SPIRENT PLC
Form 20-F
May 18, 2005

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As filed with the Securities and Exchange Commission on May 18, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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, 2004

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: 956,241,665 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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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Information of Spirent plc ("Spirent", "the Company" or "the Group")

The selected consolidated profit and loss account data for each of the three years in the period ended December 31, 2004 and balance sheet data as of December 31, 2004 and 2003 set forth below are derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The profit and loss account data for the years ended December 31, 2001 and 2000 and the balance sheet data as of December 31, 2002, 2001 and 2000 are derived from our audited consolidated financial statements. All of these financial statements have been audited by Ernst & Young LLP, our 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 annual report.

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				
	2004	2003	2002	2001	2000
	(£ millions, except per share and per ADS amounts)				
Amounts in accordance with UK GAAP					
Turnover	475.0	466.2	558.9	801.8	696.7
Operating profit/(loss)	30.8	18.8	(970.6)	(734.3)	110.0
Other Information					
Exceptional items					
Goodwill impairment			923.3	724.6	
Other	2.9	7.5	41.6	34.9	2.2
Goodwill amortization	9.1	9.7	56.1	86.6	25.7
Operating profit before goodwill amortization and exceptional items	42.8	36.0	50.4	111.8	137.9
(Loss)/income from interests in					
Joint ventures	(0.7)	2.7	7.4	9.6	13.3
Associates	2.8	2.1	1.0	1.3	2.7
Amortization of goodwill on associates			(0.2)	(0.1)	
(Loss)/profit on disposal and closure of operations	(0.9)	3.6	(48.4)	14.5	(18.1)
Profit on disposal of tangible fixed assets					3.2
Profit/(loss) before interest	32.0	27.2	(1,010.8)	(709.0)	111.1
Net interest payable	(6.8)	(9.3)	(12.3)	(22.8)	(29.3)
Exceptional interest payable	(0.5)	(16.1)			
Other finance (expense)/income	(0.7)	(1.5)	(0.3)	0.4	
Profit/(loss) before taxation	24.0	0.3	(1,023.4)	(731.4)	81.8
Taxation	(7.7)	(0.6)	(26.9)	(32.4)	(30.6)
Minority interest equity and joint venture	(0.3)	(0.2)	(0.4)	(0.2)	(0.5)
Profit/(loss) for the financial period	16.0	(0.5)	(1,050.7)	(764.0)	50.7
Basic earnings/(loss) per share (pence)	1.70	(0.05)	(113.90)	(83.49)	7.40
Headline earnings per share (pence)	2.99	2.31	3.36	7.70	12.61
Diluted earnings/(loss) per share (pence)	1.67	(0.05)	(113.90)	(83.49)	7.18
Dividend per share (pence)			1.35	4.35	4.35
Dividend per share (US cents)			2.10	6.36	6.33
Dividend per ADS (pence)			5.40	17.40	17.40
Dividend per ADS (US cents)			8.40	25.44	25.32

Turnover by segment					
Continuing operations					
Performance Analysis	176.8	148.7	184.0	241.4	280.0
Service Assurance	74.7	91.7	131.4	189.2	9.2
Communications	251.5	240.4	315.4	430.6	289.2
Network Products	187.8	174.4	164.7	170.4	181.4
Systems	35.7	51.4	78.8	124.0	135.4
	475.0	466.2	558.9	725.0	606.0
Discontinued operations				76.8	90.7
	475.0	466.2	558.9	801.8	696.7
Operating profit before goodwill amortization and exceptional items					
Continuing operations					
Performance Analysis	19.7	4.4	10.0	38.6	97.0
Service Assurance	0.2	9.4	20.8	44.8	1.6
Communications	19.9	13.8	30.8	83.4	98.6
Network Products	20.4	16.7	15.0	14.9	25.3
Systems	2.5	5.5	4.6	5.4	2.7
	42.8	36.0	50.4	103.7	126.6
Discontinued operations				8.1	11.3
	42.8	36.0	50.4	111.8	137.9

Amounts in accordance with US GAAP

	Year ended December 31				
	2004	2003	2002	2001	2000
	(£ millions, except per share and per ADS amounts)				
Net income/(loss)	24.9	5.7	(777.9)	(829.2)	(39.6)
Net income/(loss) per share					
Basic (pence):					
Continuing operations	2.65	0.61	(84.33)	(95.23)	(6.10)
Discontinued operations				4.62	0.32
Net income/(loss)	2.65	0.61	(84.33)	(90.61)	(5.78)
Diluted (pence):					
Continuing operations	2.60	0.60	(84.33)	(95.23)	(6.10)
Discontinued operations				4.62	0.32
Net income/(loss)	2.60	0.60	(84.33)	(90.61)	(5.78)
Dividend per share (pence)			4.35	4.35	4.24
Dividend per share (US cents)			6.49	6.33	6.29
Net income/(loss) per American Depositary Share ("ADS")					
Basic (pence):					
Continuing operations	10.60	2.44	(337.32)	(380.92)	(24.40)
Discontinued operations				18.48	1.28
Net income/(loss)	10.60	2.44	(337.32)	(362.44)	(23.12)
Diluted (pence):					
Continuing operations	10.40	2.40	(337.32)	(380.92)	(24.40)
Discontinued operations				18.48	1.28
Net income/(loss)	10.40	2.40	(337.32)	(362.44)	(23.12)
Dividend per ADS (pence)			17.40	17.40	16.96
Dividend per ADS (US cents)			25.96	25.32	25.16

Consolidated Cash Flow Data

	Year ended December 31				
	2004	2003	2002	2001	2000
	(£ millions)				
Amount in accordance with UK GAAP					
Net cash inflow from operating activities	60.3	68.2	76.9	141.2	125.7
Acquisitions and disposals	1.2	60.4	6.4	149.6	(536.6)
Financing	(9.5)	(143.6)	53.8	(152.8)	480.2
Amounts in accordance with US GAAP					
Cash inflow from operating activities	47.8	54.1	60.7	96.4	83.9
Cash (outflow)/inflow on investing activities	(23.6)	44.6	(17.9)	91.9	(596.1)
Cash (outflow)/inflow from financing activities	(9.5)	(143.6)	13.8	(192.6)	452.5

Consolidated Balance Sheet Data

	At December 31				
	2004	2003	2002	2001	2000
	(£ millions)				
Amounts in accordance with UK GAAP					
Intangible assets	88.8	101.6	113.6	987.7	1,816.8
Tangible fixed assets	86.3	90.2	110.0	137.6	136.2
Current assets	195.6	179.5	242.4	263.0	375.5
Total assets	386.5	386.2	529.4	1,450.9	2,382.1
Current liabilities	118.6	113.1	109.3	178.0	219.4
Creditors due after more than one year	80.2	95.6	248.3	205.6	355.6
Total liabilities (including pension liability)	241.5	264.1	432.2	400.7	577.1
Shareholders' funds	143.7	119.9	95.1	1,047.8	1,801.3
Share capital	31.9	31.5	31.3	31.1	30.9
Amounts in accordance with US GAAP					
Intangible assets	67.4	79.0	94.4	907.8	1,841.4
Tangible fixed assets	86.3	90.2	110.0	137.6	136.2
Current assets	206.5	220.1	283.1	314.1	408.7
Total assets	419.5	431.7	579.5	1,450.4	2,458.3
Current liabilities	139.6	186.1	179.1	234.2	246.9
Creditors due after more than one year	151.9	135.2	298.1	252.4	380.8
Total liabilities	343.2	388.4	566.9	538.1	669.3
Shareholders' funds	75.0	41.1	10.5	909.9	1,785.3
Share capital	31.9	31.5	31.3	31.1	30.9

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 May 6, 2005 was $1.89 = £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)	
April 2005	1.92	1.87
March 2005	1.93	1.87
February 2005	1.92	1.86
January 2005	1.90	1.86
December 2004	1.95	1.92
November 2004	1.91	1.83

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)			
2004	1.95	1.76	1.83	1.92
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

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 May 6, 2005 was €1.47 = £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)	
April 2005	1.48	1.45
March 2005	1.46	1.43
February 2005	1.46	1.44
January 2005	1.45	1.41
December 2004	1.46	1.41
November 2004	1.45	1.42

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)			
2004	1.52	1.41	1.47	1.41
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

Risk Factors

You should carefully consider the risks and uncertainties described below and the other information in this annual report, 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 by fluctuating market conditions, particularly in the telecommunications industry into which we sell many of our products and services, and generally unfavorable economic conditions.

Generally unfavorable economic conditions worldwide, and particularly in the telecommunications industry into which we sell many of our products and services, have affected our businesses in the past. Weak market conditions have resulted in reduced purchasing and capital spending in many of the industries and markets into which we sell our products. 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 which has experienced cyclical downturns and fluctuating conditions. If global economic growth continues to be hampered by weak industrial production cycles, reductions in consumer confidence and capital spending, and a failure of the global economies to create more balanced opportunities for growth, we may experience a further reduction in demand for our products and services which 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. In particular, we have seen our legacy products in the Service Assurance division of our Communications group become obsolete at a more rapid rate than anticipated and throughout our businesses we anticipate that our current products and services will become technologically obsolete over time. Beyond the decrease in demand for our legacy Service Assurance products, technological developments in the telecommunications industry generally may also eliminate whole markets or the need for other products or services. Entire product lines may be threatened by new technologies or market trends which may reduce the value of these product lines. We have increasingly seen telecommunications customers focus on next-generation products and reduce their demand for our legacy products. If we fail to anticipate and keep up with changes in technology and such customer trends and requirements in these industries,

and to develop and introduce new products and services that meet the rapidly evolving needs of our customers, 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, including working with potential customers to develop products to monitor advanced IP-based networks, 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. If we fail to extend our existing capabilities in the next-generation IP technology and services sector, which we believe represents an important growth opportunity, our business, operating results and financial condition will suffer.

Continued consolidation of our telecommunications customers could affect sales of our Communications group products and services, which could harm our business, operating results and financial condition.

The telecommunications industry has recently experienced significant consolidation. One result of this trend has been delays in spending by our telecommunications customers on monitoring equipment for current network systems. If this trend continues, consolidation of our telecommunications customers could continue to reduce demand for our legacy network monitoring products and reduce the number of potential customers to whom our telecommunications testing products and services could be sold. The consolidated entities could also purchase products and services from other sources or use the additional leverage they gain from their consolidated purchasing power to demand more favorable terms from us, which could harm our business, operating results and financial condition.

Failure to expand and diversify our customer base in some of our businesses 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, as well as the success of those customers' businesses, 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 existing customers or that we will be able to attract additional customers in current or new global markets. If we do not expand our customer base, poor results or decreased market share of any single customer may adversely affect our own results and the loss of one or more of our largest customers, any reduction or delay in sales to these customers, or an inability to successfully develop and maintain relationships with existing and new customers in existing or new global markets could significantly harm our business, operating results and financial condition.

We face aggressive competition and consolidation trends in certain markets are creating more powerful competitors. 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 or more powerful competitors may emerge including through mergers or consolidations of existing competitors. Some of our competitors have greater name recognition, larger customer bases, and greater financial, marketing, sales and other resources and some of them, particularly in the telecommunications industry, have gained such advantages through consolidation. To stay competitive as an independent company, 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.

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 ensure that our incentive plans are competitive. If we experience a significant decrease in the market price of our Ordinary shares, our share-based incentive plans may fail to offer competitive incentives within our various industries.

The cyclical nature of the automotive and industrial equipment markets could adversely affect the business of our Network Products group.

Our Network Products group generated almost 40% of the Company's turnover in 2004. A significant portion of the sales of the Network Products group is to automotive and industrial equipment manufacturers in many markets throughout the world. These markets are subject to considerable fluctuation as sales and production are cyclical and depend on general economic conditions and other factors, including interest rates, fuel prices and consumer confidence, spending and preferences. A significant reduction in these markets could have an adverse effect on our business, operating results and financial condition.

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 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 and the outsourcing of certain portions of our supply chain. If we cannot obtain sufficient products or services from these third-party manufacturers and service providers, we may lose customers and suffer a reduction in turnover and profits.

Many of our businesses contract out certain manufacturing processes and we are increasingly exploring cost-effective opportunities to contract out certain supply chain services. If there was a failure of any such manufacturer or service provider because of, for example, insolvency or catastrophic loss, the delivery of products or services to our operations might be disrupted or even terminated. Delivery of products and services could also be disrupted if such manufacturers or suppliers fail to maintain satisfactory cost and quality levels. In such instances, it might not be possible to find an alternative manufacturer in an acceptable timeframe on the same or acceptable economic terms as the original manufacturer or service provider. If we cannot obtain sufficient quantities and quality 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 cost acceptable to our customers, 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.

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 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 awards 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 or 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.

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, currency fluctuations, exchange control restrictions, regulations on capital investments, the ability to enforce intellectual property rights, language and certain cultural differences in countries where we have operations and the global political outlook. For example, events such as the continued military involvement in Iraq, 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.

We are subject to various governmental regulations, compliance with which may cause us to incur significant expense, and if we fail to comply with certain regulations, we may be prohibited from manufacturing and distributing certain products which could have a significant effect on our financial condition, and we could be subject to civil or criminal penalties.

Our businesses are subject to various significant international, federal, state and local regulations currently in effect and scheduled to become effective in the near future, including but not limited to environmental, health and safety and import/export regulations. These regulations are complex, change frequently, can vary from country to country, and have increased over time. We may incur significant expense in order to comply with these regulations or to remedy violations of them.

Any failure by us to comply with applicable government regulations could result in non-compliant portions of our operations being shut down, product recalls or impositions of civil and criminal penalties and, in some cases, prohibition from distributing our products or performing our services until the products and services are brought into compliance, which could significantly affect our operations.

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 the pound 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 remain subject to certain operational constraints and financial covenants under the terms of our debt obligations.

We have recently met certain financial requirements necessary to relax various terms under our current debt obligations which have historically constrained our ability to make dividend payments, incur further debt, provide further security and make acquisitions and disposals. Meeting such financial requirements has also resulted in the revision of certain of our financial covenants under such debt obligations. However, we are still subject to financial covenants and certain other restrictions and we can provide you with no assurance that the financial covenants will not be breached and that further renegotiation of our borrowing terms will not be needed if there is another downturn in our business due to industry conditions or otherwise.

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 are making annual contributions to the scheme of £3.5 million which commenced on July 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 further 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.

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.

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.

We may identify issues with our controls over financial reporting when evaluating the same for compliance with section 404 of the Sarbanes-Oxley Act.

We will be required to comply with section 404 of the US Sarbanes-Oxley Act of 2002 for our Annual Report on Form 20-F for the year ending December 31, 2006. Section 404 requires that we evaluate and report on our systems of internal control over financial reporting. In addition, our independent auditors will have to report on management's evaluation of those controls. In the course of such review and evaluation, we may identify deficiencies in our systems of internal controls over financial reporting that may require remediation as we recently did with respect to revenue recognition under US GAAP under certain multiple-element customer arrangements in the Service Assurance division of our Communications group. We can give no assurances that any such deficiencies identified may not be significant deficiencies or material weaknesses that may have an adverse effect on the financial condition of our business.

Our financial reporting must comply with International Financial Reporting Standards with effect from January 1, 2005 and with any other changes as and when mandated by applicable regulatory authorities.

We will be required to report our consolidated financial statements in compliance with International Financial Reporting standards ("IFRS") in respect of accounting periods commencing on or after January 1, 2005. The first-time adoption rules of IFRS require the comparative financial information presented in the first set of IFRS financial statements to be prepared on a consistent basis. Some previously reported numbers will be different when reported under IFRS and we will restate our 2003 and 2004 financial statements and present a series of reconciliations to the previously reported UK GAAP numbers.

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 4. INFORMATION ON THE COMPANY

Overview of Our Business

Spirent is a leading communications technology company focused on delivering innovative systems and services to meet the needs of customers worldwide. In the mid 1990s Spirent embraced a strategy focusing on high technology businesses and identified the communications test industry as a prime sector of interest. Since then we have focused our activities through strategic acquisitions and divestments, as well as organic growth. Our operations are now organized into three operating groups: Communications, Network Products and Systems.

In the year ended December 31, 2004, we had total turnover of £475.0 million and operating profit before goodwill amortization and exceptional items of £42.8 million. Our Communications group remains our largest business in terms of turnover, representing 54% (2003 53%) of ongoing turnover in the year ended December 31, 2004.

On April 21, 2005 the Company issued a trading update. The text of the update is given in "Item 5. Recent Developments".

During 2004 we completed the divestment of our aerospace maintenance, repair and overhaul ("MRO") software business for net cash proceeds of £2.5 million.

During 2003 we completed the divestment of our Aviation Information Solutions ("AIS") businesses from within the Systems group's aerospace activities for net proceeds of £3.2 million in cash and we completed the divestment of our 51% interests in WAGO, our interconnection joint venture, to our joint venture partners for £58.8 million net in cash.

In 2002 we acquired certain assets of the remote special services product line of Anritsu Company US for a cash consideration of $26 million and certain intellectual property rights in relation to wireless technology from UbiNetics Limited for £6.5 million in cash. We also acquired the 85% of Caw Networks, Inc. not already owned by the Group for an initial consideration of $49 million of which $45 million was in cash. In 2002 we sold our aerospace components businesses for proceeds of $60 million in cash, certain assets of Switching Systems International for up to $9.1 million cash and Montitor Labs Incorporated for $24 million cash, all from within our Systems group.

The main activities of our three operating groups are:

Communications. Spirent Communications is a global provider of performance analysis and service assurance solutions that enable the development and deployment of next-generation networking technologies.
The Performance Analysis division of our Communications group develops testing solutions for a broad range of communications technologies critical to the development of equipment and deployment of next-generation networks. Our systems test wireline and wireless equipment

including core and metro terabit routers, broadband access devices, local area network switches and routers, third generation ("3G") wireless handsets, Internet telephony and web applications and security. Our systems enable customers to emulate large-scale networks, introduce impairments and stress test equipment to ensure maximum performance and conformance to industry standards.

The Service Assurance division of our Communications group provides network monitoring and management systems for service providers to assure the quality of their high bandwidth data services. Our systems enable efficient delivery of leased line, digital subscriber line ("DSL") and Internet Protocol ("IP") services. The division provides operations support systems ("OSS") software, remote test probes, network test access systems and support and maintenance services.

In 2004 our Communications group had turnover of £251.5 million and operating profit before goodwill amortization and exceptional items of £19.9 million.

Network Products. Our Network Products group 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. HellermannTyton designs and manufactures a broad range of high-grade nylon ties, clips, channels and fixings for fastening cables and wires in a broad range of applications. We also produce products with value added identification and security features. Our heatshrink insulation, convoluted tubing and cable covering products provide insulation and physical protection for wires and cables. We are a market leader in systems for the automated application of cable fixings and identification printing and application systems. We also produce a range of products used in the installation of local area and wide area communications networks such as raceways, ducting, racks, patch panels and modular jacks.
In 2004 our Network Products group had turnover of £187.8 million and operating profit before goodwill amortization and exceptional items of £20.4 million.

Systems. Our Systems group comprises PG Drives Technology, a leading supplier of sophisticated electronic control systems for specialist electronic vehicles in the mobility and industrial markets.

PG Drives Technology develops power control systems for use in a variety of specialist electrically powered vehicles. These include medical vehicles such as powered wheelchairs and mobility scooters as well as small industrial vehicles such as floor cleaning vehicles and aerial access platforms. Our systems allow the user to control the direction and speed of the vehicle as well as controlling other aspects of the vehicle's functions, including seating or platform position, lights, turn indicators and vehicle diagnostics. During 2004 we completed the divestment of our MRO business from within the Systems group's aerospace activities for net proceeds of £2.5 million in cash.

In 2004 our Systems group had turnover from ongoing businesses of £31.3 million and operating profit before goodwill amortization and exceptional items of £1.9 million.

Our turnover for ongoing businesses by market in 2004 comprised: North America 47% (2003 48%; 2002 56%), Europe 35% (2003 32%; 2002 27%), and Asia Pacific, Rest of Americas and Africa 18% (2003 20%; 2002 17%). A breakdown of turnover by market and by source is given below and a breakdown by segment is given in "Item 3. Key Information."

Turnover by Market

	Year ended December 31		
	2004	2003	2002
		(£ millions)	
Continuing operations:			
Europe(1)	167.4	149.6	149.4
North America(2)	223.4	229.3	322.4
Asia Pacific, Rest of Americas, Africa	84.2	87.3	87.1
	475.0	466.2	558.9

(1) United Kingdom turnover was £49.2 million (2003 £42.5 million; 2002 £48.3 million).

(2) North America, as referred to in the above table, consists almost entirely of the United States.

Turnover by Source

	Year ended December 31		
	2004	2003	2002
		(£ millions)	
Continuing operations:			
Europe(1)	184.9	168.2	157.7
North America(2)	243.4	262.1	368.9
Asia Pacific, Rest of Americas, Africa	46.7	35.9	32.3
	475.0	466.2	558.9

(1) United Kingdom turnover was £82.6 million (2003 £75.1 million; 2002 £71.6 million). Exports from the United Kingdom were £34.0 million (2003 £33.6 million; 2002 £32.4 million), representing 7.2% of total sales (2003 7.2%: 2002 5.8%).

(2) North America, as referred to in the above table, consists almost entirely of the United States.

Strategy

Our overall strategic focus is the growth and development of our communications activities. Our strategic priorities are to:

- focus on next-generation technologies and services;

- expand our presence in Europe and Asia;
- extend our solutions into the enterprise market;
- leverage expertise across Spirent; and
- support our Network Products and Systems groups to maximize long term value.

