Company's website at <http://corporate.spirent.com>.

#### COMPOSITION OF THE COMMITTEE

At the date of this Report, the Remuneration Committee comprises five 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 2014 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 acquired in June 2015 by Mercer Limited, were appointed by the Committee some years ago to provide the results of TSR testing to determine the vesting of share incentives. The Committee has retained Mercer Limited in this role because it values the robust data provided and continuity of advice from the consultants involved. The Committee is satisfied that Mercer Limited is independent, thoughtful and challenging. Mercer 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](http://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 and, after June 2015, to Mercer Limited to carry out work during the period under review for the Remuneration Committee totalled £3,300 (2014 £2,850) and were based on time and materials.

Deloitte LLP was appointed by the Committee in 2015 to undertake a market review of executive remuneration practices and assist with the design of a new long-term incentive plan. The Committee is satisfied that Deloitte LLP is independent, thoughtful and challenging. Deloitte LLP is also 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](http://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 Deloitte LLP to carry out work during the period under review for the Remuneration Committee totalled £27,300 (2014 £nil) and were based on time and materials.

#### DIRECTORS' REMUNERATION POLICY (UNAUDITED)

This section sets out a revised Remuneration Policy for executive and non-executive directors. This Remuneration Policy is subject to a binding vote at the 2016 AGM on 4 May 2016 and, if approved at the 2016 AGM, will become effective on 5 May 2016. The Policy will be put to shareholders again no later than the 2019 AGM.

The most significant change from the policy approved at the Company's 2014 AGM is the introduction of the new Spirent Long-term Incentive Plan (the "LTIP"), details of which are set out on page 57 and also in the Company's Notice of AGM.

Our previous 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 and it had a binding effect on the Company from 24 April 2014.

#### 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 promote value creation through transparent alignment with the agreed corporate strategy, supporting performance and encouraging the underlying sustainable financial health of the business while promoting sound risk management for the benefit of all stakeholders. The Committee believes that the aims of the policy are achieved by ensuring that a significant proportion of executive remuneration is tied to the achievement of the agreed corporate strategy and long-term value creation.

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## Report on directors' remuneration continued

### FIXED PAY

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#### PURPOSE AND LINK TO STRATEGY

#### KEY FEATURES

##### 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

Base salaries are normally reviewed annually with changes effective from 1 January

Set at levels to recruit and retain the high calibre talent needed to deliver the Group's strategy without paying more than is considered necessary

Salaries are typically set after considering various factors including 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 market 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

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##### BENEFITS

To provide market levels of benefits on a cost-effective basis

May include private health cover for the executive and their family, life insurance cover of up to four times annual base salary, permanent health insurance and a car allowance

Executive directors may participate in any all-employee share plans which may be operated by the Company on the same terms as other employees

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

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

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##### RETIREMENT BENEFITS

To provide cost-effective and competitive post-retirement benefits

Defined contribution scheme or cash allowance in lieu of Company pension contributions or a combination of both

Other post-retirement benefits may be offered from time to time broadly in line with local market practice in the country of residence of the executive director

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MAXIMUM POTENTIAL VALUE	PERFORMANCE METRICS
<p>While there is no defined maximum salary any increase in salary will ordinarily be (in percentage terms) in line with those of the wider workforce, having particular regard to the increases in the country in which the individual resides</p> <p>Increases beyond those granted to the wider workforce (in percentage 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</p> <p>Details of current salary levels are set out in the Annual report on remuneration</p>	None
<p>The overall value of benefits will depend on the individual's circumstances and therefore there is no formal maximum</p> <p>Participation in all-employee share plans will be in line with relevant statutory limits</p> <p>It is intended that the maximum value of benefits offered will remain broadly in line with market practice in the location in which the executive director operates</p>	None
<p>It is intended that the maximum value of retirement benefits offered will remain broadly in line with market practice in the location in which the executive director operates</p> <p>Pension arrangements for current executive directors are set out in the Annual report on remuneration</p>	None



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## Report on directors' remuneration continued

### VARIABLE PAY

#### PURPOSE AND LINK TO STRATEGY

#### KEY FEATURES

##### ANNUAL INCENTIVE

To reward and incentivise the achievement of annual financial and strategic goals which are selected to align the strategy of the business and support enhancement of shareholder value

The annual Incentive is normally payable in cash and is not pensionable

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. Any such amendment would be reported to shareholders.

Clawback provisions apply to any annual incentive payments made. Prior to payment of any cash incentive, the Committee could exercise its discretion and make no payment due to a malus event.

##### LONG TERM INCENTIVE

To incentivise executives to achieve the Company's long-term strategy and enhance sustainable shareholder value

Discretionary awards of conditional awards (or economic equivalent) may be granted to executive directors annually, calculated as a percentage of base salary.

Malus and clawback provisions will apply to all awards made under the new Spirent Long-term Incentive Plan.

### NOTES TO THE POLICY TABLE

#### PERFORMANCE CONDITIONS FOR AWARDS UNDER THE SPIRENT LONG-TERM INCENTIVE PLAN ("LTIP")

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

#### 2016 POLICY ON SHARE INCENTIVE AWARDS

The Committee expects to approve an award of Performance Shares to the CEO equivalent to 150 per cent of annual base salary.

The Committee expects to make an award equivalent to 100 per cent of base salary to the new Chief Financial Officer when appointed.

#### 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 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 on a like-for-like basis. 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.

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.

MAXIMUM POTENTIAL VALUE	PERFORMANCE METRICS
<p>The annual incentive starts accruing from threshold levels of performance</p> <p>CEO On target opportunity of 100 per cent base salary, subject to cap of 150 per cent base salary</p> <p>CFO Details of the annual cash incentive available to the incoming CFO will be disclosed in due course</p>	<p>Annual incentives may be based on a mix of financial and individual and business objectives with the majority of the weighting being given to financial metrics</p> <p>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 and are set out in the Annual report on remuneration</p>
<p>Maximum plan limit for awards is 200 per cent of base salary</p> <p>Details of proposed award levels for 2016 are set out in the Annual report on remuneration</p>	<p>Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate Vesting is based on performance measured over three years</p> <p>A full description of the performance conditions applicable to long-term incentive awards are set out in the Annual report on remuneration</p>

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 above but in any event would be limited to 400 per cent of base salary, excluding any buy-out awards. Any additional cash or share-based awards on recruitment of an executive director which may fall outside the policy statement would be performance-related and would therefore be regarded as variable remuneration and fall within the Company's standard 400 per cent cap.

For an internal appointment, any remuneration terms 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 in the Annual report on remuneration.

## 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.

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 and Wales. Rachel Whiting's service agreement, dated 1 February 2014, was terminated by Mrs Whiting giving six months' notice on 4 November 2015. 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. Details of any such appointments are set out in the Annual report on remuneration.

The service agreements of executive directors are available for inspection on request and will be available for inspection at the 2016 AGM.

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## Report on directors' remuneration continued

### 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.

The letters of appointment of non-executive directors are available for inspection on request and will be available for inspection at the 2016 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>.

### 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. Individual fees reflect responsibility and commitment. Additional fees may be paid for further responsibilities, such as chairmanship of committees.

Non-executive directors are not eligible to participate in cash incentive or share incentive arrangements and their service does not qualify for pension. No element of their fee is performance-related. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be paid by the Company or reimbursed to non-executive directors.

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 Spirent 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. The current exit payment policy is:

- 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 in the Report of the directors on page 74).
- 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.
- 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 unless the individual is determined by the Committee to be a good leaver (defined as an individual leaving employment due to redundancy, ill-health, injury or disability, retirement, death, the individual's employing company ceasing to be under the control of the Group, a transfer of the undertaking in which the individual works ("Good Leaver")).
  - Spirent Long-term Incentive Plan: Subject to approval by shareholders at the 2016 AGM, unvested awards will generally lapse at the time of exit. For individuals determined by the Committee to be a Good Leaver, the Committee has discretion to either (i) assess performance conditions 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, or (ii) assess performance conditions at the end of the applicable vesting period or such earlier date as may be appropriate. Any shares which vest would then normally be pro-rated to reflect the proportion of the vesting period actually served by the individual.
  - Employee Incentive Plan (EIP): Leaver provisions were approved by shareholders when they approved the EIP in 2005 and 2015. Unvested awards generally lapse at the time of exit. For individuals determined by the Committee to be a Good Leaver, 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 the proportion of the performance period actually served and the individual has 12 months following the date of termination of employment in which to exercise them.

### 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 the current Chief Financial Officer for 2016.

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 through employee engagement surveys and takes these into account when reviewing executive pay. An employee engagement survey was undertaken in 2014 and the results reviewed by senior management. It is expected that further employee engagement surveys will be undertaken every two years.

#### 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 and shareholder representatives in January 2016 regarding the introduction of the new LTIP.

#### LEGACY MATTERS

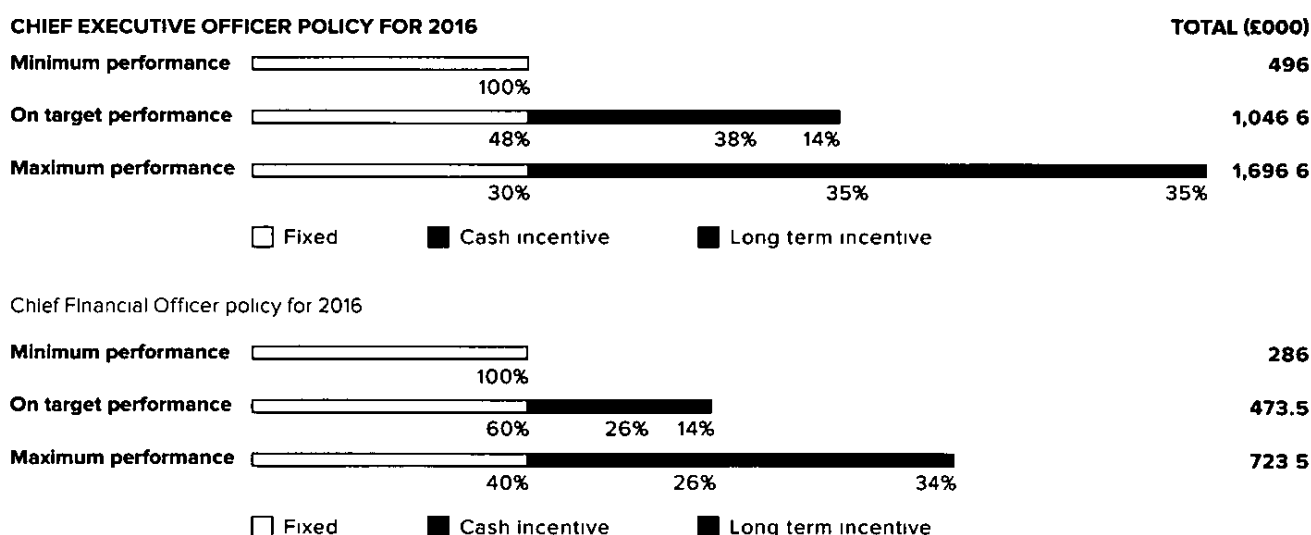
For the avoidance of doubt, in approving this Remuneration Policy, authority is given to the Company to make payments and honour any commitments entered into with current or former directors (such as the payment of pension or the unwinding of legacy share schemes) where the terms were agreed either prior to 24 April 2014 (the effective date of the first directors' remuneration policy) or at a time when a previous remuneration policy was in force. Details of any payments will be set out in the Annual Report on Remuneration as they arise.

#### ILLUSTRATIONS OF THE APPLICATION OF REMUNERATION POLICY IN 2016

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	<ul style="list-style-type: none"> <li>Fixed remuneration (salary, benefits and retirement benefits)</li> <li>No payment under the Annual Cash Incentive</li> <li>No vesting under the Spirent Long-term Incentive Plan</li> </ul>
On target performance	<ul style="list-style-type: none"> <li>Fixed remuneration (salary, benefits and retirement benefits)</li> <li>On-target payment under the Annual Cash Incentive (two-thirds of maximum)</li> <li>25 per cent vesting under the Spirent Long-term Incentive Plan</li> </ul>
Maximum performance	<ul style="list-style-type: none"> <li>Fixed remuneration (salary, benefits and retirement benefits)</li> <li>Maximum payment under the Annual Cash Incentive</li> <li>Full vesting under the Spirent Long-term Incentive Plan</li> </ul>



Note: The Chief Financial Officer policy is based on the remuneration of Rachel Whiting at the date of this Report. A new Chief Financial Officer will be appointed during 2016 and scenarios reflecting their remuneration will be provided in the 2016 Annual Report.

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## Report on directors' remuneration continued

### DILUTION

The Committee is strongly committed to managing shareholder dilution in a responsible manner. Details of the Company's dilution is set out in the Annual report on remuneration on page 62.

### 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 long-term incentive plans) or previously by the Committee (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.

The Committee may make adjustments to awards to reflect corporate events, such as a change in the Company's capital structure. The Committee may adjust the calibration of performance measures and vesting outcomes, or substitute or amend any vesting condition (eg due to a significant acquisition or disposal) provided that the resulting condition is appropriate.

The Committee may make minor amendments to the Remuneration Policy to aid its operation or implementation without seeking shareholder approvals (eg for regulatory, exchange control, tax or administrative purposes).

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.

The Remuneration Committee can confirm that no discretion was used either during the period or to the date of this Report and in particular 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, Remuneration Committee  
25 February 2016

The directors of Spirent Communications plc (the "Company") present their report for the period ended 31 December 2015 in accordance with section 415 of the Companies Act 2006. The UKLA's Disclosure and Transparency Rules and Listing Rules also require the Company to make certain disclosures, some of which have been included in other appropriate sections of the Annual Report.

As permitted by section 414C(II) of the Companies Act 2006, the information set out on pages 1 to 39 and the following cross-referenced material is incorporated into this Directors' Report:

- Likely future developments in the Group's business (pages 10 to 19)
- Greenhouse gas emissions (page 38)
- The Board of directors and the Statement on Corporate Governance (pages 40 to 48)

## RESULTS AND DIVIDENDS

The consolidated income statement is on page 84. Profit for the financial year attributable to equity shareholders amounted to \$13.3 million.

The directors recommend a final dividend of 2.21 cents per Ordinary share to be paid, subject to shareholder approval, on 6 May 2016. Together with the interim dividend of 1.68 cents per Ordinary share paid on 11 September 2015, this amounts to 3.89 cents for the period. Dividends are detailed on page 104.

## DIRECTORS

The names of the persons who were directors of the Company during the period under review and as at 25 February 2016 appear on pages 40 and 41. All the directors are standing for election or re-election at the 2016 AGM, with the exception of Rachel Whiting, who will be stepping down from the Board prior to the AGM.

## APPOINTMENT OF DIRECTORS

The Company's Articles of Association (the "Articles") give the directors power to appoint and replace directors. Under the terms of reference of the Nomination Committee, an appointment must be recommended by the Nomination Committee for approval by the Board. The Articles require directors to submit

themselves for election at the first AGM following their appointment and all directors who held office at the time of the two preceding AGMs to submit themselves for re-election. The Articles notwithstanding, all directors, with the exception of Rachel Whiting, will stand for election or re-election at the AGM this year in compliance with the UK Corporate Governance Code. Details of unexpired terms of directors' service contracts are set out in the Directors' report on remuneration on page 58.

## POWERS OF DIRECTORS

The directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Articles. Powers relating to the issuing of shares are included in the Articles and such authorities are renewed by shareholders at the AGM each year.

## DIRECTORS' SHARE INTERESTS

Details regarding the share interests of directors and their connected persons in the share capital of the Company, including any interests under long-term incentive plans, are set out in the Directors' report on remuneration on page 59.

## EMPLOYEES

The average number of Group employees during 2015 was 1,754 people worldwide (2014 1,727). While the Group's approach to human resource management is decentralised, with flexibility given to each of the businesses, as a Group it strives to maintain the following principles:

## EQUAL OPPORTUNITIES

The Group is committed to offering equal opportunities in recruitment, training, career development and promotion to all people, including those with disabilities, having regard for their particular aptitudes and abilities. As a matter of policy, full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the Group an opportunity for retraining and continuation in employment. It is Group policy that the training, career development and promotion of disabled persons should as far as possible be the same as that of other employees.

## HEALTH AND SAFETY

Health and safety are considered as equal in importance to that of any other function of the Group and its business objectives and the Group is committed to providing a safe and healthy workplace to protect all employees, visitors and the public from foreseeable work hazards.

## HARRASSMENT

Sexual, mental or physical harassment in the workplace will not be tolerated. It is expected that incidents of harassment are reported to the appropriate Human Resources director.

## HUMAN RIGHTS

The Group provides opportunities that promote human rights and dignity every day through the employment created both directly and indirectly in its global supply chains and through the positive contribution its products make to people's lives. Further details on the Group's approach to human rights can be found in the Corporate responsibility report on pages 36 to 39.

## COMMUNICATION

Employees are briefed on all relevant matters on a regular basis to achieve a common awareness of all the financial and economic factors affecting the performance of the Group. Information relevant to employees will be provided to them.

Employees are provided with information on the performance of their business unit and their involvement is encouraged in a variety of ways, such as through engagement surveys, "town hall" meetings and management presentations.

The Group encourages an open culture in all its dealings between employees and people with whom it comes into contact. The Group's whistleblowing procedure sets out guidelines for individuals who feel they need to raise issues in confidence with the Company or their own business unit. Every effort is made to protect the confidentiality of those who raise concerns and employees may come forward without fear for their position.

