SPIRENT PLC
Form 20-F/A
March 31, 2005

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As filed with the Securities and Exchange Commission on March 31, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

AMENDMENT No. 1

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from [______] to [______]

Commission file number: 001-15206

SPIRENT PLC

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

Spirent House
Crawley Business Quarter
Fleming Way, Crawley
West Sussex RH10 9QL
United Kingdom

(Address of principal executive offices)

+44 (0)1293 767676

(Registrant's telephone number, including area code)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange
American Depositary Shares	**New York Stock Exchange**
Ordinary Shares*	**New York Stock Exchange***

*

Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 944,031,413 Ordinary shares of 3$^{1}/_{3}$p.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 ý

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You should rely only on the information contained in this Amendment. We have not authorized anyone to provide you with information that is different. The information in this Amendment may only be accurate on the date of this Amendment.

EXPLANATORY NOTE

In accordance with Rule 12b-15 under the United States Securities Exchange Act of 1934 (the "Exchange Act"), Spirent plc (the "Company", "we", "us" or "our") hereby amends its Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (this "Amendment") as filed with the United States Securities and Exchange Commission on June 29, 2004 (the "Original Filing") by restating its financial results and shareholders' equity presented under accounting principles generally accepted in the United States ("US GAAP"). The restatements reflect our re-evaluation of revenue recognition and deferral of revenue relating to multiple-element arrangements with customers in the Service Assurance division of our Communications group for the purposes of the reconciliations of our financial statements to US GAAP.

The Company's financial statements presented under accounting principles generally accepted in the United Kingdom ("UK GAAP") are not affected by these restatements.

The Company's Consolidated Financial Statements at December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 included in Item 18 have been restated and amended by:

- restating Note 34 Differences between United Kingdom and United States Generally Accepted Accounting Principles to the Company's consolidated financial statements, and

- the inclusion of an updated report of the Company's independent registered public accounting firm.

This Amendment also amends Item 3. "Key Information Selected Consolidated Financial Information of Spirent", Item 5. "Operating and Financial Review and Prospects Differences Between UK GAAP and US GAAP", Item 15. "Controls and Procedures", and Item 19. "Exhibits" to reflect the filing of new certifications by each of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the furnishing of a new certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 as well as filing new consents by our independent registered public accounting firm and independent auditors.

Other than items expressly set forth above, this Amendment does not, and does not purport to, amend, update or restate any other information in the Original Filing or reflect any events that have occurred after the date of the Original Filing.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Information of Spirent

The selected consolidated profit and loss account data for each of the three years in the period ended December 31, 2003 and balance sheet data as of December 31, 2003 and 2002 set forth below are derived from our audited consolidated financial statements, which are included elsewhere in this amendment. The profit and loss account data for the years ended December 31, 2000 and 1999 and the balance sheet data as of December 31, 2001, 2000 and 1999 are derived from our audited consolidated financial statements. All of these financial statements have been audited by Ernst & Young LLP, our independent registered public accounting firm. The selected consolidated financial data set forth below should be read in conjunction with "Item 5. Operating and Financial Review and Prospects," and our consolidated financial statements and notes thereto included elsewhere in this amendment.

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United Kingdom, or UK GAAP, which differ in certain respects from those generally accepted in the United States, or US GAAP. A description of the significant differences applicable to us and reconciliations of net income, shareholders' equity and cash flows are set forth in Note 34 of Notes to the Financial Statements.

We evaluate performance for each reportable segment based on turnover and operating profit before goodwill amortization and exceptional items. Operating profit and return on sales are used by the Group as key measures of operating performance and are stated before the effect of goodwill amortization and exceptional items so that period on period comparisons are not distorted. Free cash flow, meaning cash flow before acquisitions, disposals, equity dividends and financing, is also a key measure of operating performance used by the Group. Headline earnings per share is considered by the Group and our investors to be a key measure of overall earnings performance. The calculation is based on reported earnings adjusted for goodwill amortization and exceptional items including tax.

Consolidated Profit and Loss Account Data

	Year ended December 31				
	2003	Restated(1)(2) 2002	Restated(1)(2) 2001	Restated(2) 2000	Restated(2) 1999
	(£ millions, except per share and per ADS amounts)				
Amounts in accordance with UK GAAP					
Turnover	466.2	558.9	801.8	696.7	544.5
Operating profit/(loss)	18.8	(970.6)	(734.3)	110.0	81.4
Other Information					
Exceptional items					
Goodwill impairment		923.3	724.6		
Other	7.5	41.6	34.9	2.2	
Goodwill amortization	9.7	56.1	86.6	25.7	8.6
Operating profit before goodwill amortization and exceptional items	36.0	50.4	111.8	137.9	90.0
Income from interests in					
Joint ventures	2.7	7.4	9.6	13.3	9.5
Associates	2.1	1.0	1.3	2.7	2.3
Amortization of goodwill on associates		(0.2)	(0.1)		
Profit/(loss) on disposal and closure of operations	3.6	(48.4)	14.5	(18.1)	(6.7)
Profit on disposal of tangible fixed assets				3.2	
Profit/(loss) before interest	27.2	(1,010.8)	(709.0)	111.1	86.5
Net interest payable	(9.3)	(12.3)	(22.8)	(29.3)	(12.8)
Exceptional interest expense	(16.1)				
Other finance (expense)/income	(1.5)	(0.3)	0.4		
Profit/(loss) before taxation	0.3	(1,023.4)	(731.4)	81.8	73.7
Taxation	(0.6)	(26.9)	(32.4)	(30.6)	(30.2)
Minority interest equity and joint venture	(0.2)	(0.4)	(0.2)	(0.5)	
(Loss)/profit for the financial period	(0.5)	(1,050.7)	(764.0)	50.7	43.5
Basic (loss)/earnings per share (pence)	(0.05)	(113.90)	(83.49)	7.40	6.67
Headline earnings per share (pence)	2.31	3.36	7.70	12.61	9.18
Diluted (loss)/earnings per share (pence)	(0.05)	(113.90)	(83.49)	7.18	6.39
Dividend per share (pence)		1.35	4.35	4.35	4.13
Dividend per share (US cents)		2.10	6.36	6.33	6.38
Dividend per ADS (pence)		5.40	17.40	17.40	16.52
Dividend per ADS (US cents)		8.40	25.44	25.32	25.52
Turnover by segment					
Continuing operations					

	Year ended December 31				
Performance Analysis	148.7	184.0	241.4	280.0	111.5
Service Assurance	91.7	131.4	189.2	9.2	3.2
Communications	240.4	315.4	430.6	289.2	114.7
Network Products	174.4	164.7	170.4	181.4	158.1
Systems	51.4	78.8	124.0	135.4	149.6
	466.2	558.9	725.0	606.0	422.4
Discontinued operations			76.8	90.7	122.1
	466.2	558.9	801.8	696.7	544.5
Operating profit before goodwill amortization and exceptional items					
Continuing operations					
Performance Analysis	4.4	10.0	38.6	97.0	42.8
Service Assurance	9.4	20.8	44.8	1.6	0.2
Communications	13.8	30.8	83.4	98.6	43.0
Network Products	16.7	15.0	14.9	25.3	21.8
Systems	5.5	4.6	5.4	2.7	10.8
	36.0	50.4	103.7	126.6	75.6
Discontinued operations			8.1	11.3	14.4
	36.0	50.4	111.8	137.9	90.0

(1) Restated for the adoption of Financial Reporting Standard ("FRS") 17 "Retirement Benefits" and of Urgent Issues Task Force ("UITF") Abstract 38 "Accounting for ESOP Trusts".

(2) The results for the Communications group have been restated to reflect the transfer of our field test activities from the Performance Analysis to the Service Assurance division.

Amounts in accordance with US GAAP

	Year ended December 31				
	Restated(1) 2003	**Restated(1) 2002**	**Restated(1) 2001**	**2000**	**1999**
	(£ millions, except per share and per ADS amounts)				
Income/(loss) from continuing operations					
As previously reported		(774.3)	(816.0)	(41.8)	(7.5)
Restatement	5.7	(3.6)	(55.5)		
As restated	5.7	(777.9)	(871.5)	(41.8)	(7.5)
Income/loss from discontinued operations			42.3	2.2	9.7
Net income/(loss) as restated	5.7	(777.9)	(829.2)	(39.6)	2.2
Net income/(loss) per share					
Basic (pence):					
Continuing operations					
As previously reported		(83.93)	(89.17)	(6.10)	(1.15)
Restatement	0.61	(0.40)	(6.06)		
As restated	0.61	(84.33)	(95.23)	(6.10)	(1.15)
Discontinued operations			4.62	0.32	1.49
Net income/(loss)	0.61	(84.33)	(90.61)	(5.78)	0.34
Diluted (pence):					
Continuing operations					
As previously reported		(83.93)	(89.17)	(6.10)	(1.11)
Restatement	0.60	(0.40)	(6.06)		
As restated	0.60	(84.33)	(95.23)	(6.10)	(1.11)
Discontinued operations			4.62	0.32	1.44
Net income/(loss)	0.60	(84.33)	(90.61)	(5.78)	0.33
Dividend per share (pence)		4.35	4.35	4.24	3.91
Dividend per share (US cents)		6.49	6.33	6.29	6.22
Net income/(loss) per American Depositary Share ("ADS")					
Basic (pence):					
Continuing operations					
As previously reported		(335.72)	(356.68)	(24.40)	(4.60)
Restatement	2.44	(1.60)	(24.24)		
As restated	2.44	(337.32)	(380.92)	(24.40)	(4.60)
Discontinued operations			18.48	1.28	5.96
Net income/(loss)	2.44	(337.32)	(362.44)	(23.12)	1.36

	Year ended December 31				
Diluted (pence):					
Continuing operations					
As previously reported		(335.72)	(356.68)	(24.40)	(4.44)
Restatement	2.40	(1.60)	(24.24)		
As restated	2.40	(337.32)	(380.92)	(24.40)	(4.44)
Discontinued operations			18.48	1.28	5.76
Net income/(loss)	2.40	(337.32)	(362.44)	(23.12)	1.32
Dividend per ADS (pence)		17.40	17.40	16.96	15.64
Dividend per ADS (US cents)		25.96	25.32	25.16	24.88

(1) Restated for revenue recognition, see Note 34 of Notes to the Financial Statements.

Consolidated Cash Flow Data

	Year ended December 31				
	2003	2002	2001	2000	1999
	(£ millions)				
Amount in accordance with UK GAAP					
Net cash inflow from operating activities	68.2	76.9	141.2	125.7	101.7
Acquisitions and disposals	60.4	6.4	149.6	(536.6)	(232.9)
Financing	(143.6)	53.8	(152.8)	480.2	284.2
Amounts in accordance with US GAAP					
Cash inflow from operating activities	54.1	60.7	96.4	83.9	72.9
Cash inflow/(outflow) on investing activities	44.6	(17.9)	91.9	(596.1)	(272.7)
Cash (outflow)/inflow from financing activities	(143.6)	13.8	(192.6)	452.5	258.7

Consolidated Balance Sheet Data

	At December 31				
	2003	Restated(1) 2002	Restated(1) 2001	Restated(1) 2000	Restated(1) 1999
	(£ millions)				
Amounts in accordance with UK GAAP					
Intangible assets	101.6	113.6	987.7	1,816.8	321.3
Tangible fixed assets	90.2	110.0	137.6	136.2	107.0
Current assets	179.5	242.4	263.0	375.5	270.5
Total assets	386.2	529.4	1,450.9	2,382.1	745.6
Current liabilities	113.1	109.3	178.0	219.4	269.6
Creditors due after more than one year	95.6	248.3	205.6	355.6	233.4
Total liabilities (including pension liability)	264.1	432.2	400.7	577.1	503.7
Shareholders' funds	119.9	95.1	1,047.8	1,801.3	238.0
Share capital	31.5	31.3	31.1	30.9	20.8
	Restated(2)	Restated(2)	Restated(2)	Restated(2)	
Amounts in accordance with US GAAP					
Intangible assets	79.0	94.4	907.8	1,841.4	430.0
Tangible fixed assets	90.2	110.0	137.6	136.2	107.0
Current assets	220.1	283.1	314.1	408.7	275.8
Total assets	431.7	579.5	1,450.4	2,458.3	874.8
Current liabilities	186.1	179.1	234.2	246.9	213.4
Creditors due after more than one year	135.2	298.1	252.4	380.8	266.9
Total liabilities	388.4	566.9	538.1	669.3	480.3
Shareholders' funds	41.1	10.5	909.9	1,785.3	390.6
Share capital	31.5	31.3	31.1	30.9	20.8

(1) Restated for the adoption of FRS 17 for 2002 and 2001 and of UITF 38.

(2) Restated for revenue recognition, see note 34 of Notes to the Financial Statements.

Exchange Rate Information

We present our financial statements in pounds sterling. The financial statements of the WAGO joint venture are presented in euro. The information set forth below with respect to pounds sterling to US dollar exchange rates is based on the noon buying rate for pounds sterling in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York. Also set forth below is exchange rate information pertaining to the euro, being the closing middle market price against pounds sterling. These rates are provided solely for the convenience of the reader and are not the exchange rates used by us in the preparation of our consolidated financial statements included in this annual report.

US Dollar

The noon buying rate on June 2, 2004 was $1.84 = £1.00. The following table sets forth the high and low rate for each month of the previous six months.

	High	Low
	(US dollars per pound sterling)	
May 2004	1.84	1.75
April 2004	1.86	1.77
March 2004	1.87	1.79
February 2004	1.90	1.82
January 2004	1.85	1.79
December 2003	1.78	1.72

The following table sets forth information about the noon buying rate for the last five years. The average rates for each year are calculated by using the rate on the last business day of each month during the relevant year.

Year ended December 31	High	Low	Average	End of year
	(US dollars per pound sterling)			
2003	1.78	1.55	1.64	1.78
2002	1.61	1.41	1.51	1.61
2001	1.50	1.37	1.44	1.45
2000	1.65	1.40	1.51	1.50
1999	1.68	1.55	1.61	1.62

Fluctuations in the exchange rate between pounds sterling and US dollars affect the US dollar equivalent of the pound sterling denominated prices of our shares and, as a result, affect the market price of our ADSs in the United States.

Euro

The euro rate on June 2, 2004 was €1.50 = £1.00. The following table sets forth the high and low rate for each month of the previous six months.

	High	Low
	(euro per pound sterling)	
May 2004	1.50	1.47
April 2004	1.52	1.48
March 2004	1.51	1.47
February 2004	1.50	1.46
January 2004	1.46	1.42
December 2003	1.44	1.41

The following table sets forth information about the euro rate for the last five years. The average rates for each year are calculated by using the rate on the last business day of each month during the relevant year.

Year ended December 31	High	Low	Average	End of year
	(euro per pound sterling)			
2003	1.54	1.38	1.45	1.42
2002	1.64	1.53	1.59	1.53
2001	1.67	1.56	1.61	1.64
2000	1.74	1.56	1.64	1.60
1999	1.61	1.40	1.52	1.60

Risk Factors

You should carefully consider the risks and uncertainties described below and the other information in this Amendment, including the discussions set forth in "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" as well as our consolidated financial statements and related notes included elsewhere in this annual report.

Risks Related to Our Business

Our business, operating results and financial condition could be harmed if the economy, and particularly the telecommunications industry into which we sell our products, fails to recover or recovers at a slower pace than anticipated.

Generally weak prevailing market conditions worldwide during 2001, 2002 and continuing through 2003 resulted in worldwide reduced purchasing and capital spending in many of the industries and markets into which we sell our products, in particular the telecommunications industry. As a result we experienced diminished product demand. The decline in demand for our products and services has had and may continue to have an adverse effect on the results of operations and we continue to be affected by challenging conditions in the global telecommunications market. Another downturn in our customers' markets or in general market conditions would be likely to result in a further reduction in demand for our products and services and could further harm our business, operating results and financial condition.

We operate in rapidly changing industries and if we do not keep up with these rapid changes, and continue significant investment in research and development, our turnover and operating results will suffer.

We sell our products and systems in several industries that are characterized by rapid technological changes, frequent product and service introductions and evolving industry standards. We anticipate that our current products and services will become technologically obsolete over time and technological developments may eliminate whole markets or the need for individual products. Entire product lines may be threatened by new technologies or market trends which may reduce the value of these product lines. If we fail to keep up with changes in these industries, our turnover and operating results will suffer.

We believe that the continued success of our communications business is dependent on our ability to advance next-generation technologies and services, to deliver integrated, easy-to-use, end-to-end customer solutions, to increase our presence internationally and to extend our products into web services and applications for the enterprise sector. For instance, our Service Assurance division is extending its existing capabilities in the next-generation IP services sector, which we believe represents an important growth opportunity. If we do not succeed in anticipating changes in technology and customer requirements and in developing and introducing new products, our business, operating results and financial condition will suffer.

The loss of key managers and skilled employees may result in inefficiencies in managing and operating our business and our business will suffer if we are not able to hire and retain appropriately qualified personnel.

Our success is dependent on attracting and retaining highly qualified and skilled employees. We face intense competition for personnel from other companies, establishments and organizations and the loss of our key employees, or our failure to attract and retain other highly skilled employees, may impair our ability to run and expand our business effectively.

In order for us to continue to expand and develop new technologies and products we will need to attract and retain employees with the necessary skills base and to ensure that our incentive plans are competitive.

We face aggressive competition and if we fail to compete effectively our business, operating results and financial condition will suffer.

We face aggressive competition in all of our businesses. Our competitors are numerous, including highly specialized firms as well as in-house capability within customers, and new competitors may emerge. Some of our competitors have greater name recognition, larger customer bases, and greater financial, marketing, sales and other resources. To stay competitive we will need to introduce successful new products and also may have to adjust prices of some of our products and manage financial returns effectively. Our business, operating results and financial condition will suffer if we do not compete effectively.

Fluctuations in exchange rates and heavy exposure to a weak US dollar could materially harm our operating results.

Since we conduct operations globally, a substantial portion of our assets, liabilities, revenues and expenses are denominated in various currencies, principally the US dollar and pounds sterling. Because our financial statements are denominated in pounds sterling, fluctuations in exchange rates, especially if the US dollar continues to weaken against the pound, could have a material impact on our reported results. In recent periods, the value of the US dollar has declined significantly in comparison with the pound sterling.

We may at times engage in currency hedging in an effort to cover any transaction exposure. Under such circumstances, this currency hedging could have an adverse effect on our financial condition.

The terms of our debt obligations may affect our ability to operate our business.

During 2003 we renegotiated our borrowing terms. The renegotiated terms increased our weighted average interest payments and placed restrictions and tests on us, constraining our ability to make dividend payments, incur further debt, provide further security and make acquisitions and disposals. Such restrictions and tests will continue to apply until certain financial requirements are met. We are unable to give guidance as to when we are likely to meet these financial requirements and can give no assurance that they will indeed be achieved and, therefore, whether or when our operations will be freed from such restrictions and tests.

The risk of a breach of financial covenants remains.

The borrowing terms we renegotiated in 2003 provided us with more headroom under certain of our financial covenants (see "Liquidity and Capital Resources" in Item 5 and "Material Contracts" in Item 10 below for a more detailed discussion of the renegotiated borrowing terms). However, we can provide you with no assurance that the covenants will not be breached and that further renegotiation of our borrowing terms will not be needed to further increase our level of headroom if there is another downturn in our business due to industry conditions or otherwise.

We rely on a limited number of customers in some of our businesses, and therefore any cancellation, reduction or delay in orders from them could significantly harm our business, operating results and financial condition.

In some of our businesses we continue to rely on a limited number of customers, which makes our relationships with these customers critical to the success of our business. We can provide you with no assurance that we will be able to retain this client base, that we will be able to increase our sales to our other existing customers or that we will be able to attract additional customers. The loss of one or more of our largest customers, any reduction or delay in sales to these customers, or inability to successfully develop and maintain relationships with existing and new customers could significantly harm our business, operating results and financial condition.

Because of our significant international operations, we are exposed to a variety of risks, many of which are beyond our control, that could adversely affect our business.

Our international operations are subject to a variety of potential risks arising out of the global economy, the political outlook, currency fluctuations, exchange control restrictions, investment in capital, the ability to enforce intellectual property rights, language and certain cultural differences in countries where we have operations.

Events such as the continued military involvement in Iraq, the tensions in the Middle East, the threat of terrorism and associated political instability and the effect of heightened security concerns on travel and commerce may trigger unforeseen economic conditions and cause market demand to fluctuate in an unpredictable manner which could adversely affect our business, operating results and financial condition.

The retirement of our Chief Executive Officer may disrupt the effective management of our business and create uncertainty among our employees.

On February 25, 2004 our Chief Executive Officer, Nicholas Brookes, informed us of his intention to retire as Chief Executive Officer of the Company. His retirement is due to become effective at the end of June 2004 at which time he will step down from the Board. A formal process to find a successor is under way. Any delay in our securing the services of a successor Chief Executive Officer may result in difficulties in the effective management of our business.

Our pension fund deficit may become a further burden on our financial resources.

The latest actuarial valuation of our UK defined benefit scheme as at April 1, 2003 identified a deficit of £50.7 million before taxation representing a funding deficit of 39%. In order to comply with minimum funding requirements we will make annual pension contributions of £3.5 million commencing on July 1, 2004 and have increased the rate of our employer pension contribution from 13.4% to 16% of pay with effect from January 1, 2004. While these increased contributions are intended to reduce the funding deficit over time, it is possible that a future actuarial valuation will reveal that the increased contributions are insufficient to do so and will need to be increased. The UK defined benefit scheme is required to have an actuarial valuation every three years. These additional funding costs, both the current increased contributions and any further increases required by future actuarial valuations, may have an adverse effect on the financial condition of our business.

Acquisitions undertaken could be difficult to integrate, disrupt our business and harm our operating results.

Acquisitions have historically been an important part of our business strategy and we evaluate strategic opportunities from time to time and may acquire businesses, products or technologies in the future. Acquisitions are inherently risky and no assurance can be given that our previous or future acquisitions will be successful or will not adversely affect our business, operating results or financial condition. Currently our renegotiated borrowing terms restrict our ability to make acquisitions.

Third parties may claim we are infringing their intellectual property rights and as a result our business may be harmed.

Third parties may claim that we are infringing their intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of intellectual property rights of others that may cover some of our technology, products and services. We could suffer litigation or licensing expenses, or could be prevented from selling certain products as a result of third-party infringement claims. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. Indeed, we may

not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We may also be subject to significant damages or injunctions against development and sale of certain of our products. We often rely on obtaining licenses of intellectual property. We cannot assure you that these licenses will be available in the future on favorable terms or at all.

If third parties infringe our intellectual property rights, our business may be harmed.

Our success depends in part on our proprietary technology. If we fail to maintain or enforce our intellectual property rights, or if competitors design around our technology or develop competing technologies, our competitive position could suffer and our operating results may be harmed. We may not be able to detect infringement and our competitive position may be harmed before we do so. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share.

If our products are defective, we may be held responsible for liabilities caused by malfunctions of equipment in which our products are used or have to bear some of the cost of recalling this equipment, which would harm our turnover and our reputation.

Some of our products are incorporated as component parts by manufacturers into sophisticated equipment and machinery or are used in critical applications or are stand-alone solutions. If our products are defective, we may be held responsible for the personal, property and financial damages that result and the costs associated with recalling the products themselves and products in which our defective products were incorporated. Although we carry product liability insurance customary for companies of our size, such available insurance cover may not be sufficient to cover a catastrophic loss or the costs of recall. In addition, our reputation with customers may be damaged as a result of any such event. Product liabilities or the costs of implementing a recall could hurt our profitability, and the damage to our reputation if one or more of our products proves defective could cause us to lose customers.

Many of our businesses are dependent on third-party manufacturers. If we cannot obtain sufficient services or products from these manufacturers, we may lose customers and suffer a reduction in turnover and profits.

Many of our businesses contract out certain manufacturing processes. If there were a failure of such a manufacturer because of, for example, insolvency or catastrophic loss, the services or products to our operations might be disrupted or even terminated. It might not be possible to find an alternative manufacturer in an acceptable timeframe on the same economic terms as the original manufacturer. If we cannot obtain sufficient quantities of these products or services at an acceptable cost, we may not be able to meet customer demands in the desired timeframe at a commercially acceptable cost, which may result in the loss of customers and a reduction in turnover and profits.

Some of our businesses are dependent on key component suppliers. If we cannot obtain sufficient components from these suppliers, we may lose customers and suffer a reduction in turnover and profits.

Some of our businesses, particularly in the Communications group, may be dependent on some components from suppliers who experience greater demand for their products than they can meet. In some instances these suppliers have introduced allocation systems to divide their available stock among potential customers. We may be affected because the allocation to our business is too small or because suppliers change the way they apportion their available stock to our disadvantage. If we cannot obtain sufficient quantities of these products at an acceptable cost, we may not be able to meet customer demands in the desired timeframe at a commercially acceptable cost, which may result in the loss of customers and a reduction in turnover and profits.

Prices for some of the commodity raw materials we use to manufacture our products fluctuate, and we may not be able to pass on increased costs of these raw materials to our customers.

Prices fluctuate for some of the commodity raw materials our Network Products group uses to manufacture its products. If prices for commodities such as PVC and Nylon 66 increase significantly and we are not able to pass on the increased prices to our customers, our profitability will be reduced and our business, operating results and financial condition may be adversely affected.

Remaining liabilities from discontinued businesses could adversely affect our results.

We have concluded a number of divestments of our non-core businesses, but we may, despite divesting of these non-core businesses, have contingent liabilities arising out of those businesses that could adversely affect our business, operating results and financial condition. In addition, the time periods for bringing claims in relation to representations, warranties and indemnities that we have given on recent divestments have not yet expired.

A significant portion of our telecommunications operations are located in California where they may be subject to the risks of earthquakes and other natural disasters.

A significant portion of our telecommunications operations are located in California which has experienced natural disasters, including earthquakes, in the past. A significant natural disaster, such as an earthquake, could disrupt our ability to conduct our telecommunications business and could have a material adverse impact on the Group's business, operating results and financial condition.