Corporate history and background

The first of the companies which today comprise the Group was established in 1936. The Company itself was incorporated and registered in England and Wales on July 16, 1949 under the Companies Act 1948 as a private company limited by shares with registered number 470893 with the name Bowthorpe Holdings Limited. In 1955 Bowthorpe Holdings Limited was listed on the London Stock Exchange. The Company re-registered as a public company under the Companies Act 1948 on July 15, 1981 as Bowthorpe Holdings PLC. The Company changed its name to Bowthorpe plc on May 20, 1992 and to

Spirent plc on May 12, 2000 and now operates under the Companies Act 1985 (as amended). The Ordinary shares of the Company are traded on the London Stock Exchange and on the New York Stock Exchange in the form of American Depositary Shares, represented by American Depositary Receipts, with one ADS representing four Ordinary shares. The Company is also a member of techMARK, the London Stock Exchange's market for innovative technology companies. Our address is Spirent House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex RH10 9QL, United Kingdom, and our telephone number is +44 (0) 1293 767676. The website address is *www.spirent.com*. Information contained on the website and subsidiaries' websites is not intended to be, and should not be regarded as being, part of this annual report.

Communications Group

Our Communications group, Spirent Communications, is a leading provider of test and monitoring solutions and systems for next-generation telecommunications equipment and services worldwide. Our customers include network equipment manufacturers, mobile handset manufacturers, semiconductor vendors, independent product evaluation laboratories, network operators, network service providers, large enterprises and government entities. Our products help customers analyze the performance, functionality and conformance to industry standards of communications equipment. Our mission is to enable our customers to develop and assure next-generation equipment and services worldwide, more economically and efficiently.

We focus on staying at the forefront of communications industry innovation and have technical expertise in a broad range of sophisticated communications technologies and network designs. We believe we have expert knowledge of the individual items of equipment making up a network, giving us particular strength in understanding the way connected pieces of network equipment work together, which is a key concern for our customers.

In 2004 we achieved an improvement in the overall results of our Communications group due to a recovery in the Performance Analysis division, which has benefited from increased spending on next-generation technologies. Results for the Service Assurance division were weak and we are working to enhance our products to address customers' evolving needs. Turnover for the group was up by 15% on a constant currency basis compared with 2003. As a result of increased volumes, operating profit increased to £19.9 million representing a 63% increase in constant currencies over the prior year. Return on sales improved to 7.9% compared with 5.7% in 2003.

In order to be able to meet our customers' needs we have maintained our investment in product development, spending a total of £60.4 million, or 24% of the Communications group's turnover, in 2004 (2003 £57.8 million and 24%). Total product development spending for the year was split as to £43.2 million in the Performance Analysis division and £17.2 million in the Service Assurance division (2003 £39.4 million and £18.4 million, respectively). This investment continues to be directed at next-generation technologies and at maintaining the competitiveness of our products in terms of price and functionality.

During the second half of 2004 we embarked on a number of initiatives to improve the operational efficiency of the Communications group. These initiatives include the further integration of important functions such as information technology, finance, human resources and group marketing and a rationalization of the supply chain. In addition, management reporting lines have been simplified with certain of our smaller operations being integrated into our broadband and wireless activities. These actions will enable the group to make better use of shared resources and drive synergies across our various telecommunications activities. A substantial headcount reduction and certain other actions have also been undertaken in the Service Assurance division. In total these actions, some of which were taken in 2005, are expected to deliver annualized cost savings of approximately £4 million.

The Communications group consists of two divisions: Performance Analysis and Service Assurance.

The Performance Analysis division develops solutions for testing the performance, functionality and conformance of telecommunications equipment. This is achieved by simulating voice, video and data traffic and large-scale networks and by creating real-world conditions in the laboratories of network equipment manufacturers, telecommunications service providers, enterprises and government departments. By subjecting equipment and networks to impairments and stresses customers are able to ensure that the equipment or services they are about to launch or deploy will withstand real-world conditions thereby reducing the commercial risks inherent in developing or adopting new products.

While overall telecommunications capital spending was up modestly in 2004 our Performance Analysis division benefited directly from increased spending on next-generation and 3G wireless technologies by our customers during the year. This trend, which began to emerge towards the end of 2003, has largely been driven by the migration from legacy, circuit-switched networks to IP or packet-based networks by telecommunications service providers around the world. As a result turnover in the Performance Analysis division grew by 31% in constant currencies in 2004. Operating profit of £19.7 million was up by £15.3 million over 2003 reflecting the operational gearing inherent in this business as volumes increase. Return on sales recovered to 11.1% for the period compared with 3.0% in 2003.

Our portfolio of products, services and solutions we believe is well aligned with our customers' needs and in 2004 we grew sales in constant currencies in all of our product groups and across all customer sectors. In particular, we saw good demand for our core broadband access, metro Ethernet, gigabit Ethernet and Internet Protocol version 6 ("IPv6") test systems, driven by the move towards higher speeds of data transmission, increased scalability and the proliferation of high bandwidth applications such as voice, video and data, generally referred to as "triple play". The momentum in the voice-over-IP ("VoIP") services sector was behind the increased sales of our IP telephony test solutions during the year. Continuing concerns in relation to the delivery of mission critical processes over enterprise networks and websites resulted in strengthened demand for our web testing products both from network equipment manufacturers and enterprise customers.

Our wireless handset test activities, which represent approximately 23% of this division's turnover, grew in 2004 due largely to increased demand for our CDMA-2000 handset test systems. Demand has been driven by the deployment of high speed 3G data services and the increased number of new mobile devices in the market. There was growth in sales of our systems for testing advanced CDMA wireless services such as "push-to-talk" and those utilizing mobile IP, reflecting an increased focus on testing the applications that run on mobile devices. We are now a market leader in test solutions for mobile devices employing 1xEV-DO technology, an advanced 3G CDMA technology that was first used in Asia and is now undergoing deployment in the United States and Europe. During the year we also made initial sales of our wideband CDMA handset testing solutions into strategic customers, including systems incorporating our location-based testing capability using Assisted GPS.

On a geographic basis we have seen increased turnover worldwide in constant currencies with sales particularly strong in the United States where a large number of our major customers are located. Strong relationships with important local customers have led to record sales in China in 2004. In addition, the move by some of the major global network equipment manufacturers to establish quality assurance and research and development facilities in India and China has contributed to sales in the Asia Pacific region. We also delivered growth in our European sales over 2003 due to the continued roll out of advanced DSL services in the region and good demand for our VoIP, web applications and wireless handset testing systems.

The Service Assurance division provides systems that enable telecommunications service providers to test and assure broadband leased line, DSL and IP services. Our products include operations support systems software, remote test probes, network access systems and consulting and technical services. We also supply portable systems for fault identification and testing of copper telephone lines in the field.

Our systems help service providers reduce their operational costs by automating and centralizing their network testing and service assurance processes, reducing the need for expensive physical intervention and facilitating faster responses to customers' problems.

The performance of our Service Assurance division in 2004 was weak with turnover for the division down 10% in constant currencies compared with 2003. Operating profit for 2004 was down substantially at £0.2 million compared with £9.4 million in 2003, after incurring an operating loss of £2.0 million in the second half of the year.

We continued to supply and support DSL and leased line monitoring systems for major United States service providers during the year. However, sales of our leased line systems declined faster than anticipated in the period as customers increasingly focused their capital spending on advanced IP services. Service providers continue to seek to reduce the cost of deploying DSL services and we have responded to this trend by re-engineering certain elements of our offering to increase the cost effectiveness of our DSL monitoring solutions. Our hardware probes remained the largest contributor to sales in 2004 with maintenance and support contracts representing just over a quarter of this division's sales in the year. We have had success in the IP space with initial orders for SmartSight , our recently launched IP monitoring and diagnostic system, and we have been encouraged by the levels of customer interest in this range of solutions. We expect to launch further enhancements to the SmartSight product range in 2005. Our field test business saw growth over 2003 driven by the shipment of a major order of portable fault testers to a leading European service provider.

We believe the future growth of our Service Assurance division will come from the delivery of cost effective DSL monitoring solutions, success in the IP services sector and the broadening of our customer base geographically. Consequently, over the last six months we have taken several steps to realign our resources and reduce operating costs including changing the senior management, reducing employee numbers by approximately 15% and redirecting marketing and product development efforts. We have increased our marketing efforts outside the United States and, in particular, have adopted a direct sales strategy in China which involves exiting our joint venture, Spirent DM, and creating a direct sales force based in Beijing. We are currently actively working with a number of non-United States customers to help them define their future strategy for DSL and IP service assurance.

The global telecommunications sector is currently undergoing a migration from legacy networks towards IP-based networks and services. These new networks and services will require sophisticated monitoring and diagnostic systems to enable network operators to deliver the high quality, reliable telecommunications services their customers have come to expect.

The technology and expertise of the Performance Analysis and Service Assurance divisions are complementary. The Performance Analysis division's presence in the development laboratories of network equipment manufacturers gives the Service Assurance division early knowledge of which technologies are likely to be adopted for future use in networks. The Service Assurance division has knowledge of large-scale operational issues which can be fed back into the design and testing of successive generations of network equipment and services. This helps us anticipate market requirements and provide customers with innovative products. We believe the diversification of our business into two divisions serving distinct market segments gives us a competitive advantage by positioning us at the forefront of new technology development and extending the potential return on our research and development investment through the entire life cycle of network technology deployment.

Our strategy for Spirent Communications continues to be to advance next-generation technologies and services, to increase our presence internationally and to extend our products into the enterprise sector. We believe we have made progress in delivering this strategy during 2004 and, while challenges still remain for us in relation to the Service Assurance division, we believe we now have the corporate structure and management with which to drive the group along its future development path.

Markets

The market for our Communications group's performance analysis products comprises three major worldwide customer groups:

- communications network and terminal equipment manufacturers;
- communications and Internet network service providers; and
- major enterprise end-users and government entities.

Our performance analysis systems are targeted at the research and development facilities of equipment manufacturers where they are used to develop and test new equipment and technologies. Our systems are also used by network service providers and major enterprise end-users, such as large financial institutions, and government entities to evaluate networking equipment, compare products from multiple vendors effectively, ensure performance meets the levels claimed, confirm conformance to industry standards and assess interoperability with existing network elements.

The service assurance market includes both network management software and test equipment hardware. Service assurance typically includes network testing, fault isolation, alarm surveillance, and monitoring the quality and level of service provided.

Products

Products from the Communications group's Performance Analysis division can simulate entire communications networks, generating simulated voice and/or data traffic and analyzing network performance under normal and faulty conditions. They are used in applications including product development, design verification, quality assurance, production testing and network installation and maintenance. This enables customers to test and analyze their equipment or service under various operating conditions, to help ensure their functionality, quality, scalability and reliability.

The Performance Analysis division focuses on delivering a comprehensive portfolio of products and solutions for testing next-generation network technologies including tests for technology interfaces, services, applications, scalability and usability. Examples include:

- broadband access interface technologies, such as Ethernet (10/100, gigabit and 10-gigabit), Asynchronous Transfer Mode ("ATM") Optical Carrier Level 3-192 ("OC3-192") and Packet Over SONET ("POS") (OC3-192);
- testing for quality of service ("QoS") for differentiated services, such as virtual private networks and virtual local area networks, and routing services such as IPv6, Internet Protocol version 4 ("IPv4"), Open Shortest Path First ("OSPF"), Border Gateway Protocol ("BGP") and Transmission Control Protocol ("TCP");
- VoIP, or Internet telephony, the ability to route voice calls over the Internet;
- IPv6, which provides broader address space for the next phase of the Internet;
- CDMA-2000 and wideband CDMA, both 3G wireless technologies;
- Internet infrastructure and web applications and security testing, through the simulation of Internet traffic to stress test websites and web infrastructure devices such as firewalls; and
- Global Positioning System ("GPS") and Global Navigation Satellite System ("GNSS") technologies that provide testing of position location for wireless technologies, such as CDMA-2000, GSM and wideband CDMA.

Our Service Assurance division provides systems that enable telecoms service providers to test and assure broadband leased line, DSL and IP services. Our products include operations support systems

software, remote test probes, network access systems and consulting and technical services. We also supply portable systems for fault identification and testing of copper telephone lines in the field. Our systems help service providers reduce their operational costs by automating and centralizing their network testing and service assurance processes, reducing the need for expensive physical intervention and facilitating faster responses to customers' problems.

Competition

The markets for performance analysis and service assurance systems are highly fragmented and competitive. Among the more significant competitors of our Performance Analysis division are Aeroflex Incorporated, Agilent Technologies, Inc., Anritsu Corporation, Ixia and Rohde & Schwarz GmbH, as well as the internal development of communications test equipment by network equipment manufacturers. Competitors of our Service Assurance division include Acterna Corporation, Agilent Technologies, Inc., Micromuse Inc., Telcordia Technologies Inc., Tollgrade Communications, Inc. and Visual Networks, Inc., as well as the internal development of OSS by the information technology departments of network services providers.

We believe we compete effectively in our markets and that our key competitive advantages are: our close relationships with customers; our breadth of products; our focus on being first-to-market; the synergies between our two divisions; and our technological expertise in next-generation networking technologies.

Customers

Our Performance Analysis division's customer base includes leading network equipment manufacturers, communications and network service providers and enterprise end-users worldwide. Orders typically have a short lead time.

Equipment and chipset manufacturer customers include Alcatel, Cisco Systems, Inc., Huawei Technologies Co., Ltd, Lucent Technologies Inc., Motorola, Inc., Nokia Corporation, Nortel Networks Corporation, Samsung Telecommunications America LLP and Tellabs, Inc. We also sell to both the evaluation laboratories and the operations departments of service provider customers including AT&T Corp., BT Group plc, Deutsche Telekom AG, NTT Corporation, SBC Technology Resources, Inc., Sprint Communications Company and Verizon Communications Inc. End-user customers are typically large network users and web application providers with their own product evaluation labs. This category includes civilian organizations and defense agencies, including America Online Inc., Bank of America Corporation, The Gap, Inc., HSBC Holdings plc, Microsoft Corporation, Reuters Group PLC and the US Department of Defense.

The Service Assurance division's customer base is focused on the North American service providers from whom we derive the majority of revenues in this division. We have service assurance installations in service providers in North America, including BellSouth Corporation, Qwest Communications International Inc., SBC Communications Inc., Sprint FON Group and Verizon Communications Inc. Wireless service provider customers include Nextel Communications, Inc., Sprint PCS Group, T-Mobile USA and Verizon Wireless. Each of these accounts represents a long-term multi-level customer relationship, with lengthy selling cycles and long-term commitments by both parties.

The Communications group has made progress in international markets over the recent years particularly with its Performance Analysis systems. Our Service Assurance sales are largely all within North America, but we are currently actively working with a number of non-United States customers to help them define their future strategy for DSL and IP service assurance.

Sales, Marketing and Support

Our Performance Analysis division has a worldwide sales force operating from offices throughout North America, Europe and Asia. Where appropriate, we sell our products directly to customers, particularly in North America and some European and Asian countries. We also, however, have a strong network of international distributors.

Our Service Assurance division maintains a direct sales force operating from offices throughout North America and Europe. In 2004 we adopted a direct sales strategy in China which involves exiting from our joint venture, Spirent DM, and creating a direct sales force based in Beijing. We also operate through distributors in Asia,

Manufacturing

Our Performance Analysis division's manufacturing operation consists primarily of materials planning and procurement, warehousing, logistics, quality control, assembly, systems integration and test. We outsource the majority of our circuit board assembly to third-party contract manufacturers. We then assemble and configure our products to customer orders at our facilities after which the completed system is functionally tested to ensure durability and reliability before shipment to the customer. Our Service Assurance division manufactures the majority of its products in a facility in Gaithersburg, Maryland. We outsource the manufacture of certain high volume products to others. We are currently undertaking an initiative to rationalize the supply chain across the Communications group.

The Communications group, taken as a whole, currently has manufacturing facilities in California, New Jersey, Maryland, Canada and the United Kingdom comprising approximately 124,000 square feet.

Network Products Group

Our Network Products group produces innovative products and solutions for the fastening, identification, protection and connectivity of wires and cables in electrical and communications networks in a broad range of applications. The group operates under the global brand HellermannTyton in 30 countries worldwide and has manufacturing facilities in all the major geographic regions.

In 2004, our Network Products group had turnover of £187.8 million up 11% in constant currencies over the same period last year. Operating profit of £20.4 million was ahead by 27% in constant currencies over 2003. Return on sales improved to 10.9% from 9.6% due to increased operational efficiencies. As anticipated, results for the second half of 2004 were marginally below the first half due to the normal seasonality of this business. Capital expenditure was up over 2003 as planned due to the expansion of capacity at our major manufacturing sites.

In Europe our sales benefited from increased automotive production and our ability to increase the number of products per platform on new models. Sales in the United States were up due to general economic recovery as well as our increased penetration of the automotive and telecommunications markets and successful new product introductions. Sales in Japan through our associate company showed growth and we made progress in China due to the increasing Original Equipment Manufacturer ("OEM") and automotive production levels in the region.

We were successful in growing sales to the automotive sector, which represents the largest proportion of this group's turnover, with increased cabling in cars driving demand for our cable management and fastening products. In addition, with the increasing trend among volume car manufacturers to move production to emerging economies, our ability to supply customers directly in these regions has helped increase sales. Sales to the heavy vehicles market were good in all regions but particularly in the United States where heavy truck manufacturers increased their manufacturing volumes in the year. We increased sales in our next largest market, the electrical wholesalers and

catalog houses, although their end markets continue to be difficult. We saw growth in sales of our connectivity systems but the communications market remains very price competitive and we took actions during the year to reduce the cost base. The RapidNet pre-terminated structured cabling system launched last year has received increasing acceptance and we have secured several important installations in the enterprise and public sector markets. We also secured further deployments for "Autotools", our automated bundling systems, at major automotive and white goods harness makers worldwide during the year.

The mission of the Network Products group is to provide innovative solutions with customer satisfaction as our first priority. We aspire, through global leadership and quality products that add value to electrical and communications networks, to be the customers' partner of choice. We aim to achieve world class operational excellence for the benefit of our customers, our employees and the interaction of our business with the environment.

Markets

Our Network Products group serves customers in a broad spread of industries throughout the world. We serve five principal markets: automotive; data and voice networks; commercial and public sector construction; electrical and electronic goods; and mass transit, aerospace and defence.

Products

Fixings. Our fixing products provide fastening solutions for bundling, securing and fixing wires, cables, pipes, hoses and components. Our range of fixing products includes cable ties, clips and fasteners in a wide range of materials, designs and colors to meet a wide range of application needs, including outdoor, chemical resistant, flame resistant, high temperature, vibration proof and offshore. Our fixing products also include proprietary tools marketed under the "Autotool" name to meet varied requirements from hand-assembled cable harness production to fully-automated manufacturing systems.

Connectivity. We offer a range of products and systems for connecting and accessing copper and fiber optic cables for voice and data. The range includes the panels, outlets, enclosures and pre-terminated systems necessary to provide interconnection within a network with extensive applications in buildings. Our fiber optic management systems comprise proprietary enclosures and fiber management components for both underground and above ground applications.

Insulation, protection and organization. Our insulation and protection products provide electrical insulation and physical protection for wires and cables against mechanical damage, humidity and other environmental hazards. The group's products also include heatshrink shapes for high specification requirements for low and medium voltage applications, and convoluted tubing and spiral binding for organizing, routing and protecting wire harness assemblies. We also offer ducting systems in solid, standard, slotted and high-density slotted channel formats.

Identification. We supply a wide range of identification products for marking electrical and electronic systems, components and cables.

Competition

The market addressed by our Network Products group is highly competitive. We believe we compete effectively on the basis of product quality and performance against specification, breadth and availability of product range, pricing, global customer service and support (with global support being particularly important in the automotive industry), product innovation, and certification, accreditation and standards compliance.

Our principal competitors in our served markets are:

Fixings. Illinois Tool Works Inc. ("ITW"); Kai Suh Suh Enterprise Co., Ltd. ("KSS") of Taiwan; Panduit Corp.; A Raymond Group of France; Thomas & Betts Corporation and TRW Automotive Inc.

Connectivity. Brand-Rex, a subsidiary of Novar plc; CommScope, Inc.; Legrand; Molex Inc.; Panduit Corp.; The Siemon Company; Thomas & Betts Corporation and Tyco Electronics Corporation. There are also a number of smaller more regionally focused players competing in this market.

Insulation, protection and organization. Tyco Electronics Corporation and several other smaller players.

Identification. Brady Corporation; Legrand; Panduit Corp. and Tyco Electronics Corporation.

Customers

The Network Products group has a global base of several thousand customers, with many customers present in multiple geographic markets. Customers are principally equipment and automotive manufacturers, subsystem suppliers, and systems/component suppliers, installers, wholesalers, expeditors and specialist and catalogue distributors.

No single customer accounts for a significant portion of the Network Products group's turnover. Repeat business, however, is important to the group and established relationships play an important role in many of the served markets.

Sales, Marketing and Support

Sales are either made directly to end-users or through third parties such as wholesalers, expeditors or distributors. We focus marketing and sales efforts on the end-user application independent of where the eventual customer may source the products. Our sales channels depend on the nature of the products and the requirements of the customer as well as the established practices and infrastructure in the different regional markets in which the business operates.

Manufacturing

Our Network Products group has major manufacturing sites in the United States, United Kingdom and Germany and a significant presence in Japan through a joint venture operating under the HellermannTyton brand. In addition, the group has strategic manufacturing sites in a further six countries around the globe. The sites together have approximately a million square feet of manufacturing and distribution space. Labor-intensive products are manufactured in lower-cost locations where practical. Nearly all of our sites are certified to appropriate global automotive industry quality standards. Our Network Products group derives about 25% of its turnover from products which are manufactured by third parties.

Systems Group

After the sale of our last remaining aerospace business in August 2004, the Systems group now comprises PG Drives Technology, a leading supplier of power control systems for powered medical and small industrial vehicles. The continued weakness of the US dollar has adversely affected the trading performance of PG Drives Technology with the transaction effect reducing operating profit by approximately £3 million. Turnover and operating profit were down 14% and 69%, respectively, in constant currencies compared with 2003. Return on sales reduced to 6.1% compared with 16.1% in 2003. We have had some success in reducing our exposure to the US dollar:sterling exchange rate by

increasing the number of components purchased in US dollars. We have also moved some of our production to China to reduce the logistical costs of supporting our activities in the Asia Pacific region.

