



## News Release

### **SPIRENT COMMUNICATIONS PLC**

#### **PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**London, UK – 4 March 2010:** Spirent Communications plc (“Spirent”, the “Company” or the “Group”) (LSE: SPT), a leading communications technology company, today announces its preliminary results for the financial year ended 31 December 2009.

#### **Highlights**

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

#### **Bill Burns, Chief Executive Officer, commented:**

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

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

## Results summary

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

### Notes

1 Adjusted basic earnings per share is based on adjusted earnings as set out in note 6 of Notes to the preliminary consolidated financial statements.

2 Operating cash flow after tax, net interest and net capital expenditure.

3 Change at constant currencies eliminating the effects of fluctuating exchange rates on the translation of operating results and on transactions.

- ends -

## Enquiries

Bill Burns, Chief Executive Officer                      Spirent Communications plc    +44 (0)1293 767676  
Eric Hutchinson, Chief Financial Officer

Andrew Dowler/Juliet Clarke                              Financial Dynamics                      +44 (0)20 7831 3113

*The Company will host a results presentation today at 9.15am for 9.30am UK time at RBS, 250 Bishopsgate, London EC2M 4AA. A simultaneous webcast of the presentation will be available in the Investors section of the Spirent Communications plc website [www.spirent.com](http://www.spirent.com).*

## About Spirent Communications plc

Spirent Communications plc is a global leader in test and measurement inspiring innovation within development labs, communication networks and IT organisations. We enable today's communication ecosystem as well as tomorrow's emerging enterprises to deploy life-enriching communications networks, devices, services and applications. The Systems group develops power control systems for electrical vehicles in the mobility and industrial markets. Further information about Spirent Communications plc can be found at [www.spirent.com](http://www.spirent.com).

Spirent Communications plc 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 Spirent Communications plc Ordinary Shares. The ADRs trade in the US over-the-counter (“OTC”) market under the symbol SPMYY and the CUSIP number is 84856M209. Spirent ADRs are quoted on the Pink OTC Markets electronic quotation service which can be found at [www.pinksheets.com](http://www.pinksheets.com).

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***Cautionary statement regarding forward-looking statements***

*This document 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 document, whether as a result of new information, future events or otherwise.*

## **PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009 CHAIRMAN'S STATEMENT**

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

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

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

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

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

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

## **CHIEF EXECUTIVE OFFICER'S STATEMENT**

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

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

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

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

Our customers along with several of the industry's largest publications, conferences and research firms, Frost & Sullivan, Interop and Fortune among others, have recognised our accomplishments

with a variety of awards. Our market leadership, new product innovation, commitment to excellence and service to customers has resulted in a strong 2009 financial performance. Throughout the year, we gained market share and outperformed our competitors in revenue and profitability.

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

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

## BUSINESS REVIEW

### Business group development and performance

#### Communications

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

### Performance Analysis

#### Market conditions

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

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

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

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

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

## **Revenue**

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

As customers assessed their investment priorities, they cut back on legacy product enhancements and shifted to new technology development. Almost all of the decrease in revenue in 2009 can be

attributed to the decline in legacy test solution spending. Looking forward this is expected to have less of an impact, as legacy products now only account for 11 per cent of Performance Analysis revenue.

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

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

### **Profitability**

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

## **Product development**

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

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

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

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

In 2010, our wireless test solutions will expand to address the ever increasing market requirements of wireless testing. In particular, new Global Navigation Satellite Systems such as GLONASS will drive the need for wireless device test solutions that combine this technology with existing GPS capabilities. The further growth of smartphones and other "data-hungry" devices on the 3G / CDMA and UMTS networks will drive the need for testing high speed data solutions. LTE will require improved and expanded antenna testing by deploying techniques such as Multiple Input

Multiple Output Over-the-Air testing, and increase the testing needs to include mobility and location based services. The ubiquity of positioning technology is also expected to expand in 2010, as consumer applications utilising global satellite navigation continue to grow.