Events described by our forward-looking statements may not occur.

This annual report includes forward-looking statements concerning our business, operations and financial performance and condition. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties, and assumptions about us, including, among other things, those discussed above as well as under "Item 5. Operating and Financial Review and Prospects." You can identify these statements by words such as "anticipate", "assume", "believe", "estimate", "expect", "intend", "may", "plan", "positioned", "should", "will", "would" and other similar expressions which are predictions of or indicate future trends and future events. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Given these considerations, readers are cautioned not to place undue reliance on such forward-looking statements.

Risks Relating to an Investment in our Ordinary Shares and ADSs

The price of our Ordinary shares and ADSs may be volatile and may decrease significantly below your purchase price.

The market price of our Ordinary shares is significantly affected by market forces. The market prices of securities of technology companies on the London Stock Exchange, the New York Stock Exchange and other exchanges have fluctuated significantly in the last three years. The prices for securities of companies involved in telecommunications and other technologies, have been particularly volatile. A significant portion of our activities is based on telecommunications and thus the market price of our Ordinary shares and ADSs is likely to remain highly volatile.

In addition to general factors, the following specific factors may have a significant effect on the market price of our Ordinary shares and ADSs:

- speculation on the risks associated with the telecommunications industry;

fluctuations in our operating results and speculation on the robustness of our financial condition;

announcements regarding awards of major contracts;

announcements of technological innovations by us or our competitors; and

speculation regarding acquisitions and divestments.

As a result, you may only be able to resell our Ordinary shares or ADSs at a price significantly below your purchase price. See "Item 9. The Offer and Listing" for historical pricing data on our shares.

Fluctuations in the exchange rate between the pound sterling and the US dollar may affect the price at which our ADSs trade on United States securities markets.

For any particular price in pounds sterling at which our shares are trading on the London Stock Exchange, fluctuations in the exchange rate between the pound sterling and the US dollar may affect the price in US dollars at which our ADSs trade on the New York Stock Exchange. For example, a fall in the value of the pound sterling against the US dollar is likely to reduce the price of our ADSs in the United States market.

The availability of sufficient purchasers and sellers for our shares, whether in the form of Ordinary shares or ADSs, cannot be guaranteed and therefore you may not be able to purchase or sell our shares or ADSs at any particular time.

The volume of our stock traded on the London Stock Exchange can vary from day to day and is affected by events and circumstances out of our control. This also applies to the ADSs traded on the New York Stock Exchange. You may not be able to purchase or sell our Ordinary shares or ADSs at any particular time because of the lack of sufficient purchasers or sellers.

Your ability to bring an action and enforce judgments against us may be limited under English law.

We are a public limited company incorporated under the laws of England and Wales. The rights of holders of Ordinary shares and, therefore, many of the rights of ADS holders, are governed by English law and by our Memorandum and Articles of Association. These rights differ from the rights of shareholders in typical United States corporations. In particular, English law significantly limits the circumstances under which shareholders of English companies may bring actions on the company's behalf. Under English law generally, only we can bring a claim in proceedings in respect of wrongful acts committed against us. In addition, it may be difficult for you to prevail in a claim against us under, or to enforce liabilities relying upon, United States securities laws. See "Item 4. Information on the Company Enforcement of Civil Liabilities".

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis relates to our financial condition as of December 31, 2003 and the results of operations for the years ended December 31, 2003, 2002 and 2001. This discussion should be read in conjunction with our Selected Consolidated Financial Information and our Audited Consolidated Financial Statements included elsewhere in this Amendment. You should also read the description of our business included in "Item 4. Information on the Company."

The following discussion and analysis by segment is based on the Consolidated Financial Statements of Spirent plc and its subsidiaries, together with its share of profits of its joint ventures and associates, which we refer to as the Group. These Consolidated Financial Statements are prepared in accordance with UK GAAP. A summary of the main differences between UK GAAP and US GAAP as they relate to us is set out in Note 34 of Notes to the Financial Statements.

We evaluate performance for each reportable segment based on turnover and operating profit before goodwill amortization and exceptional items. Operating profit and return on sales are used by the Group as key measures of operating performance and are stated before the effect of goodwill amortization and exceptional items so that period on period comparisons are not distorted. Free cash flow, meaning cash flow before acquisitions, disposals, equity dividends and financing, is also a key measure of operating performance used by the Group. Headline earnings per share is considered by the Group and our investors to be a key measure of overall earnings performance. The calculation is based on reported earnings adjusted for goodwill amortization and exceptional items including tax.

Unless otherwise stated, operating profit and return on sales are stated before goodwill amortization and exceptional items.

We have implemented Financial Reporting Standard ("FRS") 17 "Retirement Benefits" at December 31, 2003 to bring us in line with latest UK GAAP and to move towards the adoption of International Financial Reporting Standards in 2005. Prior year amounts have been restated to reflect the change in accounting policy.

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

Overview

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

Our results for the year were affected by the challenging conditions in the global telecommunications market and the generally weak market conditions worldwide with turnover of £466.2 million and operating profit of £36.0 million down 17% and 29%, respectively, compared with 2002. However, our performance in the second half of 2003 saw an increase in both turnover and operating profit over the first half reflecting a modest increase in activity levels.

We have maintained our commitment to product development, investing £66.0 million or 14% of turnover in 2003 (2002 £77.7 million and 14%).

Due to a strong focus on cash management we generated £68.2 million of operating cash in 2003. Net debt has been significantly reduced to £57.5 million at the year end compared with £161.8 million at the end of 2002 principally through cash generated by the businesses and the proceeds from the sale of the WAGO joint venture.

Acquisitions and Disposals

Acquisitions

Acquisitions and disposals are discussed in "Item 4. Information on the Company" and in Notes 32 and 33 of Notes to the Financial Statements.

We did not make any acquisitions in 2003. In August 2002 we completed the acquisition of Caw Networks, Inc. ("Caw") for an initial cash consideration of $49 million with a provision for deferred consideration of up to $60 million dependent on certain technical and financial milestones being met. Caw has achieved a certain level of the earn-out targets. The Company has satisfied the deferred consideration due through the issue of 4.4 million new Spirent shares in 2004 and provided for a liability of £2.7 million in respect of this at December 31, 2003.

Disposals

On April 4, 2003 we completed the divestment of our 51% interests in WAGO, our interconnection joint venture, to the joint venture partners (the Hohorst family) for a cash consideration, net of expenses, of £58.8 million.

On June 30, 2003 we completed the divestment of our AIS businesses from within the Systems group's aerospace activities for a net cash consideration of £3.2 million.

Recent Developments

On February 25, 2004 it was announced that Nicholas Brookes had informed the Board of his intention to retire as Chief Executive of the Company on June 30, 2004. A formal process to find a successor is under way.

At December 31, 2003 no amounts were drawn under our committed bank facility of £60 million and we held £37.6 million of cash. We determined that this £60 million bank facility was in excess of our business requirements. Consequently, at the end of 2003 we entered into negotiations with a small group of lending banks and agreed a £30 million, 364-day working capital facility with a six-month term-out option which became effective on February 18, 2004 to replace the £60 million facility. We have applied some of our excess cash, including the net proceeds from the disposal of AIS, to make a partial prepayment on our senior notes ("notes") to reduce the cost of borrowing going forward. The partial prepayment of $14.4 million (£8.1 million) was made on February 18, 2004 and an associated make-whole amount of $3.3 million (£1.8 million) has been incurred. This make-whole amount and the costs associated with this transaction were accrued in the 2003 financial year.

At the Annual General Meeting of shareholders held on May 11, 2004, we stated that "Spirent's overall trading performance in the first quarter of 2004 was in line with expectations after allowing for the impact of the continuing weakness of the US dollar to sterling exchange rate. On an organic, constant currency basis Group turnover was up 9% compared with the first quarter of last year.

"In the Communications group we have started to see some more encouraging trends in spending by our customers. The Performance Analysis division has benefited from our broad portfolio of products, particularly in next-generation broadband and wireless technologies, with quarterly order

intake up appreciably over the same period last year. We have also seen some signs of a return of confidence among network service providers but as previously stated we expect the Service Assurance division's performance to lag a recovery. We continue to extend our existing capabilities in IP services and expand our product offering internationally.

"Our Network Products group delivered a good performance in the first quarter benefiting from the introduction of new products and applications in its principal markets. As anticipated our Systems group's exports in the first quarter of 2004 have been impacted by the weakness of the US dollar.

"The satisfactory start to 2004 we reported in our 2003 preliminary results announcement in February has continued into April. While we have seen indications of a pick up in spending by our customers, we continue to be cautious as to the extent of this recovery."

Results of Operations

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

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

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

The Communications group contributed £240.4 million of turnover (2002 £315.4 million) and £13.8 million of operating profit (2002 £30.8 million), representing 52% (2002 56%) of Group turnover and 38% (2002 61%) of Group operating profit.

As anticipated, the telecommunications market remained challenging throughout 2003. 2003 saw further reductions in capital spending of approximately 20% by our NEM and NSP customers. Spirent Communications' turnover was down 24% compared with 2002, but turnover for the second half of 2003 was up 5% compared with the first half due to modestly improved levels of activity. Compared with 2002, operating profit for 2003 was down 55%, however operating profit in the second half of 2003 improved by 71% over the first half. Return on sales for the Communications group for 2003 reduced to 5.7% from 9.8% in 2002.

Our Network Products and Systems groups delivered improved performances over the prior year. Network Products reported growth in turnover of 6% and in operating profit of 11% compared with 2002. The Systems group reported growth of 8% in turnover and 32% in operating profit excluding the effect of divestments. These businesses supply a broad range of industries and therefore have provided some protection from the volatile conditions in the telecommunications market. The Network Products group contributed turnover of £174.4 million (2002 £164.7 million), representing 37% (2002 30%) of the Group's turnover and £16.7 million (2002 £15.0 million) of operating profit being 47% (2002 30%) of the Group's operating profit. The Systems group, including divestments, contributed £51.4 million (2002 £78.8 million), representing 11% of the Group's turnover (2002 14%) and £5.5 million (2002 £4.6 million) of operating profit, representing 15% (2002 9%) of the Group's operating profit.

The weakness of the US dollar in the second half of the year has been offset to some extent by the strength of the euro throughout 2003. The effect of currency translation for 2003 compared with 2002 was to reduce turnover by £16.6 million and operating profit by £0.2 million. In relation to profit before taxation, goodwill amortization and exceptional items, currency translation resulted in an

increase of £0.7 million as our interest costs are largely denominated in US dollars and a higher proportion of profits this year were denominated in euro.

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

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

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

Turnover

Our revenues, which we refer to as turnover, are derived from:

- communications: performance analysis and service assurance solutions;
- solutions for fastening, identification, protection and connectivity in electrical and communications networks;
- power control systems for specialist electrical vehicles and software systems for the aviation market;
- hardware systems for the aerospace market until the disposal of AIS on June 30, 2003; and
- temperature, humidity, pressure and gas sensing products until the disposal of Sensing Solutions in November 2001.

Turnover is generally recognized upon shipment of the product unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, turnover is deferred until such obligations are fulfilled. Turnover from service obligations is deferred and generally recognized ratably over the period of the obligation.

During the year ended December 31, 2003 turnover by source in Europe was 36% (2002 28%), of which the United Kingdom comprised 16% (2002 13%), and in North America 56% (2002 66%). This reflects the reduction in turnover in North America following the deterioration seen in our Communications group which is predominantly North American based. The proportion of turnover generated in North America is expected to remain at these levels in the near term.

No single customer accounted for more than 10% of total turnover in any of the three years in the period ended December 31, 2003.

Cost of sales

Cost of sales is comprised of direct costs associated with product sales including product development and all attributable overheads. Of our three operating groups, our Communications group has historically experienced the lowest cost of sales as a percentage of turnover and has consequently earned the highest margins, however these margins have been significantly reduced during the telecommunications downturn. Our Network Products group has typically experienced more stable returns.

Operating expenses

Operating expenses consist of selling and distribution expenses, administration expenses and other operating income. Selling and distribution expenses consist primarily of salaries and related costs for sales and marketing personnel and promotional expenditures. Administration expenses include goodwill amortization, impairment expense and other operating exceptional items. For both categories of expenses excluding goodwill amortization and exceptional items, the principal variable is headcount.

Income from interest in joint venture

This represents our share of operating profit from the WAGO joint venture which was sold in April 2003, and our share of the costs of our Spirent DM Limited joint venture which was established in 2003.

Interest receivable and similar income

Interest receivable and similar income is comprised of interest from cash and cash equivalents.

Interest payable

Interest payable primarily comprises interest on loans and bank overdrafts, as well as finance charges on finance leases. Finance charges associated with debt issuances are charged to the profit and loss account over the life of the instrument and included in interest expense. An exceptional interest charge, comprising the make-whole amount on the notes and related bank fees arose in 2003.

Other finance expense/income

Other finance expense or income arises in connection with the application of FRS 17 "Retirement Benefits" and represents the expected return on the schemes' assets net of the charge for the increase during the period in the net present value of the schemes' liabilities because the benefits are one year closer to settlement.

Critical Accounting Policies

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the business activities of Spirent. To aid in that understanding, management has identified Spirent's "critical accounting policies". These policies are considered "critical" because they have the potential to have a material impact on Spirent's financial statements, and because they require judgments and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Goodwill and intangibles

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 capitalized as an intangible asset and amortized 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. US GAAP requires that goodwill is reviewed at least annually for impairment.

The deterioration in the telecommunications market in the second half of 2002 together with the significant fall in the Spirent share price resulted in a review of our businesses for impairment in that year. This review resulted in impairment losses of £923.3 million being recognized during 2002. A similar impairment loss of £724.6 million was recognized in 2001. These losses were the aggregate from the impairment reviews of each individual income generating unit and were determined in accordance

with FRS 11 "Impairment of Fixed Assets and Goodwill". The impairment loss restated the assets to value in use using estimated cash flows which included assumptions on future growth rates, margins, product developement spend and other expenditure in these businesses. The resulting cash flows were discounted at pre-tax discount rates of between 15% and 20%, which were considered appropriate to those businesses based on their perceived risk compared to Spirent's weighted average cost of capital.

In addition, independent valuations were obtained for the purpose of impairment reviews in accordance with US GAAP to determine the fair value of the businesses and any necessary impairment charges. These valuations were based on management's estimates of the future cash flows of the businesses and have been considered in determining the fair values of the businesses.

The appropriate valuation exercises were carried out in 2003 under UK and US GAAP, the result being that no further impairment charges were identified.

The impairment reviews for UK and US GAAP have been performed using a number of assumptions which management considers most appropriate given the market conditions at that time. These assumptions underpin the cash flows upon which the calculations are performed. The discount rates applied were chosen based on the perceived risk within each business. Given the significance of the impairments identified in 2001 and 2002, varying any of these assumptions could have materially changed the impairment charges reported.

In implementing our amortization policy various judgments and assumptions have been made in relation to the estimated useful economic lives of the goodwill and intangibles concerned and their recoverability. Using a different useful economic life could materially affect the amortization charges under UK GAAP or US GAAP.

Stocks and debtor provisions

Spirent makes provisions against inventories, which we refer to as stocks, in excess of 12 months' usage and for doubtful debts. Spirent's policy is to reserve against both excess and obsolete inventories. Inventory is assessed and reserved if in excess of 12 months' usage. Obsolete inventories are identified on an itemized basis. Debtors are reserved based on exposures on specific customer accounts and reserved as soon as the exposure is identified by management through the process of regular reviews. Use of a different policy in respect of inventory and debtors could result in materially different provisions being made.

Revenue recognition

Revenue from product sales of hardware and software is recognized 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 recognized ratably over the period of performance.

The Group does not enter into a significant number of long-term sales contracts. Revenue and estimated profits on long-term contracts are recognized 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 recognized in the period in which the loss becomes evident.

The Group does not enter into bill and hold transactions and revenue is only recognized when collectability is probable.

Pensions

We have implemented FRS 17 "Retirement Benefits" at December 31, 2003 to bring us in line with latest UK GAAP and to move towards the adoption of International Financial Reporting Standards in 2005. Prior year amounts have been restated to reflect the change in accounting policy.

Under FRS 17, the assets of the defined benefit plans are measured at their market value at the balance sheet date and the liabilities are measured using the projected unit method. The discount rate used to measure the scheme liabilities is the current rate on an AA corporate bond of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus or deficit in the balance sheet net of deferred tax.

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

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

The funding position of the defined benefit plans reported at December 31, 2003 was a deficit of £43.4 million (2002 £41.9 million) before taxation, representing a funding deficit of 31% (2002 32%).

The various assumptions used in this valuation are detailed in Note 10 of Notes to the Financial Statements. Changing any one, or a combination of these assumptions will result in a change to the deficit reported. Varying the assumptions will also have an impact on the profit and loss account and statement of total recognized gains and losses.

Deferred taxation

The reduction in activity levels and the resulting deterioration in operating profits necessitated a reassessment of the carrying value of £19.0 million of deferred tax assets in 2002. These assets had previously been recognized on the acquisition of businesses, on prior years' exceptional items, and on timing differences. We continue, in 2003, not to recognize deferred tax assets, other than in relation to the pension fund deficit, as there is currently insufficient evidence to support recognition under accounting standards.

Deferred tax assets of £18.3 million (2002 £20.1 million) arising principally on timing differences in the United States and United Kingdom have not been recognized. In addition, the Group has tax losses arising in the United States of £70.1 million (2002 £23.1 million) and in the United Kingdom of £24.8 million (2002 £10.2 million) that are available for offset against future taxable profits and which have not been recognized.

We have not recognized these deferred tax assets based on current forecasts and estimates prepared by management. A change to these forecasts and estimates could result in recognition of some of the assets currently unrecognized. Given the significance of the assets that remain unrecognized this could materially affect the deferred tax assets reported and the resulting credit to the profit and loss or statement of unrecognized gains and losses.

Year Ended December 31, 2003 Compared with the Year Ended December 31, 2002

	First half 2003	Second half 2003	Year ended December 31 2003	Year ended December 31 Restated(1)(2) 2002
		(£ millions)		
Turnover				
Continuing operations				
Performance Analysis	71.3	77.4	148.7	184.0
Service Assurance	46.2	45.5	91.7	131.4
Communications	117.5	122.9	240.4	315.4
Network Products	85.9	88.5	174.4	164.7
Systems	25.8	25.6	51.4	78.8
	229.2	237.0	466.2	558.9
Operating profit before goodwill amortization and exceptional items				
Continuing operations				
Performance Analysis	0.5	3.9	4.4	10.0
Service Assurance	4.6	4.8	9.4	20.8
Communications	5.1	8.7	13.8	30.8
Network Products	8.1	8.6	16.7	15.0
Systems	2.2	3.3	5.5	4.6
	15.4	20.6	36.0	50.4

(1) Restated for the adoption of FRS 17 "Retirement Benefits".

(2) The results for the Communications group have been restated to reflect the transfer of our field test activities from the Performance Analysis to the Service Assurance division.

Turnover and operating profit

Comparisons by segment are given below for ongoing operations (excluding divestments which cannot be classified as discontinued operations). Operating profit and return on sales are stated before goodwill amortization and exceptional items.

Communications

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

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

As anticipated, the telecommunications market remained challenging throughout 2003. 2003 saw further reductions in capital spending of approximately 20% by our NEM and NSP customers. Spirent Communications' turnover was down 24% compared with 2002, but turnover for the second half of 2003 was up 5% compared with the first half due to modestly improved levels of activity. Compared with 2002, operating profit for 2003 was down 55%, however operating profit in the second half of 2003 improved by 71% over the first half. Return on sales for the group for 2003 reduced to 5.7% from 9.8% in 2002.

Quarterly order intake in the Performance Analysis division has increased since the first half reflecting the modest improvement in activity levels and the normal seasonality of the business. Due to the lower levels of spending and change in ordering patterns by the US ILECs, the Service Assurance division's order book declined from $59.2 million (£36.8 million) at the end of 2002 to $44.4 million (£25.0 million) at the end of 2003.

Performance Analysis

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

Our customer base for this division remains broadly spread and includes some of the largest NEMs and NSPs worldwide. We have benefited from the direct sales presence we established in China in 2002 and our increased sales and marketing efforts throughout the rest of Asia. In Europe, a continuing focus on the development and roll-out of DSL networks and services by customers helped

sales of our broadband test equipment and we saw encouraging interest in our web applications and security testing products.

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

In the wireless sector, we benefited from our acquisition in 2002 of W-CDMA expertise. During the year we launched a W-CDMA network emulator for testing the interoperability of mobile handsets and networks and versions of our position location test system to support GSM and W-CDMA. In the CDMA sector, we launched several products in 2003 aimed at testing the performance of mobile data services and enhanced voice services such as "push-to-talk".

Service Assurance

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

During 2003 we expanded our product range with test probes and OSS for next-generation DSL variants which allow higher speed broadband access for the residential and enterprise markets. A number of our existing customers have announced the introduction of next-generation IP services and we have won initial orders in this market for gigabit Ethernet, virtual local area network and IP virtual private network services. We intend to expand our capabilities and product functionality in this area in the future. We have also extended our product line through the launch of FieldOp , an operations management solution that integrates service assurance and workforce management capabilities onto a single platform for use in the field.

Network Products

	First half 2003	Second half 2003	2003	2002 Restated	Annual change
		(£ millions)			%
Turnover	85.9	88.5	**174.4**	164.7	6
Operating profit before goodwill amortization and exceptional items	8.1	8.6	**16.7**	15.0	11
Return on sales (%) before goodwill amortization and exceptional items	9.4	9.7	**9.6**	9.1	

The business delivered a sound performance in 2003 with turnover up 6% at £174.4 million and operating profit up 11% at £16.7 million compared with 2002. Turnover in the second half of 2003 was

up 3% which is a positive indicator given that the second half of the year is usually weaker than the first. Return on sales at 9.6% in 2003 was up over the previous year.

The main improvement in turnover in 2003 over 2002 came from our European automotive sales where we have increased market penetration.

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

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

Sales of our local area network connectivity products were lower in the United Kingdom in 2003 compared with 2002 reflecting the continued decline in the market but we were able to continue to increase sales in the United States. The market for our broadband products remained depressed due to continuing cuts in spending by telecommunications service providers worldwide.

Systems

	First half 2003	Second half 2003	2003	2002 Restated	Annual change
		(£ millions)			%
Turnover	21.0	25.6	**46.6**	43.0	8
Operating profit before goodwill amortization and exceptional items	2.5	3.3	**5.8**	4.4	32
Return on sales (%) before goodwill amortization and exceptional items	11.9	12.9	**12.4**	10.2	

Figures in the above table relate to ongoing businesses only. Divested businesses contributed £4.8 million (2002 £35.8 million) of turnover and a £0.3 million operating loss (2002 £0.2 million operating profit).

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

The continuing success of our established VSI systems for powered wheelchairs and our S-Drive systems for mobility scooters enabled us to increase customer penetration and win new business in the mobility vehicles market in 2003. During 2003 we also made further progress in the small industrial vehicles market, with the I-Drive and TRIO+ products being well received by customers.

In our aerospace business, in 2003, sales of GOLD , a leading contractor logistics support software system to the military market, were up compared with 2002 largely due to increased sales to leading defense manufacturers. The continued weak conditions in the civil aviation market affected sales of AuRA , our ground-based MRO software system.

Divested operations

In 2003 we divested of our AIS businesses from within the Systems group's aerospace activities which contributed £4.8 million of turnover and an operating loss of £0.3 million in 2003.

We also divested the WAGO interconnection joint venture which contributed £2.9 million of income in 2003.

Cost of sales

Cost of sales was £279.8 million for the year ended December 31, 2003 compared with £340.8 million for the year ended December 31, 2002, a reduction of 18% and a result of reduced sales activity. Cost of sales as a percentage of turnover was slightly lower at 60% compared with 61% for 2002 however cost of sales includes an exceptional charge of £4.4 million in 2002 in respect of inventories in excess of 12 months' usage which was caused by the deterioration in the technology industry.

Product development expenditure was £66.0 million compared with £77.7 million for the year ended December 31, 2002, a decrease of 15%. Product development expenditure represented 14% of turnover in both years. Of the total product development expenditure £57.8 million was incurred by the Communications group (2002 £66.2 million).

Operating expenses

Total operating expenses, which include goodwill amortization and exceptional items, were £167.6 million for the year ended December 31, 2003 compared with £1,188.7 million for the year ended December 31, 2002. Total operating expenses in 2002 were impacted by goodwill amortization and exceptional items as discussed below.

Selling and distribution expenses were £110.0 million for the year ended December 31, 2003, compared with £124.6 million for the year ended December 31, 2002, a decrease of 12%. As a percentage of turnover selling and distributions costs were 24% compared to 22% in 2002. The absolute decrease was due to cost reduction actions taken in 2002 and in 2003, the effect of the divestments and exchange.

Administration expenses were £58.3 million for the year ended December 31, 2003, compared with £1,064.7 million for the year ended December 31, 2002 which included £923.3 million of goodwill impairment. There is no impairment charge arising in 2003. Administration expenses for the year ended December 31, 2003 included £7.5 million of exceptional costs (2002 £37.2 million) and £9.7 million of goodwill amortization (2002 £56.1 million). Excluding exceptional items and goodwill amortization, administration costs are £41.1 million and represented 9% of turnover in 2003 compared with £48.1 million, also representing 9% of turnover, in 2002. The reduction in costs in absolute terms can be attributed to the cost reduction actions taken as well as the effect of divestments and exchange. The significant reduction in the goodwill amortization charge to £9.7 million compared with £56.1 million in 2002 is due to the goodwill impairment charge taken in 2002.

Operating exceptional items of £7.5 million charged as administration costs include £2.3 million in respect of the renegotiation of our borrowing terms and £3.8 million for the cost reduction actions within the Communications group. We were able to sublet two of our vacant locations and an amount of £1.8 million has been released in respect of these. Further properties were vacated in 2003 that gave rise to a charge of £1.0 million, resulting in a net release of £0.8 million for lease provisions in the year. In addition, a charge of £2.2 million has been taken for tangible fixed asset write-downs connected with the vacated space.