## Directors' report continued

### 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 Long-term Incentive Plan	Yes	Pro-rated	Still applies

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

### 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 2015

	Date of notification	Total holding	% of Company's total voting rights
Ameriprise Financial Inc	30 November 2015	84,266,420	13.77
Prudential plc	29 January 2014	67,877,796	11.10
AXA Investment Managers SA	18 October 2011	47,515,946	7.77
Artemis Investment Management Limited	17 September 2010	32,940,888	5.38
Standard Life Investments Limited	27 January 2011	32,370,026	5.29
PrimeStone Capital LLP	13 November 2015	31,215,569	5.10
Neptune Investment Management Limited	1 September 2015	30,701,866	5.02
Fidelity International	28 January 2015	29,483,020	4.82
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
Kames Capital	6 February 2012	18,507,514	3.03

The following notifications have been received during the period 1 January 2016 to 25 February 2016

	Date of notification	Total holding	% of Company's total voting rights
Ameriprise Financial, Inc	5 February 2016	86,826,707	14.19

## SHARE CAPITAL

The Company has a single class of share which is divided into Ordinary Shares of 3½ 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 3½ 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 29 to the consolidated financial statements and note 13 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 29 to

the consolidated financial statements and note 13 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 2015 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 2016 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 4 March 2016.

## 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 2015 AGM remains valid until the earlier of the 2016 AGM or 30 June 2016. 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.

No shares were repurchased during 2015 or to the date of this Report.

The Company will seek authority to repurchase up to 9.99 per cent of its own Ordinary Shares at the 2016 AGM to facilitate any further return of capital if the Board concludes that it is in the best interests of shareholders to do so.

## POLITICAL DONATIONS

In accordance with the Group's Ethics Policy, no political donations were made during the year (2014: nil).

## FINANCIAL RISK MANAGEMENT

Details of the Group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 27 to the consolidated financial statements.

## GOING CONCERN

After making appropriate enquiries and taking into account the matters set out in the Principal risks and uncertainties section on pages 22 to 25 of this Annual Report, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis on preparing the financial statements.



#### **VIABILITY STATEMENT**

In accordance with provision C 2.2 of the 2014 Code, the directors have assessed the prospects of the Company over a period of three years

This period was selected for the following reasons

- the Group's strategic planning cycle covers a three-year period,
- the Board reviews a three-year financial corporate plan, and
- when considering a major investment in product development, three years is considered by the Board to be a reasonable time horizon in which the product should achieve meaningful sales

The Board's assessment has been made with reference to the Company's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and uncertainties as set out on pages 22 to 25 of this Annual Report

The Board has reviewed plausible and severe stress tests based on the occurrence of a mix of the principal risks to which the Company is exposed, considering the potential impact of these risks on the business model, future performance, solvency and liquidity over the period

Based on this assessment and the expected successful impact of mitigating actions, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period

#### **POST BALANCE SHEET EVENTS**

No post balance sheet events are required to be disclosed in the consolidated 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 53 of the Audit Committee report, the Board will be proposing a resolution to re-appoint EY as auditor at the 2016 AGM

#### **ANNUAL GENERAL MEETING**

The 2016 AGM will be held at 1.00pm on Wednesday 4 May 2016 at the offices of UBS, 1 Finsbury Avenue, London EC2M 2PP

#### **BY ORDER OF THE BOARD**

##### **ANGUS IVESON**

Company Secretary  
25 February 2016

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 (including FRS101) 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

25 February 2016



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## 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 2015 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 including FRS 101 "Reduced Disclosure Framework", 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

Spirent Communications plc financial statements comprise

Group	Parent Company
Consolidated balance sheet as at 31 December 2015	Balance sheet as at 31 December 2015
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 17 to the financial statements
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 34 to the financial statements	

The financial reporting framework that has been applied in the preparation of the Group financial statements 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), including FRS 101 "Reduced Disclosure Framework".

### OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	<ul style="list-style-type: none"><li>• Revenue recognition</li><li>• Recoverability of deferred tax assets</li><li>• Carrying value of goodwill and investments in subsidiary undertakings (parent Company only)</li><li>• Appropriateness of the accounting for restructuring costs</li></ul>
Audit scope	<ul style="list-style-type: none"><li>• We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further four components</li><li>• The components where we performed full or specific audit procedures accounted for 64 per cent of adjusted profit before tax used to calculate materiality and 85 per cent of revenue. The adjusted profit before tax coverage has been impacted by one full scope component being loss making in the year</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall Group materiality is £1.31 million which represents 5 per cent of adjusted profit before tax<sup>1</sup></li></ul>

<sup>1</sup> Profit before tax adjusted for non-recurring items as defined in 'The application of materiality' section of this report

## OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and consequently we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we reported to the Audit Committee
<p><b>Revenue recognition</b>  <i>Refer to the Audit Committee Report (page 50) Accounting policies (page 89) and Note 2 of the Consolidated Financial Statements</i></p> <p>The Group has reported revenues of \$4771 million (2014 \$457.2 million). There is a risk in relation to incorrect allocation to components for multi-element contracts and inappropriate cut off.</p> <p>We performed full and specific scope audit procedures over this risk area in six locations, which covered 85 per cent of reported revenue.</p>	<p>For significant revenue streams at each full and specific scope audit location:</p> <ul style="list-style-type: none"> <li>We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls.</li> <li>We have tested revenue in relation to sales contracts specifically focusing on the accounting for the service element of multiple element sales contracts as well as allocation of revenue in contracts with separate components consisting of hardware and subsequent software upgrades.</li> <li>In addition we have selected for testing the large and complex transactions and a representative sample of regular transactions at each location.</li> <li>We have tested deferred revenue and other revenue associated balances to ensure they have been recognised in accordance with Group accounting policies and IFRS and</li> <li>We have tested cut off in relation to revenue on contracts recognised close to the year end. This was a particular focus in China and India where our testing included direct confirmations of customers where considered necessary.</li> </ul> <p>We also considered the adequacy of the Group's disclosures in respect of the accounting policies for revenue recognition in note 2 to the consolidated financial statements.</p>	<p>We concluded that revenue recognised in the year and deferred as at 31 December, is materially correct on the basis of our procedures performed both at Group and by component audit teams.</p>
<p><b>Recoverability of deferred tax assets</b>  <i>Refer to the Audit Committee Report (page 50) Accounting policies (page 89), and Note 2 of the Consolidated Financial Statements</i></p> <p>The Group has deferred tax assets of \$25.6 million (2014 \$20.5 million). There is a risk that inappropriate use of brought forward tax losses and volatility in forecast sales may result in incorrect recognition of deferred tax assets. This risk is further heightened due to performance in the year to date as well as the continued integration of a number of prior year acquisitions in the year resulting in an increased complexity within the business.</p>	<p>We have performed the following procedures over the Group deferred tax assets as at 31 December:</p> <ul style="list-style-type: none"> <li>We have performed detailed testing over the recognised deferred tax assets to ensure recognition is in accordance with IFRS.</li> <li>In addition, we have reviewed and challenged the future profit forecasts, underlying assumptions and utilisation of unrecognised brought forward losses, and</li> <li>We have challenged the accuracy and appropriateness of related disclosures in the Group financial statements.</li> </ul>	<p>We concluded that deferred tax assets recognised in the year, and deferred tax assets as at 31 December, is materially correct on the basis of our procedures performed both at Group and by component audit teams.</p>

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

Risk	Our response to the risk	What we reported to the Audit Committee
<p><b>Carrying value of goodwill and investments in subsidiary undertakings (parent Company only)</b>  Refer to the Audit Committee Report (page 50), Accounting policies (page 89) and Note 2 of the Consolidated Financial Statements</p> <p>The Group has goodwill of \$216.9 million (2014 \$223.2 million) and investments in subsidiary undertakings of £347.2 million (2014 £346.2 million). Given the continuing uncertain economic environment and the performance of the business in the year, there is an increased risk that goodwill in the Group financial statements and investments in the parent Company accounts may be overstated.</p> <p>In addition we focused our audit effort on the DI CGU due to the impairment charge of \$3.8 million recognised in the current year (2014 impairment charge of \$ nil). The remaining carrying value in relation to DI is \$10.5 million at 31 December 2015.</p> <p>Goodwill was subject to full scope audit procedures by the primary audit team.</p>	<p>We challenged management's assumptions used in its impairment models for assessing the recoverability of the carrying value of goodwill. We focused on the appropriateness of CGU identification, forecast cash flows methodology applied to estimate recoverable values and discount rates. Specifically:</p> <ul style="list-style-type: none"> <li>• We have reviewed the allocation of the respective goodwill to groups of cash generating units for impairment testing purposes.</li> <li>• Together with our valuations experts we have reviewed the annual impairment calculations prepared by management, including appropriate challenge of underlying assumptions and cash flow forecasts.</li> <li>• We have reviewed the performance of recent acquisitions against plan for indicators of impairment, and</li> <li>• In addition for DI, we performed sensitivity analyses by testing key assumptions in the model to recalculate a range of potential outcomes in relation to the impairment charge to be recognised in the year.</li> </ul> <p>We considered the appropriateness of the related disclosures provided in note 14 to the consolidated financial statements.</p>	<p>We concluded that goodwill and investments in subsidiary undertakings (parent Company only) as at 31 December, is materially correct on the basis of our procedures performed both at Group and by component audit teams.</p>
<p><b>Appropriateness of the accounting for restructuring costs</b>  Refer to the Audit Committee Report (page 50), Accounting policies (page 89) and Note 2 of the Consolidated Financial Statements</p> <p>The Group has restructuring provisions of \$7.0 million and total exceptional costs of \$12.5 million (2014 \$2.6 million with total exceptional costs of \$4.1 million). The risk is due to the high degree of judgement involved in the identification and accounting treatment of the various restructuring activity which took place in December. In addition there is a risk over the incorrect allocation of the restructuring costs between the current year, and 2016.</p>	<p>We have performed the following procedures over the restructuring provisions as at 31 December:</p> <ul style="list-style-type: none"> <li>• We have reviewed the underlying support and held discussions with both Group and local management to gain comfort over the identification and accounting treatment of the restructuring costs.</li> <li>• We have read the significant contracts and assessed management's accounting for the financial matters. We have considered the accounting in light of performance and the changes to the business in the year.</li> <li>• We held discussions around judgemental areas with senior members of the Company including the CFO, internal legal counsel, Group and local finance and local operational management. We corroborated the discussions with supporting documentation.</li> </ul> <p>We have assessed management's classification of costs as restructuring and as exceptional.</p>	<p>We concluded that the restructuring costs recognised in the year, and the restructuring provisions as at 31 December, is materially correct on the basis of our procedures performed both at Group and by component audit teams.</p>
<p>In the prior year, our auditor's report included a risk of material misstatement in relation to acquisition accounting which included the risk over the carrying value of goodwill. In the current year, this has been re-defined to address the specific risk over carrying value of goodwill and investments in subsidiary undertakings (parent Company only) in light of the</p>	<p>absence of any significant acquisitions but challenging performance in the year. In the prior year, our auditor's report also included a risk of material misstatement in relation to tax accounting. In the current year, this has been re-defined to address the specific risk over the recoverability of deferred tax assets due to the uncertainty over future performance. The resolution in</p>	<p>the year of a significant tax provision results in a reduced risk over uncertain tax positions. Lastly, there is a new significant risk in respect of the appropriateness of accounting for restructuring costs as a result of the scale and complexity of the arrangements.</p>

## THE SCOPE OF OUR AUDIT

### TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the reporting components of the Group, we selected components covering entities within UK, North America and Asia which represent the principal business units within the Group.

Of the nine components selected, we performed an audit of the complete financial information of five components (full scope components) which were selected based on their size or risk characteristics. For the remaining four components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

For the current year, the full and specific scope components contributed 85 per cent (2014 87 per cent) of the Group's revenue. The audit scope of specific components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. The coverage obtained in relation to individual expense accounts ranged from 77 per cent to 100 per cent of the total individual expense amounts. The coverage obtained in relation to individual balance sheet accounts ranged from 81 per cent to 100 per cent of the total individual balance sheet amounts. The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with revenue. The Group audit risk in relation to the carrying value of goodwill and investments in subsidiaries (parent Company only), as well as deferred tax assets and restructuring costs was subject to audit procedures by the primary audit team on the

entire balance. For the current year, the full and specific scope components contributed 64 per cent (2014 80 per cent) of the Group's adjusted profit before tax measure used to calculate materiality. The adjusted profit before tax coverage has been impacted by one full scope component being loss making in the year.

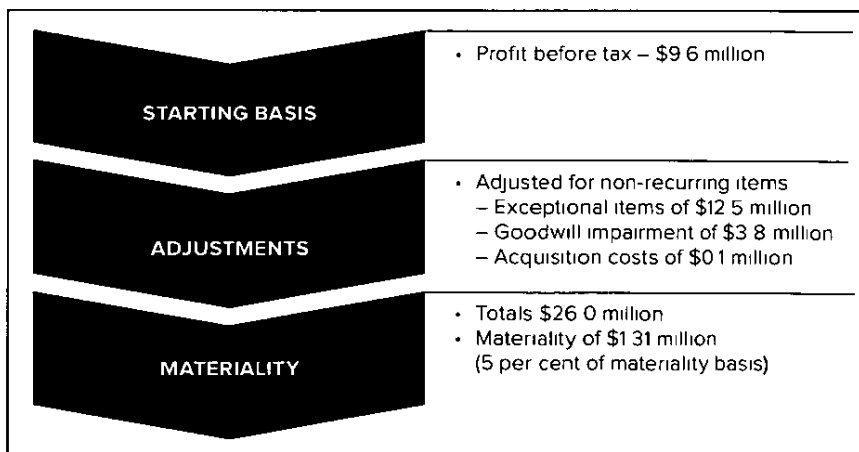
Of the remaining components, we performed review scope procedures in respect of two additional components which accounted for 21 per cent of the Group's adjusted profit before tax and 12 per cent of the Group's revenue. For all remaining components, we performed other procedures including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

**INVOLVEMENT WITH COMPONENT TEAMS**  
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the five full scope components, audit procedures were performed on three of these directly by the primary audit team and two by the component audit team. For the four specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement with the component teams to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a global team planning event was held in the UK with representatives from all full and specific scope component audit teams in attendance. 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. In addition, the Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits certain material or high risk locations on a rotational basis. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in North America and Paignton. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings, and reviewing key audit working papers on the Group risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit including attendance at close meetings reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

### OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.



#### MATERIALITY

*The magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures*

We determined materiality for the Group to be \$1.31 million (2014 \$1.65 million), which is 5 per cent (2014 5 per cent) of adjusted profit before tax. We believe that adjusted profit before tax provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity. Detailed audit procedures are performed on material non-recurring items.

During the course of our audit, we reassessed initial materiality and the only change in final materiality was to reflect the actual reported performance of the Group in the year.

#### PERFORMANCE MATERIALITY

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality*

On the basis of our risk assessments together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75 per cent (2014 75 per cent) of our planning materiality, namely \$1.0 million (2014 \$1.2 million). We used 75 per cent rather than 50 per cent due to the historically low number of audit adjustments found in prior years. We have set performance materiality at this percentage to ensure that total detected and undetected audit differences do not exceed our planning materiality of \$1.31 million for the financial statements as a whole.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is

undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to full and specific scope components was \$0.9 million to \$0.2 million (2014 \$1.2 million to \$0.2 million).

#### REPORTING THRESHOLD

*An amount below which identified misstatements are considered as being clearly trivial*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$0.07 million (2014 \$0.09 million), which is set at 5 per cent of planning materiality, as well as differences below that threshold that, 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 in forming our opinion.

#### 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 and the parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report 2015 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.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' responsibilities statement set out on page 77, the directors are responsible for the preparation of the 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 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.

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.

#### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Notes

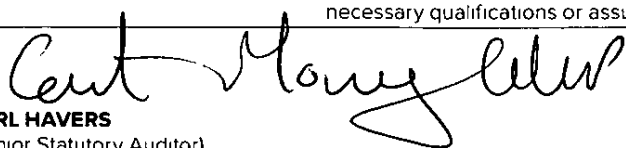
- 1 The maintenance and integrity of the Spirent Communications plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the 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.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to report to you if, in our opinion financial and non-financial information in the Annual Report is</p> <ul style="list-style-type: none"> <li>• Materially inconsistent with the information in the audited financial statements, or</li> <li>• Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit or</li> <li>• Otherwise misleading</li> </ul> <p>In particular we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy and whether the Annual Report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed</p>	We have no exceptions to report
<b>Companies Act 2006 reporting</b>	<p>We are required to report to you if, in our opinion</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• Certain disclosures of directors' remuneration specified by law are not made, or</li> <li>• We have not received all the information and explanations we require for our audit</li> </ul>	We have no exceptions to report
<b>Listing Rules review requirements</b>	<p>We are required to review</p> <ul style="list-style-type: none"> <li>• The directors' statement in relation to going concern set out on page 75, and longer-term viability, set out on page 76, and</li> <li>• The part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review</li> </ul>	We have no exceptions to report

**Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity**

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to</p> <ul style="list-style-type: none"> <li>• The directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity,</li> <li>• The disclosures in the annual report that describe those risks and explain how they are being managed or mitigated,</li> <li>• The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements and</li> <li>• The directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions</li> </ul>	We have nothing material to add or to draw attention to
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**KARL HAVERS**  
 (Senior Statutory Auditor)  
 For and on behalf of Ernst & Young LLP Statutory Auditor  
 London  
 25 February 2016



Consolidated income statement  
Year to 31 December 2015

	Notes	2015 \$ million	2014 \$ million
<b>CONTINUING OPERATIONS</b>			
<b>REVENUE</b>	3, 4	<b>477.1</b>	457.2
Cost of sales		<b>(145.3)</b>	(140.9)
<b>GROSS PROFIT</b>		<b>331.8</b>	316.3
Product development	4	<b>(118.3)</b>	(115.4)
Selling and distribution		<b>(127.2)</b>	(113.5)
Administration		<b>(76.2)</b>	(63.7)
<b>OPERATING PROFIT</b>	4	<b>10.1</b>	23.7
Finance income	7	<b>0.4</b>	0.4
Finance costs	8	<b>(0.5)</b>	–
Share of loss of associate	16	<b>(0.4)</b>	–
<b>PROFIT BEFORE TAX</b>	4, 5	<b>9.6</b>	24.1
Tax	11	<b>3.9</b>	(3.5)
<b>PROFIT FOR THE YEAR</b>		<b>13.5</b>	20.6
<b>ATTRIBUTABLE TO:</b>			
Owners of the parent Company		<b>13.3</b>	20.5
Non-controlling interest		<b>0.2</b>	0.1
<b>PROFIT FOR THE YEAR</b>		<b>13.5</b>	20.6
<b>EARNINGS PER SHARE</b>			
Basic	12	<b>2.18</b>	3.35
Diluted		<b>2.17</b>	3.35

The notes on pages 89 to 121 and page 137 form part of these financial statements

Consolidated statement of comprehensive income  
Year to 31 December 2015

	Notes	2015 \$ million	2014 \$ million
<b>PROFIT FOR THE YEAR</b>		<b>13.5</b>	<b>20.6</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may subsequently be reclassified to profit or loss			
Exchange differences on retranslation of foreign operations		(5.9)	(4.2)
Items that will not subsequently be reclassified to profit or loss			
Re-measurement of the net defined benefit pension liability	10	(9.2)	(16.0)
Income tax effect	11	1.8	3.3
		(7.4)	(12.7)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>(13.3)</b>	<b>(16.9)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>0.2</b>	<b>3.7</b>
<b>ATTRIBUTABLE TO</b>			
Owners of the parent Company		–	3.6
Non-controlling interest		0.2	0.1
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>0.2</b>	<b>3.7</b>

The notes on pages 89 to 121 and page 137 form part of these financial statements

Consolidated balance sheet  
At 31 December 2015

	Notes	2015 \$ million	2014 \$ million
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	14	251.6	273.3
Property, plant and equipment	15	51.1	52.2
Trade and other receivables	20	4.3	4.2
Investment in associate	16	4.6	–
Cash on deposit	21	0.1	–
Defined benefit pension plan surplus	10	1.2	0.8
Deferred tax asset	23	25.6	20.5
		<b>338.5</b>	<b>351.0</b>
<b>CURRENT ASSETS</b>			
Inventories	19	22.9	26.5
Trade and other receivables	20	128.0	122.9
Current tax asset		0.6	6.7
Cash and cash equivalents	21	102.0	99.8
		<b>253.5</b>	<b>255.9</b>
<b>TOTAL ASSETS</b>		<b>592.0</b>	<b>606.9</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	(123.4)	(127.2)
Current tax liability		(0.8)	(3.9)
Provisions	26	(8.9)	(6.7)
		<b>(133.1)</b>	<b>(137.8)</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	24	(20.2)	(12.6)
Other financial liabilities	25	(2.6)	(2.7)
Deferred tax liability	23	(0.6)	(2.5)
Defined benefit pension plan deficit	10	(21.0)	(15.3)
Provisions	26	(2.4)	(1.6)
		<b>(46.8)</b>	<b>(34.7)</b>
<b>TOTAL LIABILITIES</b>		<b>(179.9)</b>	<b>(172.5)</b>
<b>NET ASSETS</b>		<b>412.1</b>	<b>434.4</b>
<b>CAPITAL AND RESERVES</b>			
	29		
Share capital		30.2	31.8
Share premium account		29.9	31.5
Capital redemption reserve		19.5	20.6
Other reserves		6.4	2.1
Translation reserve		13.2	19.1
Retained earnings		312.6	329.2
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY</b>		<b>411.8</b>	<b>434.3</b>
<b>NON-CONTROLLING INTEREST</b>		<b>0.3</b>	<b>0.1</b>
<b>TOTAL EQUITY</b>		<b>412.1</b>	<b>434.4</b>

The notes on pages 89 to 121 and page 137 form part of these financial statements

Signed on behalf of the Board

**RACHEL WHITING**  
Director  
25 February 2016



Consolidated cash flow statement  
Year to 31 December 2015

	Notes	2015 \$ million	2014 \$ million
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash flow from operations	32	57 8	48 9
Tax received/(paid)		2 6	(7 2)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		<b>60 4</b>	<b>41 7</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		0 4	0 6
Transfer (to)/from long term deposit		(0 1)	0 1
Purchase of intangible assets	14	(0.9)	(0 6)
Purchase of property, plant and equipment		(25.9)	(32 2)
Proceeds from the sale of property plant and equipment		1.3	1 2
Investment in associate	16	(5.0)	–
Acquisition of subsidiaries and businesses net of cash acquired	33	(1.7)	(85 9)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(31 9)</b>	<b>(116 8)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid	13	(23 5)	(22 2)
Employee Share Ownership Trust		0.1	–
Share repurchase		–	(16 4)
Loan repayment		–	(0 1)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(23 4)</b>	<b>(38 7)</b>
Net increase/(decrease) in cash and cash equivalents		5 1	(113 8)
Cash and cash equivalents at the beginning of the year		99 8	216 2
Effect of foreign exchange rate changes		(2 9)	(2 6)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	21	<b>102 0</b>	<b>99 8</b>

The notes on pages 89 to 121 and page 137 form part of these financial statements

## Consolidated statement of changes in equity

Attributable to the equity holders of the parent Company								\$ million	
Notes	Share capital	Share premium account	Capital redemption reserve	Other reserves	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
<b>AT 1 JANUARY 2014</b>	<b>34.4</b>	<b>33.5</b>	<b>21.3</b>	<b>(3.2)</b>	<b>23.3</b>	<b>343.1</b>	<b>452.4</b>	<b>–</b>	<b>452.4</b>
Profit for the year	–	–	–	–	–	20.5	20.5	0.1	20.6
Other comprehensive income (a)	–	–	–	–	(4.2)	(12.7)	(16.9)	–	(16.9)
Total comprehensive income	–	–	–	–	(4.2)	7.8	3.6	0.1	3.7
Share-based payment	31	–	–	–	–	0.7	0.7	–	0.7
Tax charge on share incentives	11	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Share cancellation	29	(0.5)	–	0.5	–	–	–	–	–
Share repurchase	29	–	–	–	–	(15.6)	(15.6)	–	(15.6)
Share buyback obligation	29	–	–	–	–	18.2	18.2	–	18.2
Equity dividends	13	–	–	–	–	(22.2)	(22.2)	–	(22.2)
Other movements	25	–	–	–	–	(2.7)	(2.7)	–	(2.7)
Exchange adjustment		(2.1)	(2.0)	(1.2)	5.3	–	–	–	–
<b>AT 1 JANUARY 2015</b>	<b>31.8</b>	<b>31.5</b>	<b>20.6</b>	<b>2.1</b>	<b>19.1</b>	<b>329.2</b>	<b>434.3</b>	<b>0.1</b>	<b>434.4</b>
Profit for the year	–	–	–	–	–	13.3	13.3	0.2	13.5
Other comprehensive income (b)	–	–	–	–	(5.9)	(7.4)	(13.3)	–	(13.3)
Total comprehensive income	–	–	–	–	(5.9)	5.9	–	0.2	0.2
Share-based payment	31	–	–	–	–	0.8	0.8	–	0.8
Tax credit on share incentives	11	–	–	–	–	0.1	0.1	–	0.1
Employee Share Ownership Trust	29	–	–	–	–	0.1	0.1	–	0.1
Equity dividends	13	–	–	–	–	(23.5)	(23.5)	–	(23.5)
Exchange adjustment		(1.6)	(1.6)	(1.1)	4.3	–	–	–	–
<b>AT 31 DECEMBER 2015</b>	<b>30.2</b>	<b>29.9</b>	<b>19.5</b>	<b>6.4</b>	<b>13.2</b>	<b>312.6</b>	<b>411.8</b>	<b>0.3</b>	<b>412.1</b>

(a) 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

(b) The amount included in other comprehensive income for 2015 of \$7.4 million represents re-measurement losses of the net defined benefit pension liability of \$9.2 million net of a tax credit of \$1.8 million

The amount included in the translation reserve of \$5.9 million represents other comprehensive income related to the translation of foreign operations

The notes on pages 89 to 121 and page 137 form part of these financial statements

## 1 CORPORATE INFORMATION

The Group's consolidated financial statements for the year ended 31 December 2015 were authorised for issue by the Board of directors on 25 February 2016. 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 89 to 94 and the accounting policies in respect of the Company are set out on pages 126 to 128.

## 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 BASIS OF ACCOUNTING

At 31 December 2015 the Group had cash balances of \$102.0 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 2017 and 2018 financial years. They have also considered the principal risks and uncertainties that the Group faces 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 of accounting continues to be used in the preparation of the financial statements.

### NEW ACCOUNTING STANDARDS

No new standards, amendments to standards and interpretations have been applied by the Group which have resulted in a significant impact on its consolidated results or financial position.

### 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. Full list of subsidiary undertakings are listed on page 137.

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.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Dividends received from associates reduce the carrying value of the associate.

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.

## Notes to the consolidated financial statements continued

### 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability it is subsequently re-measured to fair value at each reporting date, with changes in fair value recognised in profit or loss. The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount rate.

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.

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.

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

	Useful life	Expiry date
Customer list	2 to 7 years	2020
Current technology	5 to 7 years	2021
Database	2.5 to 7 years	2021
Brand names	5 years	2020
Non-compete covenant	4 years	2018
Licences	3 to 5 years	2018

#### 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 2015 and 31 December 2014 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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 of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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

### LEASES

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

### INVENTORIES

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

### PROVISIONS

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

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

### 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.



## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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.

### Derivative financial instruments and hedge accounting

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

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

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

### RETIREMENT BENEFITS

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

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.

### GOVERNMENT GRANTS

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Grants that compensate the Group for expenses incurred are recognised as other operating income on a systematic basis in the same periods in which expenses are incurred. Grants that compensate the Group for the acquisition of an asset are presented by deducting them from the acquisition cost of the related asset in accordance with IAS 20.

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 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

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.

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.

For the purpose of impairment tests, the goodwill arising from each business combination is allocated to cash-generating units ("CGUs") that are expected to benefit from the combination and which represent the lowest level within the Group at which management monitors goodwill. There have been changes in the identification of CGUs in the year which are disclosed in note 14.

The Group tests annually by CGU 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 CGUs have been determined based on value in use calculations which require estimates and assumptions to be made in relation to management's expectations of growth in adjusted operating profit before depreciation and amortisation, long term growth rates, and appropriate discount rates to reflect the risks involved.

## Notes to the consolidated financial statements continued

### 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections could significantly affect the Group's impairment evaluation and hence reported assets and profits and losses. Further details, including sensitivity analysis is included in note 14 to the consolidated financial statements.

#### 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. The fair values determined and allocated to each element may impact the timing of revenue recognition and the determination of fair values can involve complex judgements. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis after considering customer discounts where appropriate.

#### 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.

#### Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. 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. Judgement is required when determining probable future taxable profits, which are estimated using the latest available profit forecasts. Unrecognised deferred tax assets are disclosed in note 23.

#### Provisions

Provisions are estimates and the actual cost and timing of future cash flows are dependent on future events. The Group exercises judgement in recognising provisions. Judgement is necessary to assess the likelihood that a liability will arise and to quantify the possible amount of any financial settlement. The inherent uncertainty of such matters means that actual amounts of transactions may differ materially from estimates provided. Any difference between the amounts previously recognised and the actual amount is recognised immediately in the consolidated income statement.

#### 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 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
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 February 2015
Annual Improvements		
2010-2012 Cycle		1 February 2015
2012-2014 Cycle		1 January 2016

The directors are still evaluating the potential impact of IFRS 9, 15 and 16 on the Group's consolidated financial statements in the period of initial application but the other standards are not expected to have a material impact.



### 3. REVENUE

	2015 \$ million	2014 \$ million
Sale of goods	342.3	325.7
Maintenance and support services	132.1	130.6
Royalty income	2.7	0.9
Total revenue	477.1	457.2

### 4 OPERATING SEGMENTS

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

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, goodwill impairment and share-based payment. Finance income, finance costs and share of results of associated companies 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 and in the live network.
- Wireless & Service Experience develops solutions for functional and performance testing of 4G LTE and 3G mobile devices and services and satellite positioning devices, as well as products and services for assessing the service experience on live networks.
- Service Assurance provides solutions to enable service providers to turn-up new services and diagnose and troubleshoot network and customer issues, as well as systems for mobile device management, device analytics and intelligence solutions for mobile operators.

With effect from 1 January 2016 the following changes will be made to the operating segments:

- The Service Experience line of business will be combined with the core Service Assurance business and reclassified from Wireless & Service Experience to Service Assurance, following this change the operating segments will be renamed as follows:
  - The Wireless & Service Experience operating segment will be renamed Wireless & Positioning
  - The enlarged Service Assurance operating segment will continue to be named Service Assurance
- The Testing Technologies line of business, acquired in February 2014, will be integrated into the Networks & Applications business and reclassified from Wireless & Service Experience to Networks & Applications.

The above changes reflect how these lines of business were organised and managed towards the end of the year with internal reporting changed with effect from 1 January 2016.

A document showing restated comparative information is available to view and download at <http://corporate.spirent.com/>



Notes to the consolidated financial statements continued

4 OPERATING SEGMENTS CONTINUED

2015  
\$ million

	Notes	Networks & Applications	Wireless & Service Experience	Service Assurance	Corporate	Total
<b>REVENUE</b>						
External revenue		241.9	168.7	66.5	–	477.1
There were no inter-segment sales						
<b>PROFIT BEFORE TAX</b>						
Total reportable segment profit/(loss) before exceptional items		18.4	15.5	14.0	(5.8)	42.1
Exceptional items	6	(2.6)	(9.4)	(0.6)	0.1	(12.5)
Total reportable segment profit/(loss)		15.8	6.1	13.4	(5.7)	29.6
Unallocated amounts						
Acquisition related costs						(0.1)
Acquired intangible asset amortisation						(14.8)
Goodwill impairment	14					(3.8)
Share-based payment	31					(0.8)
<b>OPERATING PROFIT</b>						10.1
Finance income						0.4
Finance costs						(0.5)
Share of loss of associate						(0.4)
<b>PROFIT BEFORE TAX</b>						9.6
<b>OTHER INFORMATION</b>						
Product development		60.7	39.2	18.4	–	118.3
Expenditure on intangibles	14	–	0.9	2.1	–	3.0
Expenditure on property, plant and equipment	15	16.5	9.3	0.7	–	26.5
Intangible asset amortisation – other		–	1.1	–	–	1.1
Depreciation	15	10.1	13.6	1.1	0.2	25.0





**4 OPERATING SEGMENTS CONTINUED**2014  
\$ million

	Notes	Networks & Applications	Wireless & Service & Experience	Service Assurance	Corporate	Total
<b>REVENUE</b>						
External revenue		221.5	178.6	57.1	–	457.2
There were no inter-segment sales						
<b>PROFIT BEFORE TAX</b>						
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	31					(0.7)
<b>OPERATING PROFIT</b>						23.7
Finance income						0.4
<b>PROFIT BEFORE TAX</b>						24.1
<b>OTHER INFORMATION</b>						
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

**GEOGRAPHICAL INFORMATION**2015  
\$ million2014  
\$ million

<b>REVENUE BY MARKET</b>		
Americas	268.1	245.0
Asia Pacific	148.2	142.5
Europe Middle East and Africa	60.8	69.7
	<b>477.1</b>	<b>457.2</b>

Europe, Middle East and Africa includes United Kingdom revenue of \$7.6 million (2014 \$11.6 million)

Americas includes United States revenue of \$254.9 million (2014 \$233.2 million)

Asia Pacific includes China revenue of \$82.1 million (2014 \$70.9 million)

Revenues are attributed to countries based on customer location

2015  
\$ million2014  
\$ million

<b>NON-CURRENT ASSETS</b>		
Americas	258.7	263.3
Asia Pacific	5.8	8.7
Europe Middle East and Africa	38.2	53.5
	<b>302.7</b>	<b>325.5</b>

Europe, Middle East and Africa includes United Kingdom non-current assets of \$2.0 million (2014 \$2.3 million)

Americas includes United States non-current assets of \$258.8 million (2014 \$263.3 million)

No one customer accounted for 10 per cent or more of total Group revenue in either 2015 or 2014

## Notes to the consolidated financial statements continued

### 5 PROFIT BEFORE TAX

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

	Notes	2015 \$ million	2014 \$ million
Employee benefit costs	9	225.6	211.1
Costs of inventories recognised as an expense		92.9	91.3
Write-down of inventories to net realisable value	19	0.7	0.8
Amortisation of intangible assets	14	15.9	14.0
Depreciation of property, plant and equipment			
Owned assets	15	25.0	19.7
Operating leases			
Minimum lease payments		9.4	9.0
Product development costs		118.3	115.4
Net foreign exchange gain		(1.6)	(1.1)

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

	2015 \$ million	2014 \$ million
<b>AUDIT SERVICES</b>		
Group audit fee	0.9	0.9
Audit of subsidiaries	0.1	0.1
Total audit fee	1.0	1.0
<b>OTHER FEES TO AUDITORS</b>		
Other assurance services	–	0.1
Taxation advisory services	0.1	0.1
	0.1	0.2
	1.1	1.2

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 50 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

	2015 \$ million	2014 \$ million
Expense of cost reduction actions in response to market changes	12.5	–
Reorganisation in response to market changes	–	4.1
	12.5	4.1

In 2015 as a result of changes in the wireless device test and carrier acceptance market Spirent undertook targeted cost reduction actions in order to protect profitability. The most significant action taken was to outsource engineering services in the Wireless & Service Experience operating segment to provide a more cost effective and flexible resource for the future. The cost reduction actions comprised employee severance of \$6.9 million, accelerated amortisation charged on property, plant and equipment of \$3.7 million, outsourcing fees of \$1.7 million, lease provision on vacant space of \$0.5 million and other costs of \$0.3 million. Exceptional items charged in 2015 are net of provision releases of \$0.6 million from 2014.

