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Spirent plc Annual Report 2002

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Spirent plc is an international network technology company providing state-of-the-art systems and solutions for a broad range of customers worldwide. Our Communications group is a worldwide provider of integrated performance analysis and service assurance systems for next-generation network technologies. Spirent's solutions accelerate the development and deployment of network equipment and services by emulating real-world conditions and assuring end-to-end performance of large-scale networks. Our Network Products group provides innovative solutions for fastening, identifying, insulating, organising, routing and connectivity that add value to electrical and communication networks in a wide range of applications. Our Systems group offers integrated product solutions for the aerospace and power controls markets.

Contents

Cautionary Statement Regarding Forward-Looking Statements
Certain statements provided in this Annual Report may be forward-looking statements (as that term is defined in the United States Private Securities Litigation Reform Act 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; our ability to develop and commercialise new products and services and realise product synergies; our ability to conclude the divestment of our interests in the WAGO joint venture; our ability to effect certain amendments to the terms of our loan notes and bank facility; 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 the current economic slowdown 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 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 the Annual Report, whether as a result of new information, future events or otherwise.

Financial Summary

£ million	2002	2001
Turnover	558.9	801.8
Operating profit*	50.5	112.9
Profit before taxation**	46.4	100.9
Headline earnings per share** (pence)	3.40	7.76

Turnover £ million

02	559
01	802
00	697
99	545
98	470

Operating profit* £ million

02	51
01	113
00	138
99	90
98	71

Product development £ million

02	78
01	96
00	60
99	39
98	27

Headline EPS** pence

02	3.40
01	7.76
00	12.61
99	9.18
98	8.47

Spirent plc is a public limited company registered in England. Its Ordinary shares are listed 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 2002 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 2003.

Notes

* Before goodwill amortisation and operating exceptional items being £56.1 million (2001 £86.6 million) and £964.9 million (2001 £759.5 million), respectively, for the Group.

** Before goodwill amortisation and operating exceptional items as above and non-operating exceptional items of £78.5 million (2001 profit £14.5 million).

Our Business at a Glance

Communications

Our Communications group is a worldwide provider of integrated performance analysis and service assurance systems for next-generation network technologies. Spirent's solutions accelerate the development and deployment of network equipment and services by emulating real-world conditions and assuring end-to-end performance of large-scale networks.

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 a full range of wireless and wireline networks and equipment, including core terabit routers, broadband access devices, next-generation wireless handsets, Internet infrastructure and storage area networks. 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 voice and data services. Our systems enable efficient delivery and maintenance of leased line voice and data, digital subscriber line, wireless, optical and converged packet 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

Our Network Products group provides innovative solutions for fastening, identifying, insulating, organising, routing and connectivity that add value to electrical and communication networks in a wide range of applications marketed under the HellermannTyton name worldwide.

Network Products 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 also 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. Our 'Network Sciences' structured cabling system includes GigaBand Category 6 and MegaBand Category 5e systems with performance which far exceeds the required standards.

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

Systems

Our Systems group offers integrated product solutions for the aerospace and power controls markets.

We are a leading developer and supplier of ground-based maintenance, repair and overhaul (MRO) software systems, brand named GOLD™ and AuRA™, that manage aerospace customers' MRO processes by providing maintenance workflow management, inventory control, repair order management, recording and forecasting capabilities. Aviation Information Solutions (AIS) designs, manufactures and integrates hardware and software solutions that enable customers to operate their aircraft more efficiently, safely and effectively, and assist in pilot training. The AIS product range includes airborne file servers, the AvVantage™ electronic flight bag, and flight deck and cabin instruments and displays as well as software applications for use by flight crew and ground-based personnel.

The power controls business 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. These systems allow the user to control the direction and speed of the vehicle as well as controlling other aspects of the vehicles' functions, including seating or platform position, lights, turn indicators and vehicle diagnostics.

Chairman's Letter

Dear Shareholder

I am pleased to be writing to you for the first time having been appointed non-executive Chairman of Spirent in November 2002.

2002 was a challenging year but we adapted to the volatile conditions and maintained our leading positions in the markets in which we operate. Our focus on innovation, customer care and increasing global presence has enabled all our businesses to make progress during this difficult year. We were cash generative and continued to deliver operating profit. Following a tough third quarter management moved quickly to cut costs. We also agreed to sell our interests in the WAGO joint venture and renegotiated our borrowing covenants to give us increased headroom. We remain committed to investing in the future through focused product development spending.

We have written off substantial goodwill this year giving us a balance sheet with which to look forward. I am confident that the Group has strong technological leadership in its key markets, and it will be well positioned as the telecommunications market recovers.

The reduction in operating costs unfortunately involved cutting our workforce. We have also imposed tight controls on spending. To this end you will notice that we have not produced an Annual Review this year, rather just this Annual Report. I hope you will find it interesting reading and hope it will help you to understand the underlying strengths of the business as well as the challenges that we face.

We fully recognise our responsibilities in relation to our employees, the communities in which they live, the environment and other stakeholders and have made progress in the management, monitoring and reporting of corporate social responsibility issues during the year.

I would like to take this opportunity to thank James Wyness for his willingness to take on the role of acting non-executive Chairman after the death of Dr George Sarney. James was an able steward and remains the senior independent non-executive director on the Board. The Board and management have worked hard to steer the Company through these difficult times and these results reflect the efforts of every one of Spirent's employees to deliver their very best.

With financing terms now agreed, our task is to manage the business to drive organic growth and generate cash going forwards.

Yours faithfully

John P Weston CBE
Chairman

Notes

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

Free cash flow as referred to in the text is cash flow before acquisitions and disposals, equity dividends and financing.

Chief Executive's Review

Overview

Turnover of £558.9 million and operating profit before goodwill amortisation and exceptional items of £50.5 million were 30 per cent and 55 per cent below our results for 2001, respectively, but all our operating groups generated operating profit and cash in 2002. In the first half of the year we delivered a resilient performance despite generally depressed market conditions and continuing declines in spending by our major telecoms customers. However a drop in capital expenditure by US network service providers (NSPs) in the third quarter reduced the performance of our Communications group for the second half of the year. As a result Group operating profit was significantly lower in the second half of 2002 compared with the first half.

We are pleased to announce the divestment of our interests in WAGO to our joint venture partners for net cash proceeds of approximately £58.2 million. The divestment is subject to shareholder approval which is being sought at an Extraordinary General Meeting to be convened for 31 March 2003. WAGO is not considered to be a core business of the Group and does not materially contribute to the Group's cash flow.

We continue to be in compliance with our existing borrowing covenants. However in order to increase the level of headroom available under certain of our financial covenants we have renegotiated our borrowing terms. The new borrowing terms are conditional on the completion of the divestment of WAGO and the use of the net proceeds to pay down debt. Further details of the new borrowing terms are set out in the Financial Review.

The fall in revenues in our Communications group led us to realign our cost base. This involved an 11 per cent reduction in workforce, reorganisation of our operations and reductions in discretionary spending within the Communications group. These actions are expected to result in annualised cost savings of £33.5 million. In accordance with accounting standards and due to the fall in trading we were required to take a non-cash goodwill impairment charge of £923.3 million in the year. Operating exceptional items totalling £41.6 million have also been charged in 2002 primarily relating to the reorganisation of our operations.

In difficult conditions our Communications group was able to maintain its position as a market leader due to our portfolio of leading-edge products, technologies and services, our expertise in network operations and our ability to provide integrated performance analysis and service assurance solutions. The Performance Analysis division achieved a stable order intake rate of some £50 million per quarter in the first half of 2002 but this dropped to £42 million in the third quarter. Order intake recovered in the fourth quarter to £50 million. The Service Assurance division's order book closed the year at £37 million compared with £31 million at the end of the third quarter and £73 million at the end of last year, reflecting customers' changing order patterns and reduction in capital expenditure over the year.

Our Network Products and Systems groups delivered sound performances in the year. These businesses supply a broad range of industries and therefore have provided some protection from the current volatile conditions in the telecoms market.

During the year we expanded the technological capabilities of the Group through organic development and strategic investments. The Performance Analysis division expanded its Internet infrastructure testing capabilities through the acquisition of Caw Networks, Inc. (Caw). The purchase of a wideband CDMA (W-CDMA) product line has brought us expertise in this important third generation (3G) wireless technology and the purchase of a remote special services test product line further strengthened our Service Assurance product portfolio.

We made progress in the divestment of non-core businesses during the year with the sale of our aerospace component businesses and the divestments of Switching Systems International Inc (SSI) and Monitor Labs Incorporated (MLI) from our Systems group.

Financial Summary

Reported turnover was £558.9 million and operating profit was £50.5 million in 2002. Turnover from ongoing businesses was £533.9 million and operating profit was £49.2 million, down 18 per cent and 50 per cent, respectively, compared with 2001. As a result of the drop in turnover and with the cost-saving actions only becoming effective in the fourth quarter, return on sales for ongoing businesses declined to 9.2 per cent (2001 15.3 per cent). The reduced trading levels in the third quarter led to a weak second half, down 16 per cent on turnover and 57 per cent on operating profit from ongoing businesses compared with the first half of 2002. Our Communications group reported a small operating loss for the third quarter but returned to profitability in the fourth quarter as the cost savings started to take effect.

In accordance with accounting standards and due to the deterioration in trading we were required to reassess the carrying value of certain of our businesses at the year end. This has resulted in a non-cash goodwill impairment charge of £923.3 million of which £330.7 million relates to the Performance Analysis division and £530.4 million is in respect of the Service Assurance division.

Reported loss before taxation was £1,053.1 million (2001 loss £730.7 million). Before charging goodwill amortisation of £56.1 million and exceptional items of £1,043.4 million, profit before taxation was £46.4 million for the year.

Headline earnings per share were 3.40 pence (2001 7.76 pence).

Operating cash generation for the year was £76.9 million compared with £141.2 million in 2001. Despite the lower levels of trading we were able to generate £36.4 million of free cash flow compared with £40.4 million in 2001. This was achieved after investing £77.7 million (2001 £95.9 million) in product development representing 14 per cent of turnover, up from 12 per cent in 2001. Free cash flow was down by only £4.0 million despite a fall of £64.3 million in cash flow from operating activities.

Net borrowings reduced to £161.8 million (2001 £179.1 million) at the year end. The net proceeds from the divestment of WAGO will reduce net borrowings in 2003.

Operating Summary

Communications

Spirent's Communications group achieved operational successes in a number of key strategic areas including wireless, metro and broadband access networks and Internet infrastructure testing together with geographic expansion during the year.

Our Performance Analysis division competes in the research and development segment of the test and measurement market and so was directly affected by the reduction in capital spending by its main chipset and network equipment manufacturer (NEM) customers. However due to our broad spread of technologies and the cost efficiencies our products deliver, the division was able to increase its share of customers' capital budgets.

We continue to focus our product development efforts in those areas where we believe there are near term opportunities as well as longer term potential. Our drive for innovation delivered several new product launches and 'industry firsts' during the year. The quality of our products continued to be recognised worldwide with the *WebAvalanche™ 4.2* Internet testing solution winning 'Best of Show' awards at *Networld™ + Interop®* in Atlanta and Tokyo and our Abacus2 voice-over-IP (VoIP) product winning *Internet Telephony®* magazine's 2002 Product of the Year award. Spirent Communications was also proud to be named by industry analyst Frost & Sullivan as the 2002 Market Engineering Company of the Year in the category of communications test.

Spirent is a market leader in the US broadband service assurance market where our systems are deployed to assure some of the largest residential digital subscriber line (DSL) and high-capacity business leased line networks in the country. However customers of our Service Assurance division came under financial pressure during the year and as a result the roll-outs of monitoring systems for DSL and leased line services were slowed such that our order book dropped substantially over the year. Nevertheless progress was made by the division with initial deployment of its CenterOp™ platforms for fault and performance management and the introduction of new systems for the assurance of optical and packet networks.

A key strategy for our Communications group is to expand its geographic reach and we made progress in increasing our global presence during the year. Customers outside North America accounted for 25 per cent of Communications group sales in 2002 (2001 20 per cent).

Network Products

The results of our Network Products group for 2002 remained in line with 2001 despite a depressed result in South America due to the severe recession in the region. Overall performance from our activities in the US, Europe and Japan were broadly flat during the year.

Due to the fall-off in the telecoms market, total sales of our local area network (LAN) and broadband wide area network connectivity products declined in the year and now represent only 13 per cent of Network Products group turnover (2001 17 per cent). This decline was largely off-set by sales to the automotive sector where our products were accepted onto a number of new car and heavy vehicle platforms at manufacturers in the US and Europe. Sales of our automated cable bundling and tying, labelling and printing systems continued to be strong during the year.

Against a competitive background characterised by downward pricing pressure, our ability and commitment to working closely with customers to deliver products that meet their needs enabled us to penetrate new markets and increase market share during the year.

Systems

The ongoing businesses within our Systems group delivered growth in both turnover and operating profit due to improved performance in the aerospace business and continuing growth in the power controls business through increased penetration of the mobility and small industrial vehicle markets.

Notes

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

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Chief Executive's Review continued

Dividend

An interim dividend of 1.35 pence per share was paid to shareholders in November 2002. A final dividend will not be paid in respect of the year to 31 December 2002 nor will a dividend be paid in respect of the year ending 31 December 2003. The Board intends to keep future dividend policy under review but any future dividend payments will be dependent on trading outlook and the availability of cash and distributable reserves.

Board and Senior Management

We were saddened to report the deaths of Dr George Sarney, non-executive Chairman, and Mr Ray Parsons CBE, Life President, during the year. They each made significant contributions to the Group and will be missed.

We would like to thank Mr James Wyness, the senior independent non-executive director, who took on the role of acting non-executive Chairman. On 31 October 2002 the Board announced the appointment of John Weston CBE as non-executive Chairman. He brings substantial public company experience, strategic insight and a strong understanding of international business and technology to the Group.

Jim Schleckser, President, Service Assurance – Broadband, Spirent Communications, has been appointed to the Operations Management Team with effect from 1 January 2003.

Our People

We appreciate that the uncertainties in the marketplace during the year have been unsettling for our employees. Our results for the full year are testament to their ability to respond positively to the demands made of them to ensure we continue to deliver the cutting-edge technological innovations and dedicated support and services that our customers have come to expect. We would like to take this opportunity to acknowledge the contributions made by our employees in this challenging year and thank them for their continued dedication and commitment.

Corporate Social Responsibility

We recognise our corporate social, environmental and ethical impact and responsibilities and are committed to advancing our policies and systems across the Group to ensure we address, control and monitor all aspects of corporate responsibility. We strive to maintain an open dialogue with our stakeholders and welcome contact from all our interested groups.

Outlook

We have planned our business assuming the challenging conditions in the telecoms market will continue throughout 2003 and trading so far this year has been in line with our expectations. As growth in data traffic creates opportunities for Spirent, we remain committed to investing in our leading-edge products, technologies and services to enhance our market positions and grow market share.

Nicholas K Brookes

Nicholas K Brookes
Chief Executive

Operating Review

Communications

£ million	2002	2001	Change %
Turnover			
Performance Analysis	187.1	245.5	(24)
Service Assurance	128.3	185.1	(31)
Communications group	315.4	430.6	(27)
Operating profit			
Performance Analysis	9.4	38.7	(76)
Service Assurance	21.4	44.7	(52)
Communications group	30.8	83.4	(63)
Return on sales (per cent)			
Performance Analysis	5.0	15.8	
Service Assurance	16.7	24.1	
Communications group	9.8	19.4	

Despite the decline in the global telecoms market in 2002 the Communications group remained focused on its strategy of enabling customers to move communications technologies out of the laboratory and into live networks more rapidly, cost-effectively and with less risk. By staying strategically well-aligned with the needs of our customers we were able to maintain our technological leadership, improve our market position and capture an increased proportion of our customers' reduced capital budgets.

Throughout 2002 our major customers, the NEMs and NSPs, continued to restructure their operations in response to the significantly reduced overall market. This coupled with certain regulatory issues for our customers in the US resulted in a reduction in spending on our products, particularly in the third quarter. However we were encouraged to see order intake recover somewhat in the fourth quarter in both the Performance Analysis and Service Assurance divisions. By taking immediate cost-saving actions in October we were also able to return to profitability in the fourth quarter after delivering a small operating loss in the third quarter. Overall the Communications group's turnover in 2002 was £315.4 million, down 27 per cent from 2001, with operating profit down 63 per cent at £30.8 million. Given the drop in performance and with the cost savings only partially realised by the year end, return on sales for 2002 was significantly below that for 2001 at 9.8 per cent (2001 19.4 per cent).

During the year we maintained investment in the development of our products to ensure we continue to meet our customers' needs to be both cost-efficient and cutting-edge. Product development of £66.2 million (2001 £73.0 million) represented 21 per cent of Communications group turnover and was invested in key areas such as gigabit and 10-gigabit Ethernet in the access and metro networks, VoIP, Internet Protocol version 6 (IPv6), Internet infrastructure and security testing, storage area networks and 3G wireless technologies. This investment resulted in numerous new products and enhancements to existing product lines being launched during the year including the first end-to-end performance analysis and radio frequency emulation system for the wireless LAN market, a fully automated system for testing W-CDMA mobile handsets, a system for the analysis of Internet infrastructures simultaneously from the physical layer to the application layer, and a test system for storage area networks. Spirent is especially active in the 10-gigabit Ethernet and IPv6 segments which respectively aim to ease bottlenecks in broadband metro and access networks and provide higher levels of security and broader address space for the next phase of the Internet. New Service Assurance products included a series of interfaces for optical and packet services devices and systems for the performance management of gigabit Ethernet and high-speed optical networks.

The Communications group took a number of significant steps in 2002 to strengthen Spirent's brand recognition within the communications industry and improve integration among the group's business units and product lines. An extensive branding effort in the first half of the year has resulted in improved name recognition. All of the businesses in the Communications group now operate under the Spirent name and realignment of the business units within the Performance Analysis division has clarified product lines and responsibilities. Spearheaded by our 'Advanced Test Programs' team, Spirent participated in over 100 high profile public tests of leading-edge networking equipment and services, helping make 'Tested with Spirent' one of the industry's best known programmes in testing.

Performance Analysis

Spirent's Performance Analysis solutions play a critical role in helping leading-edge equipment manufacturers, service providers and enterprises emulate communications traffic and simulate real-world conditions for conformance, functional and performance testing of their equipment and networks. Our products cover a broad range of communications technologies including Ethernet, wireless, Internet infrastructure, storage area networks, position location and VoIP providing customers with a 'one-stop shop' for their test and measurement needs.

Turnover from this division fell in 2002 due to decreased spending by our major customers in the US and Europe. Return on sales declined to 5.0 per cent from 15.8 per cent in 2001 due to a combination of the drop in trading levels and the timing of the associated cost reductions in this business. Despite the overall reduction in sales there were areas of growth, in particular our wireless test products which increased strongly

Notes

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Operating Review continued

with turnover up 57 per cent over 2001 and our position location test products which also had a good year, largely driven by sales of our industry leading position location test system launched in 2001.

During the year we strengthened our position as a leader in wireless testing particularly for next-generation wireless technologies including CDMA-2000, the 3G wireless technology being adopted by the US, and W-CDMA, being adopted by GSM-centric countries such as those in Europe and Asia. We successfully introduced new systems that provide automated conformance, network emulation and position location testing for CDMA-2000 mobile handsets. Spirent's automated test systems now play an important role in the conformance and acceptance test laboratories of major CDMA-2000 service providers including Verizon Wireless, Sprint PCS Group and SK Telecom in Korea. Spirent's automated systems are also in wide use in the laboratories of major wireless mobile handset and component providers including QUALCOMM Incorporated, Motorola, Inc. and Nokia Corporation. We expanded our 3G wireless portfolio through the acquisition of a W-CDMA base station emulator product line during the year which has brought us important capabilities in W-CDMA technology.

We further addressed the testing and performance analysis needs of users and providers of Internet and security applications in 2002. Since the integration of Caw into the Performance Analysis division during the year progress has been made on the development of its Avalanche and Reflector™ products. With these systems customers are able to generate large amounts of Internet traffic in the laboratory to stress network equipment and actual website or security applications to ensure their robustness. Customers using these systems include the NEMs, NSPs, high volume website customers, enterprises and government departments.

An important part of our strategy is to increase our international presence and during the year we opened sales and support services offices in Beijing, Shanghai and Guangzhou to better serve customers in the important Asian region.

Service Assurance
Our Service Assurance division provides network monitoring, operations support systems (OSS), remote test probes, consulting and technical services for some of the world's largest providers of communications services including leased line, DSL, wireless, optical and managed IP services. Our systems assist service providers in cutting their operational costs by automating their network management monitoring and service assurance processes and are therefore important to our customers in the current difficult market conditions.