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

Turnover and income from interest in joint venture

In 2003 our share of turnover from the WAGO joint venture decreased to £22.4 million (2002 £75.6 million) and our share of operating profit decreased to £2.9 million (2002 £7.4 million). The significant reduction is due to the disposal of the WAGO joint venture on April 4, 2003, as we are reporting our share of the result from the joint venture only up to the date of disposal. Our share of the Spirent DM Limited joint venture was a £0.2 million operating loss for 2003.

Income from interests in associates

Income from interests in associates, consisting of Tyton Company of Japan and 3M/ECC in the Netherlands amounted to £2.1 million for the year ended December 31, 2003 compared with £1.0 million in the year ended December 31, 2002. The improvement was due to the strong sales experienced by our Japanese associate.

Profit/(loss) on disposal and closure of operations

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

Net interest payable and other finance (expense)/income

Net interest payable has reduced from £12.3 million in 2002 to £9.3 million for the year to December 31, 2003. This reduction is principally a result of the reduction in net debt. A charge of £1.5 million arose in connection with the application of FRS 17 "Retirement Benefits".

Exceptional interest expense

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

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

Taxation

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

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

Year Ended December 31, 2002 Compared with the Year Ended December 31, 2001

The previous year's presentation of segmental information has been restated to comply with current year presentation due to the implementation of FRS 17 "Retirement Benefits" and UITF 38 "Accounting for ESOP Trusts". In addition our field test activities within our Communications group have been transferred from our Performance Analysis division to our Service Assurance division.

	Year ended December 31	
	Restated(1)(2) 2002	**Restated(1)(2) 2001**
	(£ millions)	
Turnover		
Continuing operations		
Performance Analysis	184.0	241.4
Service Assurance	131.4	189.2
Communications	315.4	430.6
Network Products	164.7	170.4
Systems	78.8	124.0
	558.9	725.0
Discontinued operations		
Sensing Solutions		76.8
	558.9	801.8
Operating profit before goodwill amortization and exceptional items		
Continuing operations		
Performance Analysis	10.0	38.6
Service Assurance	20.8	44.8
Communications	30.8	83.4
Network Products	15.0	14.9
Systems	4.6	5.4
	50.4	103.7
Discontinued operations		
Sensing Solutions		8.1
	50.4	111.8

(1) Restated for the adoption of FRS 17 "Retirement Benefits".

(2) The results for the Communications group have been restated to reflect the transfer of our field test activities from the Performance Analysis to the Service Assurance division.

Turnover and operating profit

Comparisons by segment are given below for ongoing operations (excluding divestments which cannot be classified as discontinued operations).

Communications

	Year ended December 31		
	Restated 2002	Restated 2001	Change
	(£ millions)		%
Turnover			
Performance Analysis	184.0	241.4	(24)
Service Assurance	131.4	189.2	(31)
Communications group	315.4	430.6	(27)
Operating profit before goodwill amortization and exceptional items			
Performance Analysis	10.0	38.6	(74)
Service Assurance	20.8	44.8	(54)
Communications group	30.8	83.4	(63)

Return on sales before goodwill amortization and exceptional items	(%)	
Performance Analysis	5.4	16.0
Service Assurance	15.8	23.7
Communications group	9.8	19.4

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 United States resulted in a reduction in spending on our products, particularly in the third quarter. By taking immediate cost-saving actions in October 2002 we were able to return to profitability in our Communications group in the fourth quarter after delivering a small loss in the third quarter.

The Communication group's turnover was £315.4 million for the year ended December 31, 2002, compared with £430.6 million for the year ended December 31, 2001, a decrease of 27%. Operating profit was £30.8 million for the year ended December 31, 2002, compared with £83.4 million for the year ended December 31, 2001, a decrease of 63%.

Return on sales, before goodwill amortization and exceptional items, decreased to 9.8% for the year ended December 31, 2002, compared with 19.4% for the year ended December 31, 2001. Return on sales was reduced in both divisions and the most significant reduction was seen in the Performance Analysis division where return on sales dropped to 5.4% compared with 16.0% in 2001. The Service Assurance division's return on sales reduced to 15.8% compared with 23.7% in 2001.

During the year we maintained investment in the development of our products. Product development expenditure in 2002 of £66.2 million (2001 £73.0 million) represented 21% of the Communications group turnover and was invested in key areas such as gigabit and 10-gigabit Ethernet in the access and metro networks, VoIP, 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 channel emulation system for the wireless local area network ("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 applications layer, and a test system for storage area networks.

In the Performance Analysis division turnover fell in 2002 to £184.0 million from £241.4 million due to decreased spending by our major customers in the United States and Europe. The return on sales declined to 5.4% 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 there were areas of growth, in particular our wireless test products, which increased strongly with turnover up 57% and our position location test products, which performed well.

In the Service Assurance division turnover fell in the third quarter as our major customers, the US ILECs, 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 15.8% from 23.7% in 2001. Return on sales was also affected by the product mix which included a higher hardware content (lower margin) in the second half of the year as compared with the first half which had a higher software element (higher margin). Additionally, sales of monitoring systems for digital leased line services having a lower margin, represented a higher proportion of turnover in 2002 compared with 2001, which had a predominance of DSL business.

Network Products

	Year ended December 31		
	Restated 2002	**Restated 2001**	**Change**
	(£ millions)		**%**
Turnover	164.7	170.4	(3)
Operating profit before goodwill amortization and exceptional items	15.0	14.9	1
Return on sales (%) before goodwill amortization and exceptional items	9.1	8.7	

Turnover in our Network Products group was down marginally by 3% and operating profit before goodwill amortization and exceptional items was up 1% on the prior year. In the United States, improved sales to the heavy vehicles market and growth of our LAN "Network Sciences" product line were off-set by reduced sales to the telecommunications 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 negatively 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 return on sales improved to 9.1% compared to 7.3% in the second half of 2001.

Sales to the automotive sector contributed 30% to turnover in 2002 compared with 27% in 2001. While global vehicle production was broadly flat in 2002 the trend towards increasing electronic/electrical systems content and lighter vehicles requiring increased use of plastics provided underlying market growth. As a result we were able to increase our penetration with vehicle manufacturers, their first tier suppliers and major vehicle harness manufacturers worldwide. Our sales in the United States heavy vehicles market recovered showing 23% growth after the significant market downturn in 2001.

The market for our broadband products and structured cabling products remained very weak in the United States and the United Kingdom throughout the year due to depressed conditions in the telecommunications market and reductions in enterprise information technology spending.

Systems

	Year ended December 31		
	Restated 2002	**Restated 2001**	**Change**
	(£ millions)		**%**
Turnover	53.8	48.6	11
Operating profit before goodwill amortization and exceptional items	3.3	(0.2)	>100
Return on sales (%) before goodwill amortization and exceptional items	6.1		

Figures in the above table relate to ongoing businesses only. Divested businesses contributed £25.0 million of turnover (2001 £75.4 million) and £1.3 million of operating profit (2001 £5.6 million).

On an ongoing business basis the Systems group saw an increase in revenues from £48.6 million to £53.8 million and in operating profit from a loss of £0.2 million to a profit of £3.3 million. Return on sales improved to 6.1%. These improvements were achieved through 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 2002 in the aerospace business coupled with increased sales resulted in improved trading in the Systems group in the second half of 2002.

The power controls business saw good 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.

Divested operations

During 2002 Spirent sold three businesses all from within the Systems group. In April, May and September, we completed the divestment of our aerospace component businesses, Switching Systems International and Monitor Labs Incorporated, respectively. Combined revenues from these businesses were £25.0 million in 2002 with operating profit of £1.3 million.

Cost of sales

Cost of sales was £340.8 million for the year ended December 31, 2002 compared with £490.7 million for the year ended December 31, 2001, a reduction of 31% as a result of reduced activity. Cost of sales as a percentage of turnover was unchanged at 61%. Cost of sales includes an exceptional charge of £4.4 million in respect of inventories in excess of 12 months' usage (2001 £14.2 million) which was caused by the deterioration in the technology industry.

Product development expenditure was £77.7 million compared with £95.9 million for the year ended December 31, 2001, a decrease of 19%. Product development expenditure represented 14% of turnover, as compared with 12% in 2001. Of the total product development expenditure £66.2 million was incurred by the Communications group (2001 £73.0 million).

Operating expenses

Total operating expenses were £1,188.7 million for the year ended December 31, 2002 compared with £1,045.4 million for the year ended December 31, 2001, impacted by goodwill amortization and exceptional items as discussed below.

Selling and distribution expenses were £124.6 million for the year ended December 31, 2002, compared with £156.0 million for the year ended December 31, 2001, a decrease of 20%. As a percentage of turnover, selling and distribution costs were 22% compared with 19% in 2001. The absolute decrease was due to cost reductions taken in late 2001 and in 2002 and to the effect of the divestments.

Administration expenses were £1,064.7 million for the year ended December 31, 2002, compared with £890.6 million for the year ended December 31, 2001. Included within administration expenses are £923.3 million of goodwill impairment (2001 £724.6 million), £37.2 million of exceptional costs (2001 £20.7 million) and £56.1 million of goodwill amortization (2001 £86.6 million). Excluding exceptional items and goodwill amortization, administration costs are £48.1 million and represented 9% of turnover in 2002 compared with £58.7 million and 7% in 2001. The reduction in costs in absolute terms can be attributed to the cost reductions taken as well as the effect of divestments. The reduction in the goodwill amortization charge to £56.1 million compared with £86.6 million in 2001 is due to the goodwill impairment charge taken in 2001.

Other operating income, consisting of non-trading income net of any specific expenses relating to that income, amounted to £0.6 million for the year ended December 31, 2002 compared with £1.2 million for the year ended December 31, 2001.

Exceptional items of £37.2 million other than goodwill impairment and included in administrative expenses are as follows:

Restructuring costs of £8.6 million were charged in respect of redundancy payments and other costs incurred in the restructuring of the business. Tangible fixed assets have been written down by £3.6 million relating to the down-sizing in our Communications group.

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

Acquisition retention bonuses arising from acquisitions made in 2000 of £4.8 million were charged in 2002.

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

Turnover and income from interest in joint venture

In 2002 our share of turnover from the WAGO joint venture decreased by 3% to £75.6 million (2001 £78.3 million) and our share of operating profit decreased by 23% 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 March 12, 2003 the divestment of our interests in WAGO to our joint venture partners. The transaction completed on April 4, 2003.

Income from interests in associates

Income from interests in associates, consisting of Tyton Company of Japan, 3M/ECC in the Netherlands, and Caw in the United States, amounted to £1.0 million for the year ended December 31, 2002 compared with £1.3 million in the year ended December 31, 2001. The majority holding of Caw was acquired by Spirent in August 2002, from which date Caw was fully consolidated.

Profit/(loss) on disposal and closure of operations

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

A net loss of £48.4 million is reported in 2002 on divestments after charging £70.8 million representing goodwill written off against reserves in previous years and now reinstated in accordance with FRS 10.

Net interest payable and other finance (expense)/income

Net interest payable was reduced from £22.8 million in 2001 to £12.3 million in 2002, as we benefited from the reduction in interest rates, primarily on our US dollar borrowings. Benefit was also obtained from the reduction in borrowings following receipt of the proceeds from the sale of Sensing Solutions in November 2001.

A charge of £0.3 million arises in 2002 (2001 income £0.4 million) on the application of FRS 17 "Retirement Benefits".

Taxation

The tax charge amounted to £26.9 million in the year ended December 31, 2002 compared with £32.4 million in the year ended December 31, 2001. The charge for 2002 includes an exceptional tax charge of £18.5 million arising principally through the re-evaluation of the recovery of deferred tax assets under FRS 19. The effective tax rates after adjusting for goodwill amortization, exceptional items and the loss on disposal of operations and the exceptional tax charge were 18.3% and 29.4%, respectively, in the years ended December 31, 2002 and 2001.

Liquidity and Capital Resources

Our policy is to finance operations through a combination of retained earnings and external financing raised principally by the parent company. Debt is largely sourced from the syndicated bank market and the United States private placement market.

In order to provide the Group with an increase in the level of headroom available in relation to certain of the financial covenants, amendments to the terms of our notes and syndicated bank facility were agreed in March 2003. These amendments were conditional on the divestment of our interests in the WAGO joint venture and the application of the net proceeds to partially pre-pay our notes. On completion of the divestment of WAGO in April 2003, £47.0 million of our notes were pre-paid and an associated make-whole amount of £12.5 million was paid. Following this prepayment $144.2 million of notes remained outstanding. These notes mature in 2006 ($6.4 million) and in 2009 ($137.8 million). Further details on our notes are contained in Note 28 of Notes to Financial Statements and in "Item 10. Material Contracts".

At December 31, 2003 no amounts were drawn under our committed bank facility of £60 million and we held £37.6 million of cash. We determined that this £60 million bank facility was in excess of our business requirements. Consequently at the end of 2003 we entered into negotiations with a small group of lending banks and agreed a £30 million, 364-day working capital facility with a six-month term-out option which became effective on February 18, 2004 to replace the £60 million facility. We have applied some of our excess cash, including the net proceeds from the disposal of AIS, to make a partial prepayment on our notes to reduce the cost of borrowing going forward. The partial prepayment of $14.4 million (£8.1 million) was made on February 18, 2004 and an associated make-whole amount of $3.3 million (£1.8 million) has been incurred. This make-whole amount and the costs associated with this transaction were accrued in the 2003 financial year. Further details on the bank facility can be found in "Item 10. Material Contracts".

In our opinion these facilities provide sufficient liquidity for our present requirements. We believe that the present requirements of our existing businesses and future investment can be met through funds generated internally, divestment of businesses and external financing we expect to be available to us.

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

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

At December 31, 2003, gross borrowings amounted to £95.1 million, comprising £84.2 million of US dollar borrowings and £10.3 million of euro borrowings with the balance in a variety of other currencies.

At December 31, 2003, we held £37.6 million of cash. Cash is held in the United Kingdom or in the United States. There are no material amounts subject to restriction on repatriation to the parent company. Dividends are remitted through to the Company as appropriate having considered the working capital needs of the individual subsidiaries. At December 31, 2003 £18.2 million is held in US dollars, £8.9 million in sterling and the balance in other currencies.

At December 31, 2003 the Group's borrowings were composed of 57% of fixed rate debt. This excludes $72.1 million of notes which have been swapped into floating rates through the use of an interest rate swap, callable at the counterparties' option at six-monthly intervals.

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

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

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

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

Off-Balance Sheet Arrangements

Spirent had no off-balance sheet arrangements at December 31, 2003.

Contractual Obligations

The following table summarizes the Group's contractual cash obligations and commitments at December 31, 2003, and the effect such obligations are expected to have on liquidity and cash flows in future periods.

	Payments due by period				
	Total	**Less than 1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
			(£ millions)		
Senior notes	121.5	7.8	19.1	11.4	83.2
Bank and other loans	5.7	0.7	1.5	2.6	0.9
Finance lease obligations	16.6	1.6	3.0	4.1	7.9
Operating lease obligations	56.0	10.4	17.4	11.4	16.8
UK defined benefit plans (see "Pension Fund" below)	35.0	3.5	7.0	7.0	17.5
Unfunded unapproved retirement benefit	3.7	3.7			
Capital commitments	1.5	1.5			
Total	240.0	29.2	48.0	36.5	126.3

Pension Fund

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

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

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

Foreign Exchange

See "Item 11. Quantitative and Qualitative Disclosures about Market Risk" for a description of our funding and treasury policies.

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

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

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

Details of the currencies of borrowings are set out in "Liquidity and Capital Resources" above.

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

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

Research and Development

With our continued commitment to innovation, investment in product development spend for 2003 was £66.0 million (2002 £77.7 million; 2001 £95.9 million) and represents 14% of turnover (2002 14%; 2001 12%).

In 2003, our Communications group devoted 24% of its turnover to product development, which amounted to £57.8 million (2002 £66.2 million: 2001 £73.0 million). A further £4.4 million (2002 £7.9 million: 2001 £14.5 million) was invested by our Systems group and £3.8 million (2002 £3.6 million; 2001 £3.6 million) was spent by the Network Products group. Discontinued operations accounted for the remaining £4.8 million of product development in 2001.

Factors That May Affect Future Results

We operate globally in a dynamic and rapidly changing environment that involves numerous trends, risks and uncertainties. The risks and uncertainties facing our business are discussed more fully in the section entitled "Item 3. Key Information Risk Factors". The following section lists some of those trends that have occurred and that we expect to have an effect on our business, financial condition or results of operations.

Our operating results could be harmed if the economy, and particularly the telecommunications industry into which we sell our products fails to recover or recovers at a pace slower than anticipated.

We rely on a limited number of customers in some of our businesses, and therefore any cancellation, reduction or delay in orders from them could significantly harm our business, operating results and financial condition.

Because of our significant international operations, we are exposed to a variety of risks, many of which are beyond our control, that could adversely affect our business.

We operate in rapidly changing industries and, if we do not keep up with these rapid changes, and continue significant investment in research and development, our turnover and operating results will suffer.

Fluctuations in exchange rates and heavy exposure to a weak US dollar could materially harm our operating results.

Future Spirent Stock Option Plan ("SSOP") awards will be granted as Stock Appreciation Rights ("SARs"). Under current accounting standards, the Company will recognize a non- cash charge to the Company's profit and loss account in 2004 to reflect the use of SARs. Additionally, in response to the introduction of International Financial Reporting Standards ("IFRS") in 2005, the Company will recognize a non-cash charge to reflect the use of all our share-based incentives.

Inflation

Inflation has not had a significant impact on our results of operations during any of the periods reported.

Differences Between UK GAAP and US GAAP

The accounting policies under which the consolidated financial statements of our group are prepared conform with accounting principles generally accepted in the United Kingdom, or UK GAAP. Such principles differ from those generally accepted in the United States, or US GAAP. The principal differences applicable to us relate to the accounting treatment of goodwill, share-based compensation, pension costs, derivative financial instruments, goodwill on businesses sold and deferred taxation. The differences are described in more detail in Note 34 of Notes to the Financial Statements included

elsewhere in this Amendment. The effect of these differences on profit attributable to shareholders is summarized below:

		Year ended December 31	
	Restated(1) 2003	**Restated(1)(2) 2002**	**Restated(1)(2) 2001**
		(£ millions)	
Loss attributable to shareholders in accordance with UK GAAP	(0.5)	(1,050.7)	(764.0)
Adjustments:			
Revenue recognition deferred revenues	12.2	(2.1)	(48.6)
deferred costs	(3.0)	(3.8)	21.7
Goodwill and other intangible assets	(0.7)	197.6	(109.3)
Stock-based compensation	(0.9)	0.2	18.3
Pension costs	2.2	(2.2)	0.1
Profit on disposal	(1.0)	49.4	35.8
Vacation payroll costs		0.5	0.4
Derivative financial instruments	(1.9)	2.1	(1.2)
Income from interest in joint venture		0.2	0.3
Deferred taxation on above adjustments	(0.7)	30.9	17.3
Total adjustments	6.2	272.8	(65.2)
Net income/(loss) in accordance with US GAAP	5.7	(777.9)	(829.2)

(1) Restated for revenue recognition, see Note 34 of Notes to the Financial Statements.

(2) Restated for the adoption of FRS 17 and UITF 38.

Newly Adopted Accounting Standards

UK Standards

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

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

US Standards

For purposes of the US GAAP reconciliations presented in Note 34 of Notes to the Financial Statements and above, the following new US accounting standards have been implemented:

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143

applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies", and is effective for fiscal years beginning after June 15, 2002. The adoption of the provisions of SFAS No. 143, effective January 1, 2003, did not have a material impact on the financial position or results of operations of the Group.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The adoption of the provisions of SFAS No. 146, effective for exit or disposal activities initiated after December 31, 2002, did not have a material impact on the financial position or results of operations of the Group.

Impact of Recently Issued Accounting Standards Not Yet Adopted

UK GAAP

International Financial Reporting Standards

The Council of the European Union announced in June 2002 that listed companies would adopt International Financial Reporting Standards ("IFRS"), formerly known as International Accounting Standards, from January 1, 2005. The adoption of IFRS will be first reflected in the Group's financial statements for the half year ending June 30, 2005 and the year ending December 31, 2005.

The Company is in the process of assessing the impact the conversion to IFRS will have on the Group's financial statements and on its financial processes and systems.

It is a complex task to assess the differences between current accounting policies and IFRS, not least since many of the IFRS have only recently been revised, and it is clear that a number of accounting policies and some presentational aspects of the financial statements will continue to change. As a result it is not possible to quantify the impact at this time.

For the Spirent Group, the main areas which the Company anticipates will be impacted by the adoption of IFRS will be the reporting and treatment of amortization and impairment of goodwill and intangible assets, share based payments, deferred taxation and financial instruments.

US GAAP

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. ("FIN") 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, which requires a variable interest entity ("VIE") to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs a majority of the VIE's expected losses and/or receives a majority of the expected residual returns.

In December 2003, the FASB revised FIN 46 ("FIN 46-(R)"), delaying the effective date for certain entities created before February 1, 2003 and making other amendments to clarify the application of guidance. In anticipation of the adoption of FIN 46-(R), the Group has identified and evaluated arrangements that may be subject to its provisions to determine whether they are VIEs.

The Group has adopted FIN 46 for entities created subsequent to February 1, 2003 as of December 31, 2003 and will adopt FIN 46-(R) for the year ending December 31, 2004. The adoption of FIN 46 did not result in the consolidation of any VIEs. The adoption of FIN 46-(R) is not expected to have a material impact on amounts reported under U.S. GAAP.

ITEM 15 CONTROLS AND PROCEDURES

As of December 31, 2003, we evaluated, under the supervision, and with the participation, of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Group's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Group's disclosure controls and procedures were effective in all material regards to ensure that the information required to be disclosed in the reports the Company files and submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and procedures of the SEC.

However, in 2004, as part of our on-going assessment of internal control over financial reporting, the Company's management, including the Chief Executive Officer and Chief Financial Officer, undertook a review of the controls over the Group's methods of revenue recognition in relation to certain complex arrangements with customers entered into in 2004 in the Service Assurance division of our Communications group. The terms of these arrangements with customers included, among other terms, ongoing customer support for hardware and software and the provision, in some instances, of product roadmaps, which contain expected release dates of planned updates and enhancements. The existence of a particular item on a roadmap does not, in itself, create a contractual obligation to deliver that item; however, under US GAAP an implied obligation is deemed to exist. In the light of this US GAAP requirement we conducted an extensive review of these arrangements with customers to determine whether the revenue had been correctly recognized in previous years in accordance with Statement of Position (SOP) 97-2 "Software Revenue Recognition" and related US GAAP. This further review covered how multiple-element arrangements with customers are accounted for under US GAAP and the basis for determining Vendor Specific Objective Evidence (VSOE) for each element. From this further review we concluded that, contrary to our prior determination, we did not have sufficient VSOE for certain elements of some of the multiple-element arrangements with customers in the Service Assurance division.

As a result of our review, we have restated, under US GAAP, the revenues and related costs arising from these arrangements as discussed more fully in note 34 of Notes to the Financial Statements. This has resulted in the Group restating its net income/(loss) and shareholders' equity under US GAAP in respect of the fiscal years 2001, 2002 and 2003. There are no changes to the Group's financial statements for any of the fiscal years 2001, 2002 and 2003 and related notes prepared in accordance with UK GAAP.

In conjunction with the decision to restate our financial statements, we have re-evaluated our internal controls over financial reporting. We have concluded that there was a material weakness in our internal control over financial reporting and disclosure controls and procedures at December 31, 2003 regarding the Group's selection and application of accounting policies in respect of revenue recognition under US GAAP. We are taking steps to further strengthen our internal control over financial reporting under US GAAP, in particular, our control processes and procedures over accounting for revenue recognition including employing specialized consultants, providing additional training and supplementing existing internal revenue recognition policies and procedures to clarify certain complex areas.

We believe the changes to controls mentioned above will be adequate to provide reasonable assurance that the objectives of these control systems will be met. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within the Company have been detected.

Change in Internal Control Over Financial Reporting

Except as disclosed above, there were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal year that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 18. FINANCIAL STATEMENTS

The following audited financial statements, together with the related auditors' reports and financial statement schedule of Spirent are filed as part of this annual report:

Financial Statements

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ITEM 19. EXHIBITS

All exhibits except those marked * (which are exhibits to this Amendment) were filed as exhibits to our Registration Statement on Form 20-F filed with the SEC on June 27, 2001 or our Annual Reports on Form 20-F for the years ended December 31, 2003, December 31, 2002 or December 31, 2001 filed with the SEC and are incorporated herein by reference.

