Spirent plc Annual Report 2003

SPIRENT
Inspired innovation

Spirent is a leading communications technology company focused on delivering innovative systems and services to meet the needs of customers worldwide. We are a global provider of performance analysis and service assurance solutions that enable the development and deployment of next-generation networking technologies such as broadband services, Internet telephony, 3G wireless and web applications and security testing. Our Network Products business is a developer and manufacturer of innovative solutions for fastening, identification, protection and connectivity in electrical and communications networks marketed under the global brand HellermannTyton. The Systems group comprises PG Drives Technology, which develops power control systems for specialist electrical vehicles in the mobility and industrial markets, and an aerospace business that provides ground-based logistics support software systems for the aviation market. Further information about Spirent plc can be found at www.spirent.com

Financial Summary

£ million	2003	2002[1]
Turnover	466.2	558.9
Operating profit[2]	36.0	50.4
Profit before taxation[3]	30.0	46.0
Earnings per share[4] (pence)	2.31	3.36

Contents

Notes

1 Results for 2002 have been restated to reflect the effect of adopting Financial Reporting Standard 17 'Retirement Benefits' and Urgent Issues Task Force Abstract 38 'Accounting for ESOP Trusts'.

2 Before goodwill amortisation and operating exceptional items of £9.7 million (2002 £56.1 million) and £7.5 million (2002 £964.9 million), respectively.

3 Before goodwill amortisation and operating exceptional items as in note 2 above, non-operating exceptional items of £3.6 million profit (2002 £48.4 million loss) and an exceptional interest expense of £16.1 million (2002 nil).

4 Earnings per share is based on headline earnings as set out in note 12 to the Accounts.

Chairman's Letter

Dear Shareholder

As anticipated the challenging conditions in the telecoms market continued throughout 2003 and our results for the year reflect the ongoing reductions in capital spending by our Communications group's customers. We saw some improvement in activity levels in the latter part of the year and as a result were able to deliver an increase in turnover and operating profit in the second half compared with the first. Both our Network Products and Systems businesses performed well. Cash generation during the year was good and this, coupled with the disposal of our WAGO joint venture, enabled us to achieve a substantial reduction in net debt by the year end.

All in all 2003 has been a year of considerable underlying progress for Spirent. Following the renegotiation of the Company's borrowing terms early in the year, the focus has been very much on controlling costs to keep pace with the difficult market conditions. Throughout the downturn we have maintained a strong commitment to investment in product development and have focused on positioning the businesses to benefit from the recovery as it develops. This has enabled us to maintain our positions in the markets in which we operate, buoyed by new customer wins and new product launches.

We have expanded the expertise of the Board with the appointments of Andrew Given and Fred D'Alessio as non-executive directors. They both have substantial experience of international technology markets and we look forward to working with them. Paul Cheng retired from the Board at the end of the year and I would like to thank him for his valuable contributions since he joined in 1996. We have also made substantial progress during the year in embracing the evolving best practices in relation to environmental, ethical and social issues. I would encourage you to visit our website where much of this information is reported.

On 25 February 2004 it was announced that Nicholas Brookes had informed the Board of his intention to retire as Chief Executive of the Company. During Nick's tenure as Chief Executive, Spirent has been transformed into a leading technology company and the Board would like to thank him for his outstanding achievements. A formal process to find a successor is under way.

Our strategic focus remains our communications activities, which we believe hold good opportunities for growth as the telecoms market migrates to next-generation network technologies. We remain at the forefront of technological development and believe this will put us at an advantage as markets recover.

Yours faithfully

John P Weston CBE
Chairman

Spirent plc is a public limited company registered in England. Its Ordinary shares are traded on the London Stock Exchange and, in the form of American Depositary Shares, on the New York Stock Exchange.

This report is the Annual Report of Spirent plc for the year to 31 December 2003 and complies with UK regulations. The Annual Report is available on Spirent's website at www.spirent.com

A separate Annual Report on Form 20-F is being prepared to meet US regulations and will be filed with the US Securities and Exchange Commission by 30 June 2004.

Our Business at a Glance

Communications

Spirent Communications is a global provider of performance analysis and service assurance solutions that enable the development and deployment of next-generation networking technologies.

The Performance Analysis division develops testing solutions for a broad range of communications technologies critical to the deployment of next-generation networks. Our systems test wireless and wireline networks and equipment, including core terabit routers, broadband access devices, third generation wireless handsets, Internet infrastructure, web applications and security and Internet telephony. Our systems enable customers to emulate large-scale networks, introduce impairments and stress test equipment to ensure maximum performance and conformance to industry standards.

The Service Assurance division provides network monitoring and management systems for service providers to assure the quality of their high bandwidth services. Our systems enable the efficient delivery and maintenance of leased line voice and data, digital subscriber line, wireless, optical and IP networks. The division provides operations support systems, remote test probes, network test access systems and the expertise to implement solutions over a national or global scale.

Network Products

We are a developer and manufacturer of innovative solutions for fastening, identification, protection and connectivity in electrical and communications networks marketed under the global brand HellermannTyton.

HellermannTyton designs and manufactures a broad range of high-grade nylon ties, clips, channels and fixings for fastening cables and wires in electrical, communications, automotive, industrial equipment, aerospace and construction applications. We produce products with value added identification and security features such as standard cable markers, application tailored labels, printed customised markers and tags, tamper-evident fixings, security seals and printed ties for clinical waste. Our heatshrink insulation, convoluted tubing and cable covering products provide insulation and physical protection for wires and cables.

We also produce a range of products used in the installation of local area and wide area communications networks such as raceways, ducting, racks, patch panels and modular jacks.

We are a market leader in systems for the automated application of cable fixings and identification printing and application systems.

Systems

Our Systems group comprises PG Drives Technology, which develops power control systems for specialist electrical vehicles in the mobility and industrial markets, and an aerospace business that provides ground-based logistics support software systems for the aviation market.

PG Drives Technology is a leading supplier of sophisticated electronic control systems for use in specialised electrically powered vehicles. These include medical vehicles such as powered wheelchairs and mobility scooters as well as small industrial vehicles such as floor cleaning vehicles and aerial access platforms. Our systems allow the user to control the direction and speed of the vehicle as well as controlling other aspects of the vehicle's functions, including seating or platform position, lights, turn indicators and vehicle diagnostics.

We are a leading developer and supplier of ground-based logistics support and maintenance, repair and overhaul (MRO) software systems, brand named GOLD™ and AuRA™, for the civil and military aviation markets. Our systems manage aerospace customers' logistics and MRO processes by providing maintenance work flow management, inventory control, repair order management, recording and forecasting capabilities.

Chief Executive's Operating Review

Overview

Our results for the year were affected by the challenging conditions in the global telecoms market and the generally weak market conditions worldwide with turnover of £466.2 million and operating profit of £36.0 million down 17 per cent and 29 per cent, respectively, compared with 2002. However our performance in the second half of 2003 saw a sequential increase in both turnover and operating profit over the first half reflecting a modest increase in activity levels. Due to a strong focus on cash management we generated £62.8 million of free cash before the cash cost of exceptional items. Net debt has been significantly reduced to £57.5 million at the year end compared with £161.8 million at the end of 2002 through cash generated by the businesses and the proceeds from the sale of the WAGO joint venture. We have maintained our commitment to product development, investing £66.0 million or 14 per cent of turnover in 2003 (2002 £77.7 million and 14 per cent).

Review of Operations

Communications

£ million	First half 2003	Second half 2003	2003	2002	Annual change %
Turnover					
Performance Analysis	71.3	77.4	148.7	184.0	(19)
Service Assurance	46.2	45.5	91.7	131.4	(30)
Communications group	117.5	122.9	240.4	315.4	(24)
Operating profit					
Performance Analysis	0.5	3.9	4.4	10.0	(56)
Service Assurance	4.6	4.8	9.4	20.8	(55)
Communications group	5.1	8.7	13.8	30.8	(55)
Return on sales (per cent)					
Performance Analysis	0.7	5.0	3.0	5.4	
Service Assurance	10.0	10.5	10.3	15.8	
Communications group	4.3	7.1	5.7	9.8	

The results for the Communications group for 2002 and the first half of 2003 have been restated to reflect the transfer of our field test activities from the Performance Analysis to the Service Assurance division.

As anticipated, the telecoms market remained challenging throughout 2003. Spirent Communications' turnover was down 24 per cent compared with 2002, but turnover for the second half of 2003 was up 5 per cent sequentially compared with the first half due to modestly improved levels of activity. Compared with 2002, operating profit for 2003 was down 55 per cent, however operating profit in the second half of 2003 improved by 71 per cent sequentially over the first half. Return on sales for the group for 2003 reduced to 5.7 per cent from 9.8 per cent in 2002.

2003 saw further reductions in capital spending of some 20 per cent by our network equipment manufacturer (NEM) and network service provider (NSP) customers. Against this background we have been able to maintain our market position by providing customers with the products and services they need to support the development of next-generation equipment and packet-based services and by enabling them to deploy and assure these technologies more economically and efficiently. Quarterly order intake in the Performance Analysis division has increased sequentially since the first half reflecting the modest improvement in activity levels and the normal seasonality of the business. Due to the lower levels of spending and change in ordering patterns by the US incumbent local exchange carriers (ILECs) the Service Assurance division's order book declined from $59.2 million (£36.8 million) at the end of 2002 to $44.4 million (£25.0 million) at the end of 2003.

We have remained committed to our investment in product development throughout the industry downturn and this year was no exception with £57.8 million or 24 per cent of Spirent Communications' turnover (2002 £66.2 million and 21 per cent) being invested to maintain our position in important next-generation technologies. Key areas where we have been investing include: broadband access technologies, such as gigabit and 10-gigabit Ethernet and digital subscriber line (DSL); voice-over-IP (VoIP); Internet Protocol version 6 (IPv6); Internet infrastructure and web security testing; and third generation (3G) wireless technologies. Our continued investment in product development resulted in the launch during the year of a number of new products which were the first of their kind or capability. We received a number of awards and industry recognition of our achievements with our Avalanche™ and Reflector™ 2200 products and a 10-gigabit Ethernet test module being among *InfoWorld* magazine's readers' preferred products for 2003. Our field test products were also winners in the 'Customer Delight' category in the BT Investing in Excellence Awards 2003.

Our 'Advanced Test Program' continues to help maintain our position at the leading edge of technology focusing on test trials run by university and independent industry test labs and the technical media. These activities support the strength of our 'Tested with Spirent' designation which customers use to demonstrate that

Notes

Operating profit, return on sales and headline earnings per share are used by the Group as key measures of operating performance and are stated before the effect of goodwill amortisation and exceptional items so that period on period comparisons are not distorted. Free cash flow, cash flow before acquisitions, disposals, equity dividends and financing, is also a key measure.

Results for 2002 and the first half of 2003 have been restated to reflect the effect of adopting FRS 17 and UITF 38.

Operating profit and return on sales as referred to in the text are stated before goodwill amortisation and exceptional items.

Chief Executive's Operating Review continued

their products have been part of one of the industry's most respected independent test programmes. Customers are increasingly demanding more consulting, training and support services due to constraints on their resources and we have responded to this need by offering a comprehensive suite of services under the ServiceEdge™ name.

We have continued to broaden our presence internationally. 2003 saw the European launch of our web applications and security testing products as well as wireless test systems for customers who are using wideband CDMA (W-CDMA) technology for the advancement of 3G services and networks. We continued to make progress in Asia where we are associated with some of the leading telecoms technology institutes and companies.

Our strategy continues to be to advance next-generation technologies and services; to deliver integrated, easy-to-use, end-to-end customer solutions; to increase our presence internationally; and to extend our products into web services and applications testing for the enterprise sector. By remaining at the forefront of key emerging communications technologies and by leveraging the benefits of combining our test and monitoring capabilities we believe we are well placed to serve the future needs of our customers.

Performance Analysis
Our Performance Analysis division develops solutions for testing the performance, functionality and conformance to industry standards of network equipment and networks themselves. This is achieved by simulating voice and data traffic and large-scale networks, and by creating real-world conditions in the laboratories of NEMs, NSPs, enterprises and government departments. By subjecting equipment and networks to impairments and stresses customers can ensure that the equipment or services they are about to launch or deploy will actually withstand real-world conditions thus reducing the commercial risks inherent in developing or adopting new products.

Due to the drop in spending by NEMs and NSPs globally during 2003, turnover in this division fell 19 per cent compared with 2002 to £148.7 million. Operating profit for 2003 was down 56 per cent compared with 2002 at £4.4 million. However our performance in the second half of 2003 showed an improvement with turnover up 9 per cent and operating profit up by £3.4 million due to a modest increase in activity levels in the latter part of the year. Return on sales for the second half recovered to 5.0 per cent, but was 3.0 per cent for the year compared with 5.4 per cent in 2002.

Our customer base for this division remains broadly spread and includes some of the largest NEMs and NSPs worldwide. We have benefited from the presence we established in China in 2002 and our increased sales and marketing efforts throughout Asia. In Europe, a continuing focus on the development and roll-out of DSL networks and services by customers helped sales of our broadband access test equipment and we saw encouraging interest in our web applications and security testing products.

While turnover for the year reduced overall we saw improvements in sales from our web applications and security testing activities and an increase in sales to the government sector. Growth in data traffic continues to drive the need for increased broadband access and our broadband access solutions continue to represent the largest part of this division's sales. We have been able to capitalise on the trend towards VoIP and have launched several new products that are aimed at this growth area. Interest in IPv6, which provides broader address space for the next phase of the Internet, was also good this year as the technology moves closer to deployment.

In the wireless space, we are benefiting from our acquisition in 2002 of W-CDMA expertise and have built on our established reputation in CDMA-2000 where we remain a market leader in the US. During the year we launched a W-CDMA network emulator for testing the interoperability of mobile handsets and networks and a version of our successful CDMA position location test system which we plan to extend to support W-CDMA. In the CDMA sector, the ability to test applications and services has become more of a focus and we launched several products in 2003 aimed at testing the performance of mobile data services and enhanced voice services such as 'push-to-talk'.

Service Assurance
Our Service Assurance division provides hardware and software systems that enable NSPs to test and assure remotely the broadband leased line, DSL, wireless, optical and managed IP services they provide to residential and enterprise customers. Our products include operations support systems (OSS) software, remote test probes, network access systems and consulting and technical services. We also supply portable systems for fault identification and testing of copper telephone lines in the field. Our systems help service providers cut their operational costs by automating and centralising their network testing and service assurance processes, reducing the need for expensive physical intervention and mitigating against poor customer service with faster response times to problems.

We are a leading provider of monitoring systems to the US ILECs' continuing broadband service roll-out programmes. However during the year our core customers continued to reduce their overall capital spending and as a result sales were adversely affected with turnover for the division declining 30 per cent to £91.7 million compared with £131.4 million in 2002. While we continue to be a leading supplier of monitoring systems for DSL services, systems for digital leased line services aimed at the enterprise market remain the largest part of our Service Assurance business, accounting for approximately half the sales in 2003. Operating profit of £9.4 million for 2003 was down 55 per cent for the year but was better than anticipated in the second half at £4.8 million. Return on sales for 2003 fell to 10.3 per cent from 15.8 per cent in 2002. In order to capitalise on potential synergies we have transferred our field test business into the Service Assurance division. At the end of the year actions were taken to extend our existing capabilities in the IP services sector which we believe represents an important growth opportunity.

During the year we expanded our product range with test probes and OSS for next-generation DSL variants which allow higher speed broadband access for the residential and enterprise markets. We also announced a development effort and strategic partnership with Alcatel under which Spirent's test technology will be incorporated into Alcatel's broadly deployed ASAM (Advanced Services Access Manager) products in North America. A number of our existing customers have announced the introduction of next-generation IP services and we have won initial orders in this market for gigabit Ethernet, managed local area network and IP virtual private network services. We intend to expand our capabilities and product functionality in this area in the future. We have also extended our product line through the launch of FieldOp™, an operations management solution that integrates service assurance and workforce management capabilities onto a single platform for use in the field.

In order to assist customers with the integration, acceptance and operation of hardware and software sourced from various suppliers, we continue to partner with providers of other network devices and OSS to validate the interoperability of our products.

We believe there is opportunity to expand this division's product offering internationally and we have made encouraging progress in Asia where we are currently in trials with some of the largest NSPs in the region and have already won initial orders. We continue with our marketing efforts in Europe.

Network Products

£ million	First half 2003	Second half 2003	2003	2002	Annual increase %
Turnover	85.9	88.5	174.4	164.7	6
Operating profit	8.1	8.6	16.7	15.0	11
Return on sales (per cent)	9.4	9.7	9.6	9.1	

Our Network Products business provides customers with innovative solutions for fastening, identification, protection and connectivity in electrical and communications networks under the global brand HellermannTyton. Our ability to work closely with customers to develop value added products allows us to maintain our competitive position, gain new customers and enables us to benefit from any future recovery in our markets.

The business delivered a sound performance in 2003 with turnover up 6 per cent at £174.4 million and operating profit up 11 per cent at £16.7 million compared with 2002. Turnover in the second half of 2003 was up 3 per cent on a sequential basis which is a positive indicator given that the second half of the year is usually weaker than the first. Return on sales at 9.6 per cent in 2003 was up over the previous year.

The main improvement in turnover over 2002 came from our European automotive sales where we have increased market penetration. Sales in Japan by our associate company were strong and our South American businesses saw a recovery in turnover and continue to be profitable.

The automotive sector remains our most important with sales to this market accounting for 34 per cent of turnover in 2003 compared with 30 per cent in 2002. Despite global vehicle production declining modestly year on year, the trend to replace metal parts with plastic and the increasing complexity of electronic systems within cars has resulted in more of our products being specified on new vehicle platforms than on their predecessors.

Our range of automated systems, including Autotools, continues to generate pull-through sales of the high volume consumables required, such as cable ties and identification labels and markers. We now have a broad installed base of these systems at cable and wire harness manufacturers worldwide.

Chief Executive's Operating Review continued

Sales of our local area network connectivity products were lower in the UK compared with 2002 reflecting the continued decline in the market but we were able to continue to increase sales in the US. The market for our broadband products remained depressed due to continuing cuts in spending by telecoms service providers worldwide.

Our focus on customer support and service is an important aspect of our success and we were delighted to be recognised as a Gold Supplier for Royal Mail who we supply via an advanced e-procurement system.

Systems

£ million	First half 2003	Second half 2003	2003	2002	Annual increase %
Turnover	21.0	25.6	46.6	43.0	8
Operating profit	2.5	3.3	5.8	4.4	32
Return on sales (per cent)	11.9	12.9	12.4	10.2	

Figures in the above table relate to ongoing businesses only

On an ongoing business basis the Systems group saw an 8 per cent increase in turnover to £46.6 million and a 32 per cent increase in operating profit to £5.8 million compared with 2002. The improvement was mainly in PG Drives Technology, our power controls business. During 2003 we completed the divestment of our Aviation Information Solutions (AIS) businesses from within the Systems group's aerospace activities for net proceeds of £3.2 million in cash.

PG Drives Technology is a leading supplier of power control systems for powered wheelchairs and mobility scooters and while we continue to experience pricing pressure in the market we have been successful in mitigating this through lower-cost designs, materials cost reductions and increased volumes. The continuing success of our established VSI systems for powered wheelchairs and our S-Drive systems for mobility scooters enabled us to increase customer penetration and win new business in the mobility vehicles market during the year.

During 2003 we also made further progress in the small industrial vehicles market, with the I-Drive and TRIO+ products launched this year being well received by customers, and we intend to make further investments to grow this part of the business.

In our aerospace business, sales of GOLD™, a leading contractor logistics support software system to the military market, were up compared with last year largely due to increased sales to leading defence manufacturers. The continued weak conditions in the civil aviation market affected sales of AuRA™, our ground-based maintenance, repair and overhaul software system.

Dividend

As advised last year we will not pay a dividend in respect of the year to 31 December 2003. Future dividend policy will be kept under review by the Board and will depend on the trading outlook and the availability of cash and distributable reserves. Our borrowing terms prohibit us from paying a dividend until certain financial requirements are satisfied.

The Board

In October 2003 we announced the appointment of Andrew Given as a non-executive director. Andrew was previously Deputy Chief Executive of Logica plc and currently serves as the senior independent non-executive director on the boards of VT Group plc and Spectris plc. We also announced the appointment of Fred D'Alessio to the Board as a non-executive director in January 2004. Fred has substantial experience in telecoms having spent over 30 years in the industry. Their experience of international technology companies will be of great benefit to the Group and we look forward to working with them.

Paul Cheng retired from the Board with effect from the end of 2003 and we would like to take this opportunity to thank him for his valuable contribution during his tenure as a non-executive director.

It was announced on 25 February 2004 that I had informed the Board of my intention to retire as Chief Executive of Spirent with effect from the end of June 2004. A formal process to find a successor is under way. Since joining the Company in 1995 I have worked to develop Spirent from a broadly based electronics group into a focused high technology company. Spirent now has three global operating groups with leading positions in their served markets. The Company has a strong management team, a highly experienced Board and is in good shape to move forward so I believe now is the right time to hand over to a successor to enable Spirent to continue along its strategic path.

Our People

In yet another challenging year our employees have made great efforts to generate sales and control costs. It is proof of our employees' determination and commitment that we have been able to maintain our leading positions in the markets we serve. I would like to thank all our people for their contribution to these results and it is because of their continued efforts that we can look to the future with optimism.

Corporate Social Responsibility

A strong sense of corporate social responsibility (CSR) has always been part of the Spirent culture. We understand that our reputation and future success in part rest on our attitudes and responsibility to the people around us and the world in which we live and we take these responsibilities seriously. Best practice in relation to CSR is continually evolving but current trends look for annual improvements in CSR systems, monitoring and reporting and we have made progress during the year in a number of areas including the publication of our Ethics and Environmental Policies on the Spirent website.

Outlook

We have seen a satisfactory start to 2004, which may indicate the beginning of a recovery in telecoms capital spending, although we remain cautious in relation to its extent. We have positioned our Performance Analysis activities to benefit from increases in customer investment in next-generation equipment. In the Service Assurance division, performance will pick up as and when next-generation networks and services become more widely deployed. Our Network Products group is expected to benefit from any strengthening in its markets.

Nicholas K Brookes
Chief Executive

Financial Review

Results

£ million	First half 2003	Second half 2003	2003	2002
Turnover				
Ongoing businesses	224.4	237.0	461.4	523.1
Divestments	4.8	–	4.8	35.8
Group	229.2	237.0	466.2	558.9
Operating profit				
Ongoing businesses	15.7	20.6	36.3	50.2
Divestments	(0.3)	–	(0.3)	0.2
Group	15.4	20.6	36.0	50.4
Return on sales (per cent)				
Group	6.7	8.7	7.7	9.0

Turnover for 2003 of £466.2 million was 17 per cent lower than 2002. Turnover from ongoing businesses of £237.0 million for the second half of 2003 improved by 6 per cent over the first half reflecting modestly improved levels of activity in the latter part of the year.

Operating profit before goodwill amortisation and exceptional items was £36.0 million for the year, down 29 per cent on 2002. Operating profit for ongoing businesses for the second half of 2003 improved by 31 per cent over the first half reflecting the modest increase in activity and the effect of cost savings.

Return on sales for the year was lower at 7.7 per cent, 1.3 percentage points below 2002. Return on sales in the second half of 2003 showed an improvement over the first half of 2.0 percentage points.

In 2003 North America accounted for 56 per cent of turnover and 36 per cent of operating profit by source compared with 66 per cent and 60 per cent, respectively, in 2002. Europe accounted for 36 per cent of turnover and 60 per cent of operating profit by source compared with 28 per cent and 38 per cent, respectively, in 2002.

By market, turnover reduced in North America by £93.1 million but was maintained in Europe and Asia where, as a result, combined turnover increased from 43 per cent in 2002 to 51 per cent of the total for 2003.

The weakness of the US dollar in the second half of the year has been offset to some extent by the strength of the euro throughout 2003. The effect of currency translation for 2003 compared with 2002 was to reduce turnover by £16.6 million and operating profit by £0.2 million. In relation to profit before taxation, goodwill amortisation and exceptional items, currency translation resulted in an increase of £0.7 million as our interest costs are largely denominated in US dollars and a higher proportion of profits this year were denominated in euros.

We have used the following average exchange rates for the year, $1.64: £1 (2002 $1.51: £1) and €1.45: £1 (2002 €1.59: £1).

Product development spend for the Group for 2003 was £66.0 million, representing 14 per cent of turnover compared with £77.7 million in 2002, also 14 per cent of turnover.

Earnings before interest, taxation, depreciation, amortisation and exceptional items (EBITDA before exceptional items) was £65.3 million (2002 £84.0 million).

Net interest payable, excluding the exceptional interest expense, reduced from £12.3 million in 2002 to £9.3 million due to the reduction in net debt. A finance expense of £1.5 million has been charged as a result of the implementation of FRS 17 (see Changes in Accounting Policies below).

The Group's effective tax rate for 2003 was 7.7 per cent compared with 18.3 per cent in 2002 being significantly reduced by a prior year adjustment of £6.0 million recognising the utilisation of losses and the release of provisions. Excluding this the effective tax rate was 27.7 per cent.

Headline earnings per share was 2.31 pence compared with 3.36 pence in 2002.

Reported profit before taxation was £0.3 million after charging exceptional items of £20.0 million compared with a loss of £1,023.4 million in 2002 after charging exceptional items of £1,013.3 million. Reported loss per share for 2003 was 0.05 pence (2002 loss 113.90 pence).

At 31 December 2003 net debt reduced significantly to £57.5 million from £161.8 million at the end of 2002 due to cash generation and the proceeds of divestments of non-core businesses. The weak US dollar benefited the net debt position on translation by £6.1 million.

At 31 December 2003 Spirent was well within its existing borrowing covenants. Net interest cover was 3.7 times (covenant ratio: greater than or equal to 2.5 times) and net debt to EBITDA was 0.96 times (covenant ratio: less than or equal to 2.25 times).

Notes

Operating profit, return on sales and headline earnings per share are used by the Group as key measures of operating performance and are stated before the effect of goodwill amortisation and exceptional items so that period on period comparisons are not distorted. Free cash flow, cash flow before acquisitions, disposals, equity dividends and financing, is also a key measure.

Results for 2002 and the first half of 2003 have been restated to reflect the effect of adopting FRS 17 and UITF 38.

Operating profit and return on sales as referred to in the text are stated before goodwill amortisation and exceptional items.

Changes in Accounting Policies

We have implemented Financial Reporting Standard (FRS) 17 'Retirement Benefits' at 31 December 2003 to bring us in line with latest UK GAAP and to move towards the adoption of International Financial Reporting Standards in 2005. Prior year amounts have been restated to reflect the change in accounting policy. Under FRS 17 profit before taxation for 2003 is £0.6 million higher than it would have been under Statement of Standard Accounting Practice (SSAP) 24. Under FRS 17 £1.5 million of the pension charge for 2003 has been classified as other finance expense. Actuarial changes are recorded in the statement of total recognised gains and losses. A pension fund liability net of deferred taxes at 31 December 2003 of £35.2 million (2002 £46.2 million) is reflected in the Group and Company balance sheets.

The Group has also implemented Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts' which requires that the cost of own shares, previously reported as a fixed asset investment, be shown as a deduction from shareholders' funds. A prior year adjustment has been made to reflect this change.