Turnover in the Service Assurance division fell in the third quarter as our major customers, the incumbent local exchange carriers (ILECs) in the US, reduced investment in their networks in response to financial constraints and regulatory pressures. As a result of lower volume, return on sales was affected falling to 16.7 per cent from 24.1 per cent in 2001. Return on sales was also affected by the product mix which included a higher hardware content in the second half of the year as compared with the first half which had a higher software element. Additionally, sales of monitoring systems for leased line broadband services represented a higher proportion of turnover in 2002 compared with 2001 which had a predominance of DSL business.

During the year we maintained our position as a leading provider of service monitoring systems to the US ILECs with participation in their continuing business and residential broadband service roll-out programmes. The year also saw the initial large-scale deployment of the CenterOp platforms, Sentry and Perform, for fault and performance management. In the wireless space our service assurance systems provide centralised remote test and performance monitoring for the core, or land side, of mobile networks and with the addition of Verizon Wireless and Nextel Communications, Inc. as customers during the year Spirent systems are now used by seven of the top ten mobile service providers in the US. The purchase of a remote special services test product line during the year brought us a large installed base and ongoing business at BellSouth Corporation and Korea Telecom. The integration of this operation into the Service Assurance division is largely completed and while revenues were affected by the market downturn the business has performed in line with our expectations. An important driver for the acceptance of our systems is their ability to measure the performance of, or interoperate with, a wide range of network devices and elements and other OSS. In 2002 we advanced our certification programme and now have full interoperability with network elements and OSS from a broad range of leading suppliers worldwide.

An important opportunity for growth in the Service Assurance division is the expansion of the customer base internationally. Although the sales cycle for our Service Assurance division's large ticket systems is long, we are encouraged by the progress we have made in pursuing opportunities outside the US. We have begun formatting our products to enable local language support and were pleased to secure our first order in Japan. Our efforts in Asia were reinforced by the opening in Beijing in early 2003 of a sales and support services office for the Asian region and the formation of Spirent DM, a partnership with two local companies, to facilitate the development of service assurance products for the Chinese market.

Network Products

£ million	2002	2001	Change %
Turnover	164.7	170.4	(3)
Operating profit	15.0	15.3	(2)
Return on sales (per cent)	9.1	9.0	

Turnover in our Network Products group was down marginally by 3 per cent. In the US, improved sales to the heavy vehicles market and growth of our recently introduced LAN 'Network Sciences' product line were off-set by reduced sales to telecoms service providers. Our European sales showed a small increase overall and in Japan sales were broadly flat. In South America the recession led by the severe economic collapse in Argentina affected the group. The restructuring actions taken in 2001 to consolidate and extend customer-facing activities and reduce administrative and back office activities became fully effective in the first half of 2002 and margins for the year improved to 9.1 per cent compared with 7.3 per cent in the second half of 2001.

Sales to the automotive sector contributed 30 per cent to turnover in 2002 compared with 27 per cent in 2001. While global vehicle production was broadly flat the trend towards increasing electronic/electrical systems content and lighter vehicles requiring increased use of plastics has provided underlying market growth. As a result we have been able to increase our penetration with vehicle manufacturers, their first tier suppliers and major vehicle cable harness manufacturers worldwide. Our sales in the US heavy vehicles market recovered showing 23 per cent growth after the significant market downturn in 2001. Due to our product quality and innovation we have 'preferred supplier' status with important automotive manufacturers and tier one suppliers worldwide.

The market for our broadband products (used in wide area networks to route and organise fibre optic cables in large telephone exchanges and outside plant) and structured cabling products (used in local area networks to provide network connectivity) remained very weak in the US and UK throughout the year due to the depressed conditions in the telecoms market and reductions in enterprise IT spending. We have developed and extended our LAN products for the European market which we expect will benefit sales in 2003.

Despite a generally weak global economy we increased our penetration with distributors, wholesalers and catalogue houses that sell a broad range of our products worldwide. The major contract we signed with the Royal Mail during the year to provide ties for mail sacks has commenced well with 60 per cent of all orders now being placed via the XML e-procurement system.

Our range of electrically operated automatic application systems was expanded in the year with the introduction of two major new models: the AT2060 for fixings and the ALA for identification. We now have a large installed base of Autotool and printing systems at customer sites worldwide and our contracts to supply the associated cable ties and identification labels and markers represent a valuable source of continuing business for the group.

We successfully completed the move into our new production and distribution facility in Jundaí, Brazil without any interruption to customer service and expect to benefit from cost and operational efficiencies. We also increased the range of products being manufactured at the Wuxi, China facility after increasing the production space last year.

Systems

£ million	2002	2001	Growth %
Turnover	53.8	48.6	11
Operating profit	3.4	0.5	>100
Return on sales (per cent)	6.3	1.0	

Figures in the above table relate to ongoing businesses only

On an ongoing business basis the Systems group saw an increase in revenues and operating profit due to increased customer penetration, product launches (including the new airborne file server) and the successful entrance into new markets. The impact of cost reductions taken in the first half of the year in the aerospace business coupled with increased sales resulted in improved trading in the Systems group for the second half of 2002.

Within the aerospace business sales of our maintenance, repair and overhaul software systems, AuRA™ and GOLD™, increased as we continued to win new business from both the civil and military sectors. Our Aviation Information Solutions (AIS) business received US Federal Aviation Administration certification for its airborne file server product which commenced shipping at the end of the year. AIS's reputation as a leading supplier of integrated hardware and software solutions to the aerospace industry enabled it to secure new contracts during the year for its AvVantage™ electronic flight bag and Vision and ReVision pilot training software systems.

The power controls business saw growth in turnover over 2001 mainly due to increased penetration of the mobility vehicles market. Sales to the industrial market, a new market for the business, also contributed to the improvement.

Notes

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

Free cash flow as referred to in the text is cash flow before acquisitions and disposals, equity dividends and financing.

Operating Review continued

The market for power controls for wheelchairs and mobility scooters remains competitive and is experiencing pricing pressures. We responded to this during the year through a number of initiatives including the introduction of the VSI power control system for wheelchairs, which is a lower cost, higher specification replacement for its predecessor product, the Pilot, and the launch of a competitively priced mobility scooter controller, the S-Drive. Our ability to respond quickly and work closely with customers to meet their demands for increasing functionality at lower prices enables us to maintain our leading position in this sector.

While the US remains the largest end-user market for powered wheelchairs and mobility scooters, many of our customers have manufacturing facilities worldwide and we are shipping an increasing number of units to Asia.

We have made good progress in our efforts to penetrate the small industrial vehicle market during 2002. We have had particular success with our multi-functional TRIO™ controllers for floor cleaning vehicles, while our access platform system has been deployed by one of the world's largest manufacturers of such vehicles. We continue to invest in this market and its associated technologies to enhance our future opportunities.

Interconnection Joint Venture
In 2002 our share of turnover from the WAGO joint venture decreased by 3 per cent to £75.6 million (2001 £78.3 million) and our share of the operating profit decreased by 23 per cent to £7.4 million (2001 £9.6 million). The decline was due to the continuing depressed conditions WAGO experienced in most of its geographic markets during the year. Our share of interest payable and of taxation from WAGO were £0.7 million and £2.7 million, respectively, giving a profit after taxation of £4.0 million.

We announced on 12 March 2003 the divestment of our interests in WAGO to our joint venture partners. This transaction is subject to shareholder approval which will be sought at an Extraordinary General Meeting to be convened on 31 March 2003.

Financial Review

Results

£ million	Six months to 30 June 2002	Six months to 31 December 2002	Year to 31 December 2002	Year to 31 December 2001
Turnover				
Ongoing businesses	290.1	243.8	533.9	649.6
Divestments and discontinued operations	20.9	4.1	25.0	152.2
Group	311.0	247.9	558.9	801.8
Operating profit				
Ongoing businesses	34.5	14.7	49.2	99.2
Divestments and discontinued operations	0.7	0.6	1.3	13.7
Group	35.2	15.3	50.5	112.9
Return on sales (per cent)				
Group	11.3	6.2	9.0	14.1

Turnover for 2002 of £558.9 million was 30 per cent lower than 2001 with the second half of 2002 being 20 per cent below the first half. Organically, excluding the effects of currency exchange and disposals, turnover was 16 per cent down from 2001 with the impact of currency translation, primarily due to the weakening of the US dollar, reducing reported turnover for 2002 by some £18.4 million. Divested companies contributed £25.0 million to turnover in 2002 (2001 £152.2 million).

Levels of activity in the Communications group in the first half of 2002 were in line with those seen in the second half of 2001. During the third quarter of 2002, however, we saw a marked reduction in activity, particularly in the Service Assurance division, following announcements by many of our major customers that they were further cutting their capital expenditure budgets.

In 2002 North America accounted for 66 per cent of turnover by source from ongoing businesses (2001 73 per cent) at £350.2 million compared with £472.0 million in 2001. Europe accounted for 28 per cent of turnover by source from ongoing businesses (2001 23 per cent) and in absolute terms was little changed on the prior year at £151.4 million.

By market, turnover was reduced in absolute terms in Europe and North America but there was marginal growth in Asia where turnover increased from 13 per cent to 16 per cent of the total.

Operating profit before goodwill amortisation and exceptional items of £50.5 million was 55 per cent below the previous year, with the second half of 2002 56 per cent below the first half. Organically, operating profit was 50 per cent below 2001 with the effects of exchange further reducing profits by £1.6 million.

Return on sales was consequently much reduced at 9.0 per cent, 5.1 percentage points below 2001 due to depressed returns in our Communications group. However Network Products maintained a return of 9.1 per cent and returns in the Systems group improved over 2001 benefiting from the restructuring in the aerospace business and growth in power controls.

Earnings before interest, taxation, depreciation, amortisation and exceptional items (EBITDA before exceptional items) was £84.1 million (2001 £150.1 million).

Net interest payable reduced from £22.8 million in 2001 to £12.3 million due to the reduction in net debt and lower interest rates in the US and UK. An interest rate swap was entered into in November 2002 replacing a previous swap arrangement. This swap has the effect of moving the interest on $163.4 million of the loan notes from a fixed to floating rate, currently saving 3 percentage points.

The Group's effective tax rate for 2002 was 18.1 per cent. This rate is lower than the expected rate of 29 per cent due to a credit relating to prior years of £6.2 million. At current levels of profitability it is expected that the effective tax rate will revert to a level of 31 per cent going forward. An exceptional tax charge of £18.5 million arises principally through the re-evaluation of the recovery of deferred tax assets under Financial Reporting Standard (FRS) 19.

Headline earnings per share were 3.40 pence compared with 7.76 pence in 2001.

Reported loss before taxation was £1,053.1 million after charging exceptional items of £1,043.4 million compared with a loss of £730.7 million in 2001 after charging exceptional items of £745.0 million, giving a reported loss per share of 117.12 pence (2001 loss 83.43 pence).

At 31 December 2002 Spirent was in compliance with its existing borrowing covenants. Net interest cover was 4.4 times (2001 5.1 times) and net debt to EBITDA was 1.9 times (2001 1.2 times).

On 12 March 2003, Spirent announced the divestment of its 51 per cent interests in WAGO, its interconnection joint venture, for net proceeds of approximately £58.2 million. WAGO is not considered to be a core business of the Group. The only contribution to Group cash flow from the WAGO companies for the year to 31 December 2002 was a dividend of £0.2 million (2001 £1.6 million). Accordingly, apart from the net proceeds, the divestment will not have a material effect on the Group's cash flow on an ongoing basis. The divestment is subject to shareholder

Notes

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

Free cash flow as referred to in the text is cash flow before acquisitions and disposals, equity dividends and financing.

Financial Review continued

approval and requires the consent of our noteholders and parties to the syndicated bank facility.

New Borrowing Terms

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 have been agreed. These amendments are conditional on the completion of the divestment of WAGO and the use of the net proceeds to pre-pay approximately £45.8 million of the loan notes and pay an associated contractual make-whole amount of approximately £12.4 million. This amount and any professional fees in relation to the renegotiation of the borrowing terms will be charged as exceptional costs in 2003.

Under the revised terms relating to the syndicated bank facility Spirent will have a committed line of £75 million available, which will reduce to £60 million by 31 December 2003. The bank facility remains repayable in July 2004. The interest rate will be increased to an initial margin over LIBOR of 1.75 per cent, which may decrease in certain circumstances.

Following the application of the net proceeds from the divestment of WAGO it is expected that $144.5 million of loan notes will remain outstanding with unchanged maturities principally in 2009. The applicable interest rate will be increased to a weighted average of 9.45 per cent which will decrease if certain financial requirements are satisfied.

Certain of the financial covenants attaching to both the syndicated bank facility and the loan notes, which will be tested on a quarterly basis, have been amended as set out in the table below.

The new borrowing terms also contain a covenant that consolidated net worth must not be less than £100 million at any time.

Other significant terms include restrictions on dividend payments and restrictions on acquisitions and disposals. Some of these restrictions fall away on certain financial requirements being satisfied, which in any event cannot occur before 30 June 2004. The financial requirements to be satisfied are:

(1) that at the end of three consecutive quarters EBITA to net interest must equal or exceed 4.5 times and net debt to EBITDA must be equal to or less than 1.5 times for the rolling 12 month period ending on the quarter end date; and

(2) that the Group has in place a bank facility of £50 million.

On satisfaction of these financial requirements, the quarterly covenant tests will be replaced by semi-annual covenant tests with covenants of EBITA to net interest of 3.0 times and net debt to EBITDA of 3.0 times.

If completion of the divestment of WAGO does not occur, the existing borrowing terms will continue to apply. In such circumstances and if current levels of trading are not maintained, the directors would need to consider taking appropriate actions with a view to maintaining compliance with the existing terms.

Goodwill Impairment

Following the deterioration in trading, goodwill impairment has been charged at the year end as required by accounting standards. Goodwill impairment is a non-cash charge that has no impact on our business going forward.

The total charge reported is £923.3 million and is principally in relation to the Communications group. In line with best practice this charge includes £87.0 million in respect of goodwill previously charged to reserves.

The remaining goodwill carrying value is £113.6 million and it is expected that the goodwill amortisation charge will be approximately £10.0 million in 2003. The impairment has resulted in a £575.9 million deficit in the distributable reserves of the Company. At the appropriate time and with court approval it may be possible to utilise the share premium account, which at 31 December 2002 stood at £696.1 million, in order to off-set the deficit on reserves.

Exceptional Items

Exceptional items (excluding taxation) of £1,043.4 million have been charged in the period and include the goodwill impairment charge of £923.3 million discussed above.

Other Operating Exceptional Items

Other operating exceptional items are shown in the table below.

Restructuring costs of £8.6 million have been charged in respect of redundancy payments and other costs incurred in the restructuring of the business.

After the reduction in workforce in the fourth quarter we relocated certain employees to make more efficient use of our facilities and this has resulted in certain leased properties being vacated. Provisions of £20.2 million have been recognised in the period in relation to our continuing obligations under these leases.

The deterioration in the technology industry has led us to make provisions amounting to £4.4 million (2001 £14.2 million) for stocks in excess of 12 months' usage and to write down the value of certain tangible fixed assets by £3.6 million.

Acquisition retention bonuses arising from acquisitions made in 2000 of £4.8 million have been charged in the year.

Financial Covenants

	Existing	As amended		
		30 June 2003	30 September 2003	31 December 2003
EBITA: net interest ≥	3.00×	2.00×	2.25×	2.50×
Net debt: EBITDA ≤	3.00×	2.75×	2.50×	2.25×

Other Operating Exceptional Items

£ million	2002
Restructuring costs	8.6
Tangible fixed asset write-downs	3.6
Lease provisions	20.2
Stock provisions	4.4
Acquisition retention bonuses	4.8
	41.6

The cash cost of operating exceptional items was £7.7 million in 2002 (2001 £11.9 million).

Non-operating Exceptional Items
A net loss of £48.4 million is reported on divestments from within the Systems group. The net loss on divestments is after charging £70.8 million of goodwill previously written off to reserves and now reinstated in accordance with FRS 10.

The investment in own shares held in the Employee Share Ownership Trust has been written down to market value at 31 December 2002 resulting in a charge of £30.1 million given the marked reduction in the share price. These shares had been purchased in previous years to hedge obligations under various option schemes and the long term share purchase plan which are now out of the money.

Taxation
The reduction in activity levels has necessitated a reassessment of £19.0 million of deferred tax assets. These assets had previously been recognised on the acquisition of businesses, on prior years' exceptional items, and on timing differences. Although we expect the assets to be recovered in full over time there is currently insufficient evidence to support the continued recognition of the deferred tax assets under FRS 19. The tax effect of the exceptional items in 2002 gives rise to a tax credit of £0.5 million, resulting in an exceptional tax charge of £18.5 million.

Cash Flow
Spirent continued to generate cash in all its operating groups despite the depressed trading conditions. Operating cash flow of £76.9 million was 46 per cent down on the previous year of £141.2 million. Cash flow before acquisitions and disposals, equity dividends and financing, or free cash flow, was £36.4 million compared with £40.4 million for 2001.

Net interest payments were lower by £13.1 million compared with the previous year. This is due to lower levels of debt and a fall in interest rates. Interest is primarily dollar denominated and provides a natural hedge against profit translation.

Tax payments have fallen to £4.2 million from £21.0 million in 2001 due to reduced trading levels, refunds of over paid tax and the recognition for tax purposes of items previously charged to profit.

Net capital expenditure at £25.8 million was substantially lower than in the previous year (2001 £57.7 million) and was below the 2002 depreciation charge of £33.6 million. It is anticipated that capital expenditure for 2003 will remain at around the same level as 2002.

Proceeds from disposals net of the cost of acquisitions contributed £6.4 million during 2002.

Payments in respect of the 2001 final dividend and the 2002 interim dividend amounted to £40.2 million (2001 £39.8 million).

Net borrowings closed at £161.8 million compared with £179.1 million for the previous year with exchange benefiting the position by £12.7 million.

Acquisitions and Disposals
We made three acquisitions during the year for a total cash cost of £49.2 million.

We invested £16.4 million in the acquisition of certain assets of the remote special services test product line of Anritsu Company US in July 2002. In August 2002 the remaining 85 per cent of Caw not already owned by the Group was acquired for an initial consideration including expenses of £26.7 million in cash. Deferred consideration (expected to be satisfied by way of shares) is payable dependent on certain performance criteria being achieved by Caw for the year ending 31 December 2003. In September 2002 we acquired a product line and certain intellectual property rights from UbiNetics for a cash consideration of £6.1 million including expenses.

We continued to divest our non-core businesses and realised £37.6 million in net proceeds from the sale of our aerospace component businesses in April 2002. Other divestments also within our Systems group realised a further £18.0 million.

Pension Fund
The Group applies the principles of Statement of Standard Accounting Practice (SSAP) 24 for determining pension charges. Spirent operates one major defined benefit pension plan, which is in the UK, and was last subject to a full actuarial valuation in April 2000 at which time a surplus was identified. A valuation is required every three years and consequently is due to commence on 1 April 2003. Given the decline in equity markets and reducing interest rates, which have both adversely affected the funding levels, it is highly likely that a deficit will arise at the next valuation. Until the valuation has been performed it is not possible to indicate what the deficit will be. All other Group pension arrangements are on a defined contribution basis.

Based on FRS 17 the funding position at 31 December 2002 was a deficit of £41.9 million before taxation, representing a funding deficit of 32 per cent. This valuation represents a snap shot in time of the plan and is not a valuation of the plan on an ongoing basis. We consider that such a deficit, should it arise, would be a manageable position which could be made good over the remaining service lives of the employees.

Free Cash Flow

£ million	2002	2001
Operating activities	76.9	141.2
Net interest and other	(10.5)	(22.1)
Net capital expenditure	(25.8)	(57.7)
Tax paid	(4.2)	(21.0)
Free cash flow	36.4	40.4

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

Free cash flow as referred to in the text is cash flow before acquisitions and disposals, equity dividends and financing.

Financial Review continued

Treasury Management and Financial Instruments

The primary objective of the treasury function is to reduce financial risk and to ensure that sufficient liquidity is available to the Group to meet its current and anticipated needs. It operates as a service centre 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 involve 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. Transactions are only undertaken if they relate to underlying exposures or business requirements. Speculative treasury transactions are expressly forbidden.

Financing

The Group's policy is to finance operations through a combination of retained earnings and external financing. The Company raises the majority of the funding for the Group. Debt is principally sourced from the syndicated bank market and the US private placement market. WAGO, which is a joint venture, arranges its own financing.

At 31 December 2002, the amount of loan notes outstanding was $218 million, equivalent to £135.4 million at 31 December 2002 exchange rates. These loan notes have various maturity dates ranging from 2006 to 2009.

Amounts available under the committed banking facilities were £194.4 million at 31 December 2002 of which £96.2 million was drawn. These facilities mature in July 2004.

Since the year end the terms of the loan notes and the banking facility have been varied as previously discussed.

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. The exposure to interest rates is managed through an optimum mix of fixed and floating debt and the use of interest rate swaps.

At 31 December 2002 the Group's borrowings were composed of 20 per cent of fixed rate debt. This excludes $163.4 million of private placement notes which have been swapped into floating rates through the use of a seven year swap, callable at the counterparties' option at six monthly intervals commencing May 2003.