Exhibit No.	Description
1.1	Memorandum and Articles of Association of Spirent plc
2.1	Form of Deposit Agreement as amended and restated as of May 5, 2000, as further amended and restated as of March 23, 2001, as further amended and restated as of July 10, 2001, among Spirent plc, the Bank of New York as Depositary and all Owners and holders from time to time of American Depositary Receipts issued thereunder (incorporated by reference to Spirent plc's annual report on Form F-6, filed on June 27, 2001)
4.1	Revolving Credit Facility, dated February 4, 2004, for a loan facility of £30 million between Spirent plc arranged by CommerzBank AG, HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc
4.2	Credit Facility Agreement, dated June 14, 1999, for loan facilities of £440 million for Bowthorpe plc arranged by Deutsche Bank AG London and HSBC Investment Bank plc
4.3	Supplemental agreement dated November 15, 2000 between Spirent plc and HSBC Investment Bank plc
4.4	Supplemental Agreement, dated March 6, 2002 between Spirent plc and HSBC Investment Bank plc as agent
4.5	Supplemental Agreement dated March 11, 2003 between HSBC and Spirent plc
4.6	Stock Purchase Agreement, dated November 16, 2000, between Lexa BV, Antonia Ax:son Johnson, Spirent plc and Spirent Holdings Corporation
4.7	Stock Purchase Agreement dated October 16, 2001 between Caw Networks, Inc. and Spirent Holdings Corporation and Merger Agreement dated July 21, 2002 between the shareholders of Caw Networks, Inc. and Spirent Holdings Corporation
4.8	Stock and Asset Purchase Agreement dated February 19, 2002 between Spirent International Inc, Autronics Corporation, Penny & Giles International plc, Spirent GmbH, Spirent plc and Curtiss-Wright Flight Systems Inc.
4.9	Amended and Restated Note Purchase Agreement dated March 11, 2003 between US Noteholders and Spirent plc
4.10	Amendment and Consent Agreement, dated December 31, 2003 between US Noteholders and Spirent plc
4.11	Share Sale and Purchase Agreement dated March 11, 2003 between Spirent GmbH, Hohorst Familien Holding (Minden) Beteiligungs GmbH and Hohorst Familien Holding (Schweiz) Beteiligungs GmbH
4.12	Share Sale and Purchase Agreement dated March 11, 2003 between Spirent GmbH and Sven Michael Hohorst
4.13	Share Sale and Purchase Agreement dated March 11, 2003 between Spirent BV, Hohorst Familien Holdings (Schweiz) Beteiligungs GmbH and Hohorst Familien Holding (Minden) Beteiligungs GmbH

4.14	Share Sale and Purchase Agreement dated March 11, 2003 between Spirent GmbH and Gesellschaft burgerlichen Rechts Wolfgang und Sven Michael Hohorst
8.1	List of subsidiaries of Spirent plc, their jurisdiction of incorporation and the names under which they do business
11.1	Ethics Policy
11.2	Ethics Policy for Senior Financial Officers
12.1*	Certification of Chief Executive Officer of Spirent plc filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification of Chief Financial Officer of Spirent plc filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certification of Chief Executive Officer and Chief Financial Officer of Spirent plc furnished pursuant to 18 United States Code §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Ernst & Young LLP (included on page F-2)
15.2	Consent of Allrevision Dornhof Kloss und Partner GmbH (included on page F-112)
15.3	Consent of Ernst & Young ShinNihon & Co. (included on page F-133)

SPIRENT plc
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To:

The Board of Directors
Spirent plc

We have audited the accompanying consolidated balance sheets of Spirent plc at December 31, 2003 and 2002, and the related consolidated profit and loss accounts and statements of total recognized gains and losses, cash flows and movements in shareholders' funds for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 18. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of WAGO-Kontakttechnik GmbH and WAGO Contact SA ("WAGO"), in which the Company had 51% interests and included within the consolidated profit before taxation of £0.3 million, consolidated loss before taxation of £1,023.4 million and consolidated loss before taxation of £731.4 million for the years ended December 31, 2003, 2002 and 2001, respectively, are combined profits before taxation of WAGO of £2.7 million, £6.7 million and £8.8 million, respectively. Those financial statements, presented in accordance with accounting principles generally accepted in the United States, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts utilized by the Company's management (before conversion to accounting principles generally accepted in the United Kingdom) so as to include WAGO in the consolidated financial statements of Spirent plc, is based solely on the reports of the other auditors.

We conducted our audits in accordance with United Kingdom auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts (including the Company's conversion of the financial statements of WAGO to accounting principles generally accepted in the United Kingdom) and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spirent plc at December 31, 2003 and 2002, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States (see Note 34 of Notes to the Consolidated Financial Statements). Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

London, England
February 25, 2004, except for
Note 34 Differences between United Kingdom and
United States Generally Accepted Accounting Principles,
as to which the date is
March 31, 2005

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-98607) pertaining to the Spirent plc employee benefit plans listed on the facing sheet thereof of our report dated February 25, 2004, except for Note 34 Differences between United Kingdom and United States Generally Accepted Accounting Principles, as to which the date is March 31, 2005, with respect to the consolidated financial statements and schedule of Spirent plc included in this Amendment No. 1 to the Annual Report (Form 20-F/A) for the year ended December 31, 2003.

ERNST & YOUNG LLP

London, England
March 31, 2005

SPIRENT plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended December 31, 2003		
	Notes	**Before exceptional items**	**Exceptional items**	**Total**
		(£ millions, except per share amounts)		
Turnover: Group and share of joint venture		488.6		488.6
Less: share of joint venture's turnover		(22.4)		(22.4)
Group Turnover	2,3	466.2		466.2
Cost of sales		(279.8)		(279.8)
Manufacturing Margin		186.4		186.4
Operating expenses	4	(160.1)	(7.5)	(167.6)
Operating Profit	2,3,5	26.3	(7.5)	18.8
Operating Exceptional Items				
Other	6		7.5	7.5
Goodwill Amortization		9.7		9.7
Operating Profit before Goodwill Amortization and Exceptional Items		36.0		36.0
Income from interests in joint ventures		2.7		2.7
Income from interests in associates		2.1		2.1
Operating Profit of the Group, Joint Ventures and Associates		31.1	(7.5)	23.6
Non-operating Exceptional Items				
Profit on the disposal and closure of operations	33		3.6	3.6
Profit before Interest		31.1	(3.9)	27.2
Net interest payable	9	(9.3)	(16.1)	(25.4)
Other finance expense	10	(1.5)		(1.5)
Profit before Taxation	2	20.3	(20.0)	0.3
Taxation	11	(2.3)	1.7	(0.6)
Loss after Taxation		18.0	(18.3)	(0.3)
Minority shareholders' interest equity				(0.2)
Loss Attributable to Shareholders(1)				(0.5)
Basic Loss per Share	12			(0.05)p
Headline Earnings per Share(1)	12			2.31p
Diluted Loss per Share	12			(0.05)p

(1) Headline earnings	
Basic loss attributable to shareholders	(0.5)
Operating exceptional items:	
Other	7.5
Goodwill amortization	9.7
Exceptional item profit on disposal and closure of operations	(3.6)
Exceptional interest charge	16.1
Prior year tax credit	(6.0)
Attributable taxation on exceptional items	(1.7)

Headline earnings attributable to shareholders	21.5

(2) A summary of the significant adjustments to loss attributable to shareholders (net loss) that would be required if United States generally accepted accounting principles were applied instead of those generally accepted in the United Kingdom is set forth in Note 34 of Notes to the Financial Statements.

The Notes to the Financial Statements form part of these Financial Statements.

	Notes	Year ended December 31, 2002 restated		
		Before exceptional items	Exceptional items	Total
		(£ millions, except per share amounts)		
Turnover: Group and share of joint venture		634.5		634.5
Less: share of joint venture's turnover		(75.6)		(75.6)
Group Turnover	2,3	558.9		558.9
Cost of sales		(336.4)	(4.4)	(340.8)
Manufacturing Margin		222.5	(4.4)	218.1
Operating expenses	4	(228.2)	(960.5)	(1,188.7)
Operating Loss	2,3,5	(5.7)	(964.9)	(970.6)
Operating Exceptional Items				
Goodwill impairment	7		923.3	923.3
Other	6		41.6	41.6
Goodwill Amortization		56.1		56.1
Operating Profit before Goodwill Amortization and Exceptional Items		50.4		50.4
Income from interest in joint venture		7.4		7.4
Income from interests in associates		1.0		1.0
Amortization of goodwill on associate		(0.2)		(0.2)
Operating Loss of the Group, Joint Venture and Associates		2.5	(964.9)	(962.4)
Non-operating Exceptional Items				
Loss on the disposal and closure of operations	33		(48.4)	(48.4)
Loss before Interest		2.5	(1,013.3)	(1,010.8)
Net interest payable	9	(12.3)		(12.3)
Other finance expense	10	(0.3)		(0.3)
Loss before Taxation	2	(10.1)	(1,013.3)	(1,023.4)
Taxation	11	(8.4)	(18.5)	(26.9)
Loss after Taxation		(18.5)	(1,031.8)	(1,050.3)
Minority shareholders' interest equity				(0.1)
Minority shareholders' interest joint venture				(0.3)
Loss Attributable to Shareholders(1)				(1,050.7)
Dividends:				
Interim 1.35 pence				(12.5)
Retained Loss				(1,063.2)
Basic Loss per Share	12			(113.90)p
Headline Earnings per Share(1)	12			3.36p
Diluted Loss per Share	12			(113.90)p

(1) Headline earnings	
Basic loss attributable to shareholders	(1,050.7)
Operating exceptional items:	

Other	41.6
Goodwill impairment	923.3
Goodwill amortization	56.1
Exceptional item loss on disposal and closure of operations	48.4
Prior year tax credit	(6.2)
Attributable taxation on exceptional items	(3.5)
Attributable taxation on the disposal of operations	3.0
Reversal of deferred tax assets	19.0
Headline earnings attributable to shareholders	31.0

(2) A summary of the significant adjustments to loss attributable to shareholders (net loss) that would be required if United States generally accepted accounting principles were applied instead of those generally accepted in the United Kingdom is set forth in Note 34 of Notes to the Financial Statements.

The Notes to the Financial Statements form part of these Financial Statements.

		Year ended December 31, 2001 restated				
		Continuing operations			Discontinued operations	Total
	Notes	Before exceptional items	Exceptional items	Total		
		(£ millions, except per share amounts)				
Turnover: Group and share of joint venture		803.3		803.3	76.8	880.1
Less: share of joint venture's turnover		(78.3)		(78.3)		(78.3)
Group Turnover	2,3	725.0		725.0	76.8	801.8
Cost of sales		(425.3)	(14.2)	(439.5)	(51.2)	(490.7)
Manufacturing Margin		299.7	(14.2)	285.5	25.6	311.1
Operating expenses	4	(281.4)	(745.3)	(1,026.7)	(18.7)	(1,045.4)
Operating Loss	2,3,5	18.3	(759.5)	(741.2)	6.9	(734.3)
Operating Exceptional Items						
Goodwill impairment	7		724.6	724.6		724.6
Other	6		34.9	34.9		34.9
Goodwill Amortization		85.4		85.4	1.2	86.6
Operating Profit before Goodwill Amortization and Exceptional Items		103.7		103.7	8.1	111.8
Income from interest in joint venture		9.6		9.6		9.6
Income from interests in associates		1.3		1.3		1.3
Amortization of goodwill on associate		(0.1)		(0.1)		(0.1)
Operating Loss of the Group, Joint Venture and Associates		29.1	(759.5)	(730.4)	6.9	(723.5)
Non-operating Exceptional Items						
Profit on the disposal and closure of operations	33		(2.8)	(2.8)	17.3	14.5
Loss before Interest		29.1	(762.3)	(733.2)	24.2	(709.0)
Net interest payable	9					(22.8)
Other finance income	10					0.4
Loss before Taxation	2					(731.4)
Taxation	11					(32.4)
Loss after Taxation						(763.8)
Minority shareholders' interest equity						0.2
Minority shareholders' interest joint venture						(0.4)
Loss Attributable to Shareholders(1)						(764.0)
Dividends:						
Interim 1.35 pence						(12.4)
Proposed final 3.00 pence						(27.6)

		Year ended December 31, 2001 restated
Dividends		(40.0)
Retained loss		(804.0)
Basic Loss per Share	12	(83.49)p
Headline Earnings per Share(1)	12	7.70p
Diluted Loss per Share	12	(83.49)p

(1) Headline earnings	
Basic loss attributable to shareholders	(764.0)
Operating exceptional items:	
Other	34.9
Goodwill impairment	724.6
Goodwill amortization	86.6
Exceptional item profit on disposal and closure of operations	(14.5)
Attributable taxation on exceptional items	(10.3)
Attributable taxation on the disposal of operations	13.2
Headline earnings attributable to shareholders	70.5

(2) A summary of the significant adjustments to loss attributable to shareholders (net loss) that would be required if United States generally accepted accounting principles were applied instead of those generally accepted in the United Kingdom is set forth in Note 34 of Notes to the Financial Statements.

The Notes to the Financial Statements form part of these Financial Statements.

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CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES

	Year ended December 31		
	2003	**Restated 2002**	**Restated 2001**
		(£ millions)	
Loss Attributable to Shareholders	(0.5)	(1,050.7)	(764.0)
Gain on lapsed options	1.2	5.2	3.3
Exchange adjustment on subsidiaries, joint ventures and associates	6.1	(23.0)	(0.2)
UK current taxation on exchange adjustment		0.1	(2.6)
Overseas taxation on exchange adjustment	(0.2)		
Reinstatement/(reversal) of deferred tax asset on pension liability	12.6	(5.4)	
Actuarial gain/(loss) recognized on pension schemes	0.3	(23.6)	(14.8)
Taxation on actuarial gain or loss	(0.1)		4.5
Total Recognized Gains and Losses	19.4	(1,097.4)	(773.8)
Prior year adjustment			
Implementation of UITF 38	(32.2)		
Implementation of FRS 17	(41.9)		
Total Recognized Gains and Losses since last Annual Report	(54.7)	(1,097.4)	(773.8)

The statement of comprehensive income/(loss) required under United States generally accepted accounting principles is set forth in Note 34 of Notes to the Financial Statements.

The Notes to the Financial Statements form part of these Financial Statements.

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CONSOLIDATED BALANCE SHEET

	Notes	At December 31			
		2003		Restated 2002	
		(£ millions)			
Fixed Assets					
Intangible assets	13		101.6		113.6
Tangible assets	14		90.2		110.0
Investments					
Investment in joint venture	16				
Share of gross assets		0.3		72.9	
Share of gross liabilities				(22.8)	
		0.3		50.1	
Investment in associates	17	14.6		13.3	
			14.9		63.4
			206.7		287.0
Current Assets					
Stocks	18	55.0		61.5	
Debtors	19	86.9		97.3	
Investments	22			0.1	
Cash at bank and in hand	21	37.6		83.5	
		179.5		242.4	
Current Liabilities					
Creditors due within one year	23	(111.3)		(107.5)	
Loans and overdrafts	24	(1.8)		(1.8)	
		(113.1)		(109.3)	
Net Current Assets			66.4		133.1
Assets less Current Liabilities			273.1		420.1
Long-term Liabilities					
Creditors due after more than one year	25		(95.6)		(248.3)
Provisions for Liabilities and Charges	26				
Deferred taxation		(2.3)		(2.4)	
Other provisions		(17.9)		(26.0)	
			(20.2)		(28.4)
Assets less Liabilities (excluding Pension Liability)			157.3		143.4
Pension Liability	10		(35.2)		(46.2)
Assets less Liabilities (including Pension Liability)			122.1		97.2

The Notes to the Financial Statements form part of these Financial Statements.

	At December 31	
	2003	Restated 2002
	(£ millions)	
Capital and Reserves		
Called up share capital	31.5	31.3
Share premium account	697.5	696.1
Capital reserve	17.7	17.6
Capital redemption reserve	0.7	0.7
Investment in own shares	(2.6)	(2.1)
Profit and loss account	(624.9)	(648.5)
Shareholders' Funds Equity(1)	119.9	95.1
Minority Interests Equity	2.2	2.1
	122.1	97.2

(1) A summary of the significant adjustments to shareholders' funds that would be required if United States generally accepted accounting principles were applied instead of those generally accepted in the United Kingdom is set forth in Note 34 of Notes to the Financial Statements.

The Notes to the Financial Statements form part of these Financial Statements.

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CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended December 31		
		2003	2002	2001
		(£ millions)		
Net Cash Inflow from Operating Activities	8	68.2	76.9	141.2
Dividends received from:				
Joint venture			0.2	1.6
Associates		0.1	0.1	0.2
Returns on investments and servicing of finance	20	(23.2)	(10.8)	(23.9)
Taxation	20	8.9	(4.2)	(21.0)
Capital expenditure and financial investment	20	(15.8)	(25.8)	(57.7)
Acquisitions and disposals	20	60.4	6.4	149.6
Equity dividends paid			(40.2)	(39.8)
Management of liquid resources	20	0.1	0.2	3.6
Financing	20	(143.6)	53.8	(152.8)
Net Cash (Outflow)/Inflow(1)		(44.9)	56.6	1.0

Reconciliation of net cash flow to movement in net debt

	Notes	Year ended December 31		
		2003	2002	2001
		(£ millions)		
Net Cash (Outflow)/Inflow		(44.9)	56.6	1.0
Cash outflow/(inflow) arising from the change in debt and lease financing		144.3	(51.4)	157.7
Cash inflow arising from the change in liquid resources		(0.1)	(0.2)	(3.6)
Movement arising from Cash Flows	21	99.3	5.0	155.1
Debt issue costs	21	(0.8)		
Loans and finance leases acquired with subsidiary	21,32		(0.2)	
New finance leases	21	(0.3)	(0.2)	(0.8)
Exchange adjustment	21	6.1	12.7	(7.0)
Movement in Net Debt		104.3	17.3	147.3
Net debt at January 1	21	(161.8)	(179.1)	(326.4)
Net Debt at December 31	21	(57.5)	(161.8)	(179.1)

(1) The significant differences between the cash flow statement presented above and that required under United States generally accepted accounting principles are described in Note 34 of Notes to the Financial Statements.

The Notes to the Financial Statements form part of these Financial Statements.

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CONSOLIDATED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

Share Capital

	Ordinary shares of 3 1/3 pence each			
	Authorized		Issued and fully paid	
	(Number in millions)	(£ millions)	(Number in millions)	(£ millions)
At January 1, 2001	1,100.0	36.7	926.5	30.9
Share options exercised			5.4	0.2
Zarak deferred shares(1)			1.3	
At December 31, 2001	1,100.0	36.7	933.2	31.1
Increase in authorized share capital May 2, 2002(2)	150.0	5.0		
Share options exercised			3.5	0.1
Issued on acquisition of Caw Networks Inc.(3)			2.7	0.1
At December 31, 2002	1,250.0	41.7	939.4	31.3
Share options exercised			4.6	0.2
At December 31, 2003	1,250.0	41.7	944.0	31.5

(1) 1,250,000 retention bonus shares were issued on November 12, 2001 in respect of a deferred acquisition obligation on Zarak Systems post fulfillment of the relevant performance criteria.

(2) The authorized share capital was increased to £41,666,667 at the Annual General Meeting held on May 2, 2002 by the creation of a further 150,000,000 Ordinary shares.

(3) 2,712,811 shares were issued, credited as fully paid, on August 15, 2002 in connection with the rollover of Caw Common Stock under a Caw employee stock plan into Spirent Ordinary shares.

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

The Notes to the Financial Statements form part of these Financial Statements.

Share Capital and Reserves

	Called up share capital	Share premium account(1)	Capital reserve(1)	Merger reserve(1)	Capital redemption reserve(1)	Profit and loss account	Investment in own shares(7)	Total
				(£ millions)				
At January 1, 2001	30.9	713.6	41.7	985.3	0.7	62.5		1,834.7
Prior year adjustment								
Implementation of UITF 38							(33.4)	(33.4)
Implementation of FRS 17						(1.7)		(1.7)
At January 1, 2001 restated	30.9	713.6	41.7	985.3	0.7	60.8	(33.4)	1,799.6
Exchange adjustment on subsidiaries, joint venture and associates						(0.2)		(0.2)
Taxation on exchange effect						(2.6)		(2.6)
Share issue	0.2	14.4	(10.1)					4.5
Share issue acquisition retention bonuses			(0.5)	2.0				1.5
Contingent shares Net-HOPPER		0.7		(5.8)				(5.1)
Shares transferred to ESOT							(0.7)	(0.7)
Loss for the year						(804.0)		(804.0)
Goodwill on disposal of subsidiaries acquired before 1998						65.1		65.1
Lapsed acquisition related options			(3.3)			3.3		
Actuarial loss recognised on pension schemes						(14.8)		(14.8)
Taxation on actuarial loss						4.5		4.5
Transfer from merger reserve				(717.1)		717.1		
At December 31, 2001 restated(2)(3)(4)	31.1	728.7	27.8	264.4	0.7	29.2	(34.1)	1,047.8
Exchange adjustment on subsidiaries, joint venture and associates						(23.0)		(23.0)
Taxation on exchange effect						0.1		0.1
Share issue	0.1	5.7	(4.3)					1.5
Share issue restricted stock(5)	0.1	1.8						1.9
Obligation to issue share capital, stock compensation			0.2					0.2
Obligation to issue share capital, acquisition expense			0.1					0.1
Shares transferred to/(from) ESOT			(1.0)				1.9	0.9
Write down of shares in ESOT						(30.1)	30.1	
Loss for the year						(1,063.2)		(1,063.2)
Goodwill on disposal of subsidiaries acquired before 1998						157.8		157.8
Lapsed acquisition related options			(5.2)			5.2		
Reclassified to merger reserve		(40.1)		40.1				
Actuarial loss recognised on pension schemes						(23.6)		(23.6)
Reversal of deferred tax asset on pension schemes						(5.4)		(5.4)
Transfer on disposal and impairment				(304.5)		304.5		
At December 31, 2002 restated(2)(3)(4)	31.3	696.1	17.6		0.7	(648.5)	(2.1)	95.1

At December 31, 2002 restated(2)(3)(4) restated	31.3	696.1	17.6		0.7	(648.5)	(2.1)	95.1
Exchange adjustment on subsidiaries, joint venture and associates						6.1		6.1
Taxation on exchange effect						(0.2)		(0.2)
Share issue	0.2	1.4	(0.9)					0.7
Obligation to issue share capital, stock compensation			0.6					0.6
Obligation to issue share capital, acquisition expense(6)			2.7					2.7
Transfer of shares to ESOT			0.5				(0.5)	
Loss for the year						(0.5)		(0.5)
Goodwill on disposal of subsidiaries acquired before 1998						2.6		2.6
Lapsed acquisition related options			(1.2)			1.2		
Actuarial gain recognised on pension schemes						0.3		0.3
Taxation on actuarial gain						(0.1)		(0.1)
Reinstatement of deferred tax asset on pension liability						12.6		12.6
Transfer			(1.6)			1.6		
At December 31, 2003(2)(3)(4)	31.5	697.5	17.7		0.7	(624.9)	(2.6)	119.9

(1) The share premium account, capital reserve, capital redemption reserve and merger reserve are not distributable.

(2) The cumulative amount of goodwill charged to reserves since 1977, net of goodwill relating to subsidiaries disposed of, at December 31, 2003 is £41.3 million (2002 £43.9 million; 2001 £201.7 million).

(3) The Company's profit and loss account at December 31, 2003 of £583.5 million deficit (2002 £566.7 million deficit; 2001 £205.4 million surplus) includes non distributable reserves of £51.1 million (2002 £51.1 million; 2001 £139.5 million).

(4) Cumulative exchange translation adjustments included in the profit and loss account balance at December 31, 2003 are a loss of £20.7 million (2002 £26.8 million; 2001 £3.8 million).

(5) Consideration for the acquisition of Caw Networks, Inc. on August 15, 2002 was settled by the issue of 2,712,811 Ordinary shares credited as fully paid, in the Company. The market price per share at the date of completion was 70 pence.

(6)

An obligation to issue Ordinary shares arises on the acquisition of Caw Networks, Inc. The amount of the consideration due is $10.0 million which the Company has elected to satisfy by the issue of new Ordinary shares.

(7)

The investment in own shares relates to 3.5 million Ordinary shares (2002 3.5 million; 2001 4.6 million) held by the Spirent Qualifying Employee Share Ownership Trust ("QUEST") and 9.5 million Ordinary shares (2002 9.1 million; 2001 9.1 million) held by the Employee Share Ownership Trust ("ESOT"). Shares held by QUEST will be used to satisfy options under the Company's Savings Related Share Option Scheme. Shares in the ESOT are primarily held to hedge awards under the Stock Appreciation Rights Plan ("SARP") and provide awards under the Spirent Stock Option Plan ("SSOP").

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

The Notes to the Financial Statements form part of these Financial Statements.

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

In preparing the financial statements for 2003 the Group has adopted Financial Reporting Standard ("FRS") 17 "Retirement Benefits". The adoption of the standard is a change in accounting policy and the prior years results have been restated accordingly. Details of the effect of adopting FRS 17 are set out below.

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

Prior Year Adjustment

Prior year adjustment and restatement of prior years

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

(a) Profit and loss account

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

	Operating costs	Other finance (expense)/ income	Taxation	Loss for the year attributable to shareholders
	(£ millions)			
2001				
As previously reported	(1,044.3)		(32.6)	(763.5)
Adoption of FRS 17	(1.1)	0.4	0.2	(0.5)
December 31, 2001 as restated	(1,045.4)	0.4	(32.4)	(764.0)

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

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

(b) Consolidated balance sheet

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

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

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.

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

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

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 December 31.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. The results of overseas subsidiaries, joint ventures 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 ventures and associates, are dealt with through reserves.

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

Key exchange rates used are as follows:

	Average Rates Year ended December 31			Year-end Rates December 31		
	2003	2002	2001	2003	2002	2001
US dollar	1.64	1.51	1.44	1.78	1.61	1.46
Euro	1.45	1.59	1.61	1.42	1.53	1.63

Financial Instruments

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

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. The rates under these contracts are used to record the hedged item, and as such gains and losses on foreign currency contracts are 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 recognized 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 29.

Gains or losses arising on hedging instruments, which are canceled 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 29.

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

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

Turnover

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

Revenue Recognition

Revenue from product sales of hardware and software is recognized 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 recognized 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 recognized 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 recognized in the period in which the loss becomes evident.

The Group does not enter into bill and hold transactions.

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

Product Development

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

Pension Contributions

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

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

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

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

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

Deferred Taxation

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

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 recognized 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 capitalized as an intangible asset and

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

Other Intangible Assets

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

Tangible Assets

Depreciation is not provided on freehold land. Depreciation is provided to write off all other assets over their estimated useful lives at rates which take into account commercial conditions at their location. Usual asset lives are as follows:

Freehold buildings	50 years
Leasehold properties	50 years or lease period if less
Plant and machinery	3 to 8 years
Fixtures, fittings and equipment:	
Building installations	20 years or lease period if less
Fittings and equipment	3 to 8 years
Motor vehicles	3 to 5 years
Business systems software	4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

Assets obtained under finance leases and hire purchase contracts are capitalized 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 realizable 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 realizable value represents selling price less further costs to be incurred to completion and on sale.