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.

The tax effect of exceptional items is a credit of \$4.2 million (2014 \$1.2 million). The total cash outflow in respect of exceptional items charged in 2015 is anticipated to be \$8.8 million with \$1.8 million actually paid in the year (2014 \$3.3 million).

### 7 FINANCE INCOME

	2015 \$ million	2014 \$ million
Bank interest receivable	0.4	0.4

## 8. FINANCE COSTS

	Note	2015 \$ million	2014 \$ million
Net defined benefit pension plan interest	10	0.5	-

## 9 EMPLOYEES

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

	2015 Number	2014 Number
Manufacturing	360	356
Product development	677	705
Selling and distribution	515	461
Administration	202	205
	<b>1,754</b>	<b>1,727</b>

Employee benefit costs were

	Note	2015 \$ million	2014 \$ million
Remuneration		200.4	185.8
Social security costs		16.3	17.0
Pension and other related costs		8.1	7.6
Expense of share-based payment	31	0.8	0.7
		<b>225.6</b>	<b>211.1</b>

Please refer to the Report on directors' remuneration on pages 55 to 72 and note 34 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. 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 the 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 significant 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 2016 are \$7.6 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: \$3.9 million per annum from 1 July 2013 to 30 June 2019, plus a further contribution of up to \$3.7 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.

The latest triennial valuations as at 1 April 2015 are in the process of being finalised.

## Notes to the consolidated financial statements continued

### 10 PENSIONS CONTINUED

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

	2015 \$ million	2014 \$ million
<b>ASSETS</b>		
UK defined benefit pension plan – Cash Plan	1 2	0 8
<b>LIABILITIES</b>		
UK defined benefit pension plan – Staff Plan	(20 3)	(14 5)
UK unfunded plan	(0 7)	(0 8)
	<b>(21 0)</b>	<b>(15 3)</b>

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

#### a) The assets and liabilities in each plan

	2015 \$ million	2014 \$ million
<b>STAFF PLAN</b>		
Quoted		
Equities	62.3	76 0
Government bonds	4 6	–
Unquoted		
LDI funds	26 2	39 3
Cash benchmarked bonds	89 4	108 9
Corporate bonds	3 3	–
Hedge funds	23 4	–
Insured annuities	4.1	5 3
Property	1 6	15 0
Cash and other	30 2	22 7
Fair value of plan assets	245 1	267 2
Present value of defined benefit pension plan obligations	(265 4)	(281 7)
<b>DEFICIT IN THE PLAN ON THE BALANCE SHEET</b>	<b>(20 3)</b>	<b>(14 5)</b>
<b>CASH PLAN</b>		
Quoted		
Equities	4 3	4 5
Government bonds	4 1	4 4
Unquoted		
Insured annuities	0.2	0 3
Cash and other	2.8	3 1
Fair value of plan assets	11.4	12 3
Present value of defined benefit pension plan obligations	(10.2)	(11 5)
<b>SURPLUS IN THE PLAN ON THE BALANCE SHEET</b>	<b>1.2</b>	<b>0 8</b>

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

**10. PENSIONS CONTINUED****b) Analysis of the amounts charged to the income statement**

	2015 \$ million	2014 \$ million
Plan administration expenses	0.8	0.7
Current service cost	0.2	0.2
<b>AMOUNT CHARGED TO OPERATING COSTS</b>	<b>1.0</b>	<b>0.9</b>
<b>NET INTEREST ON THE NET DEFINED BENEFIT PENSION LIABILITY</b>	<b>0.5</b>	<b>-</b>
<b>NET CHARGE TO THE INCOME STATEMENT</b>	<b>1.5</b>	<b>0.9</b>

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

	2015 \$ million	2014 \$ million
Re-measurement (losses)/gains on plans' assets	(10.9)	16.3
Actuarial (loss)/gain arising from experience	(5.5)	0.8
Actuarial gain/(loss) arising from changes in financial assumptions	7.2	(33.1)
<b>RE-MEASUREMENT OF THE NET DEFINED BENEFIT PENSION LIABILITY</b>	<b>(9.2)</b>	<b>(16.0)</b>

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

	2015 \$ million	2014 \$ million
At 1 January	293.2	280.0
Current service cost	0.2	0.2
Interest cost	10.3	12.2
Benefit payments	(11.5)	(12.9)
Actuarial loss/(gain) arising from experience	5.5	(0.8)
Actuarial (gain)/loss arising from changes in financial assumptions	(7.2)	33.1
Exchange adjustment	(14.9)	(18.6)
<b>PRESENT VALUE OF FUNDED DEFINED BENEFIT PENSION PLANS' OBLIGATIONS</b>	<b>275.6</b>	<b>293.2</b>

**e) Movements in the fair value of plans' assets**

	2015 \$ million	2014 \$ million
At 1 January	279.5	277.5
Interest income on plans' assets	9.8	12.2
Employer contributions	4.3	4.8
Benefit payments	(11.5)	(12.9)
Plan administration expenses	(0.8)	(0.7)
Re-measurement (loss)/gain on plans' assets	(10.9)	16.3
Exchange adjustment	(13.9)	(17.7)
<b>FAIR VALUE OF PLANS' ASSETS</b>	<b>256.5</b>	<b>279.5</b>

**f) The key financial assumptions**

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

	2015 %	2014 %
Inflation – RPI	2.9	2.9
Inflation – CPI	1.8	1.8
Rate of increase in pensionable salaries	3.0	3.0
Rate of increase for pensions in payment pre 2001 service	3.6	3.6
Rate of increase for pensions in payment 2001 to 5 April 2005 service	2.8	2.8
Rate of increase for pensions post 5 April 2005 service	2.0	2.0
Rate of increase in deferred pensions	1.8	1.8
Rate used to discount plan liabilities	3.8	3.6

## Notes to the consolidated financial statements continued

### 10 PENSIONS CONTINUED

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are such that a member currently aged 65 (2014 aged 65) will live on average for a further 23.6 years (2014 23.5 years) if they are male and for a further 25.8 years (2014 25.7 years) if they are female. For a member who retires in 2035 (2014 in 2034) at age 65 (2014 age 65) the assumptions are that they will live on average for a further 24.5 years (2014 24.4 years) after retirement if they are male and for a further 26.9 years (2014 26.8 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 \$3.8 million (2014 \$4.1 million)
- Increasing RPI inflation by 0.1 per cent would increase the plans' liabilities by \$1.3 million (2014 \$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 \$11.0 million (2014 \$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.

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 (2014 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 2015 were \$1.0 million (2014 \$1.2 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 \$4.2 million for 2015 (2014 \$3.7 million). Total assets in the defined contribution plan at the end of 2015 were \$221.8 million (2014 \$222.5 million). There were no defined benefit plans in the United States in 2015 or 2014.

#### 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 2015 in respect of these plans amounted to \$1.3 million (2014 \$1.2 million).

Total employer contributions to defined contribution plans were \$6.5 million (2014 \$6.1 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 72.

### 11 TAX

	2015 \$ million	2014 \$ million
Tax charge in the income statement		
<b>CURRENT INCOME TAX</b>		
UK tax	0.3	0.1
Foreign tax	4.8	3.8
Amounts overprovided in previous years	(3.8)	(1.4)
Total current income tax charge	1.3	2.5
<b>DEFERRED TAX</b>		
Recognition of deferred tax assets	(0.7)	(0.6)
Reversal of temporary differences	(2.0)	2.0
Adjustments in respect of prior years	(2.5)	(0.4)
Total deferred tax (credit)/charge	(5.2)	1.0
<b>TAX (CREDIT)/CHARGE IN THE INCOME STATEMENT</b>	<b>(3.9)</b>	<b>3.5</b>

**11 TAX CONTINUED**

The tax credit for the year ended 31 December 2015 was \$3.9 million (2014 \$3.5 million charge). This was after a prior year tax credit of \$6.3 million (2014 \$1.8 million credit) resulting from the reassessment of tax provisions for previous years. Excluding the prior year tax credit the effective tax rate was 25.0 per cent (2014 22.0 per cent).

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

	2015 \$ million	2014 \$ million
Deferred tax on share incentives	(0.1)	0.2
Current tax on share incentives	–	(0.1)
Tax (credit)/charge on share incentives	(0.1)	0.1
Deferred tax on defined benefit pension plan	(1.8)	(3.3)

**RECONCILIATION OF THE TOTAL TAX CHARGE**

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 20.25 per cent (2014 lower and 21.5 per cent). The differences are reconciled below.

	2015 \$ million	2014 \$ million
Accounting profit before tax	9.6	24.1
Accounting profit multiplied by the UK standard rate of corporation tax of 20.25 per cent (2014 21.5 per cent)	1.9	5.2
Share-based payment	(0.1)	0.1
Differences in overseas rates and other adjustments	1.3	2.0
Tax overprovided in prior years	(6.3)	(1.8)
Recognition of deferred tax assets	(0.7)	(0.6)
US Research and Experimental tax credit	(1.4)	(1.4)
Withholding tax	1.4	–
<b>TOTAL TAX (CREDIT)/CHARGE REPORTED IN THE INCOME STATEMENT</b>	<b>(3.9)</b>	<b>3.5</b>

**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 dilutive potential Ordinary Shares into Ordinary Shares.

	2015 \$ million	2014 \$ million
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY</b>	<b>13.3</b>	<b>20.5</b>
	Number million	Number million
Weighted average number of Ordinary Shares in issue – basic	610.5	611.2
Dilutive potential of employee share incentives	1.7	1.5
Weighted average number of Ordinary Shares in issue – diluted	612.2	612.7
	Cents	Cents
<b>EARNINGS PER SHARE</b>		
Basic	2.18	3.35
Diluted	2.17	3.35

## Notes to the consolidated financial statements continued

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

A reconciliation is provided below:

			2015		2014
	Notes	\$ million	EPS cents	\$ million	EPS cents
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY</b>					
Exceptional items	6	13.3	2 18	20 5	3 35
Acquisition related costs		12.5		4 1	
Acquired intangible asset amortisation and impairment		0.1		3 8	
Goodwill impairment	14	14.8		13 7	
Share-based payment	31	3.8		—	
Tax effect on the above items		0.8		0 7	
Prior year tax credit	11	(8 5)		(5 4)	
		(6.3)		(1 8)	
<b>ADJUSTED BASIC</b>		<b>30 5</b>	<b>5 00</b>	<b>35 6</b>	<b>5 82</b>
<b>ADJUSTED DILUTED</b>			<b>4 98</b>		<b>5 81</b>

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

	2015 \$ million	2014 \$ million
<b>DECLARED AND PAID IN THE YEAR</b>		
<b>EQUITY DIVIDEND ON ORDINARY SHARES</b>		
Final dividend paid for the year ended 31 December 2014 of 2 21 cents (1 43 pence) per Ordinary Share (31 December 2013 2 01 cents (1 20 pence))	13 4	12 3
Interim dividend 2015 1 68 cents (1 08 pence) per Ordinary Share (2014 1 68 cents (0 99 pence))	10 1	9 9
	<b>23 5</b>	<b>22 2</b>
<b>PROPOSED FOR APPROVAL AT AGM (NOT RECOGNISED AS A LIABILITY AT 31 DECEMBER)</b>		
<b>EQUITY DIVIDEND ON ORDINARY SHARES</b>		
Final dividend 2015 2 21 cents (1 59 pence) per Ordinary Share (2014 2 21 cents (1 43 pence))	13 4	13 4

The directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 2 21 cents per Ordinary Share (1 59 pence) (2014 2 21 cents (1 43 pence)), which will absorb an estimated \$13 4 million of shareholders' funds (2014 \$13 4 million). It will be paid on 6 May 2016 to Ordinary shareholders who are on the Register of Members at close of business on 4 March 2016. Payment will be made to ADR holders on 16 May 2016. 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 2015 was \$1 39 £1 (2014 \$1 55 £1).



## 14 INTANGIBLE ASSETS

\$ million

	Note	Goodwill	Customer list	Current technology	R&D asset	Database	Brand names	Non-compete covenant	Licences	Total
<b>COST, NET OF ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>										
<b>AT 1 JANUARY 2014</b>		169.0	7.7	16.7	–	1.3	1.2	–	2.9	198.8
Acquisitions		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)
<b>AT 1 JANUARY 2015</b>		<b>223.2</b>	<b>14.0</b>	<b>28.4</b>	<b>–</b>	<b>2.9</b>	<b>1.6</b>	<b>1.0</b>	<b>2.2</b>	<b>273.3</b>
Acquisitions	33	1.3	0.2	0.5	–	–	0.1	–	–	2.1
Additions		–	–	–	–	–	–	–	0.9	0.9
Impairment		(3.8)	–	–	–	–	–	–	–	(3.8)
Amortisation for the year		–	(5.1)	(8.3)	–	(0.6)	(0.5)	(0.3)	(1.1)	(15.9)
Exchange adjustment		(3.8)	(0.3)	(0.6)	–	(0.3)	–	–	–	(5.0)
<b>AT 31 DECEMBER 2015</b>		<b>216.9</b>	<b>8.8</b>	<b>20.0</b>	<b>–</b>	<b>2.0</b>	<b>1.2</b>	<b>0.7</b>	<b>2.0</b>	<b>251.6</b>
<b>AT 31 DECEMBER 2014</b>										
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
<b>AT 31 DECEMBER 2015</b>										
Cost (gross carrying amount)		623.4	21.2	44.1	1.0	5.0	2.7	1.1	12.8	711.3
Amortisation and accumulated impairment losses		(406.5)	(12.4)	(24.1)	(1.0)	(3.0)	(1.5)	(0.4)	(10.8)	(459.7)
Net carrying amount		216.9	8.8	20.0	–	2.0	1.2	0.7	2.0	251.6

## 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

## Notes to the consolidated financial statements continued

### 14 INTANGIBLE ASSETS CONTINUED

Goodwill has been allocated to seven CGUs as follows

	2015 \$ million	2014 \$ million
Networks & Applications an operating segment	85.3	85.0
Wireless & Positioning, product lines within the Wireless & Service Experience operating segment	56.2	51.5
Service Experience & Service Assurance Broadband product lines within the Wireless & Service Experience and Service Assurance operating segments	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	13.3	19.0
Customer Experience Management a product line within the Service Assurance operating segment	23.8	23.8
Device Intelligence, a product line within the Service Assurance operating segment	6.1	10.9
Epitiro Group Limited, a product line within the Service Assurance operating segment	1.3	–
	<b>216.9</b>	<b>223.2</b>

The Testing Technologies product line is no longer a separate CGU because following its integration into the Networks & Applications operating segment separately identifiable cash flows are no longer available

The Service Experience product line has been combined with the Service Assurance Broadband line of business and therefore is no longer a separate CGU as separately identifiable cash flows are no longer available

\$5.7 million of goodwill has been reallocated from the Developer Tools CGU to the Wireless & Positioning CGU on the basis of the relative fair values at the date of transition following the integration of a specific technology into the Wireless product portfolio

#### ANNUAL IMPAIRMENT TEST

Spirent engaged an external professional firm to perform an independent valuation of the CGUs on a value in use basis as at 30 November 2015 (annual impairment testing date). 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 2.5 per cent for all CGUs (2014 2.0 per cent for Developer Tools and 2.75 per cent for all other CGUs), which management estimates to be the approximate average long term growth rate for the industries in which these units operate. Fundamentally this long term growth is based on a proxy for global long term inflation taking into consideration more developed and developing markets. The growth rates used in the value in use calculations are set at the same level for each CGU as all the CGUs operate within similar markets which share the same growth drivers and characteristics. The discount rates incorporate the specific risks relating to each CGU.

The discount rate applied to the cash flows is based on the weighted average cost of capital of comparable companies by taking the risk free rate for 30-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 systematic risk of Spirent and the specific CGUs, taking into account factors such as size and the territories in which each CGU operates.

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

	2015 %	2014 %
Networks & Applications	14.8	14.3
Wireless & Positioning	14.9	14.5
Service Experience & Service Assurance Broadband	17.1	17.1
Testing Technologies	–	14.7
Developer Tools	14.2	13.5
Customer Experience Management	17.8	17.5
Device Intelligence	16.1	16.0

#### 14 INTANGIBLE ASSETS CONTINUED

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. Gross margin and operating expenses are based on historical values adjusted for the effect of revenue growth, recent acquisitions and cost reduction actions committed prior to year end.

Networks & Applications and Customer Experience Management product line revenues are expected to continue to grow driven by demand for high speed Ethernet, cloud and virtualisation, mobility infrastructure and application security product offerings, and in the case of Customer Experience Management the roll-out of the InTouch CNA platform. The Wireless product line has experienced a decline in revenues and profit due to a change in demand for smartphone development and validation testing. As such the forecasts have been downgraded compared to the prior year and cost reduction actions have been implemented. In the mid term the benefit from new opportunities presented by IoT connectivity begins to deliver incremental revenue and profit. The Positioning product line revenue is expected to experience continued steady growth in existing core markets with incremental growth from addressing GNSS vulnerabilities. Management expects that Service Experience & Service Assurance Broadband revenue will decrease in 2016 due to the fact that significant one off revenue from 2015 will not repeat. Driven by new ecosystem opportunities Service Experience & Service Assurance Broadband revenue is expected to increase in 2017 and 2018 and margins are expected to improve due to operational leverage combined with continued costs management.