Exceptional Items

Operating Exceptional Items

In 2002 we took a large exceptional charge for goodwill impairment of £923.3 million which was principally in relation to the Communications group. After carrying out the appropriate valuation exercises, no further impairment charges are required in 2003.

Operating exceptional items of £7.5 million have been charged in the period and are detailed in the table below (excluding exceptional interest and taxation).

Operating exceptional items include £2.3 million in respect of the renegotiation of our borrowing terms (see Financing below) and £3.8 million for the cost reduction actions within the Communications group taken mainly in the first half year. We were able to sublet two of our vacant locations and an amount of £1.8 million has been released in respect of these. Further properties were vacated in 2003 that gave rise to a charge of £1.0 million, resulting in a net release of £0.8 million for lease provisions in the year. In addition, a charge of £2.2 million has been taken for tangible fixed asset write-downs connected with the vacated space.

The cash cost of operating exceptional items was £10.9 million in 2003 (2002 £7.7 million).

Non-operating Exceptional Items

Divestments

The divestment of our interests in the WAGO joint venture and of AIS from within the Systems group resulted in a net profit of £3.6 million after charging £2.6 million of goodwill previously written off to reserves and now reinstated in accordance with FRS 10.

Interest

An exceptional interest cost of £16.1 million has been charged in 2003. This charge comprises the make-whole amount and related bank fees of £14.3 million charged and previously reported in the first half of the year, together with a further make-whole amount of £1.8 million accrued in respect of the further prepayment of loan notes in February 2004 negotiated at the end of 2003 (see Financing below).

The cash cost of the exceptional interest expense was £13.7 million in 2003.

Taxation

The exceptional tax credit of £1.7 million is in respect of the tax effect of the exceptional items in 2003. In 2002 we reported a net exceptional tax charge of £18.5 million which was principally due to the re-evaluation of the recovery of deferred tax assets under FRS 19. We continue not to recognise deferred tax assets as there is currently insufficient evidence to support recognition under accounting standards, other than in relation to the pension fund deficit in 2003.

Financing

As previously reported, in order to provide the Group with an increase in the level of headroom available in relation to certain of the financial covenants, amendments to the terms of the loan notes and syndicated bank facility were agreed in March 2003. These amendments were conditional on the divestment of our interests in the WAGO joint venture and the application of the net proceeds to partially pre-pay the loan notes. On completion of the divestment of WAGO in April 2003, £47.0 million of the loan notes were pre-paid and an associated make-whole amount of £12.5 million was paid. Following this prepayment $144.2 million of loan notes remained outstanding.

At 31 December 2003 Spirent was nil drawn on its committed bank facility of £60 million and we held £37.6 million of cash. Given the Group's cash generation in 2003 we considered that our £60 million bank facility was in excess of our business requirements. Consequently at the end of 2003 we entered into negotiations with a small group of lending banks and agreed a £30 million, 364-day working capital

Other Operating Exceptional Items

£ million	2003	2002
Finance renegotiation costs	2.3	–
Restructuring costs	3.8	8.6
Tangible fixed asset write-downs	2.2	3.6
Lease provisions	(0.8)	20.2
Stock provisions	–	4.4
Acquisition retention bonuses	–	4.8
	7.5	41.6

Financial Review continued

facility with a six month term-out option which became effective on 18 February 2004 to replace the £60 million facility. We have applied some of our excess cash, including the net proceeds from the disposal of AIS, to make a further prepayment of the loan notes to reduce the cost of borrowing going forward. A further partial prepayment of $14.4 million (£8.1 million) of loan notes was made on 18 February 2004 and an associated make-whole amount of $3.3 million (£1.8 million) has been incurred. This amount and the costs associated with this transaction have been accrued in the 2003 financial year.

Cash Flow

Spirent continued to generate cash in all its operating groups during 2003. Operating cash flow of £68.2 million was 11 per cent down on the previous year of £76.9 million. Cash flow before acquisitions, disposals, equity dividends and financing, or free cash flow, before the cash cost of exceptional items, was higher at £62.8 million compared with £44.1 million for 2002. The second half of the year was particularly strong in cash generation terms with £39.9 million of free cash flow before exceptional items being generated.

Net interest payments of £9.5 million, excluding the exceptional interest expense, were lower by £1.3 million compared to the previous year due to lower levels of debt.

We received tax refunds net of tax charges of £8.9 million in 2003 compared with a net tax payment of £4.2 million in 2002. Most of these refunds fell into the second half of the year and were due to the carry back of prior year tax losses in the US.

We have substantially reduced our capital expenditure over the last two financial years and in 2003 spent a net £15.8 million compared with £25.8 million in 2002. This rate of capital spending is well below the depreciation charge of £29.3 million. We are planning to increase the rate of capital spending in 2004 to some £30.0 million largely in respect of renewing and increasing capacity in the Network Products group.

Disposals and Acquisitions

As previously reported, we realised £58.8 million in net proceeds from the sale of WAGO in April 2003 and £3.2 million from the sale of AIS in June 2003.

We did not make any acquisitions in 2003. In August 2002 we completed the acquisition of Caw Networks, Inc. (Caw) for an initial cash consideration of $49 million with a provision for deferred consideration of up to $60 million dependent on certain technical and financial milestones being met. Caw has achieved a certain level of the earn-out targets. The Company has elected to satisfy the deferred consideration due through the issue of new Spirent shares and has provided for a liability of £2.7 million in respect of this.

Pension Fund

The valuation of the defined benefit UK pension plans at 1 April 2003 showed a funding deficit of £50.7 million. In order to comply with the minimum funding requirements Spirent will make annual pension contributions of £3.5 million commencing on 1 July 2004 and has increased the rate of employer pension contribution from 13.4 per cent to 16.0 per cent of pay with effect from 1 January 2004.

As previously discussed we have implemented in full FRS 17 'Retirement Benefits'. The funding position at 31 December 2003 under FRS 17 has improved as a result of the performance of equity markets since the valuation date and the deficit has reduced to £43.4 million.

Spirent has a contractual liability, as disclosed in our annual reports, to pay Nicholas Brookes an unfunded unapproved retirement benefit (UURB) as agreed when he joined the Company in 1995. At 31 December 2003 the provision in respect of this UURB stood at £4.5 million. Conditionally upon him remaining in employment until 30 June 2004, Mr Brookes and the Company have agreed that he will commute all of his pension entitlement under the UURB in exchange for a lump sum payment of £3.7 million in cash, payable to him on 1 July 2004.

Treasury Management and Financial Instruments

The treasury function's principal objective is to reduce financial risk and to ensure that sufficient liquidity is available to the Group. It operates within a framework of policies and guidelines laid down by the Board that are subject to regular review.

Objectives, Policies and Strategies

The major treasury activities encompass raising finance and managing the Group's interest rate and currency exposures. Financial instruments including derivatives are used to manage these exposures when deemed appropriate. Speculative treasury transactions are expressly forbidden.

Financing

The Group's policy is to finance its operations through a combination of retained earnings and external financing raised principally by the parent company. Debt is largely sourced from the syndicated bank market and the US private placement market.

Free Cash Flow

£ million	First half 2003	Second half 2003	2003	2002
Operating cash flow	28.6	39.6	68.2	76.9
Add back cash cost of operating exceptional items	8.2	2.7	10.9	7.7
Interest and other	(19.0)	(4.1)	(23.1)	(10.5)
Add back cash cost of exceptional interest expense	13.7	–	13.7	–
Taxation	(2.3)	11.2	8.9	(4.2)
Capital expenditure	(6.3)	(9.5)	(15.8)	(25.8)
Free cash flow before the cash cost of exceptional items	22.9	39.9	62.8	44.1

At 31 December 2003, the amount of private placement debt was $144.2 million, equivalent to £81.0 million at 31 December 2003 exchange rates. These notes have maturity dates of 2006 and 2009.

Committed bank facilities amounted to £60 million at 31 December 2003 of which there were no amounts drawn. These facilities were due to mature in July 2004 but in February 2004 were replaced as previously discussed with a 364-day bank facility of £30 million. This facility has a six month term-out option.

Further details on the sources of funding are set out in note 30 to the Accounts.

Interest Rate Management

The objective of our interest rate management policy is to reduce the volatility of the interest charge. Interest rate exposure is managed through an optimum mix of fixed and floating rate debt and the use of interest rate swaps.

At 31 December 2003 the Group's borrowings were composed of 57 per cent of fixed rate debt. This excludes $72.1 million of private placement notes which have been swapped into floating rates through the use of an interest rate swap which terminates on 23 November 2009. The swap is callable at the counterparties' option at six monthly intervals.

The interest profile of Spirent's cash and borrowings at the year end is detailed in note 30 to the Accounts.

Our normal interest charge was £9.3 million (2002 £12.3 million). A one percentage point movement in short term US dollar interest rates based on the year end position would impact profit before tax by approximately £0.2 million.

The fair value of borrowings and cash at the year end are compared to book value in note 30 to the Accounts.

Currency Management

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

Group treasury, by means of forward foreign exchange contracts, carries out the majority of the transactional hedging activity.

Translation exposures of the operating results or the net assets of our overseas subsidiaries are not actively hedged since these are an accounting, not a cash, exposure. To provide a partial hedge we match, as far as possible, the currency of our borrowings with the currency profile of operating results and net assets.

Details of the currencies of borrowings are set out in the table below.

At the year end the balance sheet translation exposure was 61 per cent hedged (2002 70 per cent).

During the year sterling strengthened against the US dollar, the main currency to which we are exposed.

Summary

As stated last year, it was our intention during 2003 to focus on the organic development of the business and cash generation in order to reduce our net debt, which we have been successful in achieving. These will continue to be our key operational and financial objectives for 2004.

E G Hutchinson

Eric G Hutchinson
Finance Director

Net Borrowings by Currency and Tenor

£ million	US dollar	Sterling	Euro	Other	2003 Total	2002 Total
Cash and current asset investments	18.2	8.9	4.6	5.9	37.6	83.6
Less: borrowings repayable in one year	(0.4)	–	(0.9)	(0.5)	(1.8)	(1.8)
Net liquid funds	17.8	8.9	3.7	5.4	35.8	81.8
Less: borrowings repayable after one year	(83.8)	–	(9.4)	(0.1)	(93.3)	(243.6)
Net borrowings	(66.0)	8.9	(5.7)	5.3	(57.5)	(161.8)

Corporate Social Responsibility Statement

We recognise that our social, environmental and ethical conduct has an impact on our reputation as a corporate entity. We take our corporate social responsibilities (CSR) seriously and are committed to advancing our policies and systems across the Group to ensure we address and monitor all aspects of CSR that are relevant to our business. These include good ethical behaviour, concern for employee health and safety, care for the environment and community involvement.

We recognise that it is important to maintain a productive and open dialogue with all parties who have an interest in our activities including our shareholders, customers, suppliers and employees. We encourage feedback from employees, conduct regular customer satisfaction surveys, monitor supplier performance and have an established investor relations programme. We welcome communication from all interested groups and maintain our website as a conduit for providing information and for contacting us.

The Board takes ultimate responsibility for Spirent's social responsibilities and is committed to developing and implementing appropriate policies while adhering to a fundamental commitment to create and sustain long term value for shareholders. As a Group driven largely by technological innovation our main assets are the talents and skills of the people we employ. Consequently, the Board does not believe that, to date, the activities of the Group present any significant environmental risks. We have established a CSR Committee to coordinate Group-wide corporate responsibility efforts which is chaired by the Chief Executive.

Ethics

Spirent expects that all of its business is conducted in compliance with high ethical standards of business practice. We apply these standards to all dealings with employees, customers, suppliers and other stakeholders.

Following a review during 2003, the Group's Ethics Policy was revised and a more comprehensive policy has been approved by the Board. The revised policy is available on the Group's website at www.spirent.com/ethics. Our Ethics Policy has been developed to ensure that the Company's business is conducted in adherence with high ethical and legal principles and sets standards of professionalism and integrity for all employees and operations worldwide. The Ethics Policy also contains provisions for 'whistleblowing' whereby employees may report, in confidence, suspected wrongdoings.

Appropriate ethical behaviour continues to be reviewed as part of the Group's internal control process on an ongoing basis.

Employees

The Group aims on a global basis to attract, retain and motivate the highest calibre of employees within the context of a decentralised operating structure that facilitates individuality and initiative.

The Group is committed to providing employees with a continuing learning and development opportunity to fulfil their potential and this process is managed to align development with the Group's strategic and business units' goals and objectives. Appropriate training and education programmes coupled with links to the education sector at secondary, undergraduate and post-graduate levels reinforce this commitment to learning and development.

Recognising the dynamic environment in which our businesses operate we aim to deliver training and development which is relevant to the way in which our employees work. To reflect this, parts of our business have invested significantly in e-learning.

Management development and succession planning are processes which are recognised as being critical to the future success of the business and are managed accordingly. These processes are reinforced through performance management and remuneration systems which are designed to support a high performance culture.

Given the criticality of intellectual property and innovation to Spirent's future success it is important that appropriate career paths are developed for technical staff that can operate in parallel with more traditional management career paths. Initiatives such as our 'Technical Ladder' and 'Engineering Fellowship Programme' help to facilitate this.

Each business unit within the Group is committed to providing equality of opportunity to all existing and prospective employees without unlawful or unfair discrimination. Full support is given to the employment and advancement of disabled persons. The Group's Ethics Policy makes it clear that employee discrimination or harassment of any kind will not be tolerated.

The Group places significant emphasis on customer care and service and recognises the importance of appropriate employee training that is required to achieve this.

Reflecting the overall philosophy of decentralisation, local business unit management is responsible for developing and implementing arrangements for employee information, consultation, communication and involvement which best meet their own particular needs.

Similarly, the importance of two-way communication is recognised particularly as it relates to the business and its performance. A variety of tools are utilised to achieve this including senior management briefings, 'all-hands' meetings, the regular distribution of an in-house magazine, *viewpoints*, and increasing use of new media, utilising both internal intranets and external website tools such as webcasts.

Health and Safety

The Chief Executive is the director appointed by the Board to have responsibility for health and safety and environmental performance for the Group.

The Group Health and Safety Policy places responsibility for the management of health and safety on the local business unit management, who are supported by the Group internal control team and local external advisers, where necessary. All business units are therefore required to appoint a senior individual who is responsible for ensuring the business unit conforms to local health and safety statutory regulations as well as Group policy. All business units are required to produce and publish to employees a written health and safety policy.

Spirent's 'Operational Excellence Programme', which is further described in the Directors' Statement on Corporate Governance on pages 18 to 20, continues to further the corporate objective of continuous improvement in the area of health and safety.

We compile an internal annual report on our health and safety performance on the basis of a questionnaire completed by all our business units. For 2003 we improved our performance over the past two years and in particular:

– we saw an improvement in ill health/long term sickness levels with three cases reported compared with four in 2002 and nine in 2001;

– we saw a reduction in accident frequency and severity;

– we had 456 incidents that required on-site First Aid, a 7 per cent reduction compared with 2002 and 20 per cent down on 2001;

– we had one accident that required hospitalisation compared with none in 2002 and three in 2001.

Independent external reviews of the Company's health and safety performance are conducted annually. Regular designated health and safety awareness training programmes, particularly at our manufacturing sites, are also carried out.

The Group's health and safety performance and significant risk exposures are reviewed regularly by the Operations Management Team, twice a year by the Audit Committee and annually by the Board.

Environmental

Spirent recognises the importance of good environmental practice and the impact that its operations may have on the environment. The main aim of Spirent's Environmental Policy is to comply with environmental legislation in all jurisdictions in which we operate and to adopt responsible environmental practices. The full text of our Environmental Policy is available on our website at www.spirent.com/environment.

Business units are required to comply with Group policy and local statutory regulations and are encouraged to set their own environmental targets. An annual environmental questionnaire is completed by each business unit which demonstrates their environmental performance.

All the Network Products group's manufacturing sites worldwide have achieved ISO 14001 accreditation. In addition, various sales and distribution locations worldwide are also working towards achieving this accreditation. Whilst ISO 14001 accreditation is just beginning to be recognised in the US, we expect that our Communications group will introduce formal environmental management systems and seek ISO 14001 accreditation over the next few years. In this operating group a large part of the manufacturing function is outsourced within the US.

In the Communications group the majority of sites have ISO 9001 accreditation, and in the case of the Service Assurance division also TL-9000 accreditation. Within our Systems group, PG Drives Technology is also accredited to ISO 9001.

All Group manufacturing business units closely monitor energy consumption and where possible have installed light sensors and temperature control devices to ensure efficient use of energy. During 2003 the approach to ensuring efficient energy use has been extended to sales office business units.

A large proportion of our manufacturing business units design and manufacture their products to take account of the recycling and disposal of the product at the end of its life cycle.

In 2003 our business units continued to report improvements in environmental performance in meeting goals for reducing waste, greater recycling and reducing energy consumption. There also exist programmes which aim to reduce the amount of waste to landfill by increasing the volume of recycling.

Remediation work at a vacated site, where historic activity was deemed to have led to minor land contamination, is continuing in cooperation with the local statutory body.

Group performance and risk exposure reviews are undertaken in parallel with those for health and safety as described above.

Community

Spirent's policy is to be a responsible partner within the local communities in which we operate by supporting community initiatives and local charities. We continue to support our local communities through cash donations, gifts in kind and employee skills, talent and time and actively encourage our employees to participate in programmes which support local charitable projects. In 2003 Spirent made charitable donations of £63,000 (2002 £90,000).

We understand that local communities are important to our business and through our Charitable Donations Policy we encourage each business unit to develop programmes which reflect the particular needs of their communities. Our businesses provide support through a number of activities including fund raising and volunteering.

We support local education through several initiatives including offering work experience, training and internships for students and providing equipment to local schools. In the US we have continued to support Junior Achievement where our employees volunteer to teach business related subjects to local children and we have seen an increase in the number of staff who participate in this programme. In the UK we continue to support The Duke of Edinburgh's Award scheme, sponsor the Best Electronic Engineering Student category at the annual Science, Engineering & Technology Student of the Year Awards and are actively involved in the Young Enterprise scheme.

Given we are an international group, we aim to provide assistance to local organisations in all the regions in which we operate. In Singapore we installed a communications cabling system at the Singapore Council of Women's Organisations and in California we helped establish a computer training lab at a local juvenile detention centre to help youths find jobs in computer related fields.

Spirent encourages employees to undertake fund raising for local concerns. Through activities such as food drives and sponsored events, our businesses help organisations which provide food, clothing and other assistance to disadvantaged children and families around the world.

We continue to encourage all our employees to find new ways to have a positive impact on the communities in which we live and work.

Board of Directors
and Operations Management Team

Board of Directors

Executive Directors

1. Nicholas K Brookes (56) UK resident [N]
Chief Executive
Nicholas Brookes was previously a Vice President of Texas Instruments Inc from where he joined the Board as Deputy Chief Executive in 1995, becoming Chief Executive in 1996. He is also the senior independent non-executive director of De La Rue plc and a non-executive director of Corporacion Financiera Alba, S.A. Mr Brookes intends to retire as Chief Executive and as a director of the Company at the end of June 2004.

2. My E Chung (51) US resident
Group President, Spirent Communications
My Chung was appointed to the Board in 2001 and has specific operating responsibility as Group President, Spirent Communications. Prior to joining the Company in 1998 he spent 11 years with Telecommunications Techniques Corporation (TTC), most latterly as Division President.

3. Eric G Hutchinson (48) UK resident
Finance Director
Eric Hutchinson was appointed to the Board as Finance Director in 2000 having previously been responsible for all financial reporting and control within the Group. He joined the Company in 1983, was appointed Chief Accountant in 1987 and became Head of Corporate Accounting in 1997.

Non-executive Directors

4. John P Weston CBE* (52) UK resident [R N]
Chairman
John Weston joined the Board and was appointed Chairman in 2002. He is also Chairman of the Nomination Committee. He was Chief Executive of BAE SYSTEMS plc from 1998 to 2002 and has over 30 years' senior experience in aerospace, engineering and related technology industries. He is also Chairman of Acra Controls, a small Dublin based company, Inbis Plc, a design engineering consultancy and Deputy Chairman of the University for Industry.

5. James A D Wyness* (66) UK resident [A R N]
James Wyness was appointed to the Board in 1979. Mr Wyness is the senior independent non-executive director and was Chairman of the Audit Committee until the end of 2003. He was formerly Senior Partner of Linklaters, one of the Company's UK legal advisers, from where he retired in 1997. He is a non-executive director of Saracens Limited.

6. Marcus Beresford CBE* (61) UK resident [A R N]
Marcus Beresford was appointed to the Board in 1999 and is Chairman of the Remuneration Committee. He was Chief Executive of GKN plc from 2001 to 2002 and has over 30 years' managerial experience in the automotive and electronic industries. He is also non-executive Chairman of Ricardo plc, a director of the Engineering Technology Board and, from March 2004, will serve as a non-executive director of Cobham plc.

7. Paul M F Cheng* (67) Hong Kong resident
Paul Cheng was appointed to the Board in 1996 and retired on 31 December 2003. He is a founding partner of China Key Consultants Limited. He was formerly Chairman of Inchcape Pacific Limited and N M Rothschild & Sons (Hong Kong) Limited as well as a member of Hong Kong's Legislative Council.

8. Frederick D'Alessio* (55) US resident [R N]
Frederick D'Alessio was appointed to the Board in January 2004. He has over 30 years' experience in the telecoms industry, most recently holding the position of President of Advanced Services at Verizon Communications Inc. Since 2002 he has been a general partner and founder of Capitol Management Partners, a consultancy for early stage communications companies, and currently sits on the boards of three emerging US telecoms companies, SS8 Networks, Inc., Aware, Inc. and Hatteras Networks, Inc.

9

11

13

15

10

12

14

16


9. Göran Ennerfelt (63) Swedish resident [N]
Göran Ennerfelt was appointed to the Board in 2000. He is President and Chief Executive of Axel Johnson AB, a member of the Axel Johnson Group. He is also Chairman of the Swedish Federation of Trade, the Board of Trustees of SNS (Centre for Business and Policy Studies) and the Stockholm Institute of Transition Economics at the Stockholm School of Economics. He is a director of Svenska Handelsbanken, the Confederation of Swedish Enterprise and the Swedish National Committee of the International Chamber of Commerce.

10. Andrew F Given* (56) UK resident [A R N]
Andrew Given was appointed to the Board in October 2003 and is the current Chairman of the Audit Committee. He was formerly Deputy Chief Executive of Logica plc having previously served as Group Finance Director. He has substantial experience of international high technology markets and companies, particularly in telecoms. He is also the senior independent non-executive director and Chairman of the Audit Committee of both VT Group plc and Spectris plc.

11. Richard M Moley* (64) US resident [R N]
Richard Moley was appointed to the Board in 2000. He was previously a main board director and Senior Vice President of Cisco Systems from where he retired in 1997. He currently serves as a director of a number of US high technology public and start up companies including Linear Technology Corporation, Echelon Corporation, Calient Networks Inc and Polaris Networks Inc.

A Audit Committee
R Remuneration Committee
N Nomination Committee
* Indicates that the director is considered independent of the management of the Company

Operations Management Team

Spirent's Operations Management Team develops and oversees the Group's corporate strategy and reviews annual business plans, budgets and operational and financial performance. It agrees and monitors policies and other matters not reserved for the Board.

1. Nicholas K Brookes (56)
Chief Executive

2. My E Chung (51)
Group President, Spirent Communications

3. Eric G Hutchinson (48)
Finance Director

12. Paul R Eardley (43)
Company Secretary and General Counsel

13. W Barry Phelps (56)
President, Performance Analysis – Broadband, Spirent Communications

14. Stephen J Salmon (54)
Group President, Network Products

15. James H Schleckser (41)
President, Service Assurance – Broadband, Spirent Communications

16. Geoffrey P L Zeidler (41)
President, Europe, Spirent Communications

Report of the Directors

The directors present their Report and the audited consolidated accounts for the year to 31 December 2003.

Principal Activities, Business Review and Results
The principal activities, review and results for the year (inclusive of financial performance, likely future developments and prospects) are set out on pages 1 to 11. Principal divisions, subsidiaries and associates are listed on pages 74 and 75.

Dividends
No interim dividend was paid during the year (2002 1.35 pence) and the directors do not recommend the payment of a final dividend (2002 nil).

Research and Development
Product development and innovation are considered key strategies to maintain and improve the Group's competitive position and therefore continue to receive high priority. This commitment is highlighted by the £66.0 million research and development spend during the year, equivalent to 14 per cent of turnover (2002 £77.7 million and 14 per cent). The Company will continue to commit resources as appropriate to research and development.

Major Transactions
On 4 April 2003, the Company completed the divestment of its 51 per cent interests in WAGO, an interconnection joint venture, to the joint venture partners (the Hohorst family) for a cash consideration, net of expenses, of £58.8 million.

On 30 June 2003, the Company sold its Aviation Information Solutions businesses from within the Systems group to Teledyne Technologies Incorporated for a cash consideration, net of expenses, of £3.2 million.

Further details of the above transactions are set out in note 34 to the Accounts.

Share Capital
Changes in the Company's share capital during the period are given in note 32 to the Accounts.

Substantial Shareholdings
At the date of this Report, the Company had been notified of the following interests in 3 per cent or more of its issued share capital:

	% held
Lexa BV	12.61
Barclays plc	10.07
Legal & General Group plc	3.21

Additional shareholder information, including a profile of shareholdings, appears on pages 79 and 80.

Share Listings
The primary listing for the Company's Ordinary shares is on the London Stock Exchange. The Company's Ordinary shares are also traded on the New York Stock Exchange in the form of American Depositary Shares and these are evidenced by American Depositary Receipts (ADRs), each one of which represents four Ordinary shares. The Bank of New York is the authorised Depositary bank for the Company's ADR programme.

Directors
The names and brief biographical details of the current directors are shown on pages 14 and 15. All held office throughout the year and up to the date of this Report with the exception of Andrew Given who was appointed as a non-executive director on 9 October 2003 and Frederick D'Alessio who was appointed as a non-executive director on 26 January 2004. Paul Cheng retired as a non-executive director on 31 December 2003. Nicholas Brookes intends to retire as Chief Executive and as a director of the Company at the end of June 2004.

Retirement and Election of Directors
Pursuant to the Company's Articles of Association and the revised Combined Code on Corporate Governance (see the Directors' Statement on Corporate Governance on pages 18 to 20), Nicholas Brookes, Göran Ennerfelt and James Wyness will retire by rotation at the Annual General Meeting (AGM) on 11 May 2004 and, being eligible, offer themselves for re-election. As each director must stand for re-election at intervals of no more than every three years, Mr Brookes, having last been re-elected in 2001, must stand for re-election notwithstanding his forthcoming retirement. Mr Wyness, having served more than nine years on the Board, also offers himself for re-election. Having been appointed since the last AGM, Andrew Given and Frederick D'Alessio will also retire at the forthcoming AGM and, being eligible, offer themselves for election. Mr Brookes is the only director subject to election or re-election who has a service contract with the Company.