Shipping and Handling Costs

Shipping and handling costs are included within selling and distribution costs.

Trade Debtors

Trade debtors are stated at cost less a provision for doubtful accounts. Trade debtors are provided for based on exposures on specific customer accounts as soon as that exposure is identified by management through the process of regular reviews.

Advertising Costs

Advertising costs are expensed as incurred.

Research and Development Costs

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Development costs related to software products are expensed as incurred until the technological feasibility of the product has been established. Technological feasibility in Spirent's circumstances occurs when a working model is completed. After technological feasibility is established, additional costs are capitalized. Spirent believes its process for developing software is essentially completed with the establishment of technological feasibility, and, accordingly, no software development costs have been capitalized to date.

Repairs and Maintenance Costs

Repairs and maintenance costs are expensed as incurred.

Use of Estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amount of revenues and expenses for the reporting period. Actual results could differ from those estimates.

2. Segmental Analysis

Spirent is a leading communications technology company focused on delivering innovative systems and services to meet the needs of customers worldwide.

Our operations are organized into three operating groups: Communications, Network Products and Systems.

The Company evaluates performance for each reportable segment based on turnover and operating profit for ongoing operations before goodwill amortization and exceptional items. Under UK GAAP, the disposal of Sensing Solutions in the year ended December 31, 2001 qualifies to be treated as a discontinued operation.

The reportable segments are:

Communications Group

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

a) Performance Analysis division

The Performance Analysis division was built through acquisition and continued development of the Adtech, CAW, the Digital Subscriber line testing division of Consultronics, Global Simulation Systems, Netcom Systems, Telecom Analysis Systems and Zarak product lines. This division develops testing solutions for a broad range of communications technologies critical to the deployment of next-generation networks. Our systems test wireless and wireline networks and equipment, including core terabit routers, broadband access devices, third generation wireless handsets, Internet infrastructure, web applications and security and Internet telephony. Our systems enable customers to emulate large-scale networks, introduce impairments and stress test equipment to ensure maximum performance and conformance to industry standards.

b) Service Assurance division

The Service Assurance division was formed at the end of 2000 with the acquisitions of Hekimian and Net-HOPPER. Our field test activities were transferred from Performance Analysis to our Service Assurance division in 2003. Prior years have been restated to reflect this. The Service Assurance division provides network monitoring and management systems for service providers to assure the quality of their high bandwidth services. Our systems enable efficient delivery and maintenance of leased line voice and data, digital subscriber line, wireless, optical and IP networks. The division provides operations support systems, remote test probes, network test access systems and the expertise to implement solutions over a national or global scale.

Network Products group

The Network Products group provides innovative solutions for fastening, identifying, insulating, organizing, routing and connectivity that add value to electrical and communication networks in a wide range of applications.

Systems group

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

Sensing Solutions group

The Sensing Solutions group provided products and subsystems for sensing temperature, humidity, pressure and gas. This group was sold in November 2001.

Turnover

	Year ended December 31		
	2003	Restated 2002	Restated 2001
		(£ millions)	
Continuing operations			
Performance Analysis	148.7	184.0	241.4
Service Assurance	91.7	131.4	189.2
Communications	240.4	315.4	430.6
Network Products	174.4	164.7	170.4
Systems	51.4	78.8	124.0
	466.2	558.9	725.0
Discontinued operations			
Sensing Solutions			76.8
	466.2	558.9	801.8

Major customers

There were no customers which individually exceeded 10% of total turnover in any of the three years in the period ended December 31, 2003.

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NOTES TO THE FINANCIAL STATEMENTS

2. Segmental Analysis (Continued)

Inter-segmental Transactions

	Year ended December 31								
				Restated					
	2003			2002			2001		
	External	Inter-segmental	Total	External	Inter-segmental	Total	External	Inter-segmental	Total
	(£ millions)								
Turnover									
Continuing operations									
Performance Analysis	148.7		148.7	184.0	0.1	184.1	241.4	0.1	241.5
Service Assurance	91.7	0.2	91.9	131.4	0.4	131.8	189.2	0.3	189.5
Communications	240.4	0.2	240.6	315.4	0.5	315.9	430.6	0.4	431.0
Network Products	174.4		174.4	164.7		164.7	170.4	0.1	170.5
Systems	51.4		51.4	78.8	1.1	79.9	124.0	3.7	127.7
	466.2	0.2	466.4	558.9	1.6	560.5	725.0	4.2	729.2
Discontinued operations									
Sensing Solutions							76.8	0.7	77.5
	466.2	0.2	466.4	558.9	1.6	560.5	801.8	4.9	806.7

Corporate Charge Allocation

Corporate charges, which are not significant, are allocated among segments in line with operating results.

Profit/(Loss) before Taxation

	Year ended December 31		
	2003	Restated 2002	Restated 2001
		(£ millions)	
Operating profit before goodwill amortization and exceptional items:			
Continuing operations			
Performance Analysis	4.4	10.0	38.6
Service Assurance	9.4	20.8	44.8
Communications	13.8	30.8	83.4
Network Products	16.7	15.0	14.9
Systems	5.5	4.6	5.4
	36.0	50.4	103.7
Discontinued operations			
Sensing Solutions			8.1
	36.0	50.4	111.8
Operating exceptional item, 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	(5.1)	(28.3)	(26.8)
Service Assurance	(0.1)	(8.6)	(4.6)
Communications	(5.2)	(36.9)	(31.4)
Network Products		(3.3)	(2.9)
Systems		(1.4)	(0.6)
Non-segmental	(2.3)		
	(7.5)	(41.6)	(34.9)

	Year ended December 31		
	2003	Restated 2002	Restated 2001
		(£ millions)	
Goodwill amortization:			
Continuing operations			
Performance Analysis	(3.9)	(20.8)	(24.6)
Service Assurance	(5.5)	(33.5)	(58.7)
Communications	(9.4)	(54.3)	(83.3)
Network Products	(0.3)	(1.5)	(1.5)
Systems		(0.3)	(0.6)
	(9.7)	(56.1)	(85.4)
Discontinued operations			
Sensing Solutions			(1.2)
	(9.7)	(56.1)	(86.6)
Operating Profit/(Loss)	18.8	(970.6)	(734.3)
Income from interests in joint ventures	2.7	7.4	9.6
Income from interests in associates	2.1	1.0	1.3
Amortization of goodwill on associate		(0.2)	(0.1)
Net interest expense	(9.3)	(12.3)	(22.8)
Exceptional interest expense	(16.1)		
Profit/(loss) on the disposal and closure of operations	3.6	(48.4)	14.5
Other finance (expense)/income	(1.5)	(0.3)	0.4
Profit/(Loss) before Taxation	0.3	(1,023.4)	(731.4)

Depreciation

	Year ended December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Continuing operations			
Performance Analysis	13.2	15.5	14.3
Service Assurance	3.3	3.9	3.5
Communications	16.5	19.4	17.8
Network Products	12.0	12.1	12.4
Systems	0.8	2.1	3.9
	29.3	33.6	34.1
Discontinued operations			
Sensing Solutions			3.1
	29.3	33.6	37.2

Product Development

	Year ended December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Continuing operations			
Performance Analysis	39.4	44.6	49.7
Service Assurance	18.4	21.6	23.3
Communications	57.8	66.2	73.0
Network Products	3.8	3.6	3.6
Systems	4.4	7.9	14.5
	66.0	77.7	91.1
Discontinued operations			
Sensing Solutions			4.8
	66.0	77.7	95.9

Operating Assets

	At December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Continuing operations			
Performance Analysis	85.6	113.8	419.5
Service Assurance	60.5	72.0	624.8
Communications	146.1	185.8	1,044.3
Network Products	93.7	98.3	126.7
Systems	5.0	5.6	41.6
Segmental operating assets	244.8	289.7	1,212.6
Investment in joint venture	0.3	50.1	44.3
Investment in associates	14.6	13.3	18.3
Corporation tax payable	(24.7)	(19.5)	(27.0)
Proposed dividend			(27.6)
Operating Assets	235.0	333.6	1,220.6
Net borrowings	(57.5)	(161.8)	(179.1)
Provisions for liabilities and charges	(20.2)	(28.4)	(1.5)
Deferred tax asset			25.8
Assets less Liabilities (excluding Pension Liability)	157.3	143.4	1,065.8
Pension liability (note 10)	(35.2)	(46.2)	(15.6)
Assets less Liabilities (including Pension Liability)	122.1	97.2	1,050.2

Long-lived Assets

	At December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Continuing operations			
Performance Analysis	22.7	34.9	48.8
Service Assurance	5.4	8.7	11.4
Communications	28.1	43.6	60.2
Network Products	60.3	62.8	68.3
Systems	1.8	3.6	9.1
	90.2	110.0	137.6

Total Assets

	At December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Continuing operations			
Performance Analysis	125.5	154.1	471.8
Service Assurance	81.6	121.1	664.3
Communications	207.1	275.2	1,136.1
Network Products	140.7	144.2	161.0
Systems	23.5	46.6	65.4
Segmental total assets	371.3	466.0	1,362.5
Investment in joint venture	0.3	50.1	44.3
Investment in associates	14.6	13.3	18.3
Deferred tax asset			25.8
	386.2	529.4	1,450.9

Capital Expenditure

	Year ended December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Continuing operations			
Performance Analysis	6.1	11.9	31.6
Service Assurance	1.0	3.0	5.3
Communications	7.1	14.9	36.9
Network Products	9.4	11.9	16.7
Systems	0.5	1.0	3.5
	17.0	27.8	57.1
Discontinued operations			
Sensing Solutions			3.1
	17.0	27.8	60.2

3. Geographical Analysis

Turnover by Market

	Year ended December 31		
	2003	**2002**	**2001**
		(£ millions)	
Continuing operations:			
Europe	149.6	149.4	178.7
North America*	229.3	322.4	456.5
Asia Pacific, Rest of Americas, Africa	87.3	87.1	89.8
	466.2	558.9	725.0
Discontinued operations:			
Europe			20.7
North America*			45.7
Asia Pacific, Rest of Americas, Africa			10.4
			76.8
	466.2	558.9	801.8

* North America, as referred to above, consists almost entirely of the United States.

United Kingdom turnover was £42.5 million (2002 £48.3 million; 2001 £71.4 million) and in respect of discontinued operations nil (2002 nil; 2001 £8.2 million).

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Geographical Analysis (Continued)

Turnover by Source

	Year ended December 31		
	2003	**2002**	**2001**
		(£ millions)	
Continuing operations:			
Europe	168.2	157.7	183.7
North America*	262.1	368.9	514.6
Asia Pacific, Rest of Americas, Africa	35.9	32.3	26.7
	466.2	558.9	725.0
Discontinued operations:			
Europe			20.6
North America*			48.3
Asia Pacific, Rest of Americas, Africa			7.9
			76.8
	466.2	558.9	801.8

* North America as referred to above, consists almost entirely of the United States.

United Kingdom turnover was £75.1 million (2002 £71.6 million; 2001 £107.5 million) and in respect of discontinued operations nil (2002 nil; 2001 £13.3 million). Exports from the United Kingdom were £33.6 million (2002 £32.4 million; 2001 £46.3 million), representing 7.2% of total sales (2002 5.8%; 2001 5.8%).

Operating Profit/(Loss)

	Year ended December 31		
	2003	Restated 2002	Restated 2001
		(£ millions)	
Operating profit before goodwill amortization and exceptional items:			
Continuing operations:			
Europe	21.7	19.3	20.5
North America*	13.0	30.2	81.6
Asia Pacific, Rest of Americas, Africa	1.3	0.9	1.6
	36.0	50.4	103.7
Discontinued operations:			
Europe			2.3
North America*			6.3
Asia Pacific, Rest of Americas, Africa			(0.5)
			8.1
	36.0	50.4	111.8
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	(2.3)	(3.6)	(2.5)
North America*	(5.2)	(37.3)	(32.1)
Asia Pacific, Rest of Americas, Africa		(0.7)	(0.3)
	(7.5)	(41.6)	(34.9)

	Year ended December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Goodwill amortization:			
Continuing operations:			
Europe	(1.5)	(1.6)	(1.4)
North America*	(8.2)	(54.4)	(83.9)
Asia Pacific, Rest of Americas, Africa		(0.1)	(0.1)
	(9.7)	(56.1)	(85.4)
Discontinued operations:			
Europe			(0.1)
North America*			(0.9)
Asia Pacific, Rest of Americas, Africa			(0.2)
			(1.2)
	(9.7)	(56.1)	(86.6)
Operating Profit/(Loss)	18.8	(970.6)	(734.3)

* North America operating profit/(loss) as referred to above consists almost entirely of the United States.

United Kingdom operating profit was £8.4 million (2002 £9.3 million loss; 2001 £11.8 million profit) and in respect of discontinued operations nil (2002 nil; 2001 £1.8 million).

United Kingdom operating exceptional items were £2.3 million (2002 £2.1 million; 2001 £2.5 million).

United Kingdom goodwill impairment was nil (2002 £19.5 million; 2001 nil).

United Kingdom goodwill amortization was £1.4 million (2002 £1.6 million; 2001 £1.4 million). United Kingdom goodwill amortization in respect of discontinued operations was nil (2002 nil; 2001 £0.1 million).

	At December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Operating Assets			
Europe	74.0	68.8	86.5
North America*	158.8	208.0	1,107.3
Asia Pacific, Rest of Americas, Africa	12.0	12.9	18.8
Segmental operating assets	244.8	289.7	1,212.6

* North America as referred to above consists almost entirely of the United States.

United Kingdom operating assets were £34.1 million (2002 £30.2 million; 2001 £52.3 million) and in respect of discontinued operations nil (2002 nil; 2001 nil).

Long-lived Assets

	At December 31		
	2003	2002	2001
	(£ millions)		
Europe	43.5	44.9	51.8
North America*	38.5	56.8	75.7
Asia Pacific, Rest of Americas, Africa	8.2	8.3	10.1
	90.2	110.0	137.6

* North America as referred to above consists almost entirely of the United States.

United Kingdom long-lived assets were £18.9 million (2002 £21.0 million; 2001 £29.1 million) and in respect of discontinued operations nil (2002 nil; 2001 nil).

4. Net Operating Expenses

	Year ended December 31				
	2003	Restated 2002	Restated 2001		
	Total	Total	Continuing operations	Discontinued operations	Total
	(£ millions)				
Selling and distribution	110.0	124.6	144.7	11.3	156.0
Administration	58.3	1,064.7	883.2	7.4	890.6
Other operating income	(0.7)	(0.6)	(1.2)		(1.2)
Net operating expenses	167.6	1,188.7	1,026.7	18.7	1,045.4
Included within administration costs above:					
Operating exceptional items					
Goodwill impairment		923.3	724.6		724.6
Other	7.5	37.2	20.7		20.7
Goodwill amortization	9.7	56.1	85.4	1.2	86.6
Net operating expenses before goodwill amortization and exceptional items	150.4	172.1	196.0	17.5	213.5

5. Operating Profit/(Loss)

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

	Year ended December 31		
	2003	2002	2001
		(£ millions)	
Goodwill amortization	9.7	56.1	86.6
Goodwill impairment (note 7)		923.3	724.6
Exceptional items (note 6)	7.5	41.6	34.9
Depreciation owned assets	29.0	33.2	36.7
finance leased assets	0.3	0.4	0.5
Operating lease costs plant and equipment	0.4	0.3	0.4
land and buildings	11.3	10.4	12.3
Advertising costs	6.0	7.0	11.6
Product development costs	66.0	77.7	95.9
Impact of exchange rate movements on profit before taxation:			
Benefit/(cost)	0.7	(1.1)	1.9
Disclosure of fees paid to auditors			
Audit services			
Audit fees Ernst & Young LLP	1.2	1.2	0.9
Other fees paid to Ernst & Young			
Further assurance services	0.1	0.3	0.6
Tax services	0.6	1.2	0.7
	0.7	1.5	1.3
Other fees were paid to			
Ernst & Young LLP, United Kingdom	0.5	0.5	1.1
Ernst & Young overseas	0.2	1.0	0.2
	0.7	1.5	1.3

6. Operating Exceptional Items Other

	Year ended December 31		
	2003	2002	2001
		(£ millions)	
Finance renegotiation costs	2.3		
Restructuring costs	3.8	8.6	11.3
Tangible fixed asset write-downs	2.2	3.6	
Lease provisions	(0.8)	20.2	
Stock provisions		4.4	14.2
Receivables provisions			5.2
Acquisition retention bonuses		4.8	4.2
	7.5	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 credited amounting to £0.8 million (2002 £20.2 million charged), these are primarily within the Communications Group.

7. 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.

At December 31, 2003, after carrying out the appropriate valuation exercises no impairment charges were required.

The deterioration in trading in the second half of 2002 in the telecommunications market together with the significant fall in the Spirent share price did necessitate an impairment review of our businesses at that time. This review resulted in impairment losses totaling £923.3 million being recognized in 2002. A similar impairment loss of £724.6 million was recognized during 2001. The losses charged in 2002 and 2001 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%, that take account of the particular risks of the income-generating unit.

In calculating the impairment losses the directors, in line with best practice, also reviewed pre-1998 goodwill previously written off to reserves for those businesses in which an impairment loss had been identified. In 2002 an amount of £87.0 million was consequently reinstated and included in the total impairment charge of £923.3 million in that year.

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

	Year ended December 31		
		Restated	Restated
	2003	2002	2001
		(£ millions)	
Operating profit/(loss)	18.8	(970.6)	(734.3)
Depreciation	29.3	33.6	37.2
(Profit)/loss on disposal of tangible fixed assets	(0.1)	0.5	2.1
Tangible fixed asset write-downs	2.2	3.6	
Goodwill impairment		923.3	724.6
Amortization of goodwill	9.7	56.1	86.6
Stock compensation expense	0.6	0.5	0.4
Deferred income received/(released)	0.2	(4.8)	(17.8)
Decrease in debtors	3.8	2.9	29.2
Decrease in stocks	3.1	15.2	27.8
Increase/(decrease) in creditors	5.7	(1.7)	(15.7)
Non-cash movement on pension fund liability	0.8	(0.1)	1.1
(Decrease)/increase in provisions	(5.9)	18.4	
Net cash inflow from operating activities	68.2	76.9	141.2

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS

9. Net Interest Payable

	Year ended December 31		
	2003	**2002**	**2001**
		(£ millions)	
Interest receivable and similar income	3.1	4.0	3.4
Interest payable			
Senior unsecured loan notes	(8.8)	(11.8)	(12.6)
Bank loans and overdrafts	(2.6)	(3.1)	(9.8)
Other loans	(0.3)	(0.6)	(2.3)
Interest on finance leases	(0.5)	(0.1)	(0.1)
Exceptional interest expense	(16.1)		
	(25.2)	(11.6)	(21.4)
Discount on deferred consideration			(0.6)
Share of joint venture's interest	(0.2)	(0.7)	(0.8)
	(25.4)	(12.3)	(22.8)

On prepayment of the senior unsecured loan notes a make-whole amount becomes due. These amounts, together with fees in relation to certain amendments to the terms of the loan notes and bank facility, are included above in the exceptional interest expense of £16.1 million in 2003.

10. Employees

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

	Year ended December 31		
	2003	**2002**	**2001**
		(Number)	
Manufacturing	2,768	3,276	5,535
Selling and distribution	1,310	1,397	1,632
Administration	420	506	645
	4,498	5,179	7,812

Payroll costs were:

	Year ended December 31		
	2003	**2002**	**2001**
		(£ millions)	
Remuneration	154.5	176.7	234.5
Social security costs	17.3	19.7	23.6
Other pension costs	6.4	5.3	8.2

	Year ended December 31		
	178.2	201.7	266.3

(i) Directors' Remuneration

(a) Individual and total remuneration of the directors holding office during 2003

	Salary	Fees(1)	Taxable benefits(2)	Bonus(3)	Total 2003(4)	Total 2002(4)	Total 2001(4)
				(£ thousands)			
Executive Directors							
N. Brookes(5)	500.0	0.5	44.2	200.0	744.7	545.3	533.9
M. Chung(6)	213.4	0.5	18.7	42.7	275.3	251.2	168.1
E. Hutchinson	250.0	0.5	23.2	125.0	398.7	272.9	268.9
Non-executive Directors							
M. Beresford		37.0			37.0	37.0	37.0
P. Cheng		35.0			35.0	35.0	35.0
G. Ennerfelt		30.0			30.0	30.0	30.0
A. Given		8.5			8.5		
R. Moley		35.0			35.0	35.0	35.0
J. Weston		150.0			150.0	22.5	
J. Wyness		37.0			37.0	89.3	37.0
G. Sarney						68.1	203.3
Total 2003	963.4	334.0	86.1	367.7	1,751.2	1,386.3	1,348.2
Total 2002	981.8	317.0	87.5		1,386.3		
Total 2001	907.2	375.3	65.7		1,348.2		

(1)
Executive Directors receive a basic annual fee of £500 in respect of their services to the Board and its committees.

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

(2)
Taxable benefits include a company car or car allowance and life, disability and healthcare insurance coverage.

Nicholas Brookes' taxable benefit also includes £3,966 for personal tax advice paid for by the Company and £6,389 relating to the premium paid for life assurance in excess of the statutory earnings cap.

(3)

During the year Mr. Brookes, Mr. Hutchinson and Mr. Chung earned bonuses under their respective annual bonus plans (2002 and 2001 nil).

(4)

The figures relate to the period of each director's Board membership. My Chung, John Weston and Andrew Given were appointed to the Board in May 2001, November 2002 and October 2003, respectively. George Sarney died in April 2002.

(5)

Remuneration as shown above excludes fees received as a result of external appointments.

(6)

My Chung receives his base salary in US dollars. An average exchange rate of £1=$1.64 has been used in respect of 2003 remuneration (2002 £1=$1.51 and 2001 £1=$1.44).

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

(b) Directors' Pensions

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

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

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

(1)

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

(2) The Company's unfunded pension provision relating to the pension undertaking in excess of the statutory earnings cap made to Nicholas Brookes (which includes an eight-year pensionable service credit) was £4.5 million at December 31, 2003.

(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 ended December 31		
	2003	**2002**	**2001**
		(£ thousands)	
Total emoluments for all directors	1,751	1,386	1,348
Gains made on exercise of share options(1)	1	6	1
Company contribution to 401(k) Retirement and Profit Share Plan(2)	12	13	12
Pension and fees of the Life President(3)		33	98
Emoluments and ex gratia pension to former directors(4)	5	19	5
Consultancy payments and fee payments to former directors(5)		6	24
	1,769	1,463	1,488

(1) This relates to My Chung (2001 and 2003) and Eric Hutchinson (2002).

(2) Prevailing average conversion rates of £1=$1.44, £1=$1.51 and £1=$1.64 were used for 2001, 2002 and 2003, respectively. These payments relate to My Chung.

(3) These payments relate to Ray Parsons, who died in April 2002. In 2002 pension and fees were £28,204 and £4,865, respectively and in 2001 £82,148 and £15,810 respectively.

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

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

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS

10. Employees (Continued)

(ii) Directors' Interests

(a)

Summary of interests in Ordinary share capital

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

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

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

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

(3) All remaining performance units granted under the Long Term Share Purchase Plan lapsed without value on December 31, 2003.

(4) All three of the Company's Executive Directors, with other employees of the Group, are potential beneficiaries of certain Ordinary shares held in the Employee Share Ownership Trust (ESOT). The two Executive Directors in the United Kingdom, with other employees of the Group, are also potential beneficiaries of the Spirent Qualifying Employee Share Ownership Trust (QUEST). As potential beneficiaries of the ESOT and QUEST, the respective directors are deemed by the Companies Act 1985 to be interested in some of the Ordinary shares held by those Trusts. At December 31, 2003, the deemed beneficial interests in the ESOT and the QUEST were 281,626 Ordinary shares and 3,508,136 Ordinary shares, respectively (December 31, 2002, 9,064,985 and 3,508,136 respectively; December 31, 2001, 9,064,985 and 4,571,286, respectively). The change in the deemed interests in the ESOT was caused by the reallocation of shares which had lapsed under other share plans. These shares have now been reallocated to satisfy the exercise

of SSOP options granted on December 11, 2003, a grant in which no Executive Director participated. Further details on the Company's share plans are

provided in note 31. The deemed interests of the Executive Directors in respect of the shares held in the ESOT and the QUEST are not included in the table above.

(5)

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 February 28, 2001 and are being held in the ESOT for a period of three years from that date. In normal circumstances, the directors do not obtain a beneficial interest in the shares until the expiry of that period at which time, subject to still being in the Company's employment, the beneficial share interests will be released to them. There are no other pre-release performance conditions to be satisfied.

(6)

The non-beneficial interest of My Chung over 39,620 shares exists in a similar manner to that described in (5) above except that his interest arises from a deferred cash bonus of $175,000 (being 50% of his annual base salary) made on a discretionary basis on May 9, 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.

(7)

Mr. Ennerfelt has a beneficial interest in the Company through his connected shareholding in Lexa BV, a company which is a member of the Axel Johnson Group owned by his spouse. Lexa BV is the registered holder of the above mentioned shares.