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

Net interest payable was £12.3 million (2001 £22.8 million). A one percentage point movement in short term dollar interest rates based on the year end position would impact profit before tax by approximately £1 million.

Borrowings are denominated in currencies that correspond to Spirent's net assets as described below.

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.

Subsidiaries are required to hedge material transactional exposures, against their local currency, using forward contracts. Group Treasury, by means of forward foreign exchange contracts, carries out the majority of this hedging activity.

We do not hedge translation exposures on translation of the operating results or net assets of our overseas subsidiaries since these are an accounting, not a cash, exposure. Where possible we aim to match the currency of our borrowings with the currency profile of profits and net assets, this provides a partial hedge against these translation exposures.

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

At the year end the balance sheet translation exposure was 70 per cent hedged (2001 69 per cent).

During the year sterling strengthened against the US dollar, the main currency to which we are exposed. A movement in the US dollar against sterling by 1 per cent if maintained over the whole year based on 2002 results, would affect reported profit before tax by approximately £0.2 million.

Summary

2002 has been a demanding year both in terms of trading and the challenges we have faced adjusting our cost base and financial structure to meet the downturn in the Communications group. Our aim is to focus on the organic growth of the business and cash generation in order to retain cash to further reduce net borrowings.

Net Borrowings by Currency and Tenor

£ million

	US dollar	Sterling	Euro	Other	2002 Total	2001 Total
Cash and current asset investments	10.9	61.2	6.9	4.6	83.6	27.9
Less: borrowings repayable in one year	(0.6)	(0.1)	(0.9)	(0.2)	(1.8)	(11.2)
Net liquid funds	10.3	61.1	6.0	4.4	81.8	16.7
Less: borrowings repayable after one year	(149.5)	(84.4)	(9.5)	(0.2)	(243.6)	(195.8)
Net (borrowings)/funds	(139.2)	(23.3)	(3.5)	4.2	(161.8)	(179.1)

EG Hutchinson

Eric G Hutchinson
Finance Director

Board of Directors and Operations Management Team

The Board

Executive Directors

Nicholas K Brookes (55) 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 a non-executive director of De La Rue plc and Corporacion Financiera Alba S.A.

My E Chung (50) 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.

Eric G Hutchinson (47) 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

John P Weston CBE* (51) UK resident [ARN]
Chairman
John Weston joined the Board and was appointed Chairman on 7 November 2002. He is also Chairman of the Nomination Committee. He was Chief Executive of BAE SYSTEMS plc from May 1998 to March 2002 and has over 30 years' senior experience in aerospace, engineering and related technology industries.

James A D Wyness* (65) UK resident [ARN]
James Wyness was appointed to the Board in 1979 and is the senior independent non-executive director and Chairman of the Audit Committee. He was formerly Senior Partner of Linklaters, the Company's UK legal advisers, from where he retired in 1997. He is a non-executive director of Saracens Limited.

Marcus Beresford* (60) UK resident [ARN]
Marcus Beresford was appointed to the Board in 1999 and is Chairman of the Remuneration Committee. He was Chief Executive of GKN plc from August 2001 to 31 December 2002 and has over 30 years' managerial experience in the automotive and electronic industries. He is also a director of the Engineering Technology Board.

Paul M F Cheng* (66) Hong Kong resident [RN]
Paul Cheng was appointed to the Board in 1996. 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. He currently serves as an independent non-executive director of several listed companies on the Hong Kong Stock Exchange and is an adjunct professor at the business school of the Hong Kong University of Science and Technology.

P Göran Ennerfelt (63) Swedish resident [AN]
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), the General Export Association of Sweden 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.

Richard M Moley* (64) US resident [RN]
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 non-executive director (formerly Chairman) of Netro Corporation and a number of other US high technology public and start up companies including Linear Technologies Corporation, Echelon Corporation, Calient Systems Inc and Polaris Networks Inc.

Operations Management Team

Nicholas K Brookes (55)
Chief Executive

My E Chung (50)
Group President, Spirent Communications

Eric G Hutchinson (47)
Finance Director

Paul R Eardley (42)
Company Secretary and General Counsel

W Barry Phelps (56)
Executive Vice President, Spirent Communications

Stephen J Salmon (53)
Group President, Network Products

Jim H Schleckser (40)
President, Service Assurance – Broadband, Spirent Communications

Geoffrey P L Zeidler (40)
President, Europe and Wireless, Spirent Communications

Spirent's Operations Management Team develops and oversees 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.

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

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 UK Listing Authority relating to the Combined Code on Corporate Governance (the Code) except in relation to Nicholas Brookes' 24 month notice period from the Company within his service contract. Subsequent to the 2002 year end, Mr Brookes' service contract was amended so as to comply with the Code.

This statement describes how the principles of corporate governance set out in the Code have been applied within the Group. The Board is also closely reviewing the current corporate governance proposals on both the role and effectiveness of non-executive directors (the Higgs Review) and also the role and responsibilities of audit committees (the Smith Review). In addition, as the Company is listed on the New York Stock Exchange, it is subject to certain US legislation. The Board is therefore also closely reviewing the implementation of certain requirements following the publication in the US of the Sarbanes-Oxley Act 2002. Any changes which may be implemented by the Board as a result of the above will be reported as appropriate in the Directors' Statement on Corporate Governance in next year's Annual Report.

The Board

The Board comprises a non-executive Chairman, five further non-executive directors and three executive directors, details of whom are given on page 15. The roles of Chairman and Chief Executive are held separately with a clear division of responsibility between them. The Board considers that all non-executive directors are independent with the exception of Göran Ennerfelt by virtue of his notifiable interests referred to in the Report of the Directors on page 20. James Wyness is the senior independent non-executive 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 role of the Board 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 ensure that the Group meets its responsibilities to its shareholders, customers and other stakeholders.

The Board meets at least six times a year and a separate meeting is held annually to review and approve long term strategy. Full attendance of the Board is expected at Board meetings and in 2002 attendance was in excess of 90 per cent. 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. To ensure good communication between the Board and each of the Committees, the Company Secretary is the appointed Secretary to all standing Board Committees.

All directors receive appropriate training and briefing upon appointment and subsequently as necessary. Non-executives have the opportunity to enhance their understanding of the Group through regular business sector presentations, the receipt of monthly reports from the Chief Executive and site visits.

The directors 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 in respect of its 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 Annual General Meeting 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 whose cash consideration does not exceed £25 million.

Audit Committee

Chairman, James Wyness

The Audit Committee comprises four non-executive directors. The Committee meets no less than four times a year with the external auditors, the Chief Executive, the Finance Director, the Head of Financial Control and the Head of Financial Reporting in attendance. It 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 regime 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 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 restricts certain types of non-audit work that may be performed by the Company's auditors. The Audit Committee also assesses the objectivity of the auditors' services so that an independent professional relationship is maintained. Details of the auditors' remuneration for 2002 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. It is responsible for reviewing the composition and structure of the Board and for identifying and recommending candidates for executive and non-executive appointments. Executive search consultants are used by the Committee to assist this process as appropriate.

Remuneration Committee

Chairman, Marcus Beresford

The Remuneration Committee which consists exclusively of independent non-executive directors, meets at least three times a year. Further details about the Committee are included in the Report on Directors' Remuneration on pages 22 to 29.

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 82 and 83.

A valuable dialogue has also been established with principal institutional investors through a programme of investor relations events throughout the year in the UK and overseas. 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 Annual General Meeting 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 and against each resolution is available for shareholders attending the AGM in respect of resolutions which have been voted on by a show of hands. The results of proxy votes are also posted on the Company's website following the conclusion of the AGM.

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 the financial statements. 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 business group and operating 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 reviewed by the Audit Committee and by the Board on at least four separate occasions each year.

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

- an organisation structure with clear operating procedures, defined lines of responsibility and delegated levels of authority;
- a Code of Business Ethics, which sets standards of professionalism and integrity for all employees and operations worldwide;
- 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.

The Group has a material joint venture investment (51 per cent interest) in the WAGO group of companies. The Board believes that WAGO has appropriate internal controls in place although the review for this operation is less comprehensive than that for the Group's subsidiary operations. The WAGO businesses have therefore been excluded from the above disclosures. On 12 March 2003, the Company announced that it had reached conditional agreement to dispose of its interests in the WAGO group of companies. The disposal is expected to complete in April 2003.

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.

Pensions Governance
The Group's principal pension and retirement schemes exist in the United Kingdom, the United States, Australia and South Africa. Scheme funds are held separately from those of the Group and are administered by Trustees (which in the UK and US 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 included on page 30. 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 31.

Social Responsibility Statement

We recognise our corporate social, environmental and ethical impact and responsibilities and are committed to advancing our policies and systems across the Group to ensure we address, control and monitor all aspects of corporate social responsibility (CSR). We understand that our reputation and future success rests in part on our:

- concern for employee health and safety;
- care for the environment;
- involvement in the community; and
- good ethical behaviour.

We realise the importance of maintaining good relationships with not only our shareholders, customers and employees but also with other parties who have an interest in our activities. We strive to maintain an open dialogue with our stakeholders and welcome contact from all our interested groups.

The Board takes ultimate responsibility for Spirent's social responsibilities and is committed to developing and implementing policies which support them alongside a fundamental commitment to create and sustain long term value for shareholders. We believe that CSR represents good management practice and is important in developing our business. To date, the Board does not believe that the activities of the Group present any significant social, ethical or environmental risks. We have established a CSR Committee to co-ordinate Group-wide corporate responsibility efforts, which is chaired by the Chief Executive and will meet quarterly.

Health and Safety
The Chief Executive is the appointed director responsible to the Board for the health and safety and environmental performance of the Group.

The Group policy statement provides for the delegation of day-to-day management of the health and safety responsibility to local business unit management supported by the Group Internal Control team and local external advisers as necessary. All local business units are required to produce and publish to employees a written health and safety policy.

Each business unit has an individual designated as the appointed Health and Safety Officer with responsibility for ensuring the business unit conforms to local statutory regulations as well as Group policy.

Spirent's 'Operational Excellence Programme', which is further described in the Directors' Statement on Corporate Governance on pages 16 and 17, furthers the corporate objective of continuous improvement. The performance for 2002, collated from the annual health and safety questionnaire completed by all business units, demonstrates that over 80 per cent of our business units improved performance compared with the previous year. The highlights of the report are:

- over 50 per cent improvement in ill health/long term sickness levels reducing to only four cases for 2002 compared with nine the previous year;
- a significant reduction in accident frequency and severity;
- no accidents that resulted in hospitalisation, a positive improvement from three in 2001;
- 489 incidents that required on-site first aid treatment, a reduction of 18 per cent from 2001; and
- 315 workdays lost due to sickness and accidents in 2002, a 25 per cent reduction on 2001 levels.

Health and safety training programmes are operated at the manufacturing units with independent reviews of company performance being undertaken by external consultants and loss control experts from our insurers.

The Group's health and safety performance and significant risk exposures are regularly reviewed 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 Spirent Group policy is to comply with local, state and national environmental legislation in all jurisdictions in which we operate and to adopt responsible environmental practices.

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 that demonstrates the environmental performance of the business units.

The Network Products group has consolidated on its success in 2001 of achieving ISO 14001 accreditation and by the end of 2002 had 95 per cent of business units accredited including all manufacturing sites worldwide and has only a few sales offices remaining for accreditation.

The Communications group is predominately US-based and even though the businesses have a high level of ISO 9001 accreditation, and in the case of the Service Assurance division also TL-9000 accreditation, the move towards ISO 14001 accreditation is only now beginning to be recognised in the US. We would expect over the next few years that our US businesses will seek ISO 14001 accreditation.

In 2002 75 per cent of business units reported improvements on 2001 levels in environmental performance in meeting goals for reducing waste, increasing recycling and reducing energy consumption. This is a significant improvement on previous years.

Of the two vacated sites where historic activities were deemed to have led to minor land contamination, on more detailed investigation at one of the sites it was revealed that no land contamination had in fact taken place. At the other site we are undertaking remediation work in line with the local statutory obligations.

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 through supporting community initiatives and local charities. Local communities are important to us and we encourage our employees to participate as volunteers in community and charitable activities. We make contributions through cash donations, gifts in kind and employee skills, talent and time. In 2002 Spirent made charitable donations of £90,000 (2001 £73,000).

Each business unit is encouraged, through a charitable donations policy, to develop programmes which address the needs of their local community. Their involvement covers a wide range of activities from fund raising for disadvantaged groups to supporting local schools.

During the year Spirent and our employees have undertaken a number of initiatives to contribute to the communities in which we live and work to make a positive difference.

We support a number of educational schemes including a Junior Achievement programme in the US where employees are given leave to teach in local schools. We also provide work experience in association with a number of universities and summer internships for local students around the world. In support of science and technology education we have provided equipment and products to local schools and technology colleges. In the UK Spirent plc supports The Duke of Edinburgh's Award scheme and is a sponsor of the Science, Engineering and Technology Student of the Year Awards in the category of Best Electronic Engineering Student. We take an active role in the development of the Young Enterprise in Sussex scheme and sponsor its annual 'Best Product' award.

As part of our initiative to support local communities and disadvantaged groups our business units support programmes which provide gifts, clothing, food and other assistance for unprivileged children and families worldwide.

We recognise the importance of continuing to support local community and educational initiatives and encourage our employees to find new ways to participate in community projects.

Ethical Standards
Spirent expects that all of its business is conducted in compliance with high ethical standards of business practice. It applies these standards to all dealings with customers, suppliers, stakeholders and employees.

The Group's policy on ethics is made available to all employees and emphasises the requirement for honesty and integrity in their business dealings and dealings with colleagues. Spirent reviews its ethics policy annually and intends to publish it later this year on the Company website. Ethical practice is reviewed as part of the Group's internal control process on an annual basis to ensure that the core values are embedded in all business dealings.

Employment, Training, Education and Employee Involvement
The Group aims, on a worldwide basis, to attract, retain and motivate the highest calibre of employee, and encourages creativity and initiative while rewarding high performance both on an individual and team contribution basis.

The Company is committed to providing employees with a continuing opportunity to develop their full potential by gaining the relevant skills and experience required to deliver the business objectives. Training programmes and links with the educational sector reinforce this commitment to learning and development activities. Management development and succession planning are vital to the future success of the Company and are, therefore, managed accordingly.

Such processes are reinforced through appropriate remuneration systems and recognised through an innovation awards programme. The development of a 'Technical Ladder' as a career path for technical staff that is parallel to a more traditional management career path is very important given the criticality of intellectual property and technical innovation to Spirent's future success.

Each operating company 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 Company places great emphasis on the highest level of customer care and service and acknowledges that to achieve this objective requires a contribution from every employee. Reflecting the overall philosophy of decentralisation, local operating company management is responsible for developing and implementing arrangements for employee information, consultation, communication and involvement which best suit their own particular needs.

The Group recognises the importance of two-way communication with employees, particularly on matters relating to the business and its performance. This is achieved using a variety of methods including senior management briefings, the regular distribution of an in-house publication, *Viewpoints*, intranets and a corporate website.

Report of the Directors

The directors present their Report and the audited consolidated accounts for the year to 31 December 2002.

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 14. Principal divisions, subsidiaries, joint venture and associates are listed on pages 77 and 78.

Dividends

An interim dividend of 1.35 pence per share was paid on 4 November 2002. The directors do not recommend the payment of a final dividend therefore the total dividend for the period was 1.35 pence per share (2001 4.35 pence).

Research and Development

Product development and innovation is considered a key strategy to maintain and improve the Group's competitive position and therefore continues to receive high priority. This commitment is highlighted by the £77.7 million research and development spend during the year, equivalent to 14 per cent of turnover (2001 £95.9 million, equivalent to 12 per cent of turnover). The Company will continue to commit resources as appropriate to research and development.

Major Transactions

On 1 April 2002, the Company completed the sale of its non-core aerospace component businesses within its Systems group to Curtiss-Wright Corporation for a cash consideration of $60 million.

On 1 May 2002, the Company completed the disposal of certain assets of Switching Systems International Inc, a business within its Systems group, for up to $9.1 million in cash.

On 10 July 2002, the Company completed the acquisition of certain assets of the remote special services test product line of Anritsu Company US for a cash consideration of $26 million. The remote special services test product line has been integrated into the Company's Service Assurance division.

On 16 August 2002, the Company completed the acquisition of Caw Networks, Inc. for an initial consideration of $49 million comprised of approximately $45 million in cash and $4 million in a combination of Spirent restricted shares and options pursuant to an employee stock plan. The business has been integrated into the Company's Performance Analysis division.

On 18 September 2002, the Company announced a strategic partnership with UbiNetics. Under the terms of the agreement, the Company acquired UbiNetics' CS100 product line and rights to associated intellectual property for £6.5 million in cash. The partnership is in association with the Company's Performance Analysis division.

On 30 September 2002, the Company completed the disposal of Monitor Labs Incorporated, part of the Systems group, to Teledyne Technologies Incorporated for a cash consideration of $24 million.

On 12 March 2003, it was announced that Spirent had entered into conditional agreements with members of and companies controlled by the Hohorst family for the sale of its 51 per cent interests in WAGO, its interconnection joint venture, for a total consideration of approximately £60.7 million payable in cash, in full, on completion. The disposal is subject to shareholder approval at an Extraordinary General Meeting to be held on 31 March 2003 and is expected to be completed in April 2003.

Further details of these and other minor changes in the structure of the Group are set out in notes 34, 35 and 36 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

As 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	13.62
FMR Corporation and Fidelity International Ltd	10.00
Prudential plc	5.10
Legal & General Investment Management Ltd	3.63

Additional shareholder information, including a profile of shareholdings, appears on pages 82 and 83.

Share Listings

The primary listing for the Company's Ordinary shares is the London Stock Exchange. The Company's Ordinary shares are also listed 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 page 15. All held office throughout the year and up to the date of this Report with the exception of John Weston who was appointed as non-executive Chairman on 7 November 2002. Dr George Sarney was the former non-executive Chairman until he died on 30 April 2002.

Retirement and Election of Directors

Pursuant to the Company's Articles of Association, Paul Cheng and Richard Moley will retire by rotation at the Annual General Meeting on 20 May 2003 and, being eligible, offer themselves for re-election. Having been appointed during the year, John Weston will also retire at the forthcoming AGM and, being eligible, offers himself for election. None of the directors subject to election or re-election have service contracts 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. Accordingly, he 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.; and
- the Company through the 13.62 per cent shareholding of Lexa BV, the registered holder of the Ordinary shares (see also Substantial Shareholdings on page 20).

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 22 to 29.

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 Social Responsibility Statement on pages 18 and 19.

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, US and Canada.

Social Responsibility and Donations
The Group's Social Responsibility Statement appears on pages 18 and 19. Charitable donations of £90,000 were made in the year (2001 £73,000). This amount excludes operating units' support and participation in local community activities. No political donations were made in the year (2001 £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 2002 the Company had an average of 47 days purchases outstanding in trade creditors (2001 46 days).

Corporate Governance
The Directors' Statement on Corporate Governance is set out on pages 16 and 17. The Statement of Directors' Responsibilities in respect of preparing the Accounts appears on page 30.

Going Concern
The attention of shareholders is drawn to the Going Concern statement appearing in note 1 to the Accounts on page 37. The directors are of the opinion that, taking into account the net proceeds from the disposal of the WAGO group of companies (see 'Major Transactions' above) and also the amended syndicated bank facility and loan note terms (see Financial Review, pages 11 to 14) 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 Annual General Meeting will be held at 12.00 noon on Tuesday, 20 May 2003 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED, United Kingdom.

Auditors
A resolution to reappoint Ernst & Young LLP as auditors and authorising the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Paul Eardley
Company Secretary
12 March 2003

P. Eardley

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).

The Board considers that it has complied throughout the year under review with the requirements of the Code with the exception of Code provision B.1.7 in respect of Nicholas Brookes' 24 month notice period from the Company within his service contract. Subsequent to the 2002 year end, Mr Brookes' service contract was amended so as to comply with the Code (see paragraph 4(e) below). The Directors' Statement on Corporate Governance (see pages 16 and 17) 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 page 15. The late Dr George Sarney, former non-executive Chairman of the Company, was also a member of the Committee up to the time of his death in April 2002. 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 through share incentive plans. The Committee meets at least four times a year and full attendance is expected at each meeting. In 2002 attendance was in excess of 90 per cent.

In order to assist the Committee in carrying out its duties, during the year the Committee consulted on a regular basis with its appointed 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 the Company's broker);
- Kepler Associates;
- Linklaters (who are the Company's legal advisers);
- Watson Wyatt (who are also consultant actuaries for the Company's UK pension fund).

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 over 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 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 salary was awarded to the executive directors either during 2002 or in respect of their 1 January 2003 annual pay review.

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 2002, 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 growth targets in the Company's headline Earnings per Share (EPS), however, as the threshold target was not met, no bonus was payable for 2002.