Directors' Interests
Göran Ennerfelt is President and Chief Executive of Axel Johnson AB, a member of the Axel Johnson Group, which is owned by his spouse, Antonia Ax:son Johnson. Mr Ennerfelt has a connected notifiable interest in the following:

– the Stock Purchase Agreement (and ancillary agreements) dated 16 November 2000 and made between Lexa BV (an Axel Johnson Group company), Antonia Ax:son Johnson, the Company and Spirent Holdings Corporation, which relates to the Company's acquisition of Hekimian Laboratories, Inc. (which is now part of the Company's Service Assurance division); and

– the Company through the 12.61 per cent shareholding of Lexa BV, the registered holder of the Ordinary shares (see also Substantial Shareholdings on this page).

The directors' interests (including those of their immediate families and any connected persons) in the share capital of the Company are set out in the Report on Directors' Remuneration on pages 21 to 28.

Save as disclosed, no contracts or arrangements have been entered into during the year or subsisted at the year end in which any director had, directly or indirectly, a material interest which was significant in relation to the Group's business.

Employees
The Group's employment policies regarding disabled persons and further information on employee training, development and involvement is explained in the Corporate Social Responsibility Statement on pages 12 and 13.

Employee Share Schemes
The Company operates a number of share incentive schemes, details of which can be found in note 32 to the Accounts. The Company operates all employee share plans in the UK, the US and Canada.

Social Responsibility and Donations
The Group's Corporate Social Responsibility Statement appears on pages 12 and 13. Charitable donations of £63,000 were made in the year (2002 £90,000). This amount excludes operating units' support and participation in local community activities. No political donations were made in the year (2002 nil).

Creditor Payment Policy
Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted and it is Group policy to comply with those terms and to make suppliers aware of them.

At 31 December 2003 the Company had an average of 52 days purchases outstanding in trade creditors (2002 47 days).

Corporate Governance
The Directors' Statement on Corporate Governance is set out on pages 18 to 20. The Statement of Directors' Responsibilities in respect of preparing the Accounts appears below.

Going Concern
After making enquiries, the directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the Accounts.

Annual General Meeting
The AGM will be held at 10am on Tuesday, 11 May 2004 at Spirent House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex RH10 9QL, United Kingdom.

Auditors
A resolution to re-appoint Ernst & Young LLP as auditors and authorising the directors to determine their remuneration will be proposed at the forthcoming AGM.

By Order of the Board

Paul Eardley
Company Secretary
25 February 2004

Statement of Directors' Responsibilities in Respect of the Accounts

The Companies Act 1985 requires directors to prepare accounts for each accounting period which give a true and fair view of the state of affairs of the Company and the Group at the end of the accounting period and of the profit or loss of the Group for that period. In preparing the accounts the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are both reasonable and prudent; and

– state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the notes to the accounts.

The directors are responsible for:

– keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts comply with the Companies Act 1985; and

– taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Company's website on the Internet. Financial information published on the website is based on legislation in the UK governing the preparation and dissemination of accounts that may be different from comparable legislation in other jurisdictions.

Directors' Statement on Corporate Governance

The Board is committed to maintaining high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured. The Board considers that it has complied throughout the year under review with the requirements of the Combined Code on Corporate Governance (the Code) issued in 1998 (which is applicable to the Company for the year under review).

This statement describes how the principles and provisions of corporate governance set out in the Code have been applied within the Group. The Board has also reviewed the requirements under the revised Code issued in July 2003 which will come into effect for Spirent's reporting year beginning 1 January 2004. Additional disclosure has been provided below in respect of the Company's commitment towards the revised Code.

The Board

The Board comprises a non-executive Chairman, six further non-executive directors and three executive directors, details of whom are given on pages 14 and 15. The roles of Chairman and Chief Executive are separate with a clear division of responsibility between them which is set out in writing and agreed by the Board.

The Board requires that all non-executive directors are independent in character and judgement and the independence of each director is reviewed at least annually. As Göran Ennerfelt has a material notifiable interest in the share capital of the Company (see the Report of the Directors on pages 16 and 17), the Board has concluded that he is not to be considered as independent of the management of the Company. In accordance with the revised Code, the Board has reviewed the independence of James Wyness, who has served on the Board in excess of nine years. The review concluded, notwithstanding Mr Wyness' length of service, that he is independent in character and in the exercise of his judgement and for these reasons the Board continues to consider Mr Wyness as independent. The Board and Mr Wyness have, however, agreed in accordance with the revised Code that Mr Wyness stands for annual re-election at each Annual General Meeting (AGM) commencing with 2004. Mr Wyness is also the senior independent director.

The non-executive directors (each appointed for an initial three year term) have a wide range of skills and experience which helps to ensure that independent judgement is exercised on issues such as strategy and performance and also that a proper balance of power is maintained for full and effective control. The non-executive directors (in particular the Chairman) devote sufficient time and attention as necessary in order to perform their duties. Other professional commitments of the non-executive directors are provided in their biographies on pages 14 and 15.

The size, balance and composition of the Board supports the Board's role, which is to determine the long term direction and strategy of the Group, monitor the achievement of business objectives, ensure that good corporate governance is practised and to ensure that the Group meets its responsibilities to its shareholders, customers and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

It is the policy of the Board to hold at least six Board meetings a year, including a meeting to review and approve long term strategy. There were eight Board meetings during 2003. Full attendance of the Board is expected and in 2003 all directors attended except Marcus Beresford and Paul Cheng (who were absent for one meeting each) and Göran Ennerfelt (who was absent for two meetings). The reasons for the absences were due to either unavoidable changes in the Board meeting calendar at short notice or due to the relevant director being ill. Where the director was absent, full documentation for the meeting was issued and post meeting briefings were provided as appropriate.

A schedule of matters specifically reserved for the Board's decision has been adopted whilst certain other responsibilities have been delegated to four standing Committees with clearly defined terms of reference which, together with the composition of each Committee, are reviewed annually. Each Committee is provided with sufficient resources so that it may undertake its duties. Copies of the terms of reference for the Audit, Remuneration and Nomination Committees are available upon request to the Company Secretary and are also available on the Company's website.

To ensure good communication between the Board and each Committee, the Company Secretary is the appointed Secretary to all standing Board Committees.

All directors receive appropriate training and induction upon appointment and subsequently as necessary. Non-executives enhance their understanding of the Group through regular business sector presentations, the receipt of monthly reports from the Chief Executive and site visits. The Chairman and the executive directors are responsible for ensuring that the Board receives accurate and clear information in a timely manner for Board meetings and on other occasions.

The Board has established a process to evaluate the performance of the Board, its Committees and individual directors. The evaluation process includes self-assessment by the Board together with the assistance of an external advisor. Key processes include assessments of the:

- relevant contribution of the Board, each Committee and each director;
- effectiveness of the leadership of the Company Chairman;
- effectiveness of relationships and communications with key management; and
- quality of information provided to the Board to enable it to perform its duties.

Key outputs of the process will be used to maintain areas which are working well and to address any weaknesses.

In addition to the evaluation process, the Chairman holds regular meetings with the other non-executives at which executive directors are not present. A process has also been established where the senior independent director shall hold, at least annually starting in 2004, a meeting of the other non-executives at which the Chairman is not present to appraise the Chairman's performance.

The Company has arranged insurance cover in respect of legal action against its directors and certain other officers. The directors also have access to the advice and services of the Company Secretary (and, if necessary, access to further independent advice, at the Company's expense), who advises the Board and its Committees in respect of their procedures, directors' duties and responsibilities, corporate governance and all compliance matters. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Board Appointments

The Company's Articles of Association require that all directors seek election by shareholders at the first AGM following their appointment. They also require that all directors seek re-election at least every three years.

Board Committees

Acquisitions and Divestments Committee

Chairman, Nicholas Brookes

The Acquisitions and Divestments Committee comprises the executives and any two non-executive directors. The Committee is primarily concerned with the evaluation and approval of acquisitions and divestments as delegated to it by the Board.

Audit Committee

Chairman, James Wyness (Andrew Given with effect from 1 January 2004)

The Audit Committee currently comprises three independent non-executive directors. During the year, the composition of the Committee was changed so that the Company Chairman is not a member. In addition, as the revised Code provides that an Audit Committee is solely comprised of independent directors, Göran Ennerfelt resigned as a Committee member during the year. The revised Code also requires that the Audit Committee includes a member who has recent, significant and relevant financial experience and the Board believes that the addition of Andrew Given brings such additional experience.

During 2003, the Committee held five meetings and there was full attendance by Committee members with the exception of Marcus Beresford and Göran Ennerfelt (each of whom was absent for one meeting). At all meetings the external auditors, the Chief Executive, the Finance Director, the Head of Internal Control and the Head of Financial Reporting are in attendance. Other directors who are not members may attend at the invitation of the Committee Chairman. The Committee also meets with the external auditors in private for part of each meeting.

The Committee reviews all published accounts and post audit findings before their presentation to the Board, focusing in particular on accounting policies, compliance, management judgement and estimates. It also monitors the Group's internal control and risk management regime (including the effectiveness of the internal audit function) and financial reporting. Any significant findings or identified weaknesses are closely examined so that appropriate action can be taken, monitored and reported to the Board.

The Audit Committee also advises the Board on the appointment of external auditors and on the scope, results and cost effectiveness of both audit and non-audit work. The Committee has adopted a policy which prohibits certain types of non-audit work that may be performed by the Company's auditors, particularly where auditor objectivity and independence would be at risk. Other non-audit work which may be provided by the auditor is put to tender where considered appropriate. Prior to any non-audit work being awarded to the auditors, consideration is also given to costs, quality of service and efficiency. The Audit Committee also assesses the overall objectivity of the auditors' services so that an independent professional relationship is maintained. Details of the auditors' remuneration for 2003 appear in note 5 to the Accounts.

Nomination Committee

Chairman, John Weston

The Nomination Committee comprises all the non-executive directors and the Chief Executive and meets at least once a year. During 2003, the Committee held two meetings at which there was full attendance by Committee members. The Committee is responsible for reviewing the composition and structure of the Board and for identifying and recommending candidates for executive and non-executive positions, based on the required role and capabilities which have been specified for the appointment. Executive search consultants are used by the Committee to assist this process as appropriate.

Remuneration Committee

Chairman, Marcus Beresford

The Remuneration Committee consists exclusively of independent non-executive directors. During 2003, the Committee held four meetings and there was full attendance by Committee members with the exception of Marcus Beresford and Paul Cheng (each of whom was absent for one meeting). Other directors who are not members may attend at the invitation of the Committee Chairman. Further details on the Committee are included in the Report on Directors' Remuneration on pages 21 to 28.

No director is involved in determining his own remuneration, whether determined by the Committee or, in the case of non-executives, by the Board.

Relations with Shareholders

The Board attaches considerable importance to its relationships and communication with shareholders. Communication is facilitated by full year and interim reports issued to shareholders. Further information and services available to shareholders are described on pages 79 and 80.

A valuable dialogue has been established with principal institutional investors through a programme of investor relations events throughout the year. The Company also discusses major remuneration and long term incentive proposals with principal investors prior to any required shareholder approval. The views of major shareholders are reported back to the Board as appropriate. All contact with institutional investors, financial analysts, fund managers, brokers and the media is controlled by written guidelines to ensure the protection of price-sensitive information during such dialogue.

It is the Company's practice to issue the Notice convening the AGM at least 20 working days before the meeting and to propose separate resolutions on each substantially separate issue. All directors are expected to attend the AGM to take any relevant questions. A report showing the number of proxy votes cast for, against and withheld for each resolution is available for shareholders attending the AGM in respect of resolutions which have been voted on by a show of hands. These results are also posted on the Company's website.

Directors' Statement on Corporate Governance continued

Internal Control

Introduction

The Board has overall responsibility for the Group's system of internal control, which comprises a process for identifying, evaluating and managing the risks faced by the Group and for regularly reviewing its effectiveness in accordance with the Guidance for Directors on Internal Control (Turnbull). The Board confirms that this process was in place throughout the year under review and up to the date of approval of these Accounts. The primary aim is to operate a system which is appropriate to the business and which can, over time, increase shareholder value whilst safeguarding the Group's assets. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Process

The Group's 'Operational Excellence Programme' ensures that internal control and risk management processes continue to become embedded in the organisation. Day-to-day responsibility for effective internal control and risk monitoring rests with senior management at operating group and business unit level.

The Group's system of internal control and risk management comprises an integrated risk management strategy consisting of regular self-assessment encompassing all operating units and preparation of a remedial action plan, as appropriate. Significant risks are also regularly reviewed by the Audit Committee and by the Board.

In addition to this process, the following key elements are critical to the overall internal control environment:

– an organisational structure with clear operating procedures, defined lines of responsibility and delegated levels of authority;

– an Ethics Policy, which sets standards of professionalism and integrity for all employees and operations. The Ethics Policy also includes 'whistleblowing' facilities whereby employees may report, in confidence, suspected wrongdoings;

– a comprehensive strategic planning, financial control and budgeting system which is properly documented and regularly reviewed; and

– a disciplined acquisitions and divestments due diligence process and post acquisition integration programme.

Spirent's corporate internal control and risk management functions report into the Head of Internal Control, operate on a global basis and play a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems throughout the Group to operating management, the Audit Committee and the Board. The work programme of these two functions is focused on the areas perceived to be of greatest risk to the Group and is agreed annually in advance by the Audit Committee.

In April 2003, the Group disposed of its 51 per cent joint venture investment in the WAGO group of companies. Prior to the disposal, the Board believed that WAGO had appropriate internal controls in place although the review for this operation was historically less comprehensive than that for the Group's subsidiary operations. The WAGO businesses are therefore excluded from the above disclosures.

Review of Effectiveness

The Board, assisted by the Audit Committee, has reviewed the effectiveness of the system of internal control for the period under review, taking account of material developments since that date using the process set out above. The Board confirms that the review revealed nothing which, in its opinion, indicated that the system was ineffective or unsatisfactory.

US Corporate Governance Compliance

As the Company has a secondary listing on the New York Stock Exchange (NYSE), it is subject to certain US legislation. Following the introduction of the Sarbanes-Oxley Act 2002 in the US, the NYSE introduced new corporate governance standards. Companies which do not have their primary listing on the NYSE (such as Spirent) are permitted to follow home country practice (ie the UK Listing Rules and the Code) in lieu of NYSE's standards. Generally, NYSE's corporate governance standards do not vary significantly from those adopted in the UK, however, NYSE rules require any such significant variances to be disclosed. Following a review of the NYSE corporate governance standards, the following are considered significant variances to home country practice:

– NYSE rules provide that nomination committees should consist entirely of independent directors. Spirent's Nomination Committee (whose constitution is in accordance with the Code) includes Nicholas Brookes and Göran Ennerfelt, neither of whom are independent;

– NYSE rules provide that nomination/corporate governance committees are responsible for developing and recommending to the Board a set of corporate governance principles applicable to the Company. Spirent, however, reserves these responsibilities for the whole Board (in accordance with the Code).

The NYSE corporate governance rules also contain requirements on the role and composition of audit committees. Companies who do not have their primary listing on the NYSE will be required to comply with the audit committee requirements by July 2005 and the Board is currently reviewing these requirements.

Pensions Governance

The Group's principal pension and retirement schemes exist in the UK and the US. Scheme funds are held separately from those of the Group and are administered by Trustees (which include employees and independent members). The schemes do not lend money or lease any assets to the Group.

Reporting

The Statement of Directors' Responsibilities in respect of preparing the Accounts is set out on page 17. A report by the auditors, Ernst & Young LLP, which includes details of their responsibilities in respect of the Company's compliance with the Code, is set out on page 29.

Report on Directors' Remuneration

1. Introduction and Compliance

This Report has been prepared by the Remuneration Committee (the Committee) and approved by the Board in compliance with the requirements of The Directors' Remuneration Report Regulations 2002 (the Regulations) and the Combined Code on Corporate Governance (the Code) issued in 1998 (which is applicable to the Company for the year under review). Additional disclosure has been provided below in respect of the Company's commitment towards the revised Code which was published in July 2003 (see the Directors' Statement on Corporate Governance on pages 18 to 20 for further details).

The Board considers that it has complied throughout the year under review with the requirements of the Code. The Directors' Statement on Corporate Governance and this Report describe how the principles of corporate governance set out in the Code have been applied within the Group.

2. Role and Remit of the Remuneration Committee

The composition of the Committee, made up wholly of independent non-executive directors, is given on pages 14 and 15. The Committee makes recommendations to the Board on the Company's policy and framework of executive directors' remuneration and its cost. The Committee also determines the remuneration of each executive director and each member of the Operations Management Team (see page 15 for details). In addition, the Committee is responsible on behalf of the Board for monitoring and managing shareholder dilution arising from share incentive plans.

In order to assist the Committee in carrying out its duties, during the year the Committee consulted on a regular basis with its independent external remuneration advisers. The advisers during the year were as follows (additional services provided, all by appointment of the Company, are shown alongside in brackets):

– Cazenove & Co. Ltd (who are one of the Company's brokers);

– Kepler Associates;

– Linklaters (who are one of the Company's legal advisers); and

– Watson Wyatt (who are also consultant actuaries for the Company's UK pension fund. Watson Wyatt do not provide advice to the Company on remuneration matters).

The Committee also consulted with the Company's Compensation and Benefits Manager and the Company Secretary regarding remuneration and related corporate governance issues. In addition, with respect to the remuneration of senior executives (for whom the Company's remuneration policy also applies, see below), the Committee also consulted with the Chief Executive.

3. Remuneration Policy

The Company's remuneration policy, which has not changed during the year and will apply for the following financial year, is to:

– attract, retain and motivate the high calibre professional, managerial and technological expertise necessary to realise the Group's business objectives without paying excessively;

– ensure that the remuneration framework and its constituent reward elements are competitive and where appropriate reflect the international nature of the Group's business and the markets within which it operates; and

– maintain the correct balance and linkage between individual and business performance so as to align the interests of the executive with those of shareholders, particularly that of enhancing shareholder value.

The Committee has developed remuneration packages which fit this policy on an integrated and total reward basis. This is achieved by providing base salary plus benefits, pension entitlements, an annual short term incentive bonus and discretionary awards under the Company's share incentive plans, the latter two elements of which are performance-related. In normal circumstances, it is the Committee's policy that at least 50 per cent of an executive director's target total annual remuneration package is based on performance-related elements. The Company's recent history of share price volatility and its consequent impact on the 'value' of the long term incentive component of the total remuneration package means in practice that the actual balance of performance versus non-performance elements can vary from year to year. In designing the performance-related elements of remuneration, the Committee has followed the provisions set out in Schedule A to the Code.

In subsequent years, the Committee will continue to monitor and review the level and constituent elements of remuneration packages and will consult with its major institutional shareholders as appropriate with regards to any significant proposed changes.

4. Executive Directors' Remuneration

(a) Base Salary and Benefits

The level of base salary is reviewed and established annually by reference to both the performance and responsibilities of the individual and prevailing market rates for executives of similar status in comparable companies. When reviewing salaries, the Committee is mindful of and sensitive to the wider scene, especially regarding employees' pay and employment conditions elsewhere in the Group. No increase in base salary was awarded to the executive directors during 2003.

Pension and other benefits have regard to competitor practice in the home country of each executive. Benefits include a company car or car allowance, healthcare, disability and life insurance coverage. Pension details are given in paragraphs 4(c) and 7(b).

(b) Annual Incentive Bonus Scheme

The Committee reviews annual incentive bonus scheme targets and performance conditions each year to incentivise the executive to meet the short term strategic objectives of the Company.

In respect of 2003, Messrs Brookes and Hutchinson participated in an annual scheme which, consistent with UK market practice and levels, was structured around a formula providing for an on-target performance bonus of 50 per cent of base salary with a maximum of 100 per cent of base salary for exceptional performance. Performance was measured against targets in the Company's headline earnings per share (EPS) and other financial objectives (accounting for 80 per cent of any bonus) and also against the achievement of certain personal and strategic objectives determined by the Committee (accounting for 20 per cent of any bonus). During the year, Messrs Brookes and Hutchinson earned annual bonuses equivalent to 40 per cent of salary and 50 per cent of salary, respectively.

Report on Directors' Remuneration continued

My Chung (who is US-based) also participates in a similar annual incentive bonus scheme. Consistent with US market practice and levels, for 2003 he had a target bonus opportunity of 50 per cent with a maximum opportunity of 200 per cent of salary for exceptional performance. Performance was measured against profit targets for the Communications group, subject to separate threshold performance in respect of other appropriate financial measures (accounting for 90 per cent of any bonus) and also against other personal and strategic objectives as determined by the Committee (accounting for 10 per cent of any bonus). During the year, Mr Chung earned an annual bonus equivalent to 20 per cent of salary.

(c) Directors' Pensions

All three executive directors participate in Group pension plans as described below.

The UK executives participate in the non-contributory funded senior executive level of the Spirent Group Staff Pension and Life Assurance Plan (the Staff Plan). This defined benefit arrangement will provide them at normal retirement age of 60, and dependent on length of service, with a pension of up to two-thirds of salary, subject to Inland Revenue limits and other statutory conditions. It also provides for dependants' pensions and a cash lump sum on death. Pensionable salary is the director's base salary only.

The Company undertook to Nicholas Brookes, whose salary for approved pension purposes under the Staff Plan is capped by the provisions of the Finance Act 1989 (£97,200 and £99,000 for the tax years 2002/2003 and 2003/2004, respectively), that his benefit entitlements shall be as if the 'cap' did not apply. As Eric Hutchinson was a member of the pension plan prior to 1989, his pension entitlements are not subject to the capping provisions of the Finance Act 1989.

Nicholas Brookes has informed the Board that he intends to retire as Chief Executive and as a director of the Company at the end of June 2004. The Company has a contractual liability, as disclosed above and in previous annual reports, to pay Mr Brookes an unfunded unapproved retirement benefit (UURB) as agreed when he joined the Company in 1995. At 31 December 2003 the provision in respect of this UURB stood at £4.5 million. Conditionally upon him remaining in employment until 30 June 2004, Mr Brookes and the Company have agreed that he will commute all of his pension entitlement under the UURB in exchange for a lump sum payment of £3.7 million in cash, payable to him on 1 July 2004.

The pensions earned by the UK executives during the year under the Staff Plan are given in paragraph 7(b).

My Chung participates in the Spirent International Inc Retirement and Profit Share Plan, a defined contribution plan approved under section 401(k) of the US Internal Revenue Code (the IR Code). The Company makes matching contributions of up to 2 per cent and is permitted to make discretionary profit sharing contributions of up to 8 per cent of the maximum compensation permitted for these purposes under the IR Code. Under the IR Code, the maximum annual amount of an employee's compensation that can be taken into account in determining the employer's contribution is $200,000 in respect of 2003. The normal retirement age under this plan is 65 and, consistent with local practice, bonuses are pensionable for all participating US employees, including Mr Chung.

(d) Medium and Long Term Incentive Plans

The Committee approves the grant of all options under the Executive Share Option Scheme (ESOS) and the Spirent Stock Option Plan (SSOP) in which executive directors participate (see below). All grants are subject to prior satisfactory individual performance and grant amounts vary with the individual's potential impact on longer term business results. As stated in the circular sent to shareholders in June 2003 regarding an Extraordinary General Meeting, the Committee is currently reviewing the Company's long term incentive strategy (particularly in respect of the SSOP) and new proposals will be brought forward for implementation later in 2004.

The executives are also eligible to participate in either the Company's UK or US all employee share plans, as appropriate (further details of which are provided in note 32 to the Accounts).

Executive Share Option Scheme (ESOS)

All ESOS grants made after 11 May 2000 to executive directors are subject to enhanced performance conditions on exercise which the Committee believes represent challenging criteria that align the interests of executives to that of shareholders. The performance conditions require the Company's headline EPS to increase over a period of three consecutive financial years within a range of 9 per cent (minimum performance for 25 per cent option vesting) and 15 per cent (for 100 per cent option vesting), with a sliding scale between these points. In addition, performance testing over the ten year option term is measured from a base point fixed at the date of grant. Performance will be tested on the third anniversary of grant and, if the target conditions at that time have not yet been met in full, performance will be tested again on the fourth and fifth anniversaries of grant only, with the performance hurdle being increased in proportion to the extended period. The Committee's current grant policy is to provide each executive director with the opportunity to receive options up to an annual limit of 3 times base salary, however, the size of grant each year will have due regard to prevailing relevant circumstances.

ESOS grants made before 11 May 2000 to executive directors are subject to a performance condition which was in line with prevailing market practice at that time. The performance condition on exercise is that, over a period of three consecutive financial years, there has been an increase in the Company's headline EPS which is at least 6 per cent more than the increase in the Retail Price Index over the same period. The same performance condition is tested on the third anniversary of grant and, if the performance condition has not been met at that time, at each subsequent anniversary of grant until the expiry of the option (on the tenth anniversary of grant).

Spirent Stock Option Plan (SSOP)

The SSOP was approved by shareholders in May 2000 for Communications group employees and authority to continue granting options will expire following the conclusion of the Company's Annual General Meeting in May 2004. As noted above, the Committee is currently reviewing long term incentive arrangements, particularly for employees within the Communications group (which includes My Chung) and these proposed arrangements will require shareholder approval.

In addition to participating in the ESOS, with due regard to the competitive US recruitment and retention practices to which the Company is exposed, the Committee has concluded that My Chung (who is Group President of Spirent Communications, a US citizen and resident in the US) should also continue to participate in the SSOP. This plan is not open to current UK executive directors. Options normally vest over four years, with 25 per cent exercisable on the first anniversary of the date of grant, and thereafter in equal proportions on a monthly basis. In line with prevailing market practice and as previously approved by shareholders, no pre-exercise performance conditions attach to options granted under the SSOP. In normal circumstances Mr Chung will have the opportunity to receive an annual grant of up to 4.5 times base salary under the SSOP (subject to prevailing relevant circumstances) in addition to any ESOS award. The Committee reviews the most appropriate balance of awards between ESOS and SSOP options for Mr Chung prior to any grant.

Long Term Share Purchase Plan (LTSPP)
During the year, the executive directors had participated in the LTSPP, however, all remaining performance units under the LTSPP lapsed without value on 31 December 2003. The LTSPP was introduced in 1999 and only executive directors and members of the Operations Management Team were eligible to participate. All grants under the LTSPP were required to meet the minimum performance conditions of: (i) a real (ie above inflation) growth in the Spirent share price of at least 5 per cent per annum, and (ii) a total shareholder return (ie capital appreciation, dividends paid, plus any other issues or distributions) performance ranked above the 60th percentile against a comparator group.

Further information on the ESOS, SSOP and LTSPP is provided in note 32 to the Accounts.

The Committee believes that the grant structure, performance conditions and grant levels under the ESOS and SSOP have represented the most appropriate medium to long term incentive arrangements which will enable Spirent to compete for, motivate and retain the highest calibre executives which it needs to drive the business forward and increase shareholder value. In order to assist further in aligning the interests of executives and shareholders, shareholding guidelines were introduced in 2000 which encourage executive directors and certain senior managers to build up a meaningful level of shareholding of up to two years' salary over a period of five years.

(e) Service Contracts
The Committee's policy is to offer service contracts which provide for no more than 12 months' notice from the Company in normal circumstances.