(8)

Since the year end:

- the number of rights to acquire Ordinary shares for My Chung increased by 13,392 on January 1, 2004 through the grant of purchase rights to him under the United States 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 17,328 to 48,705 Ordinary shares on January 1, 2004 through the exercise of matured purchase rights under the ESPP. The market price of an Ordinary share on the date of exercise was 58.25 pence (being the closing market price on December 31, 2003, the London Stock Exchange having been closed for trading on January 1, 2004). For further information on the ESPP, see Note 31;

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

(b) Options and rights to acquire Ordinary shares

	Plan type(1)	At December 31, 2003	Exercised (E)/ lapsed (L) during the year	Granted during the year	At January 1, 2003	Date of grant	Exercise price (pence)	Date first exercisable	Expiry date
N Brookes	ESOS	221,068			221,068	09.30.96	136	09.30.99	09.29.06
	ESOS	30,410			30,410	04.23.97	118	04.23.00	04.22.07
	ESOS	43,922			43,922	04.27.98	152	04.27.01	04.26.08
	ESOS	149,590			149,590	05.11.00	334	05.11.03	05.10.10
	ESOS	205,000			205,000	04.09.01	305	04.09.04	04.08.11
	SRSOS	18,145			18,145	10.05.01	93	12.01.06	05.31.07
	ESOS	468,000			468,000	04.02.02	134	04.02.05	04.01.12
	ESOS	774,000			774,000	05.02.02	113	05.02.05	05.01.12
	ESOS	1,692,000		1,692,000		03.25.03	16	03.25.06	03.24.13
M Chung	ESOS	93,482			93,482	07.16.98	163	07.16.01	07.15.08
	ESOS	112,734			112,734	04.01.99	133	04.01.02	03.31.09
	SSOP	341,921			341,921	05.11.00	334	05.11.01	05.10.07
	ESOS	65,819			65,819	05.11.00	334	05.11.03	05.10.10
	SARP	42,740			42,740	05.12.00	335	05.12.01	05.11.10
	SSOP	250,000			250,000	12.08.00	613	12.08.01	12.07.07
	SSOP	195,000			195,000	04.09.01	305	04.09.02	04.08.08
	ESOS	80,000			80,000	04.09.01	305	04.09.04	04.08.11
	ESPP(2)		(E) 22,400		6,122	01.01.02	14	01.01.03	01.01.03
	SSOP	750,000			750,000	04.02.02	134	04.02.03	04.01.09
	ESPP(3)	17,653		17,653		01.01.03	14	01.01.04	01.01.04
	ESOS	225,000		225,000		03.25.03	16	03.25.06	03.24.13
	SSOP	1,000,000		1,000,000		03.25.03	16	03.25.04	03.24.10
E Hutchinson	ESOS	17,652			17,652	04.27.95	108	04.27.98	04.26.05
	SRSOS		(L) 1,464		1,464	10.31.95	106	12.01.02	05.31.03
	ESOS	42,928			42,928	04.29.96	140	04.29.99	04.28.06
	ESOS	33,786			33,786	04.23.97	118	04.23.00	04.22.07
	ESOS	29,586			29,586	04.27.98	152	04.27.01	04.26.08
	SRSOS	12,363			12,363	10.22.98	83	01.01.06	06.30.06
	ESOS	75,156			75,156	04.01.99	133	04.01.02	03.31.09
	ESOS	55,562			55,562	05.11.00	334	05.11.03	05.10.10
	ESOS	105,000			105,000	04.09.01	305	04.09.04	04.08.11
	SRSOS	8,693			8,693	10.05.01	93	12.01.08	05.31.09
	ESOS	234,000			234,000	04.02.02	134	04.02.05	04.01.12
	ESOS	387,000			387,000	05.02.02	113	05.02.05	05.01.12
	ESOS	1,128,000		1,128,000		03.25.03	16	03.25.06	03.24.13
	SRSOS	24,721		24,721		09.26.03	38	12.01.10	05.31.11

(1)

Key to plan type:

ESOS Executive Share Option Scheme

ESPP United States Employee Stock Purchase Plan

SARP Stock Appreciation Rights Plan

SRSOS United Kingdom Savings Related Share Option Scheme

SSOP Spirent Stock Option Plan.

An explanation of each plan and its operation is given in Note 31.

(2) The final exercise price and number of purchase rights under the ESPP, an all employee share plan, cannot be determined until maturity (i.e. 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% discount) at the date of grant and the rate of exchange between the US dollar and sterling on the date of grant. In accordance with the rules of the ESPP, these purchase rights were exercised automatically as part of a maturity on January 1, 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 December 31, 2002, the London Stock Exchange having been closed for trading on January 1, 2003).

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

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

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

(iii) Pension Costs

Defined Benefit Schemes

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

The only significant defined benefit plans under FRS17 are in the United Kingdom and comprise the Staff Pension Plan and Retirement Cash Plan. These plans have been combined for the purposes of the following disclosures.

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

(a)

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

	UK defined benefit plans at December 31		
	2003	2002	2001
	%	%	%
Valuation method	projected unit	projected unit	projected unit
Inflation	2.8	2.3	2.5
Rate of increase in salaries	3.5	3.0	4.0
Rate of increase for pensions in payment pre 2001 service	3.0	3.0	3.5
Rate of increase for pensions in payment post 2001 service	2.7	2.3	2.5
Rate of increase in deferred pensions	2.8	2.3	2.5
Rate used to discount scheme liabilities	5.4	5.5	6.0

(b)

The assets and the liabilities in the scheme were as follows:

	2003 Long-term rate of return expected	At December 31, 2003	2002 Long-term rate of return expected	At December 31, 2002	2001 Long-term rate of return expected	At December 31, 2001
	%	(£ millions)	%	(£ millions)	%	(£ millions)
Equities	7.8	61.3	7.5	52.5	7.5	76.2
Gilts	4.8	15.3	4.5	15.7	5.0	12.1
Bonds	5.1	9.6	5.0	7.4	6.0	1.3
Cash	4.3	4.5	4.0	2.3	3.5	4.7
Property	6.8	1.8	6.5	4.3	6.0	3.8
Other	5.6	6.3	5.5	6.8	6.5	7.3
Total market value of assets		98.8		89.0		105.4
Actuarial value of liabilities		(142.2)		(130.9)		(123.3)
Net deficit in the schemes		(43.4)		(41.9)		(17.9)
Related deferred tax asset		13.0				5.4
Deficit in the schemes, net of tax		(30.4)		(41.9)		(12.5)
Actuarial value of unfunded pension liability		(4.8)		(4.3)		(4.5)
Related deferred tax asset						1.4
Net pension liability		(35.2)		(46.2)		(15.6)

(c)

Analysis of the amounts charged or credited to the profit and loss account are:

	Year ended December 31		
	2003	2002	2001
		(£ millions)	
Analysis of amount charged to operating costs:			
Current service cost	2.2	1.8	3.6
Analysis of amount charged to other finance (expense)/income:			
Expected return on pension scheme assets	5.7	6.7	7.2
Interest on pension scheme liabilities	(7.2)	(7.0)	(6.8)
Other finance (expense)/income	(1.5)	(0.3)	0.4
Net profit and loss charge	3.7	2.1	3.2
Analysis of amount recognized in statement of total recognized gains and losses:			
Actual return less expected return on pension schemes' assets	5.5	(20.3)	(19.2)
Experience gains/(losses) arising on the schemes' liabilities	6.8	(0.9)	4.4
Changes in assumptions underlying the present value of the schemes' liabilities	(12.0)	(2.4)	
Actuarial gain/(loss) recognized in the statement of total recognized gains and losses	0.3	(23.6)	(14.8)
Movement in deficit in the year:			
Net deficit in the schemes at January 1	(41.9)	(17.9)	(2.4)
Current service cost	(2.2)	(1.8)	(3.6)
Employer contributions paid	1.9	1.7	2.5
Other finance (expense)/income	(1.5)	(0.3)	0.4
Actuarial gain/(loss)	0.3	(23.6)	(14.8)
Net deficit in the schemes at December 31	(43.4)	(41.9)	(17.9)
(d) History of experience gains and losses			
Difference between the expected and actual return on scheme assets			
Amount	5.5	(20.3)	(19.2)
Percentage of scheme assets (%)	5.6	(22.8)	(18.2)
Experience gains and losses on scheme liabilities			
Amount	6.8	(0.9)	4.4
Percentage of the present value of scheme liabilities (%)	4.8	(0.7)	3.6
Total amount recognized in the statement of total recognized gains and losses			
Amount	0.3	(23.6)	(14.8)
Percentage of the present value of scheme liabilities (%)	0.2	(18.0)	(12.0)

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

The above plans are funded and have full United Kingdom Inland Revenue tax-exempt approval by which benefits are limited due to the statutory earnings cap (an Inland Revenue limit on the amount of earnings that can be made pensionable under the plans for members who joined after May 1989). Certain members whose salaries are in excess of this cap, have had their benefits increased through unapproved, unfunded arrangements, to the level that would otherwise have applied in respect of the basic salary only. The Company has contractually agreed to pay the additional retirement benefits itself and a provision at December 31, 2003 of £4.8 million (2002 £4.3 million; 2001 £4.5 million) is included in the net pension liability above. This represents the actuarial value as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a Market Value basis, in line with the Main Plan Valuation and adjusted each year by the charge for the year (equivalent to a contribution to a funded plan) of £0.2 million (2002 £0.1 million; 2001 £1.0 million) and interest on the unfunded liability of £0.3 million (2002 £0.3 million; 2001 £0.2 million). Of this liability, £4.5 million (2002 £4.1 million) is in respect of Nicholas Brookes and is discussed below. The additional death-in-service benefits over the statutory cap are separately insured by the Company under an unapproved scheme.

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

Defined Contribution Schemes

United Kingdom

The Group maintains defined contribution schemes for employees in the United Kingdom. These plans are known as "Cash Builder" or "Pension Builder" and employer contributions into these schemes for 2003 were £0.1 million (2002 nil; 2001 nil).

United States

The Group maintains defined contribution pension benefit plans for employees of its US subsidiaries. These plans, also known as 401(k) Plans, allows 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 totaled $4.4 million for 2003 (2002 $4.8 million; 2001 $5.6 million). Total assets in the defined contribution plans at the end of 2003 were $103.1 million (2002 $88.0 million; 2001 $153.2 million). There were no defined benefit plans in the United States in 2003.

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 in respect of these schemes amounted to £0.2 million (2002 £0.1 million; 2001 £0.2 million).

Total company contributions to defined contribution schemes were £3.0 million (2002 £3.6 million; 2001 £5.5 million).

11. Taxation

	Year ended December 31		
			Restated
	2003	2002	2001
		(£ millions)	
(a) Analysis of charge based on profit/(loss) for the year			
Current tax			
Corporation tax		4.8	10.1
Overseas taxation	4.9	(4.4)	18.4
Tax arising on disposals overseas taxation		3.0	13.2
Under/(over) provision in prior years UK tax	1.1	(1.3)	(0.4)
Overseas taxation	(7.1)	(4.9)	
	(1.1)	(2.8)	41.3
Share of joint venture's taxation	1.1	2.7	2.7
Share of associates' taxation	0.9	0.6	0.5
Total current tax charge	0.9	0.5	44.5
Deferred tax			
Origination and reversal of timing differences	(0.3)	7.4	(12.1)
Reversal of deferred tax assets		19.0	
Total deferred tax (credit)/charge	(0.3)	26.4	(12.1)
Total charge for the year	0.6	26.9	32.4

Analyzed by continuing and discontinued operations:

	Year ended December 31		
			Restated
	2003	2002	2001
	(£ millions)		
Continuing operations	0.6	26.9	16.4
Discontinued operations			16.0
Total charge for the year	0.6	26.9	32.4

The tax effect of the operating exceptional items was a tax credit of £1.7 million (2002 £3.5 million; 2001 £10.3 million). In respect of the non-operating exceptional items no charge arises (2002 £3.0 million; 2001 £13.2 million).

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

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

A charge of £0.1 million (2002 nil; 2001 £4.5 million credit) arises on the actuarial gain or loss and this has been included in the statement of total recognized gains and losses.

Profit/(loss) before taxation is analyzed as follows:

	Year ended December 31		
		Restated	Restated
	2003	2002	2001
	(£ millions)		
United Kingdom	(21.1)	(1.2)	25.7
Overseas	21.4	(1,022.2)	(757.1)
	0.3	(1,023.4)	(731.4)

(b)

The current tax charge for the year is higher than the standard rate of corporation tax in the United Kingdom of 30% (2002 30%; 2001 30%). The differences are explained as follows:

	Year ended December 31		
		Restated	Restated
	2003	2002	2001
		(£ millions)	
Profit/(loss) before tax	0.3	(1,023.4)	(731.4)
Profit/(loss) before tax multiplied by standard rate of corporation tax	0.1	(307.0)	(219.4)
Expenses not deductible for tax (primarily goodwill impairment and amortization)	7.3	317.5	244.0
Tax arising on disposals		3.0	8.8
Different tax rates on overseas earnings and other adjustments	(0.8)	0.6	(0.4)
Tax over provided in previous years	(6.0)	(6.2)	(0.4)
Movements in timing differences	0.3	(7.4)	11.9
Total current tax charge	0.9	0.5	44.5

A reconciliation of the profit/(loss) before tax at the UK statutory rate of corporation tax to the tax charge for the year is as follows:

	Year ended December 31		
		Restated	Restated
	2003	2002	2001
		(£ millions)	
Profit/(loss) before tax at the UK statutory rate	0.1	(307.0)	(219.4)
Adjusted for:			
Permanent differences arising on amortization and impairment	2.9	293.8	243.4
Tax over provided in previous years	(6.0)	(6.2)	(0.4)
Taxation arising on disposals		17.5	8.8
Other permanent adjustments	4.3	0.5	(1.3)
Overseas rate differences	(0.7)	0.3	1.3
Reversal of deferred tax assets		19.0	
Timing differences on exceptional items		9.0	
Tax charge for the year	0.6	26.9	32.4

(c)

Factors that may affect future tax charges

Deferred tax assets of £18.3 million (2002 £20.1 million; 2001 nil) arising principally on timing differences in the United States and United Kingdom have not been recognized. These assets can only be realized when they reverse against suitable taxable profits. Although the directors ultimately expect to realize these assets, there is currently insufficient evidence under FRS 19 "Deferred Tax" to recognize a deferred tax asset in respect of these timing differences.

The Group has tax losses arising in the United States of £70.1 million (2002 £23.1 million; 2001 £19.9 million) and in the United Kingdom of £24.8 million (2002 £10.2 million; 2001 nil) that are available for offset against future taxable profits. A deferred tax asset has not been recognized in respect of these losses as their future recovery is uncertain.

In total, deferred tax assets amounting to £50.3 million (2002 £31.2 million; 2001 £7.0 million) have not been recognized on unutilized losses and timing differences.

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

12. Loss per Share

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

	Year ended December 31		
		Restated	
	2003	2002	2001
		(£ millions)	
Basic loss attributable to shareholders	(0.5)	(1,050.7)	(764.0)
Operating exceptional items:			
Other	7.5	41.6	34.9
Goodwill impairment		923.3	724.6
Goodwill amortization	9.7	56.1	86.6
Exceptional item (profit)/loss on disposal and closure of operations	(3.6)	48.4	(14.5)
Exceptional interest charge	16.1		
Prior year tax credit	(6.0)	(6.2)	
Attributable taxation on exceptional items	(1.7)	(3.5)	(10.3)
Attributable taxation on the loss on disposal of operations		3.0	13.2
Reversal of deferred tax assets		19.0	
Headline earnings attributable to shareholders	21.5	31.0	70.5
		(Number)	
Weighted average number of shares in issue (millions) basic and headline	929.3	922.5	915.1
Dilutive potential of employee share options			
Weighted average number of shares in issue (millions) diluted	929.3	922.5	915.1
		(pence)	
Basic loss per share	(0.05)	(113.90)	(83.49)
Headline earnings per share	2.31	3.36	7.70
Diluted loss per share	(0.05)	(113.90)	(83.49)

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

13. Intangible Assets

Goodwill

	(£ millions)
Cost:	
At January 1, 2002	1,831.0
Increase during the year (note 32)	51.0
Disposal of operations (note 33)	(8.1)
Exchange adjustment	(31.0)
At December 31, 2002	1,842.9
Increase during the year (note 32)	2.7
Disposal of operations (note 33)	(4.1)
Exchange adjustment	(56.0)
At December 31, 2003	1,785.5
Amortization:	
At January 1, 2002	843.3
Provided during the year	56.1
Goodwill impairment	836.3
Disposal of operations (note 33)	(1.6)
Exchange adjustment	(4.8)
At December 31, 2002	1,729.3
Provided during the year	9.7
Disposal of operations (note 33)	(3.5)
Exchange adjustment	(51.6)
At December 31, 2003	1,683.9
Net book value at December 31, 2003	101.6
Net book value at December 31, 2002	113.6

Goodwill is amortized principally over 20 years.

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Tangible Assets

	Land and buildings					
	Freehold	**Long lease**	**Short lease**	**Plant and machinery**	**Fixtures, fittings and equipment**	**Total**
				(£ millions)		
Cost:						
At January 1, 2002	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 32)					0.8	0.8
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 33)		(3.6)	(0.2)	(12.9)	(8.7)	(25.4)
At December 31, 2002	16.9	10.9	24.1	118.0	70.7	240.6
Exchange adjustment	(0.8)	0.1	(0.9)	(4.1)	(4.0)	(9.7)
Additions owned assets	0.3		0.2	11.6	4.6	16.7
leased assets					0.3	0.3
Disposals			(0.4)	(4.0)	(3.8)	(8.2)
Disposal of operations (note 33)			(0.6)	(0.8)	(1.2)	(2.6)
At December 31, 2003	16.4	11.0	22.4	120.7	66.6	237.1
Depreciation:						
At January 1, 2002	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 33)		(0.7)		(10.0)	(6.5)	(17.2)
At December 31, 2002	2.7	1.5	4.3	81.0	41.1	130.6
Exchange adjustment	(0.2)		(0.6)	(2.8)	(3.3)	(6.9)
Provided during the year	0.4	0.3	2.0	14.6	12.0	29.3
Fixed asset write down			3.2			3.2
Disposals			(0.2)	(3.6)	(3.6)	(7.4)
Disposal of operations (note 33)			(0.2)	(0.7)	(1.0)	(1.9)
At December 31, 2003	2.9	1.8	8.5	88.5	45.2	146.9
Net book value at December 31, 2003	13.5	9.2	13.9	32.2	21.4	90.2
Net book value at December 31, 2002	14.2	9.4	19.8	37.0	29.6	110.0

Tangible assets include the following amounts in respect of finance leased assets:

	Plant and machinery	Fixtures, fittings and equipment	Total
	(£ millions)		
Net book value at January 1, 2002	0.6	0.5	1.1
Depreciation provided during the year	0.1	0.3	0.4
Net book value at December 31, 2002	0.4	0.7	1.1
Depreciation provided during the year		0.3	0.3
Net book value at December 31, 2003	0.4	0.6	1.0

15. Capital Commitments and contingent liabilities

	At December 31	
	2003	2002
	(£ millions)	
Capital expenditure commitments:		
Contracted but not provided	1.5	1.4

16. Investment in Joint Venture

	(£ millions)
At January 1, 2002	44.3
Share of retained profit	3.5
Exchange adjustment	2.3
At December 31, 2002	50.1
Share of retained profit	1.4
Additions	0.5
Disposal (note 33)	(54.3)
Exchange adjustment	2.6
At December 31, 2003	0.3

The joint venture company at December 31, 2003 was:

	% holding	Nature of business
Spirent DM Limited	40	Communications

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

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

On April 4, 2003, Spirent divested of its 51% interests in WAGO.

Additional disclosures in respect of the joint ventures are as follows:

	Year ended December 31		
	2003	2002	2001
	(£ millions)		
Profit and loss account			
Turnover	22.4	75.6	78.3
Profit before tax	2.5	6.7	8.8
Taxation	(1.1)	(2.7)	(2.7)
Profit after tax	1.4	4.0	6.1

	At December 31	
	2003	2002
	(£ millions)	
Balance sheet		
Fixed assets	0.3	34.4
Current assets		38.5
Share of gross assets	0.3	72.9
Liabilities due within one year		9.8
Liabilities due after more than one year		11.3
Minority interests		1.7
Share of gross liabilities		22.8
Share of net assets	0.3	50.1

17. Investment in Associates

	Goodwill	Share of retained profit and reserves	Total
	(£ millions)		
At January 1, 2002	6.5	11.8	18.3
Share of retained profit		0.3	0.3
Goodwill	(5.8)	0.6	(5.2)
Amortization of goodwill	(0.2)		(0.2)
Exchange adjustment	(0.5)	0.6	0.1
At December 31, 2002		13.3	13.3
Share of retained profit		1.1	1.1

	Goodwill	Share of retained profit and reserves	Total
Exchange adjustment		0.2	0.2
At December 31, 2003		14.6	14.6

At December 31, 2001 the Group held a 16% interest in Caw Networks, Inc acquired on October 16, 2001 at a cost of £6.4 million including expenses. On August 15, 2002 the remaining, then, 85% of Caw was acquired by the Group.

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

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

18. Stocks

	At December 31	
	2003	2002
	(£ millions)	
Raw materials	12.6	16.6
Work in progress	5.0	8.9
Finished goods	37.4	36.0
	55.0	61.5

19. Debtors

	At December 31	
	2003	2002
	(£ millions)	
Due within one year:		
Trade debtors	69.5	79.1
Owed by associates	0.2	0.4
Other debtors	8.2	6.3
Prepayments and accrued income	7.3	9.5
	85.2	95.3
Due after one year:		
Other debtors	0.2	0.2
Prepayments	1.5	1.8
	1.7	2.0
Total debtors	86.9	97.3

Trade debtors at December 31, 2003 are stated after deducting provisions for bad and doubtful debts of £1.6 million (2002 £7.1 million).

20. Notes to the Cash Flow Statement

	Year ended December 31		
	2003	2002	2001
		(£ millions)	
Returns on Investments and Servicing of Finance			
Interest received	3.6	4.0	3.3
Interest paid	(12.6)	(14.7)	(27.1)
Interest element of finance lease rental payments	(0.5)	(0.1)	(0.1)
Exceptional interest paid	(13.7)		
Net cash outflow for returns on investments and servicing of finance	(23.2)	(10.8)	(23.9)
Taxation			
Corporation tax paid	(3.3)	(11.9)	(4.3)
Overseas tax received/(paid)	12.2	7.7	(16.7)
Tax received/(paid)	8.9	(4.2)	(21.0)
Capital Expenditure and Financial Investment			
Capital expenditure	(16.7)	(27.6)	(59.4)
Receipts from sales of tangible assets	0.9	1.8	1.1
Sale of own shares			0.6
Net cash outflow for capital expenditure and financial investment	(15.8)	(25.8)	(57.7)
Acquisitions and Disposals			
Acquisition of subsidiaries (note 32)	(1.1)	(49.2)	7.2
Acquisition of joint venture	(0.5)		
Acquisition of associates			(6.4)
Disposal of operations (note 33)	62.0	55.6	148.8
Net cash inflow for acquisitions and disposals	60.4	6.4	149.6
Management of Liquid Resources			
Sale of investments	0.1	0.2	3.6
Financing			
Issue of share capital	0.7	2.4	4.9
New loans	9.4	75.7	28.5
Repayment of loans	(152.9)	(23.6)	(185.4)
Repayment of capital element of finance lease rentals	(0.8)	(0.7)	(0.8)
Net cash (outflow)/inflow from financing	(143.6)	53.8	(152.8)

21. Analysis of Changes in Net Debt

	January 1, 2001	Cash flow	Non cash changes	Exchange adjustment	December 31, 2001
	(£ millions)				
Cash at bank and in hand	28.6	(0.7)		(0.3)	27.6
Overdrafts	(2.2)	1.7		0.1	(0.4)
Net cash	26.4	1.0		(0.2)	27.2
Current asset investments	3.9	(3.6)			0.3
Bank loans due within one year	(16.7)	6.9		(0.2)	(10.0)
Other loans and finance lease obligations due within one year	(0.9)	0.1			(0.8)
Net liquid funds	12.7	4.4		(0.4)	16.7
Senior unsecured loan notes due after one year	(145.8)	(0.1)		(3.0)	(148.9)
Bank loans due after one year	(170.1)	149.8		(3.9)	(24.2)
Other loans and finance lease obligations due after one year	(23.2)	1.0	(0.8)	0.3	(22.7)
Net debt	(326.4)	155.1	(0.8)	(7.0)	(179.1)

	January 1, 2002	Cash flow	Non cash changes	Exchange adjustment	December 31, 2002
	(£ millions)				
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 debt	(179.1)	5.0	(0.4)	12.7	(161.8)

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

22. Current Asset Investments

	December 31	
	2003	2002
	(£ millions)	
Listed		0.1
Market value listed securities		0.1

23. Creditors Due within One Year

	At December 31	
	2003	2002
	(£ millions)	
Trade creditors	27.6	23.6
Payments received on account		0.4
Owed to joint venture		0.3
Owed to associates	0.8	0.6
Other creditors	10.0	8.7
Accruals and deferred income	42.9	50.1
Corporation tax UK and overseas	24.7	19.5
Other taxes and social security costs	5.3	4.3
	111.3	107.5

24. Loans and Overdrafts

	At December 31	
	2003	2002
	(£ millions)	
Bank overdrafts:		
Secured	0.7	0.5
Unsecured		0.1
Bank loans due within one year (note 27)	0.4	0.4
Other loans and finance lease obligations due within one year (note 27)	0.7	0.8
	1.8	1.8

Where applicable, overdrafts are secured either by mortgages on the freehold properties or by floating charges on the assets of the borrowing subsidiaries. The weighted average interest rate payable on the bank overdrafts is 3.6% (2002 4.1%).