The recoverable amount of each CGU was calculated on a value in use basis and was in excess of its carrying value for every CGU, except Device Intelligence, a product line within the Service Assurance operating segment. Consequently, an impairment loss of \$3.8 million has been recognised for the Device Intelligence CGU and relates solely to goodwill. No impairment loss was recognised for the other CGUs. The impairment charge was driven by lower projected cash flows within the Device Intelligence business plan resulting in our reassessment of expected future business performance in the light of current trading and economic conditions. The impairment loss has been recognised in the consolidated income statement within administration expenses. As the Networks & Applications CGU satisfied the carry forward criteria as per IAS 36, no detailed value in use calculation was undertaken for this CGU.

The acquisition of Eptiro Group Limited was completed just prior to the year end and therefore the amount paid is provisionally considered to be reflective of the CGU's fair value less costs of disposal. As such no impairment testing was completed for the Eptiro CGU.

#### 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, Service Experience & Service Assurance Broadband and Customer Experience Management CGUs to fall below carrying value.

The headroom on the Developer Tools CGU was \$2.2 million.

The Developer Tools CGU offers a complete test suite for voice and video over IP communications including VoLTE. The forecasts have been updated to reflect changes in the CGU's operating and reporting structure, as well as developing changes in product mix and related development strategy. Existing revenue streams are expected to benefit from prior investment and the development of new channels as well as growth in the markets served and there is expected to be revenue growth as a result of the IoT Initiative. Trading margins are expected to improve due to changes in revenue streams that do not require significant incremental costs.

Sensitivity analysis around the key assumptions has indicated that for the Developer Tools CGU, the following changes in assumptions in isolation, would cause the value in use to fall below the carrying value.

Year ended 31 December 2015  
change required to trigger impairment

#### DEVELOPER TOOLS

Forecast revenue <sup>1</sup>	14.9% decrease
Long term growth rate	No reasonable change
Discount rate	1.4 percentage point increase to 15.6%

#### Note

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

The Device Intelligence CGU is a mobile device management business, which sells mobile carriers a system that helps smartphone subscribers optimally connect onto data networks. The business has not delivered on the expected forecasts outlined at acquisition as a result of difficult trading conditions and changes in markets and consequently the forecasts for the core business have been revised down. The business is expected to benefit from the MVNO element of revenue and growth from IoT.

The estimated recoverable amount of the Device Intelligence CGU after the \$3.8 million impairment loss is equal to its carrying value of \$10.5 million. Consequently, any adverse change in key assumptions would in isolation cause a further impairment loss to be recognised.

## Notes to the consolidated financial statements continued

### 14 INTANGIBLE ASSETS CONTINUED

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to an (increase)/decrease to the aggregate impairment loss recognised in the year ended 31 December 2015

	Year ended 31 December 2015			
	Increase by %	Impact \$ million	Decrease by %	Impact \$ million
<b>DEVICE INTELLIGENCE</b>				
Forecast revenue <sup>1</sup>	10	0.9	10	(0.8)
Long term growth rate <sup>2</sup>	2	1.8	2	(1.2)
Discount rate <sup>2</sup>	2	(1.7)	2	2.3

Note

- 1 Cumulative effect of an increase/decrease in revenue in year 1 by 10 per cent and continuing to apply the forecast growth rates to subsequent years
- 2 Cumulative effect of an increase/decrease of 2 per cent in the stated assumption on the aggregate impairment loss recognised in the year

#### Intangible asset impairment

Year ended 31 December 2015

There was no impairment loss in respect of the other intangible assets

Year ended 31 December 2014

An intangible asset impairment charge of \$1.0 million was 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 was to use this technology to enhance Spirent's solutions, the extent and the means by which this would 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 was expensed to administrative expenses in the income statement.

### 15 PROPERTY, PLANT AND EQUIPMENT

\$ million

	Land and buildings	Plant and machinery	Fixtures fittings and equipment	Total
<b>COST, NET OF ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT</b>				
<b>AT 1 JANUARY 2014</b>	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	—	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)
<b>AT 1 JANUARY 2015</b>	<b>11.9</b>	<b>30.4</b>	<b>9.9</b>	<b>52.2</b>
Additions				
Owned assets	6.0	16.9	3.6	26.5
Disposals	—	(1.6)	(0.5)	(2.1)
Inter-class transfers	—	(1.4)	1.4	—
Depreciation charge for the year	(1.9)	(18.3)	(4.8)	(25.0)
Exchange adjustment	(0.1)	(0.3)	(0.1)	(0.5)
<b>AT 31 DECEMBER 2015</b>	<b>15.9</b>	<b>25.7</b>	<b>9.5</b>	<b>51.1</b>
<b>AT 31 DECEMBER 2014</b>				
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
<b>AT 31 DECEMBER 2015</b>				
Cost	24.5	94.5	49.2	168.2
Accumulated depreciation and accumulated impairment	(8.6)	(68.8)	(39.7)	(117.1)
Net carrying amount	15.9	25.7	9.5	51.1

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

**16 INVESTMENT IN ASSOCIATE**

	2015 \$ million
Carrying amount for Jolata, Inc	<b>4.6</b>

Jolata, Inc. ("Jolata") is a company incorporated in the US and its principal activity is the provision of network testing

Jolata is considered an associate as the Group controls 28 per cent of the voting power and therefore has significant influence over the entity

The following table summarises the financial information of Jolata as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies

	2015 \$ million
Non-current assets	<b>0.4</b>
Current assets	<b>3.8</b>
Current liabilities	<b>(0.8)</b>
<i>The above amounts of assets and liabilities include the following</i>	
Cash and cash equivalents	<b>3.4</b>
Net assets (100%)	<b>3.4</b>
Spirent's ownership interest	<b>28%</b>
Group's share of net assets	<b>1.0</b>
Acquisition fair value and other adjustments	<b>3.6</b>
Carrying amount of interest in associate	<b>4.6</b>
Summarised profit and loss in respect of Jolata reflecting 100% of the relevant figures for the period post acquisition, is set out below	
Revenue	–
Total comprehensive income (100%)	<b>(1.6)</b>
Group's share of total comprehensive income	<b>(0.4)</b>

**17 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The Group had capital commitments of \$2.0 million at 31 December 2015 (31 December 2014 \$3.1 million)

The Group has provided indemnities of \$0.1 million (2014 \$0.1 million) for certain ongoing business obligations under letters of credit for subsidiary companies

The Group has provided guarantees totalling \$1.6 million (Euro 1.4 million) (2014 \$1.7 million (Euro 1.4 million)) 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 25)

**18 SUBSIDIARIES**

A list of subsidiaries including the name, country of incorporation and proportion of ownership interest is given on page 137 of these financial statements

**19 INVENTORIES**

	2015 \$ million	2014 \$ million
Raw materials	<b>8.9</b>	6.5
Work in progress	<b>1.1</b>	0.9
Finished goods	<b>12.9</b>	19.1
	<b>22.9</b>	26.5

An expense of \$0.7 million (2014 \$0.8 million) has been recognised in the year for inventory write-downs. There were no reversals of prior period inventory write-downs (2014 nil)

No inventories are carried at fair value less costs to sell (2014 nil)

## Notes to the consolidated financial statements continued

### 20 TRADE AND OTHER RECEIVABLES

	2015 \$ million	2014 \$ million
<b>NON-CURRENT ASSETS</b>		
Trade receivables	0.1	–
Other receivables	4.0	3.8
Prepayments, accrued income and deferred costs	0.2	0.4
	<b>4.3</b>	<b>4.2</b>
<b>CURRENT ASSETS</b>		
Trade receivables	111.1	107.8
Other receivables	5.3	4.9
Prepayments, accrued income and deferred costs	11.6	10.2
	<b>128.0</b>	<b>122.9</b>
	<b>132.3</b>	<b>127.1</b>

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

	2015 \$ million	2014 \$ million
<b>AT 1 JANUARY</b>	<b>1.1</b>	1.0
Charge for the year	0.7	0.3
Released in the year	(0.4)	(0.2)
<b>AT 31 DECEMBER</b>	<b>1.4</b>	1.1

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

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

### 21 CASH AND CASH EQUIVALENTS

	2015 \$ million	2014 \$ million
Cash at bank and in hand	97.0	94.8
Short term bank deposits	5.0	5.0
	<b>102.0</b>	<b>99.8</b>

Cash at bank and in hand earns interest at floating interest rates. Of this balance \$5.0 million (2014 \$5.0 million) is callable at notice of between seven and 35 days.

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

At the end of 2015 the currency split of cash and cash equivalents was US dollar 60 per cent (2014 57 per cent), sterling 28 per cent (2014 30 per cent) and other currencies 12 per cent (2014 13 per cent).

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

	2015 \$ million	2014 \$ million
<b>NON-CURRENT</b>		
Cash on deposit	0.1	–

At 31 December 2015 \$0.1 million of cash was held as a property deposit.

**22. TRADE AND OTHER PAYABLES – CURRENT**

	2015 \$ million	2014 \$ million
Trade payables	15.7	17.8
Payments received on account	1.3	1.2
Other taxes and social security costs	3.1	3.9
Accruals	43.0	40.2
Deferred income	60.3	64.1
	<b>123.4</b>	<b>127.2</b>

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

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

**23 DEFERRED TAX**

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

		Temporary differences	Tax losses	Tax credits	UK pension plans	\$ million Total
<b>AT 1 JANUARY 2014</b>	Notes	1.4	16.2	–	0.7	18.3
Charged/(credited) 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	33	(2.3)	–	–	–	(2.3)
Exchange adjustment		0.1	0.1	–	(0.3)	(0.1)
<b>AT 1 JANUARY 2015</b>		<b>1.9</b>	<b>13.2</b>	<b>–</b>	<b>2.9</b>	<b>18.0</b>
Charged/(credited) in the year	11	4.1	(0.3)	2.0	(0.6)	5.2
Deferred tax on defined benefit pension plan	11	–	–	–	1.8	1.8
Deferred tax on share incentives recognised in equity	11	0.1	–	–	–	0.1
Acquisitions	33	(0.1)	0.1	–	–	–
Exchange adjustment		–	–	–	(0.1)	(0.1)
<b>AT 31 DECEMBER 2015</b>		<b>6.0</b>	<b>13.0</b>	<b>2.0</b>	<b>4.0</b>	<b>25.0</b>
Amounts on the balance sheet						
<b>AT 31 DECEMBER 2014</b>						
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
<b>AT 31 DECEMBER 2015</b>						
Deferred tax asset		7.9	11.7	2.0	4.0	25.6
Deferred tax liability		(1.9)	1.3	–	–	(0.6)
		6.0	13.0	2.0	4.0	25.0

A deferred tax asset of \$25.6 million has been recognised at 31 December 2015 (2014 \$20.5 million). \$6.8 million is in the United Kingdom (2014 \$6.4 million). \$17.7 million is in the United States (2014 \$13.0 million) and \$1.1 million is in the rest of the world (2014 \$1.1 million).

The deferred tax asset includes \$0.6 million (2014 \$0.4 million) in respect of the tax deduction which may be available on the future exercise of share incentives.

Deferred tax assets on temporary differences and tax losses/credits of \$13.5 million (2014 \$5.8 million) have not been recognised. \$8.9 million is in the United States (2014 nil) and \$4.6 million is in the rest of the world (2014 \$5.8 million).

The Group has tax losses arising in the United Kingdom of \$47.2 million (2014 \$56.4 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. United States tax losses and credits can be carried forward until 2021 through 2035. In total deferred tax assets amounting to \$22.0 million (2014 \$17.1 million) have not been recognised.

The Group also has capital losses carried forward of \$1,218.5 million (2014 \$1,284.3 million) for which no deferred tax asset has been recognised on the balance sheet. These capital losses have no expiry date.

## Notes to the consolidated financial statements continued

### 23. DEFERRED TAX CONTINUED

#### FUTURE CHANGES IN TAX RATES

The UK current tax rate was reduced from 21 per cent to 20 per cent with effect from 1 April 2015. In the Budget on 8 July 2015 the Chancellor announced additional planned reductions to 18 per cent by 2020. This will reduce the Group's future current tax charge accordingly.

In line with these rate changes, deferred tax assets and liabilities being realised or settled before 2020 have been based on the existing 20 per cent rate; those being realised or settled after 2020 have been based on a rate of 18 per cent.

### 24 TRADE AND OTHER PAYABLES – NON-CURRENT

	2015 \$ million	2014 \$ million
Other payables	1.8	1.6
Accruals	4.0	0.5
Deferred income	14.4	10.5
	<b>20.2</b>	<b>12.6</b>

### 25 OTHER FINANCIAL LIABILITIES

	2015 \$ million	2014 \$ million
Put option	2.6	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. The option was exercised in January 2016 which triggered payment of the minimum amount with the balance to be paid following agreement of 2015 revenue.

A financial liability of Euro 2.4 million (\$2.6 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 actual financial performance in accordance with the agreement.

### 26 PROVISIONS

	\$ million			
	Lease provisions	Restructuring provisions	Other provisions	Total
<b>AT 1 JANUARY 2014</b>	<b>2.7</b>	<b>1.9</b>	<b>1.9</b>	<b>6.5</b>
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)
<b>AT 1 JANUARY 2015</b>	<b>3.6</b>	<b>2.6</b>	<b>2.1</b>	<b>8.3</b>
Charged in the year	0.5	8.8	–	9.3
Asset retirement obligation	0.6	–	–	0.6
Released in the year	(0.7)	(0.6)	(0.4)	(1.7)
Utilised in the year	(1.1)	(3.7)	(0.2)	(5.0)
Exchange difference	(0.1)	(0.1)	–	(0.2)
<b>AT 31 DECEMBER 2015</b>	<b>2.8</b>	<b>7.0</b>	<b>1.5</b>	<b>11.3</b>

	2015 \$ million	2014 \$ million
Current	8.9	6.7
Non-current	2.4	1.6
	<b>11.3</b>	<b>8.3</b>



**26. PROVISIONS CONTINUED**

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 eight years.

Restructuring provisions relate to severance costs and outsourcing fees 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.

**27 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	2015 \$ million	2014 \$ million
		Loans and receivables at amortised cost	Loans and receivables at amortised cost
Non-current cash on deposit	21	0.1	–
Non-current trade and other receivables	20	4.1	3.8
Cash and cash equivalents	21	102.0	99.8
Current trade and other receivables	20	116.4	112.7
<b>Financial assets</b>		<b>222.6</b>	<b>216.3</b>
Non-current other payables and accruals	24	5.8	2.1
Current trade payables and accruals	22	58.7	58.0
Other financial liabilities	25	2.6	2.7
Provisions	26	11.3	8.3
<b>Financial liabilities</b>		<b>78.4</b>	<b>71.1</b>

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 2015 and 2014 were immaterial to these accounts.

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

**A) MARKET RISK**

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

**Interest rate risk**

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

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

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

## Notes to the consolidated financial statements continued

### 27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

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

	2015		2014	
	Effective interest rate %	\$ million	Effective interest rate %	\$ million
<b>FIXED RATE</b>				
Fixed deposits	0.40	5.0	0.24	5.0
<b>FLOATING RATE</b>				
Cash at bank and in hand		97.0		94.8

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.

Interest receivable for the year was \$0.4 million (note 7) (2014 \$0.4 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 2015 would increase or reduce interest income and equity by \$0.1 million (2014 \$0.2 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 \$1.2 million (2014 \$1.1 million) based on the balance at the reporting dates.

#### B) CREDIT RISK

Investment counterparties are subject to pre-approval by the Board with pre-approved limits set for each bank to avoid any concentrations of credit risk.

The maximum credit exposure at the balance sheet date under financial instruments in relation to cash and bank deposits is equal to the carrying value of \$102.0 million (2014 \$99.8 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.

**27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED**

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 \$111.1 million (2014 \$107.8 million).

The composition of trade receivables at 31 December is as follows

	2015 \$ million	2014 \$ million
Neither impaired nor past due	68.5	68.2
Past due but not impaired		
Less than 30 days overdue	20.7	20.5
30 to 60 days	10.8	7.9
Over 60 days	11.1	11.2
Trade receivables	111.1	107.8

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

The movement on the receivables provision during the year is given in note 20. The value of impaired trade receivables is \$1.4 million (2014 \$1.1 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 2015 the Group had cash and cash equivalents of \$102.0 million (2014 \$99.8 million) of which \$97.0 million (2014 \$94.8 million) is available on demand and \$5.0 million matures within three months (2014 \$5.0 million matures within three months).

During 2015 the Group generated \$60.4 million of cash from operating activities (2014 \$41.7 million) and considers that with current cash resources, no debt and positive cash flow from its operating activities it has adequate resources available to it to remain in operational existence for the foreseeable future.

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

	2015 \$ million	2014 \$ million
Sale of US dollars against sterling	4.4	6.3

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 26). In addition, the Group has a liability in respect of a put and call option with a fair value of \$2.6 million (2014 \$2.7 million) which will be settled in 2016 (see note 25).

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

**D) FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Derivative financial instruments are stated at fair value although the amounts at 31 December 2015 and 2014 were immaterial.

**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 the Company operated an on market share repurchase programme and repurchased 9.7 million of its Ordinary Shares at a cost of \$15.6 million. No share buybacks were transacted during 2015 and no further share buybacks are currently planned.

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

## Notes to the consolidated financial statements continued

### 28 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

	2015 \$ million	2014 \$ million
Within one year	9.0	9.1
In the second to fifth years	29.0	18.1
Over five years	18.2	13.8
	<b>56.2</b>	<b>41.0</b>

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.

### 29 EQUITY

#### A) ISSUED SHARE CAPITAL

Issued and fully paid Ordinary Shares of 3½ pence each

	Number of Ordinary Shares million	\$ million
<b>AT 1 JANUARY 2014</b>	621.4	34.4
Cancelled during the year	(9.7)	(0.5)
Exchange adjustment		(2.1)
<b>AT 1 JANUARY 2015</b>	611.7	31.8
Exchange adjustment		(1.6)
<b>AT 31 DECEMBER 2015</b>	611.7	30.2

During 2015 and 2014 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2015 0.1 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 (2014 0.2 million Ordinary Shares).