Nicholas Brookes entered into a service contract on 5 May 1995 (which was amended on 1 January 2003) which currently has an unexpired term of 38 months and is terminable at any time by either party on 12 months' notice. However, as previously reported, Mr Brookes intends to retire as Chief Executive and as a director of the Company at the end of June 2004. Eric Hutchinson entered into a service contract on 13 December 1999 which currently has an unexpired term of 134 months and is terminable at any time by either party on 12 months' notice. My Chung entered into a service contract on 9 May 2001 which currently has an unexpired term of 159 months and is terminable at any time by the Company on 12 months' notice and by Mr Chung on six months' notice. All contracts contain provisions for the Company to make payment in lieu of notice and for removal of the director for poor performance or misconduct without compensation. The Company will seek to apply practical mitigation measures to any payment of compensation on termination, taking into account all relevant circumstances.

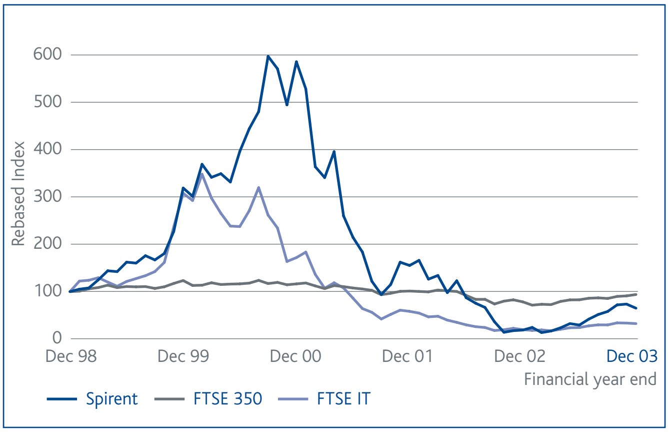
(f) External Appointments
Spirent recognises the mutual benefit for executive directors to serve as non-executives of companies in other industries outside the Group. Such appointments are subject to prior Board approval and, with effect from 1 January 2003, any related fee entitlements are for the account of the executive concerned. Mr Brookes serves as a non-executive director of De La Rue plc and Corporacion Financiera Alba, S.A. and during 2003 received annual fees arising from these appointments of £31,000 and €30,050 (approximately £20,720), respectively.

5. Non-executive Directors' Remuneration
The remuneration of non-executive directors is determined by the Board following a recommendation by the Chief Executive and after consultation with independent external advisers concerning competitive market practice. The Company's remuneration policy (which has not changed during the year and will apply for the following financial year) with regards to non-executive directors is to pay fees which are in line with market practice. No fee increase was awarded during 2003.

Non-executive directors are not eligible to participate in bonus or share incentive arrangements and their service does not qualify for pension purposes or other benefits. No element of their fees is performance-related. Non-executive directors do not have service contracts and are normally appointed, subject to the Company's Articles of Association, for an initial three year term. Any subsequent extension to the term by the Board is not automatic and is subject to prior recommendation of the Nomination Committee.

Further information on non-executive directors' fees is provided in paragraph 7(a) below.

6. Total Shareholder Return (TSR) Performance
The graph below shows TSR performance (ie growth in the value of a share or index, assuming dividends and other distributions are reinvested) for the last five financial years of Spirent plc as shown against the FTSE 350 Index and the FTSE Information Technology Index (FTSE IT). The Committee believes that both the FTSE 350 and the FTSE IT provide a broad equity market index against which the performance of Spirent can be fairly compared, and that the FTSE IT index provides a particularly representative collection of comparator companies.



Report on Directors' Remuneration continued

7. Directors' Remuneration(1)

(a) Individual and Total Remuneration of the Directors Holding Office During 2003

	Salary £000	Fees(2) £000	Taxable benefits(3) £000	Bonus(4) £000	Total(5) 2003 £000	Total(5) 2002 £000
Executive directors						
N Brookes(6)	500.0	0.5	44.2	200.0	744.7	545.3
M Chung(7)	213.4	0.5	18.7	42.7	275.3	251.2
E Hutchinson	250.0	0.5	23.2	125.0	398.7	272.9
Non-executive directors						
M Beresford	–	37.0	–	–	37.0	37.0
P Cheng	–	35.0	–	–	35.0	35.0
G Ennerfelt	–	30.0	–	–	30.0	30.0
A Given	–	8.5	–	–	8.5	–
R Moley	–	35.0	–	–	35.0	35.0
J Weston	–	150.0	–	–	150.0	22.5
J Wyness	–	37.0	–	–	37.0	89.3
G Sarney	–	–	–	–	–	68.1
Total 2003	963.4	334.0	86.1	367.7	1,751.2	1,386.3
Total 2002	981.8	317.0	87.5	–	1,386.3	

Notes

(1) Information relating to directors' remuneration has been audited by the Company's auditors.

(2) Executive directors receive a basic annual fee of £500 in respect of their services to the Board and its Committees. The non-executive directors receive a basic annual fee of £30,000 in respect of their services. John Weston receives an annual fee of £150,000 which covers both his basic annual fee and his additional duties as Chairman. James Wyness and Marcus Beresford each received an additional £7,000 per annum in recognition of their extra responsibilities as Chairmen of the Audit Committee and Remuneration Committee, respectively. With effect from 1 January 2004, Andrew Given replaced James Wyness as Chairman of the Audit Committee and Mr Given will therefore receive the additional fee from that date. In December 2003, the Board resolved that an additional annual fee, equivalent to that paid to the Chairman of the Audit or Remuneration Committee, should be paid to the senior independent director (currently James Wyness) with effect from 1 January 2004. During 2002, Mr Wyness also received an additional £52,300 in respect of his additional duties as acting Chairman following the death of Dr Sarney. Paul Cheng and Richard Moley each received an additional £5,000 per annum in recognition of the extensive international travelling commitment required to perform their duties. Mr Cheng retired from the Board at the end of 2003.

(3) Taxable benefits include a company car or car allowance and life, disability and healthcare insurance coverage. Nicholas Brookes' taxable benefit also includes £3,966 for personal tax advice paid by the Company and £6,389 relating to the premium paid for life assurance in excess of the statutory earnings cap (as referred to in paragraph 4(c) above).

(4) During the year Messrs Brookes, Hutchinson and Chung earned bonuses under their respective annual incentive bonus plans (see paragraph 4(b) above) (2002 nil).

(5) The figures relate to the period of each director's Board membership. John Weston and Andrew Given were appointed to the Board in November 2002 and October 2003, respectively. George Sarney died in April 2002.

(6) Remuneration as shown above excludes fees received as a result of external appointments (see paragraph 4(f) above).

(7) My Chung receives his base salary in US dollars (2003 $350,000; 2002 $350,000). An average exchange rate of £1 = $1.64 was used in respect of 2003 remuneration (2002 £1 = $1.51).

Frederick D'Alessio was appointed to the Board as a non-executive director on 26 January 2004. Mr D'Alessio will receive a basic annual fee of £30,000 per annum plus an additional £5,000 per annum in recognition of the extensive international travelling commitment required to perform his duties.

(b) Directors' Pensions

The pensions earned from the non-contributory defined benefit arrangements in place for the UK executives during 2003 were as follows:

	Age at 31 December 2003	Years of pensionable service	Increase in accrued pension during the year £000	Increase, before inflation, in accrued pension during the year £000	Accumulated total accrued pension: At 31 December 2003[1] £000	Accumulated total accrued pension: At 31 December 2002 £000
N Brookes[2]	56	16	16.7	10.1	277.8	261.1
E Hutchinson	48	20	4.2	0.1	166.7	162.5

	Transfer value of the increase in accrued pension[3] £000	Transfer value, before inflation, of the increase in accrued pension[3] £000	Total transfer value of pension[3]: At 31 December 2003 £000	Total transfer value of pension[3]: At 1 January 2003 £000	Increase in total transfer value of pension during the year £000	Increase, before inflation, in total transfer value of pension during the year £000
N Brookes	287.9	172.0	4,876	4,425	451.8	340.0
E Hutchinson	45.3	0.7	1,811	1,703	108.5	65.5

Notes

(1) The pension entitlements shown are those which would be paid annually from normal retirement age of 60 based on service to 31 December 2003. Mr Hutchinson's total accrued pension is restricted to 20 years' service.

(2) The Company's unfunded pension provision relating to the pension undertaking in excess of the statutory earnings cap made to Nicholas Brookes (which includes an eight year pensionable service credit) was £4.5 million at 31 December 2003. See paragraph 4(c) above for further information in respect of Mr Brookes' pension entitlement.

(3) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and represents a liability of the Company (in respect of unfunded arrangements) and of the Staff Plan (in respect of funded arrangements), not a sum paid or due to the individual. The transfer value cannot therefore be meaningfully added to annual remuneration.

(4) No additional voluntary contributions have been included in the above table.

(c) Directors' Remuneration and Payments to Former Directors – Summary

	2003 £000	2002 £000
Total emoluments of all directors	1,751	1,386
Gains made on exercise of share options[1]	1	6
Company contribution to 401(k) Retirement and Profit Share Plan[2]	12	13
Pension and fees of the Life President (2002 £28,204 and £4,865, respectively)[3]	–	33
Emoluments and ex gratia pension to former directors[4]	5	19
Consultancy payments and fee payments to former directors[5]	–	6
	1,769	1,463

Notes

(1) This relates to My Chung (2003) and Eric Hutchinson (2002).

(2) Prevailing average conversion rates of £1 = $1.51 and £1 = $1.64 were used for 2002 and 2003, respectively. These payments relate to My Chung.

(3) These payments relate to Ray Parsons, who died in April 2002.

(4) £14,000 was paid as a one time ex gratia sum during 2002 to the widow of the late Dr George Sarney, the former Chairman. Dr Sarney died in April 2002. £5,000 per annum is paid as an ex gratia pension to Geoff Bastians, who retired from the Board in 1984.

(5) The 2002 payment relates to Professor William Penny who retired from the Board in 1996. The payments were in respect of services he provided to the Company's former aerospace component businesses, which were sold in April 2002.

Report on Directors' Remuneration continued

8. Directors' Interests[1]

(a) Summary of Interests in Ordinary Share Capital

The beneficial and non-beneficial interests of the directors (and their immediate families and any connected persons) in the Ordinary share capital of the Company at the beginning and end of the year are set out below. The Company's statutory register of directors' interests contains full details of directors' shareholdings and options over shares and is available for inspection at the registered office during normal business hours on any business day.

	At 31 December 2003				At 1 January 2003[2]			
	Ordinary shares (beneficial)[3]	Ordinary shares (non-beneficial)	Options and rights to acquire Ordinary shares	LTSPP performance units[4]	Ordinary shares (beneficial)[3]	Ordinary shares (non-beneficial)	Options and rights to acquire Ordinary shares	LTSPP performance units[4]
Executive directors[5]								
N Brookes	2,947,083	26,315[6]	3,602,135	–	2,947,083	26,315[6]	1,910,135	208,480
M Chung	31,377	39,620[7]	3,174,349	–	8,977	39,620[7]	1,937,818	88,893
E Hutchinson	726,210	12,171[6]	2,154,447	–	726,210	12,171[6]	1,003,190	90,849
Non-executive directors								
M Beresford	65,225	–	–	–	15,225	–	–	–
P Cheng	7,250	–	–	–	7,250	–	–	–
G Ennerfelt[8]	119,000,000	–	–	–	128,398,257	–	–	–
A Given	–	–	–	–	–	–	–	–
R Moley	1,010,000	–	–	–	1,010,000	–	–	–
J Weston	1,600,000	–	–	–	1,600,000	–	–	–
J Wyness	346,037	–	–	–	346,037	–	–	–

Notes

(1) Information relating to directors' interests has been audited by the Company's auditors.

(2) In respect of Andrew Given, at 9 October 2003, being the date of his appointment.

(3) Directors' beneficial holdings do not form part of the remuneration provided by the Company.

(4) All remaining performance units granted under the LTSPP lapsed without value on 31 December 2003.

(5) All three of the Company's executive directors, with other employees of the Group, are potential beneficiaries of certain Ordinary shares held in the Employee Share Ownership Trust (ESOT). The two UK executive directors, with other employees of the Group, are also potential beneficiaries of the Spirent Qualifying Employee Share Ownership Trust (QUEST). As potential beneficiaries of the ESOT and the QUEST, the respective directors are deemed by the Companies Act 1985 to be interested in some of the Ordinary shares held by those Trusts. At 31 December 2003, the deemed beneficial interests in the ESOT and the QUEST were 281,626 Ordinary shares and 3,508,136 Ordinary shares, respectively (31 December 2002 9,064,985 and 3,508,136, respectively). The change in the deemed interests in the ESOT was caused by the reallocation of shares which had lapsed under other share plans. These shares have now been reallocated to satisfy the exercise of SSOP options granted on 11 December 2003, a grant in which no executive director participated. Further details on the Company's share plans are provided in note 32 to the Accounts. The deemed interests of the executive directors in respect of the shares held in the ESOT and the QUEST are not included in the table above.

(6) The non-beneficial interests of Messrs Brookes and Hutchinson represent their respective £100,000 and £46,250 deferred cash bonus awards made under the terms of the annual incentive bonus plan for 2000. The bonuses were used to purchase shares in the market on 28 February 2001 and are being held in the ESOT for a period of three years from that date. In normal circumstances, the directors do not obtain a beneficial interest in the shares until the expiry of that period at which time, subject to still being in the Company's employment, the beneficial share interests will be released to them. There are no other pre-release performance conditions to be satisfied.

(7) The non-beneficial interest of My Chung over 39,620 shares exists in a similar manner to that described in note (6) above except that his interest arises from a deferred cash bonus of $175,000 (being 50 per cent of his annual base salary) made on a discretionary basis on 9 May 2001 (in recognition of his promotion to the Board). The bonus was used to purchase the shares in the market on that date and will be released beneficially to him from the ESOT on the third anniversary, subject to him still being in the Company's employment at that time.

(8) Göran Ennerfelt has a beneficial interest in the Company through his connected shareholding in Lexa BV, a wholly-owned subsidiary company of Axel Johnson AB of which he is also President and Chief Executive, which is the registered holder of the above mentioned shares.

(9) Since the year end:

– the number of rights to acquire Ordinary shares for My Chung increased by 13,392 on 1 January 2004 through the grant of purchase rights to him under the US ESPP, an all employee share plan. This is a provisional number only (based on the Company's share price at the date of grant) as the actual number of shares in which participants are interested under the ESPP cannot be determined until maturity of the 12 months savings contract;

– the beneficial interest of My Chung increased by 17,328 to 48,705 Ordinary shares on 1 January 2004 through the exercise of matured purchase rights under the ESPP. The market price of an Ordinary share on the date of exercise was 58.25 pence (being the closing market price on 31 December 2003, the London Stock Exchange having been closed for trading on 1 January 2004). For further information on the ESPP, see note 32 to the Accounts; and

– Frederick D'Alessio was appointed to the Board as a non-executive director on 26 January 2004. Between the date of his appointment and 25 February 2004 (the date on which the Accounts have been signed), Mr D'Alessio did not have a notifiable interest in the Ordinary share capital of the Company.

(b) Options and Rights to Acquire Ordinary Shares

	Plan type[1]	At 31 December 2003	Exercised (E)/ Lapsed (L) during the year	Granted during the year	At 1 January 2003	Date of grant	Exercise price per share pence	Date first exercisable	Expiry date
N Brookes	ESOS	221,068	–	–	221,068	30.09.96	136	30.09.99	29.09.06
	ESOS	30,410	–	–	30,410	23.04.97	118	23.04.00	22.04.07
	ESOS	43,922	–	–	43,922	27.04.98	152	27.04.01	26.04.08
	ESOS	149,590	–	–	149,590	11.05.00	334	11.05.03	10.05.10
	ESOS	205,000	–	–	205,000	09.04.01	305	09.04.04	08.04.11
	SRSOS	18,145	–	–	18,145	05.10.01	93	01.12.06	31.05.07
	ESOS	468,000	–	–	468,000	02.04.02	134	02.04.05	01.04.12
	ESOS	774,000	–	–	774,000	02.05.02	113	02.05.05	01.05.12
	ESOS	1,692,000	–	1,692,000	–	25.03.03	16	25.03.06	24.03.13
M Chung	ESOS	93,482	–	–	93,482	16.07.98	163	16.07.01	15.07.08
	ESOS	112,734	–	–	112,734	01.04.99	133	01.04.02	31.03.09
	SSOP	341,921	–	–	341,921	11.05.00	334	11.05.01	10.05.07
	ESOS	65,819	–	–	65,819	11.05.00	334	11.05.03	10.05.10
	SARP	42,740	–	–	42,740	12.05.00	335	12.05.01	11.05.10
	SSOP	250,000	–	–	250,000	08.12.00	613	08.12.01	07.12.07
	SSOP	195,000	–	–	195,000	09.04.01	305	09.04.02	08.04.08
	ESOS	80,000	–	–	80,000	09.04.01	305	09.04.04	08.04.11
	ESPP[2]	–	(E) 22,400	–	6,122	01.01.02	14	01.01.03	01.01.03
	SSOP	750,000	–	–	750,000	02.04.02	134	02.04.03	01.04.09
	ESPP[3]	17,653	–	17,653	–	01.01.03	14	01.01.04	01.01.04
	ESOS	225,000	–	225,000	–	25.03.03	16	25.03.06	24.03.13
	SSOP	1,000,000	–	1,000,000	–	25.03.03	16	25.03.04	24.03.10
E Hutchinson	ESOS	17,652	–	–	17,652	27.04.95	108	27.04.98	26.04.05
	SRSOS	–	(L) 1,464	–	1,464	31.10.95	106	01.12.02	31.05.03
	ESOS	42,928	–	–	42,928	29.04.96	140	29.04.99	28.04.06
	ESOS	33,786	–	–	33,786	23.04.97	118	23.04.00	22.04.07
	ESOS	29,586	–	–	29,586	27.04.98	152	27.04.01	26.04.08
	SRSOS	12,363	–	–	12,363	22.10.98	83	01.01.06	30.06.06
	ESOS	75,156	–	–	75,156	01.04.99	133	01.04.02	31.03.09
	ESOS	55,562	–	–	55,562	11.05.00	334	11.05.03	10.05.10
	ESOS	105,000	–	–	105,000	09.04.01	305	09.04.04	08.04.11
	SRSOS	8,693	–	–	8,693	05.10.01	93	01.12.08	31.05.09
	ESOS	234,000	–	–	234,000	02.04.02	134	02.04.05	01.04.12
	ESOS	387,000	–	–	387,000	02.05.02	113	02.05.05	01.05.12
	ESOS	1,128,000	–	1,128,000	–	25.03.03	16	25.03.06	24.03.13
	SRSOS	24,721	–	24,721	–	26.09.03	38	01.12.10	31.05.11

Notes

(1) Key to plan type:
ESOS – Executive Share Option Scheme
ESPP – US Employee Stock Purchase Plan
SARP – Stock Appreciation Rights Plan
SRSOS – UK Savings Related Share Option Scheme
SSOP – Spirent Stock Option Plan

An explanation of each plan and its operation is given in note 32 to the Accounts.

(2) The final exercise price and number of purchase rights under the ESPP, an all employee share plan, cannot be determined until maturity (ie 12 months following the date of grant). The 6,122 purchase rights calculation was based on the market price of an Ordinary share (less a 15 per cent discount) at the date of grant and the rate of exchange between the US dollar and sterling on the date of grant. In accordance with the rules of the ESPP, these purchase rights were exercised automatically as part of a maturity on 1 January 2003. The actual number of shares acquired (issued in the form of 5,600 ADRs) was 22,400 Ordinary shares. The closing middle market price of an Ordinary share on the date of exercise was 16.75 pence (being the closing market price on 31 December 2002, the London Stock Exchange having been closed for trading on 1 January 2003).

Report on Directors' Remuneration continued

(3) As mentioned in note (2) above, the final exercise price and number of purchase rights under the ESPP cannot be determined until maturity. In accordance with the rules of the ESPP, My Chung's purchase rights were exercised automatically as part of a maturity on 1 January 2004 over 17,328 Ordinary shares in respect to his 2003 ESPP account. The small difference between the rights outstanding at the year end and the amount purchased was caused by exchange rate fluctuations between US dollars and sterling.

The middle market price of an Ordinary share on 2 January 2003 (the London Stock Exchange having been closed for trading on 1 January 2003) and 31 December 2003 was 17.5 pence and 58.25 pence, respectively, and during that period ranged between a high of 72.75 pence and a low of 10 pence.

Save as disclosed, there have been no changes between the year end and 25 February 2004 (the date on which the Accounts have been signed) in the directors' beneficial or non-beneficial interests in the Ordinary share or loan capital of the Company or any subsidiary.

9. Shareholder Advisory Resolution in Respect of the Report on Directors' Remuneration

In accordance with the Regulations, an ordinary resolution to approve this Remuneration Report will be proposed at the forthcoming 2004 Annual General Meeting.

Signed on behalf of the Board

Marcus Beresford CBE
Chairman of the Remuneration Committee
25 February 2004

Independent Auditors' Report to the Members of Spirent plc

We have audited the Group's accounts for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Reconciliation of Net Cash Flow to Movement in Net Debt, Company Balance Sheet, the related notes 1 to 35 and the schedule of Principal Divisions, Subsidiaries and Associates. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report on Directors' Remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Report on Directors' Remuneration and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities in Respect of the Accounts.

Our responsibility is to audit the accounts and the part of the Report on Directors' Remuneration to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority (the Listing Rules).

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Directors' Statement on Corporate Governance reflects the Company's compliance with the seven provisions of the Combined Code on Corporate Governance specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Financial Summary, Chairman's Letter, Our Business at a Glance, Chief Executive's Operating Review, Financial Review, Corporate Social Responsibility Statement, Board of Directors and Operations Management Team, Report of the Directors, Directors' Statement on Corporate Governance, the unaudited part of the Report on Directors' Remuneration, Financial History, Shareholder Information, Financial Calendar and Contact Details. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Report on Directors' Remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Report on Directors' Remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Report on Directors' Remuneration to be audited.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss of the Group for the year then ended, and the accounts and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
25 February 2004

Consolidated Profit and Loss Account

Year to 31 December	Notes	Before exceptional items	Exceptional items	2003 £ million Total	Restated 2002 £ million Total
Turnover: Group and share of joint venture		488.6	–	488.6	634.5
Less: share of joint venture's turnover		(22.4)	–	(22.4)	(75.6)
Turnover	2, 3	466.2	–	466.2	558.9
Cost of sales		(279.8)	–	(279.8)	(340.8)
Manufacturing Margin		186.4	–	186.4	218.1
Operating expenses	4	(160.1)	(7.5)	(167.6)	(1,188.7)
Operating Profit/(Loss)	2, 3, 5	26.3	(7.5)	18.8	(970.6)
Operating exceptional items					
Goodwill impairment		–	–	–	923.3
Other	6	–	7.5	7.5	41.6
Goodwill amortisation		9.7	–	9.7	56.1
Operating profit before goodwill amortisation and exceptional items		36.0	–	36.0	50.4
Income from interests in joint ventures		2.7	–	2.7	7.4
Income from interests in associates		2.1	–	2.1	1.0
Amortisation of goodwill on associate		–	–	–	(0.2)
Operating Profit/(Loss) of the Group, Joint Ventures and Associates		31.1	(7.5)	23.6	(962.4)
Non-operating exceptional items					
Profit/(loss) on the disposal and closure of operations	34	–	3.6	3.6	(48.4)
Profit/(Loss) before Interest		31.1	(3.9)	27.2	(1,010.8)
Net interest payable	8	(9.3)	(16.1)	(25.4)	(12.3)
Other finance expense	10	(1.5)	–	(1.5)	(0.3)
Profit/(Loss) before Taxation	2	20.3	(20.0)	0.3	(1,023.4)
Taxation	11	(2.3)	1.7	(0.6)	(26.9)
Loss after Taxation		18.0	(18.3)	(0.3)	(1,050.3)
Minority shareholders' interest – equity				(0.2)	(0.1)
Minority shareholders' interest – joint venture				–	(0.3)
Loss Attributable to Shareholders				(0.5)	(1,050.7)
Dividends					
Interim nil (2002 1.35 pence)				–	(12.5)
Loss for the Year	32			(0.5)	(1,063.2)
Basic and Diluted Loss per Share	12			(0.05)p	(113.90)p
Headline Earnings per Share	12			2.31p	3.36p

The notes on pages 35 to 75 form part of these Accounts.

Consolidated Statement of Total Recognised Gains and Losses

Year to 31 December	Notes	2003 £ million	Restated 2002 £ million
Loss Attributable to Shareholders		(0.5)	(1,050.7)
Gain on lapsed options	32	1.2	5.2
Exchange adjustment on subsidiaries, joint ventures and associates	32	6.1	(23.0)
UK current taxation on exchange adjustment	32	–	0.1
Overseas taxation on exchange adjustment	32	(0.2)	–
Reinstatement/(reversal) of deferred tax asset on pension liability	11, 32	12.6	(5.4)
Actuarial gain/(loss) recognised on pension schemes	10, 32	0.3	(23.6)
Taxation on actuarial gain/(loss)	11, 32	(0.1)	–
Total Recognised Gains and Losses for the Year		19.4	(1,097.4)
Prior year adjustment			
Implementation of UITF 38	32	(32.2)	–
Implementation of FRS 17	32	(41.9)	–
Total Recognised Gains and Losses since Last Annual Report		(54.7)	(1,097.4)

Reconciliation of Movements in Shareholders' Funds

Year to 31 December	Notes	2003 £ million	Restated 2002 £ million
Shareholders' funds at 1 January as previously reported		139.1	1,094.4
Prior year adjustment			
Implementation of UITF 38	32	(32.2)	(34.1)
Implementation of FRS 17	32	(41.9)	(12.5)
Transfer in respect of provision against investment in own shares	32	30.1	–
Shareholders' funds at 1 January restated		95.1	1,047.8
Total recognised gains and losses		19.4	(1,097.4)
Dividends		–	(12.5)
Other movements			
New shares issued	32	0.7	3.4
Other	32	2.1	(5.9)
Goodwill on disposal and impairment of subsidiaries acquired before 1998	32	2.6	157.8
Movement on investment in own shares		–	1.9
Shareholders' Funds at 31 December		119.9	95.1

The notes on pages 35 to 75 form part of these Accounts.

Consolidated Balance Sheet

At 31 December	Notes		2003 £ million		Restated 2002 £ million
Fixed Assets					
Intangible assets	13		101.6		113.6
Tangible assets	14		90.2		110.0
Investments	18				
Investment in joint venture					
Share of gross assets		0.3		72.9	
Share of gross liabilities		–		(22.8)	
		0.3		50.1	
Investment in associates		14.6		13.3	
			14.9		63.4
Total Fixed Assets			206.7		287.0
Current Assets					
Stocks	19	55.0		61.5	
Debtors	20	86.9		97.3	
Investments	23	–		0.1	
Cash at bank and in hand	22	37.6		83.5	
		179.5		242.4	
Current Liabilities					
Creditors due within one year	24	(111.3)		(107.5)	
Loans and overdrafts	25	(1.8)		(1.8)	
		(113.1)		(109.3)	
Net Current Assets			66.4		133.1
Assets less Current Liabilities			273.1		420.1
Long Term Liabilities					
Creditors due after more than one year	26		(95.6)		(248.3)
Provisions for Liabilities and Charges	27				
Deferred taxation		(2.3)		(2.4)	
Other provisions		(17.9)		(26.0)	
			(20.2)		(28.4)
Assets less Liabilities (excluding Pension Liability)			157.3		143.4
Pension Liability	10		(35.2)		(46.2)
Assets less Liabilities (including Pension Liability)			122.1		97.2
Capital and Reserves	32				
Called up share capital		31.5		31.3	
Share premium account		697.5		696.1	
Capital reserve		17.7		17.6	
Capital redemption reserve		0.7		0.7	
Investment in own shares		(2.6)		(2.1)	
Profit and loss account		(624.9)		(648.5)	
Shareholders' Funds – Equity			119.9		95.1
Minority Interests – Equity			2.2		2.1
Total Equity			122.1		97.2

Signed on behalf of the Board

Nicholas K Brookes
Director
25 February 2004

The notes on pages 35 to 75 form part of these Accounts.