25. Creditors Due After More Than One Year

	At December 31	
	2003	Restated 2002
	(£ millions)	
Senior unsecured loan notes (note 28)	80.8	135.0
Bank loans (note 27)	3.3	99.4
Other loans and finance lease obligations (note 27)	9.2	9.2
Other creditors	1.3	1.6
Deferred income	0.4	2.6
Pension	0.6	0.5
	95.6	248.3

26. Provisions for Liabilities and Charges

	Year ended December 31		
	2003	Restated 2002	Restated 2001
	(£ millions)		
Deferred Taxation			
At January 1	2.4	(24.3)	(13.7)
Exchange adjustment	(0.3)	1.4	(0.5)
Transfer to pension liability	0.5	(1.4)	1.6
Disposal of subsidiaries (note 33)		0.3	0.4
(Credited)/charged during the year (note 11)	(0.3)	26.4	(12.1)
At December 31	2.3	2.4	(24.3)

	At December 31	
	2003	2002
	(£ millions)	
Deferred taxation provided:		
Capital allowances in advance of the corresponding charges for depreciation	1.4	1.7
Other short-term timing differences	0.9	0.7
	2.3	2.4

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

	Year ended December 31	
	2003	2002
	(£ millions)	
Other provisions		
Lease provisions		
At January 1	26.0	
Charged during the year	1.0	20.2
Released during the year	(1.8)	
Transfers (out)/in	(1.0)	9.0
Utilized during the year	(5.1)	(1.8)
Exchange adjustment	(1.2)	(1.4)
	17.9	26.0

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

27. Loans and Finance Lease Obligations

	At December 31	
	2003	2002
	(£ millions)	
Secured:		
Bank loans not wholly repayable within five years		2.2
Bank loans wholly repayable within five years	3.7	2.1
Other loans not wholly repayable within five years	0.7	
Finance lease obligations	9.2	9.5
	13.6	13.8
Unsecured:		
Bank loans wholly repayable within five years		96.2
Other loans wholly repayable within five years		0.5
		96.7
Less debt issuance costs		(0.7)
	13.6	109.8

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

	2003	2002
Bank loans:		
After five years		2.2
Between two and five years	2.8	1.3
Between one and two years	0.5	96.6
Due after more than one year	3.3	100.1
Less debt issuance costs		(0.7)
Due after more than one year (note 25)	3.3	99.4
Due within one year	0.4	0.4
Total bank loans	3.7	99.8
Other loans and finance leases:		
After five years	7.0	7.1
Between two and five years	1.5	1.5
Between one and two years	0.7	0.6
Due after more than one year (note 25)	9.2	9.2
Due within one year (note 24)	0.7	0.8
Total other loans and finance leases	9.9	10.0
	13.6	109.8

	At December 31	

Where applicable loans are secured either by mortgages on the freehold properties or by floating charges on the assets of the borrowing subsidiaries. The long-term secured loans are repayable in 2017 and bear interest at an average rate of 4.0%.

Repayment schedules for loans and finance leases at December 31, 2003 are as follows:

	Bank Loans	Other Loans	Finance Leases Capital	Interest	Total
			(£ millions)		
Due within one year	0.4		0.7	0.5	1.6
Between one and two years	0.5		0.7	0.4	1.6
Between two and three years	0.5		0.5	0.4	1.4
Between three and four years	0.3		0.5	0.4	1.2
Between four and five years	2.0		0.5	0.4	2.9
After five years		0.7	6.3	0.9	7.9
	3.7	0.7	9.2	3.0	16.6

28. Senior Unsecured Loan Notes

	At December 31 2003	2002
	(£ millions)	
Due after more than one year		
Senior unsecured loan notes 2006	3.6	6.2
Senior unsecured loan notes 2009	77.4	129.2
	81.0	135.4
Less debt issuance costs	(0.2)	(0.4)
Due after more than one year (note 25)	80.8	135.0

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

(a) $6.4 million bearing interest at 9.19% repayable on November 23, 2006

(b) $41.9 million bearing interest at 9.31% repayable on November 23, 2009

(c) $76.1 million bearing interest at 9.41% repayable on November 23, 2009

(d) $19.8 million bearing interest at 10.00% repayable on November 23, 2009. An interest rate derivative was entered into in 1999 to reduce the effective interest rate to 9.53%

Loan notes are repayable:

(i) at maturity or,

(ii)

at any time at Spirent's option in an amount of not less than 5% of the aggregate principal amount then outstanding plus a "make whole" amount.

29. Financial Risk Management

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

Objectives, Policies and Strategies

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

Financing

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

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

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

Further details on the sources of funding are set out below.

Interest Rate Management

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

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

The interest profile of Spirent's cash and borrowings at the year end is detailed below.

The normal interest charge was £9.3 million (2002 £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 £0.2 million.

The fair value of borrowings and cash at the year end are compared to book value below.

Currency Management

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

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

Translation exposures of the operating results or net assets of our overseas subsidiaries are not actively hedged since these are an accounting, not a cash, exposure. To provide a partial hedge we

match, as far as possible, the currency of our borrowings with the currency profile of profits and net assets.

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

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

During the year, sterling strengthened against the US dollar, the main currency to which the Group is exposed.

(a) Interest Rate Risk

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

	At December 31, 2003		
Financial assets	**At floating interest rates**	**Non-interest bearing**	**Total**
	(£ millions)		
Sterling	8.5	0.4	8.9
US dollars	17.2	1.1	18.3
Euro	4.0	0.6	4.6
Other	4.3	1.7	6.0
	34.0	3.8	37.8

	At December 31, 2002		
Financial assets	**At floating interest rates**	**Non-interest bearing**	**Total**
	(£ millions)		
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

The financial assets of the Group comprise:

	At December 31	
	2003	**2002**
	(£ millions)	
Debtors due after more than one year (excluding prepayments) (note 19)	0.2	0.2
Current asset investments (note 22)		0.1
Cash at bank and in hand (note 21)	37.6	83.5

	At December 31	
	37.8	83.8

Floating rate financial assets comprised cash deposits at call, seven-day and monthly rates.

The weighted average period to maturity for financial assets on which no interest is paid is less than one year.

Financial liabilities	At December 31, 2003 At fixed interest rates	At floating interest rates	Non-interest bearing	Total
	(£ millions)			
US dollars	43.7	40.4	1.3	85.4
Euro	10.0	0.4		10.4
Other	0.2	0.4		0.6
	53.9	41.2	1.3	96.4

Financial liabilities	At December 31, 2002 At fixed interest rates	At floating interest rates	Non-interest bearing	Total
	(£ millions)			
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

Financial liabilities	At December 31, 2003			At December 31, 2002		
	Average interest rates of fixed rate liabilities	Weighted average period to maturity of fixed rate liabilities	Weighted average period to maturity of non-interest bearing liabilities	Average interest rates of fixed rate liabilities	Weighted average period to maturity of fixed rate liabilities	Weighted average period to maturity of non-interest bearing liabilities
	(%)	(years)	(years)	(%)	(years)	(years)
Sterling	11.5	2.3		11.5	3.3	
US dollars	9.2	5.6	5.2	8.3	6.2	4.9
Euro	5.7	12.8		5.8	13.3	
Other	11.2	2.1		13.9	2.8	
Group	8.6	6.9	5.2	7.8	7.7	4.9

The financial liabilities of the Group comprise:

	At December 31	
	2003	2002
	(£ millions)	
Bank overdrafts, current installment of loans and finance lease obligations (note 24)	1.8	1.8
Senior unsecured loan notes due after more than one year (note 25)	80.8	135.0
Bank loans due after more than one year (note 25)	3.3	99.4
Other loans and finance lease obligations due after more than one year (note 25)	9.2	9.2
Other creditors falling due after more than one year (note 25)	1.3	1.6
	96.4	247.0

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

(b) Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities is as follows:

	At December 31	
	2003	2002
	(£ millions)	
In one year or less, or on demand	1.8	1.9
In more than one year but not more than two years	1.2	96.5
In more than two years but not more than five years	7.8	9.0
In more than five years	85.6	139.6
	96.4	247.0
Undrawn Committed Borrowing Facilities:		
Expiring in one year or less	61.5	24.8
Expiring in more than one year but not more than two years		73.4
	61.5	98.2

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

At December 31, 2003 the commitment fees payable on the unutilized portion of the loan facilities are 0.75% on the undrawn, uncanceled amount.

The Group put in place a £30 million 364-day working capital facility effective from February 18, 2004 with a six month term-out option to replace this £60 million facility. The commitment fee on this facility is 0.65% per annum on the undrawn, uncanceled amount.

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. Financial Risk Management (Continued)

(c) Currency Exposure of Financial Assets and Liabilities

The tables show the net unhedged monetary assets and liabilities of Group companies at December 31. 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.

At December 31, 2003 these exposures were as follows:

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

At December 31, 2002 these exposures were as follows:

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

(d)

Fair Value of Financial Instruments

	As at December 31			
	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
	(£ millions)			
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	(1.8)	(1.8)	(1.8)	(1.8)
Long-term senior unsecured loan notes	(80.8)	(97.0)	(135.0)	(153.1)
Other long-term borrowings	(12.5)	(11.8)	(108.6)	(107.7)
Cash and other liquid funds	37.6	37.6	83.5	83.5
Current asset investments			0.1	0.1
Other financial assets	0.2	0.2	0.2	0.2
Other financial liabilities	(1.3)	(1.3)	(1.6)	(1.6)
	(58.6)	(74.1)	(163.2)	(180.4)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		(1.3)		0.4
Forward foreign exchange contracts		0.4		0.5
	(58.6)	(75.0)	(163.2)	(179.5)

The derivative financial instruments are as follows:

(a)

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

(b)

Forward foreign exchange contracts used to hedge material transactional exposures.

(e)

Hedges

The Group's policy is 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 recognized until the exposure that is being hedged itself is recognized.

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

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

30. Operating Lease Commitments

Annual commitments which expire:

	At December 31	
	2003	2002
	(£ millions)	
In respect of land and buildings (subject to periodic rent reviews):		
Within one year	0.3	0.6
In the second to fifth years	5.2	5.7
Over five years	4.4	5.8
	9.9	12.1
In respect of plant and equipment:		
Within one year	0.4	0.1
In the second to fifth years	0.1	0.4
	0.5	0.5

The aggregate payments, for which there are commitments under operating leases at December 31, 2003 fall due as follows:

	Land and Buildings	Plant and Equipment	Total
		(£ millions)	
Due within one year	9.9	0.5	10.4
Between one and two years	9.1	0.3	9.4
Between two and three years	7.7	0.3	8.0
Between three and four years	6.5	0.1	6.6
Between four and five years	4.7	0.1	4.8
After five years	16.7	0.1	16.8
	54.6	1.4	56.0

31. Share Options

The Group has the following share option schemes and share incentive arrangements.

(a)

1985 and 1995 Executive Share Option Schemes (ESOS)

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

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

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

All ESOS grants made after May 11, 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.

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

(c)

Spirent Stock Option Plan (SSOP)

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

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

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

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

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

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

(d)

Netcom Amended and Restated Stock Option Plan (NARSOP)

Spirent completed the acquisition of Netcom Systems Inc. (Netcom) in July 1999. $44.5 million of the total consideration was satisfied through the 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 as previously existed under the NARSOP. 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. All remaining outstanding options under the NARSOP became fully vested and exercisable from July 2003 onwards until they expire.

(e)

Zarak Amended and Restated Stock Option Plan (ZARSOP)

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

Unvested rolled over options are capable of immediate exercise (i.e. 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 as previously existed under the CARSP. The options are held by Caw employees and have a ten year life from the original date of grant. Pursuant to the terms of the Merger Agreement for Caw, an additional cash payment of 78.8 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 (i.e. prior to their respective vesting date) and any shares arising from such an event are held in trust until the relevant vesting date. The option holder is entitled to the beneficial (but not legal) interest in the shares whilst they are held in trust but they remain subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment is terminated prior to the vesting date.

In accordance with the rules of the ESOS noted in (a) above, the Ordinary shares subject to rolled over options for the acquisition of Netcom, Zarak and Caw, or granted under the SSOP, do not

count toward ABI scheme limits. The plans mentioned in (d) to (f) above are now closed to new entrants and no further awards of options can be made under them.

(g)

United Kingdom Savings Related Share Option Scheme (SRSOS)

The SRSOS is an Inland Revenue approved scheme and is open to all employees in the United Kingdom, 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 Ordinary share on the business day prior to the beginning of the Invitation Period, discounted by up to 20% at the Board's discretion. Options are normally exercisable within six months of the third, fifth or seventh anniversary of the contract commencement date, as elected by the option holder at the start of the contract.

The Company has established an employee share ownership trust (QUEST) to honor the contractual commitment to deliver Ordinary shares against the valid exercise of outstanding options under the SRSOS. Spirent QUEST Limited, a wholly-owned subsidiary of Spirent plc, acts as sole trustee to the QUEST. During 2003 no shares were transferred to participants. Spirent QUEST Limited has waived all rights to receive dividends payable on its registered shareholding except for 0.01 pence per annum in aggregate and accordingly such shareholding is not included in the Company's EPS calculation as referred to in note 12.

(h)

United States Employee Stock Purchase Plan (ESPP)

The ESPP operates on a broadly similar basis to the SRSOS. It enables the Company to grant to eligible employees in the United States the right to acquire Spirent American Depositary Shares using proceeds of a savings contract. When joining the ESPP, participants enter into a contract to save up to 15% 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 an Ordinary share either on the first day of the Offering Period or on the last day of the Offering Period, whichever is lower, less a 15% 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 United Kingdom or United States 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% of basic salary (gross), subject to an individual maximum of Cdn $1,000 (net) per month.

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

(j)

Stock Appreciation Rights Plan (SARP)

The SARP was introduced in September 1999 as an interim incentive arrangement for the employees of Netcom following the closure of the NARSOP described in (d) and subsequently for certain other employees in the Communications group. Under the SARP, recruitment, promotion and recognition awards over Ordinary shares have been made in line with historic and local competitive market practice on a quarterly basis at the discretion of a committee of senior executives. The operation of the SARP reflects as far as practicable the now closed NARSOP. Accordingly, rights under the SARP vest over four years, 25% 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 fulfillment of any pre-exercise performance conditions.

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

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

Rights exercise dates	Rights price (p)	Number of rights outstanding
		(millions)
09.10.00 06.29.10	182 416	3.0

(k)

Long Term Share Purchase Plan (LTSPP)

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

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

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

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

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

Spirent Employee Share Ownership Trust (ESOT)

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

Movements in the options outstanding under the option schemes for the three years in the period ended December 31, 2003 and the related weighted average option prices are shown in the two tables below.

	1985 and 1995 Executive Share Option Scheme		International Executive Share Option Scheme		Spirent Stock Option Plan		Caw Amended and Restated Stock Plan(1)		Netcom Amended and Restated Stock Option Plan(2)	
	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price
	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)
Options outstanding at January 1, 2001	11.5	186	0.2	104	13.2	431			16.3	46
Granted/transferred into plan	4.3	243			39.4	306				
Exercised	(0.7)	142							(1.1)	37
Lapsed or canceled	(0.3)	204			(4.4)	418			(0.1)	113
Options outstanding at December 31, 2001	14.8	204	0.2	104	48.2	330			15.1	46
Granted/transferred into plan	5.4	128			42.1	99	1.2	12		
Exercised	(0.1)	109							(2.0)	22
Lapsed or canceled	(2.2)	213			(10.7)	274	(0.1)	12	(0.2)	95
Options outstanding at December 31, 2002	17.9	181	0.2	104	79.6	215	1.1	12	12.9	49
Granted/transferred into plan	7.6	16			21.1	57				
Exercised					(0.4)	16	(0.2)	11	(0.7)	20
Lapsed or canceled	(3.0)	183			(37.6)	307	(0.2)	10	(1.0)	59
Options outstanding at December 31, 2003	22.5	125	0.2	104	62.7	108	0.7	11	11.2	50
Options exercisable										
At December 31, 2003	5.4	147	0.2	104	25.4	142	0.7	11	11.2	50
At December 31, 2002	7.5	150	0.2	104	21.0	320	1.1	12	12.7	48
At December 31, 2001	4.3	138	0.2	104	4.4	410			13.9	41

(1)

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

(2) Shares rolled over on acquisition of Netcom Systems Inc. in July 1999.

	Net-HOPPER Amended and Restated Plan(1)		Zarak Amended and Restated Stock Option Plan(2)		Savings Related Share Option Scheme		Employee Stock Purchase Plan(3)		Global All Employee Share Purchase Plan(3)	
	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price
	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)
Options outstanding at January 1, 2001	1.1	65	3.8	164	4.9	142	1.9	102		
Granted/transferred into plan					4.4	143	1.0	98		
Exercised	(0.9)	58	(0.8)	84	(0.6)	97	(1.9)	102		
Lapsed or canceled			(1.0)	188	(2.0)	277				
Options outstanding at December 31, 2001	0.2	58	2.0	185	6.7	107	1.0	98		
Granted/transferred into plan					4.0	41	3.0	14	0.3	14
Exercised	(0.2)	58	(0.1)	69	(0.8)	99	(1.0)	83		
Lapsed or canceled			(0.8)	159	(4.6)	106				
Options outstanding at December 31, 2002			1.1	220	5.3	61	3.0	14	0.3	14
Granted/transferred into plan					3.4	38	3.0	50	0.3	50
Exercised							(3.0)	14	(0.3)	14
Lapsed or canceled			(0.3)	167	(1.6)	69				
Options outstanding at December 31, 2003			0.8	237	7.1	48	3.0	50	0.3	50
Options exercisable										
At December 31, 2003			0.8	237						
At December 31, 2002			1.0	220	0.1	135				
At December 31, 2001	0.2	58	2.0	186	0.5	103				

(1) Shares rolled over on acquisition of Net-HOPPER Systems Inc in November 2000. The Net-HOPPER Amended and Restated Plan is now closed.

(2) Shares rolled over on acquisition of Zarak Systems Corporation in November 2000.

(3) The exercise price and the number of purchase rights outstanding cannot ultimately be determined until the maturity of each respective offering period (that is, usually 12 months following the date of grant). For outstanding purchase rights which have not yet matured, the information shown above is based on the market price of a Spirent Ordinary share (less the applicable 15% discount) as at the first day of the offering period. The number of purchase rights showing in the above table where the offering period has matured has been restated to represent the actual final exercise price and number of shares granted.

Under Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year ended December 31		
	2003	2002	2001
Dividend yield	0.9%	0.9%	1.5%
Expected volatility	109.0%	70.0%	43.0%
Risk free interest rate	2.5%	2.7%	4.6%
Expected life	4.1 years	4.9 years	5.3 years

The weighted average fair values of options granted are as follows:

	Year ended December 31		
	2003	2002	2001
Options granted at market value of the underlying shares	31p	53p	111p
Options granted at a discount to the market value of the underlying shares	23p	23p	88p

Summarized information about options outstanding under the share option schemes at December 31, 2003 is as follows:

	Options outstanding			Options exercisable	
Range of exercise prices (pence)	**Number outstanding**	**Weighted average remaining contract life**	**Weighted average option price**	**Number exercisable**	**Weighted average option price**
	(millions)	**(years)**	**(pence)**	**(millions)**	**(pence)**
1985 Executive Share Option Scheme					
102 to 108	0.1	1.1	106	0.1	106
1995 Executive Share Option Scheme					
16	7.6	9.2	16		
72	0.9	7.7	72		
118 to 163	9.9	6.4	133	4.9	137
305 to 334	4.0	6.9	318	0.3	312
International Executive Share Option Scheme					
104	0.2	1.3	104	0.2	104
Spirent Stock Option Plan					
6	0.3	5.7	6	0.1	6
13 to 18	13.5	6.0	17	5.7	17
22	0.1	6.4	22		
38 to 56	1.8	6.5	46	0.1	55
61 to 78	27.0	6.2	66	8.8	72
94 to 140	2.5	5.1	120	1.2	120
141 to 197	11.4	5.2	144	5.1	144
270 to 400	3.0	3.9	321	2.3	322
488 to 617	3.1	3.9	582	2.1	583

Caw Amended and Restated Plan(1)					
10 to 13	0.7	7.9	11	0.7	11
Netcom Amended and Restated Stock Option Plan					
15 to 18	4.0	3.3	18	4.0	18
24 to 36	3.1	3.9	24	3.1	24
54	0.2	4.2	54	0.2	54
90 to 121	3.4	5	97	3.4	97
151	0.5	5.5	151	0.5	151
Zarak Amended and Restated Stock Option Plan					
127	0.6	5.6	127	0.6	127
572	0.2	5.8	572	0.2	572
Savings Related Share Option Scheme					
38 to 41	6.2	4.1	39		
83 to 109	0.8	1.5	89		
142 to 160	0.1	1.7	142		
Employee Stock Purchase Plan(2)					
50	3.0	0.003	50		
Global All Employee Share Purchase Plan(2)					
50	0.3	0.003	50		

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

(2) The exercise price and number of purchase rights outstanding cannot ultimately be determined until the maturity of each respective offering period (that is usually 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% discount) as at the date of grant.

In accordance with the rules of the following share option schemes, options were exercised during the three years in the period ended December 31, 2003 which resulted in new shares being allotted as shown below:

	Number of Ordinary shares year ended December 31			Total consideration received year ended December 31		
	2003	2002	2001	2003	2002	2001
		(millions)			(£ millions)	
Discretionary Schemes	0.4	0.1	0.7	0.1	0.1	1.0
Netcom Amended and Restated Stock Option Plan	0.7	2.1	1.1	0.1	0.5	0.4
All Employee Share Schemes	3.3	1.8	2.2	0.5	1.6	2.3
Net-HOPPER Amended and Restated Plan		0.2	0.9		0.1	0.5
Zarak Amended and Restated Stock Option Plan		0.1	0.9		0.1	0.7
Caw Amended and Restated Stock Plan(1)	0.2				2.8	
	4.6	4.3	5.8	0.7	5.2	4.9

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

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

On January 1, 2004, 3.3 million Ordinary shares were allotted following the automatic exercise of purchase rights under the Company's United States Employee Stock Purchase Plan and the Global All Employee Share Purchase Plan. Between January 1, 2004 and February 25, 2004 approximately 1.1 million Ordinary shares were allotted following exercises under other option schemes.

At December 31, 2003 the following options and purchase rights over Ordinary shares have been granted and remained outstanding under the Company's various employee share schemes. Figures for the options outstanding and the exercise price per Ordinary share have each been adjusted,

where relevant, for the 3:1 subdivision of share capital in 2000 and for the rights issues effected in 1993 and 2000.

Option Scheme	**Option exercise dates**	**Exercise price per share**	**Number of outstanding options**
		(pence)	**(millions)**
Discretionary Schemes:			
1985 Executive Share Option Scheme	04.22.97-04.26.05	102-108	0.1
1995 Executive Share Option Scheme	04.29.99-03.24.13	16-598	22.4
International Executive Share Option Scheme	04.11.98-04.10.05	104	0.2
Spirent Stock Option Plan (1)	05.11.01-12.11.10	6-617	62.7
Acquisition Related Schemes:			
Netcom Amended and Restated Stock Option Plan	07.23.99-07.19.09	15-151	11.2
Zarak Amended and Restated Stock Option Plan	11.14.00-11.12.10	79-572	0.8
Caw Amended and Restated Stock Plan	08.15.02-06.25.12	17.7-23.6(2)	0.7
All Employee Share Save Schemes:(3)			
United Kingdom Savings Related Share Option Scheme	12.01.02-05.31.11	38-583	7.1
United States Employee Stock Purchase Plan(4)	01.01.05	50	3.0
Global All Employee Share Purchase Plan(4)	01.01.05	50	0.3
Total			108.5

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

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

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

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

32. Acquisition of Subsidiaries

All acquisitions have been accounted for under the purchase method of accounting. The results of the acquired businesses have been included in the consolidated financial statements since the respective acquisition date.

For accounting purposes an allocation of the purchase price has been made using estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

Year ended December 31, 2003

No acquisitions occurred in the year ended December 31, 2003. The movements relate to prior year acquisitions

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

	Total
	(£ millions)
Goodwill	2.7
Purchase consideration comprised the following:	
Obligation to issue Ordinary shares Caw Networks, Inc.	2.7
The cash flows in respect of the purchase of subsidiaries are as follows:	
Cash (accrued in prior years)	(1.1)
Net cash outflow on acquisitions	(1.1)

Year ended December 31, 2002

For the year ended December 31, 2002 the most significant acquisitions, which all occurred in the Communications Group, were the following:

(1) July 2002 Certain assets of the remote special services test product line of Anritsu Company US were acquired for a cash consideration of $26 million. The remote special services test product line has been integrated into the Service Assurance division.

(2) August 2002 The remaining 85% of Caw Networks, Inc not already owned by the Group, was acquired 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 Performance Analysis division.

(3) September 2002 Certain intellectual property rights were acquired from UbiNetics for £6.5 million in cash.

There were no fair value or accounting policy adjustments being made to the book value of the assets acquired in 2002.

	Total
	(£ millions)
Assets and liabilities acquired were:	
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
	52.7
Purchase consideration comprised the following:	
Restricted stock	1.2
Options to acquire shares	0.1
Cash (including expenses)	53.4
Accrued	(0.9)
Consideration to be charged as compensation expenses	(1.1)
	52.7
The cash flows in respect of the purchase of subsidiaries are as follows:	
Cash (including expenses)	(53.4)
Cash (accrued in prior years)	1.0
Cash and overdrafts acquired	3.2
Net cash outflow on acquisitions	(49.2)

Year ended December 31, 2001

No acquisitions occurred in the year ended December 31, 2001. The following movements relate to prior year acquisitions.

	Total
	(£ millions)
Assets and liabilities acquired were:	
Goodwill	(0.8)
Purchase consideration comprised the following:	
Cash (including expenses)	1.2
Accrued	(2.0)
	(0.8)
The cash flows in respect of the purchase of subsidiaries is as follows:	
Cash (including expenses)	(1.2)
Cash (accrued in prior years)	8.4
Net cash inflow on acquisitions	7.2

Net cash flow on acquisitions related to cash consideration and expenses paid of £15.1 million in respect of the previous years' acquisitions and cash received of £22.3 million again in respect of the previous years' acquisitions.

33. Disposal of operations

Year ended December 31, 2003

On April 4, 2003 the Group completed the sale of its 51% interests in the WAGO joint venture to the joint venture partners (the Hohorst family) for a cash consideration of £58.8 million, net of expenses.

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

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

Year ended December 31, 2002

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

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

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

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 utilized £0.4 million for capital expenditure.

Year ended December 31, 2001

On November 9, 2001, the Group completed the disposal of the equity and assets of its Sensing Group of companies in the United Kingdom, the United States, Europe and Asia to a company formed by GE Industrial Systems, a division of General Electric Company of the United States for a cash consideration of $220 million (approximately £152 million).