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

## **Service Assurance**

### **Market conditions**

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

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

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

## **Revenue**

Service Assurance revenues declined by 14 per cent in constant currency year-on-year, as expected, as service providers continued to reduce spend on legacy and DSL solutions. Growth in 10GbE monitoring devices was strong and demand for monitoring for cable multiple system operators

was robust, but this did not offset legacy decline. The second half year saw much more robust order intake, which gives confidence that revenues will stabilise in 2010.

### Profitability

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

### Product development

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

### Systems

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

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

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

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

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

### **Corporate costs**

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

## Group financial performance

### Results

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

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

#### Notes

1 Ratio of orders booked to revenue billed.

2 Before share-based payment and acquired intangible amortisation.

3 Adjusted basic earnings per share is based on adjusted earnings as set out in note 6 of Notes to the preliminary consolidated financial statements.

4 Operating cash flow after tax, net interest and net capital expenditure.

5 Change at constant currencies eliminating the effects of fluctuating exchange rates on the translation of operating results and on transactions.

### Revenue

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

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

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

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

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

### Operating profit

Reported operating profit was £55.3 million compared with £48.7 million in 2008, an increase of 14 per cent in sterling terms. Operating profit before share-based payment and acquired intangible amortisation, which is the measure of profit used by the Group to evaluate performance, improved by 11 per cent to £56.6 million compared with £50.9 million in 2008. Exchange benefited this result by £9.7 million, compared to 2008: at constant currencies operating profit is down 8 per cent.

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

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

### Currency impact

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

2008 at an average rate of \$1.76:£1. Transactional currency exposures resulted in an increase in reported revenue of £6.0 million and in operating profit of £2.2 million. For 2010 approximately half of the forecast transactional exposures have been hedged at an average rate of \$1.57:£1.

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

### **Cost of sales and operating expenses**

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

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

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

### **Exceptional items**

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

### **Intangible amortisation**

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

### **Share-based payment**

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

### **Finance income and costs**

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

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

### **Profit before tax**

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

### **Tax**

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

in 2009 (2008: £5.3 million). This gives an effective rate of 14.8 per cent for 2009 (2008: 10.3 per cent).

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

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

### **Earnings per share**

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

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

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

### **Financing and cash flow**

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

Operating activities generated £61.2 million in the year compared with £47.7 million in 2008.

Free cash flow is set out below:

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

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

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

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

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

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

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

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

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

### **Defined benefit pension plans**

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

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

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

### **Capital structure**

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

### **Dividend**

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

### **Principal risks and uncertainties**

Principal risks and uncertainties affecting the Spirent Communications Group will be detailed within the Annual Report for the year ended 31 December 2009, a copy of which will be made available on the Company's website at [www.spirent.com](http://www.spirent.com).

### Consolidated income statement

£ million	Notes	Year to 31 December			
		2009	2008	2008	2008
		Total <sup>1</sup>	Before exceptional items	Exceptional items <sup>note 4</sup>	Total
<b>Revenue</b>	2, 3	<b>272.1</b>	257.9	-	257.9
Cost of sales		<b>(91.6)</b>	(91.3)	-	(91.3)
<b>Gross profit</b>		<b>180.5</b>	166.6	-	166.6
Product development		<b>(47.5)</b>	(45.3)	-	(45.3)
Selling and distribution		<b>(49.7)</b>	(46.7)	-	(46.7)
Administration		<b>(28.0)</b>	(25.9)	-	(25.9)
<b>Operating profit</b>	2	<b>55.3</b>	48.7	-	48.7
Finance income		<b>0.4</b>	3.2	0.8	4.0
Finance costs		<b>(1.6)</b>	(0.5)	(2.6)	(3.1)
<b>Profit before tax</b>	2	<b>54.1</b>	51.4	(1.8)	49.6
Tax	5	<b>4.0</b>	(0.4)	25.6	25.2
<b>Profit for the year attributable to equity shareholders of parent Company</b>		<b>58.1</b>	51.0	23.8	74.8
<b>Earnings per share (pence)</b>	6				
Basic		<b>8.71</b>			10.13
Diluted		<b>8.67</b>			10.06