Continuing constraints in United States government healthcare funding for powered wheelchairs dampened demand for our wheelchair systems during the year. Due to the competitiveness of our established VSI, S-Drive and TRIO+ products we were, however, successful in increasing customer penetration in both the mobility and our new industrial vehicles markets during the year.

Markets

Our power controls activities serve two principal customer groups. These are manufacturers of healthcare mobility equipment and equipment manufacturers making small electrically powered industrial vehicles.

Products

Our innovative designs for power control devices for wheelchairs and mobility scooters offer ease-of-use, cost-effectiveness and features making them adaptable to a wide variety of manufacturers' requirements. The continuing success of our established VSI systems for powered wheelchairs and our S-Drive systems for mobility scooters enabled us to increase customer penetration and win new business in the mobility vehicles market during 2004.

During 2004 we also made further progress in the small industrial vehicles market, with the I-Drive and TRIO+ products being well received by customers.

We believe that ongoing research and development focused on developing new products and enhancing existing products, involving both software and hardware, is critical to the success of our business. Our research and development activities in this business are primarily directed towards extending product capabilities and improving the performance and ease-of-use of our products.

Competition

The market for power control products is highly competitive and we believe we compete effectively on the basis of important factors such as strong customer relationships, the ability to respond to customer requirements with appropriate design and application engineering capabilities, short time to market, product quality and reliability, pricing, and an understanding of the standards and legislative environment of served industries, particularly with respect to medical products.

In the healthcare vehicle markets we consider our main competitors to be Dynamic Controls Limited and Curtis Instruments, Inc. We believe we are establishing ourselves in the industrial market, where there is competition from Curtis Instruments, Inc., Tech/Ops Sevcon, Inc. and ZAPI group S.p.a.

We also face potential competition from our customers who may choose to manufacture their own supplies and from equipment manufacturers who may choose to compete in the market.

Customers

We have a broad customer base comprised mainly of healthcare equipment manufacturers worldwide. Major customers include Pride Mobility Products Corp. and Sunrise Medical Inc. For industrial equipment, major customers include JLG Industries, Inc.

Sales, Marketing and Support

Our mobility and industrial products are primarily sold through a direct sales force. We also use some distributors in Europe for our industrial products. We have sales support personnel based in the United States, the United Kingdom and the Far East.

Manufacturing

Our devices are designed in the United Kingdom. Most of our products are also manufactured in the United Kingdom, although we have outsourced the production of some of our low cost products to third party manufacturers in China.

Organizational Structure

Spirent plc is the ultimate parent company of the Group. We conduct our operations through various subsidiaries and trading divisions. Although this is our legal structure, it does not necessarily coincide with our organizational or management structure. The following is a list of our significant subsidiaries, trading divisions and associates as at December 31, 2004. We have not listed below other subsidiaries that are less significant.

	Country of Incorporation	Percentage held at December 31, 2004
Communications		
Performance Analysis		
Spirent Communications Inc:	Delaware, United States	100
Calabasas, California, United States		
Eatontown, New Jersey, United States		
Honolulu, Hawaii, United States		
Sunnyvale, California, United States		
Spirent Communications of Ottawa Ltd	Canada	100
Spirent Communications (SW) Ltd*	England	100
Service Assurance		
Spirent Communications of Rockville, Inc.	Delaware, United States	100
Spirent Communications (Scotland) Ltd*	England	100
Spirent Communications Ltd*	England	100
Network Products		
Trading divisions of Spirent plc:		
HellermannTyton:		
Aldridge, West Midlands, United Kingdom		
Plymouth, Devon, United Kingdom		
Wythenshawe, Manchester, United Kingdom		
HellermannTyton (Pty) Ltd	South Africa	100
HellermannTyton S.A.	France	100
HellermannTyton AB	Sweden	100
HellermannTyton GmbH	Austria	100
HellermannTyton GmbH	Germany	100
HellermannTyton Ltda	Brazil	100
HellermannTyton Pte Ltd	Singapore	75
HellermannTyton Data Ltd*	England	100
HellermannTyton Corporation	Delaware, United States	100
Tyton Company of Japan Ltd* (Associate)	Japan	49
Systems		
PG Drives Technology Ltd	England	100
PG Drives Technology Inc	Delaware, United States	100

The above companies operate and are incorporated in the countries listed. All shareholdings in the companies are held indirectly by Spirent plc, except where indicated by an asterisk (*) where the shareholding is held directly by Spirent plc. The percentage held reflects the proportion of shares controlled and not the beneficial interest.

Properties and Facilities

The following facilities, all of which are leased, are individually material to the business of our Group as a whole:

26750 Agoura Road, Calabasas, California, United States is a Communications group facility comprising approximately 100,000 square feet and houses a large engineering department and internal administrative departments;

15200/04 Omega Drive, Rockville, Maryland, United States is a Communications group facility comprising an aggregate of approximately 100,000 square feet, used for internal administrative services, client services and engineering and includes a number of testing laboratories for Service Assurance products; and

630 East Diamond Avenue, Gaithersburg, Maryland, United States is a manufacturing facility comprising approximately 70,000 square feet of space where certain of the Service Assurance products of the Communications group are manufactured.

Intellectual Property

We believe that our patents and applications have value. Although the patent portfolios of our operating groups are important to the business of each of those groups, no single patent is in itself material to our business as a whole. 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.

Materials

Because of the diversity of our Group, we purchase raw materials and components from a wide range of suppliers. Although we outsource certain manufacturing processes and use components from third parties, we are not dependent on any single manufacturer or supplier. Prices fluctuate for certain raw commodities used by our Network Products group, particularly Nylon 66 and PVC. Although we believe that our relationships with our suppliers for these commodity materials are relatively secure, the prices we have to pay for these raw materials may increase.

In addition, certain suppliers of electronic components used by some of our businesses use a system to allocate sales of their products when demand exceeds supply. When an allocation system is in effect, we may not be able to purchase at an acceptable cost or quantity as many components as we require to manufacture our products.

Regulatory and Other Government Requirements

Our businesses are subject to various significant and complex international and domestic regulations currently in effect and scheduled to become effective in the near future. We may incur significant expense to our business as a whole in complying, and remedying any non-compliance, with these regulations.

Enforcement of Civil Liabilities

We are a public limited company incorporated under the laws of England and Wales. The majority of our directors and executive officers are residents of countries other than the United States. All or a substantial portion of their assets and our assets are located outside the United States. As a result, it may not be possible for you:

- to serve a lawsuit against us, or most of our directors and officers, in the United States;

- to enforce either in the United States or outside the United States judgments obtained against us, or most of our directors and executive officers, in the United States courts in any lawsuit, including lawsuits under the civil liability provisions of United States securities laws; or

- to enforce in jurisdictions outside the United States judgments obtained against us, or most of our directors and executive officers, in lawsuits in United States courts, including lawsuits under the civil liability provisions of the United States securities laws. You may also have difficulties enforcing liabilities under the United States securities laws in original actions brought in courts in jurisdictions located outside the United States. Liabilities against such persons may not be enforceable in the United Kingdom in original actions or in actions for the enforcement of judgments of United States courts predicated upon the federal securities laws of the United States.

Under English law, our directors and officers have fiduciary duties to our company, including, generally, duties to act in the best interests of the company and to exercise appropriate skill and care. English law, however, limits the circumstances under which shareholders of English companies may bring actions on the company's behalf for breach of these duties more significantly than does, generally, state law in the United States.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis relates to our financial condition as of December 31, 2004 and the results of operations for the years ended December 31, 2004, 2003 and 2002. This discussion should be read in conjunction with our Selected Consolidated Financial Information and our Audited Consolidated Financial Statements included elsewhere in this annual report. 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.

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. 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 electrically powered vehicles in the mobility and industrial markets. Spirent divested of its remaining aerospace business, MRO, in August 2004.

Our performance in 2004 showed an improvement as a result of our investment in and focus on growth markets. In the Communications group, our Performance Analysis division achieved an improvement in its results, with turnover up 31% in constant currencies and operating profit up materially from £4.4 million to £19.7 million due to increased customer spending on next-generation technologies. The results for the Service Assurance division were weak, with turnover down 10% in constant currencies and operating profit at break-even. The Network Products group delivered turnover up 11% and operating profit up 27% in constant currencies. The movement in the US dollar exchange rate reduced reported turnover by £32.8 million, operating profit by £3.2 million and profit before taxation, amortization and exceptional items by £2.5 million. Product development spending in the Communications group was £60.4 million, 24% of turnover. Cash generation reduced net debt to £26.4 million at the end of 2004 compared with £57.5 million at the end of 2003.

Acquisitions and Disposals

Acquisitions and disposals are discussed in "Item 4. Information on the Company" and in Notes 31 and 32 of Notes to the Financial Statements.

We divested our MRO aerospace business for net cash proceeds of £2.5 million in August 2004. During the year we acquired the minority shareholdings in two of our Network Products subsidiaries for a cash consideration of £1.1 million.

Recent Developments

On April 21, 2005 the Company provided an update on trading as follows:

At the time of the announcement of our 2004 final results we reported that we had seen a satisfactory start to 2005 for the Group as a whole, albeit that we were experiencing a slow down in our Service Assurance division's existing leased line and DSL business. Since then, however, the extent of the decline in this business has been significantly greater than anticipated. This was due in part to customers delaying the release of capital spending budgets. When released these showed a larger than expected shift in customers' investment towards next-generation networks and IP service deployments, including their FTTx initiatives. In addition, recent merger activity among the US carriers has delayed spending on monitoring equipment. These factors have adversely affected this division's performance. Turnover for the Service Assurance division for the first quarter of 2005 was £9.0 million, down £10.8 million compared with the same period last year, and the division generated an operating loss of £5.4 million. We are now expecting to report an operating loss for the division in the region of £10 million in the first half of 2005.

Largely due to the performance of our Service Assurance division, we anticipate that Group operating profit for the first half of the year will be significantly below our previous expectations. In addition, we will be charging one off costs of approximately £3 million in relation to reorganization expenses and stock write downs and anticipate further costs associated with the planned rationalization of the supply chain across the Communications group. We also anticipate that we will take a goodwill impairment charge in relation to the Service Assurance division at the half year. The carrying value of goodwill associated with the Service Assurance division is £45 million.

The Group saw a net cash outflow in the first quarter of 2005 in accordance with our plans, as we absorbed working capital and increased capital expenditure. As a result, net debt increased to £33.6 million compared with £26.4 million at the year end.

Our Network Products and Systems groups both traded in line with expectations in the first quarter of 2005 with turnover of £51.4 million and £9.0 million, respectively.

Within our Communications group, the Performance Analysis division delivered turnover of £40.2 million in the first quarter of 2005 representing a 6% increase in constant currencies over the same period last year. This was slightly below our expectations, although we had been budgeting for a seasonally lower first quarter. Quote activity in this division remains good but results for the first half are now expected to be marginally below our original expectations due to a slow down in spending by the US carriers as well as lower than anticipated US government spending on telecoms.

In the Service Assurance division, we have taken actions to realign resources and reduce operating costs including changing the senior management and reducing employee numbers by 15%. We are now also implementing further actions in relation to the rationalization of the supply chain that will increase efficiencies.

We remain focused on our strategy of transitioning the Service Assurance division towards IP service assurance. We continue to work with potential customers to help them define their strategy for monitoring IP services and are receiving encouraging feedback on our technical understanding and approach to the challenges of monitoring advanced IP-based networks and services. We believe this sector represents a significant future opportunity for us.

Results of Operations

	2004	2003	Change % Reported	Change % Constant currency
	(£ millions)			
Turnover	475.0	466.2	2	9
Operating profit	42.8	36.0	19	28
Return on sales (%)	9.0	7.7		

Reported turnover for 2004 of £475.0 million was up 2% and operating profit of £42.8 million was up 19% compared with 2003. In constant currencies turnover was up by 9% and operating profit was up by 28% compared with 2003. Return on sales for the Group improved to 9.0% from 7.7% in 2003.

Reported results have been affected by the weakness of the US dollar relative to sterling with an average US dollar:sterling exchange rate of $1.83: £1 in 2004 compared with $1.64: £1 in 2003. In 2004 currency translation reduced turnover by £32.8 million, operating profit by £3.2 million and profit before taxation, amortization and exceptional items by £2.5 million.

In the Communications group, our Performance Analysis division achieved an improvement in its results, with turnover up 31% in constant currencies and operating profit up from £4.4 million to £19.7 million due to increased customer spending on next-generation technologies. Results for the Service Assurance division were weak, with turnover down 10% in constant currencies and operating profit at break-even. The Network Products group delivered turnover up 11% and operating profit up 27% in constant currencies.

Turnover by source grew in constant currency terms in all geographic regions during 2004. Turnover by market grew in constant currencies in all regions except the Asia Pacific region, where growth from the Network Products group and Performance Analysis division was offset by lower demand for our Systems group's products. Operating profit by source in North America grew by 64% in constant currencies compared with 2003. Operating profit also grew in the Asia Pacific region but reduced by 4% in constant currencies in Europe due to the effect of the weak US dollar on trading.

Product development spending for the Group in 2004 was £67.3 million, or 14% of turnover (2003 £66.0 million and 14%), the large majority of which was invested in the Communications group.

A £0.7 million loss from interests in joint ventures in 2004 relates to our share of the losses in our joint venture company in China, Spirent DM. Income from interests in joint ventures reported in 2003 included our share of profits from WAGO which was divested in April 2003.

Net interest payable, excluding the exceptional interest expense, reduced to £6.8 million in 2004 compared with £9.3 million in 2003 due principally to the continued reduction in net debt during 2003 and 2004.

Profit before taxation, amortization and exceptional items was £37.4 million compared with £30.0 million in 2003. Reported profit before taxation was £24.0 million compared with £0.3 million for 2003.

The effective rate of taxation for 2004 was 24.1% compared with 27.7% for 2003 as a result of the utilization of tax losses.

Headline earnings per share of 2.99 pence increased by 29% over 2003. The weighted average number of shares outstanding at the period end was 939.2 million (2003 929.3 million). After charging goodwill amortisation and exceptional items, basic earnings per share for 2004 was 1.70 pence (2003 loss 0.05 pence).

Net debt has reduced to £26.4 million at December 31, 2004 from £57.5 million at the end of 2003. The effect of translation has reduced net debt by £5.4 million due principally to the weak US dollar.

Our borrowing covenant ratios at the year end were net interest cover of 5.8 times (covenant ratio: greater than or equal to 2.5 times) and net debt to EBITDA of 0.5 times (covenant ratio: less than or equal to 2.25 times). Having met the financial covenant requirements under the terms of our borrowings, we will revert to semi-annual covenant tests, with covenants of net interest cover of not less than 3.0 times and net debt to EBITDA of not more than 3.0 times, and certain other restrictions within our borrowing terms will be relaxed.

We were granted an order of the High Court of England and Wales in November 2004 confirming the cancellation of the share premium account and capital redemption reserve in order to eliminate the deficit in the Company's distributable reserves.

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 systems until the disposal of MRO in August 2004 and hardware systems for the aviation market until the disposal of AIS in June, 2003.

During the year ended December 31, 2004 turnover by source in Europe was 39% (2003 36%), of which the United Kingdom comprised 17% (2003 16%), and in North America 51% (2003 56%). This reflects the improvement in turnover in North America 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, 2004.

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 were lower 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 2004 and 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 in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". US GAAP requires that goodwill is reviewed at least annually for impairment.

The appropriate valuation exercises were carried out in 2004 and 2003 under UK and US GAAP, the result being that no impairment charges were identified. This review performed in 2002 resulted in impairment losses of £923.3 million being recognized during that year. The impairment loss restated the assets to value in use using estimated cash flows which included assumptions on future growth rates, margins, product development spend and other expenditure in these businesses.

In addition, independent valuations are obtained annually 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 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. Varying any of these assumptions could have materially changed the results of these reviews.

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 is recognized when it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and when the Group has transferred to the buyer the significant risks and rewards of ownership. In addition, revenue is only recognized when collectibility is probable.

For the sale of services, revenue is recognized in accounting periods in which the service is rendered. Revenue from maintenance contracts is recognized over the period of performance.

Revenue from product sales of hardware and software is recognized at time of delivery and acceptance and when there are no significant vendor obligations remaining. It is not until acceptance has occurred that the risks and rewards of ownership are transferred to the buyer. Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer.

Contractual arrangements are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other because they are capable of being provided separately from one another and it is possible to attribute reliable fair values to every component. To the extent that separate component comprises a product sale of hardware or software, revenue is recognized as described above. 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.

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.

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.

Pensions

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 schemes' 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 total recognized gains and losses.

The funding position of the defined benefit plans reported at December 31, 2004 was a deficit of £37.3 million (2003 £43.4 million) before taxation, representing a funding deficit of 26% (2003 31%).

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.

Provisions

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

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

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. 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.

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 assets of £13.3 million (2003 £18.3 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 £70.6 million (2003 £70.1 million) and in the United Kingdom of £39.6 million (2003 £24.8 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 total recognized gains and losses.

Year Ended December 31, 2004 Compared with the Year Ended December 31, 2003

	Year ended December 31	
	2004	**2003**
	(£ millions)	
Turnover		
Performance Analysis	176.8	148.7
Service Assurance	74.7	91.7
Communications	251.5	240.4
Network Products	187.8	174.4
Systems	35.7	51.4
	475.0	466.2
Operating profit before goodwill amortization and exceptional items		
Performance Analysis	19.7	4.4
Service Assurance	0.2	9.4
Communications	19.9	13.8
Network Products	20.4	16.7
Systems	2.5	5.5
	42.8	36.0

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

	2004	2003	Annual change: Reported	Annual change: Constant currency
	(£ millions)		%	%
Turnover				
Performance Analysis	176.8	148.7	19	31
Service Assurance	74.7	91.7	(19)	(10)
	251.5	240.4	5	15
Operating profit before goodwill amortization and exceptional items				
Performance Analysis	19.7	4.4	>100	>100
Service Assurance	0.2	9.4	(98)	(95)
	19.9	13.8	44	63
Return on sales (%) before goodwill amortization and exceptional items				
Performance Analysis	11.1	3.0		
Service Assurance	0.3	10.3		
Communications group	7.9	5.7		

Our Communications group, Spirent Communications, is a leading provider of test and monitoring solutions and systems for next-generation telecommunications equipment and services worldwide. In 2004 we achieved an improvement in the overall results of our Communications group due to a recovery in the Performance Analysis division, which has benefited from increased spending on next-generation technologies. Results for the Service Assurance division were weak and we are working to enhance our products to address customers' evolving needs. Turnover for the group was up by 15% on a constant currency basis compared with 2003. As a result of increased volumes, operating profit increased to £19.9 million representing a 63% increase in constant currencies over the prior year. Return on sales improved to 7.9% compared with 5.7% in 2003.

In order to be able to meet our customers' needs we have maintained our investment in product development, spending a total of £60.4 million, or 24% of the Communications group's turnover, in 2004 (2003 £57.8 million and 24%). Total product development spending for the year was split as to £43.2 million in the Performance Analysis division and £17.2 million in the Service Assurance division (2003 £39.4 million and £18.4 million, respectively). This investment continues to be directed at next-generation technologies and at maintaining the competitiveness of our products in terms of price and functionality.

During the second half of 2004 we embarked on a number of initiatives to improve the operational efficiency of the Communications group. These initiatives include the further integration of important functions such as information technology, finance, human resources and group marketing and a rationalization of the supply chain. In addition, management reporting lines have been simplified with certain of our smaller operations being integrated into our broadband and wireless activities. These actions will enable the group to make better use of shared resources and drive synergies across our various telecommunications activities. A substantial headcount reduction and certain other actions have

also been undertaken in the Service Assurance division. In total these actions, some of which were taken in 2005, are expected to deliver annualized cost savings of approximately £4 million.

Performance Analysis

While overall telecommunications capital spending was up modestly in 2004 our Performance Analysis division benefited directly from increased spending on next-generation and 3G wireless technologies by our customers during the year. This trend, which began to emerge towards the end of 2003, has largely been driven by the migration from legacy, circuit-switched networks to IP or packet-based networks by telecommunications service providers around the world. As a result turnover in the Performance Analysis division grew by 31% in constant currencies in 2004. Operating profit of £19.7 million was up by £15.3 million over 2003 reflecting the operational gearing inherent in this business as volumes increase. Return on sales recovered to 11.1% for the period compared with 3.0% in 2003.

Our portfolio of products, services and solutions we believe is well aligned with our customers' needs and in 2004 we grew sales in constant currencies in all of our product groups and across all customer sectors. In particular, we saw good demand for our core broadband access, metro Ethernet, gigabit Ethernet and IPv6 test systems, driven by the move towards higher speeds of data transmission, increased scalability and the proliferation of high bandwidth applications such as voice, video and data, generally referred to as "triple play". The momentum in the VoIP services sector was behind the increased sales of our IP telephony test solutions during the year. Continuing concerns in relation to the delivery of mission critical processes over enterprise networks and websites resulted in strengthened demand for our web testing products both from network equipment manufacturers and enterprise customers.

Our wireless handset test activities, which represent approximately 23% of this division's turnover, grew in 2004 due largely to increased demand for our CDMA-2000 handset test systems. Demand has been driven by the deployment of high speed 3G data services and the increased number of new mobile devices in the market. There was growth in sales of our systems for testing advanced CDMA wireless services such as "push-to-talk" and those utilizing mobile IP, reflecting an increased focus on testing the applications that run on mobile devices. We are now a market leader in test solutions for mobile devices employing 1xEV-DO technology, an advanced 3G CDMA technology that was first used in Asia and is now undergoing deployment in the United States and Europe. During the year we also made initial sales of our wideband CDMA handset testing solutions into strategic customers, including systems incorporating our location-based testing capability using Assisted GPS.

On a geographic basis we have seen increased turnover worldwide in constant currencies with sales particularly strong in the United States where a large number of our major customers are located. Strong relationships with important local customers have led to record sales in China in 2004. In addition, the move by some of the major global network equipment manufacturers to establish quality assurance and research and development facilities in India and China has contributed to sales in the Asia Pacific region. We also delivered growth in our European sales over 2003 due to the continued roll out of advanced DSL services in the region and good demand for our VoIP, web applications and wireless handset testing systems.