Consolidated Cash Flow Statement

Year to 31 December	Notes	2003 £ million	2002 £ million
Net Cash Inflow from Operating Activities	7	68.2	76.9
Dividends received from:			
Joint venture		–	0.2
Associates		0.1	0.1
Returns on investments and servicing of finance	21	(23.2)	(10.8)
Taxation	21	8.9	(4.2)
Capital expenditure and financial investment	21	(15.8)	(25.8)
Acquisitions and disposals	21	60.4	6.4
Equity dividends paid		–	(40.2)
Management of liquid resources	21	0.1	0.2
Financing	21	(143.6)	53.8
Net Cash (Outflow)/Inflow		(44.9)	56.6

Reconciliation of Net Cash Flow to Movement in Net Debt

Year to 31 December	Notes	2003 £ million	2002 £ million
Net Cash (Outflow)/Inflow		(44.9)	56.6
Cash outflow/(inflow) arising from the change in debt and lease financing		144.3	(51.4)
Cash inflow arising from the change in liquid resources		(0.1)	(0.2)
Movement arising from Cash Flows	22	99.3	5.0
Debt issue costs	22	(0.8)	–
Loans and finance leases acquired with subsidiary	33	–	(0.2)
New finance leases	22	(0.3)	(0.2)
Exchange adjustment	22	6.1	12.7
Movement in Net Debt		104.3	17.3
Net debt at 1 January	22	(161.8)	(179.1)
Net Debt at 31 December	22	(57.5)	(161.8)

The notes on pages 35 to 75 form part of these Accounts.

Company Balance Sheet

At 31 December	Notes		2003 £ million		Restated 2002 £ million
Fixed Assets					
Tangible assets	14		15.2		16.3
Shares in subsidiaries	16		542.2		452.5
Loans to subsidiaries	17		218.2		71.1
Investments	18				
Investment in associate			0.1		0.1
Total Fixed Assets			775.7		540.0
Current Assets					
Stocks	19	3.5		3.7	
Debtors	20	18.8		19.9	
Cash at bank and in hand		13.8		59.1	
		36.1		82.7	
Current Liabilities					
Creditors due within one year	24	(18.1)		(18.7)	
Loans and overdrafts	25	–		(0.2)	
		(18.1)		(18.9)	
Net Current Assets			18.0		63.8
Assets less Current Liabilities			793.7		603.8
Long Term Liabilities					
Creditors due after more than one year	26		(595.5)		(378.8)
Provisions for Liabilities and Charges	27		(0.5)		(0.7)
Assets less Liabilities (excluding Pension Liability)			197.7		224.3
Pension Liability	10		(35.2)		(46.2)
Assets less Liabilities (including Pension Liability)			162.5		178.1
Capital and Reserves	32				
Called up share capital		31.5		31.3	
Share premium account		697.5		696.1	
Capital reserve		17.7		17.6	
Capital redemption reserve		0.7		0.7	
Merger reserve		1.2		1.2	
Investment in own shares		(2.6)		(2.1)	
Profit and loss account		(583.5)		(566.7)	
Total Equity			162.5		178.1

Signed on behalf of the Board

Nicholas K Brookes
Director
25 February 2004

The notes on pages 35 to 75 form part of these Accounts.

Notes to the Accounts

1. Accounting Policies

Basis of Accounting

The Accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the accounts for the current year the Group has adopted Financial Reporting Standard (FRS) 17 'Retirement Benefits'. The adoption of the standard is a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 17 are set out in note 32.

The Group has also implemented Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts' which requires that the cost of own shares, previously reported as a fixed asset investment, be shown as a deduction from shareholders' funds. A prior year adjustment has been made to reflect this change. Details of the effect of adopting UITF 38 are set out in note 32.

Basis of Consolidation

The consolidated profit and loss account and balance sheet incorporate the audited accounts of the Company and all its subsidiaries made up to the balance sheet date. The Company is not required to present a separate profit and loss account as provided by Section 230 of the Companies Act 1985.

Results of subsidiaries acquired in the year are consolidated from the date of acquisition. The consolidated accounts include the Group's share of profits and losses of its joint ventures and associates.

Associates are entities in which the Group has a continuing participating interest, other than subsidiaries, and exercises significant influence over their operating and financial policies. Results are based on management accounts to 31 December.

Entities in which the Group holds an interest on a long term basis and which are jointly controlled by the Group and other parties are treated as joint ventures. Joint ventures are accounted for using the gross equity method. Results are based on management accounts to 31 December.

Foreign Currencies

Transactions in foreign currencies are recorded at the exchange rate ruling on the date of the transaction. The operating results of overseas subsidiaries, joint ventures and associates are translated into sterling using average exchange rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Profits and losses arising from the retranslation of opening net assets of overseas subsidiaries, treating long term intra-group loans as part of the equity investment, and exchange adjustments arising from the translation of the operating results of overseas subsidiaries, joint ventures and associates, are dealt with through reserves.

All other profits and losses on exchange are taken to the profit and loss account, with the exception of differences on foreign currency borrowings used to finance or provide a hedge against Group equity investments in overseas subsidiaries, which are taken directly to reserves together with the exchange differences on the carrying amount of the related investments.

Financial Instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. The Group's policy is not to undertake any trading activity in financial instruments. Financial instruments will be accounted for as hedges when designated as hedges at the inception of the contract.

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The rates under these contracts are used to record the hedged item and, as such, gains and losses on foreign currency contracts are offset against the foreign exchange gains and losses on the related financial assets and liabilities. Where the contract is a hedge against future transactions, gains and losses are deferred until the transaction occurs.

Interest rate swaps are occasionally used to hedge the Group's exposure to movements in interest rates. Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the underlying financial instrument. Interest rate swaps are not revalued to fair value or shown in the Group balance sheet at the year end but are disclosed in the fair value table in note 30.

Gains or losses arising on hedging instruments, which are cancelled due to the termination of the underlying exposure, are taken to the profit and loss account immediately.

Finance costs associated with debt issuances are charged to the profit and loss account over the life of the instruments.

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed in note 30.

Notes to the Accounts continued

1. Accounting Policies continued

Liquid resources include short term deposits, government securities and similar securities, which are readily convertible into known amounts of cash.

Short term debtors and creditors that meet the definition of a financial asset or liability, respectively, have been excluded from all analyses prepared under FRS 13 'Derivatives and Other Financial Instruments: Disclosures', including numerical disclosures except for the analysis of net currency exposure, as permitted by the Standard.

Turnover

Represents the amounts invoiced to customers for goods and services during the year, excluding tax and intra-group transactions.

Revenue Recognition

Revenue from product sales of hardware and software is recognised at the time of delivery and acceptance.

Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer. Where the sale is to a new customer and installation is to be performed, revenue recognition is deferred until acceptance has occurred. Revenue recognition is also deferred until acceptance where a new product is supplied to an existing customer.

Revenue from multiple element contracts is allocated based on prices charged for each individual element when sold separately.

Revenue from services is recognised ratably over the period of performance.

The Group does not enter into a significant number of long term contracts. Revenue and estimated profits on long term contracts are recognised under the percentage-of-completion method of accounting. When estimates of total contract revenues and costs indicate a loss, a provision for the entire amount of the contract loss is recognised in the period in which the loss becomes evident.

The Group does not enter into bill and hold transactions.

In addition, revenue is only recognised when collectibility is probable.

Product Development

Expenditure is charged to the profit and loss account in the year in which it is incurred.

Pension Contributions

In the UK the Group operates two defined benefit pension schemes for the benefit of employees. These schemes require contributions to be made to separately administered funds, based on triennial actuarial valuations. Other schemes are defined contribution in nature.

The Group has fully adopted FRS 17 'Retirement Benefits' in the accounts for the year to 31 December 2003. This is a change in accounting policy and results in a restatement to the previous year's accounts as described in note 32. The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus or deficit in the balance sheet net of deferred tax.

The regular service cost of providing retirement benefits to employees in defined benefit schemes is charged to operating profit in the year together with the cost of providing benefit improvements in respect of past service and gains or losses arising on settlements and curtailments.

A credit for the expected return on the schemes' assets and a charge for the increase during the period in the present value of the schemes' liabilities because the benefits are one year closer to settlement, are included in other finance expense in the profit and loss account. Differences arising between the actual and expected returns on the schemes' assets together with changes in the actuarial assumptions are included in the statement of total recognised gains and losses.

Contributions payable to the other overseas defined contribution plans are charged to the profit and loss account in the year for which they are due.

Deferred Taxation

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

1. Accounting Policies continued

Provision is made for tax that would arise on the remittance of the retained earnings of overseas subsidiaries, associates and joint ventures, only to the extent that, at the balance sheet date, the dividends have been accrued as receivable.

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and representing the excess of cost over the fair value of the attributable assets and liabilities acquired is capitalised as an intangible asset and amortised over its estimated useful economic life up to a maximum of 20 years. Goodwill is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill arising prior to 1998 and previously written off against reserves has not been reinstated but, in accordance with FRS 10 'Goodwill and Intangible Assets', would be charged to the profit and loss account on the subsequent disposal of the business to which it related. Where impairment has been identified in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill', goodwill arising prior to 1998 has also been reviewed for impairment.

Other Intangible Assets

Other separately identifiable intangible assets such as patent fees, licence fees and trade marks are capitalised in the balance sheet only when the intangible asset is purchased in the acquisition of a business and the value can be measured reliably or the intangible asset is purchased separately. Such intangible assets are amortised over their useful economic lives up to a maximum of 20 years. The carrying values of intangible assets are reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible Assets

Depreciation is not provided on freehold land. Depreciation is provided to write off all other assets 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
Leasehold properties		50 years or lease period if less
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 in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Capital grants are treated as deferred income and are released to the profit and loss account over the estimated useful lives of the assets to which they relate.

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their estimated useful lives. The interest elements of the rental obligations are charged to the profit and loss account over the periods of the leases and hire purchase contracts in proportion to the balance of capital repayments outstanding.

Operating lease rentals are charged to the profit and loss account over the period of the lease.

Stocks

Stocks are valued at the lower of cost and estimated net realisable value. Cost includes all costs in bringing each product to its present location and condition, being the full manufacturing cost on a first-in-first-out basis, including all attributable overheads based on a normal level of activity. Net realisable value represents the selling price less further costs to be incurred to completion and on sale.

Notes to the Accounts continued

2. Segmental Analysis

	2003 £ million	Restated 2002 £ million
Turnover		
Performance Analysis	148.7	184.0
Service Assurance	91.7	131.4
Communications	240.4	315.4
Network Products	174.4	164.7
Systems	51.4	78.8
	466.2	558.9
Profit/(Loss) before Taxation		
Operating profit before goodwill amortisation and exceptional items		
Performance Analysis	4.4	10.0
Service Assurance	9.4	20.8
Communications	13.8	30.8
Network Products	16.7	15.0
Systems	5.5	4.6
	36.0	50.4
Operating exceptional items – goodwill impairment		
Performance Analysis	–	(330.7)
Service Assurance	–	(530.4)
Communications	–	(861.1)
Network Products	–	(21.7)
Systems	–	(40.5)
	–	(923.3)
Operating exceptional items – other		
Performance Analysis	(5.1)	(28.3)
Service Assurance	(0.1)	(8.6)
Communications	(5.2)	(36.9)
Network Products	–	(3.3)
Systems	–	(1.4)
Non-segmental	(2.3)	–
	(7.5)	(41.6)
Goodwill amortisation		
Performance Analysis	(3.9)	(20.8)
Service Assurance	(5.5)	(33.5)
Communications	(9.4)	(54.3)
Network Products	(0.3)	(1.5)
Systems	–	(0.3)
	(9.7)	(56.1)
Operating Profit/(Loss)	18.8	(970.6)
Income from interests in joint ventures	2.7	7.4
Income from interests in associates	2.1	1.0
Amortisation of goodwill on associate	–	(0.2)
Profit/(loss) on the disposal and closure of operations	3.6	(48.4)
Net interest payable	(25.4)	(12.3)
Other finance expense	(1.5)	(0.3)
Profit/(Loss) before Taxation	0.3	(1,023.4)

2. Segmental Analysis continued

	2003 £ million	Restated 2002 £ million
Operating Assets		
Performance Analysis	85.6	113.8
Service Assurance	60.5	72.0
Communications	146.1	185.8
Network Products	93.7	98.3
Systems	5.0	5.6
Segmental operating assets *note 3*	244.8	289.7
Investment in joint venture *note 18*	0.3	50.1
Investment in associates *note 18*	14.6	13.3
Tax payable *note 24*	(24.7)	(19.5)
Operating Assets	235.0	333.6
Net debt *note 22*	(57.5)	(161.8)
Provisions for liabilities and charges *note 27*	(20.2)	(28.4)
Assets less Liabilities (excluding Pension Liability)	157.3	143.4
Pension liability *note 10*	(35.2)	(46.2)
Assets less Liabilities (including Pension Liability)	122.1	97.2

3. Geographical Analysis

	2003 £ million	2002 £ million
Turnover by Market		
Europe	149.6	149.4
North America	229.3	322.4
Asia Pacific, Rest of Americas, Africa	87.3	87.1
	466.2	558.9
Turnover by Source		
Europe	168.2	157.7
North America	262.1	368.9
Asia Pacific, Rest of Americas, Africa	35.9	32.3
	466.2	558.9

Notes to the Accounts continued

3. Geographical Analysis continued

	2003 £ million	Restated 2002 £ million
Operating Profit/(Loss)		
Operating profit before goodwill amortisation and exceptional items		
Europe	21.7	19.3
North America	13.0	30.2
Asia Pacific, Rest of Americas, Africa	1.3	0.9
	36.0	50.4
Operating exceptional items – goodwill impairment		
Europe	–	(19.5)
North America	–	(901.8)
Asia Pacific, Rest of Americas, Africa	–	(2.0)
	–	(923.3)
Operating exceptional items – other		
Europe	(2.3)	(3.6)
North America	(5.2)	(37.3)
Asia Pacific, Rest of Americas, Africa	–	(0.7)
	(7.5)	(41.6)
Goodwill amortisation		
Europe	(1.5)	(1.6)
North America	(8.2)	(54.4)
Asia Pacific, Rest of Americas, Africa	–	(0.1)
	(9.7)	(56.1)
Operating Profit/(Loss)	18.8	(970.6)
Operating Assets		
Europe	74.0	68.8
North America	158.8	208.0
Asia Pacific, Rest of Americas, Africa	12.0	12.9
Segmental operating assets *note 2*	244.8	289.7

4. Net Operating Expenses

	2003 £ million			Restated 2002 £ million
	Before exceptional items	Exceptional items	Total	Total
Selling and distribution	110.0	–	110.0	124.6
Administration	50.8	7.5	58.3	1,064.7
Other operating income	(0.7)	–	(0.7)	(0.6)
Net operating expenses including goodwill amortisation and exceptional items	160.1	7.5	167.6	1,188.7
Included within administration costs above:				
Operating exceptional items				
Goodwill impairment	–	–	–	923.3
Other	–	7.5	7.5	37.2
Goodwill amortisation	9.7	–	9.7	56.1
Net operating expenses before goodwill amortisation and exceptional items	150.4	–	150.4	172.1

5. Operating Profit/(Loss)

Operating profit/(loss) is arrived at after charging:

	2003 £ million	2002 £ million
Operating exceptional items		
Goodwill impairment	–	923.3
Other *note 6*	7.5	41.6
Goodwill amortisation	9.7	56.1
Depreciation		
Owned assets	29.0	33.2
Finance leased assets	0.3	0.4
Operating lease costs		
Plant and equipment	0.4	0.3
Land and buildings	11.3	10.4
Product development costs	66.0	77.7
Disclosure of fees paid to auditors		
Audit services:		
Audit fees – Ernst & Young LLP	1.2	1.2
Other fees paid to Ernst & Young		
Further assurance services	0.1	0.3
Tax services	0.6	1.2
	0.7	1.5
Other fees were paid to:		
Ernst & Young LLP	0.5	0.5
Ernst & Young overseas	0.2	1.0
	0.7	1.5

6. Operating Exceptional Items – Other

Finance renegotiation costs	2.3	–
Restructuring costs	3.8	8.6
Tangible fixed asset write-downs	2.2	3.6
Lease provisions	(0.8)	20.2
Stock provisions	–	4.4
Acquisition retention bonuses	–	4.8
	7.5	41.6

7. Reconciliation of Operating Profit/(Loss) to Net Cash Inflow from Operating Activities

	2003 £ million	Restated 2002 £ million
Operating profit/(loss)	18.8	(970.6)
Depreciation	29.3	33.6
(Profit)/loss on disposal of tangible fixed assets	(0.1)	0.5
Tangible fixed asset write-downs	2.2	3.6
Goodwill impairment	–	923.3
Goodwill amortisation	9.7	56.1
Stock compensation expense	0.6	0.5
Deferred income received/(released)	0.2	(4.8)
Decrease in debtors	3.8	2.9
Decrease in stocks	3.1	15.2
Increase/(decrease) in creditors	5.7	(1.7)
Non-cash movement on pension fund liability	0.8	(0.1)
(Decrease)/increase in provisions	(5.9)	18.4
Net Cash Inflow from Operating Activities	68.2	76.9

Notes to the Accounts continued

8. Net Interest Payable

	2003 £ million	2002 £ million
Interest receivable and similar income	3.1	4.0
Interest payable		
Senior unsecured loan notes	(8.8)	(11.8)
Bank loans and overdrafts	(2.6)	(3.1)
Other loans	(0.3)	(0.6)
Interest on finance leases	(0.5)	(0.1)
Exceptional interest expense	(16.1)	–
	(25.2)	(11.6)
Share of joint venture's interest	(0.2)	(0.7)
Net Interest Payable	(25.4)	(12.3)

On prepayment of the senior unsecured loan notes a make-whole amount becomes due. These amounts, together with fees in relation to certain amendments made to the terms of the loan notes and bank facility, are included above in the exceptional interest expense of £16.1 million.

9. Employees

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

	Number	Number
Manufacturing	2,768	3,276
Selling and distribution	1,310	1,397
Administration	420	506
	4,498	5,179

Their payroll costs were:

	£ million	£ million
Remuneration	154.5	176.7
Social security costs	17.3	19.7
Other pension costs	6.4	5.3
	178.2	201.7

Please refer to the Report on Directors' Remuneration on pages 21 to 28 for disclosures relating to the remuneration, share options, long term incentives and pensions of the directors.

10. Pensions

Defined Benefit Schemes

The Group has adopted FRS 17 'Retirement Benefits' in these financial statements.

The only significant defined benefit plans under FRS 17 are in the UK and comprise the Staff Pension Plan and the Retirement Cash Plan. These plans have been combined for the purposes of the following disclosures.

The most recent actuarial valuation at 1 April 2003 has been used and updated by our independent actuaries.

(i) The financial assumptions used to calculate the schemes' liabilities under FRS 17 were:

	UK defined benefit plans		
	2003 %	2002 %	2001 %
Valuation method		Projected unit	
Inflation	2.8	2.3	2.5
Rate of increase in salaries	3.5	3.0	4.0
Rate of increase for pensions in payment pre 2001 service	3.0	3.0	3.5
Rate of increase for pensions in payment post 2001 service	2.7	2.3	2.5
Rate of increase in deferred pensions	2.8	2.3	2.5
Rate used to discount scheme liabilities	5.4	5.5	6.0

10. Pensions continued

(ii) The assets and the liabilities in the schemes for the Group and Company were as follows:

	Long term rate of return expected %	2003 £ million	Long term rate of return expected %	2002 £ million	Long term rate of return expected %	2001 £ million
Equities	7.8	61.3	7.5	52.5	7.5	76.2
Gilts	4.8	15.3	4.5	15.7	5.0	12.1
Bonds	5.1	9.6	5.0	7.4	6.0	1.3
Cash	4.3	4.5	4.0	2.3	3.5	4.7
Property	6.8	1.8	6.5	4.3	6.0	3.8
Other	5.6	6.3	5.5	6.8	6.5	7.3
Total market value of assets		98.8		89.0		105.4
Actuarial value of liability		(142.2)		(130.9)		(123.3)
Net deficit in the schemes		(43.4)		(41.9)		(17.9)
Related deferred tax asset		13.0		–		5.4
Deficit in schemes, net of tax		(30.4)		(41.9)		(12.5)
Actuarial value of unfunded pension liability		(4.8)		(4.3)		(4.5)
Related deferred tax asset		–		–		1.4
Net pension liability		(35.2)		(46.2)		(15.6)

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

	2003 £ million	2002 £ million
Analysis of amount charged to operating costs:		
Current service cost	2.2	1.8
Analysis of amount charged to other finance expense:		
Expected return on pension scheme assets	5.7	6.7
Interest on pension scheme liabilities	(7.2)	(7.0)
Other finance expense	(1.5)	(0.3)
Net profit and loss charge	3.7	2.1
Analysis of amount recognised in the statement of total recognised gains and losses:		
Actual return less expected return on pension schemes' assets	5.5	(20.3)
Experience gains/(losses) arising on the schemes' liabilities	6.8	(0.9)
Changes in assumptions underlying the present value of the schemes' liabilities	(12.0)	(2.4)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	0.3	(23.6)
Movement in the deficit in the year:		
Deficit in schemes at 1 January	(41.9)	(17.9)
Current service cost	(2.2)	(1.8)
Employer contributions paid	1.9	1.7
Other finance expense	(1.5)	(0.3)
Actuarial gain/(loss)	0.3	(23.6)
Net deficit in the schemes at 31 December	(43.4)	(41.9)

Notes to the Accounts continued

10. Pensions continued

(iv) History of experience gains and losses

	2003	2002
Difference between the expected and actual return on scheme assets:		
Amount (£ million)	5.5	(20.3)
Percentage of scheme assets (per cent)	5.6	(22.8)
Experience gains and losses on scheme liabilities:		
Amount (£ million)	6.8	(0.9)
Percentage of the present value of scheme liabilities (per cent)	4.8	(0.7)
Total amount recognised in the statement of total recognised gains and losses:		
Amount (£ million)	0.3	(23.6)
Percentage of the present value of scheme liabilities (per cent)	0.2	(18.0)

The Group will be making additional annual pension contributions of £3.5 million commencing on 1 July 2004 in order to comply with the Minimum Funding Requirements for the UK defined benefit plans.

The above plans are funded and have full UK Inland Revenue tax-exempt approval by which benefits are limited due to the statutory earnings cap (an Inland Revenue limit on the amount of earnings that can be made pensionable under the plans for members who joined after May 1989). Certain members, whose salaries are in excess of this cap, have had their benefits increased through unapproved unfunded arrangements to the level that would otherwise have applied in respect of the basic salary only. The Company has contractually agreed to pay the additional retirement benefits itself and a provision at 31 December 2003 of £4.8 million (2002 £4.3 million) is included in the net pension liability above. This represents the actuarial value, as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a Market Value basis in line with the Main Plan Valuation and adjusted each year by the charge for the year (equivalent to a contribution to a funded plan) of £0.2 million (2002 £0.1 million) and interest on the unfunded liability of £0.3 million (2002 £0.3 million). Of this liability £4.5 million (2002 £4.1 million) is in respect of Nicholas Brookes and is discussed below. The additional death-in-service benefits over the statutory cap are separately insured by the Company under an unapproved scheme.

Spirent has a contractual liability to pay Mr Brookes an unfunded unapproved retirement benefit (UURB) as agreed when he joined the Company in 1995. At 31 December 2003 the provision in respect of this UURB stood at £4.5 million. Conditionally upon him remaining in employment until 30 June 2004, Mr Brookes and the Company have agreed that he will commute all of his pension entitlement under the UURB in exchange for a lump sum payment of £3.7 million in cash, payable to him on 1 July 2004.

Defined Contribution Schemes

United Kingdom

The Group maintains defined contribution pension schemes for employees in the UK. These plans are known as 'Cash Builder' or 'Pension Builder' and employer contributions into these schemes for 2003 were £0.1 million (2002 nil).

United States

The Group maintains defined contribution pension benefit plans for employees of its US subsidiaries. These plans, also known as 401(k) plans, allow employees to defer a percentage of their salary for retirement. There are five different 401(k) plans within the US businesses and each of these plans has different features regarding Company contributions, maximum deferral percentages and investment choices. The investment choices offered are among a selection of diversified mutual funds offering a broad mix of investment return potential with varying levels of risk. In aggregate the Company contributions to the various US plans totalled $4.4 million for 2003 (2002 $4.8 million). Total assets in the defined contribution plans at the end of 2003 were $103.1 million (2002 $88.0 million). There were no defined benefit plans in the US at 31 December 2003.

Other Jurisdictions

Outside the UK and US employees are provided with pension arrangements determined in accordance with approved local practice and regulations and these arrangements are defined contribution schemes. Total contributions for 2003 in respect of these schemes amounted to £0.2 million (2002 £0.1 million).

Total contributions to defined contribution schemes were £3.0 million (2002 £3.6 million).

11. Taxation

(a) Analysis of Charge for the Period

	2003 £ million	2002 £ million
Current tax		
Corporation tax	–	4.8
Overseas taxation	4.9	(4.4)
Tax arising on disposals – overseas taxation	–	3.0
Under/(over) provision in prior years – UK tax	1.1	(1.3)
– overseas taxation	(7.1)	(4.9)
	(1.1)	(2.8)
Share of joint venture's taxation	1.1	2.7
Share of associates' taxation	0.9	0.6
Total current tax charge	0.9	0.5
Deferred tax		
Origination and reversal of timing differences	(0.3)	7.4
Reversal of deferred tax assets	–	19.0
Total deferred tax (credit)/charge	(0.3)	26.4
Total tax charge for the year	0.6	26.9

The tax effect of the operating exceptional items was a tax credit of £1.7 million (2002 £3.5 million credit). In respect of the non-operating exceptional items no charge arises (2002 £3.0 million charge).

An exceptional deferred tax charge of £19.0 million arose in the period to 31 December 2002, as previously recognised deferred tax assets were reversed due to insufficient evidence to support recognition of a deferred tax asset under FRS 19 'Deferred Tax'.

In 2003 £12.6 million of deferred tax assets have been recognised on the pension fund deficit and credited to the statement of total recognised gains and losses. In 2002 a charge of £5.4 million arises in the restated statement of total recognised gains and losses as the deferred tax asset, which would have previously been recognised on the pension fund deficit had FRS 17 'Retirement Benefits' been implemented, has been written off due to the reasons discussed above.