Notes

1 There were no exceptional items in 2009.

2 All activities relate to continuing operations.

### Consolidated statement of comprehensive income

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

**Consolidated balance sheet**

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

**Consolidated cash flow statement**

£ million	Notes	Year to 31 December	
		2009	2008
<b>Cash flows from operating activities</b>			
Cash flows from operations	8	67.7	53.4
Tax paid		(6.5)	(5.7)
<b>Net cash inflow from operating activities</b>		<b>61.2</b>	<b>47.7</b>
<b>Cash flows from investing activities</b>			
Interest received		0.4	4.1
Transfer from long term deposit		1.4	1.2
Purchase of intangible assets		(0.2)	-
Purchase of property, plant and equipment		(6.4)	(7.4)
Proceeds from the sale of property, plant and equipment		0.1	0.5
<b>Net cash used in investing activities</b>		<b>(4.7)</b>	<b>(1.6)</b>
<b>Cash flows from financing activities</b>			
Interest paid		-	(2.7)
Dividend paid		(7.7)	(3.7)
Proceeds from the issue of share capital and employee share ownership trust		2.4	2.4
Share repurchase		(0.7)	(67.2)
<b>Net cash used in financing activities</b>		<b>(6.0)</b>	<b>(71.2)</b>
Net increase/(decrease) in cash and cash equivalents		50.5	(25.1)
Cash and cash equivalents at the beginning of the year		59.7	79.0
Effect of foreign exchange rate changes		(2.2)	5.8
<b>Cash and cash equivalents at the end of the year</b>		<b>108.0</b>	<b>59.7</b>

**Consolidated statement of changes in equity**

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

## **Notes to the preliminary consolidated financial statements**

### **1 Financial information presented**

The financial information contained in this document does not constitute the Group's statutory accounts for the year ended 31 December 2009.

As required by the European Union's IAS Regulation and the Companies Act 2006 the Group has prepared its consolidated financial statements for the year to 31 December 2009 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The comparative financial information is based on the statutory accounts to 31 December 2008 which have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph nor any statement under Section 237 of the Companies Act 1985.

The preliminary announcement was approved by the Board of Directors on 4 March 2010.

The financial information for the year to 31 December 2009 has been extracted from the statutory accounts on which an unqualified audit report, which did not contain a statement under Section 498 of the Companies Act 2006, has been issued. These accounts are yet to be delivered to the Registrar of Companies.

The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2008.

The Group has financial resources available, no debt and has generated positive cash flow. As a consequence, the directors believe the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook, and as such, the preliminary announcement has been prepared on a Going Concern basis.

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

#### International Accounting Standards ("IAS/IFRS")

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

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## 2 Segmental analysis

### Business segments

The Group's organisational structure is based on differences in the products and services offered by each segment and information regularly reviewed by the Group's Chief Executive Officer, its chief operating decision maker, is presented on this basis. The Group's operating segments follow this structure, however, where operating segments exhibit similar economic characteristics and are similar in nature then they are aggregated into a single reportable segment.

The Group's reportable operating segments are Performance Analysis, Service Assurance and Systems. For presentational purposes the Group combines Performance Analysis and Service Assurance into the Communications operating group, its core activity. The Group evaluates segment operating profit before share-based payment, acquired intangible amortisation and exceptional items, although there were no exceptional operating items in 2008 or 2009. Interest income and interest expense 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.