In respect of 2003, the same 50 per cent on-target and 100 per cent exceptional performance bonus opportunities will be available to Messrs

Brookes and Hutchinson. Performance for 2003 will be measured against targets in EPS and other financial objectives (accounting for 80 per cent of any bonus) and also against the achievement of certain personal and strategic objectives selected by the Committee (accounting for 20 per cent of any bonus).

My Chung (who is US-based) also participates in a similar annual incentive bonus scheme. Consistent with US market practice and levels, for 2002, he had a target bonus opportunity of 50 per cent and he was capped at 200 per cent of salary for exceptional performance. Performance was measured against growth targets in profit for the Communications group, however, as the threshold target was not met, no bonus was payable for 2002.

In respect of 2003, the same 50 per cent on-target and 200 per cent exceptional performance bonus opportunities will be available to My Chung. Performance for 2003 will again be measured against profit targets for the Communications group, subject to 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 selected by the Committee (accounting for 10 per cent of any bonus).

(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 has undertaken 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 for the tax year 2002/2003), that his benefit entitlements shall be as if the 'cap' did not apply. The Company will be liable for making payment of any unapproved pension in excess of the approved maximum and a balance sheet provision exists in respect of this obligation. The Company has taken out insurance to cover that part of his life assurance in excess of the cap. 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.

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 Service Code (the IRS 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 IRS Code. The normal retirement age under this plan is 65 and, consistent with local practice, bonuses are pensionable for all participating US employees, including My 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. Executive directors also continue to participate in the Long Term Share Purchase Plan (LTSPP). However, following shareholder approval in 2002 of the closure of the LTSPP and the substitution of future annual awards with equivalent value supplemental grants of options under the ESOS, no further grants have been made under the LTSPP since 2001. 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).

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).

SSOP

The SSOP was approved by shareholders in May 2000 for Communications group employees and will expire in May 2003. The Committee is currently reviewing medium and long term incentive arrangements for employees within the Communications group (which include My Chung) and shareholders will be informed as appropriate with regards to any new initiatives which 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,

Report on Directors' Remuneration continued

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, My 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 My Chung prior to any grant.

LTSPP

As noted above, although the LTSPP is closed, there are still outstanding awards which were granted prior to the plan's closure. The LTSPP was introduced in 1999 and only executive directors and members of the Operations Management Team are eligible to participate. All grants under the LTSPP with the exception of those made in 2001 have lapsed as they have failed 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. In respect of the 2001 LTSPP grant, the Committee agreed at the time of grant that the FTSE 100 index would be an appropriate comparator group and is a broad equity market index against which the performance of the LTSPP grants could be fairly compared. The Committee believes that the LTSPP performance conditions remain extremely challenging.

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 represent 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

In respect of 2002, Nicholas Brookes was subject to a service contract entered into on 5 May 1995 which currently has an unexpired term of 50 months and was terminable at any time by the Company on 24 months' notice and by Mr Brookes on 12 months' notice. Eric Hutchinson entered into a service contract on 13 December 1999 which currently has an unexpired term of 146 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 171 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.

The Committee is aware the Code states there is a strong case for service contract notice periods not to exceed 12 months. However, Mr Brookes' service contract was originally agreed prior to the introduction of the Code, when notice periods of 24 months were in line with prevailing market practice. Nevertheless, having due regard to current best practice, Mr Brookes and the Board agreed to amend his service contract with effect from 1 January 2003, so that the service contract is terminable at any time by either party on 12 months' notice. The Committee's policy is to offer service contracts to newly appointed executives which provide for only 12 months' notice from the Company in normal circumstances, and this was applied in the cases of Messrs Hutchinson and Chung.

(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.

5. Non-executive Directors' Remuneration

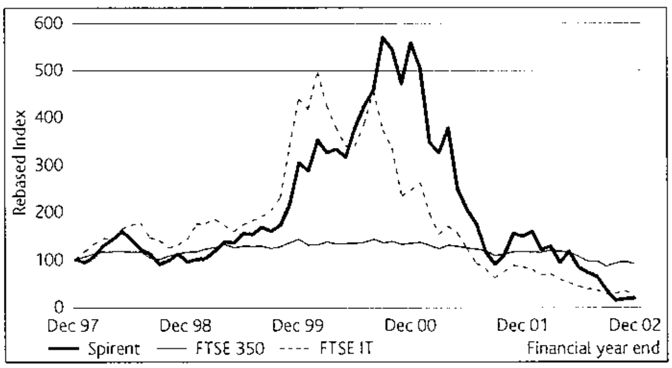
The remuneration of non-executive directors is determined by the Board following a recommendation by the Chief Executive and after consultation with independent external advisers concerning competitive market practice. The Company's remuneration policy (which has not changed during the year and will 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 either during 2002 or at the remuneration review at 1 January 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 are 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.



7. Directors' Remuneration

(a) Individual and Total Remuneration of the Directors Holding Office During 2002

Annualised arrangements at 1 January 2003			2002 Remuneration[1]					
Salary £000	Fees[2] £000		Salary £000	Fees[2] £000	Taxable benefits[3] £000	Bonus[4] £000	Total[1] 2002 £000	Total[1] 2001 £000
		Executive directors						
500.0	0.5	N Brookes	500.0	0.5	44.8	–	545.3	533.9
217.4	0.5	M Chung[5]	231.8	0.5	18.9	–	251.2	168.1
250.0	0.5	E Hutchinson	250.0	0.5	22.4	–	272.9	268.9
		Non-executive directors						
–	37.0	M Beresford	–	37.0	–	–	37.0	37.0
–	35.0	P Cheng	–	35.0	–	–	35.0	35.0
–	30.0	G Ennerfelt	–	30.0	–	–	30.0	30.0
–	35.0	R Moley	–	35.0	–	–	35.0	35.0
–	150.0	J Weston	–	22.5	–	–	22.5	–
–	37.0	J Wyness	–	89.3	–	–	89.3	37.0
		G Sarney	–	66.7	1.4	–	68.1	203.3
		Total 2002	981.8	317.0	87.5	–	1,386.3	1,348.2
		Total 2001	907.2	375.3	65.7	–	1,348.2	

Notes

(1) The figures relate to the period of each director's Board membership. My Chung and John Weston were appointed to the Board in May 2001 and November 2002, respectively. George Sarney died in April 2002.

(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 receive an additional £7,000 per annum in recognition of their extra responsibilities as Chairmen of the Audit Committee and Remuneration Committee, respectively. James Wyness also received an additional £52,300 in respect of his additional duties as acting Chairman between May 2002 and November 2002. Paul Cheng and Richard Moley each receive an additional £5,000 per annum in recognition of the extensive international travelling commitment required to perform their duties.

(3) Taxable benefits include a company car or car allowance and life, disability and healthcare insurance coverage.

Nicholas Brookes' taxable benefit also includes £5,000 for personal tax advice paid by the Company and £6,728 relating to the premium paid for life assurance in excess of the statutory earnings cap (as referred to in paragraph 4(c)). The late Dr Sarney's taxable benefit is in respect of personal tax advice paid by the Company.

(4) During the year neither Nicholas Brookes nor Eric Hutchinson earned an EPS bonus (2001 £nil). My Chung did not earn a Communications group cash bonus (2001 £nil).

(5) My Chung receives his base salary in US dollars. An average exchange rate of £1 = $1.51 has been used in respect of 2002 remuneration and an exchange rate of £1 = $1.61 (being the closing rate on 31 December 2002) has been used in respect of 2003 annualised remuneration.

Report on Directors' Remuneration continued

(b) Directors' Pensions

The pensions earned from the non-contributory defined benefit arrangements in place for the UK executives during 2002 were as follows:

	Age at 31 December 2002	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 2002[1] £000	Accumulated total accrued pension At 31 December 2001 £000
N Brookes[2]	55	15	16.7	9.5	261.1	244.4
E Hutchinson	47	19	8.3	3.8	162.5	154.2

	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 2002 £000	Total transfer value of pension[3] At 1 January 2002 £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	278	156	4,425	4,086	339	218
E Hutchinson	87	40	1,703	1,581	122	75

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 2002.

(2) Details of 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) are shown in note 10 to the Accounts.

(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

Year to 31 December	2002 £000	2001 £000
Total emoluments for all directors	1,386	1,348
Gains made on exercise of share options[1]	6	1
Company contribution to 401(k) Retirement and Profit Share Plan[2]	13	12
Pension and fees of the Life President (2002 £28,204 and £4,865, respectively)[3]	33	98
Emoluments and ex gratia pension to former directors[4]	19	5
Consultancy payments and fee payments to former directors	6	24
	1,463	1,488

Notes

(1) This relates to Eric Hutchinson (2002) and My Chung (2001).

(2) Prevailing average conversion rates of £1 = $1.44 and £1 = $1.51 were used for 2001 and 2002, 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.

8. Directors' Interests

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 2002				At 1 January 2002[1]			
	Ordinary shares (beneficial)[2]	Ordinary shares (non-beneficial)	Options and rights to acquire Ordinary shares	LTSPP performance units	Ordinary shares (beneficial)[2]	Ordinary shares (non-beneficial)	Options and rights to acquire Ordinary shares	LTSPP performance units
Executive Directors								
N Brookes	2,947,083	26,315[3]	1,910,135	208,480	127,083	26,315	684,021	428,199
M Chung	8,977	39,620[4]	1,937,818	88,893	8,113	39,620	1,181,696	88,893
E Hutchinson	726,210	12,171[3]	1,003,190	90,849	43,411	12,171	387,318	90,849
Non-executive Directors								
M Beresford	15,225	–	–	–	15,225	–	–	–
P Cheng	7,250	–	–	–	7,250	–	–	–
G Ennerfelt[5]	128,398,257	–	–	–	108,398,257	–	–	–
R Moley	1,010,000	–	–	–	10,000	–	–	–
J Weston	1,600,000	–	–	–	1,600,000	–	–	–
J Wyness	346,037	–	–	–	46,037	–	–	–

Notes

(1) At 7 November 2002, the date of appointment for John Weston.

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

(3) 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 Employee Share Ownership Trust (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.

(4) The non-beneficial interest of My Chung over 39,620 shares exists in a similar manner to that described in note (3) 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.

(5) 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 was the registered holder of 108,398,257 Ordinary shares which were issued, credited as fully paid, as part consideration for the acquisition of Hekimian Laboratories, Inc. in 2000. Since that time Lexa BV has acquired additional Ordinary shares in Spirent plc.

(6) Since the year end:

- the number of rights to acquire Ordinary shares for My Chung increased by 17,653 on 1 January 2003 through the grant of purchase rights to him under the US Employee Stock Purchase Plan (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 22,400 to 31,377 Ordinary shares on 1 January 2003 through the exercise of matured purchase rights under the ESPP. The market price of a Spirent 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). For further information on the ESPP, see note 32 to the Accounts; and

- the Committee determined on 26 February 2003 that the minimum performance conditions for performance units granted under the Long Term Share Purchase Plan on 11 May 2000 had not been met. The performance units have therefore lapsed without value (see page 29).

Report on Directors' Remuneration continued

8. Directors' Interests continued

Options and rights to acquire Ordinary shares under the Company's various share option, stock appreciation rights and all employee share plans were as follows :

	Plan type[1]	At 31 December 2002	Exercised (E)/ Lapsed (L) during the year	Granted during the year	At 1 January 2002	Date of grant	Exercise price per share (p)	Date first exercisable	Expiry date
N Brookes	ESOS	221,068	–	–	221,068	30.09.96	136	30.09.99	29.09.06
	SRSOS	–	(L) 15,886	–	15,886	21.10.96	109	01.01.02	30.06.02
	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
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]	6,122	–	–	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
E Hutchinson	SRSOS[3]	–	(E) 5,128	–	5,128	21.10.94	76	01.12.01	31.05.02
	ESOS	17,652	–	–	17,652	27.04.95	108	27.04.98	26.04.05
	SRSOS	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

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 a Spirent Ordinary share (less a 15 per cent discount) at 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 Spirent ADRs) was 22,400 Spirent Ordinary shares. The closing middle market price of a Spirent 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).

(3) The option was exercised on 3 January 2002 on which date the closing middle market price of a Spirent Ordinary share was 190 pence.

The number of performance units outstanding under the Long Term Share Purchase Plan (LTSPP) throughout the year were as follows:

	Performance units at 31 December 2002	Granted during the year	Lapsed during the year	Performance units at 1 January 2002	Date of grant	Performance unit value at date of grant (p)	Vesting date
N Brookes	–	–	219,719[1]	219,719	18.06.99	166	18.06.05
	85,480[2]	–	–	85,480	11.05.00	334	11.05.06
	123,000[3]	–	–	123,000	09.04.01	305	09.04.07
M Chung	38,893[2]	–	–	38,893	11.05.00	334	11.05.06
	50,000[3]	–	–	50,000	09.04.01	305	09.04.07
E Hutchinson	28,849[2]	–	–	28,849	11.05.00	334	11.05.06
	62,000[3]	–	–	62,000	09.04.01	305	09.04.07

Notes
Further information on the operation of the LTSPP is provided in paragraph 4(d) above and in note 32 to the Accounts.

(1) The minimum performance conditions attaching to the first three year performance period were satisfied on 31 December 2001. However, as the market value of a Spirent Ordinary share on 18 June 2002 (ie the third anniversary of grant) was below the performance unit value of 166 pence, the award was deemed to have lapsed without value.

(2) The Committee determined on 26 February 2003 that the minimum performance conditions for growth in the price of a Spirent Ordinary share had not been achieved by 31 December 2002. The performance units have therefore lapsed without value.

(3) The following table shows the Company's achievement against its performance conditions at 31 December 2002 for outstanding performance units under the LTSPP:

Year of grant	Real share price growth (min. 5 per cent pa)	Total shareholder return ranking (min. 60th percentile position)
2001	–97%	3rd

The middle market price of a Spirent Ordinary share on 2 January 2002 (the London Stock Exchange having been closed for trading on 1 January 2002) and 31 December 2002 was 162 pence and 16.75 pence, respectively, and during that period ranged between a high of 192 pence and a low of 5.75 pence per share.

All three of the Company's executive directors, with other employees of the Group, are potential beneficiaries of the Employee Share Ownership Trust (ESOT). The two UK executive directors, with other employees of the Group, are also potential beneficiaries of the 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 the Spirent Ordinary shares held by those Trusts. At 31 December 2002, the shareholdings for the ESOT and the QUEST in which the executive directors were deemed interested were 9,064,985 and 3,508,136, respectively (31 December 2001 9,064,985 and 4,571,286, respectively).

Save as disclosed, there have been no changes between the year end and 12 March 2003 (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 Annual General Meeting.

Signed on behalf of the Board

Marcus Beresford
Chairman of the Remuneration Committee
12 March 2003

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.

Independent Auditors' Report to the Members of Spirent plc

We have audited the Group's accounts for the year ended 31 December 2002 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 Borrowings, Company Balance Sheet, the related notes 1 to 37 and the schedule of Principal Divisions, Subsidiaries, Joint Venture 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 other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Financial Summary, Our Business at a Glance, Chairman's Letter, Chief Executive's Review, Operating Review, Financial Review, Board of Directors and Operations Management Team, Directors' Statement on Corporate Governance, Social Responsibility Statement, Report of the Directors, 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.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the agreement to sell the Group's interests in its WAGO joint venture, which is conditional on shareholder approval and requires the consent of the noteholders and the parties to the syndicated bank facility. The amendments to the terms of the loan notes and the syndicated bank facility are conditional upon completion of the divestment. However, if completion of the divestment does not occur, the existing borrowing terms will continue to apply. In such circumstances, and if current levels of trading are not maintained, the directors would need to consider taking appropriate actions with a view to maintaining compliance with such existing terms. In the event of a breach, the lenders have certain rights which may ultimately result in the Group's debt becoming repayable on demand. In view of the significance of this matter we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

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 2002 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
12 March 2003

Consolidated Profit and Loss Account

Year to 31 December	Notes	2002 £ million Before exceptional items	2002 £ million Exceptional items	2002 £ million Total	2001 £ million Total
Turnover: Group and share of joint venture		634.5	–	634.5	880.1
Less: share of joint venture's turnover		(75.6)	–	(75.6)	(78.3)
Turnover	2, 3	558.9	–	558.9	801.8
Cost of sales		336.4	4.4	340.8	490.7
Manufacturing Margin		222.5	(4.4)	218.1	311.1
Operating expenses	4	228.1	960.5	1,188.6	1,044.3
Operating Loss	2, 3, 5	(5.6)	(964.9)	(970.5)	(733.2)
Operating exceptional items					
Goodwill impairment	6	–	923.3	923.3	724.6
Other	7	–	41.6	41.6	34.9
Goodwill amortisation		56.1	–	56.1	86.6
Operating profit before goodwill amortisation and exceptional items		50.5	–	50.5	112.9
Income from interest in joint venture		7.4	–	7.4	9.6
Income from interests in associates		1.0	–	1.0	1.3
Amortisation of goodwill on associate		(0.2)	–	(0.2)	(0.1)
Operating Loss of the Group, Joint Venture and Associates		2.6	(964.9)	(962.3)	(722.4)
Non-operating Exceptional Items					
(Loss)/profit on the disposal and closure of operations	35	–	(48.4)	(48.4)	14.5
Provision against investment in own shares	18	–	(30.1)	(30.1)	–
Loss before Interest		2.6	(1,043.4)	(1,040.8)	(707.9)
Interest receivable and similar income		4.0	–	4.0	3.4
Interest payable	9	(16.3)	–	(16.3)	(26.2)
Net interest payable		(12.3)	–	(12.3)	(22.8)
Loss before Taxation	2	(9.7)	(1,043.4)	(1,053.1)	(730.7)
Taxation	11	8.4	18.5	26.9	32.6
Loss after Taxation		(18.1)	(1,061.9)	(1,080.0)	(763.3)
Minority shareholders' interest – equity				0.1	(0.2)
Minority shareholders' interest – joint venture				0.3	0.4
Loss Attributable to Shareholders				(1,080.4)	(763.5)
Dividends					
Interim 1.35 pence (2001 1.35 pence)				12.5	12.4
Proposed final nil (2001 3.00 pence)				–	27.6
				12.5	40.0
Loss for the Year	32			(1,092.9)	(803.5)
Basic and Diluted Loss per Share	12			(117.12)p	(83.43)p
Headline Earnings per Share	12			3.40p	7.76p

The notes on pages 37 to 78 form part of these Accounts.

Consolidated Statement of Total Recognised Gains and Losses

Year to 31 December	Notes	2002 £ million	2001 £ million
Loss Attributable to Shareholders		(1,080.4)	(763.5)
Gain on lapsed options	32	5.2	3.3
Exchange adjustment on subsidiaries, joint venture and associates	32	(23.0)	(0.2)
UK current taxation on exchange adjustment	32	0.1	(2.6)
Total Recognised Gains and Losses		(1,098.1)	(763.0)

Reconciliation of Movements in Shareholders' Funds

Year to 31 December	Notes	2002 £ million	2001 £ million
Total Recognised Gains and Losses		(1,098.1)	(763.0)
Dividends		(12.5)	(40.0)
Other movements			
New shares issued	32	3.4	4.5
Other	32	(5.9)	(6.9)
Goodwill on disposal and impairment of subsidiaries acquired before 1998	32	157.8	65.1
Total movements during the year		(955.3)	(740.3)
Shareholders' funds at 1 January		1,094.4	1,834.7
Shareholders' Funds at 31 December		139.1	1,094.4

The notes on pages 37 to 78 form part of these Accounts.

Consolidated Balance Sheet

At 31 December	Notes	2002	2002 £ million	2001	2001 £ million
Fixed Assets					
Intangible assets	13		113.6		987.7
Tangible assets	14		110.0		137.6
Investments	18				
Investment in joint venture					
Share of gross assets		72.9		69.0	
Share of gross liabilities		(22.8)		(24.7)	
		50.1		44.3	
Investment in associates		13.3		18.3	
Other investments		2.1		34.1	
			65.5		96.7
Total Fixed Assets			289.1		1,222.0
Current Assets					
Stocks	19	61.5		93.1	
Debtors	20	97.3		143.4	
Investments	23	0.1		0.3	
Cash at bank and in hand	22	83.5		27.6	
		242.4		264.4	
Current Liabilities					
Creditors due within one year	24	107.5		166.8	
Loans and overdrafts	25	1.8		11.2	
		109.3		178.0	
Net Current Assets			133.1		86.4
Assets less Current Liabilities			422.2		1,308.4
Long Term Liabilities					
Creditors due after more than one year	26		(252.6)		(210.1)
Provisions for Liabilities and Charges	27		(28.4)		(1.5)
Assets less Liabilities			141.2		1,096.8
Capital and Reserves	32				
Called up share capital		31.3		31.1	
Share premium account		696.1		728.7	
Capital reserve		17.6		27.8	
Capital redemption reserve		0.7		0.7	
Merger reserve		–		264.4	
Profit and loss account		(606.6)		41.7	
Shareholders' Funds – Equity			139.1		1,094.4
Minority Interests – Equity			2.1		2.4
			141.2		1,096.8

Signed on behalf of the Board

Nicholas K Brookes
Director
12 March 2003

The notes on pages 37 to 78 form part of these Accounts.