A charge of £0.1 million (2002 nil) arises on the actuarial gain and this has been included in the statement of total recognised gains and losses.

(b) Factors Affecting Tax Charge for the Period

The current tax charge for the year is higher than the standard rate of corporation tax in the UK (30 per cent). The differences are explained as follows:

	2003 £ million	Restated 2002 £ million
Profit/(loss) before tax	0.3	(1,023.4)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 30 per cent (2002 30 per cent)	0.1	(307.0)
Expenses not deductible for tax (primarily goodwill impairment and amortisation)	7.3	317.5
Movement in timing differences	0.3	(7.4)
Tax arising on disposals	–	3.0
Different tax rates on overseas earnings and other adjustments	(0.8)	0.6
Tax overprovided in previous years	(6.0)	(6.2)
Total current tax charge	0.9	0.5

Notes to the Accounts continued

11. Taxation continued

(c) Factors that may Affect Future Tax Charges

Deferred tax assets of £18.3 million (2002 £20.1 million) arising principally on timing differences in the US and UK have not been recognised. These assets can only be realised when they reverse against suitable taxable profits. Although the directors ultimately expect to realise these assets, there is currently insufficient evidence under FRS 19 'Deferred Tax' to recognise a deferred tax asset in respect of these timing differences.

In addition, the Group has tax losses arising in the US of £70.1 million (2002 £23.1 million) and in the UK of £24.8 million (2002 £10.2 million) that are available for offset against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain.

In total, deferred tax assets amounting to £50.3 million (2002 £31.2 million) have not been recognised on unutilised losses and timing differences.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures. No deferred tax asset has been recognised in respect of the tax deduction which may be available on the future exercise of stock options.

12. Loss per Share

Loss per share is calculated by reference to the loss for the year and the number of Ordinary shares in issue during the year as follows:

	2003 £ million	Restated 2002 £ million
Basic loss attributable to shareholders	(0.5)	(1,050.7)
Operating exceptional items		
Goodwill impairment	–	923.3
Other	7.5	41.6
Goodwill amortisation	9.7	56.1
(Profit)/loss on disposal and closure of operations	(3.6)	48.4
Exceptional interest charge	16.1	–
Prior year tax credit	(6.0)	(6.2)
Reversal of deferred tax assets	–	19.0
Attributable taxation on exceptional items	(1.7)	(3.5)
Attributable taxation on the disposal of operations	–	3.0
Headline earnings attributable to shareholders	21.5	31.0

	Number million	Number million
Weighted average number of shares in issue – basic and headline	929.3	922.5
Dilutive potential of employee share options	–	–
Weighted average number of shares in issue – diluted	929.3	922.5

The shares in issue used to calculate basic and headline (loss)/earnings per share exclude the shares held by the Spirent Qualifying Employee Share Ownership Trust (QUEST) and the Spirent Employee Share Ownership Trust (ESOT) in accordance with FRS 14 'Earnings per Share'.

13. Intangible Assets

Goodwill

	2003 £ million
	Group
Cost	
At 1 January	1,842.9
Increase during the year *note 33*	2.7
Disposal of operations *note 34*	(4.1)
Exchange adjustment	(56.0)
At 31 December	1,785.5
Amortisation	
At 1 January	1,729.3
Provided during the year	9.7
Disposal of operations *note 34*	(3.5)
Exchange adjustment	(51.6)
At 31 December	1,683.9
Net book value at 31 December 2003	101.6
Net book value at 31 December 2002	113.6

14. Tangible Assets

2003 £ million

	Land and buildings					
	Freehold	Long lease	Short lease	Plant and machinery	Fixtures, fittings and equipment	Total
						Group
Cost						
At 1 January	16.9	10.9	24.1	118.0	70.7	240.6
Exchange adjustment	(0.8)	0.1	(0.9)	(4.1)	(4.0)	(9.7)
Additions – owned assets	0.3	–	0.2	11.6	4.6	16.7
– leased assets	–	–	–	–	0.3	0.3
Disposals	–	–	(0.4)	(4.0)	(3.8)	(8.2)
Disposal of operations *note 34*	–	–	(0.6)	(0.8)	(1.2)	(2.6)
At 31 December	16.4	11.0	22.4	120.7	66.6	237.1
Depreciation						
At 1 January	2.7	1.5	4.3	81.0	41.1	130.6
Exchange adjustment	(0.2)	–	(0.6)	(2.8)	(3.3)	(6.9)
Provided during the year	0.4	0.3	2.0	14.6	12.0	29.3
Fixed asset write-down	–	–	3.2	–	–	3.2
Disposals	–	–	(0.2)	(3.6)	(3.6)	(7.4)
Disposal of operations *note 34*	–	–	(0.2)	(0.7)	(1.0)	(1.9)
At 31 December	2.9	1.8	8.5	88.5	45.2	146.9
Net book value at 31 December	13.5	9.2	13.9	32.2	21.4	90.2

Notes to the Accounts continued

14. Tangible Assets continued

2003 £ million

	Land and buildings Freehold	Long lease	Short lease	Plant and machinery	Fixtures, fittings and equipment	Total
						Company
Cost						
At 1 January	1.0	9.0	0.4	27.3	6.4	44.1
Additions	–	–	–	1.9	0.4	2.3
Disposals	–	–	–	(0.8)	(0.2)	(1.0)
At 31 December	1.0	9.0	0.4	28.4	6.6	45.4
Depreciation						
At 1 January	0.4	1.1	0.1	21.7	4.5	27.8
Provided during the year	–	0.3	0.1	2.0	1.0	3.4
Disposals	–	–	–	(0.8)	(0.2)	(1.0)
At 31 December	0.4	1.4	0.2	22.9	5.3	30.2
Net book value at 31 December	0.6	7.6	0.2	5.5	1.3	15.2

Tangible assets include the following finance leased assets:

			Group
Net book value at 1 January	0.4	0.7	1.1
Depreciation provided during the year	–	0.3	0.3
Net book value at 31 December	0.4	0.6	1.0

15. Capital Commitments and Contingent Liabilities

	2003 £ million Group	Company	2002 £ million Group	Company
Capital expenditure commitments:				
Contracted but not provided	1.5	0.8	1.4	0.5
Contingent liabilities:				
Bank guarantees	–	1.8	–	2.3

Spirent plc, the parent company, has provided indemnities of £1.0 million (2002 nil) for certain ongoing business obligations under letters of credit for subsidiary companies.

16. Shares in Subsidiaries

	2003 £ million Company
Cost	
At 1 January	1,906.6
Additions	302.2
Transfers to subsidiaries	(212.5)
At 31 December	1,996.3
Provisions	
At 1 January and 31 December	1,454.1
Net book value at 31 December	542.2

17. Loans to Subsidiaries

	2003 £ million
	Company
At 1 January	71.1
Exchange adjustment	7.3
Advances	151.5
Repayments	(11.7)
At 31 December	218.2

18. Fixed Asset Investments

Joint Ventures

	2003 £ million
	Group
At 1 January	50.1
Share of retained profit	1.4
Additions	0.5
Disposal *note 34*	(54.3)
Exchange adjustment	2.6
At 31 December	0.3

The joint venture company at 31 December 2003 was:

	% holding	Nature of business
Spirent DM Ltd	40	Communications

The joint venture companies at 31 December 2002 were:

WAGO Kontakttechnik GmbH	51	Interconnection products
WAGO Contact SA	51	Interconnection products

On 4 April 2003 Spirent divested of its 51 per cent interests in WAGO.

	2003 £ million	2002 £ million
Profit and loss account		
Share of turnover	22.4	75.6
Profit before taxation	2.5	6.7
Taxation	1.1	2.7
Share of profit after taxation	1.4	4.0
Balance sheet		
Fixed assets	0.3	34.4
Current assets	–	38.5
Share of gross assets	0.3	72.9
Liabilities due within one year	–	9.8
Liabilities due after more than one year	–	11.3
Minority interests	–	1.7
Share of gross liabilities	–	22.8
Share of net assets	0.3	50.1

Notes to the Accounts continued

18. Fixed Asset Investments continued

Associates

	2003 £ million Group	Company
Cost		
At 1 January and 31 December		0.1
Share of retained profits and reserves		
At 1 January	13.3	–
Exchange adjustment	0.2	–
Share of retained profits for the year	1.1	–
At 31 December	14.6	–
Net book value at 31 December	14.6	0.1

The associated companies at 31 December 2003 and 31 December 2002 were as follows:

	% holding	Nature of business
Tyton Company of Japan	49	Cable management products
3M/ECC	20	Cable management products

19. Stocks

	2003 £ million		2002 £ million	
	Group	Company	Group	Company
Raw materials	12.6	0.5	16.6	0.3
Work in progress	5.0	0.1	8.9	0.1
Finished goods	37.4	2.9	36.0	3.3
	55.0	3.5	61.5	3.7

20. Debtors

Due within one year:				
Trade debtors	69.5	6.3	79.1	6.8
Owed by subsidiaries	–	8.2	–	7.2
Owed by associates	0.2	–	0.4	0.2
Other debtors	8.2	0.4	6.3	1.2
Tax recoverable	–	2.6	–	2.4
Prepayments and accrued income	7.3	1.3	9.5	2.0
	85.2	18.8	95.3	19.8
Due after one year:				
Other debtors	0.2	–	0.2	–
Prepayments	1.5	–	1.8	0.1
	1.7	–	2.0	0.1
Total debtors	86.9	18.8	97.3	19.9

21. Notes to the Cash Flow Statement

	2003 £ million	2002 £ million
Returns on Investments and Servicing of Finance		
Interest received	3.6	4.0
Interest paid	(12.6)	(14.7)
Interest element of finance lease rental payments	(0.5)	(0.1)
Exceptional interest paid	(13.7)	–
Net cash outflow for returns on investments and servicing of finance	(23.2)	(10.8)
Taxation		
Corporation tax paid	(3.3)	(11.9)
Overseas tax received	12.2	7.7
Tax received/(paid)	8.9	(4.2)
Capital Expenditure and Financial Investment		
Capital expenditure	(16.7)	(27.6)
Receipts from sales of tangible assets	0.9	1.8
Net cash outflow for capital expenditure and financial investment	(15.8)	(25.8)
Acquisitions and Disposals		
Acquisition of subsidiaries *note 33*	(1.1)	(49.2)
Acquisition of joint venture	(0.5)	–
Disposal of operations *note 34*	62.0	55.6
Net cash inflow for acquisitions and disposals	60.4	6.4
Management of Liquid Resources		
Sale of investments	0.1	0.2
Financing		
Issue of share capital	0.7	2.4
New loans	9.4	75.7
Repayment of loans	(152.9)	(23.6)
Repayment of capital element of finance lease rentals	(0.8)	(0.7)
Net cash (outflow)/inflow from financing	(143.6)	53.8

22. Analysis of Changes in Net Debt

£ million

	1 January 2003	Cash flow	Non-cash changes	Exchange adjustment	31 December 2003
Cash at bank and in hand	83.5	(44.8)	–	(1.1)	37.6
Overdrafts	(0.6)	(0.1)	–	–	(0.7)
Net cash	82.9	(44.9)	–	(1.1)	36.9
Current asset investments	0.1	(0.1)	–	–	–
Bank loans due within one year	(0.4)	–	–	–	(0.4)
Other loans and finance lease obligations due within one year	(0.8)	0.1	–	–	(0.7)
Net liquid funds	81.8	(44.9)	–	(1.1)	35.8
Senior unsecured loan notes due after one year	(135.0)	47.0	(0.2)	7.4	(80.8)
Bank loans due after one year	(99.4)	96.6	(0.6)	0.1	(3.3)
Other loans and finance lease obligations due after one year	(9.2)	0.6	(0.3)	(0.3)	(9.2)
Net debt	(161.8)	99.3	(1.1)	6.1	(57.5)

Notes to the Accounts continued

23. Current Asset Investments

	2003 £ million		2002 £ million	
	Group	Company	Group	Company
Listed	–	–	0.1	–
Market value listed securities	–	–	0.1	–

The investments at 31 December 2002 were US and UK Treasury Stock.

24. Creditors Due Within One Year

	2003 Group	2003 Company	2002 Group	2002 Company
Trade creditors	27.6	5.3	23.6	4.9
Payments received on account	–	–	0.4	–
Owed to subsidiaries	–	2.0	–	1.4
Owed to joint venture	–	–	0.3	–
Owed to associates	0.8	–	0.6	–
Other creditors	10.0	1.2	8.7	1.4
Accruals and deferred income	42.9	8.8	50.1	9.8
Corporation tax – UK and overseas	24.7	–	19.5	0.2
Other taxes and social security costs	5.3	0.8	4.3	1.0
	111.3	18.1	107.5	18.7

25. Loans and Overdrafts

	2003 Group	2003 Company	2002 Group	2002 Company
Bank overdrafts				
Secured	0.7	–	0.5	–
Unsecured	–	–	0.1	0.1
Bank loans due within one year *note 28*	0.4	–	0.4	–
Other loans and finance lease obligations due within one year *note 28*	0.7	–	0.8	0.1
	1.8	–	1.8	0.2

Where applicable, overdrafts are secured either by mortgages on the freehold properties or by floating charges on the assets of the borrowing subsidiaries.

26. Creditors Due After More Than One Year

	2003 £ million		Restated 2002 £ million	
	Group	Company	Group	Company
Senior unsecured loan notes *note 29*	80.8	80.8	135.0	135.0
Bank loans *note 28*	3.3	–	99.4	95.4
Other loans and finance lease obligations *note 28*	9.2	–	9.2	–
Owed to subsidiaries	–	514.4	–	147.6
Other creditors	1.3	–	1.6	–
Deferred income	0.4	0.3	2.6	0.4
Pension	0.6	–	0.5	0.4
	95.6	595.5	248.3	378.8

27. Provisions for Liabilities and Charges

	2003 £ million		2002 £ million	
	Group	Company	Group	Company
Deferred Taxation				
At 1 January	2.4	–		
Exchange adjustment	(0.3)	–		
Transfer to pension liability	0.5	–		
Credit for the year *note 11*	(0.3)	–		
At 31 December	2.3	–		
Deferred taxation provided:				
Capital allowances in advance of the corresponding charges for depreciation	1.4	–	1.7	–
Other short term timing differences	0.9	–	0.7	–
	2.3	–	2.4	–

In accordance with FRS 19 'Deferred Tax', deferred tax assets have not been recognised in respect of total tax losses of £94.9 million (2002 £33.3 million). In addition deferred tax assets of £18.3 million (2002 £20.1 million) arising principally in respect of timing differences have not been recognised (see note 11).

Other Provisions

	Group	Company
Lease provisions		
At 1 January	26.0	0.7
Charged during the year	1.0	–
Released during the year	(1.8)	–
Transfers out	(1.0)	–
Utilised during the year	(5.1)	(0.2)
Exchange adjustment	(1.2)	–
At 31 December	17.9	0.5

The lease provisions are for the continuing obligations under leases in respect of properties which have been vacated by the Group.

Notes to the Accounts continued

28. Loans and Finance Lease Obligations

	2003 £ million		2002 £ million	
	Group	Company	Group	Company
Secured:				
Bank loans not wholly repayable within five years	–	–	2.2	–
Bank loans wholly repayable within five years	3.7	–	2.1	–
Other loans not wholly repayable within five years	0.7	–	–	–
Finance lease obligations	9.2	–	9.5	–
	13.6	–	13.8	–
Unsecured:				
Bank loans wholly repayable within five years	–	–	96.2	96.1
Other loans wholly repayable within five years	–	–	0.5	0.1
	–	–	96.7	96.2
Less debt issuance costs	–	–	(0.7)	(0.7)
	13.6	–	109.8	95.5

Repayment schedules for amounts due at 31 December are as follows:

	2003 Group	2003 Company	2002 Group	2002 Company
Bank loans:				
After five years	–	–	2.2	–
Between two and five years	2.8	–	1.3	–
Between one and two years	0.5	–	96.6	96.1
Due after more than one year	3.3	–	100.1	96.1
Less debt issuance costs	–	–	(0.7)	(0.7)
Due after more than one year *note 26*	3.3	–	99.4	95.4
Due within one year *note 25*	0.4	–	0.4	–
Total bank loans	3.7	–	99.8	95.4
Other loans and finance leases:				
After five years	7.0	–	7.1	–
Between two and five years	1.5	–	1.5	–
Between one and two years	0.7	–	0.6	–
Due after more than one year *note 26*	9.2	–	9.2	–
Due within one year *note 25*	0.7	–	0.8	0.1
Total other loans and finance leases	9.9	–	10.0	0.1
Total loans	13.6	–	109.8	95.5

Where applicable loans are secured either by mortgages on the freehold properties or by floating charges on the assets of the borrowing subsidiaries. The long term secured loans are repayable in 2017 and bear interest at an average rate of 4 per cent.

29. Senior Unsecured Loan Notes

	2003 £ million		2002 £ million	
	Group	Company	Group	Company
Senior unsecured loan notes 2006	3.6	3.6	6.2	6.2
Senior unsecured loan notes 2009	77.4	77.4	129.2	129.2
	81.0	81.0	135.4	135.4
Less debt issuance costs	(0.2)	(0.2)	(0.4)	(0.4)
Due after more than one year *note 26*	80.8	80.8	135.0	135.0

At 31 December 2003 the following loan notes were in issue:

(i) $6.4 million bearing interest at 9.19 per cent repayable on 23 November 2006;
(ii) $41.9 million bearing interest at 9.31 per cent repayable on 23 November 2009;
(iii) $76.1 million bearing interest at 9.41 per cent repayable on 23 November 2009;
(iv) $19.8 million bearing interest at 10.00 per cent repayable on 23 November 2009. An interest rate derivative was entered into in 1999 to reduce the effective interest rate to 9.53%.

Loan notes are repayable:

(i) at maturity; or
(ii) at any time at the Company's option in an amount of not less than 5 per cent of the aggregate principal amount then outstanding plus a make-whole amount.

30. Financial Risk Management

The Group's approach to managing financial risk is described in the Financial Review on pages 8 to 11.

(a) Interest Rate Risk

The interest rate profile of the Group's financial assets and liabilities at 31 December after taking into account interest rate swaps was as follows:

			2003 £ million
	At floating interest rates	Non-interest bearing	Total
Financial assets			
Sterling	8.5	0.4	8.9
US dollar	17.2	1.1	18.3
Euro	4.0	0.6	4.6
Others	4.3	1.7	6.0
	34.0	3.8	37.8

			2002 £ million
	At floating interest rates	Non-interest bearing	Total
Financial assets			
Sterling	61.1	0.1	61.2
US dollar	10.1	1.0	11.1
Euro	5.6	1.3	6.9
Others	3.5	1.1	4.6
	80.3	3.5	83.8

Notes to the Accounts continued

30. Financial Risk Management continued

The financial assets of the Group comprise:

	2003 £ million	2002 £ million
Debtors due after more than one year (excluding prepayments) *note 20*	0.2	0.2
Current asset investments *note 23*	–	0.1
Cash at bank and in hand *note 22*	37.6	83.5
	37.8	83.8

Floating rate financial assets comprised cash deposits at call, seven day and monthly rates. The weighted average period to maturity for financial assets on which no interest is paid is less than one year.

2003 £ million	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
US dollar	43.7	40.4	1.3	85.4
Euro	10.0	0.4	–	10.4
Others	0.2	0.4	–	0.6
	53.9	41.2	1.3	96.4

2002 £ million	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
Sterling	–	84.4	–	84.4
US dollar	37.8	112.3	1.6	151.7
Euro	10.1	0.4	–	10.5
Others	0.2	0.2	–	0.4
	48.1	197.3	1.6	247.0

	2003			2002		
	Average interest rates of fixed rate liabilities %	Weighted average period to maturity of fixed rate liabilities years	Weighted average period to maturity of non-interest bearing liabilities years	Average interest rates of fixed rate liabilities %	Weighted average period to maturity of fixed rate liabilities years	Weighted average period to maturity of non-interest bearing liabilities years
Financial liabilities						
Sterling	11.5	2.3	–	11.5	3.3	–
US dollar	9.2	5.6	5.2	8.3	6.2	4.9
Euro	5.7	12.8	–	5.8	13.3	–
Others	11.2	2.1	–	13.9	2.8	–
Group	8.6	6.9	5.2	7.8	7.7	4.9

30. Financial Risk Management continued

The financial liabilities of the Group comprise:

	2003 £ million	2002 £ million
Bank overdrafts, current instalment of loans and finance lease obligations *note 25*	1.8	1.8
Senior unsecured loan notes due after more than one year *note 26*	80.8	135.0
Bank loans due after more than one year *note 26*	3.3	99.4
Other loans and finance lease obligations due after more than one year *note 26*	9.2	9.2
Other creditors falling due after more than one year *note 26*	1.3	1.6
	96.4	247.0

The floating rate liabilities at 31 December 2003 comprise primarily $72.1 million (2002 $163.4 million) of the senior unsecured loan notes for which an interest rate swap is in place. Other floating rate liabilities bear interest at various rates set with reference to the prevailing LIBOR or equivalent for the time period and country.

(b) Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities at 31 December was as follows:

	2003	2002
In one year or less, or on demand	1.8	1.9
In more than one year but not more than two years	1.2	96.5
In more than two years but not more than five years	7.8	9.0
In more than five years	85.6	139.6
	96.4	247.0

The undrawn committed borrowing facilities at 31 December were as follows:

	2003	2002
Expiring in one year or less	61.5	24.8
Expiring in more than one year but not more than two years	–	73.4
	61.5	98.2

The committed borrowing facilities are comprised primarily of a £60 million multi-currency revolving credit facility.

As discussed in the Financial Review on pages 8 to 11, the Group put in place a £30 million 364-day working capital facility effective from 18 February 2004 with a six month term-out option to replace this £60 million facility.

Notes to the Accounts continued

30. Financial Risk Management continued

(c) Currency Exposure of Financial Assets and Liabilities

The table below shows the net unhedged monetary assets and liabilities of Group companies at 31 December. These monetary assets and liabilities are not denominated in their functional currency and therefore give rise to exchange gains and losses in the profit and loss account.

	Net foreign currency monetary assets/(liabilities)				2003 £ million
	Sterling	US dollar	Euro	Other	Total
Functional currency of Group operation					
Sterling	–	(1.0)	0.6	–	(0.4)
US dollar	(0.3)	–	(0.1)	–	(0.4)
Euro	(0.8)	(1.5)	–	0.2	(2.1)
Other	(1.9)	1.7	(0.9)	0.6	(0.5)
	(3.0)	(0.8)	(0.4)	0.8	(3.4)

	Net foreign currency monetary assets/(liabilities)				2002 £ million
	Sterling	US dollar	Euro	Other	Total
Functional currency of Group operation					
Sterling	–	0.2	1.0	(0.1)	1.1
US dollar	(0.3)	–	(0.1)	–	(0.4)
Euro	0.3	0.3	–	0.2	0.8
Other	(0.4)	2.8	–	0.1	2.5
	(0.4)	3.3	0.9	0.2	4.0

(d) Fair Value of Financial Instruments

	2003 £ million		2002 £ million	
	Book value	Fair value	Book value	Fair value
Primary financial instruments held or issued to finance the Group's operations				
Short term borrowings and current portion of long term borrowings	(1.8)	(1.8)	(1.8)	(1.8)
Long term senior unsecured loan notes	(80.8)	(97.0)	(135.0)	(153.1)
Other long term borrowings	(12.5)	(11.8)	(108.6)	(107.7)
Cash and other liquid funds	37.6	37.6	83.5	83.5
Current asset investments	–	–	0.1	0.1
Other financial assets	0.2	0.2	0.2	0.2
Other financial liabilities	(1.3)	(1.3)	(1.6)	(1.6)
	(58.6)	(74.1)	(163.2)	(180.4)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	–	(1.3)	–	0.4
Forward foreign exchange contracts	–	0.4	–	0.5
	(58.6)	(75.0)	(163.2)	(179.5)

The derivative financial instruments are as follows:

(i) Interest rate swaps for $72.1 million (£40.5 million). The swaps terminate on 23 November 2009 and can be cancelled at the banks' option at six monthly intervals with no mark to market settlement. The swaps have been transacted with two banks and are split $48.0 million and $24.1 million between them. The terms of the $48.0 million swap allow for either party to exercise a break on 23 November 2005 or 23 November 2008. The swap for $24.1 million allows for either party to exercise a break at 23 November 2005. If a break is exercised a mark to market settlement is made at the fair value. At 31 December 2003 the fair value was £1.3 million which would have been payable by Spirent to the banks.

(ii) Forward foreign exchange contracts are used to hedge material transactional exposures.

30. Financial Risk Management continued

(e) Hedges

As explained in the Financial Review on pages 8 to 11, it is the Group's policy to hedge a proportion of its transactional currency exchange exposures using forward foreign currency contracts and its interest rate exposures by using interest rate swaps. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged itself is recognised.

Unrecognised gains and losses on instruments used for hedging are as follows:

			2003 £ million	2002 £ million
	Gains	Losses	Total net gains/(losses)	Total net gains/(losses)
Unrecognised gains/(losses) at 1 January	1.1	(0.2)	0.9	(1.2)
Gains/(losses) arising in previous years recognised in the year	1.1	(0.2)	0.9	(1.2)
Gains/(losses) arising before 1 January that were not recognised in the year	–	–	–	–
Gains/(losses) arising in the year that were not recognised	0.4	(1.3)	(0.9)	0.9
Unrecognised gains/(losses) on hedges at 31 December	0.4	(1.3)	(0.9)	0.9
Expected to be recognised:				
In one year or less	0.4	–	0.4	0.5
In later years	–	(1.3)	(1.3)	0.4
	0.4	(1.3)	(0.9)	0.9

31. Operating Lease Commitments

Annual commitments which expire:

	2003 £ million		2002 £ million	
	Group	Company	Group	Company
In respect of land and buildings (subject to periodic rent reviews):				
Within one year	0.3	–	0.6	–
In the second to fifth years	5.2	0.1	5.7	–
Over five years	4.4	0.6	5.8	0.8
	9.9	0.7	12.1	0.8
In respect of plant and equipment:				
Within one year	0.4	–	0.1	–
In the second to fifth years	0.1	–	0.4	–
	0.5	–	0.5	–

Notes to the Accounts continued

32. Capital and Reserves

	Called up share capital	Share premium account	Capital reserve	Capital redemption reserve	Investment in own shares	Profit and loss account
						2003 £ million
						Group
At 1 January	31.3	696.1	17.6	0.7	–	(606.6)
Prior year adjustment – UITF 38	–	–	–	–	(32.2)	30.1
Transfer in respect of provision against investment in own shares	–	–	–	–	30.1	(30.1)
Prior year adjustment – FRS 17	–	–	–	–	–	(41.9)
At 1 January as restated	31.3	696.1	17.6	0.7	(2.1)	(648.5)
Exchange adjustment on subsidiaries, joint ventures and associates	–	–	–	–	–	6.1
Overseas taxation on exchange adjustment	–	–	–	–	–	(0.2)
New shares issued	0.2	1.4	(0.9)	–	–	–
Obligation to issue share capital – stock compensation	–	–	0.6	–	–	–
Obligation to issue share capital – Caw Networks, Inc.	–	–	2.7	–	–	–
Loss for the year	–	–	–	–	–	(0.5)
Goodwill on disposal of subsidiaries acquired before 1998	–	–	–	–	–	2.6
Shares transferred to ESOT	–	–	0.5	–	(0.5)	–
Gain on lapsed options	–	–	(1.2)	–	–	1.2
Actuarial gain recognised on pension schemes	–	–	–	–	–	0.3
Taxation on actuarial gain	–	–	–	–	–	(0.1)
Reinstatement of deferred tax asset on pension liability	–	–	–	–	–	12.6
Transfer	–	–	(1.6)	–	–	1.6
At 31 December	31.5	697.5	17.7	0.7	(2.6)	(624.9)

32. Capital and Reserves continued

	Called up share capital	Share premium account	Capital reserve	Capital redemption reserve	Merger reserve	Investment in own shares	Profit and loss account
							2003 £ million
							Company
At 1 January	31.3	696.1	17.6	0.7	1.2	–	(524.8)
Prior year adjustment – UITF 38	–	–	–	–	–	(32.2)	30.1
Transfer in respect of provision against investment in own shares	–	–	–	–	–	30.1	(30.1)
Prior year adjustment – FRS 17	–	–	–	–	–	–	(41.9)
At 1 January as restated	31.3	696.1	17.6	0.7	1.2	(2.1)	(566.7)
New shares issued	0.2	1.4	(0.9)	–	–	–	–
Obligation to issue share capital – stock compensation	–	–	0.6	–	–	–	–
Obligation to issue share capital – Caw Networks, Inc.	–	–	2.7	–	–	–	–
Loss for the year	–	–	–	–	–	–	(32.4)
Shares transferred to ESOT	–	–	0.5	–	–	(0.5)	–
Gain on lapsed options	–	–	(1.2)	–	–	–	1.2
Actuarial gain recognised on pension schemes	–	–	–	–	–	–	0.3
Taxation on actuarial gain	–	–	–	–	–	–	(0.1)
Reinstatement of deferred tax asset on pension liability	–	–	–	–	–	–	12.6
Transfer	–	–	(1.6)	–	–	–	1.6
At 31 December	31.5	697.5	17.7	0.7	1.2	(2.6)	(583.5)

The Company's profit and loss account deficit of £583.5 million (2002 £566.7 million deficit) includes non distributable reserves of £51.1 million (2002 £51.1 million).