Service Assurance

The performance of our Service Assurance division in 2004 was weak with turnover for the division down 10% in constant currencies compared with 2003. Operating profit for 2004 was down substantially at £0.2 million compared with £9.4 million in 2003, after incurring an operating loss of £2.0 million in the second half of the year.

We continued to supply and support DSL and leased line monitoring systems for major US service providers during the year. However, sales of our leased line systems declined faster than anticipated in the period as customers increasingly focused their capital spending on advanced IP services. Service providers continue to seek to reduce the cost of deploying DSL services and we have responded to this trend by re-engineering certain elements of our offering to increase the cost effectiveness of our DSL monitoring solutions. Our hardware probes remained the largest contributor to sales in 2004 with maintenance and support contracts representing just over a quarter of this division's sales in the year. We have had success in the IP space with initial orders for SmartSight , our recently launched IP monitoring and diagnostic system, and we have been encouraged by the levels of customer interest in this range of solutions. We expect to launch further enhancements to the SmartSight product range in 2005. Our field test business saw growth over 2003 driven by the shipment of a major order of portable fault testers to a leading European service provider.

Over the last six months we have taken several steps to realign our resources and reduce operating costs including changing the senior management, reducing employee numbers by approximately 15% and redirecting marketing and product development efforts. We have increased our marketing efforts outside the United States and, in particular, have adopted a direct sales strategy in China which involves exiting our joint venture, Spirent DM, and creating a direct sales force based in Beijing. We are currently actively working with a number of non-United States customers to help them define their future strategy for DSL and IP service assurance.

Network Products

			Annual change	
	2004	2003	Reported	Constant currency
	(£ millions)		%	%
Turnover	187.8	174.4	8	11
Operating profit before goodwill amortization and exceptional items	20.4	16.7	22	27
Return on sales (%) before goodwill amortization and exceptional items	10.9	9.6		

In 2004, our Network Products group had turnover of £187.8 million up 11% in constant currencies over the same period last year. Operating profit of £20.4 million was ahead by 27% in constant currencies over 2003. Return on sales improved to 10.9% from 9.6% due to increased operational efficiencies. As anticipated, results for the second half of 2004 were marginally below the first half due to the normal seasonality of this business. Capital expenditure was up over 2003 as planned due to the expansion of capacity at our major manufacturing sites and we plan to further increase capacity in 2005.

In Europe our sales benefited from increased automotive production and our ability to increase the number of products per platform on new models. Sales in the United States were up due to general economic recovery as well as our increased penetration of the automotive and telecommunications markets and successful new product introductions. Sales in Japan through our associate company showed growth and we made progress in China due to the increasing OEM and automotive production levels in the region.

We were successful in growing sales to the automotive sector, which represents the largest proportion of this group's turnover, with increased cabling in cars driving demand for our cable management and fastening products. In addition, with the increasing trend among volume car manufacturers to move production to emerging economies, our ability to supply customers directly in these regions has helped increase sales. Sales to the heavy vehicles market were good in all regions but particularly in the United States where heavy truck manufacturers increased their manufacturing

volumes in the year. We increased sales in our next largest market, the electrical wholesalers and catalog houses, although their end markets continue to be difficult. We saw growth in sales of our connectivity systems but the communications market remains very price competitive and we took actions during the year to reduce the cost base. The RapidNet pre-terminated structured cabling system launched last year has received increasing acceptance and we have secured several important installations in the enterprise and public sector markets. We also secured further deployments for Autotools, our automated bundling systems, at major automotive and white goods harness makers worldwide during the year.

Systems

	2004	2003	Annual change: Reported	Annual change: Constant currency
	(£ millions)		%	%
Turnover	31.3	37.9	(17)	(14)
Operating profit before goodwill amortization and exceptional items	1.9	6.1	(69)	(69)
Return on sales (%) before goodwill amortization and exceptional items	6.1	16.1		

Figures in the above table relate to PG Drives Technology only. Divested businesses contributed £4.4 million of turnover and £0.6 million of operating profit in 2004 and £13.5 million of turnover and a £0.6 million operating loss in 2003.

After the sale of our last remaining aerospace business in August 2004, the Systems group now comprises PG Drives Technology, a leading supplier of power control systems for powered medical and small industrial vehicles. The continued weakness of the US dollar has adversely affected the trading performance of PG Drives Technology with the transaction effect reducing operating profit by approximately £3 million. Turnover and operating profit were down 14% and 69%, respectively, in constant currencies compared with 2003. Return on sales reduced to 6.1% compared with 16.1% in 2003. We have had some success in reducing our exposure to the US dollar:sterling exchange rate by increasing the number of components purchased in US dollars. We have also moved some of our production to China to reduce the logistical costs of supporting our activities in the Asia Pacific region.

Continuing constraints in US government healthcare funding for powered wheelchairs dampened demand for our wheelchair systems during the year. Due to the competitiveness of our established VSI, S-Drive and TRIO+ products we were, however, successful in increasing customer penetration in both the mobility and our new industrial vehicles markets during the year.

Divested operations

In 2004 we divested of our MRO businesses from within the Systems group's aerospace activities which contributed £4.4 million of turnover (2003 £13.5 million) and an operating profit of £0.6 million in 2004 (2003 £0.6 million loss).

Cost of sales

Cost of sales was £274.9 million for the year ended December 31, 2004 compared with £279.8 million for the year ended December 31, 2003. Cost of sales as a percentage of turnover was lower at 58% compared with 60% for 2003.

Product development expenditure was £67.3 million compared with £66.0 million for the year ended December 31, 2003. Product development expenditure represented 14% of turnover in both years. Of the total product development expenditure £60.4 million was incurred by the Communications group (2003 £57.8 million).

Operating expenses

Total operating expenses, which include goodwill amortization and exceptional items, were £169.3 million for the year ended December 31, 2004 compared with £167.6 million for the year ended December 31, 2003.

Selling and distribution expenses were higher at £116.7 million for the year ended December 31, 2004, compared with £110.0 million for the year ended December 31, 2003, an increase of 6%. As a percentage of turnover selling and distributions costs were 25% compared to 24% in 2003. The absolute increase was principally due to commissions and other incentive payments related to the improvement in performance in our Communications group.

Administration expenses were £52.8 million for the year ended December 31, 2004, compared with £58.3 million for the year ended December 31, 2003. Administration expenses for the year ended December 31, 2004 included £2.9 million of exceptional costs (2003 £7.5 million) and £9.1 million of goodwill amortization (2003 £9.7 million). Excluding exceptional items and goodwill amortization, administration costs are £40.8 million and represented 9% of turnover in 2004 compared with £41.1 million, also representing 9% of turnover, in 2003.

Operating exceptional items of £2.9 million have been charged in 2004 which related to restructuring costs within our businesses and the exit from our joint venture company, Spirent DM.

Turnover and income from interest in joint venture

A £0.7 million loss from interests in joint ventures in 2004 relates to our share of the losses in our joint venture company in China, Spirent DM. Income and turnover from interests in joint ventures reported in 2003 included our share of profits from WAGO which was divested in April 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 £2.8 million for the year ended December 31, 2004 compared with £2.1 million in the year ended December 31, 2003. The improvement was due to the growth experienced by our Japanese associate.

Profit/(loss) on disposal and closure of operations

Total non-operating exceptional items in 2004 were a net loss of £0.9 million. In August 2004 the remaining aerospace MRO business was divested for a net loss of £2.5 million after charging £4.9 million of goodwill previously written off to reserves and now reinstated in accordance with Financial Reporting Standard 10. Provisions on vacant property and accrued expenses related to prior year disposals of £1.6 million have been released. The profit of £3.6 million reported in 2003 was in relation to the sale of our Wago joint venture and of AIS from within the Systems group.

Net interest payable and other finance (expense)/income

Net interest payable, excluding the exceptional interest expense, reduced to £6.8 million in 2004 compared with £9.3 million in 2003 due principally to the continued reduction in net debt during 2003 and 2004.

Exceptional interest expense

A make-whole amount of £0.5 million has been charged as an exceptional interest expense in 2004. In 2003 we reported an exceptional interest expense of £16.1 million in relation to the make-whole amount on the partial prepayment of our senior notes and related bank fees.

Taxation

The effective rate of taxation for 2004 was 24.1% compared with 27.7% for 2003 as a result of the utilization of tax 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 2002
		(£ millions)		
Turnover				
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				
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

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	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 telecommunications market remained challenging throughout 2003. 2003 saw further reductions in capital spending of approximately 20% by our Network Equipment Manufacturer ("NEM") and Network Service Provider ("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 increased over the first half reflecting the modest improvement in activity levels and the normal seasonality of the business. Due to the lower levels of spending and change in ordering patterns by the US Incumbent Local Exchange Carriers ("ILECs"), the Service Assurance division's order book declined from $59.2 million (£36.8 million) at the end of 2002 to $44.4 million (£25.0 million) at the end of 2003.

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 remained broadly spread and included some of the largest NEMs and NSPs worldwide. We 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 continued to drive the need for increased broadband access and our broadband solutions

continued to represent the largest part of this division's sales. We believe we were able to capitalize on the trend towards VoIP and launched several new products aimed at this growth area. Interest in IPv6, which provides broader address space for the next phase of the Internet, was also good in 2003 as the technology moved closer to deployment.

In the wireless sector, we benefited from our acquisition in 2002 of wideband CDMA expertise. During 2003 we launched a wideband CDMA network emulator for testing the interoperability of mobile handsets and networks and a version of our CDMA position location test system to support wideband 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

During 2003 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 continued to be a leading supplier of monitoring systems for DSL services, systems for digital leased line services remained 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 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.

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 announced the introduction of next-generation IP services and we won initial orders in this market for gigabit Ethernet, virtual local area network and IP virtual private network services. We 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	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 was 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 remained 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 resulted in more of our products being specified on new vehicle platforms than on their predecessors.

Our range of automated systems, including "Autotools", continued to generate sales of the high volume consumables they require, such as cable ties and identification labels and markers. We 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	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 PG Drives and the aerospace MRO business only. Businesses divested in 2003 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 reduced from £12.3 million in 2002 to £9.3 million for the year to December 31, 2003. This reduction was 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 comprised 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 continued not to recognize deferred tax assets as there was insufficient evidence to support recognition under accounting standards, other than in relation to the pension fund deficit in 2003.

Liquidity and Capital Resources

The Group's objective is to ensure that there are sufficient sources of funding to meet projected requirements. Its operations are financed through a combination of retained earnings and external financing. Financing is raised principally by the parent company and lent to subsidiaries on commercial terms. Debt is largely sourced from the syndicated bank market and the United States private placement market.

During 2004 we prepaid a total of $19.4 million (£10.6 million) of our senior notes. Following this $124.8 million (£65.0 million) of notes remained outstanding at December 31, 2004. Our £30 million bank facility had not been drawn on at the end of 2004 at which point we had cash at bank and in hand of £51.7 million. A new £30 million bank facility was put in place in February 2005 and this facility has a 364-day term and a 12 month term-out option. Further details on our senior notes are contained in Note 27 of Notes to the Financial Statements and on our senior notes and bank facility in "Item 10. Additional Information Material Contracts".

In 2004 we were cash generative in all our operating groups. Operating cash flow for 2004 was down by 12% at £60.3 million compared with £68.2 million in 2003 due largely to the pension payments referred to below.

Cash flow before disposals, acquisitions and financing, or free cash flow, for 2004 was £23.0 million compared with £38.2 million in 2003. Net capital expenditure increased to £24.8 million as planned compared with net £15.8 million in 2003. We expect capital investment to increase to approximately £

35 million in 2005 due to investments in IT within our Communications group and the expansion of capacity within the Network Products group.

Net cash payments of tax of £3.1 million were made in 2004 compared with a net inflow of £8.9 million in 2003 when we had the benefit of a carry back of tax losses, principally in the United States.

In 2004 we made our first additional annual cash contribution of £3.5 million to our defined benefit UK pension plans and we will make a similar contribution to the schemes in the first half of 2005. We also settled the liability of £3.7 million due to Nicholas Brookes, the former Chief Executive of the Company, on his retirement in respect of his unfunded unapproved retirement benefit ("UURB").

Excluding the make-whole amounts, net interest payments of £7.2 million in 2004 were below the £9.5 million paid in 2003. In 2004 we paid make-whole amounts of £2.3 million, including £1.8 million accrued in 2003, on the prepayment of senior notes compared with £13.7 million paid in 2003.

Off-Balance Sheet Arrangements

Spirent had no off-balance sheet arrangements, as defined in "Item 5E of Form 20-F", at December 31, 2004.

Contractual Obligations

The following table summarizes the Group's contractual cash obligations and commitments at December 31, 2004, 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	94.8	6.2	15.0	73.6	
Bank and other loans	3.9	0.4	0.7	2.0	0.8
Finance lease obligations	12.4	1.4	2.4	1.6	7.0
Operating lease obligations	57.0	10.0	16.2	10.1	20.7
UK defined benefit plans (see "Pension Fund" below)	31.5	3.5	7.0	7.0	14.0
Capital commitments	1.0	1.0			
Total	200.6	22.5	41.3	94.3	42.5

Pension Fund

At the end of 2004 the pension liability reduced to £27.0 million (December 31, 2003 £35.2 million), net of deferred taxation of £11.1 million (2003 £13.0 million). The assets in the schemes have increased during the year as a result of the performance of the equity markets and the Company's contribution of £3.5 million to the defined benefit UK pension plans. The Company will make a further contribution of £3.5 million to the defined benefit UK pension plans in the first half of 2005.

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.

We do not enter into instruments to hedge the translation exposures of the operating results or net assets of our overseas subsidiaries since these are accounting, not cash, exposures. However to provide a partial hedge we match, as far as possible, the currency of our borrowings with the currency profile of our operating results and net assets.

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

At December 31, 2004 the balance sheet translation exposure was 61% hedged (2003 61%).

During 2004 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 spending for 2004 was £67.3 million (2003 £66.0 million; 2001 £77.7 million) and represents 14% of turnover (2003 14%; 2002 14%).

In 2004, our Communications group devoted 24% of its turnover to product development, which amounted to £60.4 million (2003 £57.8 million: 2001 £66.2 million). A further £2.8 million (2003 £4.4 million: 2001 £7.9 million) was invested by our Systems group and £4.1 million (2003 £3.8 million; 2002 £3.6 million) was spent by the Network Products group.

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 by generally unfavorable economic conditions and a volatile telecommunications market, into which we sell many of our products and services.

- We operate in rapidly changing industries and if we do not keep up with industry and technology trends and continue significant investment in research and development to meet evolving customer needs, our turnover and operating results will suffer.

- Consolidation in the telecommunications industry could have a material adverse effect on our operating results and financial condition if it continues to result in delayed spending on network monitoring equipment and if the consolidated entities either purchase products and services from other sources or use their additional leverage to demand for favorable terms from us.

- Failure to expand and diversify our customer base in some of our businesses could significantly harm our business, operating results and financial condition.

- Increased significant and complex government and accounting regulation, including environmental, health and safety, import/export and IFRS financial reporting, will have an impact on our business.

- 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.

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

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 revenue recognition, 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 annual report. The effect of these differences on profit attributable to shareholders is summarized below:

	Year ended December 31		
	2004	2003	2002
		(£ millions)	
Profit/(loss) attributable to shareholders in accordance with UK GAAP	16.0	(0.5)	(1,050.7)
Adjustments:			
Revenue recognition deferred revenue	9.9	12.2	(2.1)
deferred cost	(7.0)	(3.0)	(3.8)
	2.9	9.2	(5.9)
Goodwill and other intangible assets:			
Impairment			158.5
Purchase accounting adjustments	0.4	(0.7)	39.1
	0.4	(0.7)	197.6
Stock-based compensation	(2.6)	(0.9)	0.2
Pension costs	(0.6)	2.2	(2.2)
Profit on disposal	5.0	(1.0)	49.4
Vacation payroll costs	0.8		0.5
Derivative financial instruments	0.4	(1.9)	2.1
Income from interests in joint ventures			0.2
Deferred taxation on above adjustments	2.6	(0.7)	30.9
Total adjustments	8.9	6.2	272.8
Net income/(loss) as adjusted to accord with US GAAP	24.9	5.7	(777.9)

Impact of Recently Issued Accounting Standards Not Yet Adopted

Adoption of International Financial Reporting Standards

Spirent is required to comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") with effect from January 1, 2005. For the Spirent Group the main areas on which we expect IFRS to make an impact will be the reporting and treatment of goodwill and intangible assets, share-based payments, financial instruments and profit or loss on disposal of operations. The adoption of IFRS will not affect our position under existing borrowing

covenants as they are calculated under UK GAAP as it existed at December 31, 2002 nor will IFRS change the cash flow, risk profile or economics of the business going forward.

Spirent is expecting to report two years of comparative data in accordance with the requirements for US listed companies and as a consequence the IFRS transition date for Spirent will be January 1, 2003 being the start of the earliest period of the comparative information required.

We discuss below the areas that will be affected by the adoption of IFRS compared with UK GAAP, based on IFRS expected to be in force at December 31, 2005. These are subject to ongoing review and endorsement by the EU and interpretive guidance by the International Accounting Standards Board (IASB) and are therefore still subject to change. All information provided below is for illustrative purposes only and is subject to further management review and external audit.

IFRS 3 "Business Combinations" prohibits amortization of goodwill and requires that it be carried at cost with impairment reviews undertaken annually or when indicators of impairment exist. The Spirent Group did not make any major acquisitions in either the 2003 or 2004 accounting periods and we will apply IFRS 3 prospectively from the transition date. Goodwill amortization charged under UK GAAP for 2003 and 2004 was £9.7 million and £9.1 million, respectively, and these charges will be reversed in the restatements under IFRS.

In accordance with IFRS 2 "Share-based Payment" a charge will be recognized for the fair value of employee stock options granted. The fair value will be calculated using a binomial model and will include all options granted since November 7, 2002 which are not vested at January 1, 2005 as allowed by the standard. The charge, which does not affect cash flow, will consequently build up over time. It is expected to be minimal for 2003 and in the region of £5 million for 2004.

IAS 19 "Employee Benefits" permits a number of different approaches for the accounting treatment of defined benefit pension plans. Spirent expects to adopt the approach which is similar to the UK standard Financial Reporting Standard ("FRS") 17 "Retirement Benefits". Spirent adopted FRS 17 for UK GAAP reporting in 2003.

Spirent will apply IAS 32 and 39 "Financial Instruments" prospectively, that is with effect from January 1, 2005, and hence no adjustments for financial instruments will be required in the profit and loss restatements for 2003 and 2004. The principles of IAS 39 require that financial instruments be measured at fair value. Spirent uses derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. In general the number and fair value adjustments of these transactions is relatively small and we would therefore not anticipate a significant effect on our results in respect of IAS 39 unless our activity in such instruments increases.

Goodwill written off to reserves and arising prior to January 1, 1998, which is reinstated under UK GAAP, is not reinstated in the calculation of the profit or loss on disposal of subsidiaries under IFRS. Furthermore, IAS 21 "The Effects of Changes in Foreign Exchange Rates" requires the cumulative exchange differences on foreign operations to be included in the calculation of profit or loss on disposal. These combined requirements will increase the profit reported on our disposals in 2003 by £5.0 million to £8.6 million and restate the loss reported in 2004 by £4.9 million to a profit of £4.0 million.

There will be other less significant differences between IFRS and UK GAAP and some changes to the presentation of our financial results required as a result of the restatements under IFRS.

We expect the net effect of the above adjustments will be to increase the reported level of earnings in respect of the 2003 and 2004 financial years under IFRS compared with UK GAAP. This is principally because the reversal of the goodwill amortization charge and the adjustment in respect of the profit or loss on disposals (both excluded for headline earnings calculations, in any event) will exceed the share-based compensation charge arising under IFRS 2, the latter being a non-cash item.

US GAAP

SFAS 123 (R) Share-Based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004) "Share-Based Payment", which is a revision of SFAS 123 "Accounting for Stock-Based Compensation". SFAS 123(R) supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, Statement of Cash Flows. Generally the approach in SFAS 123(R) is similar to SFAS 123 in that they both require all share-based payments to employees to be recognized in the income statement based on their fair values. The pro forma disclosure and the use of intrinsic values allowed by SFAS 123 are no longer alternatives. Statement SFAS 123(R) also requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than an operating cash flow.

SFAS 123(R) must be adopted no later than January 1, 2006. The impact of applying this standard is not expected to be materially different from the disclosures provided in Note 34 of Notes to the Financial Statements in respect of SFAS 123.

SFAS 153 Exchanges of Non-monetary Assets

In December 2004 the FASB issued SFAS No. 153 "Exchanges of Non-monetary Assets" as an amendment to APB Opinion No. 29 "Accounting for Non-monetary Transactions".

The guidance in the APB Opinion is based on the principle that exchanges on non-monetary assets should be measured based on fair value of the assets exchanged, with certain exceptions. SFAS 153 amends APB Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges on non-monetary assets that do not have commercial substance.

SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005 and unless there is a non-monetary exchange of assets it will have no effect.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Name	Date of birth	Position
John P. Weston CBE(2)(3)	8.16.51	Chairman of the Board; Non-Executive
Anders Gustafsson (3)	6.30.60	Chief Executive
Eric G. Hutchinson	5.31.55	Finance Director
Marcus Beresford CBE(1)(2)(3)	5.15.42	Non-Executive
Frederick D'Alessio(2)(3)	1.4.49	Non-Executive
Göran Ennerfelt(3)	3.6.40	Non-Executive
Andrew F. Given(1)(2)(3)	11.14.47	Non-Executive
Kurt R. Hellström(2)(3)	12.12.43	Non-Executive
James A. D. Wyness(1)(2)(3)	8.27.37	Non-Executive

(1) Member of the Audit Committee.

(2) Member of the Remuneration Committee.

(3) Member of the Nomination Committee.