Consolidated Cash Flow Statement

Year to 31 December	Notes	2002 £ million	2001 £ million
Net Cash Inflow from Operating Activities	8	76.9	141.2
Dividends received from:			
Joint venture		0.2	1.6
Associates		0.1	0.2
Returns on investments and servicing of finance	21	(10.8)	(23.9)
Taxation	21	(4.2)	(21.0)
Capital expenditure and financial investment	21	(25.8)	(57.7)
Acquisitions and disposals	21	6.4	149.6
Equity dividends paid		(40.2)	(39.8)
Management of liquid resources	21	0.2	3.6
Financing	21	53.8	(152.8)
Net Cash Inflow		56.6	1.0

Reconciliation of Net Cash Flow to Movement in Net Borrowings

Year to 31 December	Notes	2002 £ million	2001 £ million
Net Cash Inflow		56.6	1.0
Cash (inflow)/outflow arising from the change in debt and lease financing		(51.4)	157.7
Cash inflow arising from the change in liquid resources		(0.2)	(3.6)
Movement arising from Cash Flows	22	5.0	155.1
Loans and finance leases acquired with subsidiary	22, 34	(0.2)	–
New finance leases	22	(0.2)	(0.8)
Exchange adjustment	22	12.7	(7.0)
Movement in Net Borrowings		17.3	147.3
Net borrowings at 1 January	22	(179.1)	(326.4)
Net Borrowings at 31 December	22	(161.8)	(179.1)

The notes on pages 37 to 78 form part of these Accounts.

Company Balance Sheet

At 31 December	Notes		2002 £ million		2001 £ million
Fixed Assets					
Tangible assets	14		16.3		20.9
Shares in subsidiaries	16		452.5		1,881.6
Loans to subsidiaries	17		71.1		142.0
Investments	18				
Investment in associate		0.1		0.1	
Other investments		2.1		34.1	
			2.2		34.2
Total Fixed Assets			542.1		2,078.7
Current Assets					
Stocks	19	3.7		4.2	
Debtors	20	19.9		18.1	
Cash at bank and in hand		59.1		2.0	
		82.7		24.3	
Current Liabilities					
Creditors due within one year	24	18.7		46.6	
Loans and overdrafts	25	0.2		9.6	
		18.9		56.2	
Net Current Assets/(Liabilities)			63.8		(31.9)
Assets less Current Liabilities			605.9		2,046.8
Long Term Liabilities					
Creditors due after more than one year	26		(383.1)		(825.0)
Provisions for Liabilities and Charges	27		(0.7)		–
Assets less Liabilities			222.1		1,221.8
Capital and Reserves	32				
Called up share capital		31.3		31.1	
Share premium account		696.1		728.7	
Capital reserve		17.6		27.8	
Capital redemption reserve		0.7		0.7	
Merger reserve		1.2		215.6	
Profit and loss account		(524.8)		217.9	
Total Equity Shareholders' Funds			222.1		1,221.8

Signed on behalf of the Board

Nicholas K Brookes
Director
12 March 2003

The notes on pages 37 to 78 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.

Going Concern

On 12 March 2003, the Group announced the conditional sale of its 51 per cent interests in WAGO, its interconnection joint venture, for a net consideration of approximately £58.2 million. The divestment is subject to shareholder approval and requires the consent of the noteholders and the parties to the syndicated bank facility. In addition, to provide the Group with an increase in the level of headroom in relation to certain of its financial covenants, amendments to the terms of the loan notes and syndicated bank facility have been agreed. These amendments are conditional on the completion of the divestment of WAGO and the use of the net proceeds to pre-pay approximately £45.8 million of the loan notes and pay an associated contractual make-whole amount of approximately £12.4 million.

The directors are of the opinion that, taking into account the net proceeds from the divestment and the existing facilities available to the Group on completion of the divestment, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months. However, if completion of the divestment does not occur, the existing borrowing terms will continue to apply. In such circumstances and if current levels of trading are not maintained, the directors would need to consider taking appropriate actions with a view to maintaining compliance with such existing terms. In the event of a breach, the lenders have certain rights which may ultimately result in the Group's debt becoming repayable on demand. The Accounts do not include any adjustments that may result if the divestment were not completed, current levels of trading are not maintained and the lenders withdraw their support.

As at the date of these Accounts the divestment of WAGO remains subject to shareholder approval, which is being sought at an Extraordinary General Meeting to be held on 31 March 2003. Further details of the proposed disposal are given in note 36 and of the Group's syndicated bank facility and loan notes in notes 29 and 30 to the Accounts.

The directors consider that in preparing the Accounts they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the Accounts on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

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 of its joint venture 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 rate ruling at the date of transaction. The results of overseas subsidiaries, joint venture and associates are translated into sterling using average rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the 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 results of overseas subsidiaries, joint venture and associates, are dealt with through reserves.

All other exchange profits and losses 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.

Notes to the Accounts continued

1. Accounting Policies continued
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 off-set 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 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.

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 Financial Reporting Standard (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 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 profit and loss account in the year in which it is incurred.

Pension Contributions
In the United Kingdom the Group operates two pension schemes for the benefit of employees. These schemes require contributions to be made to separately administered funds, based on triennial actuarial valuations.

Contributions to the pension funds are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. Differences between the amounts funded and the amounts charged to profit and loss account are treated as either creditors or prepayments in the balance sheet.

Variations in the pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected working lives of employees.

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.

1. Accounting Policies continued

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.

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, 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 value can be measured reliably or the intangible asset is purchased in the acquisition of a business. Such intangible assets are amortised over their useful economic lives up to a maximum of 20 years. The carrying value of intangible assets is 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 selling price less further costs to be incurred to completion and on sale.

Notes to the Accounts continued

2. Segmental Analysis

	2002 £ million	2001 £ million
Turnover		
Continuing operations:		
Performance Analysis	187.1	245.5
Service Assurance	128.3	185.1
Communications	315.4	430.6
Network Products	164.7	170.4
Systems	53.8	48.6
	533.9	649.6
Divested operations:		
Systems	25.0	75.4
Discontinued operations:		
Sensing Solutions	–	76.8
	558.9	801.8
Loss before Taxation		
Operating profit before goodwill amortisation and exceptional items		
Continuing operations:		
Performance Analysis	9.4	38.7
Service Assurance	21.4	44.7
Communications	30.8	83.4
Network Products	15.0	15.3
Systems	3.4	0.5
	49.2	99.2
Divested operations:		
Systems	1.3	5.6
Discontinued operations:		
Sensing Solutions	–	8.1
	50.5	112.9
Operating exceptional items – goodwill impairment		
Continuing operations:		
Performance Analysis	(330.7)	(192.2)
Service Assurance	(530.4)	(532.4)
Communications	(861.1)	(724.6)
Network Products	(21.7)	–
Systems	(40.5)	–
	(923.3)	(724.6)
Operating exceptional items – other		
Continuing operations:		
Performance Analysis	(28.3)	(26.8)
Service Assurance	(8.6)	(4.6)
Communications	(36.9)	(31.4)
Network Products	(3.3)	(2.9)
Systems	(1.4)	(0.6)
	(41.6)	(34.9)

2. Segmental Analysis continued

	2002 £ million	2001 £ million
Goodwill amortisation		
Continuing operations:		
Performance Analysis	(20.8)	(24.6)
Service Assurance	(33.5)	(58.7)
Communications	(54.3)	(83.3)
Network Products	(1.5)	(1.5)
Systems	(0.2)	(0.2)
	(56.0)	(85.0)
Divested operations:		
Systems	(0.1)	(0.4)
Discontinued operations:		
Sensing Solutions	–	(1.2)
	(56.1)	(86.6)
Operating Loss	(970.5)	(733.2)
Income from interest in joint venture	7.4	9.6
Income from interests in associates	1.0	1.3
Amortisation of goodwill on associate	(0.2)	(0.1)
Net interest payable	(12.3)	(22.8)
(Loss)/profit on the disposal and closure of operations	(48.4)	14.5
Provision against investment in own shares	(30.1)	–
Loss before Taxation	(1,053.1)	(730.7)
Operating Assets		
Continuing operations:		
Performance Analysis	115.0	419.5
Service Assurance	68.1	622.0
Communications	183.1	1,041.5
Network Products	96.8	125.1
Systems	5.5	13.9
	285.4	1,180.5
Divested operations:		
Systems	–	27.6
Segmental operating assets	285.4	1,208.1
Investment in joint venture	50.1	44.3
Investment in associates	13.3	18.3
Other investments	2.1	34.1
Corporation tax payable	(19.5)	(27.0)
Proposed dividend	–	(27.6)
Operating Assets	331.4	1,250.2
Net borrowings	(161.8)	(179.1)
Provisions for liabilities and charges	(28.4)	(1.5)
Deferred tax asset	–	27.2
Assets less Liabilities	141.2	1,096.8

Notes to the Accounts continued

3. Geographical Analysis

	2002 £ million	2001 £ million
Turnover by Market		
Continuing operations:		
Europe	144.6	153.8
North America	302.9	410.5
Asia Pacific, Rest of Americas, Africa	86.4	85.3
	533.9	649.6
Divested operations:		
Europe	4.8	24.9
North America	19.5	46.0
Asia Pacific, Rest of Americas, Africa	0.7	4.5
	25.0	75.4
Discontinued operations:		
Europe	–	20.7
North America	–	45.7
Asia Pacific, Rest of Americas, Africa	–	10.4
	–	76.8
	558.9	801.8
Turnover by Source		
Continuing operations:		
Europe	151.4	150.9
North America	350.2	472.0
Asia Pacific, Rest of Americas, Africa	32.3	26.7
	533.9	649.6
Divested operations:		
Europe	6.3	32.8
North America	18.7	42.6
	25.0	75.4
Discontinued operations:		
Europe	–	20.6
North America	–	48.3
Asia Pacific, Rest of Americas, Africa	–	7.9
	–	76.8
	558.9	801.8

3. Geographical Analysis continued

	2002 £ million	2001 £ million
Operating Loss		
Operating profit before goodwill amortisation and exceptional items		
Continuing operations:		
Europe	18.8	17.9
North America	29.5	79.7
Asia Pacific, Rest of Americas, Africa	0.9	1.6
	49.2	99.2
Divested operations:		
Europe	0.6	3.7
North America	0.7	1.9
	1.3	5.6
Discontinued operations:		
Europe	–	2.3
North America	–	6.3
Asia Pacific, Rest of Americas, Africa	–	(0.5)
	–	8.1
	50.5	112.9
Operating exceptional items – goodwill impairment		
Continuing operations:		
Europe	(19.5)	–
North America	(901.8)	(724.6)
Asia Pacific, Rest of Americas, Africa	(2.0)	–
	(923.3)	(724.6)
Operating exceptional items – other		
Continuing operations:		
Europe	(3.6)	(2.5)
North America	(37.3)	(32.1)
Asia Pacific, Rest of Americas, Africa	(0.7)	(0.3)
	(41.6)	(34.9)
Goodwill amortisation		
Continuing operations:		
Europe	(1.6)	(1.4)
North America	(54.3)	(83.5)
Asia Pacific, Rest of Americas, Africa	(0.1)	(0.1)
	(56.0)	(85.0)
Divested operations:		
North America	(0.1)	(0.4)
Discontinued operations:		
Europe	–	(0.1)
North America	–	(0.9)
Asia Pacific, Rest of Americas, Africa	–	(0.2)
	–	(1.2)
	(56.1)	(86.6)
Operating Loss	(970.5)	(733.2)

Notes to the Accounts continued

3. Geographical Analysis continued

	2002 £ million	2001 £ million
Operating Assets		
Continuing operations:		
Europe	67.8	74.6
North America	204.9	1,087.3
Asia Pacific, Rest of Americas, Africa	12.7	18.6
	285.4	1,180.5
Divested operations:		
Europe	–	10.8
North America	–	16.8
	–	27.6
Segmental operating assets	285.4	1,208.1

4. Net Operating Expenses

	2002 £ million			2001 £ million
	Before exceptional items	Exceptional items	Total	Total
Selling and distribution	124.6	–	124.6	156.0
Administration	104.1	960.5	1,064.6	889.5
Other operating income	(0.6)	–	(0.6)	(1.2)
Net operating expenses including goodwill amortisation and exceptional items	228.1	960.5	1,188.6	1,044.3
Included within administration costs above:				
Operating exceptional items				
Goodwill impairment	–	923.3	923.3	724.6
Other	–	37.2	37.2	20.7
Goodwill amortisation	56.1	–	56.1	86.6
Net operating expenses before goodwill amortisation and exceptional items	172.0	–	172.0	212.4

In 2001 cost of sales of £51.2 million, selling and distribution costs of £11.3 million, administration costs of £7.4 million and other income of £nil were incurred in respect of discontinued operations.

5. Operating Loss

	2002 £ million	2001 £ million
Operating loss is arrived at after charging:		
Operating exceptional items		
Goodwill impairment *note 6*	923.3	724.6
Other *note 7*	41.6	34.9
Goodwill amortisation	56.1	86.6
Depreciation – owned assets	33.2	36.7
– finance leased assets	0.4	0.5
Operating lease costs – plant and equipment	0.3	0.4
– land and buildings	10.4	12.3
Product development costs	77.7	95.9
Auditors' remuneration – Ernst & Young LLP	1.0	0.9
Other fees paid to Ernst & Young LLP	0.7	1.1
Other fees paid to Ernst & Young overseas	0.8	0.2

Other fees comprise taxation and other advice of £1.5 million (2001 £0.7 million) and in 2001 stock exchange regulatory and US listing matters of £0.6 million. In addition fees paid to Ernst & Young of £nil (2001 £0.8 million) have been included in expenses for acquisitions.

6. Goodwill Impairment

In accordance with FRS 10 'Goodwill and Intangible Assets', 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.

The deterioration in trading in the second half year in the telecommunications market together with the significant fall in the Spirent share price have necessitated a further review of our businesses. This review has resulted in impairment losses totalling £923.3 million being recognised during the period. A similar impairment loss of £724.6 million was recognised during 2001. These losses are the aggregate from the impairment reviews of each individual income-generating unit and determined in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. The impairment loss restates the assets to value in use and has been measured using pre-tax discount rates of between 15 to 20 per cent, that take account of the particular risks of the income-generating unit.

Impairment losses of £330.7 million relate to the Performance Analysis division, £530.4 million in respect of the Service Assurance division, £21.7 million for Network Products and £40.5 million for the Systems group.

In calculating the impairment losses, the directors, in line with best practice, have also reviewed pre-1998 goodwill previously written off to reserves for those businesses in which an impairment loss had been identified. An amount of £87.0 million has consequently been reinstated and included in the total impairment charge of £923.3 million.

7. Operating Exceptional Items – Other

	2002 £ million	2001 £ million
Restructuring costs	8.6	11.3
Tangible fixed asset write-downs	3.6	–
Lease provisions	20.2	–
Stock provisions	4.4	14.2
Receivables provisions	–	5.2
Acquisition retention bonuses	4.8	4.2
	41.6	34.9

Restructuring costs include the costs of redundancy resulting from the actions taken by the Group in response to the deterioration in trading and are primarily within the Communications group. Lease provisions for vacated properties have been charged amounting to £20.2 million, these are primarily within the Communications group.

8. Reconciliation of Operating Loss to Net Cash Inflow from Operating Activities

	2002 £ million	2001 £ million
Operating loss	(970.5)	(733.2)
Depreciation	33.6	37.2
Loss on disposal of tangible fixed assets	4.1	2.1
Goodwill impairment	923.3	724.6
Goodwill amortisation	56.1	86.6
Acquisition retention bonuses – non-cash	0.5	0.4
Deferred income released	(4.8)	(17.8)
Decrease in debtors	2.9	29.2
Decrease in stocks	15.2	27.8
Decrease in creditors	(1.9)	(15.7)
Increase in provisions	18.4	–
Net Cash Inflow from Operating Activities	76.9	141.2

9. Interest Payable

	2002 £ million	2001 £ million
Senior unsecured loan notes	11.8	12.6
Bank loans and overdrafts	3.1	9.8
Other loans	0.6	2.3
Interest on finance leases	0.1	0.1
	15.6	24.8
Discount on deferred consideration	–	0.6
	15.6	25.4
Share of joint venture's interest	0.7	0.8
	16.3	26.2

Notes to the Accounts continued

10. Employees

	2002 Number	2001 Number
The average number of people employed by the Group during the year was:		
Manufacturing	3,276	5,535
Selling and distribution	1,397	1,632
Administration	506	645
	5,179	7,812

	£ million	£ million
Their payroll costs were:		
Remuneration	176.7	234.5
Social security costs	19.7	23.6
Other pension costs	5.3	8.2
	201.7	266.3

Please refer to the Report on Directors' Remuneration on pages 22 to 29 for disclosures relating to the emoluments, share options and long term incentive interests and pensions of the directors.

Pension Costs

The Group continues to account for pension costs under Statement of Standard Accounting Practice (SSAP) 24. Disclosures are provided under both SSAP 24 and under FRS 17 as required by the Standards.

(a) Disclosures under SSAP 24

The Group operates a number of pension schemes around the world. Defined benefit schemes cover 11 per cent of members (2001 19 per cent) and defined contribution schemes cover 89 per cent (2001 81 per cent). The assets of all the major schemes are held in separate trustee administered funds independent of the Group's finances.

United Kingdom

The Group operates two United Kingdom pension plans: the Staff Pension Plan which is on a defined benefit basis and the Retirement Cash Plan which is on a defined contribution basis with a defined benefit underpin.

Pension costs and the assets and liabilities of these plans are reviewed regularly by an independent professionally qualified actuary. The latest actuarial valuations of the plans were undertaken as at 1 April 2000 using the projected unit method. The principal results and assumptions were as follows:

Assumption	Staff Pension Plan	Retirement Cash Plan
Return on investments	7.1% pa	4.8% pa
Salary inflation average	4.3% pa	4.3% pa
Price inflation	2.8% pa	2.8% pa
Pension increases	3.6% pa	3.6% pa
Market value of assets	£109.9 million	£8.5 million
Level of funding	106%	113%
Employer contribution rate	11%	4%

The level of funding represents the market value of assets expressed as a percentage of the value of liabilities, on an ongoing basis.

The employer contribution rate was increased at 1 January 2003 to 13.4 per cent for the Staff Pension Plan.

10. Employees continued
For accounting treatment purposes, the actuarial surpluses are being spread over the average expected remaining service of plan members being 13 years. The pension costs for 2002 for these plans were £1.7 million (2001 £2.8 million). A valuation is due to commence in April 2003 and it is likely that these surpluses will have been eroded due to declining share values.

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 is made in respect of this obligation in the balance sheet at 31 December 2002 of £4.3 million (2001 £4.1 million). This represents the actuarial value as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a Market Value basis in line with the Main Plan Valuation and adjusted each year by the charge for the year (equivalent to a contribution to a funded plan) of £0.1 million (2001 £1.0 million) and interest on the unfunded liability of £0.3 million (2001 £0.2 million). The additional death-in-service benefits over the statutory cap are separately insured by the Company under an unapproved scheme.

Additionally, the Company made a provision in respect of pensions being paid to former directors of the Company in 2001 of £0.4 million, no provision is required at 31 December 2002.

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 Group 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 $4.8 million for 2002 (2001 $5.6 million). Total assets in the defined contribution plans at the end of 2002 were $137.1 million (2001 $111.0 million). There were no defined benefit plans in the United States at 31 December 2002.

Other jurisdictions
Outside the United Kingdom and the United States employees are provided with pension arrangements determined in accordance with approved local practice and regulations and are defined contribution schemes. Total contributions for 2002 in respect of these schemes amounted to £0.1 million (2001 £0.2 million).

The total pension charge for the Group for 2002 was £5.3 million (2001 £8.2 million).

(b) Disclosures under FRS 17
The only significant defined benefit plans under FRS 17 are in the United Kingdom and comprise the Staff Pension Plan and Retirement Cash Plan as described above. These plans have been combined for the purposes of the following disclosures.

The most recent actuarial valuation at 1 April 2000 has been used and updated by our independent actuaries.

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

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

Notes to the Accounts continued

10. Employees continued

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

	Long term rate of return expected %	2002 £ million	Long term rate of return expected %	2001 £ million
Equities	7.5	52.5	7.5	76.2
Gilts	4.5	15.7	5.0	12.1
Bonds	5.0	7.4	6.0	1.3
Cash	4.0	2.3	3.5	4.7
Property	6.5	4.3	6.0	3.8
Other	5.5	6.8	6.5	7.3
Total market value of assets		89.0		105.4
Actuarial value of liability		(130.9)		(123.3)
Net deficit in the schemes		(41.9)		(17.9)
Related deferred tax asset		12.6		5.4
Deficit in the schemes, net of tax		(29.3)		(12.5)
Actuarial value of unfunded pension liability – fully provided for in these Accounts		(4.3)		(4.5)
Related deferred tax asset		–		1.4
Net pension liability		(33.6)		(15.6)

The liability at 31 December under FRS 17 does not reflect the funding position of the plans which are calculated on an ongoing basis and is used to determine contribution rates under the scheme.