At 31 December 2003 the cumulative amount of goodwill charged to reserves since 1977, net of goodwill relating to subsidiaries disposed of or impaired, is £41.3 million (2002 £43.9 million).

The loss after taxation of the Company for the year was £32.4 million (2002 loss £960.2 million).

Amounts included within reserves in respect of the defined benefit pension schemes are as follows:

	2003 £ million		Restated 2002 £ million	
	Group	Company	Group	Company
Profit and loss account excluding pension fund deficit	(594.5)	(553.1)	(606.6)	(524.8)
Actuarial value of unfunded pension liability *note 10*	4.8	4.8	4.3	4.3
Pension fund deficit *note 10*	(35.2)	(35.2)	(46.2)	(46.2)
Profit and loss account including pension fund deficit	(624.9)	(583.5)	(648.5)	(566.7)

Notes to the Accounts continued

32. Capital and Reserves continued

Prior Year Adjustment and Restatement of Comparatives

The implementation of FRS 17 'Retirement Benefits' and UITF 38 'Accounting for ESOP Trusts' has required a change to the accounting treatment for defined benefit pension schemes and for the investment in own shares. Prior year results have been restated accordingly.

(a) Profit and loss account

£ million

	Operating costs	Other finance expense	Provision against investment in own shares	Loss for the year attributable to shareholders
As previously reported	(1,188.6)	–	(30.1)	(1,080.4)
Implementation of UITF 38	–	–	30.1	30.1
Implementation of FRS 17	(0.1)	(0.3)	–	(0.4)
31 December 2002 as restated	(1,188.7)	(0.3)	–	(1,050.7)

The profit and loss charge under the previous standard SSAP 24 comprised a regular pension cost with the surplus or deficit spread over the remaining service lives of the employees. Under FRS 17, three new items are included in the profit and loss account.

The full regular service cost of providing benefits to employees in defined benefit schemes is included as an operating cost in the year together with the cost of providing benefit improvements in respect of past service and gains or losses arising on settlements or curtailments. A credit for the expected return on the schemes' assets and a charge for the increase during the year of the present value of the schemes' liabilities because the benefits are one year closer to settlement, is included as other finance expense in the profit and loss account. Differences arising between the actual and expected returns on the schemes' assets together with changes to the actuarial assumptions are included in the statement of total recognised gains and losses.

(b) Consolidated balance sheet

£ million

	Fixed asset investments – other investments	Creditors due after more than one year – pension	Pension liability	Reserves – investment in own shares	Profit and loss account
As previously reported	2.1	(4.8)	–	–	(606.6)
Implementation of UITF 38	(2.1)	–	–	(2.1)	–
Implementation of FRS 17	–	4.3	(46.2)	–	(41.9)
31 December 2002 as restated	–	(0.5)	(46.2)	(2.1)	(648.5)

Under FRS 17 the assets of the defined benefit schemes are measured at market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus or deficit on the balance sheet net of deferred tax. Deferred tax assets were not recognised in 2002 as there was insufficient evidence at that time to support recognition under FRS 19 'Deferred Tax'. The unfunded pension obligation, previously provided for and disclosed as a creditor due after more than one year, is included in the pension fund liability.

(c) Company balance sheet

£ million

	Fixed asset investments – other investments	Creditors due after more than one year – pension	Pension liability	Reserves – investment in own shares	Profit and loss account
As previously reported	2.1	(4.7)	–	–	(524.8)
Implementation of UITF 38	(2.1)	–	–	(2.1)	–
Implementation of FRS 17	–	4.3	(46.2)	–	(41.9)
31 December 2002 as restated	–	(0.4)	(46.2)	(2.1)	(566.7)

32. Capital and Reserves continued

(d) Effect on the current year

The adoption of UITF 38 has had no effect on the results for the current year.

The charge to pension costs would be £0.6 million higher in 2003 under the previous standard, SSAP 24, compared to FRS 17. However, £1.5 million of the pension charge for 2003, which would have previously been included within operating costs, has been classified as other finance expense in the profit and loss account under FRS 17.

Investment in Own Shares

The investment in own shares related to 3.5 million Ordinary shares (2002 3.5 million) held by QUEST and 9.5 million Ordinary shares (2002 9.1 million) shares held by the ESOT. Shares held by QUEST will be used to satisfy options under the Company's Savings Related Share Option Scheme. Shares in the ESOT are primarily held to hedge awards under the Stock Appreciation Rights Plan (SARP) and provide awards under the Spirent Stock Option Plan (SSOP).

The market value of own shares held in trust at 31 December 2003 was £7.6 million (2002 £2.1 million).

Share Capital

	Authorised		Issued and fully paid	
	2003 £ million	2002 £ million	2003 £ million	2002 £ million
Called up share capital: Ordinary shares of 3⅓ pence each	41.7	41.7	31.5	31.3

Changes during the year in the Ordinary share capital were as follows:

	Number of Ordinary shares million
Issued and fully paid at 1 January 2003	939.4
Allotted pursuant to share options and purchase rights exercised	4.6
Issued and fully paid at 31 December 2003	944.0

At the Annual General Meeting held on 20 May 2003, shareholders gave authority for the Company to purchase up to 47.1 million of its own Ordinary shares in the market subject to certain specified conditions. At 25 February 2004, no purchases have been made or are contracted to be made under such authority.

In accordance with the rules of the following share schemes, options and purchase rights were exercised during the year which resulted in new Ordinary shares being allotted by the Company or existing shares being transferred from Spirent QUEST Limited as follows:

	Number of Ordinary shares million	Consideration received £000
Executive Schemes	–	–
Spirent Stock Option Plan	0.4	66.3
Netcom Amended and Restated Stock Option Plan	0.7	128.8
Zarak Amended and Restated Stock Option Plan	–	–
Caw Amended and Restated Stock Plan(1)	0.2	23.9
All Employee Share Schemes	3.3	471.5
	4.6	690.5

Note
(1) The exercise consideration for options under this plan is paid in US dollars and has been converted into sterling in the above table at an exchange rate of £1 = $1.78, being the exchange rate on 31 December 2003.

During the year, no shares were transferred from Spirent QUEST Limited to option holders against the valid exercise of share options under the Company's UK Savings Related Share Option Scheme.

On 1 January 2004, 3.3 million Ordinary shares were allotted following the automatic exercise of purchase rights under the Company's US Employee Stock Purchase Plan and the Global All Employee Share Purchase Plan. Between 1 January 2004 and 25 February 2004 approximately 1.1 million Ordinary shares were allotted following exercises under other option schemes. With the exception of the foregoing, there has been no material increase in the issued share capital, whether by exercise of options, purchase rights or otherwise, between the year end and 25 February 2004, the date on which these Accounts have been signed.

Notes to the Accounts continued

32. Capital and Reserves continued

Share Option Schemes

At 31 December 2003 the following options and purchase rights over Ordinary shares have been granted and remained outstanding under the Company's various employee share schemes. Figures for the options outstanding and the exercise price per Ordinary share have each been adjusted, where relevant, for the 3:1 subdivision of share capital in 2000 and for the rights issues effected in 1993 and 2000.

		Option/purchase right exercise dates	Exercise price per share pence	Number of outstanding options/ purchase rights million
Discretionary schemes				
1985 Executive Share Option Scheme	(a)	22.04.97–26.04.05	102–108	0.1
1995 Executive Share Option Scheme	(a)	29.04.99–24.03.13	16–598	22.4
International Executive Share Option Scheme	(b)	11.04.98–10.04.05	104	0.2
Spirent Stock Option Plan(1)	(c)	11.05.01–11.12.10	6–617	62.7
Acquisition related schemes				
Netcom Amended and Restated Stock Option Plan	(d)	23.07.99–19.07.09	15–151	11.2
Zarak Amended and Restated Stock Option Plan	(e)	14.11.00–12.11.10	79–572	0.8
Caw Amended and Restated Stock Plan	(f)	15.08.02–26.06.12	17.7–23.6(2)	0.7
All employee share save schemes(3)				
UK Savings Related Share Option Scheme	(g)	01.12.02–31.05.11	38–583	7.1
US Employee Stock Purchase Plan(4)	(h)	01.01.05	50	3.0
Global All Employee Share Purchase Plan(4)	(i)	01.01.05	50	0.3
Total				108.5

Notes

(1) A grant of options awarded in December 2003 under the SSOP is partially covered by 6.1 million Ordinary shares currently held in the ESOT. These shares were originally purchased in the market to cover awards made under the Company's Long Term Share Purchase Plan and the SARP but the awards relating to the shares lapsed before exercise. Although 6.1 million Ordinary shares are included above in the number of options outstanding, market-purchased shares held for the purpose of satisfying SSOP awards do not count towards the Company's overall dilution calculations.

(2) Exercise prices per share for options under the Caw Amended and Restated Stock Plan are denominated in US dollars and are expressed as US cents in the above table.

(3) The Company has taken advantage of the exemption within Urgent Issues Task Force (UITF) Abstract 17 'Employee Share Schemes' in accounting for all employee share schemes.

(4) The exercise price and number of shares subject to the purchase rights outstanding cannot ultimately be determined until the maturity of each respective offering period (ie normally 12 months following the date of grant). The exercise price and number of purchase rights outstanding as shown above are based on the market price of an Ordinary share (less the applicable 15 per cent discount) at the date of grant.

(a) 1985 and 1995 Executive Share Option Schemes (ESOS)

The Inland Revenue approved 1995 ESOS was introduced on the expiry of the 1985 ESOS and incorporates the guidelines issued by the Association of British Insurers (ABI) at that time. It was subsequently amended by the Board to facilitate the award of unapproved share options both in the UK and overseas. There are currently 593 participating executives in the ESOS.

Awards under the 1995 ESOS, normally determined annually, are at the sole discretion of the Remuneration Committee after considering recommendations made to it by the Chief Executive. No price is payable on the grant of an option and no options have been, or can be, granted at a discount to the market price.

The normal exercise period for options granted under the 1985 and 1995 ESOS is between the third and tenth anniversary of the date of grant. Options awarded under the 1995 ESOS are subject to the achievement of an earnings per share (EPS) performance condition before they can be exercised. The condition is that over a period of three consecutive financial years, there has been an increase in the Company's headline EPS which is at least 6 per cent more than the increase in the Retail Price Index over the same period.

All ESOS grants made after 11 May 2000 to the executive directors and senior management (principally members of the Company's Operations Management Team) are subject to enhanced performance conditions on exercise. These are more fully explained in the Report on Directors' Remuneration on pages 21 to 28.

The Remuneration Committee may in future impose different performance targets which they consider to be no less demanding. Options granted under the 1985 ESOS are exercisable unconditionally.

32. Capital and Reserves continued

(b) International Executive Share Option Scheme (IESOS)

Certain US executives have previously been granted unapproved options under the IESOS with participation and awards being at the discretion of the Remuneration Committee. Options are exercisable unconditionally and normally between the third and tenth anniversary of the date of grant. Again, no options have been granted at a discount to the market price. The IESOS is closed and has been replaced by the unapproved arrangements to the 1995 ESOS referred to in (a) above.

(c) Spirent Stock Option Plan (SSOP)

The SSOP was introduced following shareholder approval at the Company's 2000 Annual General Meeting (AGM). This discretionary plan is primarily targeted at selected employees in the Communications group with grants normally determined annually by reference to the seniority and contribution of the individual, together with the performance of the relevant business and prevailing local market practice. Under the SSOP, grants are also permitted to selected newly hired and promoted employees on a monthly basis.

Options normally vest over four years, provided that the employee remains in employment. The options become 25 per cent exercisable on the first anniversary of the date of grant, and thereafter in equal proportions on a monthly basis. Any options not exercised will lapse on the seventh anniversary of grant. No pre-exercise performance conditions attach to options granted under the SSOP.

Following an Extraordinary General Meeting (EGM) held in July 2003, shareholder approval was received for an Option Exchange Programme under which existing qualifying SSOP options with an exercise price of 140 pence per share or greater (Underwater Options) were exchanged for a reduced number of newly-issued options (Replacement Options). On 18 September 2003, the Company accepted for exchange 27.5 million Underwater Options in exchange for the grant of 4.9 million Replacement Options. In accordance with the EGM authority, the exercise price per Ordinary share of a Replacement Option was 67.5 pence, being the fair market value of an Ordinary share on the date of grant plus 20 per cent of that market value.

In December 2003, the Remuneration Committee approved an annual grant of approximately 12 million options under the SSOP. In accordance with the terms of the EGM circular, the exercise of options will be partially satisfied by using 6.1 million Ordinary shares which were previously market-purchased and are currently held as unallocated by the Company's ESOT. The remainder of the options will be satisfied by new-issued shares utilising a combination of existing share capital headroom and a limited use of headroom released through the Option Exchange Programme.

No further grants may be made under the SSOP after the 2004 AGM. However, the Remuneration Committee is currently reviewing long term incentive arrangements, particularly for employees within the Communications group and these proposed arrangements will require shareholder approval.

No price is payable on the grant of an option and no options have been, or can be, granted at a discount to the market price.

(d) Netcom Amended and Restated Stock Option Plan (NARSOP)

Spirent completed the acquisition of Netcom Systems, Inc. (Netcom) in July 1999. $44.5 million of the total consideration was satisfied through the roll-over of outstanding vested and unvested options over Netcom shares, primarily held by Netcom employees, into options over approximately 23.8 million Ordinary shares (as adjusted) on substantially similar terms as previously existed under the NARSOP. The outstanding unvested options vested monthly from the date of acquisition during the remaining term of each individual grant and are not subject to any pre-exercise performance condition. All remaining outstanding options under the NARSOP became fully vested and exercisable from July 2003 onwards until they expire.

(e) Zarak Amended and Restated Stock Option Plan (ZARSOP)

Out of a total consideration of approximately 44.9 million Ordinary shares issued for the acquisition of Zarak Systems Corporation (Zarak) in November 2000, approximately 3.8 million shares arose in connection with the roll-over of outstanding options over Zarak shares into options over Spirent Ordinary shares which will vest over a period expiring in 2004 on substantially similar terms as previously existed under the ZARSOP. These options are primarily held by Zarak employees and have either a five or ten year life from the original date of grant.

Unvested rolled-over options are capable of immediate exercise (ie prior to their respective vesting date) and any shares arising from such an event are held in trust until the relevant vesting date. The option holder is entitled to the beneficial (but not legal) interest in the shares whilst they are held in trust but they remain subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment is terminated prior to the vesting date.

(f) Caw Amended and Restated Stock Plan (CARSP)

Out of a total initial consideration for the acquisition of Caw Networks, Inc. (Caw) in August 2002 of $49 million, approximately $4 million was in respect of Spirent Ordinary shares and options which arose on the roll-over of outstanding options and shares under the previous Caw employee stock plan. The options and shares will vest over a period expiring in 2006 on substantially similar terms as previously existed under the CARSP. The options are held by Caw employees and have a ten year life from the original date of grant. Pursuant to the terms of the Merger Agreement for Caw, an additional cash payment of 78.8 US cents is payable as each Ordinary share vests or upon the vesting of an exercised option.

Notes to the Accounts continued

32. Capital and Reserves continued
Pursuant to individual agreements signed by participating Caw employees, any Ordinary shares issued under the CARSP are restricted until they have vested or are not at risk from forfeiture under the plan rules. Unvested rolled-over options are capable of immediate exercise (ie prior to their respective vesting date) and any shares arising from such an event are held in trust until the relevant vesting date. The option holder is entitled to the beneficial (but not legal) interest in the shares whilst they are held in trust but they remain subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment is terminated prior to the vesting date.

In accordance with the rules of the ESOS noted in (a) above, the Ordinary shares subject to rolled-over options from the acquisition of Netcom, Zarak, and Caw, or granted under the SSOP, do not count toward ABI scheme limits. The plans mentioned in (d) to (f) above are now closed to new entrants and no further awards of options can be made under them.

(g) UK Savings Related Share Option Scheme (SRSOS)
The SRSOS is an Inland Revenue approved scheme and is open to all UK employees, subject to a qualifying service period. The employee enters into a Save-As-You-Earn contract with the Company's savings carrier to save a regular sum of between £5 and £250 per month for a fixed period of either three or five years.

No price is payable on the grant of an option. The option exercise price is calculated by reference to the middle market price of an Ordinary share on the business day prior to the beginning of the Invitation Period, discounted by up to 20 per cent at the Board's discretion. Options are normally exercisable within six months of the third, fifth or seventh anniversary of the contract commencement date, as elected by the option holder at the start of the contract.

The Company has established an employee share ownership trust (QUEST) to honour the contractual commitment to deliver Ordinary shares against the valid exercise of outstanding options under the SRSOS. Spirent QUEST Limited, a wholly-owned subsidiary of Spirent plc, acts as sole trustee to the QUEST. During the year no shares were transferred to participants. Spirent QUEST Limited has waived all rights to receive dividends payable on its registered shareholding except for 0.01 pence per annum in aggregate and accordingly such shareholding is not included in the Company's EPS calculation as referred to in note 12.

(h) US Employee Stock Purchase Plan (ESPP)
The ESPP operates on a broadly similar basis to the SRSOS. It enables the Company to grant eligible US employees the right to acquire Spirent American Depositary Shares using proceeds of a savings contract. When joining the ESPP, participants enter into a contract to save up to 15 per cent of basic salary (gross), subject to an individual maximum of $1,000 (net) per month, over a contract period of 12 months by way of regular payroll deductions.

No price is payable on the grant of a purchase right. The purchase price will be based on the market value of an Ordinary share either on the first day of the Offering Period or on the last day of the Offering Period, whichever is lower, less a 15 per cent discount or, where shares are to be subscribed, their nominal value (if greater).

(i) Global All Employee Share Purchase Plan (GAESPP)
The GAESPP was approved by shareholders in 2001 and offers employees in countries other than the UK or US an opportunity to share in the Company's performance through share ownership. The GAESPP was implemented in Canada in January 2002 and operates on similar terms to the ESPP above, with participants entering into a 12 month contract to save up to 15 per cent of basic salary (gross), subject to an individual maximum of Cdn $1,000 (net) per month.

The Company also operated the following incentive schemes during 2003, both of which utilised Ordinary shares purchased in the market (ie they have not involved the issue of new shares). No awards were made under either plan in the year to 31 December 2003.

(j) Stock Appreciation Rights Plan (SARP)
The SARP was introduced in September 1999 as an interim incentive arrangement for the employees of Netcom following the closure of the NARSOP described in (d) above and subsequently for certain other employees in the Communications group. Under the SARP, recruitment, promotion and recognition awards over Ordinary shares have been made in line with historic and local competitive market practice on a quarterly basis at the discretion of a committee of senior executives. The operation of the SARP reflects as far as practicable the now closed NARSOP. Accordingly, rights under the SARP vest over four years, 25 per cent vesting one year after the date of grant and the remainder vesting on a monthly basis over a further 36 months. Rights granted are not subject to the fulfilment of any pre-exercise performance conditions.

32. Capital and Reserves continued

The SARP will deliver the appreciation value (ie the aggregated increase in the market value of an Ordinary share over the rights price) in the form of existing Ordinary shares which have been purchased in the market by the Company's ESOT. The maximum number of shares over which SARP awards can be made is 5.25 million.

At 31 December 2003, the following rights were outstanding under the SARP:

Rights exercise dates	Rights price pence	Number of rights outstanding million
10.09.00–29.06.10	182–416	3.0

(k) Long Term Share Purchase Plan (LTSPP)

At an Extraordinary General Meeting of the Company held on 2 May 2002, shareholders approved the future closure of the LTSPP and the substitution of further annual awards with a supplemental grant of options of equivalent value under the ESOS (see (a) above). Following a review of the LTSPP performance conditions (see below), it was determined that the initial performance conditions for the remaining performance units had not been met and all remaining LTSPP performance units lapsed on 31 December 2003.

Grants under the LTSPP had a six year performance period comprising two periods of three years each. Performance units, equivalent to shadow options, granted at the outset could only vest (in the form of an award split between Ordinary shares and cash) at the end of the first performance period. This was provided that the challenging performance criteria of both total shareholder return (TSR), as measured against a comparator group of companies (or other relevant index), and real share price growth (ie after taking inflation into account) had been met. One-third of the award had to be retained in the form of Ordinary shares until the end of the second performance period. These shares would have been matched on a ratio of two shares for every one share retained. In order to encourage superior performance and to strengthen further the alignment of interest of participants with those of shareholders, participants may have chosen to invest some or all of their remaining cash award (ie up to two-thirds of the award) in shares and these would have been matched on a higher ratio of up to four shares for each one retained. No reward under the LTSPP could have been made at the end of either performance period unless the Company's real share price growth was at least 5 per cent per annum and also its TSR performance ranked above the 60th percentile against the comparator group.

The Company established an ESOT as one method through which it could deliver Ordinary shares committed under the LTSPP with shares being held in trust prior to any vesting of awards.

No price was payable on the grant of a LTSPP performance unit and no performance units were granted at a discount to the market price.

At 31 December 2003, no performance units were outstanding under the LTSPP and the plan has now closed.

Spirent Employee Share Ownership Trust (ESOT)

At 31 December 2003 the ESOT held 11.2 million Ordinary shares to satisfy awards under various share based incentive schemes as described above. Of this number, 1.3 million Ordinary shares were unconditionally vested at 31 December 2003.

Notes to the Accounts continued

33. Acquisition of Subsidiaries

	2003 £ million	2002 £ million
	Total	Total
Tangible assets	–	0.8
Stocks	–	0.6
Debtors	–	3.6
Creditors	–	(1.5)
Cash	–	3.2
Loans and finance leases	–	(0.2)
Minority interest	–	0.4
Net assets	–	6.9
Less: previously included as an associate	–	(5.2)
Goodwill	2.7	51.0
	2.7	52.7
Consideration:		
Restricted stock	–	1.2
Options to acquire shares	–	0.1
Obligation to issue Ordinary shares – Caw Networks, Inc.	2.7	–
Cash (including expenses)	–	53.4
Accrued	–	(0.9)
Consideration to be charged as compensation expense	–	(1.1)
	2.7	52.7
The cash flows in respect of the acquisition of subsidiaries are as follows:		
Cash (including expenses)	–	(53.4)
Cash (accrued in prior years)	(1.1)	1.0
Cash and overdrafts acquired	–	3.2
Net cash outflow on acquisitions	(1.1)	(49.2)

The obligation to issue Ordinary shares relates to deferred consideration pursuant to the acquisition agreement with Caw Networks, Inc. made in August 2002. A certain level of the earn-out targets has been achieved. The amount of deferred consideration due is $10.0 million which the Company has elected to satisfy by the issue of new Ordinary shares. These shares will be issued in 2004 with reference to an Ordinary share price of 120 pence in accordance with the terms of the agreement and with reference to the then prevailing US dollar to sterling exchange rate.

34. Disposal of Operations

	2003 £ million Total	2002 £ million Total
Net assets disposed of:		
Fixed assets		
Intangible assets	0.6	6.5
Tangible assets	0.7	8.2
Stocks	2.3	13.0
Debtors	2.4	13.0
Creditors	(4.5)	(7.8)
Deferred taxation	–	0.3
Investment in joint venture	54.3	–
Net assets	55.8	33.2
Goodwill reinstated	2.6	70.8
	58.4	104.0
Profit/(loss) on disposal of operations	3.6	(48.4)
	62.0	55.6
Satisfied by:		
Cash (less expenses) – net cash inflow from disposals	62.0	55.6

The businesses sold during the year contributed £0.7 million to the Group's operating cash flows, contributed nil in respect of net returns on investments and servicing of finance, paid no taxation and utilised £0.1 million for capital expenditure.

During the year the Group disposed of its Aviation Information Solutions businesses from within its Systems group and its interests in the WAGO joint venture.

Notes to the Accounts continued

35. US GAAP

The Group's consolidated accounts are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP), which differ in certain respects from those generally accepted in the United States (US GAAP). The following are the main differences between UK GAAP and US GAAP which are relevant to the Group's accounts.

In preparing the accounts for the current year the Group has adopted FRS 17 'Retirement Benefits' and UITF Abstract 38 'Accounting for ESOP Trusts'. The adoption of FRS 17 is a change in accounting policy and the comparative figures in the reconciliation of the net income/(loss) under UK GAAP to US GAAP and the reconciliation of shareholders' equity under UK GAAP to US GAAP have been restated accordingly. Details of the effect of adopting FRS 17 on the UK GAAP accounts are set out in note 32. UITF 38 requires that the cost of own shares, previously reported as a fixed asset investment, be shown as a deduction from shareholders' funds. The adoption of UITF 38 has effectively eliminated a UK GAAP to US GAAP difference and again the comparative figures in the reconciliations have been restated accordingly.

Goodwill and Other Intangible Fixed Assets

Under UK GAAP, goodwill arising on acquisitions prior to 1998 was written off to retained earnings on acquisition. In accordance with FRS 10, goodwill arising on acquisitions subsequent to 1 January 1998 is capitalised and amortised over its estimated useful economic life which is defined as the period over which the value of the underlying business acquired is expected to exceed the values of its identifiable net assets and is presumed to be limited to 20 years. The estimated useful lives are between 10 and 20 years. In reconciling to US GAAP, amounts of goodwill arising on acquisitions prior to 1998 written off to retained earnings on acquisition, have been capitalised and amortised over their estimated useful economic lives, until 1 January 2002.