Non-Executive Directors are appointed for an initial three year term of office upon expiry of which the Board will consider renewal of appointment. In accordance with Spirent's Articles of Association, all directors are subject to election by shareholders at the first Annual General Meeting of the Company after their appointment and to re-election by shareholders thereafter at intervals of no more than three years. Any Non-Executive Director who has served more than nine years will also be subject to re-election at each Annual General Meeting subsequent to their ninth year of service. Executive Directors and members of senior management do not have fixed terms of office (see "Executive Directors' Service Contracts" below).

John P. Weston CBE was appointed Non-Executive Chairman of Spirent in November 2002 and is also Chairman of the Nomination Committee and a member of the Remuneration Committee. He was Chief Executive of BAE SYSTEMS from 1998 to 2002. During his tenure the business grew from an organization located mainly in the United Kingdom to an international group with multi-billion pound sales. He joined British Aircraft Corporation, later British Aerospace, in 1970 and by 1992 had been appointed Group Managing Director of British Aerospace Defence Businesses. He is also Chairman of Acra Controls, a small Dublin based company, Inbis plc, a design engineering consultancy, and learndirect the University for Industry. He was awarded the CBE in 1993, is a member of the President's Committee of the CBI, Chairman of the European Group of the CBI, a lifetime Vice President of the Royal United Services Institute, a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Aeronautical Society, a Fellow of the Royal Society for Science, Arts and Commerce, a Companion of the Institute of Management and a Freeman of the City of London. He was educated at Kings School, Worcester and has an engineering degree from Trinity Hall, Cambridge. His term of office will expire on November 7, 2005.

Anders Gustafsson was appointed Chief Executive in August 2004 and is a member of the Nomination Committee. Prior to joining Spirent he was the Senior Executive Vice President Global Business Operations of Tellabs, Inc., a leading US network equipment manufacturer. Between August 2002 and February 2004 he served as President of Tellabs International having been President of Global Sales from November 2000 to August 2002. He first joined Tellabs in June 2000 as Vice President and General Manager of the Tellabs EMEA sales region based in the UK, a position he held until November 2000. Prior to joining Tellabs he spent eight years at Motorola, Inc. in senior sales and management positions within the company's mobile infrastructure business in Europe and Asia. He has an MBA from the Harvard Graduate School of Business and an MSc in electrical engineering from

Chalmers University of Technology, Sweden. He was also awarded a Fulbright Scholarship and studied at the University of Massachusetts.

Eric G. Hutchinson was appointed Finance Director in 2000. He joined Spirent in 1983 and was appointed Chief Accountant in 1987. In 1997, he was appointed Head of Corporate Accounting with responsibility for all financial reporting and control within Spirent. He is also a non-executive director and Chairman of the audit committee of Trifast plc. He gained a BA with honors from Leicester University and undertook postgraduate research in Contemporary History at Trinity College, Oxford. He is a Fellow of the Chartered Association of Certified Accountants.

Marcus Beresford CBE was appointed to the Board in 1999 and is Chairman of the Remuneration Committee and is a member of the Audit and Nomination Committees. He was the Chief Executive of GKN plc from 2001 to 2002 and has over 30 years' managerial experience in the automotive and electronic industries. He is also non-executive Chairman of Ricardo plc, a director of the Engineering Technology Board and a non-executive director of Cobham plc. He graduated with a MA Mech. Sc. from St Johns College, Cambridge and is a Fellow of the Institute of Electrical Engineers. His term of office will expire at the conclusion of Spirent's Annual General Meeting to be held in 2008.

Frederick D'Alessio was appointed to the Board in January 2004 and is a member of the Nomination and Remuneration Committees and has over 30 years' experience in the telecommunications industry, most recently holding the position of President of Advanced Services at Verizon Communications Inc. Since 2002 he has been a general partner and founder of Capitol Management Partners, a consultancy for early stage communications companies, and currently sits on the boards of SS8 Networks, Inc., Aware, Inc., Hatteras Networks, Inc. and Network Equipment Technologies, Inc. He holds an MBA from the Rutgers University, New Jersey, a MS in Engineering and a BS in Electrical Engineering both from the New Jersey Institute of Technology. His term of office will expire on January 26, 2007.

Göran Ennerfelt was appointed to the Board in 2000 following completion by the Company of the acquisition of Hekimian Laboratories Inc. He is a member of the Nomination Committee. He became President and Chief Executive Officer of Axel Johnson AB, a member of the Axel Johnson Group (as was Hekimian Laboratories Inc. before its acquisition) in 1979 having joined the company in 1966. He is Chairman of the Swedish Federation of Trade and the Stockholm Institute of Transition Economics at the Stockholm School of Economics. He is Vice Chairman of the Confederation of Swedish Enterprise, as well as a director of Svenska Handelsbanken and the Swedish National Committee of the International Chamber of Commerce. His term of office will expire on December 19, 2006.

Andrew F. Given was appointed to the Board in 2003 and is the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees. He was formerly Deputy Chief Executive of Logica plc having previously served as Group Finance Director. He has substantial experience of international high technology markets and companies, particularly in telecommunications. He is also the senior independent non-executive director and Chairman of the audit committees of both VT Group plc and Spectris plc. He holds a Philosophy, Politics and Economics degree from Oxford University. His term of office will expire on October 9, 2006.

Kurt R. Hellström was appointed to the Board in December 2004 and is a member of the Remuneration and Nomination Committees. He was formerly President and Chief Executive Officer of Ericsson (Telefonaktiebolaget LM Ericsson), having held a number of senior posts at the company over the last 20 years. He is also a member of the board of directors of Atlas Copco AB, Bharti Tele-Ventures Limited, Kineto Wireless and Gemplus International S.A. He holds Masters Degrees in Electronics from the Royal Institute of Technology in Stockholm and in Business Management from the Stockholm School of Economics. His term of office will expire on December 9, 2007.

James A. D. Wyness was appointed to the Board in 1979 and was appointed as the senior independent Non-Executive Director in 1999. He is a member of the Audit, Remuneration and Nomination Committees. He was previously Managing Partner then Senior Partner of Linklaters, one of our legal advisers in the United Kingdom, from which he retired in 1997. He is a non-executive director and was formerly Chairman of Saracens Limited. He graduated MA LLB in law from Cambridge University and is a member of The Law Society. His term of office will expire at the conclusion of the Company's Annual General Meeting to be held in 2006.

During the year ended December 31, 2004, Nicholas Brookes retired from the Board and My Chung resigned from the Board. Richard Moley retired from the Board on May 4, 2005.

Senior Management

The Executive Directors are supported by a team of senior management who are responsible for assisting in the development and achievement of the Group's corporate strategy, business plans, budgets and for reviewing operational and financial performance. The team, together with the Executive Directors, are responsible for agreeing and monitoring policies and other matters not reserved for the Board. We consider our senior management to be those persons listed in the table below. The names of these persons, their dates of birth and their positions with us, are:

Name	Date of birth	Position
Anders Gustafsson	6.30.60	Chief Executive
William J. Burns	7.24.67	President, Service Assurance Broadband, Spirent Communications
R. Hal Chenhall	4.8.53	Managing Director, PG Drives Technology
Paul R. Eardley	9.13.60	Company Secretary and General Counsel
Joanne G. Herbets	1.2.58	Senior Vice President, Human Resources, Spirent plc
Eric G. Hutchinson	5.31.55	Finance Director
W. Barry Phelps	3.7.47	President, Performance Analysis Broadband, Spirent Communications
Stephen J. Salmon	8.16.49	Group President, Network Products
Charles W. Simmons	12.9.56	President, Performance Analysis Wireless & Positioning
Geoffrey P. L. Zeidler	12.23.62	Senior Vice President of Strategy and Business Development

Biographical information for Anders Gustafsson and Eric Hutchinson has been provided above, as they are also members of our Board. None of these individuals has a fixed term of office.

William J. Burns was appointed to his position in November 2004. He is responsible for the globalization, growth and strategic direction of the Service Assurance division of Spirent Communications. Prior to joining Spirent, he was the Senior Vice President of Global Marketing, Strategy and Business Development of Tellabs, Inc, a leading US network equipment manufacturer. He joined Tellabs in 1987 where he has held several senior sales management and sales engineering positions. He holds a bachelors degree in business administration, with a specialization in engineering, from College Misericordia, Pennsylvania and an MBA from Temple University, Pennsylvania.

R. Hal Chenhall joined Spirent in 1994 as Managing Director of PG Drives Technology. Since then he has focused on driving the growth of this company. For the 15 years prior to joining Spirent, he held

sales and marketing management positions in high technology companies including Gould Instruments, Wavetek, Datron and Racal Milgo. He holds an MA in Engineering from Cambridge University.

Paul R. Eardley was appointed Company Secretary in 2001. He joined Spirent as Company Lawyer in 1998. He was appointed General Counsel in 2001. Prior to joining Spirent, he spent five years as a partner in the law firm DLA and before that six years with the law firm Linklaters. He holds a LLB with honors from the University of Manchester and is a solicitor.

Joanne G. Herbets joined Spirent in 2002. She oversees the organizational development, recruiting, compensation and benefits and employee relations principally for Spirent Communications. Prior to joining Spirent, she was a Senior Vice President at Visual Networks, Inc. and was responsible for all Human Resources functions. Previously, she served as Manager, Director and Vice President of Personnel at Telecommunications Techniques Corporation, with responsibility for Human Resource activity for three product divisions and a global sales force. She holds a Bachelors Degree in Business from Temple University. She also received her MBA from Temple University with a major in Organizational Development.

W. Barry Phelps joined Spirent in 1999, following its acquisition of Netcom Systems, Inc. He was promoted to President, Telecom Test Division (now known as Performance Analysis) in 2000, he became Executive Vice President in 2002 and then President, Performance Analysis Broadband, Spirent Communications in April 2003. He is also actively involved in corporate initiatives that enhance the development and implementation of the overall vision and strategy for Spirent Communications. He has over 30 years of experience in financial and business management for high technology companies. Prior to his position as Division President, he was President and Chief Executive Officer of Netcom Systems, and Chairman and Chief Executive Officer of MICOM Communications. He holds a BSc in Mathematics from St. Lawrence University and an MBA from the University of Rochester, N.Y.

Stephen J. Salmon joined the Group in 1973 as Special Projects Accountant. In 1985 he was promoted to Group Financial Controller and became a Group General Manager in 1995. In 1997 he became Group President, Cable Management (now Network Products), holding responsibility for the Network Products businesses worldwide. Having qualified as a chartered accountant at 21, he joined Courtaulds in 1970, where he worked until he joined the Group.

Charles W. Simmons joined Spirent in 1995 when Telecom Analysis Systems, Inc ("TAS") was acquired by Spirent. He co-founded TAS in 1984, and over time, acted as VP of Engineering, VP of Operations, and became President in 1998. In 2002 he became President of Spirent Communications Performance Analysis Wireless. In 2004, he was appointed President of Spirent Communications Performance Analysis Wireless & Positioning. He has over 25 years of experience in engineering, manufacturing and general business management in the telecommunication industry. Prior to 1984, he was a Member of Technical Staff and later a Group Supervisor at AT&T Bell Labs. He holds bachelor's degrees in Physics from Morehouse College, electrical engineering from the Georgia Institute of Technology and a master's degree in electrical engineering from Stanford University.

Geoffrey P. L. Zeidler was appointed Senior Vice President of Strategy and Business Development for Spirent plc in 2004, having previously been President, Europe for Spirent Communications since 2000. He is responsible for the long term strategic direction and development of Spirent. He joined us in 1997 in the position of Director of Business Development. Previously he was a Director of Corporate Finance at Robert Fleming & Co., leading the technology and industry specialist team. Mr. Zeidler has both a MA and a MSc in Manufacturing Engineering from Cambridge University.

During the year ended December 31, 2004, James H. Schleckser (who was one of our senior managers) resigned from the Company.

The Board of Directors and Committees of the Board

The Board comprises a Non-Executive Chairman, six further Non-Executive Directors and two Executive Directors. The roles of Chairman and Chief Executive are separate with a clear division of responsibility between them which is set out in writing and agreed by the Board.

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

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

The Board requires that all Non-Executive Directors are independent in character and judgement and the independence of each director is reviewed at least annually. As Göran Ennerfelt has a material notifiable interest in the share capital of the Company (see "Item 7. Major Shareholders and Related Party Transactions"), the Board has concluded that he is not to be considered as independent of the management of the Company.

The Board has appointed James Wyness as the senior independent director. The senior independent director is available to meet with shareholders upon request if they have concerns which contact through the normal channels of the Chairman or Executive Directors has failed to resolve, or for which such contact is inappropriate.

It is the policy of the Board to hold at least six Board meetings a year, including a meeting to review and approve long term strategy. There were 10 Board meetings during 2004. Full attendance of the Board is expected at meetings and in 2004 all directors attended except for the following absences: Nicholas Brookes (1), My Chung (3), Marcus Beresford (2), Frederick D'Alessio (2), Göran Ennerfelt (5), Richard Moley (1) and James Wyness (1). The reasons for the absences were due to either unavoidable changes in the Board meeting calendar at short notice, the director being ill or the director having to be elsewhere for other urgent business. Where the director was absent, full documentation for the meeting was issued and briefings were provided as appropriate.

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

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

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

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

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

Key outputs of the process are used to further improve areas which are working well and to address any weaknesses.

In addition to the evaluation process, the Chairman holds regular meetings with the other Non-Executives at which Executive Directors are not present. The senior independent director also holds, at least annually, a meeting of the other Non-Executives at which the Chairman is not present to appraise the Chairman's performance.

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

Our Articles of Association require that all Directors seek election by shareholders at the first Annual General Meeting following their appointment. They also require that all Directors seek re-election at least every three years.

Our *Acquisitions and Divestments Committee* is comprised of Anders Gustafsson (Chairman) and Eric Hutchinson and any two Non-Executive Directors. The Committee is primarily concerned with the evaluation and approval of any acquisitions and divestments delegated to it by the Board.

Our *Audit Committee* is comprised of Andrew Given (Chairman), Marcus Beresford and James Wyness. Andrew Given is the Audit Committee member with recent, significant and relevant financial experience.

During 2004, the Audit Committee held five meetings and there was full attendance by Audit Committee members with the exception of Marcus Beresford who was absent for one meeting. At all meetings the external auditors, the Chief Executive, the Finance Director, the Head of Internal Control and the Head of Financial Reporting are in attendance. Other Directors who are not members may attend at the invitation of the Audit Committee Chairman. The Audit Committee also meets with the external auditors in private for part of each meeting.

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

Our Audit Committee also advises the Board on the appointment of external auditors and on the scope, results and cost effectiveness of both audit and non-audit work. Our Audit Committee has adopted a policy which prohibits certain types of non-audit work that may be performed by our

auditors, particularly where auditor objectivity and independence would be at risk. Other non-audit work which may be provided by our auditor is put to tender where considered appropriate. Prior to any non-audit work being awarded to our auditors, consideration is also given to costs, quality of service and efficiency. Our Audit Committee also assesses the overall objectivity of our auditors' services so that an independent professional relationship is maintained. Details of the auditors' remuneration for 2004 appear in Note 5 of Notes to the Financial Statements.

Our *Nomination Committee* is comprised of John Weston (Chairman), all the Non-Executive Directors and Anders Gustafsson and meets at least once a year. During 2004, the Nomination Committee held two meetings at which there was full attendance by Nomination Committee members with the exception of Nicholas Brookes, Frederick D'Alessio, Göran Ennerfelt, Andrew Given, Richard Moley and James Wyness, each of whom was absent for one meeting. Our Nomination Committee is responsible for reviewing the composition and structure of our Board and for identifying and recommending candidates for Executive and Non-Executive positions, based on the required role and capabilities which have been specified for the appointment. Executive search consultants are used by our Nomination Committee to assist this process as appropriate.

Our *Remuneration Committee* is comprised of Marcus Beresford (Chairman), and the other independent Non-Executive Directors, that is Frederick D'Alessio, Andrew Given, Kurt Hellström, John Weston, and James Wyness. During 2004, our Remuneration Committee held six meetings and there was full attendance by Remuneration Committee members with the exception of Marcus Beresford and Frederick D'Alessio, each of whom was absent for one meeting. Other Directors who are not members may attend at the invitation of the Committee Chairman.

Our Remuneration Committee has delegated responsibility for setting remuneration for all Executive Directors and our Chairman. In addition, the Remuneration Committee is responsible on behalf of the Board for monitoring and managing shareholder dilution arising from share incentive plans. Our Board is responsible for setting the remuneration of the Non-Executive Directors. No director is involved in determining his own remuneration.

United States Corporate Governance Compliance

We have our primary listing on the London Stock Exchange. As we have a secondary listing on the New York Stock Exchange ("NYSE"), we are subject to certain United States legislation. Following the introduction of the Sarbanes-Oxley Act of 2002 in the United States, the NYSE introduced new corporate governance standards. Companies which do not have their primary listing on the NYSE (such as Spirent) are generally permitted to follow home country practice (that is the United Kingdom Listing Rules and the Combined Code on Corporate Governance) in lieu of NYSE's standards. Generally, NYSE's corporate governance standards do not vary significantly from those adopted in the United Kingdom, however, NYSE rules require any such significant variances to be disclosed. Following a review of the NYSE corporate governance standards, the following are considered significant variances to United Kingdom home country practice:

- NYSE rules provide that nomination committees should consist entirely of independent directors. Our Nomination Committee (whose constitution is in accordance with the Combined Code on Corporate Governance) includes Anders Gustafsson and Göran Ennerfelt, neither of whom are independent;

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

NYSE rules require audit committees to be directly responsible for the appointment and retention of the Company's external auditor. Spirent's Audit Committee (in accordance with the Combined Code on Corporate Governance), however, is responsible for making recommendations to the Board on the appointment and retention of the auditor.

In accordance with NYSE requirements, the above summary of significant variances in corporate governance practices can be found on our website at www.spirent.com/corporategovernance. See Items 16A, 16B, 16C and 16D for further information relating to corporate governance matters.

Compensation of Directors and Senior Management

Our administrative, supervisory and management personnel consists of the same group of people we refer to as our senior management.

The aggregate compensation paid, including benefits in kind, by us and our subsidiaries to all 21 persons who were members of our Board and senior management during the year ended December 31, 2004, as a group, for services in all capacities for that year, totaled £5.1 million.

The total amounts set aside or accrued by us or our subsidiaries to provide pension, retirement or similar benefits to the members of our Board and senior management were £0.8 million. This amount excludes a £3.7 million payment made in 2004 to Nicholas Brookes in respect of his pension entitlement (see "Executive Directors' Pensions" below).

The following table sets forth the total compensation for 2004 of each of our directors holding office during the year.

	Remuneration and fees	Benefits	Bonus	Total
	(£ thousands)			
Executive Directors(1)				
N. Brookes	250.1	22.1	23.3	295.5
M. Chung(2)	337.0	16.9	90.0	443.9
A. Gustafsson	183.3	117.0	283.3	583.6
E. Hutchinson	270.5	20.3	294.9	585.7
Non-Executive Directors(1)				
M. Beresford	37.0			37.0
F. D'Alessio	32.6			32.6
G. Ennerfelt	30.0			30.0
A. Given	37.0			37.0
K. Hellström	1.9			1.9
R. Moley	35.0			35.0
J. Weston	150.0			150.0
J. Wyness	37.0			37.0

(1)
The figures relate to the period of each director's Board membership. Frederick D'Alessio, Anders Gustafsson and Kurt Hellström were appointed to the Board in January 2004, August 2004 and December 2004, respectively. Nicholas Brookes retired and My Chung resigned as directors in June 2004 and September 2004, respectively.

(2)
My Chung resigned as a director of the Company in September 2004 and received his annual base salary in US dollars (2004: $370,000 per annum). An average exchange rate of £1 = $1.83 was used in respect of 2004 remuneration. 2004 salary relates to base salary of £134,800 for the period until his resignation from the Board plus £202,200, being the equivalent of 12 months' salary in accordance with the termination provisions of his service contract.

Further information on the compensation of Directors for 2004 is provided in Note 10 of Notes to the Financial Statements.

Executive Directors' Remuneration Policy

The Company's remuneration policy, which has not changed during 2004 and will apply for 2005, is to:

- attract, retain and motivate the high caliber professional, managerial and technological expertise necessary to realize the Group's business objectives without paying excessively;
- ensure that the remuneration framework and its constituent reward elements are competitive and where appropriate reflect the international nature of the Group's business and the markets within which it operates; and
- maintain the correct balance and linkage between individual and business performance so as to align the interests of the executive with those of shareholders, particularly that of enhancing shareholder value.

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

The Remuneration Committee continues to monitor and review the level and constituent elements of remuneration packages and will consult with its major institutional shareholders as appropriate with regards to any significant proposed changes.

Executive Directors' Base Salary and Benefits

The level of base salary is reviewed and established annually by reference to both the performance and responsibilities of the individual and prevailing market rates for executives of similar status in comparable companies. When reviewing salaries, the Committee is mindful of and sensitive to other relevant matters, especially regarding employees' pay and employment conditions elsewhere in the Group. For 2004, Eric Hutchinson and My Chung were awarded increases in annual base salary of £20,000 and $20,000, respectively, bringing their total annual base salary to £270,000 and $370,000, respectively. My Chung left the Company by mutual agreement and resigned as a director in September 2004. Nicholas Brookes retired as a director of the Company in June 2004, however, no base salary increase was awarded to him during 2004 prior to his retirement.

Pension and other benefits take into account competitor practice in the home country of each executive. Benefits can include a company car or car allowance, healthcare, disability and life insurance coverage.

Executive Directors' Annual and Other Incentive Bonus Schemes

The Remuneration Committee reviews annual incentive bonus scheme targets and performance conditions each year to incentivize executives to meet the short-term strategic objectives of the Company.

In respect of 2004, Eric Hutchinson participated in an annual scheme which, consistent with United Kingdom market practice and levels, was structured around a formula providing for an on-target performance bonus of 50% of base salary with a maximum of 100% of base salary for exceptional performance. Performance was measured against targets in the Company's headline earnings per share (EPS) and cash flow, accounting for 80% and 20% of any bonus, respectively. During 2004, he earned an annual bonus of £270,000, equivalent to 100% of base salary.