#### B) EQUITY AND RESERVES

The nature and purpose of each reserve within equity is as follows:

- Share premium account: this reserve records the consideration premium for shares issued at a value that exceeds their nominal value.
- Capital redemption reserve: this reserve arises in relation to share capital cancellation.
- 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
- 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 2015 the ESOT held 0.6 million Ordinary Shares (2014 0.7 million Ordinary Shares) to satisfy awards under various share incentive plans. At 31 December 2015 the SST held 0.5 million Ordinary Shares (2014 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 1.1 million Ordinary Shares (2014 1.2 million Ordinary Shares), at 31 December 2015 was \$1.2 million (2014 \$1.4 million).

#### Capital redemption reserve

During 2014 the Company cancelled 9.7 million Ordinary Shares that had been the subject of the on market share repurchase programme, and transferred \$0.5 million to the capital redemption reserve. No Ordinary Shares were cancelled in 2015.

#### Share repurchase

During 2014 the Company repurchased 9.7 million Ordinary Shares on market at a cost of \$15.6 million which were subsequently cancelled. No Ordinary Shares were repurchased in 2015.

### 30 EMPLOYEE SHARE PLANS

Movements in share incentives over a two-year period ending on 31 December 2015 are shown below

	2005 Employee Incentive Plan <sup>1</sup>		Spirent Stock Incentive Plan <sup>2</sup>	
	Number of share incentives million	Weighted average exercise price pence	Number of share incentives million	Weighted average exercise price pence
<b>INCENTIVES OUTSTANDING AT 31 DECEMBER 2013</b>	<b>5.4</b>	<b>82</b>	<b>0.1</b>	<b>60</b>
Exercised	(0.4)	51	(0.1)	60
Granted	4.0	47	–	–
Forfeited	(2.4)	81	–	–
<b>INCENTIVES OUTSTANDING AT 31 DECEMBER 2014</b>	<b>6.6</b>	<b>63</b>	<b>–</b>	<b>–</b>
Exercised	(0.1)	52	–	–
Granted	4.8	52	–	–
Forfeited	(1.6)	74	–	–
<b>INCENTIVES OUTSTANDING AT 31 DECEMBER 2015</b>	<b>9.7</b>	<b>56</b>	<b>–</b>	<b>–</b>
<b>INCENTIVES EXERCISABLE</b>				
<b>AT 31 DECEMBER 2014</b>	<b>0.2</b>	<b>50</b>	<b>–</b>	<b>–</b>
<b>AT 31 DECEMBER 2015</b>	<b>0.1</b>	<b>48</b>	<b>–</b>	<b>–</b>

#### 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 78.0 pence (2014 104.3 pence)

The following information relates to outstanding share incentives at 31 December 2015

	2015						2014		
	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	
Share plan									
2005 Employee Incentive Plan	05.09.09–17.05.25	0–72	1	4.4	8.6	3	3.2	8.5	
	22.03.15–10.08.25	87–153	101	5.3	8.6	120	3.4	8.6	
<b>Total</b>				<b>9.7</b>			<b>6.6</b>		

### DISCRETIONARY PLANS

#### SPIRENT LONG-TERM INCENTIVE PLAN ("LTIP")

The LTIP will be put to shareholders for approval at the 2016 AGM

The LTIP will be available for selected employees, including executive directors, on a discretionary basis

Full details of how the LTIP will be operated are available in the Report on directors' remuneration and in the Notice of 2016 AGM

#### 2005 EMPLOYEE INCENTIVE PLAN ("EIP")

The EIP will close for new awards following the 2016 AGM and will be replaced by the Spirent Long-term Incentive Plan

The EIP, which was approved by shareholders and introduced in 2005, was available for selected employees, including executive directors, on a discretionary basis

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

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

## Notes to the consolidated financial statements continued

### 30 EMPLOYEE SHARE PLANS CONTINUED

Further information on the performance conditions for EIP share incentives is set out in the Report on directors' remuneration

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

#### SPIRENT STOCK INCENTIVE PLAN ("SSIP")

The SSIP was introduced in 2000. This discretionary plan 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. At 31 December 2015 there are no remaining outstanding SSIP awards and the plan has therefore been closed.

#### 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 2015 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.

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.

### 31 SHARE-BASED PAYMENT

	2015 \$ million	2014 \$ million
2005 Employee Incentive Plan	0.8	0.7

All schemes are equity-settled.

4.8 million share incentives were granted during 2015 (2014: 4.0 million). The fair value of share incentives has been estimated as at the date of grant using the Hull-White trinomial model. The following table gives the assumptions made in arriving at the share-based payment charge and the fair value.

	2015	2014
Weighted average share price (pence)	88.1	97.1
Weighted average exercise price (pence)	51.8	46.6
Weighted average fair value (pence)	41.0	47.8
Expected volatility (%)	40–41	34–38
Option life (years)		
Performance Shares	3.0	3.0
Options and SARs	10.0	10.0
Suboptimal exercise factor	1.5	1.5
Risk free rate (%)	1.6–2.1	2.1–2.8
Dividend yield (%)	2.6	1.7

**31 SHARE-BASED PAYMENT CONTINUED**

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.

**32 RECONCILIATION OF PROFIT TO CASH GENERATED FROM OPERATIONS**

	2015 \$ million	2014 \$ million
<b>PROFIT BEFORE TAX</b>	<b>9.6</b>	<b>24.1</b>
Adjustments for:		
Finance income	(0.4)	(0.4)
Finance costs	0.5	–
Share of loss of associate	0.4	–
Intangible asset amortisation and impairment	15.9	15.0
Goodwill impairment	3.8	–
Depreciation of property, plant and equipment	25.0	19.7
Loss on the disposal of property, plant and equipment	0.8	–
Share-based payment	0.8	0.7
Changes in working capital:		
Deferred income received	1.8	2.7
Increase in receivables	(7.9)	(17.0)
Decrease in inventories	3.4	4.7
Increase in payables	4.8	2.9
Increase in provisions	2.6	0.4
Defined benefit pension plan	(3.3)	(3.9)
<b>CASH FLOW FROM OPERATIONS</b>	<b>57.8</b>	<b>48.9</b>

**33 BUSINESS COMBINATIONS**

The following acquisition was completed in 2015:

**EPITIRO GROUP LIMITED ("EGL")**

On 16 November 2015, Spirent completed the acquisition of 100 per cent of the share capital of Eptiro Group Limited, a company based in Cardiff, Wales, for an initial cash consideration of \$1.7 million. Contingent consideration of up to \$0.3 million is payable based on future bookings during the 12 month period following completion and also on the achievement of certain product development targets. The fair value of the contingent consideration has been estimated at \$0.3 million. The product development milestone was met in December 2015 and \$0.1 million of contingent consideration was paid in January 2016. Eptiro develops active Wi-Fi testing solutions for leading internet service providers, carriers and enterprises. Eptiro is reported within the Group's Service Assurance division.

The carrier Wi-Fi market has strong growth enabled by technology innovation and strong customer demands. The recent growth has been largely driven by an explosion in demand from mobile operators using Wi-Fi to augment their 3G and 4G deployment and offload a portion of mobile data traffic to unlicensed spectrum. The acquisition of Eptiro will enable Spirent to fill a critical niche in our end-to-end service assurance strategy and better position our TestCenter Live product family.

From the date of acquisition to 31 December 2015, Eptiro did not contribute any revenue and contributed \$0.2 million of loss before tax to the results of the Group before charging \$0.1 million of acquisition related costs. If the combination had occurred at the beginning of the financial year, revenue of \$0.9 million and a loss before tax of \$0.5 million would have been included in the Group result before charging \$0.1 million of acquired intangible asset amortisation and \$0.1 million of acquisition related costs.

The goodwill arising of \$1.3 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 goodwill is not expected to be deductible for income tax purposes.

## Notes to the consolidated financial statements continued

### 33 BUSINESS COMBINATIONS CONTINUED

	Eptiro \$ million
Intangible assets	0 8
Trade and other receivables	0 1
Trade and other payables	(0 2)
Total identifiable net assets	0 7
Goodwill	1 3
	<b>2 0</b>
<b>CONSIDERATION</b>	
Initial cash consideration	1 7
Contingent consideration accrued	0 3
	<b>2 0</b>
<b>CASH FLOWS</b>	
Initial cash consideration	1 7

For trade and other receivables the gross contractual amounts are \$0.1 million

The intangible assets acquired represent software technology, customer lists and brands and these have been assigned provisional lives of between five to six years

Acquisition related costs were \$0.1 million and these have been expensed to administration costs

The following acquisitions were completed in 2014

- The assets of DAX Technologies Corp. were acquired for a cash consideration of \$36.9 million on 19 February 2014
- 58 per cent of the ordinary share capital of Testing Technologies IST GmbH was acquired for a cash consideration of Euro 1.8 million (\$2.4 million) on 20 February 2014
- The assets of Radvision's Technology Business Unit were acquired for a cash consideration of \$25.9 million on 31 July 2014
- 100 per cent of the share capital of Mobilethink A/A and its wholly owned subsidiary, Tweakker ApS was acquired for a cash consideration of \$20.1 million on 12 September 2014
- The net assets of NetGend LLC were acquired for a cash consideration of \$1.0 million on 15 September 2014

The following table summarises the consideration paid and the assets and liabilities acquired at the acquisition date for the acquisitions completed in 2014

	\$ million				
	DAX Technologies	Radvision TBU	Mobilethink A/S	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 payables	(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
<b>CONSIDERATION</b>	<b>36.9</b>	<b>25.9</b>	<b>20.1</b>	<b>3.4</b>	<b>86.3</b>
<b>CASH FLOWS</b>					
Consideration	36.9	25.9	20.1	3.4	86.3
Cash acquired	–	–	–	(0.4)	(0.4)
	<b>36.9</b>	<b>25.9</b>	<b>20.1</b>	<b>3.0</b>	<b>85.9</b>

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



**33 BUSINESS COMBINATIONS CONTINUED**

The intangible assets acquired represent software technology customer list, database, 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

**34 RELATED PARTY TRANSACTIONS**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

**REMUNERATION OF KEY MANAGEMENT PERSONNEL**

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24

	2015 \$000	2014 \$000
Short term employee benefits	1,767.8	1,814.0
Compensation for loss of office (termination benefits)	–	514.0
Statutory disclosures	1,767.8	2,328.0
Share-based payment	165.5	198.0
	<b>1,933.3</b>	<b>2,526.0</b>

There were gains of \$23,000 (2014 \$336,000) on the exercise of options by key management personnel in 2015

Parent Company balance sheet  
At 31 December 2015

	Notes	2015 £ million	2014 £ million
<b>FIXED ASSETS</b>			
Intangible assets	4	2.4	2.4
Tangible assets	5	1.1	1.0
Investments	6	347.2	346.2
		<b>350.7</b>	349.6
<b>CURRENT ASSETS</b>			
Stocks	7	1.8	1.7
Debtors	8	11.7	11.6
Cash at bank and in hand		22.2	21.6
		<b>35.7</b>	34.9
<b>CREDITORS' AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	9	<b>(83.0)</b>	(85.1)
<b>NET CURRENT LIABILITIES</b>		<b>(47.3)</b>	(50.2)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>303.4</b>	299.4
Defined benefit pension plan deficit	3	(13.4)	(9.3)
<b>NET ASSETS</b>		<b>290.0</b>	290.1
<b>CAPITAL AND RESERVES</b>	13		
Called up share capital		20.4	20.4
Share premium account		20.2	20.2
Capital redemption reserve		13.1	13.1
Profit and loss account		236.3	236.4
<b>SHAREHOLDERS' FUNDS – EQUITY</b>		<b>290.0</b>	290.1

The notes on pages 124 to 137 form part of these financial statements

Signed on behalf of the Board

**RACHEL WHITING**  
Director  
25 February 2016



## Parent Company statement of changes in equity

	Notes	Attributable to the equity holders of the parent Company				£ million
		Share capital	Share premium account	Capital redemption reserve	Retained earnings	Total equity
<b>AT 1 JANUARY 2014</b>		<b>20 7</b>	<b>20 2</b>	<b>12 8</b>	<b>187 8</b>	<b>241 5</b>
Profit for the year		–	–	–	68 0	68 0
Other comprehensive income (a)		–	–	–	(7 8)	(7 8)
Total comprehensive income		–	–	–	60 2	60 2
Share-based payment		–	–	–	0 4	0 4
Tax charge on share incentives		–	–	–	(0 1)	(0 1)
Share cancellation	13	(0 3)	–	0 3	–	–
Share repurchase	13	–	–	–	(9 4)	(9 4)
Share buyback obligation	13	–	–	–	10 9	10 9
Equity dividends	12	–	–	–	(13 4)	(13 4)
<b>AT 1 JANUARY 2015</b>		<b>20 4</b>	<b>20 2</b>	<b>13.1</b>	<b>236 4</b>	<b>290 1</b>
Profit for the year		–	–	–	19 5	19 5
Other comprehensive income (b)		–	–	–	(4 8)	(4.8)
Total comprehensive income		–	–	–	14 7	14 7
Share-based payment		–	–	–	0 5	0 5
Equity dividends	12	–	–	–	(15 3)	(15 3)
<b>AT 31 DECEMBER 2015</b>		<b>20 4</b>	<b>20 2</b>	<b>13.1</b>	<b>236 3</b>	<b>290 0</b>

(a) The amount included in other comprehensive income for 2014 of £7 8 million represents re-measurement losses of the net defined benefit pension liability of £9 8 million net of a tax credit of £2 0 million

(b) The amount included in other comprehensive income for 2015 of £4 8 million represents re-measurement losses of the net defined benefit pension liability of £6 0 million net of a tax credit of £1 2 million

The notes on pages 124 to 137 form part of these financial statements

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## Notes to the parent Company financial statements

### 1 SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS101")

In these financial statements the Company has adopted FRS101 for the first time

In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS101 disclosure exemptions have been taken

In the transition to FRS101 the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS101. An explanation of how the transition to FRS101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 17

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements

- Business combinations – business combinations that took place prior to 1 January 2014 have not been restated
- Share-based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2014
- Use of previous GAAP carrying amounts as at date of transition as a deemed cost for investment in subsidiaries

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures

- A Cash Flow Statement and related notes,
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets
- Disclosures in respect of transactions with wholly owned subsidiaries,
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs,
- Disclosures in respect of the compensation of Key Management Personnel and
- Not presenting a transition balance sheet as primary statement and related notes

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS101 available in respect of the following disclosures

- IFRS 2 in respect of Group settled share based payments,
- Certain disclosures required by IAS 36 in respect of the impairment of goodwill and indefinite life intangible assets, and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value

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

#### ACCOUNTING CONVENTION

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

#### GOING CONCERN BASIS OF ACCOUNTING

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 2017 and 2018 financial years. They have also considered the principal risks and uncertainties that the Company faces and its current financial position and are satisfied that the Company 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 of accounting continues to be used in the preparation of the financial statements

#### BUSINESS COMBINATIONS AND GOODWILL

##### Acquisitions prior to 1 January 2014

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Company elected not to restate business combinations that took place prior to 1 January 2014. In respect of acquisitions prior to 1 January 2014 goodwill is included at 1 January 2014 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. The Company elected not to reverse the amortisation of goodwill that was charged to the profit and loss account prior to 1 January 2014

## 1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

Had the Company amortised goodwill a period of 20 years would have been chosen as the useful life for goodwill. The profit for the year would have been £0.6 million lower had goodwill been amortised in the year.

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.

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 profit and loss account.

### TANGIBLE ASSETS

Tangible assets 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 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.

### IMPAIRMENT OF ASSETS

Tangible assets with finite useful lives are tested for impairment at each reporting date where there is an indication that an asset may be impaired. Goodwill with an indefinite useful life is 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 of disposal. 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 profit and loss account 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 profit and loss account.

### INVESTMENTS

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

### 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 profit and loss account on a straight line basis over the period of the lease.

### STOCKS

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

### PROVISIONS

Provisions are recorded when the 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.

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## Notes to the parent Company financial statements continued

### 1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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 gains and losses are taken to the profit and loss account.

#### 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.

#### Trade debtors

Trade debtors 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. There are no bank overdrafts.

#### Trade creditors

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

#### Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost using the effective interest method and in respect of financial assets less any impairment losses.

#### Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs. Spirent Communications plc Ordinary Shares held by the Company 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.

#### 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 pension plans are defined contribution in nature where the amount charged to the profit and loss account is the employer's 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 Company presents the first two components of defined benefit pension costs in profit or loss.

## 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.

### GOVERNMENT GRANTS

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it. Grants that compensate the Company for expenses incurred are recognised as other operating income on a systematic basis in the same periods in which expenses are incurred. Grants that compensate the Company for the acquisition of an asset are presented by deducting them from the acquisition cost of the related asset in accordance with IAS20.

### PRODUCT DEVELOPMENT

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

### 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.

### 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

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account 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.

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.

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## Notes to the parent Company financial statements continued

### 1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 ESTIMATES

The preparation of financial statements requires the Company 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 high degree of judgement or where assumptions and estimates are significant to the parent Company financial statements are revenue recognition, defined benefit pension plans (note 3) and recognition of deferred tax assets (note 10). Please refer to note 2 of Notes to the consolidated financial statements on page 93 for detailed disclosures

### 2 EMPLOYEES

Please refer to the Report on directors' remuneration on pages 55 to 72 and note 34 of Notes to the consolidated financial statements on page 121 for disclosures relating to the emoluments, share incentives and long term incentive interests and pensions of the directors

### 3. PENSIONS

#### DEFINED BENEFIT PLANS

##### **i) Characteristics and risks associated with the Plans**

The Company 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 Company'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. 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 Company to top up certain former employees' benefits whose salaries exceeded the statutory earnings cap.