(iii)

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Net assets as stated in the balance sheet	141.2	222.1	1,096.8	1,221.8
Actuarial value of unfunded pension liability	4.3	4.3	4.5	4.5
Related deferred tax	–	–	(1.4)	(1.4)
Net assets excluding unfunded liability	145.5	226.4	1,099.9	1,224.9
Net pension liability	(33.6)	(33.6)	(15.6)	(15.6)
Net assets including amount related to defined benefit assets and liabilities	111.9	192.8	1,084.3	1,209.3
Profit and loss account excluding pension liability	(606.6)	(524.8)	41.7	217.9
Actuarial value of unfunded pension liability	4.3	4.3	4.5	4.5
Deferred tax on unfunded liability	–	–	(1.4)	(1.4)
	(602.3)	(520.5)	44.8	221.0
Net pension liability	(33.6)	(33.6)	(15.6)	(15.6)
Profit and loss account including amounts related to defined benefit assets and liabilities	(635.9)	(554.1)	29.2	205.4

10. Employees continued

(iv) Had FRS 17 been fully implemented, the amounts that would have been charged to the profit and loss account are:

	2002 £ million
Analysis of amount that would be charged to operating costs:	
Current service cost	1.8
Analysis of amount that would be charged to other finance costs:	
Expected return on pension scheme assets	6.7
Interest on pension scheme liabilities	(7.0)
Net expense	(0.3)
Net profit and loss charge	2.1
Analysis of amount that would be recognised in the statement of total recognised gains and losses:	
Actual return less expected return on pension scheme assets	(20.3)
Experience gains and losses arising on the scheme's liabilities	(0.9)
Changes in assumptions underlying the present value of the scheme's liabilities	(2.4)
Actuarial loss recognised in the statement of total recognised gains and losses	(23.6)
Movement in deficit in the year:	
Deficit in the schemes at 1 January	(17.9)
Movement in the year – current service cost	(1.8)
– contributions	1.7
– other finance costs	(0.3)
– actuarial loss	(23.6)
Net deficit in the schemes at 31 December	(41.9)

(v) History of experience gains and losses

	2002
Difference between the expected and actual return on scheme assets:	
Amount (£ million)	(20.3)
Percentage of scheme assets (%)	(22.8)
Experience gains and losses on scheme liabilities:	
Amount (£ million)	(0.9)
Percentage of the present value of scheme liabilities (%)	(0.7)
Total amount recognised in the statement of total recognised gains and losses:	
Amount (£ million)	(23.6)
Percentage of the present value of scheme liabilities (%)	(18.0)

Notes to the Accounts continued

11. Taxation

(a) Analysis of Charge for the Period

	2002 £ million	2001 £ million
Current tax:		
Corporation tax	4.8	10.1
Overseas taxation	(4.4)	18.4
Tax arising on disposals – overseas taxation	3.0	13.2
Over provision in prior years – UK tax	(1.3)	(0.4)
– overseas taxation	(4.9)	–
	(2.8)	41.3
Share of joint venture's taxation	2.7	2.7
Share of associates' taxation	0.6	0.5
Total current tax charge	0.5	44.5
Deferred tax:		
Origination and reversal of timing differences	7.4	(11.9)
Reversal of deferred tax assets	19.0	–
Total deferred tax charge	26.4	(11.9)
Total charge for the year	26.9	32.6

The tax effect of the operating exceptional items was a tax credit of £3.5 million. In respect of the non-operating exceptional items a charge of £3.0 million arises.

An exceptional deferred tax charge of £19.0 million arises in the period to 31 December 2002 as currently, there is insufficient evidence to support recognition of a deferred tax asset under FRS 19.

(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:

	2002 £ million	2001 £ million
Loss before tax	(1,053.1)	(730.7)
Loss before tax multiplied by standard rate of corporation tax in the UK of 30 per cent (2001 30 per cent)	(315.9)	(219.2)
Expenses not deductible for tax (including goodwill impairment and amortisation)	326.4	243.8
Movements in timing differences	(7.4)	11.9
Tax arising on disposals	3.0	8.8
Different tax rates on overseas earnings and other adjustments	0.6	(0.4)
Tax overprovided in previous years	(6.2)	(0.4)
Total current tax charge	0.5	44.5

(c) Factors That May Affect Future Tax Charges

Deferred tax assets of £23.7 million (2001 £nil) 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 to recognise a deferred tax asset in respect of these timing differences.

In addition, the Group has tax losses arising in the US of £25.1 million (2001 £19.9 million) that are available for off-set against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as their future recovery is uncertain.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and the joint venture nor in respect of the tax deduction which may be available on the future exercise of stock options.

12. (Loss)/Earnings 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:

	2002 £ million	2001 £ million
Basic and diluted loss attributable to shareholders	(1,080.4)	(763.5)
Operating exceptional items		
Goodwill impairment	923.3	724.6
Other	41.6	34.9
Goodwill amortisation	56.1	86.6
Loss/(profit) on disposal and closure of operations	48.4	(14.5)
Provision against investment in own shares	30.1	–
Prior year tax credit	(6.2)	–
Reversal of deferred tax assets	19.0	–
Attributable taxation on exceptional items	(3.5)	(10.3)
Attributable taxation on the disposal of operations	3.0	13.2
Headline earnings attributable to shareholders	31.4	71.0

	Number million	Number million
Weighted average number of shares in issue – basic and headline	922.5	915.1
Dilutive potential of employee share options	–	–
Weighted average number of shares in issue – diluted	922.5	915.1

The shares in issue used to calculate basic and headline (loss)/earnings per share exclude the shares held by QUEST, Orbis Management Limited and by Greenwood Nominees in accordance with FRS 14 'Earnings per Share'.

13. Intangible Assets

Goodwill

	2002 £ million
	Group
Cost	
At 1 January	1,831.0
Increase during the year *note 34*	51.0
Disposal of operations *note 35*	(8.1)
Exchange adjustment	(31.0)
At 31 December	1,842.9
Amortisation	
At 1 January	843.3
Provided during the year	56.1
Goodwill impairment	836.3
Disposal of operations *note 35*	(1.6)
Exchange adjustment	(4.8)
At 31 December	1,729.3
Net book value at 31 December 2002	113.6
Net book value at 31 December 2001	987.7

Notes to the Accounts continued

14. Tangible Assets

2002
£ million

	Land and buildings Freehold	Long lease	Short lease	Plant and machinery	Fixtures, fittings and equipment	Total
Group						
Cost						
At 1 January	18.2	14.5	25.0	128.4	79.7	265.8
Exchange adjustment	(1.9)	(0.1)	(0.9)	(8.6)	(6.0)	(17.5)
Additions by acquisition *note 34*	–	–	–	–	0.8	0.8
Other additions – owned assets	3.2	0.2	0.9	12.8	10.5	27.6
– leased assets	–	–	–	–	0.2	0.2
Inter-class transfers	(1.5)	–	–	0.9	0.6	–
Disposals	(1.1)	(0.1)	(0.7)	(2.6)	(6.4)	(10.9)
Disposal of operations *note 35*	–	(3.6)	(0.2)	(12.9)	(8.7)	(25.4)
At 31 December	16.9	10.9	24.1	118.0	70.7	240.6
Depreciation						
At 1 January	2.7	1.7	2.9	82.7	38.2	128.2
Exchange adjustment	(0.3)	–	(0.3)	(4.9)	(3.5)	(9.0)
Provided during the year	0.4	0.6	1.9	14.4	16.3	33.6
Disposals	(0.1)	(0.1)	(0.2)	(1.2)	(3.4)	(5.0)
Disposal of operations *note 35*	–	(0.7)	–	(10.0)	(6.5)	(17.2)
At 31 December	2.7	1.5	4.3	81.0	41.1	130.6
Net book value at 31 December	14.2	9.4	19.8	37.0	29.6	110.0
Company						
Cost						
At 1 January	1.2	12.5	0.4	26.0	7.1	47.2
Additions	–	–	–	1.3	0.5	1.8
Disposals	(0.2)	(3.7)	–	–	(1.0)	(4.9)
Inter-class transfers	–	0.2	–	–	(0.2)	–
At 31 December	1.0	9.0	0.4	27.3	6.4	44.1
Depreciation						
At 1 January	0.5	1.3	0.1	19.7	4.7	26.3
Provided during the year	–	0.4	–	2.0	0.9	3.3
Disposals	(0.1)	(0.8)	–	–	(0.9)	(1.8)
Inter-class transfers	–	0.2	–	–	(0.2)	–
At 31 December	0.4	1.1	0.1	21.7	4.5	27.8
Net book value at 31 December	0.6	7.9	0.3	5.6	1.9	16.3

Tangible assets include the following finance leased assets:

	Plant and machinery	Fixtures, fittings and equipment	Total
Group			
Net book value at 1 January	0.6	0.5	1.1
Depreciation provided during the year	0.1	0.3	0.4
Net book value at 31 December	0.4	0.7	1.1

15. Capital Commitments and Contingent Liabilities

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Capital expenditure commitments:				
Contracted but not provided	1.4	0.5	4.2	0.2
Contingent liabilities:				
Bank guarantees	–	2.3	–	2.2

16. Shares in Subsidiaries

	2002 £ million
	Company
Cost	
At 1 January	2,405.6
Additions	38.4
Transfers to subsidiaries	(500.0)
Disposals	(37.4)
At 31 December	1,906.6
Provisions	
At 1 January	524.0
Increase in provision	930.1
At 31 December	1,454.1
Net book value at 31 December	452.5

The investment in shares in subsidiaries has been written down in accordance with FRS 11 to recoverable amount, which has been calculated as disclosed in note 6.

17. Loans to Subsidiaries

At 1 January	142.0
Exchange adjustment	(13.0)
Advances	2.2
Repayments	(60.1)
At 31 December	71.1

18. Fixed Asset Investments

Joint Venture

	2002 £ million
	Group
At 1 January	44.3
Share of retained profit	3.5
Exchange adjustment	2.3
At 31 December	50.1

Notes to the Accounts continued

18. Fixed Asset Investments continued

	2002 £ million	2001 £ million
Profit and loss account		
Share of turnover	75.6	78.3
Profit before taxation	6.7	8.8
Taxation	2.7	2.7
Share of profit after taxation	4.0	6.1
Balance sheet		
Fixed assets	34.4	34.7
Current assets	38.5	34.3
Share of gross assets	72.9	69.0
Liabilities due within one year	9.8	11.2
Liabilities due after more than one year	11.3	11.7
Minority interests	1.7	1.8
Share of gross liabilities	22.8	24.7
Share of net assets	50.1	44.3

The joint venture companies at 31 December 2002 and 2001 were as follows:

	% holding	Nature of business
WAGO Kontakttechnik GmbH	51	Interconnection products
WAGO Contact SA	51	Interconnection products

As referred to in note 36, Spirent announced on 12 March 2003 the divestment of its 51 per cent interests in the WAGO joint venture for net proceeds of approximately £58.2 million.

Associates

	2002 £ million	
	Group	Company
Cost		
At 1 January and 31 December		0.1
Goodwill		
At 1 January	6.5	–
Acquisition of majority holding	(5.8)	–
Amortisation	(0.2)	–
Exchange adjustment	(0.5)	–
At 31 December	–	–
Share of retained profits and reserves		
At 1 January	11.8	–
Acquisition of majority holding	0.6	–
Exchange adjustment	0.6	–
Share of retained profits for the year	0.3	–
At 31 December	13.3	–
Net book value at 31 December	13.3	0.1

18. Fixed Asset Investments continued

The associated companies at 31 December 2002 and 31 December 2001 were as follows:

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

In addition at 31 December 2001 the Group held a 16 per cent interest in Caw Networks, Inc. (Caw).

On 15 August 2002 the remaining, then, 85 per cent of Caw was acquired by the Group. From this date Caw has been fully consolidated into the Group accounts.

Investment in Own Shares

	2002 £ million	
	Group	Company
Cost		
At 1 January	34.1	34.1
Shares transferred to beneficial holders	(1.0)	(1.0)
Allotted to option holders	(0.9)	(0.9)
Provision against investment in own shares	(30.1)	(30.1)
At 31 December	2.1	2.1

The investment in own shares relates to 3,508,136 (2001 4,571,286) shares held by QUEST and 9,064,985 (2001 9,064,985) shares held by Orbis Management Limited.

Shares held by QUEST will be used to satisfy options under the Company's various savings related share option schemes. Shares in Orbis are primarily held to hedge awards under the Long Term Share Purchase Plan and Netcom Stock Appreciation Rights Plan. 625,031 shares held by Greenwood Nominees at 31 December 2001 were allotted in May 2002 pursuant to the acquisition agreement of Zarak Systems Corporation.

Given the significant fall in the Spirent share price in 2002 the directors consider it prudent to make a provision against the carrying value of the shares held by QUEST and Orbis and accordingly have written them down to the market value at 31 December 2002 of 16.75 pence per share.

19. Stocks

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Raw materials	16.6	0.3	31.4	0.3
Work in progress	8.9	0.1	12.0	0.1
Finished goods	36.0	3.3	49.7	3.8
	61.5	3.7	93.1	4.2

Notes to the Accounts continued

20. Debtors

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Due within one year:				
Trade debtors	79.1	6.8	99.8	6.6
Owed by subsidiaries	–	7.2	–	5.7
Owed by associates	0.4	0.2	0.3	0.2
Other debtors	6.3	1.2	4.1	2.7
Tax recoverable	–	2.4	–	–
Prepayments and accrued income	9.5	2.0	9.3	1.7
	95.3	19.8	113.5	16.9
Due after one year:				
Other debtors	0.2	–	0.5	–
Deferred taxation *note 27*	–	–	27.2	1.0
Prepayments	1.8	0.1	2.2	0.2
	2.0	0.1	29.9	1.2
Total debtors	97.3	19.9	143.4	18.1

21. Notes to the Cash Flow Statement

	2002 £ million	2001 £ million
Returns on Investments and Servicing of Finance		
Interest received	4.0	3.3
Interest paid	(14.7)	(27.1)
Interest element of finance lease rental payments	(0.1)	(0.1)
Net cash outflow for returns on investments and servicing of finance	(10.8)	(23.9)
Taxation		
Corporation tax paid	(11.9)	(4.3)
Overseas tax received/(paid)	7.7	(16.7)
Tax paid	(4.2)	(21.0)
Capital Expenditure and Financial Investment		
Capital expenditure	(27.6)	(59.4)
Receipts from sales of tangible assets	1.8	1.1
Sale of own shares	–	0.6
Net cash outflow for capital expenditure and financial investment	(25.8)	(57.7)
Acquisitions and Disposals		
Acquisition of subsidiaries *note 34*	(49.2)	7.2
Acquisition of associates	–	(6.4)
Disposal of shares in subsidiaries *note 35*	55.6	148.8
Net cash inflow for acquisitions and disposals	6.4	149.6
Management of Liquid Resources		
Sale of investments	0.2	3.6
Financing		
Issue of share capital	2.4	4.9
New loans	75.7	28.5
Repayment of loans	(23.6)	(185.4)
Repayment of capital element of finance lease rentals	(0.7)	(0.8)
Net cash inflow/(outflow) from financing	53.8	(152.8)

22. Analysis of Changes in Net Borrowings

£ million

	1 January 2002	Cash flow	Non-cash changes	Exchange adjustment	31 December 2002
Cash at bank and in hand	27.6	56.8	–	(0.9)	83.5
Overdrafts	(0.4)	(0.2)	–	–	(0.6)
Net cash	27.2	56.6	–	(0.9)	82.9
Current asset investments	0.3	(0.2)	–	–	0.1
Bank loans due within one year	(10.0)	9.6	–	–	(0.4)
Other loans and finance lease obligations due within one year	(0.8)	0.2	(0.2)	–	(0.8)
Net liquid funds	16.7	66.2	(0.2)	(0.9)	81.8
Senior unsecured loan notes due after one year	(148.9)	–	–	13.9	(135.0)
Bank loans due after one year	(24.2)	(75.5)	–	0.3	(99.4)
Other loans and finance lease obligations due after one year	(22.7)	14.3	(0.2)	(0.6)	(9.2)
Net borrowings	(179.1)	5.0	(0.4)	12.7	(161.8)

23. Current Asset Investments

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Listed	0.1	–	0.2	–
Unlisted	–	–	0.1	–
	0.1	–	0.3	–
Market value listed securities	0.1	–	0.2	–
Market value unlisted securities	–	–	0.1	–

The investments are US and UK Treasury Stock.

24. Creditors Due Within One Year

	2002 Group	2002 Company	2001 Group	2001 Company
Trade creditors	23.6	4.9	29.7	4.8
Payments received on account	0.4	–	0.2	–
Bills of exchange payable	–	–	0.1	–
Owed to subsidiaries	–	1.4	–	1.2
Owed to joint venture	0.3	–	0.2	–
Owed to associates	0.6	–	0.4	–
Other creditors	8.7	1.4	12.3	2.1
Accruals and deferred income	50.1	9.8	65.3	9.8
Proposed dividend	–	–	27.6	27.6
Corporation tax – UK and overseas	19.5	0.2	27.0	–
Other taxes and social security costs	4.3	1.0	4.0	1.1
	107.5	18.7	166.8	46.6

Notes to the Accounts continued

25. Loans and Overdrafts

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Bank overdrafts:				
Secured	0.5	–	0.4	–
Unsecured	0.1	0.1	–	–
Bank loans due within one year *note 28*	0.4	–	10.0	9.6
Other loans and finance lease obligations due within one year *note 28*	0.8	0.1	0.8	–
	1.8	0.2	11.2	9.6

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

Senior unsecured loan notes *note 29*	135.0	135.0	148.9	148.9
Bank loans *note 28*	99.4	95.4	24.2	19.6
Other loans and finance lease obligations *note 28*	9.2	–	22.7	13.7
Owed to subsidiaries	–	147.6	–	637.9
Other creditors	1.6	–	6.3	–
Deferred income	2.6	0.4	3.4	0.5
Pension	4.8	4.7	4.6	4.4
	252.6	383.1	210.1	825.0

27. Provisions for Liabilities and Charges

Deferred Taxation

At 1 January	(25.7)	(1.0)		
Exchange adjustment	1.4	–		
Disposal of subsidiaries *note 35*	0.3	–		
Charged during the year *note 11*	26.4	1.0		
At 31 December	2.4	–		
Deferred taxation provided:				
Capital allowances in advance of the corresponding charges for depreciation	1.7	–	1.1	0.4
Short term timing differences on stock options	–	–	(6.5)	–
Other short term timing differences	0.7	–	(20.3)	(1.4)
	2.4	–	(25.7)	(1.0)
Debtors greater than one year – deferred taxation *note 20*	–	–	(27.2)	(1.0)
Provisions for liabilities and charges – deferred tax liability	2.4	–	1.5	–
	2.4	–	(25.7)	(1.0)

In accordance with FRS 19, deferred tax assets have not been recognised in respect of tax losses arising in the US of £25.1 million (2001 £19.9 million). In addition deferred tax assets of £23.7 million (2001 £nil) arising principally in respect of timing differences, have not been recognised (see note 11).

Lease Provisions

Charged during the year	20.2	–		
Transfers in	9.0	0.9		
Utilised during the year	(1.8)	(0.2)		
Exchange adjustment	(1.4)	–		
At 31 December	26.0	0.7		
Provisions for liabilities and charges at 31 December	28.4	0.7	1.5	–

28. Loans and Finance Lease Obligations

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
Secured:				
Bank loans not wholly repayable within five years	2.2	–	2.8	–
Bank loans wholly repayable within five years	2.1	–	2.2	–
Finance lease obligations	9.5	–	9.3	–
	13.8	–	14.3	–
Unsecured:				
Bank loans wholly repayable within five years	96.2	96.1	30.4	30.4
Other loans not wholly repayable within five years	–	–	3.0	2.5
Other loans wholly repayable within five years	0.5	0.1	11.2	11.2
	96.7	96.2	44.6	44.1
Less debt issuance costs	(0.7)	(0.7)	(1.2)	(1.2)
	109.8	95.5	57.7	42.9

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

	Group 2002	Company 2002	Group 2001	Company 2001
Bank loans:				
After five years	2.2	–	2.8	–
Between two and five years	1.3	–	21.9	20.5
Between one and two years	96.6	96.1	0.4	–
Due after more than one year	100.1	96.1	25.1	20.5
Less debt issuance costs	(0.7)	(0.7)	(0.9)	(0.9)
Due after more than one year *note 26*	99.4	95.4	24.2	19.6
Due within one year	0.4	–	10.3	9.9
Less debt issuance costs	–	–	(0.3)	(0.3)
Due within one year *note 25*	0.4	–	10.0	9.6
Total bank loans	99.8	95.4	34.2	29.2
Other loans and finance leases:				
After five years	7.1	–	9.3	2.5
Between two and five years	1.5	–	9.9	8.3
Between one and two years	0.6	–	3.5	2.9
Due after more than one year *note 26*	9.2	–	22.7	13.7
Due within one year *note 25*	0.8	0.1	0.8	–
Total other loans and finance leases	10.0	0.1	23.5	13.7
Total loans	109.8	95.5	57.7	42.9

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 loan is repayable in annual instalments of £214,000 until the year 2008 and bears interest at an average rate of 7.0 per cent.