The Remuneration Committee also awarded Eric Hutchinson an additional payment of £14,167 in respect of his additional duties as acting Chief Executive for the interim period between the retirement of Nicholas Brookes and the appointment of Anders Gustafsson.

Anders Gustafsson was appointed Chief Executive in August 2004 and participated in the same annual bonus arrangements as Eric Hutchinson on a pro-rata basis for the year. He was entitled to a guaranteed minimum on-target performance bonus (pro-rated for the year) in respect of 2004. He earned an annual bonus of £183,300, equivalent to 100% of base salary pro-rated for the year.

As part of his joining arrangements, and in order to provide one time only compensation for the loss of certain benefits from his previous position, Anders Gustafsson received other awards. He received a conditional award of Spirent shares to a value of £100,000 upon his appointment. The shares will be held in a trust for three years (see "Shares Held by Directors and Senior Management" for more information). He was also awarded a signing bonus of £100,000 upon his appointment. The signing bonus is repayable to the Company if his employment terminates before the first anniversary for any reason other than death, disability or certain other events.

My Chung (who was based in the United States) resigned as a director in September 2004 and participated in an annual bonus scheme which was apportioned pro rata until the date of his resignation. Consistent with United States market practice and levels, for 2004 he had a target bonus opportunity of 50% with a maximum opportunity of 200% of salary for exceptional performance. Performance was measured against profit targets and cash generation targets for the Communications group, accounting for 80% and 20% of any bonus, respectively. He earned an annual bonus of $123,333 (£67,395 using an exchange rate of £1 = $1.83), which was equivalent to 50% of base salary pro-rated for the period he served as a director during 2004.

Nicholas Brookes did not participate in an annual bonus plan in respect of 2004.

Executive Directors' Pensions

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

Nicholas Brookes, who retired in June 2004, also participated in the Staff Plan up until his retirement. The Company undertook to Nicholas Brookes, whose salary for approved pension purposes under the Staff Plan was capped by the provisions of the United Kingdom Finance Act 1989 (£99,000 and £102,000 for the tax years 2003/2004 and 2004/2005, respectively), that his benefit entitlements shall be as if the cap did not apply.

We had a contractual liability, as disclosed in previous annual reports and elsewhere herein, to pay Nicholas Brookes an unfunded unapproved retirement benefit ("UURB") which was agreed upon when he joined the Company in 1995. It was agreed to commute all of his pension entitlement under the UURB in exchange for a lump sum payment of £3.7 million in cash, which was paid to him upon his retirement.

Anders Gustafsson is entitled to receive from the Company a pension contribution of 30% of basic salary. Subject to statutory limits, we make approved contributions into the executive section of the Spirent Retirement Cash and Life Assurance Plan (the "Cash Plan"). The Executive section of the Cash Plan is non-contributory and provides benefits on a defined contribution basis. Contributions to the Cash Plan are held in an individual account and invested in accordance with member elections. The Cash Plan provides for a dependant's pension and a cash lump sum on death in service. In respect of those contributions which are not paid into the Cash Plan, the Company has established an UURB on a defined contribution basis and the UURB balance is credited with interest.

My Chung participated in the Spirent International Inc Retirement and Profit Share Plan, a defined contribution plan approved under section 401(k) of the United States Internal Revenue Code (the "IR Code"). The Company made matching contributions of up to 2% and was permitted to make discretionary profit sharing contributions of up to 8% of the maximum compensation permitted for these purposes under the IR Code. Under the IR Code, the maximum annual amount of an employee's compensation that can be taken into account in determining the employer's contribution is $205,000 in respect of 2004. The normal retirement age under this plan is 65 and, consistent with local practice, bonuses were pensionable for all participating United States employees, including My Chung.

During 2004, the Remuneration Committee conducted a review of United Kingdom executive pension provisions in light of the United Kingdom Government's tax simplification changes, which are expected to come into effect in April 2006. The Remuneration Committee concluded, as a principle, that it would not be appropriate for the Company to provide additional compensation to executives who would be adversely affected. In respect of existing members of the Company's defined benefit arrangements, the Committee has concluded that no material changes will be made to existing arrangements. In determining arrangements for Anders Gustafsson, the implications of the tax simplification changes were taken into account as part of the Committee's deliberations on an appropriate remuneration package when he joined the Company.

Details of the pensions earned by the United Kingdom executives during the year under the Staff Plan are given in Note 10 of Notes to the Financial Statements.

Executive Directors' Medium and Long Term Incentive Plans

The Remuneration Committee approves the grant of all options under the Executive Share Option Scheme ("ESOS"), the Spirent Stock Incentive Plan ("SSIP") and the Spirent Employee Incentive Plan 2005 ("EIP") in which Executive Directors participate (see below). The SSIP was formerly known as the Spirent Stock Option Plan. All grants are subject to prior satisfactory individual performance and grant amounts vary with the individual's potential impact on longer term business results.

The executives are also eligible to participate in the Company's all employee share plans either in the United Kingdom or in the United States, as appropriate. Further details are provided in Note 30 of Notes to the Financial Statements.

Executive Share Option Scheme

As stated in a circular to shareholders dated June 2, 2004 regarding an Extraordinary General Meeting, authority for granting further options under the ESOS expires during 2005 and no further annual grants will be made under the ESOS prior to to its expiry. The EIP has now replaced the ESOS, however, awards made under the ESOS remain outstanding until they are either exercised or lapse.

All Executive Directors who served during 2004 participated in the ESOS. All ESOS grants made after May 11, 2000 to Executive Directors are subject to enhanced performance conditions on exercise. The performance conditions require our headline EPS to increase over a period of three consecutive financial years within a range of 9% (minimum performance for 25% option vesting) and 15% (for

100% option vesting), with a sliding scale between these points. In addition, performance testing over the 10 year option term is measured from a base point fixed at the date of grant. Performance will be tested on the third anniversary of grant and, if the target conditions at that time have not yet been met in full, performance will be tested again on the fourth and fifth anniversaries of grant only, with the performance hurdle being increased in proportion to the extended period.

The current scheme allows Executive Directors to receive annual awards of options up to three times base salary, however, in determining any award the Remuneration Committee will have regards to prevailing relevant circumstances.

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

Spirent Employee Incentive Plan 2005

The EIP was approved by shareholders at an Extraordinary General Meeting of the Company held on May 4, 2005. Executive Directors may participate in the EIP, however as at May 4, 2005 (the last practicable date prior to the publication of this document), no awards had been made under the EIP. Under the EIP, the Company may grant both options (the exercise of which will be subject to challenging EPS criteria) and performance shares (the vesting of which will be subject to challenging total shareholder return ("TSR") criteria).

In normal circumstances, options under the EIP will vest three years following grant provided the Company's "real" (i.e. after excluding inflation) EPS growth targets have been met over the three year performance period. The growth targets require that our real EPS increases within a range of 6% per annum (for 25% vesting) and 15% per annum (for 100% vesting) over the performance period, with a sliding scale between these points. In exceptional circumstances (i.e. to facilitate strategic recruitment or retention), option awards with a face value of up to 300% salary may be made under the EIP. If option awards are made in excess of 250% of salary, vesting of awards above this level will occur only if our real EPS growth is between 15% per annum and 20% per annum over the performance period. Performance in respect of any award will be tested once, on or shortly following the third anniversary of grant and any part of the award which does not fully vest will lapse (there will be no opportunity for retesting).

In respect of the performance shares, the Remuneration Committee has selected a comparator group which consists of the 30 largest companies by market capitalization in the FTSE TechMARK 100 index, excluding those TechMARK companies who are also constituents of the FTSE100 at the commencement of the performance period. The FTSE TechMARK comprises companies listed in the United Kingdom operating in the technology sector and the FTSE 100 comprises the largest 100 United Kingdom companies listed in the United Kingdom. The Remuneration Committee considers the selected comparator group provides a suitable benchmark for Spirent's TSR. In normal circumstances, performance shares under the EIP will vest three years following grant provided our TSR targets have been met over the three year performance period. The performance conditions require our TSR to be between the median of the comparator group (for 30% vesting) and the upper quartile of the comparator group (for 100% cent vesting) over the performance period, with a sliding scale between these points. Performance will be tested once on or shortly following the third anniversary of grant and any part of the award which does not fully vest will lapse (there will be no opportunity for retesting). Any dividends declared and due on the shares over the performance period will be accrued and paid subject to vesting.

Spirent Stock Incentive Plan

The SSIP (formerly known as the Spirent Stock Option Plan or "SSOP") was approved by shareholders in June 2004 for Communications group employees. My Chung, who was Group President of Spirent Communications and a director of the Company until September 2004, participated in the SSIP.

SSIP awards prior to June 2004 normally vest over four years, with 25% exercisable on the first anniversary of the date of grant, and thereafter in equal proportions on a monthly basis. In line with prevailing market practice and as previously approved by shareholders, no pre-exercise performance conditions attach to SSIP awards granted prior to June 2004.

From June 2004, SSIP awards granted to senior Communications group executives, including My Chung, were exercisable only on the achievement of performance conditions. The present four year vesting has been retained but awards vest (i.e. become exercisable) at 25% per annum provided targets in EPS growth are met. The targets are broadly the annual equivalent to those which currently exist for Executive Directors under the ESOS.

Further information on the ESOS and SSIP is provided in Note 30 of Notes to the Financial Statements.

Executive Directors' Service Contracts

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

Nicholas Brookes retired from the Board in June 2004 and had entered into a service contract on May 5, 1995 (which was amended on January 1, 2003) which was terminable at any time by either party on 12 months' notice. Eric Hutchinson entered into a service contract on December 13, 1999 which currently has an unexpired term of 120 months and is terminable at any time by either party on 12 months' notice. My Chung resigned from the Board in September 2004 and had entered into a service contract on May 9, 2001 which was terminable at any time by the Company on 12 months' notice and by him on six months' notice. Anders Gustafsson entered into a service contract on August 1, 2004 which currently has an unexpired term of 181 months and is terminable by the Company on 12 months' notice and by him on six months' notice.

All contracts contain provisions for the Company to make payment in lieu of notice and for removal of the director for poor performance or misconduct without compensation. The Company will seek to apply practical mitigation measures to any payment of compensation on termination, taking into account all relevant circumstances. All service contracts contain appropriate provisions to protect the legitimate interests of the Company with respect to preventing any terminated director from working in a business which competes against the Company. Service contracts do not contain any compensation rights which could be increased on a change of control in the Company.

Executive Directors' External Appointments

Spirent recognizes the mutual benefit for Executive Directors to serve as non-executives of companies in other industries outside the Group. Such appointments are subject to prior Board approval and, any related fee entitlements are for the account of the executive concerned. In June 2004 Eric Hutchinson joined the board of Trifast plc as a non-executive director and received fees of £14,596 arising from this appointment.

Non-Executive Directors' Remuneration

The remuneration of the Chairman is determined by the Committee and the remuneration of the other Non-Executive Directors is determined by the Board. The remuneration of all Non-Executive

Directors is reviewed following a recommendation by the Chief Executive and after consultation with independent external advisers concerning competitive market practice. The Company's remuneration policy (which has not changed during 2004 and will apply for 2005) with regards to Non-Executive Directors is to pay fees which are in line with market practice. No remuneration increase was awarded in respect of 2004.

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

Further information on Non-Executive Directors' fees is provided in Note 10 of Notes to the Financial Statements.

Employees

As of December 31, 2004, we employed 4,482 employees, including 2,605 employees in manufacturing and product development, 1,431 selling and distribution employees and 446 administrative employees. As of the same date, 1,081 of our employees were located in the United Kingdom and 1,944 were located in North America. The remainder were based in other locations in continental Europe, South America, Asia, Africa and Australasia. We are predominantly non-unionized with good labor relations and have no history of significant disputes. As of December 31, 2003 we employed 4,414 employees. As of December 31, 2002 we employed 4,513 employees.

Shares Held by Directors and Senior Management

The following table sets forth, as of May 4, 2005, the beneficial and non-beneficial interests held in respect of the number of our shares by persons who were members of our Board of Directors and senior management. Other than Mr. Ennerfelt (see below), no director or other member of our senior management has an interest in more than 1% of our shares.

	Beneficial interests	Non-beneficial interests	Options and rights to acquire Ordinary shares
Executive Directors			
A. Gustafsson(1)	50,000	180,180	1,800,000
E. Hutchinson	753,707		3,264,795
Non-Executive Directors			
M. Beresford	65,225		
F. D'Alessio	28,000		
G. Ennerfelt(2)	120,000,000		
A. Given			
K. Hellström			
R. Moley(3)	1,010,000		
J. Weston	1,662,000		
J. Wyness	346,037		
Senior management as a group(4)	1,244,381	194,483	12,048,632
All Directors and senior management as a group	124,355,643	194,483	12,048,632

(1) The non-beneficial interests of Anders Gustafsson arises from a conditional award of shares to a value of £100,000. The award was made to Anders Gustafsson in 2004 in recognition of his

appointment to the Board and the shares are held by the Company's Employee Share Ownership Trust ("ESOT"). The shares will be released beneficially to him from the ESOT on the third anniversary of his appointment, subject to him still being in the Company's employment at that time.

(2) Göran Ennerfelt has a connected notifiable interest in the Spirent Ordinary shares held by Lexa BV (see "Item 7. Major Shareholders and Related Party Transactions") which, for statutory purposes, is also deemed to be an interest of the director.

(3) Richard Moley retired from the Board on May 4, 2005.

(4) Senior management includes the Executive Directors and other senior managers as described elsewhere in this Item 6.

Share Schemes and Related Information

We have various share incentive plans under which employees currently may be granted share options, purchase rights or stock appreciation rights. There are also share plans with options, performance units or rights which remain outstanding but are now closed to new grants to employees, including share plans that were assumed or adopted in connection with the acquisitions of Netcom, Zarak and Caw, respectively.

The Company held an Extraordinary General Meeting on May 4, 2005 at which proposals were approved to adopt the following employee share plans: the Spirent Employee Incentive Plan 2005 (see above), the Spirent UK Employee Share Purchase Plan and the Spirent UK Sharesave Scheme 2005. At the same meeting amendments were approved in respect of the Spirent US Employee Stock Purchase Plan and the Spirent Global All Employee Share Purchase Plan. All of these plans, with the exception of the Spirent Employee Incentive Plan 2005, which is a discretionary plan, are available to all of our employees (subject to eligibility requirements) who work in the respective countries in which the plans operate. No awards have been made under any of these plans since the date of the Extraordinary General Meeting.

As of May 4, 2005 the following options and purchase rights over Ordinary shares had been granted and remained outstanding under our 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 share split in 2000 and for the rights issue effected in 2000:

Employee Share Scheme	Option/purchase right exercise dates	Exercise price per share (pence)	Number of outstanding options/ purchase rights (millions)
Discretionary Schemes:			
1995 Executive Share Option Scheme	04.29.99 08.04.14	16 598	26.4
Spirent Stock Incentive Plan(1)	05.11.01 04.06.12	6 617	72.2
Spirent Employee Incentive Plan 2005			
Acquisition Related Schemes:			
Netcom Amended and Restated Stock Option Plan	07.23.99 07.19.09	15 151	8.5
Zarak Amended and Restated Stock Option Plan	11.14.00 10.18.10	127 572	0.6
Caw Amended and Restated Stock Plan(2)	08.15.02 06.25.12	15 20	0.2
All Employee Share Save Schemes:			
Savings Related Share Option Scheme(3)	06.01.04 05.31.11	38 518	5.6
Employee Stock Purchase Plan(4)			
Global All Employee Share Purchase Plan(4)			
Spirent UK Sharesave Scheme 2005(3)			
Spirent UK Share Purchase Plan			
Total			**113.5**

(1) A grant of options awarded in December 2003 under the Spirent Stock Incentive Plan (SSIP) is partially covered by 6.1 million Ordinary shares currently held in the ESOT. These shares were originally purchased in the market to cover awards made under our now closed Long Term Share Purchase Plan and the Stock Appreciation Rights Plan but the awards relating to the shares lapsed before exercise. Although 6.1 million Ordinary shares are included above in the number of options outstanding, market-purchased shares held for the purpose of satisfying SSIP awards do not count towards our 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) We have established an employee share ownership trust to honor the contractual commitment to deliver our shares against the valid exercise of outstanding options under the Scheme. Spirent Sharesave Trust Limited, a wholly-owned subsidiary, acts as sole trustee to this employee share ownership trust. As at May 4, 2005 the trustee held 3.5 million Ordinary shares.

(4) There are currently no offering periods underway and no unexercised purchase rights outstanding for either the Employee Stock Purchase Plan or the Global All Employee Share Purchase Plan.

We also operated the Stock Appreciation Rights Plan during 2004, which utilized shares purchased in the market and has not involved the issue of new shares. No awards were made under the plan in 2004. As at May 4, 2005 the following rights were outstanding under the Stock Appreciation Rights Plan:

Rights exercise dates	Rights price (pence)	Number of rights outstanding

				(millions)
09.10.00	06.29.10	181	416	2.5

72

As of May 4, 2005 the Employee Share Ownership Trust held 10.1 million Ordinary shares to satisfy awards under our various share based incentive schemes. Further information on our share incentive plans are provided in Note 30 of Notes to the Financial Statements.

The following tables provide further summary information in respect of options and other rights to purchase our Ordinary shares for each of our directors as of May 4, 2005. Other than as set forth below, none of our directors holds any options or other rights to purchase our shares. Each option or right was granted without monetary consideration. Information relating to ownership of share options or other rights by employees, other than executive directors, is not required to be, and has not been, disclosed by us in the United Kingdom. Our directors and senior management as a group held options and rights to purchase 12.0 million shares as of May 4, 2005.

Options to Acquire Shares Directors

	Plan type(1)	Options over rights to acquire Ordinary shares	Date of grant	Exercise price	Date first exercisable	Expiry date
				(pence)		
A. Gustafsson	ESOS	1,800,000	08.05.04	56	08.05.07	08.04.14
E. Hutchinson	ESOS	42,928	04.29.96	140	04.29.99	04.28.06
	ESOS	33,786	04.23.97	118	04.23.00	04.22.07
	ESOS	29,586	04.27.98	152	04.27.01	04.26.08
	SRSOS	12,363	10.22.98	83	01.01.06	06.30.06
	ESOS	75,156	04.01.99	133	04.01.02	03.31.09
	ESOS	55,562	05.11.00	334	05.11.03	05.10.10
	ESOS	105,000	04.09.01	305	04.09.04	04.08.11
	SRSOS	8,693	10.05.01	93	12.01.08	05.31.09
	ESOS	234,000	04.02.02	134	04.02.05	04.01.12
	ESOS	387,000	05.02.02	113	05.02.05	05.01.12
	ESOS	1,128,000	03.25.03	16	03.25.06	03.24.13
	SRSOS	24,721	09.26.03	38	12.01.10	05.31.11
	ESOS	1,128,000	08.05.04	56	08.05.07	08.04.14

(1) Key to plan type:

ESOS Executive Share Option Scheme: options held under these schemes have performance conditions which are usually required to be satisfied prior to the exercise of any option.

SRSOS Savings Related Share Option Scheme: options held under this scheme, which is open to all eligible employees in the United Kingdom, include executive directors.

Further Information on Spirent's share incentive plans can be found in Note 30 of Notes to the Financial Statements.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The table below sets forth certain information regarding notifiable interests in our shares as of May 4, 2005 (being the last practicable date prior to the publication of this report) for each person notified to us who owns more than 3% of our shares.

Name of substantial shareholder	Number of shares held	Percentage held
	(millions)	%
Lexa BV	120.0	12.46
Barclays plc	115.8	12.02
Standard Life Investments (Vidacos Nominees)	34.4	3.57
Legal & General Group plc	30.1	3.13

To our knowledge, as of May 4, 2005, no other shareholder held more than 3% of our issued shares.

The ongoing exercise of stock options and purchase rights under various employee stock plans and the allotment of 4.3 million Ordinary shares in March 2004 as deferred consideration for the acquisition of Caw Networks, Inc has diluted the relative holding of significant shareholders.

At February 25, 2004 Lexa BV was our largest shareholder with 12.61% of our issued share capital and Barclays plc and Legal & General Group plc were our second and third largest shareholders, holding 10.07%, and 3.21% of our issued share capital respectively. At March 12, 2003 Lexa BV was our largest shareholder with 13.62% of our issued share capital and FMR Corporation and Fidelity International Ltd, Prudential plc, and Legal & General plc were our second, third and fourth largest shareholders, holding 10.00%, 5.10% and 3.63% of our issued share capital, respectively. At February 20, 2002, Lexa BV was our largest shareholder with 11.61% of our issued share capital and Prudential plc, Halifax plc and Legal & General plc were our second, third and fourth largest shareholders, holding 4.93%, 3.59%, and 3.01% of our issued share capital, respectively. At February 28, 2001, Lexa BV was our largest shareholder with 11.70% of our issued share capital and Prudential plc, Iain Milnes and Halifax plc were our second, third and fourth largest shareholder with 5.03%, 3.78% and 3.62% of our issued share capital, respectively.

Under Sections 198 201 of the Companies Act 1985 shareholders have a duty to give notice to a company when their beneficially held interest first reaches 3% of the issued share capital, when it falls below that level and when the beneficially held interest changes by at least one percentage point. If a shareholder holds beneficial and non-beneficial interests of 10% or more of the issued share capital, he must notify the company when the aggregate holding falls below that level and when aggregate holdings change by at least one percentage point. Once a shareholder has beneficial and non-beneficial interests representing less than 10% of the issued capital, only the beneficially held element of the shareholding needs be disclosed. As a result of these differing reporting and notification requirements, the figures given in the paragraph above may show a volatility in the holdings of our larger investors.

The shareholders listed in the above table do not have voting rights different from those of our other shareholders.

As of May 4, 2005, 3,634,967 of our Ordinary shares were held by shareholders who had an address in the United States on the share register. There were 217 record holders of our Ordinary shares in the United States. As of May 4, 2005, 15,533,768 Ordinary shares represented by ADSs were held in the United States, of which 15,437,056 are registered to the Depository Trust Company. As the share register does not hold records of trusts or complete details of nominees' holdings, it is possible that there are greater numbers of beneficial shareholdings held by residents in the United States. We

believe approximately 6.29% of our Ordinary issued share capital is held by investors in the United States either directly, through the ADS facility or through nominee accounts.