£ million						2009
	Performance Analysis	Service Assurance	Communications Total	Systems	Corporate	Total
<b>Revenue</b>						
External revenue	201.8	33.5	235.3	36.8	-	272.1
There were no inter-segment sales						
<b>Profit before tax</b>						
Total reportable segment profit/(loss)	49.9	4.8	54.7	5.0	(3.1)	56.6
Unallocated amounts						
Acquired intangible amortisation						(0.9)
Share-based payment						(0.4)
Operating profit						55.3
Finance income						0.4
Finance costs						(1.6)
<b>Profit before tax</b>						54.1
<b>Other information</b>						
Product development	38.7	6.3	45.0	2.5	-	47.5
Expenditure on property, plant and equipment	5.7	0.5	6.2	0.2	-	6.4
Intangible amortisation – other	0.3	-	0.3	-	-	0.3
Depreciation	7.5	0.7	8.2	0.4	-	8.6
Segment assets	155.7	2.8	158.5	13.3	119.7	291.5
<b>Segment cash flows</b>						
Operating activities	58.9	6.6	65.5	6.6	(10.9)	61.2
Investing activities	(5.8)	(0.5)	(6.3)	(0.2)	1.8	(4.7)
Financing activities	-	-	-	-	(6.0)	(6.0)
	53.1	6.1	59.2	6.4	(15.1)	50.5

**2 Segmental analysis** continued  
**Business segments**

£ million						2008
	Performance Analysis	Service Assurance	Communications Total	Systems	Corporate	Total
<b>Revenue</b>						
External revenue	191.2	33.5	224.7	33.2	-	257.9
There were no inter-segment sales						
<b>Profit before tax</b>						
Total reportable segment profit/(loss)	44.9	4.8	49.7	4.3	(3.1)	50.9
Unallocated amounts						
Acquired intangible amortisation						(0.7)
Share-based payment						(1.5)
Operating profit						48.7
Finance income						4.0
Finance costs						(3.1)
<b>Profit before tax</b>						<b>49.6</b>
<b>Other information</b>						
Product development	37.8	5.2	43.0	2.3	-	45.3
Expenditure on property, plant and equipment	5.2	1.8	7.0	0.4	-	7.4
Depreciation	7.6	0.7	8.3	0.4	0.1	8.8
Segment assets	167.9	9.6	177.5	14.6	70.2	262.3
<b>Segment cash flows</b>						
Operating activities	47.6	3.8	51.4	4.0	(7.7)	47.7
Investing activities	(4.7)	(1.8)	(6.5)	(0.4)	5.3	(1.6)
Financing activities	-	-	-	-	(71.2)	(71.2)
	42.9	2.0	44.9	3.6	(73.6)	(25.1)

### 3 Geographical information

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

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

Revenues are attributed to countries based on customer location.

Rates against sterling	2009	2008
<b>Average exchange rates</b>		
US dollar	1.57	1.85
Euro	1.12	1.26

### 4 Exceptional items

There are no exceptional items in 2009.

Exceptional finance income of £0.8 million and exceptional finance costs of £2.6 million were reported in 2008. These items were a result of interest receivable and payable on the agreement of prior period tax positions.

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

### 5 Tax

£ million	2009	2008
<b>Current income tax</b>		
Current income tax charge	7.5	5.0
Amounts underprovided/(overprovided) in previous years	1.8	(30.5)
Total current income tax charge/(credit)	9.3	(25.5)
<b>Deferred tax</b>		
Recognition of deferred tax assets	(19.8)	(2.5)
Origination and reversal of temporary differences	6.5	2.8
Total deferred tax (credit)/charge	(13.3)	0.3
<b>Tax credit in the income statement</b>	<b>(4.0)</b>	<b>(25.2)</b>

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

## 6 Earnings per share

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

£ million	2009	2008
Profit for the year attributable to equity shareholders of parent Company	<b>58.1</b>	74.8
Number million		
<b>Weighted average number of shares in issue – basic</b>	<b>667.0</b>	738.5
Dilutive potential of employee share options	<b>3.4</b>	5.3
<b>Weighted average number of shares in issue – diluted</b>	<b>670.4</b>	743.8
Pence		
<b>Earnings per share</b>		
Basic	<b>8.71</b>	10.13
Diluted	<b>8.67</b>	10.06

The Group discloses adjusted earnings per share attributable to equity shareholders in order to provide a measure to enable period-on-period comparisons to be made of its performance. A reconciliation is provided below:

	2009		2008	
	£ million	EPS Pence	£ million	EPS Pence
<b>Profit for the year attributable to equity shareholders of parent Company</b>	<b>58.1</b>	<b>8.71</b>	74.8	10.13
Exceptional finance income	-		(0.8)	
Exceptional finance costs	-		2.6	
Exceptional tax credit	-		(25.6)	
Deferred tax asset – change in estimate	<b>(13.8)</b>		-	
Prior year tax charge/(credit)	<b>1.8</b>		(4.9)	
<b>Adjusted basic</b>	<b>46.1</b>	<b>6.91</b>	46.1	6.24
Adjusted diluted		<b>6.88</b>		6.20

## 7 Dividends paid and proposed

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

## 7 Dividends paid and proposed continued

The directors are proposing a final dividend in respect of the financial year ended 31 December 2009 of 0.66 pence per share (2008: 0.60 pence), which will absorb an estimated £4.4 million of shareholders' funds (2008: £4.0 million). It will be paid on 6 May 2010 to Ordinary shareholders who are on the Register of Members at close of business on 12 March 2010. Payment will be made to ADR holders on 13 May 2010.

No liability is recorded in the financial statements in respect of this final dividend.

## 8 Reconciliation of profit before tax to cash generated from operations

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

## **Glossary**

3G (Third Generation)	Third generation of mobile communications following first generation (analogue) and second generation (digital) that promises megabits per second.
4G (Fourth Generation)	Future generation of mobile communications following 3G that promises hundreds of megabits per second.
Broadband	Generic term for devices with a bandwidth greater than one megabit per second.
CDMA (Code Division Multiple Access)	A digital cellular standard technology allowing communications circuits to carry multiple conversations simultaneously, thus increasing its capacity; used in radio communications.
Cloud Computing	A way of computing, via the internet, that broadly shares computer resources instead of having local servers handle specific applications.
Content Delivery Network	A system storing data on different servers across the internet on content delivery service providers, it is possible to ensure that content is closer and more quickly accessible to users.
Data Center	A centralised location where computing resources critical to an organisation are maintained in a highly controlled environment.
Ethernet	A family of networking technologies developed for local area networks, migrating to metro area networks and becoming a dominant standard in wireline networks.
GbE (Gigabit Ethernet)	A term describing various technologies for transmitting Ethernet frames at a rate of a gigabit per second. GbE uses the same framing as Ethernet and Fast Ethernet, but has a much higher clock speed (one billion bits per second).
GPS (Global Positioning System)	A system for determining location and height at any point on the earth's surface. A receiver uses minute differences in measured time signals from clocks on satellites to calculate these positions and altitudes.
GLONASS (Global Navigation Satellite System)	Global navigation satellite system operated by the Russian Federation Ministry of Defence.
Internet/IP telephony	Generic term used to describe various approaches to running voice telephony over IP.
IP (Internet Protocol)	Data protocol used by many networking devices to facilitate and control the flow of data.
LTE (Long Term Evolution)	A standard to enhance existing 3G wireless to add 4G mobile communications technology on an IP network air interface, to create a wireless broadband internet system.
Location Based Services	The delivery of information, mapping and locally available business and public data over the wireless network dependent upon the ability to locate mobile devices by means of direct satellite or cellular assisted satellite signals.
MIMO (Multiple Input Multiple Output)	A wireless technology that employs multiple intelligent radio antennas to improve transmission speed and quality of wireless networks over longer distances than otherwise possible.
MSO (Multiple System Operator) Over-the-Air	A company that operates more than one cable TV system, often in different places. Mobile network radio cellular tower signal or satellite signal transmitted over-the-air to a mobile device antenna and processed by the mobile device communicating with the mobile network.
Triple Play	Voice, video and data transmitted over a single transport medium.
UMTS (Universal Mobile Telecommunications System)	One of the 3G wireless technologies. The most common form of UMTS uses WCDMA on its underlying air interface and offers support for high speed data transfer.
Virtualization	A term that refers to the abstraction of computer resources. Virtualization puts a number of computing and networking facilities together in such a way that it looks like a virtual computer to a user or a customer.
WCDMA (Wideband CDMA)	A global standard for mobile 3G.