Notes to the Accounts continued

29. Senior Unsecured Loan Notes

	2002 £ million		2001 £ million	
	Group	Company	Group	Company
7.94% Senior unsecured loan notes 2006	6.2	6.2	6.8	6.8
8.06% Senior unsecured loan notes 2009	39.4	39.4	43.4	43.4
8.16% Senior unsecured loan notes 2009	71.4	71.4	78.8	78.8
8.75% Senior unsecured loan notes 2009	18.4	18.4	20.3	20.3
	135.4	135.4	149.3	149.3
Less debt issuance costs	(0.4)	(0.4)	(0.4)	(0.4)
Due after more than one year *note 26*	135.0	135.0	148.9	148.9

At 31 December 2002 the following loan notes were in issue:

(a) $10.0 million bearing interest at 7.94 per cent repayable on 23 November 2006;

(b) $63.4 million bearing interest at 8.06 per cent repayable on 23 November 2009;

(c) $115.0 million bearing interest at 8.16 per cent repayable on 23 November 2009;

(d) $29.6 million bearing interest at 8.75 per cent repayable on 23 November 2009. An interest rate derivative was entered into in 1999 to reduce the effective interest rate to 8.28%.

Loan notes are repayable:

(a) at maturity; or

(b) 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, if applicable.

As discussed in note 36, post 31 December 2002 certain amendments, dependent on the divestment of our 51 per cent interests in the WAGO joint venture, will be made to the terms of these loan notes.

A five year interest rate swap for $115 million entered into on 23 November 2001 was called by the counterparties in November 2002 and replaced with an interest rate swap for $163.4 million. The counterparties have the option to call the swap at six monthly intervals commencing May 2003. This swap has been transacted with two counterparties split $100 million and $63.4 million between them. The terms of the $100 million swap allow for either party to exercise a break on 23 November 2005 or 23 November 2008. The swap for $63.4 million has an option for either party to exercise a break at 23 November 2005 only. If a break should occur a mark to market settlement will be made.

30. Financial Risk Management

The Group's approach to managing financial risk is described in the Financial Review on pages 11 to 14.

(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:

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

30. Financial Risk Management continued

2001 £ million

	At floating interest rates	Non-interest bearing	Total
Financial assets			
Sterling	4.4	0.1	4.5
US dollars	9.3	1.7	11.0
Euro	7.8	0.9	8.7
Other	2.5	1.7	4.2
	24.0	4.4	28.4

The financial assets of the Group comprise:

	2002 £ million	2001 £ million
Debtors due after more than one year (excluding prepayments) *note 20*	0.2	0.5
Current asset investments *note 23*	0.1	0.3
Cash at bank and in hand *note 22*	83.5	27.6
	83.8	28.4

Floating rate financial assets comprise cash deposits on money market deposit 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.

2002 £ million

	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
Sterling	–	84.4	–	84.4
US dollars	37.8	112.3	1.6	151.7
Euro	10.1	0.4	–	10.5
Other	0.2	0.2	–	0.4
	48.1	197.3	1.6	247.0

2001 £ million

	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
Financial liabilities				
Sterling	–	18.4	–	18.4
US dollars	75.0	104.7	4.7	184.4
Euro	10.0	0.3	–	10.3
Other	0.2	–	–	0.2
	85.2	123.4	4.7	213.3

Notes to the Accounts continued

30. Financial Risk Management continued

	2002 Average interest rates of fixed rate liabilities %	2002 Weighted average period to maturity of fixed rate liabilities years	2002 Weighted average period to maturity of non-interest bearing liabilities years	2001 Average interest rates of fixed rate liabilities %	2001 Weighted average period to maturity of fixed rate liabilities years	2001 Weighted average period to maturity of non-interest bearing liabilities years
Financial liabilities						
Sterling	11.5	3.3	–	16.3	0.6	–
US dollars	8.3	6.2	4.9	8.0	7.5	3.1
Euro	5.8	13.3	–	5.9	14.8	–
Other	13.9	2.8	–	13.0	3.6	–
Group	7.8	7.7	4.9	7.8	8.3	3.1

	2002 £ million	2001 £ million
The financial liabilities of the Group comprise:		
Bank overdrafts, current instalment of loans and finance lease obligations *note 25*	1.8	11.2
Senior unsecured loan notes due after more than one year *note 26*	135.0	148.9
Bank loans due after more than one year *note 26*	99.4	24.2
Other loans and finance lease obligations due after more than one year *note 26*	9.2	22.7
Other creditors falling due after more than one year *note 26*	1.6	6.3
	247.0	213.3

The floating rate liabilities at 31 December 2002 comprise primarily $163.4 million (2001 $115.0 million) of the senior unsecured loan notes for which an interest rate swap is in place. Also included is £96.2 million (2001 £20.5 million) drawn under the syndicated credit facility. 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

	2002 £ million	2001 £ million
The maturity profile of the Group's financial liabilities at 31 December was as follows:		
In one year or less, or on demand	1.9	11.9
In more than one year but not more than two years	96.5	6.2
In more than two years but not more than five years	9.0	38.9
In more than five years	139.6	156.3
	247.0	213.3
Undrawn committed borrowing facilities		
Expiring in one year or less	24.8	175.7
Expiring in more than one year but not more than two years	73.4	27.4
Expiring in more than two years	–	156.8
	98.2	359.9

The committed borrowing facilities comprise primarily:
- $152 million five year amortising multi-currency revolving credit facility with a final maturity date of 21 July 2004 of which $18 million was drawn at 31 December 2002;
- £100 million multi-currency five year revolving credit facility of which £85.0 million was drawn at 31 December 2002.

The $152 million multi-currency revolving credit facility is amortising and reduces as follows:
- $40 million on 15 January 2003;
- $56 million on 15 January 2004;
- $56 million on the final maturity date, 21 July 2004.

As discussed in note 36, post 31 December 2002 certain amendments, dependent on the divestment of our 51 per cent interests in the WAGO joint venture, will be made to the terms of these borrowing facilities.

30. Financial Risk Management continued

(c) Currency Exposure of Financial Assets and Liabilities

The table 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)				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

	Net foreign currency monetary assets/(liabilities)				2001 £ million
	Sterling	US dollar	Euro	Other	Total
Functional currency of Group operation					
Sterling	–	1.8	1.9	0.2	3.9
US dollar	–	–	1.8	–	1.8
Euro	(0.1)	0.3	–	0.4	0.6
Other	(0.3)	2.3	–	0.1	2.1
	(0.4)	4.4	3.7	0.7	8.4

(d) Fair Value of Financial Instruments

	2002 £ million		2001 £ 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)	(11.2)	(11.2)
Long term senior unsecured loan notes	(135.0)	(153.1)	(148.9)	(159.4)
Other long term borrowings	(108.6)	(107.7)	(46.9)	(44.5)
Cash and other liquid funds	83.5	83.5	27.6	27.6
Current asset investments	0.1	0.1	0.3	0.3
Other financial assets	0.2	0.2	0.5	0.5
Other financial liabilities	(1.6)	(1.6)	(6.3)	(6.3)
	(163.2)	(180.4)	(184.9)	(193.0)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	–	0.4	–	(1.3)
Forward foreign exchange contracts	–	0.5	–	0.1
	(163.2)	(179.5)	(184.9)	(194.2)

The derivative financial instruments are as follows:

(a) Interest rate swaps for $163.4 million (£101.5 million). The swaps have a seven year term and can be cancelled at the bank's option at six monthly intervals, no earlier than May 2003. A break can be exercised on $100 million of the swap by either party on 23 November 2005 and 2008, and on $63.4 million of the swap at 23 November 2005. If a break should occur a mark to market settlement will be made.

(b) Forward foreign exchange contracts to hedge material transactional exposures.

Notes to the Accounts continued

30. Financial Risk Management continued

(e) Hedges

As explained in the Financial Review on pages 11 to 14, 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:

			2002 £ million	2001 £ million
	Gains	Losses	Total net gains/(losses)	Total net gains/(losses)
Unrecognised gains/(losses) at 1 January	0.2	(1.4)	(1.2)	–
Gains/(losses) arising in previous years recognised in the year	0.2	(1.4)	(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	1.1	(0.2)	0.9	(1.2)
Unrecognised gains/(losses) on hedges at 31 December	1.1	(0.2)	0.9	(1.2)
Expected to be recognised:				
In one year or less	0.7	(0.2)	0.5	0.1
In later years	0.4	–	0.4	(1.3)
	1.1	(0.2)	0.9	(1.2)

31. Operating Lease Commitments

Annual commitments which expire:

		2002 £ million		2001 £ million
	Group	Company	Group	Company
In respect of land and buildings (subject to periodic rent reviews):				
Within one year	0.6	–	0.9	–
In the second to fifth years	5.7	–	8.8	–
Over five years	5.8	0.8	7.7	0.8
	12.1	0.8	17.4	0.8
In respect of plant and equipment:				
Within one year	0.1	–	–	–
In the second to fifth years	0.4	–	0.4	–
	0.5	–	0.4	–

32. Capital and Reserves

2002
£ million

	Called up share capital	Share premium account	Capital reserve	Capital redemption reserve	Merger reserve	Profit and loss account
Group						
At 1 January	31.1	728.7	27.8	0.7	264.4	41.7
Exchange adjustment on subsidiaries, joint venture and associates	–	–	–	–	–	(23.0)
Taxation on exchange adjustment	–	–	–	–	–	0.1
New shares issued	0.1	5.7	(4.3)	–	–	–
New shares issued – restricted stock	0.1	1.8	–	–	–	–
Obligation to issue share capital – stock compensation	–	–	0.2	–	–	–
Obligation to issue share capital – acquisition expense	–	–	0.1	–	–	–
Shares transferred from trust	–	–	(1.0)	–	–	–
Loss for the year	–	–	–	–	–	(1,092.9)
Goodwill on disposal and impairment of subsidiaries acquired before 1998	–	–	–	–	–	157.8
Lapsed acquisition related options	–	–	(5.2)	–	–	5.2
Reclassified to merger reserve	–	(40.1)	–	–	40.1	–
Transfer on disposal and impairment	–	–	–	–	(304.5)	304.5
At 31 December	31.3	696.1	17.6	0.7	–	(606.6)
Company						
At 1 January	31.1	728.7	27.8	0.7	215.6	217.9
New shares issued	0.1	5.7	(4.3)	–	–	–
New shares issued – restricted stock	0.1	1.8	–	–	–	–
Obligation to issue share capital – stock compensation	–	–	0.2	–	–	–
Obligation to issue share capital – acquisition expense	–	–	0.1	–	–	–
Shares transferred from trust	–	–	(1.0)	–	–	–
Loss for the year	–	–	–	–	–	(1,002.4)
Lapsed acquisition related options	–	–	(5.2)	–	–	5.2
Reclassified to merger reserve	–	(40.1)	–	–	40.1	–
Transfer on disposal and impairment	–	–	–	–	(254.5)	254.5
At 31 December	31.3	696.1	17.6	0.7	1.2	(524.8)

The Company's profit and loss account of £524.8 million deficit (2001 £217.9 million surplus) includes non distributable reserves of £51.1 million (2001 £139.5 million).

At 31 December 2002 the cumulative amount of goodwill charged to reserves since 1977 net of goodwill relating to subsidiaries disposed of or impaired, is £43.9 million (2001 £201.7 million).

The loss after taxation for the year dealt with in the accounts of the Company was £989.9 million (2001 £398.3 million).

Notes to the Accounts continued

32. Capital and Reserves continued

	Authorised		Issued and fully paid	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
Called up share capital: Ordinary shares of 3⅓ pence each	41.7	36.7	31.3	31.1

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

	Number of Ordinary shares million
Issued and fully paid at 1 January 2002	933.2
Allotted pursuant to share options and purchase rights exercised	3.5
Allotted on acquisition of Caw Networks, Inc*	2.7
Issued and fully paid at 31 December 2002	939.4

*2,712,811 shares were issued, credited as fully paid, on 15 August 2002 in connection with the rollover of Caw Common Stock under a Caw employee stock plan into Spirent Ordinary shares. The mid market closing price of a Spirent Ordinary share on 15 August 2002 was 70.25 pence.

At the Annual General Meeting held on 2 May 2002, shareholders gave authority for the Company to purchase up to 46,668,535 of its own Ordinary shares in the market subject to certain specified conditions. As at 12 March 2003, 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 shares being allotted by the Company or existing shares being transferred from Spirent QUEST Limited as follows:

	Number of Ordinary shares	Consideration received £000
Discretionary Schemes	71,515	78.2
Netcom Amended and Restated Stock Option Plan	2,049,378	460.9
Net-HOPPER Amended and Restated Stock Option Plan	161,590	93.3
Zarak Amended and Restated Stock Option Plan	138,283	95.1
Caw Amended and Restated Stock Plan[1]	23,744	2.8
All Employee Share Schemes	1,841,358	1,641.4
	4,285,868	2,371.7

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 = $1.61, being the exchange rate on 31 December 2002.

During the year 1,063,150 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 2003, 3,254,422 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. 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 12 March 2003, the date on which these Accounts have been signed.

At 31 December 2002 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 for the 3:1 subdivision of share capital in 2000 and, where relevant, for the rights issues effected in 1993 and 2000, in accordance with the individual scheme rules.

32. Capital and Reserves continued

Option Scheme		Option/purchase right exercise dates	Exercise price per share (p)	Number of outstanding options/ purchase rights
Discretionary Schemes				
1985 Executive Share Option Scheme	(a)	15.04.96–26.04.05	91–108	148,229
1995 Executive Share Option Scheme	(a)	29.04.99–02.05.12	72–598	17,710,099
International Executive Share Option Scheme	(b)	11.04.98–10.04.05	104	174,139
Spirent Stock Option Plan	(c)	11.05.01–12.12.09	6–617	79,642,643
Acquisition Related Schemes				
Netcom Amended and Restated Stock Option Plan	(d)	23.07.99–19.07.09	15–151	12,914,034
Zarak Amended and Restated Stock Option Plan	(e)	14.11.00–12.11.10	79–572	1,051,317
Caw Amended and Restated Stock Plan	(f)	15.08.02–26.06.12	17.7–23.6[1]	1,086,103
All Employee Share Schemes[2]				
UK Savings Related Share Option Scheme	(g)	01.12.02–31.05.10	41–583	5,341,079
US Employee Stock Purchase Plan[3]	(h)	01.01.04	14	3,500,000
Global All Employee Share Purchase Plan[3]	(i)	01.01.04	14	350,000
Total				121,917,643

Notes

(1) 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.

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

(3) 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 a Spirent Ordinary share (less the applicable 15 per cent discount) as at the date of grant.

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

The Inland Revenue approved 1995 ESOS was introduced on the automatic 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 351 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 (as defined in the Statement of Investment Practice No. 1 of the United Kingdom Society of Investment Professionals) 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.

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.

(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.

Notes to the Accounts continued

32. Capital and Reserves continued

(c) Spirent Stock Option Plan (SSOP)

The SSOP was introduced following shareholder approval at the Company's 2000 Annual General Meeting. This discretionary plan is primarily targeted at selected employees in the Communications group (particularly in the US) 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.

In December 2002, approximately 12.5 million options were granted under the SSOP to key selected employees for market competitive, motivation and retention purposes. This grant provided for accelerated phased vesting over two years instead of the usual four year period. No executive directors participated in this grant.

The number of options available for grant each year, subject to a 9 per cent total dilution limit, is at the discretion of the Remuneration Committee having regard to competitive market practice and the performance of the businesses. No further grants may be made under the SSOP after the 2003 Annual General Meeting. However, the Remuneration Committee is currently reviewing medium and long term incentive arrangements for employees within the Communications group and shareholders will be informed as appropriate with regards to any new initiatives which 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 rollover of outstanding vested and unvested options over Netcom shares, primarily held by Netcom employees, into options over approximately 23.8 million new Spirent shares (as adjusted) on substantially similar terms under the NARSOP as previously existed. The outstanding unvested options vest monthly from the date of acquisition during the remaining term of each individual grant and are not subject to any pre-exercise performance condition. The final unvested options will vest in July 2003 and all options have a ten year life from the original date of grant.

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

Out of a total consideration of approximately 44.9 million new Spirent shares issued for the acquisition of Zarak Systems Corporation (Zarak) in November 2000, approximately 3.8 million arose in connection with the rollover of outstanding options over Zarak shares into options over Spirent shares which will vest over a period expiring in 2004 on substantially similar terms under the ZARSOP as previously existed. 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 rollover 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 under the CARSP as previously existed. 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 cents is payable as each share vests or upon the vesting of an exercised option.

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 Executive Share Option Schemes noted in (a) above, the Spirent shares subject to rolled over options for the acquisition of Netcom, Zarak, Caw and Net-HOPPER (now expired), 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. Ongoing awards of discretionary options to Communications group employees are now being facilitated through the SSOP as described in paragraph (c).

32. Capital and Reserves continued

(g) UK Savings Related Share Option Scheme (SRSOS)

The SRSOS is an Inland Revenue approved scheme and is open to all UK full and part time 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 a Spirent share on the last 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 a qualifying employee share ownership trust (QUEST) to honour the contractual commitment to deliver Spirent 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 1,063,150 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 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 the market value of a Spirent 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 2002, both of which utilise shares purchased in the market (ie they have not involved the issue of new Spirent shares). No awards were made under either plan in the year to 31 December 2002.

(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) and subsequently for certain other employees in the Communications group. Under the SARP, recruitment, promotion and recognition awards over Spirent 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.

The SARP will deliver the appreciation value (ie the aggregated increase in the market value of a Spirent share over the rights price) in the form of existing Spirent shares which have been purchased in the market by the Company's Employee Share Ownership Trust. The maximum number of shares over which SARP awards can be made is 5.25 million. Discretionary stock option grants to Communications group employees are now facilitated through the SSOP (see paragraph (c)).

At 31 December 2002, the following rights were outstanding under the SARP:

Rights exercise dates	Rights price (p)	Number of rights outstanding
10.09.00–29.06.10	182–416	3,821,097

Notes to the Accounts continued

32. Capital and Reserves continued

(k) Long Term Share Purchase Plan (LTSPP)

At an Extraordinary General Meeting of the Company held on 2 May 2002, shareholders approved the closure of the LTSPP and the substitution of its future annual awards with a supplemental grant of options of equivalent value under the ESOS (see (a) above). These supplemental grants are subject to enhanced exercise performance conditions under the ESOS (see the Report on Directors' Remuneration for further details).

The LTSPP was introduced, following approval by shareholders at the Company's 1999 Annual General Meeting, to ensure continuing competitiveness and with the aim of motivating and giving participants a more focused incentive to perform at the highest levels which, in turn, delivers sustainable performance and enhanced shareholder return. Only executive directors and senior management (principally members of the Operations Management Team) were eligible to participate in the LTSPP. It is administered by the Remuneration Committee.

Grants under the LTSPP have a six year performance period comprising two periods of three years each. Performance units, equivalent to shadow options, granted at the outset will only vest (in the form of an award split between Spirent shares and cash) at the end of the first performance period. This is 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) have been met. One-third of the award must be retained in the form of shares until the end of the second performance period. These shares will be 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 choose to invest some or all of their remaining cash award (ie up to two-thirds of the award) in shares and these will be matched on a higher ratio of up to four shares for each one retained. No reward under the LTSPP can be made at the end of either performance period unless the Company's real share price growth is at least 5 per cent per annum and also its TSR performance is ranked above the 60th percentile against the comparator group. Because of these variables, the exact number of shares available for award, if any, cannot be determined until the final vesting date (the sixth anniversary of the date of grant).

The Company has established an Employee Share Ownership Trust as one method through which it can deliver Spirent shares committed under the LTSPP with shares being held in trust prior to any vesting of awards. Any shares delivered under the LTSPP will be met by the trustees either purchasing existing shares in the market or by the Company issuing new shares or a combination of these. In this way, full flexibility is retained to ensure that the objective of acting in shareholders' best interests is achieved at the time of delivery.

No price is payable on the grant of a LTSPP performance unit, no performance units have been granted at a discount to the market price.

At 31 December 2002, the following performance units were outstanding under the LTSPP:

Performance unit vesting dates	Value of performance unit (p)	Number of performance units
11.05.06–09.04.07	305–334	483,024

Spirent Employee Share Ownership Trust (ESOT)

At 31 December 2002 the ESOT held 11,870,877 Spirent Ordinary shares to satisfy awards under various share based incentive schemes as described above. Of this number, 1,245,229 Ordinary shares were unconditionally vested at 31 December 2002.