As with the vast majority of similar arrangements in the United Kingdom, the Company 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 significant proportion of their assets in equity. Strong future equity returns would be expected to reduce the Company's future cash contributions (and vice versa).

Expected contributions to the defined benefit plans in 2016 are £5.1 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 Company agreed to pay the following contributions in order to clear the funding deficit as assessed by the trustees' independent actuary:

- Staff Plan: £2.6 million per annum from 1 July 2013 to 30 June 2019, plus a further contribution of up to £2.5 million by July 2016 if the plan remains in deficit.
- Cash Plan: £0.2 million per annum from 1 July 2013 to 31 March 2015.

The latest triennial valuations, as at 1 April 2015, are in the process of being finalised.

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



**3 PENSIONS CONTINUED****ii) Amounts in the financial statements**

The assets and liabilities on the balance sheet are as follows

	2015 £ million	2014 £ million
<b>ASSETS</b>		
UK defined benefit pension plan – Cash Plan	0.8	0.5
<b>LIABILITIES</b>		
UK defined benefit pension plan – Staff Plan	(13.7)	(9.3)
UK unfunded plan	(0.5)	(0.5)
	(14.2)	(9.8)
Net pension plan deficit on the balance sheet	(13.4)	(9.3)

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

**a) The assets and liabilities in each plan**

	2015 £ million	2014 £ million
<b>STAFF PLAN</b>		
Quoted		
Equities	42.1	48.7
Government bonds	3.1	–
Unquoted		
LDI funds	17.7	25.2
Cash benchmarked bonds	60.4	69.8
Corporate bonds	2.2	–
Hedge funds	15.8	–
Insured annuities	2.8	3.4
Property	1.1	9.6
Cash and other	20.4	14.6
Fair value of plan assets	165.6	171.3
Present value of defined benefit pension plan obligations	(179.3)	(180.6)
Deficit in the plan	(13.7)	(9.3)
<b>CASH PLAN</b>		
Quoted		
Equities	2.9	2.9
Government bonds	2.8	2.8
Unquoted		
Insured annuities	0.1	0.2
Cash and other	1.9	2.0
Fair value of plan assets	7.7	7.9
Present value of defined benefit pension plan obligations	(6.9)	(7.4)
Surplus in the plan	0.8	0.5
Total net deficit recognised	(12.9)	(8.8)
<b>UNFUNDED PLAN</b>		
Present value of unfunded obligations	(0.5)	(0.5)
<b>NET PENSION PLAN DEFICIT ON THE BALANCE SHEET</b>	<b>(13.4)</b>	<b>(9.3)</b>

## Notes to the parent Company financial statements continued

### 3 PENSIONS CONTINUED

#### b) Analysis of the amounts charged to the profit and loss account

	2015 £ million	2014 £ million
Plan administration expenses	0.5	0.3
Current service cost	0.1	0.1
<b>AMOUNT CHARGED TO OPERATING COSTS</b>	<b>0.6</b>	<b>0.4</b>
<b>NET INTEREST ON THE NET DEFINED BENEFIT PENSION LIABILITY</b>	<b>0.3</b>	<b>-</b>
<b>NET CHARGE TO THE PROFIT AND LOSS ACCOUNT</b>	<b>0.9</b>	<b>0.4</b>

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

	2015 £ million	2014 £ million
Re-measurement (losses)/gains on plans' assets	(7.1)	9.8
Actuarial (loss)/gain arising from experience	(3.6)	0.5
Actuarial gain/(loss) arising from changes in financial assumptions	4.7	(20.1)
<b>RE-MEASUREMENT OF THE NET DEFINED BENEFIT PENSION LIABILITY</b>	<b>(6.0)</b>	<b>(9.8)</b>

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

	2015 £ million	2014 £ million
At 1 January	188.0	168.7
Current service cost	0.1	0.1
Interest cost	6.7	7.4
Benefit payments	(7.5)	(7.8)
Actuarial loss/(gain) arising from experience	3.6	(0.5)
Actuarial (gain)/loss arising from changes in financial assumptions	(4.7)	20.1
<b>PRESENT VALUE OF FUNDED DEFINED BENEFIT PENSION PLANS' OBLIGATIONS</b>	<b>186.2</b>	<b>188.0</b>

#### e) Movements in the fair value of plans' assets

	2015 £ million	2014 £ million
At 1 January	179.2	167.2
Interest income on plans' assets	6.4	7.4
Employer contributions	2.8	2.9
Benefit payments	(7.5)	(7.8)
Plan administration expenses	(0.5)	(0.3)
Re-measurement (loss)/gain on plans' assets	(7.1)	9.8
<b>FAIR VALUE OF PLANS' ASSETS</b>	<b>173.3</b>	<b>179.2</b>

#### f) The key financial assumptions

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

	2015 %	2014 %
Inflation – RPI	2.9	2.9
Inflation – CPI	1.8	1.8
Rate of increase in pensionable salaries	3.0	3.0
Rate of increase for pensions in payment pre 2001 service	3.6	3.6
Rate of increase for pensions in payment 2001 to 5 April 2005 service	2.8	2.8
Rate of increase for pensions post 5 April 2005 service	2.0	2.0
Rate of increase in deferred pensions	1.8	1.8
Rate used to discount plan liabilities	3.8	3.6

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 (2014 aged 65) will live on average for a further 23.6 years (2014 23.5 years) if they are male and for a further 25.8 years (2014 25.7 years) if they are female. For a member who retires in 2035 (2014 in 2034) at age 65 (2014 age 65) the assumptions are that they will live on average for a further 24.5 years (2014 24.4 years) after retirement if they are male and for a further 26.9 years (2014 26.8 years) after retirement if they are female.

### 3 PENSIONS CONTINUED

#### 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 £2.6 million (2014 £2.6 million)
- Increasing RPI inflation by 0.1 per cent would increase the plans' liabilities by £0.9 million (2014 £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 £7.4 million (2014 £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. 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 (2014 15 years)

#### DEFINED CONTRIBUTION PLANS

The Company maintains defined contribution pension plans for employees. Employer contributions into these plans for 2015 were £0.6 million (2014 £0.7 million)

### 4 INTANGIBLE ASSETS

£ million  
Goodwill

<b>COST</b>	
At 1 January 2015 and 31 December 2015	<b>6.8</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>	
At 1 January 2015 and 31 December 2015	<b>4.4</b>
Net book value at 31 December 2014	<b>2.4</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2015</b>	<b>2.4</b>

The carrying value of goodwill has been tested by reference to the value in use of the Positioning CGU. No impairment of goodwill was required on transition or subsequently.

### 5 TANGIBLE FIXED ASSETS

£ million

	Freehold land and buildings	Plant and machinery	Fixtures fittings and equipment	Total
<b>COST</b>				
<b>AT 1 JANUARY 2015</b>	<b>0.7</b>	<b>2.7</b>	<b>1.1</b>	<b>4.5</b>
Additions	–	0.4	–	0.4
Disposals	–	(0.1)	(0.1)	(0.2)
<b>AT 31 DECEMBER 2015</b>	<b>0.7</b>	<b>3.0</b>	<b>1.0</b>	<b>4.7</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>				
<b>AT 1 JANUARY 2015</b>	<b>0.2</b>	<b>2.4</b>	<b>0.9</b>	<b>3.5</b>
Provided during the year	–	0.3	–	0.3
Disposals	–	(0.1)	(0.1)	(0.2)
<b>AT 31 DECEMBER 2015</b>	<b>0.2</b>	<b>2.6</b>	<b>0.8</b>	<b>3.6</b>
Net book value at 31 December 2014	0.5	0.3	0.2	1.0
<b>NET BOOK VALUE AT 31 DECEMBER 2015</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>1.1</b>

## Notes to the parent Company financial statements continued

### 6 INVESTMENTS

	£ million		
	Shares in subsidiaries	Loans to subsidiaries	Total
<b>COST</b>			
<b>AT 1 JANUARY 2015</b>	<b>1,032.7</b>	<b>35.9</b>	<b>1,068.6</b>
Additions	8.4	1.1	9.5
Capitalised	9.6	(9.6)	–
Transferred	17.7	(17.7)	–
Repayments	–	(1.6)	(1.6)
Share-based payment	0.4	–	0.4
<b>AT 31 DECEMBER 2015</b>	<b>1,068.8</b>	<b>8.1</b>	<b>1,076.9</b>
<b>AMOUNTS PROVIDED</b>			
<b>AT 1 JANUARY 2015</b>	<b>721.0</b>	<b>1.4</b>	<b>722.4</b>
Amounts provided in the year	7.3	–	7.3
<b>AT 31 DECEMBER 2015</b>	<b>728.3</b>	<b>1.4</b>	<b>729.7</b>
Net book value at 31 December 2014	311.7	34.5	346.2
<b>NET BOOK VALUE AT 31 DECEMBER 2015</b>	<b>340.5</b>	<b>6.7</b>	<b>347.2</b>

The recoverability of the carrying value of investments in subsidiaries has been assessed by reference to value in use and a provision of £7.3 million has been recorded in relation to the subsidiary that holds the investment in the Device Intelligence line of business. See note 14 of Notes to the consolidated financial statements for the assumptions used.

### 7 STOCKS

	2015 £ million	2014 £ million
Work in progress	0.6	0.2
Finished goods	1.2	1.5
	<b>1.8</b>	<b>1.7</b>

There were no stock write-downs recognised in the period (2014 £0.2 million) and there were no reversals of prior period stock write-downs (2014 nil).

No stock is carried at fair value less costs to sell (2014 nil).

### 8. DEBTORS

	2015 £ million	2014 £ million
<b>DUE WITHIN ONE YEAR</b>		
Trade debtors	1.9	2.1
Owed by subsidiaries	4.2	5.8
Other debtors	1.0	0.7
Prepayments and accrued income	0.7	0.3
Deferred tax (note 10)	3.9	2.7
	<b>11.7</b>	<b>11.6</b>

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

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

### 9 TRADE AND OTHER CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £ million	2014 £ million
Trade creditors	0.8	0.7
Owed to subsidiaries	73.9	76.8
Accruals and deferred income	7.8	5.2
Other taxes and social security costs	0.5	2.4
	<b>83.0</b>	<b>85.1</b>

**9 TRADE AND OTHER CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR CONTINUED**

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

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

**10 DEFERRED TAX**

The movements in the deferred tax assets are as follows

	£ million			
	Temporary differences	Tax losses	UK pension plans	Total
<b>AT 1 JANUARY 2014</b>	<b>0.2</b>	<b>1.2</b>	<b>0.4</b>	<b>1.8</b>
Charged in the year	–	(0.6)	–	(0.6)
Deferred tax on defined benefit pension plan	–	–	1.5	1.5
<b>AT 1 JANUARY 2015</b>	<b>0.2</b>	<b>0.6</b>	<b>1.9</b>	<b>2.7</b>
Credited in the year	–	0.4	–	0.4
Deferred tax on defined benefit pension plan	–	–	0.8	0.8
<b>AT 31 DECEMBER 2015</b>	<b>0.2</b>	<b>1.0</b>	<b>2.7</b>	<b>3.9</b>

The Company has tax losses of £23.6 million (2014 £25.1 million) that are available for offset against suitable future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain. These losses can be carried forward indefinitely.

The Company also has capital losses carried forward of £823.3 million (2014 £823.3 million) for which no deferred tax asset has been recognised on the balance sheet. These capital losses have no expiry date.

£1.9 million (2014 £2.2 million) of the deferred tax asset is due after one year.

**11 OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £ million	2014 £ million
Within one year	0.1	0.1
In the second to fifth years	0.1	0.2
	<b>0.2</b>	<b>0.3</b>

**12 DIVIDENDS**

	2015 £ million	2014 £ million
<b>DECLARED AND PAID IN THE YEAR</b>		
<b>EQUITY DIVIDEND ON ORDINARY SHARES</b>		
Final dividend paid for the year ended 31 December 2014 of 1.43 pence per Ordinary Share (31 December 2013 1.20 pence)	8.7	7.3
Interim dividend 2015 of 1.08 pence per Ordinary Share (2014 0.99 pence)	6.6	6.1
	<b>15.3</b>	<b>13.4</b>
<b>PROPOSED FOR APPROVAL AT AGM (NOT RECOGNISED AS A LIABILITY AT 31 DECEMBER)</b>		
<b>EQUITY DIVIDEND ON ORDINARY SHARES</b>		
Final dividend 2015 of 1.59 pence per Ordinary Share (2014 1.43 pence)	9.7	8.7

The directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 1.59 pence per Ordinary Share (2014 1.43 pence) which will absorb an estimated £9.7 million of shareholders' funds (2014 £8.7 million). It will be paid on 6 May 2016 to Ordinary shareholders who are on the Register of Members at close of business on 4 March 2016. Payment will be made to ADR holders on 16 May 2016. 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 2015 was \$1.39/£1 (2014 \$1.55/£1).

## Notes to the parent Company financial statements continued

### 13. CAPITAL AND RESERVES

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

	Number of Ordinary Shares million
<b>ISSUED AND FULLY PAID ORDINARY SHARES OF 3 1/3 PENCE EACH AT 1 JANUARY 2015 AND 31 DECEMBER 2015</b>	<b>611.7</b>

During 2015 and 2014 no Ordinary Shares were transferred from the Spirent Sharesave Trust ("SST") to satisfy options exercised under the UK all employee share schemes and in 2015 0.1 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 (2014 0.2 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 2015 and 25 February 2016, the date on which these financial statements have been signed

Please refer to note 29 of the Notes to the consolidated financial statements on page 116 for disclosures relating to the nature and purpose of each reserve within equity

#### INVESTMENT IN OWN ORDINARY SHARES

At 31 December 2015, the ESOT held 0.6 million Ordinary Shares (2014 0.7 million Ordinary Shares) to satisfy awards under various share incentive plans. At 31 December 2015, the SST held 0.5 million Ordinary Shares (2014 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 1.1 million Ordinary Shares (2014 1.2 million Ordinary Shares), at 31 December 2015 was £0.8 million (2014 £0.9 million)

#### CAPITAL REDEMPTION RESERVE

During 2015 the Company did not cancel any Ordinary Shares (2014 9.7 million Ordinary Shares) and did not make any transfers to the capital redemption reserve (2014 £0.3 million)

#### SHARE REPURCHASE

During 2015 the Company did not repurchase any Ordinary Shares on market (2014 9.7 million at a cost of £9.4 million)

#### EMPLOYEE SHARE PLANS

The Company operates a number of employee share incentive plans which are described in note 30 of Notes to the consolidated financial statements. The following share incentives over Ordinary Shares under these plans have been granted and remain outstanding, held by employees of the parent Company

Movements in share incentives during the year to 31 December 2015 are shown below

	2005 Employee Incentive Plan	
	Number of share incentives million	Weighted average exercise price pence
<b>INCENTIVES OUTSTANDING AT 31 DECEMBER 2013</b>	<b>1.8</b>	<b>53</b>
Granted	0.8	12
Exercised	(0.3)	51
Cancelled	(0.6)	122
<b>INCENTIVES OUTSTANDING AT 31 DECEMBER 2014</b>	<b>1.7</b>	<b>23</b>
Granted	1.0	8
Exercised	(0.1)	52
Expired	(0.3)	–
Cancelled	(0.1)	111
<b>INCENTIVES OUTSTANDING AT 31 DECEMBER 2015</b>	<b>2.2</b>	<b>13</b>
<b>INCENTIVES EXERCISABLE AT 31 DECEMBER 2014</b>	<b>0.2</b>	<b>50</b>
<b>INCENTIVES EXERCISABLE AT 31 DECEMBER 2015</b>	<b>0.1</b>	<b>48</b>

**13 CAPITAL AND RESERVES CONTINUED**

The weighted average share price at exercise date was 78.6 pence (2014 104.6 pence)

The following information relates to outstanding share incentives at 31 December 2015

Share plan	Exercise period (as at 31 December)	Range of exercise prices pence	Weighted average exercise price pence	Number of share incentives outstanding million	2015 Weighted average remaining contractual life years	2015 Weighted average exercise price pence	Number of share incentives outstanding million	2014 Weighted average remaining contractual life years
2005 Employee Incentive Plan <sup>1</sup>	05.05.09–17.05.25	0–101	6.6	2.1	8.4	12.0	1.5	7.9
	21.03.15–07.05.23	129–153	131.7	0.1	7.2	134.0	0.2	8.1
				2.2			1.7	

Note

1 Figures for the 2005 Employee Incentive Plan include share options, stock appreciation rights and Performance Shares in aggregate. No exercise price is payable on the vesting of a Performance Share.

**14 SHARE-BASED PAYMENT**

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

	2015 £ million	2014 £ million
2005 Employee Incentive Plan	0.1	0.2

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

	2015	2014
Weighted average share price (pence)	86.8	101.3
Weighted average exercise price (pence)	7.5	12.2
Weighted average fair value (pence)	54.2	61.8
Expected volatility (%)	41.0	34.0
Option life (years)		
Performance Shares	3.0	3.0
Options and SARs	10.0	10.0
Suboptimal exercise factor	1.5	1.5
Risk free rate (%)	1.6–2.1	2.8
Dividend yield (%)	2.6	1.7

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.

**15. SUBSIDIARIES**

A list of subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 137 of this Annual Report.

**16 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

There were no capital commitments at 31 December 2015 or 31 December 2014.

Spirent Communications plc has provided indemnities of £0.1 million (2014 £0.1 million) for certain ongoing business obligations under letters of credit for subsidiary companies.

Spirent Communications plc has provided guarantees totalling £11 million (2014 £11 million) in respect of the minimum consideration for the acquisition of minority shareholdings in Testing Technologies IST GmbH and which expire on 31 March 2016.