To our knowledge, we are not directly or indirectly owned or controlled by another corporation or other corporations, by any foreign government or by any other natural or legal person or persons severally or jointly.

To our knowledge, there are no arrangements the operation of which may at a subsequent date result in a change of our control.

Related Party Transactions

We have not engaged in any related party transactions since January 1, 2004, other than any such transactions between us and our subsidiaries or among our subsidiaries.

ITEM 8. FINANCIAL INFORMATION

Historical Financial Information

Our audited consolidated financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 are set out elsewhere in this annual report.

Significant Changes

Other than as described in "Recent Developments" in Item 5 above no significant change has occurred to our financial position since December 31, 2004, the date of the most recent financial statements included in this annual report.

Dividend Policy

Under English law, payment of dividends is subject to the Companies Act, which requires that all dividends be approved by our board of directors and, in some cases, our shareholders. Moreover, under English law, we may pay dividends on our shares only out of profits available for distribution determined in accordance with the Companies Act and UK GAAP, which differ in some respects from US GAAP. If we declare dividends, holders of our ADSs will be entitled to receive payments in US dollars in respect of dividends on the underlying Ordinary shares in accordance with the deposit agreement.

No dividend will be paid in respect of the year ended December 31, 2004 and no dividend was paid in respect of the year ended December 31, 2003. In November 2004 we completed the process required to eliminate the deficit in our distributable reserves. Although we are now in a position to rebuild distributable reserves through retained profits, out of which dividends may be paid, no decision to resume dividend payments has been taken by the Board.

ITEM 9. THE OFFER AND LISTING

Our ADSs are listed on the New York Stock Exchange under the symbol SPM. Each ADS represents four Ordinary shares. ADSs are evidenced by American Depositary Receipts ("ADRs"). Our Ordinary shares have a nominal value of $3^1/_3$ pence each.

Our shares are listed on the United Kingdom Listing Authority's Official List and traded on the London Stock Exchange. Until May 15, 2000, our shares traded on the London Stock Exchange under the ticker symbol BWTH and, since May 15, 2000, they have traded under the ticker symbol SPT. We established a "sponsored" ADR facility in 1999 to facilitate over-the-counter trading in our shares by investors in the United States, but there was no regular public market for our shares in the United States. In order to list our ADSs on the New York Stock Exchange, we filed a registration statement on

Form 20-F in June 2001 and became subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended. See "Item 10. Additional Information Documents on Display".

The following table shows, for the periods indicated, the high and low closing price of a Spirent share as reported in the Daily Official List of the United Kingdom Listing Authority, as adjusted for the 3:1 share split which took effect in May 2000 and the bonus element of the 5:24 rights issue completed in December 2000 and the high and low closing price of our ADSs on the New York Stock Exchange since we listed on July 10, 2001.

	Spirent Shares			**Spirent ADSs**		
	High	**Low**	**Average daily trading volume**	**High**	**Low**	**Average daily trading volume**
	(£)		**(No. of shares millions)**	**(US$)**		**(No. of ADSs 000's)**
Most recent six months						
April 2005	0.64	0.41	18.4	4.75	3.08	15.0
March 2005	0.71	0.64	15.3	5.39	4.77	16.1
February 2005	0.72	0.62	12.0	5.32	4.80	12.2
January 2005	0.74	0.67	7.9	5.60	4.92	9.2
December 2004	0.76	0.71	4.4	5.75	5.46	6.0
November 2004	0.73	0.64	8.2	5.42	4.56	7.2
Two most recent full financial years and subsequent period						
2005						
Second quarter (through May 4, 2005)	0.64	0.41	18.5	4.75	3.08	13.8
First quarter	0.74	0.62	11.7	5.60	4.77	12.6
2004						
Fourth Quarter	0.76	0.60	6.9	5.75	4.24	6.1
Third Quarter	0.68	0.48	7.3	4.85	3.55	7.5
Second Quarter	0.80	0.57	7.4	5.83	3.98	8.1
First Quarter	0.90	0.58	12.3	6.70	4.04	23.0
2003						
Fourth Quarter	0.73	0.52	8.7	4.75	3.54	10.4
Third Quarter	0.61	0.24	16.0	4.20	1.70	17.4
Second Quarter	0.38	0.15	8.2	2.68	1.00	22.9
First Quarter	0.23	0.10	11.7	1.44	0.75	14.4
Five most recent full financial years						
2004	0.90	0.48	8.5	6.70	3.55	11.1
2003	0.73	0.10	11.2	4.75	0.75	16.3
2002	1.92	0.06	9.1	11.00	0.60	7.2
2001	6.10	0.72	7.7	11.50	4.50	5.3
2000	6.88	2.78	3.1	NA	NA	NA

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

Our registration statement on Form 20-F which we filed with the Securities and Exchange Commission ("SEC") on June 27, 2001, contains a full description of our Memorandum and Articles of Association under "Item 10. Additional Information," which is incorporated herein by reference. On May 4, 2005 we amended our Memorandum and Articles of Association and a description of the amendments is given below. Our amended Memorandum and Articles of Association are filed as Exhibit 1.1 to this Annual Report on Form 20-F.

We adopted new Articles to include a number of changes which were intended to bring our Articles into line with recent developments in applicable United Kingdom legislation, regulation and market practice.

Treasury shares

We amended Article 8 (purchase of own shares) to reflect the amendments made to the Companies Act by the provisions of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"). The Regulations allow companies that purchase their own shares to either cancel them or hold them in treasury. The Regulations impose certain restrictions on shares whilst held in treasury, such as restrictions on voting and the right to receive dividends on treasury shares, and permit certain uses of treasury shares, such as the subsequent sale of treasury shares for cash and their transfer in connection with employee share schemes.

We amended Article 11 to reflect the provisions of the Regulations so that any subsequent sale of treasury shares for cash shall be treated as an allotment of shares and, accordingly, shall be subject to pre-emption rights. An addition was made to Article 2 to clarify that references to issued shares throughout the Articles exclude treasury shares.

Electronic proxy voting and poll and proxy voting

Changes were made to Article 69 (submission of proxy appointments) to make it explicit that proxies can now be appointed through the CREST Electronic Voting Service. The changes also deal with supplemental appointments and revocations of proxies through the CREST Electronic Voting Service. Consequential changes were made to Article 71 (revocation of proxies) and Article 140 (signature and authentication of documents) and by way of an addition to the definition of `address' in Article 2.

With regards to poll and proxy voting, several changes were made. A clarification to Article 57 (voting at general meetings) was made to enable a poll to be demanded prior to a resolution being put to the vote on a show of hands. An addition to Article 66 (voting on a poll) was made so as to make it clear that all proxies, notwithstanding their method of appointment, have discretion to vote or abstain on matters on which they are entitled to vote unless otherwise instructed. A deletion in Article 69 (submission of proxy appointments) was also made to remove the ability of shareholders to appoint proxies for more than one meeting by a single proxy appointment.

Payment of dividends

A change to Article 124 (payment of dividends) was made to clarify that any dividends may be paid by electronic means through the CREST system, subject to the formalities and requirements of the CREST system and subject to the consent of the relevant shareholder. A further change to Article 124 was made to confirm that all forms of payment of dividends permitted by this Article will constitute a good discharge to us.

Electronic archiving of documents

A change to Article 41 (destruction of documents) was made in order to give us greater flexibility to either retain documents in original form or by electronic copy prior to the prescribed date for their destruction, subject to the requirements of applicable law for retaining original documents.

Number, age limit, appointment, retirement and vacation of office by directors

We changed Article 73 (number of directors) to increase the maximum number of directors from 12 to 15. We changed Article 82 (age limit of directors) to remove the age limit imposed on directors. Both of these changes were intended to give us greater flexibility in the long term for appointing to the Board such number of directors of any age in order to ensure that there are directors on the Board of sufficient experience and expertise for the effective management of the Company.

Changes to Articles 84, 85 and 86 (retirement and re-election of directors) were also made. The effect of the changes were to bring the Articles into line with the requirement of the Combined Code on Corporate Governance (the applicable corporate governance standard for United Kingdom companies with a primary listing on the London Stock Exchange) that all directors should be subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Any Non-Executive Director who has served more than nine years will also be subject to re-election at each subsequent Annual General Meeting.

In accordance with good corporate governance, changes were made to Article 83 (vacation of office of director) to provide for the vacation of office of a director owing to persistent and unauthorized absence from board meetings.

Borrowing limits

As a result of the introduction of International Financial Reporting Standards, a minor amendment to Article 102 (borrowing powers and limits) was made. We amended the calculation of the amount of `Adjusted Capital and Reserves' for the purposes of determining the Company's borrowing limits.

Miscellaneous minor changes

We deleted Article 50 (routine business) to reflect market practice that it is no longer necessary to draw a distinction between ordinary and special business in notices of our Annual General Meetings.

We changed Article 45(A) (untraced shareholders) to reflect that it is no longer a requirement of the United Kingdom Listing Rules to give notice to the London Stock Exchange of a sale of shares belonging to untraced shareholders.

We added a definition of `officer' in Article 2 by way of general clarification in the Articles and in particular so that it is made clear that we are only permitted to indemnify our Company officers and not our auditors.

In addition, a number of minor drafting and changes to definitions were made in the Articles to take account of recent changes in applicable legislation and regulation.

Material Contracts

Following is a summary of the contracts entered into by any member of our Group during the last two years which are material to our Group as a whole:

Third Amendment, Consent and Waiver Agreement, dated March 1, 2005, relating to the amended and restated note purchase agreement dated March 11, 2003, entered into with our US

noteholders, under which certain amendments were made to the terms of our senior unsecured notes both to make the note purchase agreement compatible with the revolving credit facility as amended, as described immediately below, and to amend the requirements for certain financial and operational restrictions under the terms of the notes ("Normalization"), including a reduction to the amount of the external financing required at Normalization from £50 million to £30 million. As of the date of the Third Amendment, Consent and Waiver Agreement, the applicable interest rate on the outstanding notes remained a weighted average of 9.45% per annum which then decreased upon Normalization to 9.20%. Under the note purchase agreement, we continue to be under some restrictions from, among other things, paying dividends and will continue be required to obtain the noteholders' consent for acquisitions and divestments in certain circumstances, but the terms of these restrictions were adjusted and relaxed upon Normalization.

Revolving Credit Facility, dated February 2, 2005, for a committed 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. This facility replaced the February 2004 credit facility in the same principal amount but incorporates terms revising certain financial covenants and other terms under the credit facility upon Normalization. On March 2, 2005, we delivered a normalization certificate to the noteholders, certifying that we had met the Normalization criteria. As a result, the current, reduced interest rate margin under the 2005 facility, now at 0.075% per annum, will be reviewed upon the delivery of half-yearly compliance certificates by us (rather than the pre-Normalization quarterly reviews). Similarly, compliance with certain of the financial covenant ratios will now be tested half-yearly rather than quarterly and, while we continue to be subject to certain restrictions, among others, on incurring further debt, providing further security and acquisitions and disposals, the terms of such restrictions were adjusted and relaxed upon Normalization. The expiry date of the 2005 facility, subject to certain extension options, is February 1, 2006.

Second Amendment and Consent Agreement dated August 13, 2004 relating to the amended and restated note purchase agreement dated March 11, 2003, entered into with our US noteholders, pursuant to which the noteholders consented to the disposal of the Company's sole remaining aerospace business and under which certain amendments to the terms of our senior unsecured notes were made including certain amendments and clarifications to the financial covenants under the note purchase agreement to deal with the special accounting issues raised by the Company's SARS program. In connection with the Second Amendment and Consent, a pre-payment of $5.0 million was made following which $5.5 million remained outstanding with a maturity of November 23, 2006 and $119.3 million with a maturity of November 23, 2009. The applicable interest rate on the outstanding notes remained a weighted average of 9.45% per annum.

Revolving Credit Facility, dated February 4, 2004, for a committed 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. This facility replaced the credit facility agreement dated June 14, 1999 (as amended by a supplemental agreement dated July 15, 1999, a syndication agreement dated August 16, 1999, two further supplemental agreements each dated November 15, 2000 and a supplemental agreement dated March 6, 2002) and reduced the size of the bank syndicate for our committed facility to a group of six banks. In addition, the interest rate margin under this £30 million facility was reduced to 1.30% per annum, to be reviewed upon the delivery of quarterly compliance certificates by us. Other than these changes, the material terms of this February 2004 current facility were substantially similar in all material respects to the terms of the 1999 facility, as amended.

Amendment and Consent Agreement, dated December 31, 2003 relating to the amended and restated note purchase agreement dated March 11, 2003, entered into with our US noteholders, under which certain amendments to the terms of our senior unsecured notes were made including a reduction to the amount of the committed external financing the noteholders required us to have in place from £60 million to £30 million. In connection with the Amendment and Consent, a pre-payment of $14.4 million was made following which $5.7 million remained outstanding with a maturity of November 23, 2006 and $124.1 million with a maturity of November 23, 2009. The applicable interest rate on the outstanding notes remained a weighted average of 9.45% per annum.

Supplemental Agreement dated March 11, 2003 between Spirent and HSBC Investment Bank plc ("HSBC") (as agent) relating to the 1999 revolving credit facility whereby an amount was repaid under the multi-currency revolving credit facility and the facility reduced to £75 million. Pursuant to the terms of the agreement, as amended, the facility was automatically further reduced to £60 million as of December 31, 2003, and, based on certain quarterly reporting criteria, the interest rate margin was decreased to 1.60% per annum, before this facility was completely terminated and replaced by the above-referenced February 2004 revolving credit facility.

Amended and restated note purchase agreement dated March 11, 2003, entered into with our US noteholders relating to the note purchase agreement dated November 23, 1999, as amended, under which certain amendments to the terms of our senior unsecured notes were made including a pre-payment of $73.8 million following which $6.4 million remained outstanding with a maturity of November 23, 2006 and $137.8 million with a maturity of November 23, 2009. The applicable interest rate on the outstanding notes was increased to a weighted average of 9.45% per annum and restrictions were put in place, among others, from paying dividends and making acquisitions and divestments, subject to limited exceptions.

On March 11, 2003 we divested our entire holding in our WAGO business by entering into four separate agreements with members of the Hohorst family and companies controlled by them, two in relation to the disposal of our interests in the companies comprising WAGO Germany (the "German Agreements"), one in relation to the disposal of our interest in WAGO Switzerland (the "Swiss Agreement") and one in relation to the disposal of our nominal holdings in Hohorst Familien Holding (Schweiz) Beteiligungs GmbH and Hohorst Familien Holding (Minden) Beteiligungs GmbH (the "Nominal Holdings Agreement"):

German Agreements 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, under which Spirent GmbH agreed to sell its shareholding in WAGO Kontakttechnik GmbH to Hohorst Familien Holding (Minden) Beteiligungs GmbH and Hohorst Familien Holding (Schweiz) Beteiligungs GmbH. By another share sale and purchase agreement dated March 11, 2003 between Spirent GmbH and Sven-Michael Hohorst, Spirent GmbH agreed to sell its shareholding in WAGO-Verwaltungs GmbH to Sven-Michael Hohorst. The total consideration payable under the German Agreements was €83.0 million (£57.2 million). Spirent has given warranties only as to its title to the shares in WAGO Germany. Spirent's liability for breach of warranty is limited to €83.0 million (£57.2 million), being an amount equal to the total consideration payable under the German Agreements, and any claim for breach of warranty must be brought prior to March 11, 2033.

Swiss Agreement Share sale and purchase agreement dated March 11, 2003 between Spirent BV, Hohorst Familien Holding (Schweiz) Beteiligungs GmbH and Hohorst Familien Holding (Minden) Beteiligungs GmbH, under which Spirent BV agreed to sell its shareholding in WAGO Switzerland to Hohorst Familien Holding (Schweiz) Beteiligungs GmbH and Hohorst Familien Holding (Minden) Beteiligungs GmbH for a consideration of CHF7.4 million (£3.5 million).

Spirent's liability for breach of warranty as to its title to the shares in WAGO Switzerland is limited to CHF7.4 million (£3.5 million), being an amount equal to the total consideration payable under the Swiss Agreement. Any claim for breach of warranty must be brought prior to December 31, 2007.

Nominal Holdings Agreement Share sale and purchase agreement dated March 11, 2003 between Spirent GmbH and Gesellschaft burgerlichen Rechts Wolfgang and Sven-Michael Hohorst, represented by its partners Wolfgang Hohorst and Sven-Michael Hohorst, under which Spirent GmbH agreed to sell the one share that it holds in each of Hohorst Familien Holding (Minden) Beteiligungs GmbH and Hohorst Familien Holding (Schweiz) Beteiligungs GmbH to Gesellschaft burgerlichen Rechts Wolfgang and Sven-Michael Hohorst for a nominal consideration of €200 (£138). In other respects the terms of the Nominal Holdings Agreement are substantially the same as those of the German Agreements, save where required to reflect the different shareholdings and identities of the parties.

Exchange Controls

There are currently no United Kingdom foreign exchange control restrictions on the conduct of our operations or the remittance of dividends. Any dividends we pay to holders of the shares or ADSs may be subject to United Kingdom or other taxation. See "Taxation" below, for a more detailed discussion of the tax consequences of investing in the shares or ADSs. There are no restrictions under our Memorandum and Articles of Association or under English law that limit the right of non-resident or foreign holders to hold or vote our shares.

Taxation

The following discussion summarizes the material United States federal income tax and United Kingdom tax consequences of the acquisition, ownership and disposition of our Ordinary shares, including shares represented by ADSs evidenced by ADRs. This summary applies to you only if you are a beneficial owner of Ordinary shares or ADSs and the dividends on them and you are:

- an individual citizen or resident of the United States;
- a corporation organized under the laws of the United States or any state thereof or the District of Columbia; or
- otherwise subject to United States federal income tax on a net income basis in respect of the Ordinary shares or ADSs.

This summary applies only to holders who will hold our Ordinary shares or ADSs as capital assets. This summary is based:

- upon current United Kingdom tax law and United States tax law, and United Kingdom Inland Revenue and United States Internal Revenue Service ("IRS") practice;
- upon the United Kingdom United States Income Tax Convention (the "Treaty") and the United Kingdom-United States Convention relating to estate and gift taxes (the "Estate Tax Treaty") as in effect on the date of this annual report; and
- in part upon representations of The Bank of New York, as depositary, and assumes that each obligation provided for in or otherwise contemplated by the deposit agreement and any related agreement will be performed in accordance with its respective terms.

The following summary is of a general nature and does not address all of the tax consequences that may be relevant to you in light of your particular situation. For example, this summary does not apply to United States expatriates, insurance companies, regulated investment companies, tax-exempt organizations, financial institutions, persons subject to the alternative minimum tax, securities broker-

dealers, investors that use a mark-to-market accounting method, holders who hold ADSs or Ordinary shares as part of hedging, straddling, or conversion transactions or holders who own directly, indirectly or by attribution, 10% or more of the voting power of our issued share capital and holders whose functional currency for United States tax purposes is not the US dollar. In addition (and without limitation), the following summary of United Kingdom tax considerations does not, except where indicated otherwise, apply to you if:

- you are resident or, in the case of an individual, ordinarily resident in the United Kingdom for United Kingdom tax purposes;
- your holding of ADSs or Ordinary shares is attributable to a branch, agency or permanent establishment in the United Kingdom; or
- you are a corporation and own at least 10% of the voting stock of the Company from which you receive dividends.

You should consult your own tax advisers as to the particular tax consequence to you under United Kingdom, United States federal, state and local and other foreign laws, of the acquisition, ownership and disposition of ADSs or Ordinary shares. For United States federal income tax purposes, holders of ADSs will be treated as owners of the underlying Ordinary shares attributable thereto and the discussion of United States federal income tax consequences to holders of ADSs applies as well to holders of Ordinary shares except as otherwise indicated.

United Kingdom Tax Consequences

The following discussion of material United Kingdom tax consequences is the opinion of Debevoise & Plimpton LLP, our United Kingdom tax counsel.

Taxation of dividends and distributions

Under current United Kingdom taxation legislation, no tax will be withheld from cash dividend payments by us.

United States holders of Ordinary Shares or ADSs will not be entitled to receive any payment from the United Kingdom Inland Revenue in respect of any tax credit on dividends paid by us.

Taxation of capital gains

Subject to the provisions set out in the next paragraph in relation to temporary non-residents, as a United States holder that is not resident or ordinarily resident in the United Kingdom, you will not ordinarily be liable for United Kingdom tax on capital gains realized on the sale or other disposal of Ordinary shares or ADSs, unless at the time of disposal, if you are a corporate holder, you carry on a trade in the United Kingdom through a United Kingdom permanent establishment or, if you are an individual, you carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency and such Ordinary shares or ADSs are or have been used, held or acquired for the purposes of a trade, profession or vocation carried on in the United Kingdom through such permanent establishment, branch or agency, in which case you may, depending on the circumstances, be liable to United Kingdom tax on a gain realized on disposal of your ADSs or Ordinary shares.

A holder of Ordinary shares or ADSs who is an individual and who has on or after March 17, 1998 ceased to be resident or ordinarily resident for tax purposes in the United Kingdom but who again becomes resident or ordinarily resident in the United Kingdom within a period of, broadly, less than five years and who disposes of Ordinary shares or ADSs during that period may also be subject to United Kingdom tax on capital gains (subject to any available exemption or relief), notwithstanding that he is not resident or ordinarily resident in the United Kingdom at the time of the disposal. On March 16, 2005, the UK Government announced proposals under which, with effect from that date, a

person who, although resident or ordinarily resident in the United Kingdom, is not resident in the United Kingdom under the provisions of an applicable double tax treaty will be treated for the purposes of these rules as not being resident or ordinarily resident in the United Kingdom.

United Kingdom inheritance tax

The Ordinary shares and ADSs are assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there under special rules relating to long residence or previous domicile. For United Kingdom inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements holding Ordinary shares or ADSs, bringing them within the charge to inheritance tax.