33. Analysis of Changes in Financing During the Year

	Share capital (including premium and merger reserve)	Senior unsecured loan notes	Loans and finance lease obligations	2002 £ million Total
At 1 January	1,024.2	148.9	57.7	1,230.8
Cash inflow from financing *note 21*	2.4	–	51.4	53.8
Inception of finance lease contracts	–	–	0.2	0.2
Acquisitions	–	–	0.2	0.2
Restricted stock	1.9	–	–	1.9
Transfer from capital reserve	4.3	–	–	4.3
Transferred to profit and loss account	(304.5)	–	–	(304.5)
Transfer from QUEST	(0.9)	–	–	(0.9)
Exchange adjustment	–	(13.9)	0.3	(13.6)
At 31 December	727.4	135.0	109.8	972.2

34. Acquisition of Subsidiaries

	2002 £ million	2001 £ million
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	51.0	(0.8)
	52.7	(0.8)
Consideration:		
Restricted stock	1.2	–
Options to acquire shares	0.1	–
Cash (including expenses)	53.4	1.2
Accrued	(0.9)	(2.0)
Consideration to be charged as compensation expense	(1.1)	–
	52.7	(0.8)
The cash flows in respect of the purchase of subsidiaries are as follows:		
Cash (including expenses)	(53.4)	(1.2)
Cash (accrued in prior years)	1.0	8.4
Cash and overdrafts acquired	3.2	–
Net cash (outflow)/inflow on acquisitions	(49.2)	7.2

Acquisitions made during 2002 were Caw Networks, Inc., certain assets of the remote special services test product line of Anritsu Company US and a product line and certain intellectual property rights from UbiNetics. All three acquisitions were in the Communications group.

There are no fair value or accounting policy adjustments being made to the book value of the assets acquired.

The book values in respect of the assets acquired from Anritsu Company US are provisional and may require adjustment in 2003.

Notes to the Accounts continued

35. Disposal of Operations

	2002 £ million	2001 £ million
Net assets disposed of:		
Fixed assets		
Intangible assets	6.5	23.6
Tangible assets	8.2	17.9
Stocks	13.0	16.6
Debtors	13.0	20.1
Creditors	(7.8)	(11.4)
Taxation	–	(0.9)
Cash	–	0.5
Overdrafts	–	(0.7)
Deferred taxation	0.3	0.4
Minority interest	–	(0.8)
Net assets	33.2	65.3
Goodwill reinstated	70.8	65.1
	104.0	130.4
(Loss)/profit on disposal and closure of operations	(48.4)	14.5
	55.6	144.9
Satisfied by:		
Cash (less expenses)	55.6	148.6
Accrued	–	(3.7)
	55.6	144.9
The cash flows in respect of the sale of subsidiaries are as follows:		
Cash received net of expenses	55.6	148.6
Cash less overdrafts included within net assets disposed of	–	0.2
Net cash inflow from disposals	55.6	148.8

The businesses sold during the year contributed £0.3 million to the Group's operating cash flows, contributed £nil in respect of net returns on investments and servicing of finance, paid £0.4 million of taxation and utilised £0.4 million for capital expenditure.

During the year the Group disposed of its aerospace component businesses, Switching Systems International Inc and Monitor Labs Incorporated all from within its Systems group.

36. Post Balance Sheet Events

On 12 March 2003, Spirent announced the divestment of its 51 per cent interests in WAGO, its interconnection joint venture, for net proceeds of approximately £58.2 million. The divestment is subject to shareholder approval and requires the consent of the noteholders and parties to the syndicated bank facility. In addition, to provide the Group with an increase in the level of headroom available in relation to certain of its financial covenants, amendments to the terms of the loan notes and syndicated bank facility have been agreed. These amendments are conditional on the completion of the divestment and the use of the net proceeds to pre-pay approximately £45.8 million of the loan notes and pay an associated contractual make-whole amount of approximately £12.4 million.

Under the revised terms relating to the syndicated bank facility Spirent will have a committed line of £75 million available, which will reduce to £60 million by 31 December 2003. The bank facility remains repayable in July 2004. The interest rate will be increased to an initial margin over LIBOR of 1.75 per cent, which may decrease in certain circumstances.

Following the application of the net proceeds from the divestment of WAGO it is expected that $144.5 million of loan notes will remain outstanding with unchanged maturities principally in 2009. The applicable interest rate will be increased to a weighted average of 9.45 per cent which will decrease if certain financial requirements are satisfied. There is a coupon uplift of 1.25 per cent to the original coupons on the loan notes, which will be reduced to 1 per cent when certain financial ratios are met.

If completion of the divestment of WAGO does not occur, the existing borrowing terms will continue to apply.

37. 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.

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. Prior to 1 January 2002 purchased goodwill was amortised over the estimated period which benefited from the original purchased goodwill, which was typically in the range of seven to ten years, except for goodwill recorded on acquisitions made after 30 June 2001 where the non-amortisation provisions of FAS 142 apply.

Upon adoption of FAS 142, the Group was required to perform a transitional goodwill impairment test based on the carrying amount of goodwill at 1 January 2002. At that date, the fair values of the Group's reporting units equalled or exceeded their carrying values and therefore the transitional goodwill impairment test did not result in any impairment being recorded.

Other intangible assets included in, and accounted for as, goodwill under UK GAAP but reclassified as intangibles 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 criteria to have been met and obtained independent valuations as at 30 November 2002 for FAS 144 purposes which ultimately resulted in impairment of other intangible assets and goodwill within Service Assurance.

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 as at 30 November 2002. These valuations resulted in impairment of goodwill in Performance Analysis, in addition to the impairment in Service Assurance under FAS 144.

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 other 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 stock plans. Accordingly, the UK ESOS plan includes certain performance criteria which gives rise to variable 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.

In reconciling to US GAAP, the Group has elected to use the intrinsic value basis of calculating compensation expense for the ESOS plan, 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 Caw Amended and Restated Stock Plan and the Zarak Amended and Restated Stock Option Plan, based upon the intrinsic value of unvested stock awards at the date of acquisition, 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, under US GAAP, the profit or loss on disposal is stated net of any related cumulative currency retranslation differences and the effect of pension curtailment under FAS 88.

Notes to the Accounts continued

37. US GAAP continued

Pensions

Under UK GAAP, provision is made for the cost of retirement benefits payable by the Group's significant defined pension schemes as assessed by external actuaries and is charged to the profit and loss account so as to spread the cost over the period during which the employer derives benefit from the employee's services. Under US GAAP, the projected benefit obligation is matched against the fair value of the pension plan's 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 WAGO, its Interconnection joint venture are accounted for using the gross equity method which requires the Group to recognise its share of the gross assets and liabilities, off-set 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 interest in its joint venture is accounted for under the equity method which only requires the Group to recognise its share of the after tax profits or losses of the joint venture. Therefore, in reconciling to US GAAP it is 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 relate to share based compensation and the application of FAS 133 in the joint venture's US GAAP basis financial statements.

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 and 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 off-set 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.

Investment in Own Shares

Under UK GAAP, company shares held by an employee share trust are recorded on the balance sheet as fixed asset investments and provision is made where the carrying value of the shares may not be recoverable. Under US GAAP such shares are treated as treasury stock and recorded on the balance sheet at cost as a reduction of shareholders' equity.

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.

Dividends

Under UK GAAP, dividends are recorded in the accounts for the period to which the dividend relates. Under US GAAP, the liability for dividends is recorded in the accounts when they are declared.

37. US GAAP continued

Net 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.

	2002 £ million	2001 £ million
Loss attributable to shareholders in accordance with UK GAAP	(1,080.4)	(763.5)
Adjustments:		
Goodwill and other intangible fixed assets	197.6	(70.5)
Stock-based compensation	0.2	18.3
Disposal of operations	49.4	35.8
Provision against investment in own shares	30.1	–
Pension costs	(2.6)	(0.4)
Vacation payroll costs	0.5	0.4
Derivative financial instruments	2.1	(1.2)
Income from interest in joint venture	0.2	0.3
Deferred taxation on above adjustments	28.6	7.1
Total adjustments	306.1	(10.2)
Net loss as adjusted to accord with US GAAP	(774.3)	(773.7)
Arising from:		
Continuing operations	(774.3)	(816.0)
Discontinued operations		
Result for the year	–	2.5
Loss on disposal	–	39.8
Net loss	(774.3)	(773.7)
Net (loss)/earnings per share (pence)		
Basic and diluted:		
Continuing operations	(83.93)	(89.17)
Discontinued operations	–	4.62
	(83.93)	(84.55)
Net (loss)/earnings per ADS (pence)		
Basic and diluted:		
Continuing operations	(335.72)	(356.68)
Discontinued operations	–	18.48
	(335.72)	(338.20)

Notes to the Accounts continued

37. 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.

	2002 £ million	2001 £ million
Shareholders' funds in accordance with UK GAAP	139.1	1,094.4
Adjustments:		
Intangible assets		
Goodwill		
Cost	(1,797.4)	(713.9)
Accumulated amortisation	1,729.3	510.1
	(68.1)	(203.8)
Other intangible assets		
Cost	96.8	155.0
Accumulated amortisation	(47.9)	(31.1)
	48.9	123.9
Other investments		
Investment in own shares	(2.1)	(34.1)
Investment in joint venture	0.8	0.5
	(1.3)	(33.6)
Current assets		
Other debtors	1.1	1.6
Current liabilities		
Proposed dividends	–	27.6
Accruals – contingent compensation	1.4	1.9
Accruals – vacation	(1.0)	(1.5)
Borrowings	–	(0.4)
Derivative financial instruments	0.9	(1.2)
	1.3	26.4
Long term liabilities		
Accrued pension benefit liability	(41.2)	(8.6)
Borrowings	(1.1)	(1.2)
	(42.3)	(9.8)
Provisions for liabilities and charges		
Deferred taxation		
On above adjustments	(15.1)	(34.8)
Methodology	–	0.4
	(15.1)	(34.4)
Total adjustments	(75.5)	(129.7)
Shareholders' equity as adjusted to accord with US GAAP	63.6	964.7

Principal Divisions, Subsidiaries, Joint Venture and Associates

	% held at 31 December 2002	Principal activity
Communications		
Performance Analysis division		
Caw Networks, Inc Sunnyvale, California, USA	100	Communications performance analysis systems
Spirent Communications (Scotland) Ltd* Hamilton, Glasgow, UK	100	Communications network fault detection systems
Spirent Communications Inc Calabasas, California, USA Honolulu, Hawaii, USA Sunnyvale, California, USA Eatontown, New Jersey, 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 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

Principal Divisions, Subsidiaries, Joint Venture and Associates continued

	% held at 31 December 2002	Principal activity
HellermannTyton Pte Ltd Yishun, Singapore	75	Electrical and data network cable management and connectivity products and systems
HellermannTyton Data Ltd* Northampton, UK	90	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 (Associate)	49	Electrical and data network cable management and connectivity products and systems
Systems		
PG Drives Technology Ltd Christchurch, Dorset, UK	100	Controllers for medical and industrial mobility products
PG Drives Technology Inc Anaheim, California, USA	100	Controllers for medical and industrial mobility products
Spirent Systems San Diego Inc La Jolla, California, USA	100	Maintenance and operations information systems
Spirent Systems Wichita Inc Wichita, Kansas, USA	100	Aircraft instruments and cockpit voice recorders
WPDS Software Ltd* Yeovil, Somerset, UK	100	Maintenance, repair and overhaul management information systems
The Flight Data Company Ltd West Drayton, Middlesex, UK	100	Aircraft performance analysis and information systems integration
Spirent Systems (Ottawa) Ltd Ottawa, Ontario, Canada	100	Flight crew training and debriefing 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
Interconnection Joint Venture†		
WAGO Contact SA Domdidier, Switzerland	51	Terminals, connectors and electronic modules
WAGO Kontakttechnik GmbH Minden and Sondershausen, Germany	51	Terminals, connectors and electronic modules

Notes
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.

† Spirent announced on 12 March 2003 its intention to dispose of its interests in the Interconnection Joint Venture. Completion of the disposal is expected in April 2003.

Financial History

£ million

	2002	2001	2000	1999	1998
Consolidated Profit and Loss Account					
Turnover: Group and share of joint venture	634.5	880.1	772.7	611.5	530.1
Less: share of joint venture's turnover	(75.6)	(78.3)	(76.0)	(67.0)	(59.9)
Turnover	558.9	801.8	696.7	544.5	470.2
Operating (Loss)/Profit	(970.5)	(733.2)	110.0	81.4	70.1
Goodwill impairment	923.3	724.6	–	–	–
Exceptional items – other	41.6	34.9	2.2	–	–
Goodwill amortisation	56.1	86.6	25.7	8.6	0.9
Operating profit before goodwill amortisation and exceptional items	*50.5*	*112.9*	*137.9*	*90.0*	*71.0*
Joint venture's profit	7.4	9.6	13.3	9.5	11.5
Associate's profit net of goodwill amortisation	0.8	1.2	2.7	2.3	1.7
Non-operating Exceptional Items					
(Loss)/profit on disposal and closure of operations	(48.4)	14.5	(18.1)	(6.7)	–
Provision against investment in own shares	(30.1)	–	–	–	–
Profit on disposal of tangible fixed assets	–	–	3.2	–	–
(Loss)/Profit before Interest	(1,040.8)	(707.9)	111.1	86.5	83.3
Net interest payable	(12.3)	(22.8)	(29.3)	(12.8)	(2.1)
(Loss)/Profit before Taxation	(1,053.1)	(730.7)	81.8	73.7	81.2
Taxation	26.9	32.6	30.6	30.2	27.3
Minority interest	0.4	0.2	0.5	–	–
(Loss)/Profit Attributable to Shareholders	(1,080.4)	(763.5)	50.7	43.5	53.9
Dividends	12.5	40.0	36.1	27.1	24.9
(Loss)/Profit for the Year	(1,092.9)	(803.5)	14.6	16.4	29.0
Consolidated Balance Sheet					
Intangible assets	113.6	987.7	1,816.8	321.3	25.7
Tangible assets	110.0	137.6	136.2	107.0	95.4
Investments	65.5	96.7	87.0	59.1	49.5
Working capital (excluding cash, overdrafts and deferred tax)	42.3	28.2	111.1	33.6	44.0
Operating Assets	331.4	1,250.2	2,151.1	521.0	214.6
Net borrowings	(161.8)	(179.1)	(326.4)	(274.6)	(30.2)
Provisions for liabilities and charges	(28.4)	(1.5)	(2.1)	(0.7)	(3.1)
Deferred tax asset	–	27.2	15.8	8.5	–
Assets less Liabilities	141.2	1,096.8	1,838.4	254.2	181.3
Shareholders' Funds	139.1	1,094.4	1,834.7	250.3	178.9
Minority Interest – Equity	2.1	2.4	3.7	3.9	2.4
	141.2	1,096.8	1,838.4	254.2	181.3
Investment					
Acquisitions net of disposals	(2.9)	(145.7)	1,534.0	282.7	29.2
Capital expenditure – owned assets	27.6	59.4	44.8	35.5	38.2
– leased assets	0.2	0.8	2.5	7.3	0.6
Depreciation	33.6	37.2	25.1	21.9	18.3
Product development	77.7	95.9	60.3	39.1	26.6

Financial History continued

	2002	2001	2000	1999	1998
Share Information					
Basic (loss)/earnings per share† (pence)	(117.12)	(83.43)	7.40	6.67	8.33
Headline earnings per share† (pence)	3.40	7.76	12.61	9.18	8.47
Diluted (loss)/earnings per share (pence)	(117.12)	(83.43)	7.18	6.39	8.29
Dividend per share (pence)	1.35	4.35	4.35	4.13	3.82
Fully paid Ordinary shares in issue at year end (million)	939.4	933.2	926.5	622.5	614.4

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

£ million

	2002	2001	2000	1999	1998
Segmental Analysis					
Turnover					
Performance Analysis	187.1	245.5	283.7	114.7	52.4
Service Assurance	128.3	185.1	5.5	–	–
Communications	315.4	430.6	289.2	114.7	52.4
Network Products	164.7	170.4	181.4	155.4	145.7
Systems	53.8	48.6	45.0	45.4	47.1
	533.9	649.6	515.6	315.5	245.2
Disposals**	25.0	152.2	181.1	229.0	225.0
	558.9	801.8	696.7	544.5	470.2
Operating Profit*					
Performance Analysis	9.4	38.7	97.1	43.0	18.4
Service Assurance	21.4	44.7	1.5	–	–
Communications	30.8	83.4	98.6	43.0	18.4
Network Products	15.0	15.3	25.3	21.5	20.2
Systems	3.4	0.5	(4.2)	(1.3)	5.0
	49.2	99.2	119.7	63.2	43.6
Disposals**	1.3	13.7	18.2	26.8	27.4
	50.5	112.9	137.9	90.0	71.0
Operating (Loss)/Profit by Source					
Europe	18.8	17.9	15.3	16.9	18.2
North America	29.5	79.7	101.7	45.7	23.3
Asia Pacific, Rest of Americas, Africa	0.9	1.6	2.7	0.6	2.1
	49.2	99.2	119.7	63.2	43.6
Disposals**	1.3	13.7	18.2	26.8	27.4
	50.5	112.9	137.9	90.0	71.0
Exceptional items – other	(41.6)	(34.9)	(2.2)	–	–
Goodwill impairment	(923.3)	(724.6)	–	–	–
Goodwill amortisation	(56.1)	(86.6)	(25.7)	(8.6)	(0.9)
	(970.5)	(733.2)	110.0	81.4	70.1
Earnings before Interest, Taxation, Depreciation, Amortisation and Exceptional Items	84.1	150.1	163.0	111.9	89.3
Impact of Exchange Rate Movement on Profit before Taxation*					
(Cost)/benefit	(1.1)	1.9	6.1	0.8	(1.1)

Notes
* Before goodwill amortisation and exceptional items.
** Disposals include discontinued operations and other less significant disposals and closures.

	2002	2001	2000	1999	1998
					Rates against Sterling
Average Exchange Rates for Major Currencies					
US dollar	1.51	1.44	1.51	1.62	1.66
Euro	1.59	1.61	1.64	1.52	1.49
Japanese yen	187.86	175.50	163.47	183.78	216.14
					Number
Average Employment by Geographical Area					
Europe	1,909	2,730	2,826	2,854	2,993
North America	2,622	3,608	2,894	2,786	2,748
Asia Pacific, Rest of Americas, Africa	648	1,474	1,230	942	788
	5,179	7,812	6,950	6,582	6,529

Shareholder Information

Shareholder Analysis

At 12 March 2003, the number of registered shareholders was 8,916 and the number of Ordinary shares in issue was 942.8 million.

	Number of holdings	Percentage of total shareholders	Number of shares	Percentage of share capital
Range of holdings:				
1 – 5,000	5,947	66.70	9,640,388	1.02
5,001 – 10,000	1,136	12.74	8,634,576	0.92
10,001 – 50,000	1,249	14.01	26,755,907	2.84
50,001 – 100,000	177	1.99	13,296,559	1.41
100,001 – 250,000	144	1.62	21,970,853	2.33
250,001 – 500,000	76	0.85	28,211,896	2.99
500,001 – 1,000,000	61	0.68	42,391,249	4.50
1,000,001 – Highest	126	1.41	791,859,549	83.99
Total	8,916	100.00	942,760,977	100.00
Held by:				
Individuals	6,436	72.18	52,093,053	5.53
Institutions	2,480	27.82	890,667,924	94.47
Total	8,916	100.00	942,760,977	100.00

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 on-line 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.

Dividend Reinvestment Plan (DRIP)

Spirent operates a DRIP under which shareholders can mandate to invest any future cash dividends in Spirent 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.

Postal Share Dealing Service – Cazenove & Co. Ltd*

An execution-only service is available for the sale and purchase of the Company's shares by private investors in a simple, cost-effective manner. Dealing forms may be obtained from, and enquiries directed to, Cazenove & Co. Ltd.

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 a Spirent plc Ordinary share on 31 March 1982, as adjusted for subsequent capitalisation issues, was 97.233 pence per share.

American Depositary Receipts (ADRs) – The Bank of New York*
The Company's shares are listed on the New York Stock Exchange (symbol: 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 other 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, Freepost 22, London W1E 7EZ or call +44 (0)8457 034599 for an application form or visit www.mps-online.org.uk.

ShareGIFT
Shareholders who hold only a small number of shares, where dealing costs 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 12.00 noon on Tuesday, 20 May 2003 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED.

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Banker
HSBC Bank plc

Brokers
Cazenove & Co. Ltd*
Schroder Salomon Smith Barney

Financial Adviser
N M Rothschild & Sons Limited

Legal Advisers
Linklaters (UK)
Debevoise & Plimpton (USA)

*contact details appear on page 84

Financial Calendar

	2003
Annual General Meeting	20 May
Announcement of 2003 Interim Results	August
Financial Year End	31 December

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Inspired innovation

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