## Notes to the parent Company financial statements continued

### 17 EXPLANATION OF TRANSITION TO FRS101 FROM OLD UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS101

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS101 balance sheet at 1 January 2014 (the Company's date of transition)

In preparing its FRS101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP) to reflect accounting policy changes. An explanation of how the transition from UK GAAP to FRS101 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables

A reconciliation of equity is set out below

	Notes	UK GAAP at 1 January 2014 £ million	Effect of transition to FRS101 £ million	FRS101 at 1 January 2014 £ million	UK GAAP at 31 December 2014 £ million	Effect of transition to FRS101 £ million	FRS101 at 31 December 2014 £ million
<b>FIXED ASSETS</b>							
Intangible assets	(a)	2.4	–	2.4	1.8	0.6	2.4
Tangible assets		1.1	–	1.1	1.0	–	1.0
Investments		310.2	–	310.2	346.2	–	346.2
		313.7	–	313.7	349.0	0.6	349.6
<b>CURRENT ASSETS</b>							
Stocks		1.6	–	1.6	1.7	–	1.7
Trade debtors		1.7	–	1.7	2.1	–	2.1
Owed by subsidiaries		2.7	–	2.7	5.8	–	5.8
Other debtors		0.7	–	0.7	0.7	–	0.7
Prepayments and accrued income		0.5	–	0.5	0.3	–	0.3
Deferred tax asset	(b)	1.4	0.4	1.8	0.8	1.9	2.7
Cash at bank and in hand		14.2	–	14.2	21.6	–	21.6
		22.8	0.4	23.2	33.0	1.9	34.9
<b>CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR</b>							
Trade and other creditors		(18.4)	–	(18.4)	(10.9)	–	(10.9)
Owed to subsidiaries	(c)	–	(75.0)	(75.0)	–	(74.2)	(74.2)
		(18.4)	(75.0)	(93.4)	(10.9)	(74.2)	(85.1)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>							
		4.4	(74.6)	(70.2)	22.1	(72.3)	(50.2)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>							
		318.1	(74.6)	243.5	371.1	(71.7)	299.4
<b>CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>							
Owed to subsidiaries	(c)	(75.0)	75.0	–	(74.2)	74.2	–
Net assets (excluding defined benefit pension plan deficit)		243.1	0.4	243.5	296.9	2.5	299.4
Defined benefit pension plan deficit	(b)	(1.6)	(0.4)	(2.0)	(7.4)	(1.9)	(9.3)
<b>NET ASSETS</b>							
		241.5	–	241.5	289.5	0.6	290.1
<b>CAPITAL AND RESERVES</b>							
Called up share capital		20.7	–	20.7	20.4	–	20.4
Share premium account		20.2	–	20.2	20.2	–	20.2
Capital redemption reserve		12.8	–	12.8	13.1	–	13.1
Profit and loss account	(a)	187.8	–	187.8	235.8	0.6	236.4
<b>SHAREHOLDERS' FUNDS – EQUITY</b>							
		241.5	–	241.5	289.5	0.6	290.1

Notes to the reconciliation of equity

(a) On transition to FRS 101 goodwill amortisation for the year to 31 December 2014 has been reversed (£0.6 million)

The Company elected not to restate goodwill amortisation charged to the profit and loss account prior to 1 January 2014

(b) On transition to FRS 101 the defined benefit scheme pension liability is shown gross of the associated deferred tax asset, and all of the deferred tax recognised within current assets (£1.9 million)

(c) On transition to FRS 101 loans owed to subsidiaries were reclassified from creditors due after more than one year to creditors due within one year (£74.2 million)

Under UK GAAP, the Company was not required to, and did not prepare a profit and loss account or a cash flow statement

The transition to FRS101 has increased the profit for the year by £0.6 million



## Full list of subsidiary undertakings

A full list of subsidiaries and companies in which Spirent Communications plc has an interest of more than 20% as at 31 December 2015. The country of incorporation and the effective percentage of equity owned (if less than 100%) is also detailed below. Unless otherwise noted, the share capital comprises ordinary shares which are indirectly held by Spirent Communications plc.

Company Name	Registered in	Notes
Spirent Communications of Ottawa Limited	Canada	
Spirent Communications Technology (Beijing) Limited	China	Held directly
Mobilethink A/S	Denmark	
Spirent Holdings Denmark ApS	Denmark	
Tweakker ApS	Denmark	
Tweakker Holding ApS	Denmark	
Bowthorpe Limited	England	Held directly
Cambridge Analytical Group Limited	England	Held directly
Earlynow Limited	England	Held directly
Epitiro Group Limited	England	Held directly
Metrico Wireless Limited	England	Held directly
PG Drives Technology Limited	England	
PG International Limited	England	Held directly
Shipbrick Limited	England	54.55% held directly, 45.45% held indirectly
Spirent Capital Limited	England	Held directly
Spirent Communications (International) Limited	England	Held directly
Spirent Communications (Scotland) Limited	England	Held directly
Spirent Communications (SW) Limited	England	Held directly
Spirent Financial Limited	England	Held directly
Spirent Financing Limited	England	
Spirent Holdings Limited	England	Held directly
Spirent Investment Limited	England	Held directly
Spirent Limited	England	Held directly
Spirent Sharesave Trust Limited	England	Held directly
Spirent Systems Limited	England	100% A shares held indirectly 100% 'B' shares held directly
TFDC Limited	England	
Spirent Communications SAS	France	Held directly
Spirent Communications GmbH	Germany	
Testing Technologies GmbH	Germany	58% controlling interest held indirectly*
Spirent (Overseas) Limited	Guernsey	
Spirent Communications (Asia) Limited	Hong Kong	
Spirent Communications India (Pvt) Limited	India	
Spirent Communications Israel Limited	Israel	
Spirent Communications Japan KK	Japan	
Spirent BV	Netherlands	
Spirent Communications Singapore Pte Limited	Singapore	
Spirent Communications Korea Inc	South Korea	
Spirent Communications Taiwan Limited	Taiwan	
Jolata, Inc	US (Delaware)	28% held directly**
Netcom Systems Holdings Corporation	US (Delaware)	
Spirent Communications Inc	US (Delaware)	
Spirent Federal Systems Inc	US (Delaware)	
Spirent Holdings Corporation	US (Delaware)	
Spirent Communications Hawaii LLC	US (Hawaii)	

\* The remaining 42% interest in Testing Technologies GmbH was acquired on 19 January 2016 following the exercise of the minority shareholders put and call option.

\*\* Spirent Communications plc holds 28% of the issued share capital in Jolata, Inc. this has been treated as an associate company in these financial statements.

## Financial history

\$ million

	2015	2014	2013	2012	2011
<b>SUMMARY INCOME STATEMENT</b>					
<b>CONTINUING OPERATIONS</b>					
<b>REVENUE</b>	<b>477.1</b>	<b>457.2</b>	<b>413.5</b>	<b>472.4</b>	<b>470.5</b>
<b>OPERATING PROFIT</b>	<b>10.1</b>	<b>23.7</b>	<b>39.1</b>	<b>108.1</b>	<b>112.2</b>
Share of loss of associate	(0.4)	–	–	–	–
Net finance (costs)/income	(0.1)	0.4	–	0.3	1.4
<b>PROFIT BEFORE TAX</b>	<b>9.6</b>	<b>24.1</b>	<b>39.1</b>	<b>108.4</b>	<b>113.6</b>
Tax	3.9	(3.5)	(6.4)	(29.0)	(26.4)
<b>PROFIT FROM CONTINUING OPERATIONS AFTER TAX</b>	<b>13.5</b>	<b>20.6</b>	<b>32.7</b>	<b>79.4</b>	<b>87.2</b>
<b>DISCONTINUED OPERATIONS</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>47.1</b>	<b>6.7</b>
<b>PROFIT FOR THE YEAR</b>	<b>13.5</b>	<b>20.6</b>	<b>32.7</b>	<b>126.5</b>	<b>93.9</b>
<b>SUMMARY BALANCE SHEET</b>					
Intangible assets	251.6	273.3	198.8	207.4	123.2
Property, plant and equipment	51.1	52.2	39.6	34.1	35.5
Working capital (excluding cash and deferred tax)	8.8	13.9	(10.8)	7.3	13.8
<b>OPERATING ASSETS</b>	<b>311.5</b>	<b>339.4</b>	<b>227.6</b>	<b>248.8</b>	<b>172.5</b>
Investment in associate	4.6	–	–	–	–
Net funds including long term cash	102.1	99.8	216.3	249.0	237.2
Provisions and other liabilities	(11.3)	(8.3)	(6.5)	(5.0)	(4.5)
Deferred tax	25.0	18.0	18.3	28.4	29.4
Defined benefit pension plan deficit	(19.8)	(14.5)	(3.3)	(25.6)	(12.4)
<b>NET ASSETS</b>	<b>412.1</b>	<b>434.4</b>	<b>452.4</b>	<b>495.6</b>	<b>422.2</b>
<b>TOTAL EQUITY</b>	<b>412.1</b>	<b>434.4</b>	<b>452.4</b>	<b>495.6</b>	<b>422.2</b>
<b>SUMMARY CASH FLOWS</b>					
Cash flow from operating activities	60.4	41.7	67.4	105.1	98.7
Net interest received	0.4	0.6	0.8	0.6	0.9
Net capital expenditure	(25.5)	(31.6)	(24.3)	(14.3)	(23.5)
<b>FREE CASH FLOW</b>	<b>35.3</b>	<b>10.7</b>	<b>43.9</b>	<b>91.4</b>	<b>76.1</b>
Acquisitions and disposals and investment in associate	(6.7)	(85.9)	–	(32.1)	(14.5)
Share capital and share repurchase	0.1	(16.4)	(54.5)	(29.4)	(33.0)
Dividends paid	(23.5)	(22.2)	(22.2)	(20.3)	(17.5)
Transfer from long term deposit and loan repayment	(0.1)	–	0.3	0.3	0.4
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5.1</b>	<b>(113.8)</b>	<b>(32.5)</b>	<b>9.9</b>	<b>11.5</b>

	\$ million				
	2015	2014	2013	2012	2011
<b>OTHER INFORMATION – CONTINUING OPERATIONS</b>					
Expenditure on property, plant and equipment	26 5	33 8	22 9	15 9	20 1
Depreciation	25 0	19 7	16 5	14 6	12 7
Product development	118 3	115 4	100 5	86 1	83 3
<b>SHARE INFORMATION</b>					
<b>EARNINGS PER SHARE FROM CONTINUING OPERATIONS (CENTS)</b>					
Basic	2 18	3 35	5 10	12 11	13 07
Diluted	2 17	3 35	5 09	12 07	12 96
Adjusted basic <sup>1,2</sup>	5 00	5 82	5 71	13 02	12 81
<b>TOTAL DIVIDEND PER ORDINARY SHARE (CENTS)</b>	<b>3 89</b>	<b>3 89</b>	<b>3 54</b>	<b>3 22</b>	<b>2 93</b>
<b>FULLY PAID ORDINARY SHARES IN ISSUE AT YEAR END (NUMBER MILLION)</b>	<b>611 7</b>	<b>611 7</b>	<b>621 4</b>	<b>650 6</b>	<b>664 0</b>
<b>SEGMENTAL ANALYSIS – CONTINUING OPERATIONS</b>					
<b>REVENUE</b>					
Networks & Applications	241 9	221 5	213 4	259 5	254 6
Wireless & Service Experience	168 7	178 6	167 7	174 5	161 8
Service Assurance	66 5	57 1	32 4	38 4	54 1
	477 1	457 2	413 5	472 4	470 5
<b>OPERATING PROFIT</b>					
Networks & Applications	18 4	7 6	13 2	59 7	56 6
Wireless & Service Experience	15 5	24 0	33 8	56 7	58 5
Service Assurance	14 0	20 7	9 0	8 4	7 0
Corporate – non-segmental	(5 8)	(6 3)	(5 9)	(6 5)	(6 0)
Operating profit <sup>1</sup>	42 1	46 0	50 1	118 3	116 1
Exceptional items	(12 5)	(4 1)	(3 8)	(2 9)	–
Acquisition related costs	(0 1)	(3 8)	–	(1 2)	(1 2)
Acquired intangible asset amortisation and impairment	(14 8)	(13 7)	(8 4)	(4 5)	(1 6)
Goodwill impairment	(3 8)	–	–	–	–
Share-based payment	(0 8)	(0 7)	1 2	(1 6)	(1 1)
	10 1	23 7	39 1	108 1	112 2
<b>GEOGRAPHICAL INFORMATION – CONTINUING OPERATIONS</b>					
<b>REVENUE BY MARKET</b>					
Americas	268.1	245 0	228 2	252 0	258 6
Asia Pacific	148 2	142 5	132 2	150 8	138 1
Europe, Middle East and Africa	60 8	69 7	53 1	69 6	73 8
	477 1	457 2	413 5	472 4	470 5

## Notes

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

## Shareholder information

### FINANCIAL CALENDAR 2016

25 February	Preliminary results and final dividend announcement
3 March	Final dividend – ex-dividend date
4 March	Final dividend – record date
4 May	Annual General Meeting
6 May	Final dividend – payment date (Ordinary shareholders)
16 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	2016 Financial year end
February/March 2017	2016 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](http://www.otcmarkets.com/otc-pink/home).

### ANNUAL GENERAL MEETING

The Company's 2016 Annual General Meeting ("2016 AGM") will be held at 100pm on 4 May 2016 at the offices of UBS at 1 Finsbury Avenue, London EC2M 2PP.

### DIVIDENDS

Shareholders are able to choose how they receive their dividends:

- direct to their bank account,
- reinvested in Ordinary Shares through the Company's Dividend Reinvestment Plan (see below),
- paid by cheque, or
- paid in foreign currencies

The quickest and most efficient way to receive your dividends is to have them paid direct to your bank account. It saves waiting for funds to clear and reduces the paper and postage we use. To change how you receive your dividends please contact the Company's registrar, Equiniti, on 0371 384 2268 or log on to [www.shareview.co.uk](http://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 0371 384 2268 or log on to [www.shareview.co.uk](http://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 0371 384 2126 or via [www.shareview.co.uk](http://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 0371 384 2126. Equiniti also provide a range of online shareholder information services at [www.shareview.co.uk](http://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 03456 037 037 between 8 00am and 4 30pm, Monday to Friday and for internet services visit [www.shareview.co.uk/dealing](http://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 0371 384 2248 or at [www.shareview.co.uk](http://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 0345 300 0430 or at [www.shareview.co.uk](http://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](http://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](http://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 25 February 2016 the number of registered shareholders was 3,183 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	2,279	71.60	3,106,330	0.51
5,001 – 10,000	333	10.46	2,472,512	0.40
10,001 – 50,000	351	11.03	7,372,273	1.21
50,001 – 100,000	50	1.57	3,593,358	0.59
100,001 – 250,000	40	1.26	6,729,532	1.10
250,001 – 500,000	36	1.13	13,104,939	2.14
500,001 – 1,000,000	28	0.88	21,163,053	3.46
1,000,001 – highest	66	2.07	554,199,891	90.59
<b>Total</b>	<b>3,183</b>	<b>100.00</b>	<b>611,741,888</b>	<b>100.00</b>

	Number of shareholders	% of total shareholders	Number of Ordinary Shares	% of share capital
Individuals	2,578	80.99	12,414,519	2.03
Institutions	605	19.01	599,327,369	97.97
<b>Total</b>	<b>3,183</b>	<b>100.00</b>	<b>611,741,888</b>	<b>100.00</b>

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## 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
5G (Fifth Generation)	The next major phase of mobile telecommunications standards beyond the current 4G/IMT-Advanced standards
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
Backhaul	The use of networks to get data from an end user to a node in a major network such as through the internet or a proprietary network
Big Data Analytics	Large amounts of structured or unstructured data that has the potential to be mined for intelligence
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
Connected Vehicles	An internet-connected vehicle that provides additional benefits to the user including automatic notification of accidents and safety alerts as well as navigation and internet-based applications
Core	The central part of a telecommunications network that provides various services to customers who are connected by the access network. Functions include routing calls and data, managing user authentication and billing
Cyber Security	Protects networks, computers, applications and data from attack, damage or unauthorised access
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
Firewall	Part of a computer system or network that is designed to block and monitor unauthorised access while permitting outward communication
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
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
Lanes	Parallel electrical paths that handle the flow of data in high speed Ethernet applications, due to the inability of the interfaces in devices such as routers and switches to handle a single high speed data stream, for example, 10 lanes of 10 gigabits per second data in place of a single 100 gigabits per second data stream
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
Machine-to-Machine ("M2M")	A technology that enables automated wireless (or wired) communication between mechanical or electronic devices

Mobile Virtual Network Operator ("MVNO")	A wireless communications services provider that does not own the wireless network infrastructure over which it provides services to its customers
Network Functions Virtualisation ("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 Communication 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
Software as a Service ("SaaS")	A way of delivering applications over the internet as a service instead of installing and maintaining software
Software-Defined Network ("SDN")	An approach to networking in which control is decoupled from hardware and given to a software application called a controller
Virtual Customer Premises Equipment ("vCPE")	By leveraging NFV and vCPE, providers can rapidly introduce new services without deploying new hardware at customer locations vCPE can also improve remote management capabilities and reduce operations costs
Virtual Evolved Packet Core ("vEPC")	A framework for providing virtualised converged voice and data on a 4G LTE network
Virtualisation	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
Voice over Wi-Fi ("VoWi-Fi")	Transmission of IP-based voice communication ("VoIP") over a Wi-Fi network
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
Wi-Fi RF Interface	The radio-frequency portion of a circuit between the cellular phone and the active base station in this case a Wi-Fi access point as opposed to cellular

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## Contact details

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