During the year, the Group completed the disposal of several non-core businesses for cash proceeds, net of expenses of £1.5 million.

The businesses sold during the year contributed £7.8 million to the Group's operating cash flows, paid £0.7 million in respect of net returns on investments and servicing of finance, paid £1.4 million of taxation and utilized £3.1 million for capital expenditure.

Net assets disposed of were as follows:

	Year ended December 31		
	2003	2002	2001
		(£ millions)	
Fixed assets			
Tangible assets	0.7	8.2	17.9
Intangible assets	0.6	6.5	23.6
Stocks	2.3	13.0	16.6
Debtors	2.4	13.0	20.1
Creditors	(4.5)	(7.8)	(11.4)
Taxation			(0.9)
Cash			0.5
Overdrafts			(0.7)
Deferred taxation		0.3	0.4
Minority			(0.8)
Investment in joint venture	54.3		
Net assets	55.8	33.2	65.3
Goodwill charged to profit and loss account	2.6	70.8	65.1
	58.4	104.0	130.4
Net profit/(loss) on disposal of operations	3.6	(48.4)	14.5
	62.0	55.6	144.9
Satisfied by:			
Cash (less expenses)	62.0	55.6	148.6
Cash accrued			(3.7)
	62.0	55.6	144.9
The cash flows in respect of the sale of subsidiaries are as follows:			
Cash received net of expenses	62.0	55.6	148.6
Cash less overdrafts included within net assets disposed of			0.2
Net cash inflow from disposals	62.0	55.6	148.8

34. Differences between United Kingdom and United States Generally Accepted Accounting Principles

The accounting policies under which the consolidated financial statements of the Group are prepared conform 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 financial statements.

a) Revenue Recognition

Under UK GAAP, multiple-element arrangements with hardware, software and post contract support (PCS) components are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other because they are capable of being provided separately from one another and it is possible to attribute reliable fair values to each component. To the extent that a separate component comprises a product sale of hardware or software, revenue is recognized at the time of delivery and acceptance and when there are no significant vendor obligations remaining. Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer. Revenue is recognized on other components as the Group fulfils its contractual obligations and to the extent that it has earned the right to consideration.

Under US GAAP, the rules for revenue recognition under multiple-element arrangements are detailed and prescriptive. These rules include the requirement that revenues be allocated to the respective elements of such an arrangement on the basis of Vendor Specific Objective Evidence (VSOE) for each element. Statement of Position (SOP) 97-2 "Software Revenue Recognition" sets out precise requirements for establishing VSOE for valuing elements of a multiple-element arrangement. When VSOE for individual elements of an arrangement cannot be established in accordance with SOP 97-2, revenue is generally deferred and recognized over the term of the final element.

Under US GAAP, the Group does not have sufficient VSOE for certain elements of certain multiple-element arrangements with customers in the Service Assurance division of its Communications group. The terms of these arrangements with customers include, among other terms, on-going customer support (known as "PCS" under SOP 97-2) for hardware and software and the provision of product roadmaps, which contain expected release dates of planned updates and enhancements. The existence of a particular item on the roadmap does not, in itself, create a contractual obligation to deliver that item; however, under US GAAP an implied obligation is deemed to exist. As a consequence of the terms of these arrangements, revenue is deferred under US GAAP and does not start to be recognized until delivery or discharge of the obligation in respect of the final element of the arrangement for which VSOE is not determinable. If this final element is PCS, then revenue is recognized over the remaining term of the PCS contract. The Service Assurance division has a number of multi-year contracts for PCS and this has the effect of extending the period over which revenue is recognized for US GAAP.

Direct costs of the delivered products for which revenue recognition is deferred are also deferred.

The above gives rise to a UK GAAP to US GAAP difference in respect of revenue recognition in the reconciliations of both net income/(loss) and shareholders' equity.

During 2004 the Group reviewed its accounting treatment for revenue recognition in relation to SOP 97-2 and related US GAAP for multiple-element arrangements. This review caused the Group to re-evaluate how it had accounted for multiple-element arrangements in previous years within the Service Assurance division of its Communications group under US GAAP and the basis for determining VSOE for each element. The Group concluded that in complying with SOP 97-2, it is necessary to restate prior periods under US GAAP in order to reflect a consistent accounting treatment.

b) Goodwill and Other Intangible Assets

(i) Capitalization

Under UK GAAP, goodwill arising on acquisitions prior to 1998 was written off to retained earnings on acquisition and at December 31, 2003 amounted to £41.3 million (2002 £43.9 million). In accordance with FRS 10 "Goodwill and Intangible Assets", goodwill arising on acquisitions subsequent to January 1, 1998 is capitalized and amortized over its estimated useful economic life.

In reconciling to US GAAP, amounts written off to retained earnings under UK GAAP have been capitalized and amortized over their estimated useful economic lives of 20 years, until January 1, 2002. Under US GAAP, with the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), effective January 1, 2002, goodwill is no longer amortized but is subject to periodic review for impairment.

(ii) Contingent Consideration

Under UK GAAP, where the consideration paid for an acquisition includes a contingent payment and in the absence of a link to continued employment, the best estimate of the amount likely to be payable in respect of such consideration is accrued and is included in goodwill at the date of acquisition. Under US GAAP, the contingent payment is not recognized until the contingency has been resolved.

Under the acquisition agreements for Zarak and Caw, the Company was required to make an additional payment in the form of Ordinary shares if the acquired companies meet certain earnings targets and certain employees of the acquired companies remain in employment through a specified date. These additional stock payments related to the Zarak and Caw acquisitions have been accounted for as compensation expense, which is the same accounting treatment required under US GAAP. The compensation expense is estimated based on the Company's share price at the balance sheet date and is recognized on a straight-line basis over the required employment term of the employees. The contingent shares related to the Zarak and Caw acquisitions will be excluded from the basic earnings per share calculation under US GAAP until such time that the shares become fully vested. Additionally, the contingent shares are excluded from the diluted earnings per share calculation under US GAAP, as they are anti-dilutive.

(iii) Impairment of Goodwill and Long-lived assets

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.

At December 31, 2003, there were no indicators that the carrying value of goodwill may not be recoverable and no impairment charge has been recognized for 2003.

The deterioration in trading in the second half of 2002 in the telecommunications market together with a significant fall in the Spirent share price did necessitate an impairment review of our business at that time. This review resulted in impairment losses totalling £923.3 million being

recognized under UK GAAP during 2002. A similar impairment loss of £724.6 million was recognized during 2001.

Impairment losses in 2002 of £330.7 million related 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 for 2002, the directors, in line with best practice, 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 was consequently reinstated and included in the total impairment charge of £923.3 million.

Under UK GAAP, an impairment loss is recognized when the estimated cash flows on a discounted basis, expected to result from the use of the asset including its disposition, are less than the carrying value of the asset. On this basis the impairment losses of £923.3 million for 2002 were the aggregate from the impairment reviews of each individual income generating unit determined in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". The impairment loss restated the assets to value in use and was measured using pre-tax discount rates of between 15% to 20%. The discount rate was based on the Company's weighted average cost of capital and considered the particular risks associated with each income-generating unit.

Under US GAAP, regarding goodwill or intangible assets with an indefinite life, SFAS 142 became effective January 1, 2002, superseding SFAS No. 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed of". The Group was required to perform a transitional goodwill impairment test based on the carrying amount of goodwill as at that date. This indicated that 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.

Under SFAS 142, goodwill is no longer amortized but is subject to periodic review for impairment on a reporting unit basis. Having identified its reporting units the Group obtained independent valuations for SFAS 142 purposes at November 30, 2002 and November 30, 2003 for Service Assurance, Performance Analysis and Network Products.

SFAS 142 specifies that the test for goodwill impairment is a two-step approach. Step 1 is a comparison of the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying amount, the amount of the impairment loss must be measured. Step 2 states that the amount of the impairment loss, if any, is measured by comparing the implied fair value of goodwill to its carrying amount. Fair values were determined by applying a discounted cash flow method using post-tax discount rates of between 10% and 15%, depending on the weighted average cost of capital for a comparable set of companies to each respective reporting unit.

Step 1 results did not indicate impairment in any of the Group's reporting units at November 30, 2003, but did indicate impairment of goodwill in Service Assurance and Performance Analysis at November 30, 2002. After considering the fair values of the other intangible assets the implied fair values of goodwill were determined under Step 2 and compared to carrying values. On this basis, US GAAP goodwill impairment of £480.5 million in Service Assurance and £226.4 million in

Performance Analysis was recognized during 2002. A further £0.5 million of goodwill impairment arose within Systems during 2002. In addition, £57.4 million of impairment arose during 2002 on other definite lived intangibles in Service Assurance under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") as outlined below.

Under US GAAP, effective for Spirent on January 1, 2002, SFAS 144 supersedes SFAS 121. SFAS 144 requires long-lived assets to be tested for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. SFAS 144 does not apply to goodwill or intangible assets with an indefinite life. The Group did not consider the criteria necessitating an impairment review to have been met at November 30, 2003, but did at November 30, 2002 and obtained independent valuations as at that date for SFAS 144 purposes for other intangible assets within Performance Analysis division and Service Assurance division.

SFAS 144 requires long-lived assets to be written down to their fair value if the long-lived assets carrying amount is greater than the sum of undiscounted cash flows over the period of the long-lived assets useful life. The impairment amount is the difference between the long-lived assets carrying value and its fair value. Fair values are determined using the present values of future cash flows expected to be generated by the long-lived assets. Testing takes place at the lowest level for which identifiable cash flows generated by individual long-lived assets or groups thereof are largely independent of the cash flows of other groups of assets and liabilities.

The results of the independent valuations at November 30, 2002 indicated that other intangible assets within Service Assurance division were impaired by £57.4 million. Other intangible assets within the Performance Analysis division were not impaired.

The total impairment loses of £923.3 million under UK GAAP and £764.8 million under US GAAP for 2002 had the effect of restating the assets to the same fair values.

During 2001, the rapid deterioration in the telecommunications market led to a recognition of impairment losses for Hekimian Laboratories, Net-HOPPER and Zarak Systems, all acquired in the second half of 2000, under both UK GAAP and US GAAP. Zarak Systems is within Performance Analysis division; Hekimian Laboratories and Net-HOPPER comprised Service Assurance division.

The US GAAP impairment losses recognized in 2001 were calculated in accordance with SFAS 121, under which an impairment loss is recognized if the estimated undiscounted cash flows expected to result from the use of the assets and any related goodwill are less than the carrying value of the asset. In each case the asset would be written down to its fair value measured using a discounted future cash flow technique with a post-tax discount rate consistent with the UK GAAP impairment calculations. For the purposes of assessing and measuring impairment, assets are grouped at the lowest level possible for which independent cash flows can be identified. On this basis, US GAAP impairment losses in 2001 totaled £724.3 million, comprising £715.6 million for goodwill and £8.7 million for identified intangibles.

In addition, as a result of the trading environment within the aerospace software industry, an impairment charge of £16.5 million for goodwill and other intangible assets in relation to the investment in WPDS Inc., was made under US GAAP at December 31, 2001. As the original

business was acquired prior to January 1, 1998, under UK GAAP the goodwill arising was written off to reserves.

Essentially, the UK GAAP to US GAAP adjustment arises from the use of shorter amortization lives under US GAAP for intangibles, and goodwill until January 1, 2002, which results in a lower asset carrying value subject to the impairment tests under US GAAP.

Under UK GAAP, impairment charges on goodwill and other intangible assets are recorded as an increase to accumulated amortization. Under US GAAP, impairment charges are recorded as a reduction of cost. Classification differences related to this issue have been reflected in the presentation of goodwill and other intangible asset balances within the reconciliation of shareholders' funds.

(iv) Other purchase accounting differences

Other differences between UK GAAP and US GAAP arise with respect to the adoption of SFAS 142 and the determination of the cost of investment, the fair values of assets acquired, the treatment of identifiable intangible assets and the amortization periods of goodwill as described in more detail below.

Under US GAAP, acquisitions subsequent to June 30, 2001 are subject to the provisions of SFAS 142 and therefore, goodwill arising on acquisitions subsequent to that date is not amortized. In the year ended December 31, 2001, amortization arising under UK GAAP on acquisitions subsequent to June 30, 2001 was reversed for the purposes of the reconciliation below and all goodwill amortization charged under UK GAAP from January 1, 2002 has been reversed in reconciling UK GAAP to US GAAP in the years to December 31, 2002 and 2003.

In addition, under US GAAP, SFAS 141 "Business Combinations", effective January 1, 2002, clarifies the criteria to recognize identified intangible assets separately from goodwill. Consequently, an unamortized balance of £8.4 million was transferred from identified intangibles to goodwill on January 1, 2002, representing workforce in place which does not meet these new criteria.

(v) Additional disclosures

SFAS 142 requires disclosure of what reported income before extraordinary items and net income would have been in all periods presented excluding amortization expense (including any related tax effects) recognized in those periods related to goodwill, intangible assets that are no longer being amortized, any deferred credit related to an excess over cost, equity method goodwill, and changes

in amortization periods for intangible assets that will continue to be amortized (including any related tax effects).

	Year ended December 31		
	Restated(1) 2003	Restated(1) 2002	Restated(1) 2001
		(£ millions)	
Net income/(loss) according to US GAAP			
Reported net income/(loss)	5.7	(777.9)	(829.2)
Add back goodwill amortization			173.5
Adjusted net income/(loss)	5.7	(777.9)	(655.7)
		(pence)	
Basic earnings per share			
Reported net income/(loss)	0.61	(84.33)	(90.61)
Add back goodwill amortization			18.96
Adjusted basic earnings per share	0.61	(84.33)	(71.65)
Diluted earnings per share			
Reported net income/(loss)	0.60	(84.33)	(90.61)
Add back goodwill amortization			18.96
Adjusted diluted earnings per share	0.60	(84.33)	(71.65)

(1) Restated for revenue recognition.

The changes during 2003 in the carrying value of goodwill per segment are presented in the table below:

	Performance Analysis	Service Assurance	Network Products	Systems	Total
		(£ millions)			
Balance as of January 1, 2003		13.4	27.9	4.2	45.5
Increase in goodwill during the year	2.3	0.1	0.2		2.6
Goodwill written off related to sale of businesses				(3.0)	(3.0)
Currency translation adjustment		(1.2)			(1.2)
Balance as of December 31, 2003	2.3	12.3	28.1	1.2	43.9

Intangible assets subject to amortization by major class, which constitute more than 5% of total assets, are as follows:

	Developed Technology	Other	Total
	(£ millions)		
As at December 31, 2002			
Gross carrying amount	67.0	29.8	96.8
Accumulated amortization	(32.6)	(15.3)	(47.9)
Carrying amount	34.4	14.5	48.9
As at December 31, 2003			
Gross carrying amount	56.7	27.5	84.2
Accumulated amortization	(32.1)	(17.0)	(49.1)
Carrying amount	24.6	10.5	35.1

The amortization expense for the year ended December 31, 2003 is £10.4 million (2002 £19.9 million). Amortization expense for intangible assets is expected to be £8.9 million in 2004, £8.5 million in 2005, £8.1 million in 2006, £7.3 million in 2007 and £2.3 million in 2008.

c) Stock-based Compensation

UK corporate governance recommends the inclusion of performance criteria in UK discretionary or executive stock plans. The Company's UK ESOS includes certain performance criteria, which result in variable accounting under US GAAP. Notwithstanding these performance criteria, under UK GAAP no compensation expense arises under the ESOS.

For the purposes of the reconciliations below, the Group has elected to use the intrinsic value basis as set forth in Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") in determining any compensation expense under US GAAP. The compensation expense arising in respect of variable plans under US GAAP is determined by reference to the market price of the Company's shares at each period end compared with the option price and is charged to income over the vesting period.

Under US GAAP, the following accounting results for each stock option plan:

(i) 1985 and 1995 Executive Share Option Schemes

The presence of earnings per share performance criteria in the vesting terms results in no measurement date arising until the conditions are resolved. Accordingly, under APB 25, the plan is deemed to be a variable plan.

(ii) International Executive Share Option Scheme

This plan is accounted for as a fixed plan under APB 25 as a measurement date arises on the date of grant and no performance criteria exist.

(iii) Savings Related Share Option Schemes

These plans are accounted for as fixed plans; however, in accordance with Financial Accounting Standards Board Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation An Interpretation of APB Opinion No. 25" ("FIN 44") a compensation charge arises under the Group's Save-As-You-Earn schemes as the discount of 20% exceeds the maximum discount permitted of 15%.

(iv) Netcom Amended and Restated Share Option Plan

This plan is accounted for as a fixed plan under APB 25 as a measurement date arises at the date of grant and no performance criteria exist. As of December 31, 2003, all options were vested and no further grants have been made under this plan.

(v) Zarak Amended and Restated Stock Option Plan

This plan qualifies as a fixed plan under APB 25; however, in accordance with FIN 44, a portion of the intrinsic value of the unvested awards at the date of acquisition is allocated to unearned compensation and recognized by the Company as compensation cost over the remaining future vesting period. The amount allocated to unearned compensation cost is based on the portion of the intrinsic value at the consummation date related to the future vesting period. This amount is calculated as the intrinsic value of the replacement awards at the consummation date multiplied by the fraction that is the remaining future vesting period divided by the total vesting period.

(vi) CAW Amended and Restated Stock Plan

This plan is accounted for in the same way as the Zarak Amended and Restated Stock Option Plan as set out above.

(vii) Spirent Stock Option Plan

This plan is accounted for as a fixed plan under APB 25 as a measurement date arises on the date of grant and no performance criteria exist.

For those options subject to the option exchange program completed in September 2003 variable plan accounting has been adopted.

(viii) US Employee Stock Purchase Plan

This plan is accounted for as a fixed plan under APB 25. No compensation expense arises under this plan as the discount of 15% is within the permitted range under US GAAP.

(ix) Global All Employee Share Purchase Plan

This plan operates on similar terms to the US Employee Stock Purchase Plan above and is accounted for in the same way.

(x) Stock Appreciation Rights Plan

This plan provides stock appreciation rights and, accordingly, is accounted for as a variable plan under APB 25.

(xi) Long Term Share Purchase Plan

At the date of grant no measurement date arises due to the extensive performance criteria related to each award. Accordingly, the LTSPP is considered a variable plan under APB 25.

The awards are subject to a six-year performance period comprising two periods of three years each. After the first performance period, the holder of the award has a reinvestment decision between cash and shares which impacts the matching criteria for the second three-year performance period. The basis of compensation expense recognition is to assume that after the first three-year performance period the minimum amount is reinvested in shares. Expense has been recognized based on performance to date. At December 31, 2003, no performance units were outstanding under the LTSPP and the plan has now closed.

The compensation expense/(credit) arising under US GAAP for the above plans is summarized as follows:

	Year ended December 31		
Share Option Plan	**2003**	**2002**	**2001**
		(£ millions)	
1985 and 1995 Executive Share Option Scheme	0.8	(0.7)	(15.5)
Stock Appreciation Rights Plan			(4.1)
CAW Amended and Restated Stock Plan	0.6	0.3	
Other	0.1	0.5	1.3
	1.5	0.1	(18.3)

d) Pensions

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

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

schemes' assets together with changes in the actuarial assumptions are included in the statement of total recognized gains and losses.

Under US GAAP, the projected benefit obligation (pension liability) is matched against the fair value of the pension plan's assets and adjusted to reflect any unrecognized obligations or assets in determining the pension cost or credit for the year. Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists (i.e. the accumulated benefit obligation exceeds the fair value of plan assets), and an asset has been recognized as prepaid pension cost. The excess of any additional liability over any unrecognized prior service cost is reported as a separate component within other comprehensive income, net of tax benefits from timing differences.

For the purposes of the reconciliations, the Group adopted the provisions of SFAS No. 87 "Employers Accounting for Pensions" ("SFAS 87") with respect to its UK defined benefit plan from January 1, 1997. The Company has not implemented SFAS 87 as of its effective date for non-US plans (fiscal years beginning after December 15, 1988) due to the unavailability of actuarial data. Accordingly, a portion of the transition asset at January 1, 1997 has been allocated to shareholders' equity based on a ratio of 8:15, being the number of years elapsed between the effective date of SFAS 87 (the Group's fiscal year beginning January 1, 1989) and January 1, 1997, over the 15-year period being used to amortize the transition asset.

In calculating the 2002 net periodic pension cost under US GAAP, a credit of £4.6 million arises in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits" ("SFAS 88"). Of this credit, £2.6 million represents the recognition of prior service credit relating to the future working life curtailed as a result of the disposals which took place during 2002. The balance of £2.0 million is included as a component in calculating the US GAAP net periodic pension cost.

e) Profit on Disposal

The different treatment of goodwill arising on acquisitions prior to January 1, 1998 under UK GAAP and US GAAP, together with the use of different goodwill amortization periods and the adoption of SFAS 142, result in adjustments to profit or losses on disposal of businesses, as the determination of the profit or loss on disposal takes into account the unamortized balance of goodwill released. In addition, differences between UK GAAP and US GAAP as described in this note (including stock-based compensation and derivative financial instruments) may also affect the carrying value of the disposed of subsidiary, resulting in a different profit or loss on disposal. Under US GAAP, the profit or loss on disposal is also stated net of any related cumulative currency translation differences and the effect of the disposal on the Projected Pension Liability (curtailment gain or loss) under SFAS 88.

Under UK GAAP, the profit or loss on disposal of operations is shown separately on the face of the profit and loss account after operating profit. Under US GAAP, these profits or losses would be reported as other operating income or expense.

f) 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.

g) Derivative Financial Instruments

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") the requirements of which have been adopted by the Group for the purposes of its reconciliations to US GAAP from January 1, 2001.

At December 31, 2003, the Group has in place an interest rate swap for $72.1 million which terminates on November 23, 2009. The swap is callable at the bank's option at six monthly intervals. The fair value of this financial instrument at December 31, 2003 has been determined as £1.3 million liability. In addition, the Group has forward foreign exchange contracts in place at December 31, 2003, with a fair value of £0.4 million.

Under UK GAAP, net amounts paid and received related to hedging transactions on interest rate swaps are recognized on an accruals basis over the life of the underlying financial instrument and gains and losses on contracts to hedge future foreign currency exposure are deferred until the transaction occurs. The fair value of these items is required to be disclosed, but not recorded under UK GAAP.

Under US GAAP, in accordance with SFAS 133, the fair values of derivative instruments are required to be recorded on the balance sheet, and any changes in such fair values which do not meet the criteria for hedge accounting under SFAS 133 are required to be recorded in the profit and loss account. Therefore, differences between UK GAAP and US GAAP arise which are recorded in net income/(loss) for US GAAP. On adoption of SFAS 133, the one-time cumulative accounting effect did not impact the Group's results of operations or comprehensive income under US GAAP because the fair value of the Group's derivative financial instruments approximated their carrying value. For the year ended December 31, 2003 the Group has recorded a £1.9 million loss (2002 £2.1 million gain) related to the changes in the fair value of derivative instruments, which do not meet the requirements of hedge accounting.

h) Accounting for the Group's Joint Venture and Associates

Under UK GAAP, the Group's interests in its WAGO joint venture at December 31, 2002 and 2001 were accounted for using the gross equity method. Under this method of accounting, the Group's share of turnover, operating profit, interest expense, taxation, minority interests, gross assets and gross liabilities of the joint venture were reflected in the Company's consolidated financial statements. Similarly, the Group's share of its associates' operating profit, interest and taxation were also reflected in the Company's consolidated financial statements.

In accordance with US GAAP, as set forth in Accounting Principles Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock" the Company's 51% interests in the WAGO joint venture were accounted for under the equity method. The equity method was

required because the management agreement between Spirent and the joint venture parties established joint control. Spirent and the joint venture partners each could appoint two directors. A corporate resolution of the joint venture needed to have been approved by a super-majority of the shareholders; thus, no one joint venture partner had the ability to unilaterally control the joint venture. Accordingly, the Group's share of the after tax profits of the joint venture and associates would be reflected in the income statement as a single line item after minority interests and its net investment in the joint venture would also be included as a single line item in the balance sheet with the investment in the Group's other associated companies.

For the years ended December 31, 2002 and 2001, the only differences arising related to stock-based compensation and the adoption of SFAS 133 in the joint venture's US GAAP basis financial statements. These differences together decreased the Group's net loss and increased shareholders' equity by £0.2 million (2001 £0.3 million) and £0.8 million (2001 £0.5 million), respectively.

The Group disposed of its interests in WAGO during 2003.

i) Deferred Taxation

Under UK GAAP, deferred taxation is provided for 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 recognized 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.

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

j) Unamortized Debt Issue Costs

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

k) Discontinued Operations

Disposals in the years ended December 31, 2002 and 2003, did not qualify to be treated as discontinued operations under either UK GAAP or US GAAP.

Under UK GAAP, sales and operating profits of Sensing Solutions, disposed of in 2001, have been reported as arising from discontinued operations.

SPIRENT plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. Differences between United Kingdom and United States Generally Accepted Accounting Principles (Continued)

The Group adopted SFAS 144, which superseded the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30") for purposes of its December 31, 2001 US GAAP reconciliation.

Under SFAS 144, reporting of discontinued operations is extended to include disposals qualifying as a "component of an entity". Disposals recorded as discontinued operations for UK GAAP in 2001 meet the definition of a "component" under SFAS 144 and have been treated as discontinued operations for US GAAP.

Net Income/(Loss) under US GAAP

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

	Year ended December 31		
	Restated[1] 2003	**Restated[1][2] 2002**	**Restated[1][2] 2001**
		(£ millions)	
Loss attributable to shareholders in accordance with UK GAAP	(0.5)	(1,050.7)	(764.0)
Adjustments:			
a) Revenue recognition deferred revenue	12.2	(2.1)	(48.6)
deferred cost	(3.0)	(3.8)	21.7
b) Goodwill and other intangible assets:			
(i) Capitalization			(18.4)