Under US GAAP, with the adoption of Financial Accounting Standard (FAS) 142, effective 1 January 2002, goodwill is no longer amortised but is subject to periodic review for impairment.

Other intangible assets included in, and accounted for as, goodwill under UK GAAP, but reclassified as intangible assets under US GAAP, continue to be amortised over their individually determined estimated useful economic lives, subject to the provisions of FAS 141, which clarifies the criteria to recognise these intangible assets separately from goodwill, and FAS 144, which requires review for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. The Group considered these conditions to have been met at 30 November 2002 and obtained independent valuations for FAS 144 purposes which ultimately resulted in impairment of other intangible assets and goodwill within the Service Assurance division during 2002. At 30 November 2003 independent valuations obtained by the Group did not indicate further impairment.

Under UK GAAP, FRS 10 requires goodwill to be reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable. Under US GAAP, FAS 142 requires periodic review of goodwill for impairment on a reporting unit basis. The Group identified its reporting units for FAS 142 purposes and obtained independent valuations at 30 November 2002 and 30 November 2003. These valuations resulted in impairment of goodwill in the Performance Analysis division during 2002, in addition to the impairment in the Service Assurance division under FAS 144. No further impairment arose as a result of the valuations performed at 30 November 2003.

Under UK GAAP, impairment charges on goodwill and other intangible assets are recorded as an increase in accumulated amortisation. Under US GAAP, impairment charges are recorded as a reduction in cost. The presentation of goodwill and intangible assets within the reconciliation of shareholders' equity reflects this classification difference.

Stock-based Compensation

UK corporate governance recommends the inclusion of performance criteria in UK discretionary or executive share plans. Accordingly, the UK Executive Share Option Scheme (ESOS) includes certain performance criteria which give rise to variable plan accounting under US GAAP. Notwithstanding these performance criteria, under UK GAAP no compensation expense arises under the Group's various share option plans, with the exception of the Caw Amended and Restated Stock Plan (CARSP).

In reconciling to US GAAP, the Group has elected to use the intrinsic value basis of calculating compensation expense for the ESOS, as set forth in Accounting Principles Board Opinion (APB) 25, determined by reference to Spirent's share price at each reporting date. An expense also arises under US GAAP in respect of the CARSP and the Zarak Amended and Restated Stock Option Plan, based on the intrinsic value of unvested stock awards at each reporting date and at the date of acquisition, respectively, recognised over the remaining future vesting period.

Disposal of Operations

The different treatment of goodwill arising on acquisitions prior to 1998 under UK GAAP and US GAAP, together with the use of different goodwill amortisation periods and the adoption of FAS 142, result in adjustments to the profit or loss on disposal of businesses as the determination of the profit or loss on disposal takes into account the unamortised balance of goodwill released. In addition, differences between UK GAAP and US GAAP as described in this note (including stock-based compensation and derivative financial instruments) may also affect the carrying value of the disposed subsidiary, resulting in a different profit or loss on disposal. Under US GAAP, the profit or loss on disposal is also stated net of any related cumulative currency retranslation differences and the effect of pension curtailment under FAS 88.

35. US GAAP continued

Pensions

Under UK GAAP, the Group has fully adopted FRS 17 'Retirement Benefits' in the accounts for the year to 31 December 2003. This is a change in accounting policy and results in a restatement of the previous year's accounts as described in note 32. The assets of the Group's significant defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes measured using the projected unit method. The extent to which the schemes' assets exceed/fall short of the schemes' liabilities is shown as a surplus/deficit on the balance sheet net of deferred tax.

The regular service cost of providing retirement benefits to employees in defined benefit schemes is charged to operating profit in the year together with the cost of providing benefit improvements in respect of past service and gains or losses arising on settlements and curtailments. A credit for the expected return on the schemes' assets and a charge for the increase during the period in the present value of the schemes' liabilities are included in other finance expense in the profit and loss account. Differences arising between the actual and expected returns on the schemes' assets together with changes in the actuarial assumptions are included in the statement of total recognised gains and losses.

Under US GAAP, the projected benefit obligation is matched against the fair value of the pension plans' assets and adjusted to reflect any unrecognised obligations or assets in determining the pension cost or credit for the year. Recognition of an additional minimum liability is required if the accumulated benefit obligation exceeds the fair value of plan assets.

Vacation Accrual

An accrual is made under UK GAAP in respect of certain subsidiaries for vacation earned but not taken at the year end. Under US GAAP, this accrual must be calculated to include all subsidiaries within the Group.

Derivative Financial Instruments

Under UK GAAP, the fair value of the Group's financial instruments are not reported on the Group balance sheet and the gain or loss arising is reported in earnings as the instrument crystallises. Under US GAAP, in accordance with FAS 133, the fair value of all derivative financial instruments must be recorded as part of shareholders' equity. As none of the Group's derivative financial instruments have been designated as hedges under FAS 133, any changes in the fair value of the derivative financial instrument must be reported through net income.

Investment in Joint Venture

Under UK GAAP, the Group's interests in its interconnection joint venture, WAGO, at 31 December 2002 were accounted for using the gross equity method which required the Group to recognise its share of the gross assets and liabilities, offset by minority interest, and certain components of income and expenses of the joint venture in the Group's consolidated accounts. Under US GAAP, in accordance with APB 18, the Group's interests in its joint venture were accounted for under the equity method which only required the Group to recognise its share of the after tax profits or losses of the joint venture. Therefore, in reconciling to US GAAP, it was necessary to adjust for the Group's share of any differences between UK GAAP and US GAAP with respect to the after tax profits and the shareholders' equity of the joint venture. The only differences arising related to stock-based compensation and the application of FAS 133 in the joint venture's US GAAP basis financial statements. The Group disposed of its interests in WAGO during 2003.

Deferred Taxation

Under UK GAAP, the Company provides for deferred tax in accordance with FRS 19 on all timing differences with the exception of gains on revaluations of fixed assets or where potentially taxable amounts have been rolled over where there is no commitment to dispose of the relevant asset. Deferred tax assets are recognised where it is considered more likely than not that there will be suitable taxable profits from which to offset the timing differences. Under US GAAP, deferred taxation is provided on a full liability basis on all temporary differences between the book and tax bases of the Group's assets and liabilities.

Under UK GAAP, a deferred tax asset arises in respect of the pension fund deficit calculated in accordance with FRS 17. Similarly, under US GAAP, a deferred tax asset has been recognised in respect of the additional minimum liability, which arises under FAS 87. However, under UK GAAP, the pension fund deficit is shown net of the deferred tax asset on the balance sheet, whereas under US GAAP the deferred tax asset is shown separately to the additional minimum liability. The presentation of the pension and deferred tax adjustments within the reconciliation of shareholders' equity reflects this classification difference.

Notes to the Accounts continued

35. US GAAP continued

Unamortised Debt Issue Costs

Under UK GAAP, debt issue costs are shown as a reduction in the associated capital proceeds and amortised over the life of the related debt. Under US GAAP, these costs are disclosed as a separate asset and similarly amortised. Accordingly, a reclassification from borrowings has been made to show these costs in other debtors for US GAAP disclosure purposes.

Net Income/(Loss) Under US GAAP

The following is a summary of the adjustments to loss attributable to shareholders which would be required if US GAAP were to be applied instead of UK GAAP.

	2003 £ million	Restated 2002 £ million
Loss attributable to shareholders in accordance with UK GAAP	(0.5)	(1,050.7)
Adjustments:		
Goodwill and other intangible fixed assets	(0.7)	197.6
Stock-based compensation	(0.9)	0.2
Disposal of operations	(1.0)	49.4
Pension costs	2.2	(2.2)
Vacation payroll costs	–	0.5
Derivative financial instruments	(1.9)	2.1
Income from interests in joint venture	–	0.2
Deferred taxation on above adjustments	2.8	28.6
Total adjustments	0.5	276.4
Net income/(loss) as adjusted to accord with US GAAP	–	(774.3)
Net earnings/(loss) per share (pence)		
Basic and diluted:		
Continuing operations	–	(83.93)
Net earnings/(loss) per ADS (pence)		
Basic and diluted:		
Continuing operations	–	(335.72)

35. US GAAP continued

Shareholders' Equity Under US GAAP

The following is a summary of the adjustments to shareholders' funds which would be required if US GAAP were to be applied instead of UK GAAP.

	2003 £ million	Restated 2002 £ million
Shareholders' funds in accordance with UK GAAP	119.9	95.1
Adjustments:		
Intangible assets		
Goodwill		
Cost	(1,741.3)	(1,797.4)
Accumulated amortisation	1,683.6	1,729.3
	(57.7)	(68.1)
Other intangible assets		
Cost	84.2	96.8
Accumulated amortisation	(49.1)	(47.9)
	35.1	48.9
Other investments		
Investment in joint venture	–	0.8
Current assets		
Other debtors	0.2	1.1
Current liabilities		
Accruals		
Contingent compensation	–	1.4
Vacation	(1.0)	(1.0)
Derivative financial instruments	(0.9)	0.9
	(1.9)	1.3
Long term liabilities		
Pension	(12.7)	0.7
Borrowings	(0.2)	(1.1)
	(12.9)	(0.4)
Provisions for liabilities and charges		
Deferred taxation		
On above adjustments	1.2	(15.1)
Total adjustments	(36.0)	(31.5)
Shareholders' equity as adjusted to accord with US GAAP	83.9	63.6

Principal Divisions, Subsidiaries and Associates

	% held at 31 December 2003	Principal activity
Communications		
Performance Analysis division		
Spirent Communications Inc Calabasas, California, USA Eatontown, New Jersey, USA Honolulu, Hawaii, USA Sunnyvale, California, USA†	100	Communications performance analysis systems
Spirent Communications of Ottawa Ltd Nepean, Ontario, Canada	100	Communications performance analysis systems
Spirent Communications (SW) Ltd* Paignton, Devon, UK	100	Satellite simulation systems
Service Assurance division		
Spirent Communications of Rockville, Inc. Rockville, Maryland, USA	100	Communications service assurance systems
Spirent Communications (Scotland) Ltd* Hamilton, Glasgow, UK	100	Communications network fault detection systems
Spirent Communications Ltd* Crawley, West Sussex, UK	100	Communications service assurance and performance analysis systems
Network Products		
Trading divisions of Spirent plc:		
HellermannTyton Aldridge, West Midlands, UK Plymouth, Devon, UK Wythenshawe, Manchester, UK		Electrical and data network cable management and connectivity products and systems
HellermannTyton (Pty) Ltd Johannesburg, South Africa	90	Electrical and data network cable management and connectivity products and systems
HellermannTyton SA Paris, France	100	Electrical and data network cable management and connectivity products and systems
HellermannTyton AB Järfälla, Sweden	100	Electrical and data network cable management and connectivity products and systems
HellermannTyton GmbH Vienna, Austria	100	Electrical and data network cable management and connectivity products and systems
HellermannTyton GmbH Tornesch, Germany	100	Electrical and data network cable management and connectivity products and systems
HellermannTyton Ltda Jundaí, Brazil	100	Electrical and data network cable management and connectivity products and systems
HellermannTyton Pte Ltd Yishun, Singapore	75	Electrical and data network cable management and connectivity products and systems
HellermannTyton Data Ltd* Northampton, UK	100	Data network connectivity and cable management products and systems
HellermannTyton Corporation Milwaukee, Wisconsin, USA	97	Electrical and data network cable management and connectivity products and systems
Tyton Company of Japan Ltd*‡ Tokyo, Japan	49	Electrical and data network cable management and connectivity products and systems

	% held at 31 December 2003	Principal activity
Systems		
PG Drives Technology Ltd Christchurch, Dorset, UK	100	Control systems for the mobility and industrial markets
PG Drives Technology Inc Anaheim, California, USA	100	Control systems for the mobility and industrial markets
Spirent Systems San Diego Inc La Jolla, California, USA	100	Maintenance, repair and overhaul management information systems
WPDS Software Ltd* Yeovil, Somerset, UK	100	Maintenance, repair and overhaul management information systems
Financial		
Spirent BV Rotterdam, Netherlands	100	Investment company
Spirent GmbH Tornesch, Germany	100	Investment company
Spirent Holdings Corporation Hauppauge, New York, USA	100	Investment company

The above companies operate and are incorporated in the countries listed. All shareholdings in the companies are held indirectly by Spirent plc, except where indicated by an asterisk (*) where the shareholding is held directly by Spirent plc. The principal activity mentioned is indicative and not comprehensive.

The percentage held reflects the proportion of shares controlled and not the beneficial interest.

† Caw Networks, Inc. was merged into Spirent Communications Inc on 31 December 2003.

‡ Associate

Financial History

£ million

	2003	2002*	2001*	2000*	1999*
Consolidated Profit and Loss Account					
Turnover: Group and share of joint venture	488.6	634.5	880.1	772.7	611.5
Less: share of joint venture's turnover	(22.4)	(75.6)	(78.3)	(76.0)	(67.0)
Turnover	466.2	558.9	801.8	696.7	544.5
Operating Profit/(Loss)	18.8	(970.6)	(734.3)	110.0	81.4
Operating exceptional items					
Goodwill impairment	–	923.3	724.6	–	–
Other	7.5	41.6	34.9	2.2	–
Goodwill amortisation	9.7	56.1	86.6	25.7	8.6
Operating profit before goodwill amortisation and exceptional items	36.0	50.4	111.8	137.9	90.0
Joint ventures' profit	2.7	7.4	9.6	13.3	9.5
Associates' profit net of goodwill amortisation	2.1	0.8	1.2	2.7	2.3
Non-operating exceptional items					
Profit/(loss) on disposal and closure of operations	3.6	(48.4)	14.5	(18.1)	(6.7)
Profit on disposal of tangible fixed assets	–	–	–	3.2	–
Profit/(Loss) before Interest	27.2	(1,010.8)	(709.0)	111.1	86.5
Net interest expense	(9.3)	(12.3)	(22.8)	(29.3)	(12.8)
Exceptional interest expense	(16.1)	–	–	–	–
Other finance expense	(1.5)	(0.3)	0.4	–	–
Profit/(Loss) before Taxation	0.3	(1,023.4)	(731.4)	81.8	73.7
Taxation	(0.6)	(26.9)	(32.4)	(30.6)	(30.2)
Minority interest	(0.2)	(0.4)	(0.2)	(0.5)	–
(Loss)/Profit Attributable to Shareholders	(0.5)	(1,050.7)	(764.0)	50.7	43.5
Dividends	–	(12.5)	(40.0)	(36.1)	(27.1)
(Loss)/Profit for the Year	(0.5)	(1,063.2)	(804.0)	14.6	16.4
Consolidated Balance Sheet					
Intangible assets	101.6	113.6	987.7	1,816.8	321.3
Tangible assets	90.2	110.0	137.6	136.2	107.0
Investments	14.9	63.4	62.6	53.6	46.8
Working capital (excluding cash, overdrafts and deferred tax)	28.3	46.6	32.7	111.1	33.6
Operating Assets	235.0	333.6	1,220.6	2,117.7	508.7
Net borrowings	(57.5)	(161.8)	(179.1)	(326.4)	(274.6)
Provisions for liabilities and charges	(20.2)	(28.4)	(1.5)	(2.1)	(0.7)
Deferred tax asset	–	–	25.8	15.8	8.5
Net Assets (excluding Pension Liability)	157.3	143.4	1,065.8	1,805.0	241.9
Pension liability	(35.2)	(46.2)	(15.6)	–	–
Net Assets (including Pension Liability)	122.1	97.2	1,050.2	1,805.0	241.9
Shareholders' Funds – Equity	119.9	95.1	1,047.8	1,801.3	238.0
Minority Interest – Equity	2.2	2.1	2.4	3.7	3.9
	122.1	97.2	1,050.2	1,805.0	241.9
Investment					
Acquisitions net of disposals	(59.3)	(2.9)	(145.7)	1,534.0	282.7
Capital expenditure – owned assets	16.7	27.6	59.4	44.8	35.5
– leased assets	0.3	0.2	0.8	2.5	7.3
Depreciation	29.3	33.6	37.2	25.1	21.9
Product development	66.0	77.7	95.9	60.3	39.1

* Restated for the adoption of FRS 17 for 2002 and 2001 and of UITF 38 for all years.

	2003	2002*	2001*	2000*	1999*
Share Information					
Basic (loss)/earnings per share† (pence)	(0.05)	(113.90)	(83.49)	7.40	6.67
Headline earnings per share† (pence)	2.31	3.36	7.70	12.61	9.18
Diluted (loss)/earnings per share (pence)	(0.05)	(113.90)	(83.49)	7.18	6.39
Dividend per share (pence)	–	1.35	4.35	4.35	4.13
Fully paid Ordinary shares in issue at year end (million)	944.0	939.4	933.2	926.5	622.5

£ million

	2003	2002*	2001*	2000*	1999*
Segmental Analysis					
Turnover					
Performance Analysis	148.7	184.0	241.4	280.0	111.5
Service Assurance	91.7	131.4	189.2	9.2	3.2
Communications	240.4	315.4	430.6	289.2	114.7
Network Products	174.4	164.7	170.4	181.4	155.4
Systems	46.6	43.0	34.9	35.2	35.4
	461.4	523.1	635.9	505.8	305.5
Disposals**	4.8	35.8	165.9	190.9	239.0
	466.2	558.9	801.8	696.7	544.5
Operating Profit‡					
Performance Analysis	4.4	10.0	38.6	97.0	42.8
Service Assurance	9.4	20.8	44.8	1.6	0.2
Communications	13.8	30.8	83.4	98.6	43.0
Network Products	16.7	15.0	14.9	25.3	21.5
Systems	5.8	4.4	–	(0.1)	(0.9)
	36.3	50.2	98.3	123.8	63.6
Disposals**	(0.3)	0.2	13.5	14.1	26.4
	36.0	50.4	111.8	137.9	90.0

* Restated for the adoption of FRS 17 for 2002 and 2001 and of UITF 38 for all years.

** Disposals include discontinued operations and other less significant disposals and closures.

‡ Before goodwill amortisation and exceptional items.

† The weighted average number of shares in issue used to calculate (loss)/earnings per share excludes the shares held by QUEST, the ESOT and Greenwood Nominees.

Financial History continued

£ million

	2003	2002*	2001*	2000*	1999*
Operating Profit/(Loss) by Source					
Europe	21.7	19.0	16.5	16.8	17.2
North America	13.3	30.3	80.2	104.3	45.8
Asia Pacific, Rest of Americas, Africa	1.3	0.9	1.6	2.7	0.6
	36.3	50.2	98.3	123.8	63.6
Disposals**	(0.3)	0.2	13.5	14.1	26.4
	36.0	50.4	111.8	137.9	90.0
Operating exceptional items					
Goodwill impairment	–	(923.3)	(724.6)	–	–
Other	(7.5)	(41.6)	(34.9)	(2.2)	–
Goodwill amortisation	(9.7)	(56.1)	(86.6)	(25.7)	(8.6)
	18.8	(970.6)	(734.3)	110.0	81.4
Earnings before Interest, Taxation, Depreciation, Amortisation and Exceptional Items	65.3	84.0	149.0	163.0	111.9
Impact of Exchange Rate Movement on Profit before Taxation‡					
Benefit/(cost)	0.7	(1.1)	1.9	6.1	0.8

Rates against sterling

	2003	2002*	2001*	2000*	1999*
Average Exchange Rates for Major Currencies					
US dollar	1.64	1.51	1.44	1.51	1.62
Euro	1.45	1.59	1.61	1.64	1.52

Number

	2003	2002*	2001*	2000*	1999*
Average Employment by Geographical Area					
Europe	1,722	1,909	2,730	2,826	2,854
North America	2,071	2,622	3,608	2,894	2,786
Asia Pacific, Rest of Americas, Africa	705	648	1,474	1,230	942
	4,498	5,179	7,812	6,950	6,582

* Restated for the adoption of FRS 17 in 2002 and 2001 and of UITF 38 for all years.

** Disposals include discontinued operations and other less significant disposals and closures.

‡ Before goodwill amortisation and exceptional items.

Shareholder Information

Shareholder Analysis

At 25 February 2004, the number of registered shareholders was 8,081 and the number of Ordinary shares in issue was 948.4 million.

	Number of holdings	Percentage of total shareholders	Number of shares million	Percentage of share capital
Range of holdings:				
1 – 5,000	5,563	68.8	8.9	0.9
5,001 – 10,000	1,006	12.5	7.6	0.8
10,001 – 50,000	1,020	12.6	21.8	2.3
50,001 – 100,000	136	1.7	10.1	1.1
100,001 – 250,000	106	1.3	17.2	1.8
250,001 – 500,000	63	0.8	22.6	2.4
500,001 – 1,000,000	63	0.8	44.1	4.6
1,000,001 – Highest	124	1.5	816.1	86.1
Total	8,081	100.0	948.4	100.0
Held by:				
Individuals	6,074	75.2	39.3	4.1
Institutions	2,007	24.8	909.1	95.9
Total	8,081	100.0	948.4	100.0

Lloyds TSB Registrars*

Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to the Company's Registrar, Lloyds TSB Registrars on +44 (0)870 600 3964. They also provide a range of online shareholder information services at www.shareview.co.uk, where shareholders can check their holdings and find practical help on transferring shares or updating their details.

Dividend Mandate

Shareholders who wish to have any future dividends paid directly into their nominated bank or building society account and who have not already done so should request a BACS dividend mandate from Lloyds TSB Registrars, or visit www.shareview.co.uk

Dividend Reinvestment Plan (DRIP)

Spirent operates a DRIP under which shareholders can mandate to invest any future cash dividends in Ordinary shares, which are purchased in the market at competitive dealing rates. Application forms and further information can be obtained from Lloyds TSB Registrars who administer the plan on behalf of the Company.

Spirent Single Company ISA

Lloyds TSB Registrars (a division of Lloyds TSB Bank plc, which is regulated by the Financial Services Authority) operate a Single Company Individual Savings Account (ISA) in which Spirent Ordinary shares can be held in a tax efficient manner. Full details and an application form can be obtained from Lloyds TSB Registrars on 0870 242 4244.

Internet, Telephone and Postal Share Dealing Services – Lloyds TSB Registrars

Lloyds TSB Registrars' Shareview Dealing is a telephone and Internet service that provides a simple and convenient way of selling Spirent Ordinary shares. For telephone sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday, and for Internet sales visit www.shareview.co.uk/dealing

A postal dealing service for buying and selling Ordinary shares is also available and a dealing form can be obtained by calling 0870 242 4244.

Share Price Information

The Spirent share price is available via the Company's website (www.spirent.com) and also in various newspapers published in the UK.

UK Capital Gains Tax

For the purposes of capital gains tax, the market value of an Ordinary share on 31 March 1982, as adjusted for subsequent capitalisation issues, was 97.233 pence per share.

Shareholder Information continued

American Depositary Receipts (ADRs) – The Bank of New York*
The Company's shares are traded on the New York Stock Exchange (ticker: SPM) in the form of American Depositary Shares (ADS) and these are evidenced by ADRs, each one of which represents four Ordinary shares. The Bank of New York is the authorised Depositary bank for the Company's ADR programme. The Company's ADS price is quoted daily in the Wall Street Journal and can be obtained from either the Spirent website or via the New York Stock Exchange website at www.nyse.com

Spirent Website at www.spirent.com
The Spirent website provides further information about Spirent and its operating groups and also provides access to annual reports, press releases, share price information and links to Spirent operating group websites.

Unsolicited Mail
The Company is obliged by law to make its share register available upon request to the public and to other organisations, which may use it as a mailing list, resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS or call +44 (0)20 7291 3310 for an application form or visit www.mps-online.org.uk

ShareGIFT
Shareholders who hold only a small number of shares, where dealing costs may make it uneconomical to sell them, may wish to consider donating them to charity through ShareGIFT, a registered charity administered by The Orr Mackintosh Foundation. The relevant share transfer form can be obtained from Lloyds TSB Registrars. Further information is available at www.sharegift.org or telephone +44 (0)20 7337 0501.

Annual General Meeting
The Company's Annual General Meeting will be held at 10am on Tuesday, 11 May 2004 at Spirent House, Fleming Way, Crawley, West Sussex RH10 9QL.

Advisers
Auditor
Ernst & Young LLP*

Brokers
Cazenove & Co. Ltd
Citigroup (formerly Schroder Salomon Smith Barney)

Financial Adviser
N M Rothschild & Sons Limited

*Contact details appear on the inside back cover.

Cautionary Statement Regarding Forward-Looking Statements
Certain statements provided in this Annual Report may contain forward-looking statements (as that term is defined in the United States Private Securities Litigation Reform Act of 1995) 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. Such factors include, but are not limited to: the effects of competition on our business; the extent of recovery in telecoms capital spending; our ability to develop and commercialise new products and services and realise product synergies; risks relating to the acquisition or sale of businesses and our subsequent ability to integrate businesses; our ability to meet and achieve the benefits of our cost reduction goals and otherwise successfully adopt cost structures to respond to changes in business conditions; risks that our cost cutting initiatives will impair our ability to develop products and remain competitive; our ability to improve efficiency and adapt to economic changes and other changes in demand; changes in the business, financial condition or prospects of one or more of our major customers; our reliance on third party manufacturers and suppliers; risks of not retaining or increasing market share; our exposure to liabilities for product defects; our reliance on proprietary technology; our ability to attract and retain qualified personnel; risks of doing business internationally; changes in exchange rate or market conditions in the markets in which we participate or in general economic or political conditions; and other risks described from time to time in Spirent plc's Securities and Exchange Commission periodic reports and filings. 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.

Financial Calendar

	2004
Annual General Meeting	11 May
Announcement of 2004 Interim Results	August
Financial Year End	31 December

Contact Details

Head Office and Registered Office
Spirent plc
Spirent House
Crawley Business Quarter
Fleming Way
Crawley
West Sussex RH10 9QL
United Kingdom
Tel: +44 (0)1293 767676
Fax: +44 (0)1293 767677
Email: plc@spirent.com

Spirent plc
Registered in England No: 470893

Auditor
Ernst & Young LLP
1 More London Place
London
SE1 2AF
United Kingdom
Tel: +44 (0)20 7951 2000
Website: www.ey.com

Registrar
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
United Kingdom
Service Helplines:
Tel: +44 (0)870 600 3964 (UK)
Tel: +44 121 415 7047 (overseas)
Website: www.shareview.co.uk

ADR Depositary
The Bank of New York
Investor Relations
PO Box 11258
Church Street Station
New York
NY 10286-1258
USA
Tel: 1 888 BNY ADRS (toll free)
or +1 (610) 312 5315 (outside US)
Fax: +1 (973) 742 2875
Email: shareowners@bankofny.com
Website: www.adrbny.com

Designed and produced by CGI BrandSense.
Front cover photography by Andrew Hall.
Board photography by Ric Gemmell.
Printed by royle corporate print.
The paper used in this report is elemental chlorine-free.

www.spirent.com

SPIRENT
Inspired innovation

Spirent plc, Spirent House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex RH10 9QL, United Kingdom
Tel: +44 (0)1293 767676 Fax: +44 (0)1293 767677