An Ordinary share or ADS held by an individual whose domicile is determined to be the United States for the purposes of the Estate Tax Treaty, and who is not a national of the United Kingdom for the purposes of that treaty generally, will not be subject to United Kingdom inheritance tax on the individual's death or on a gift of the Ordinary share or ADS during the individual's lifetime provided that any applicable US federal gift or estate tax liability is paid except where the Ordinary share or ADS:

(a) is part of the business property of a permanent establishment of an enterprise of the individual in the United Kingdom; or

(b) pertains to a fixed base in the United Kingdom of the individual used for the performance of independent personal services.

In the exceptional case where the Ordinary shares or ADSs are subject to both United Kingdom inheritance tax and United States federal gift or estate tax, the Estate Tax Treaty generally provides for the tax paid in the United Kingdom to be credited against federal income tax in the United States or for federal tax paid in the United States to be credited against tax payable in the United Kingdom based on priority rules set out in the Estate Tax Treaty.

United Kingdom stamp duty and Stamp Duty Reserve Tax ("SDRT")

United Kingdom stamp duty (rounded up to the nearest £5) or SDRT will (subject to specific exceptions) be payable at the higher rate of 1.5% of the amount or value of the consideration or, in the case of an issue, price of the Ordinary shares when issued or, in some circumstances, the value of shares in registered form on a transfer or issue:

(a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services; or

(b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts.

This would include transfers and issues of Ordinary shares in registered form to the Custodian for deposit under the ADR deposit agreement. No SDRT will be payable if stamp duty equal to the SDRT liability is paid. In circumstances where stamp duty is not payable on the transfer of Ordinary shares in registered form to the Custodian at the rate of 1.5%, such as where there is no chargeable instrument, SDRT will be payable to bring the charge up to 1.5% in total. In accordance with the terms of the ADR deposit agreement, any tax or duty payable by the Custodian on any such transfers of Ordinary shares in registered form will be charged by the Custodian to the party to whom ADRs are delivered against such transfers.

Clearance services may opt, with the United Kingdom Inland Revenue's approval, under certain conditions for the normal rate of stamp duty and SDRT (0.5%) to apply to a transfer of shares into, and to transactions within, the service instead of (i) the higher rate applying to a transfer of shares into the clearance service and (ii) the exemption for dealings in the Ordinary shares while in the system.

No United Kingdom stamp duty will be payable on the acquisition of any ADS or on any subsequent transfer of an ADS, provided that the transfer and any subsequent instrument of transfer remain at all times outside the United Kingdom and that the instrument of transfer is not executed in or brought into the United Kingdom. An agreement to transfer an ADS will not give rise to SDRT.

Subject to some exceptions, a conveyance or transfer on sale of Ordinary shares in registered form will attract ad valorem United Kingdom stamp duty at the rate of 0.5% (rounded up to the nearest £5) of the dutiable amount, usually the amount or value of the consideration for the transfer. Generally, ad valorem stamp duty applies neither to gifts nor on a transfer from a nominee to the beneficial owner, although in cases of transfers where no ad valorem stamp duty arises, a fixed United Kingdom stamp duty of £5 may be payable. SDRT at a rate of 0.5% of the amount or value of the consideration for the transfer will normally be payable on an agreement to transfer Ordinary shares. If, within six years of the date on which such agreement was made (or, if such agreement was conditional, the date on which the condition is satisfied), an instrument transferring the Ordinary shares is executed and stamped, any SDRT paid may be repaid or, if it has not been paid, the liability to pay such tax, but not necessarily interest and penalties, would be canceled. Stamp duty and SDRT are chargeable whether the agreement is made or effected in the United Kingdom or elsewhere and whether or not any party is resident or situated in any part of the United Kingdom.

United States Federal Income Tax Consequences

The following discussion of material United States federal income tax consequences is the opinion of Debevoise & Plimpton LLP, our United States tax counsel.

Taxation of dividends

The gross amount of a distribution paid on an Ordinary share or ADS will be a dividend for United States federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). To the extent that a distribution exceeds our earnings and profits, it will be treated as a nontaxable return of capital to the extent of your basis in such shares and thereafter as a capital gain. Dividends paid by us generally will be treated as foreign source income and will not be eligible for the dividends received deduction allowed to corporate shareholders under the United States federal income tax law.

Recently enacted legislation reduces to 15% the maximum tax rate for certain dividends received by individuals through taxable years beginning on or before December 31, 2008, so long as certain holding period requirements are met. Unless we are classified as a passive foreign investment company (see below), dividends paid with respect to our ADSs will qualify for the 15% maximum rate (assuming the holding period requirements are met). We believe that dividends paid to direct holders of our Ordinary shares will likewise qualify for the 15% maximum rate, but no assurance in this regard can be given until the United States Treasury Department issues further guidance. Special rules apply for purposes of determining a recipient's investment income (which limits deductions for investment interest) and foreign income (which may affect the amount of foreign tax credit) and to certain extraordinary dividends. We urge each United States holder who is an individual to consult his or her own tax adviser regarding the possible applicability of the reduced rate under the new legislation and the related restrictions and special rules.

The amount of any distribution will equal the fair market value in US dollars of the pounds sterling or other property received on the date received by you in the case of Ordinary shares, or by

The Bank of New York, as depositary, in the case of ADSs, based on the spot exchange rate on such date. You will have a basis in any pounds sterling distributed, equal to the US dollar value of pounds sterling on the date received by you, in the case of Ordinary shares, or by The Bank of New York in the case of ADSs. Any gain or loss recognized upon a subsequent disposition of pounds sterling will generally be United States source ordinary income or loss.

Taxation of capital gains

Upon the sale or exchange of an Ordinary share or ADS, you will recognize a gain or a loss for United States federal income tax purposes in an amount equal to the difference between the amount realized and your adjusted tax basis in the Ordinary share or ADS. Subject to the discussion below under ``Passive Foreign Investment Company Considerations," such gain or loss will be a capital gain or loss and will be a long-term capital gain if you have held the Ordinary share or ADS for more than one year. Gain or loss will generally be treated as United States source gain or loss. Recently enacted legislation generally reduces to 15% the maximum tax rate for long-term capital gains of individuals from the sale of shares in taxable years beginning on or before December 31, 2008.

The surrender of ADSs in exchange for Ordinary shares and the surrender of Ordinary shares in exchange for ADSs will not be a taxable event for United States federal income tax purposes. Accordingly, you will not recognize any gain or loss upon such surrender.

Passive Foreign Investment Company considerations

We believe that we will not be treated as a passive foreign investment company ("PFIC") for United States federal income tax purposes for our current taxable year, or for future taxable years. However, an actual determination of PFIC status is factual in nature and generally cannot be made until the close of the applicable taxable year. We will be a PFIC if either:

- 75% or more of our gross income in a taxable year is passive income, which includes dividends, interest, royalties, rents, annuities, and some types of gains; or

- the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50%. The IRS has indicated that cash balances, even if held as working capital, are considered to be assets that produce passive income.

If we were classified as a PFIC, you would be subject to certain adverse United States tax consequences, including the possible characterization of gain with respect to the Ordinary shares or ADSs as ordinary, the possible imposition of an interest charge on taxes you would be deemed to have deferred and the unavailability of the reduced 15% tax rate on dividends.

You are urged to consult your own tax adviser concerning the potential application of the PFIC rules to your ownership and disposition of Ordinary shares or ADSs.

Reportable transactions

Under recently promulgated United States Treasury Department regulations, you must attach to your United States federal income tax return a disclosure statement on Form 8886 if you participate in a "reportable transaction." You should consult your own tax adviser as to the possible obligation to file Form 8886 with respect to the purchase, ownership or disposition of Ordinary shares or ADSs, or any related transaction, including the disposition of any pounds sterling received as a dividend or as proceeds from the sale of Ordinary shares or ADSs.

United States information reporting and backup withholding

Dividend payments with respect to Ordinary shares or ADSs and proceeds from the sale, exchange or redemption of Ordinary shares or ADSs may be subject to information reporting to the IRS and possible United States backup withholding. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number or certificate of foreign status and make any other required certification or if you are otherwise exempt from backup withholding. If you are required to establish your exempt status you generally must provide such certification on IRS Form W-9 in the case of United States persons and on IRS Form W-8 in the case of non-United States persons.

Amounts withheld as backup withholding may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules, by filing the appropriate claim for refund with the IRS and furnishing any required information.

Documents on Display

We are subject to the reporting requirements of the Exchange Act, as applicable to foreign private issuers. In accordance with the requirements, we will file annual reports on Form 20-F with, and furnish other information under cover of Form 6-K to, the SEC. We furnish copies of these reports to the depositary promptly after they have been filed with or furnished to the SEC. Our consolidated financial statements included in such annual reports are prepared in accordance with UK GAAP, with a reconciliation of net income and shareholders' equity to US GAAP. These financial statements are presented in pounds sterling. These reports and other information may be inspected and copied at the public reference facility maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549.

Copies of this material may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W. Washington, D.C. 20549 at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (800) 732-0330. The material may also be accessed electronically by means of the SEC's home page on the Internet at *http://www.sec.gov*. This Internet site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Finance and Treasury Objectives, Policies and Strategies

Treasury management encompasses the funding, interest and foreign exchange activities of our Group.

The major treasury activities involve raising finance and managing the Group's interest rate and currency exposures. Financial instruments are used to manage these exposures when deemed appropriate. A framework of policies and guidelines has been laid down by the Board and is subject to regular review. Speculative treasury transactions are expressly forbidden.

Our policy is to finance our operations through a combination of retained earnings and external financing. Spirent raises the majority of the funding for the Group. Debt is principally sourced from the syndicated bank market and the US private placement market.

Interest Rate Management

Through an optimum mix of fixed and floating debt and the use of interest rate swaps, our aim is to reduce the volatility of the interest charge. At December 31, 2004, the Group's borrowings were composed of 51% of fixed rate debt. This excludes $72.1 million of our notes which have been swapped

into floating rates through the use of interest rate swaps which terminate on November 23, 2009. The swaps are callable at the counterparties' option at six-monthly intervals.

We use derivative instruments, as approved by our Board, to manage our interest rate exposures on our debt and cash positions as appropriate.

Currency Management

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

During 2004 sterling strengthened against the US dollar, the main currency to which we are exposed.

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

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

Details of the currencies of financial assets and liabilities are illustrated in Note 28 of Notes to the Financial Statements. At December 31, 2004 our balance sheet was 61% hedged against translation exposure.

Interest Rate Sensitivity

The tables below provide information about our financial instruments excluding finance lease obligations that are sensitive to changes in interest rates. For long-term debt obligations (excluding debt due entirely within one year), the table presents notional amounts and weighted average interest rates by expected maturity dates. Weighted average variable rates are based on rates set at the balance sheet date. The information is presented in pounds sterling, which is our reporting currency. The actual currencies of the instruments are indicated in parentheses.

As at December 31, 2004

	Expected to Mature Before December 31							
	2005	**2006**	**2007**	**2008**	**2009**	**There-after**	**Total**	**Fair Value**
	(£ millions, except percentages)							
Long-term Debt:								
Fixed rate (US$)	0.2	1.4	0.2	1.8	26.2		29.8	39.8
Average interest rate (%)	7.0	8.9	7.0	7.0	9.5		9.3	
Fixed rate (other currencies)						0.6	0.6	0.4
Average interest rate (%)						4.0	4.0	
Variable rate (US$)		1.6			35.8		37.4	37.4
Average interest rate (%)		6.6			6.6		6.6	

Exchange Rate Sensitivity

The following information provides details of our derivative and other financial instruments by currency presented in pound sterling equivalents. The tables above provide details of non-sterling denominated long-term debt obligations which are subject to foreign currency exchange rate movements

while the table below presents amounts and weighted average contractual exchange rates of foreign currency forward exchange contracts held as at December 31, 2004. All forward exchange agreements mature within one year.

Forward Exchange Contracts as at December 31, 2004

Currency	Pay for £ Contract Amount	Average Contractual Exchange Rate
	(£ millions)	
US dollars	15.4	1.87
Others	0.1	
Total	15.5	
Deal value	15.8	

Currency Exposure of Financial Assets and Liabilities

The table shows the net unhedged monetary assets and liabilities of our Group companies as at December 31, 2004 that are not denominated in their functional currency and therefore give rise to exchange gains and losses in the profit and loss account.

Net foreign currency monetary assets/(liabilities)

	Sterling	US dollar	Euro	Other	Total
		(£ millions)			
Functional currency of Group operation					
Sterling		0.1	1.6	0.3	2.0
US dollar	(0.7)		(0.3)	(1.8)	(2.8)
Euro	(0.6)	(0.9)			(1.5)
Other	(0.5)	2.0		0.7	2.2
	(1.8)	1.2	1.3	(0.8)	(0.1)

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

As of December 31, 2004, management evaluated, under the supervision, and with the participation, of 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 management's evaluation, for the reasons described below, the Chief Executive Officer and Chief Financial Officer have concluded that the Group's disclosure controls and procedures were not effective as of December 31, 2004 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.

During 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 light of this US GAAP requirement, management 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 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 management's review, and as discussed in our amendment to the Form 20-F filed on March 31, 2005, we restated the Group's 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.

As a result of our review and restatement of previous financial results as described above, management has concluded that there was a material weakness in our internal control over financial reporting as of December 31, 2003 regarding the Group's selection and application of accounting policies in respect of revenue recognition under US GAAP. As reported previously, we have taken and are continuing to take further steps to strengthen our internal control over financial reporting under US GAAP, in particular, our control processes and procedures over accounting for revenue recognition. We are employing specialized consultants, providing additional training and supplementing existing internal revenue recognition policies and procedures to clarify certain complex areas.

We intend to complete the changes to controls mentioned above during 2005 and expect that they 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

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Audit Committee is comprised of Andrew Given (Chairman), Marcus Beresford and James Wyness, each of whom are independent non-executive directors within the meaning of the Combined Code on Corporate Governance (which is the relevant corporate governance standard applicable to United Kingdom companies with a primary listing on the London Stock Exchange) and the New York Stock Exchange Listed Company Manual. The New York Stock Exchange Listed Company Manual requires that the Audit Committee includes at least one member who has significant and relevant financial experience and following evaluation the Board has determined that Andrew Given provides such additional experience. The Board has also determined that Andrew Given qualifies as an "audit committee financial expert", as defined in the Instructions to Item 16A. of Form 20-F. The Combined Code on Corporate Governance also has similar requirements in respect of an appointed financial expert.

Further information on the role and responsibilities of the Audit Committee is provided in "Item 6. Directors, Senior Management and Employees" and in "Item 16C. Principal Accountant Fees and Services" below.

ITEM 16B. CODE OF ETHICS

We maintain an ethics policy applicable to all directors and employees of the Group including Senior Financial Officers, who are defined as our Chief Executive, the Finance Director, the Head of Financial Reporting and the Head of Internal Control. The Senior Financial Officers are subject to additional policies to ensure full, fair and timely disclosure in our periodic reports filed with the SEC. We have filed our Ethics Policy and our Ethics Policy for Senior Financial Officers as Exhibits 11.1 and 11.2 to this Form 20-F. In addition we have made our Ethics Policy and our Ethics Policy for Senior Financial Officers available on our website at *http://www.spirent.com/ethics* and the Code is also available, without charge, upon request from the Company Secretary who is located at our Registered Office.

Through our ethics policies, the Audit Committee also has a whistleblowing procedure so that employees may report, anonymously and in confidence, any suspected wrongdoings regarding violations of laws, Company policies, bribery, fraud, accounting or internal control irregularities or other related matters.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our external auditors are Ernst & Young LLP. The following sets out the fees we paid to Ernst & Young for the fiscal years ended December 31, 2004 and December 31, 2003:

	2004	2003
	(£ millions)	
Audit fees	1.4	1.2
Audit-related fees(1)	0.2	0.1
Tax fees(2)	0.4	0.6
All other fees		
Total	2.0	1.9

(1) 2003 and 2004 audit-related fees are in respect of general accounting advice in relation to acquisitions and disposals.

(2) 2003 and 2004 tax fees are in respect of tax compliance, tax advice, and tax planning services.

The Audit Committee operates a policy in respect of all fees paid to Ernst & Young LLP and all audit-related fees and tax fees in 2003 and 2004 were approved by the Audit Committee.

Our Audit Committee advises the Board on the annual appointment of external auditors and on the scope, results, cost and cost effectiveness of both audit and non-audit work. The Audit Committee operates a policy, which is reviewed annually, that specifies the scope and fees in respect of all audit and all non-audit work which may be performed by the auditors. The policy also prohibits the auditors from performing certain types of non-audit work. The policy states that certain non-audit work which may be performed by the auditors is put to tender. Prior to any non-audit work being awarded to the auditors, consideration is also given to costs, quality of service and efficiency. The Audit Committee assesses the overall objectivity of the services provided by the auditors so that an independent professional relationship is maintained.

Under the policy, the Audit Committee operates pre-approved limits for audit fees, audit related fees, tax fees and other fees which may be paid to Ernst & Young during the fiscal year. If we wish to engage Ernst & Young to provide a service which is not included in the policy, or before we exceed any pre-approved limit, we must obtain prior approval from the Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Our Audit Committee meets the requirements of Exchange Act Rule 10A-3 and is relying on one of the permitted exemptions as allowed under those Rules. One of the requirements under Rule 10A-3 is that audit committees are directly responsible for the appointment and retention of a company's external auditor. However, in accordance with the Combined Code on Corporate Governance (which represents applicable best home country practice for companies such as Spirent with a primary listing in the United Kingdom), and meeting the exemption under Rule 10A-3, our Board is responsible for the appointment and retention of the auditor. In accordance with Rule 10A-3, our Audit Committee is responsible for making recommendations to the Board on the appointment and retention of the auditor.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

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:

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Tyton Company of Japan	
Tyton, which is a foreign business, is in the course of preparing its financial statements for its year ended March 31, 2005. As permitted by Regulation S-X 3.-09 (b)(2), Spirent intends to file an amended Form 20-F/A prior to the due date of September 30, 2005 which will include the required Tyton unaudited financial statements as of and for the year ended March 31, 2005, audited financial statements as of and for the year ended March 31, 2004 and unaudited financial statements for the year ended March 31, 2003.	
Financial Statement Schedule of Spirent plc	
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ITEM 19. EXHIBITS

All exhibits except those marked * (which are exhibits to this Annual Report) 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, as amended on May 4, 2005
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 2, 2005, 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	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
4.3	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
4.4	Supplemental Agreement, dated November 15, 2000, between Spirent plc and HSBC Investment Bank plc
4.5	Supplemental Agreement, dated March 6, 2002, between Spirent plc and HSBC Investment Bank plc as agent
4.6	Supplemental Agreement, dated March 11, 2003, between HSBC and Spirent plc
4.7	Amended and Restated Note Purchase Agreement, dated March 11, 2003, between US Noteholders and Spirent plc
4.8	Amendment and Consent Agreement, dated December 31, 2003, between US Noteholders and Spirent plc
4.9*	Second Amendment and Consent Agreement, dated August 13, 2004, between US Noteholders and Spirent plc
4.10*	Third Amendment, Consent and Waiver Agreement, dated March 1, 2005, between 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-103)

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, 2004 and 2003, 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, 2004. 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 and consolidated loss before taxation of £1,023.4 million for the years ended December 31, 2003 and 2002, respectively, are combined profits before taxation of WAGO of £2.7 million and £6.7 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 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, 2004 and 2003, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2004 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 24, 2005, 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 24, 2005, 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 the Annual Report (Form 20-F) for the year ended December 31, 2004.

ERNST & YOUNG LLP

London, England
May 18, 2005

SPIRENT plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended December 31, 2004 Before exceptional items	Exceptional items	Total
		(£ millions, except per share amounts)		
Group Turnover	2,3	475.0		475.0
Cost of sales		(274.9)		(274.9)
Manufacturing Margin		200.1		200.1
Operating expenses	4	(166.4)	(2.9)	(169.3)
Operating Profit	2,3,5	33.7	(2.9)	30.8
Operating Exceptional Items	6		2.9	2.9
Goodwill Amortization		9.1		9.1
Operating Profit before Goodwill Amortization and Exceptional Items		42.8		42.8
Loss from interests in joint ventures		(0.7)		(0.7)
Income from interests in associates		2.8		2.8
Operating Profit of the Group, Joint Ventures and Associates		35.8	(2.9)	32.9
Non-operating Exceptional Items				
Loss on the disposal of operations	32		(0.9)	(0.9)
Profit before Interest		35.8	(3.8)	32.0
Net interest payable	9	(6.8)		(6.8)
Exceptional interest payable	9		(0.5)	(0.5)
Other finance expense	10	(0.7)		(0.7)
Profit before Taxation	2	28.3	(4.3)	24.0
Taxation	11	(7.7)		(7.7)
Profit after Taxation		20.6	(4.3)	16.3
Minority shareholders' interest equity				(0.3)
Profit Attributable to Shareholders(1)				16.0
Basic Earnings per Share	12			1.70p
Headline Earnings per Share(1)	12			2.99p
Diluted Earnings per Share	12			1.67p

(1) Headline earnings

Basic profit attributable to shareholders	16.0
Operating exceptional items:	
Other	2.9
Goodwill amortization	9.1
Exceptional item loss on disposal of operations	0.9
Exceptional interest payable	0.5
Prior year tax credit	(1.3)

Headline earnings attributable to shareholders	28.1

(2) A summary of the significant adjustments to profit attributable to shareholders (net profit) 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.

SPIRENT plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Before exceptional items	Exceptional items	Total
		Year ended December 31, 2003		
		(£ 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	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 interest in joint venture		2.7		2.7
Income from interests in associates		2.1		2.1
Operating Profit of the Group, Joint Venture and Associates		31.1	(7.5)	23.6
Non-operating Exceptional Items				
Profit on the disposal of operations	32		3.6	3.6
Profit before Interest		31.1	(3.9)	27.2
Net interest payable	9	(9.3)		(9.3)
Exceptional interest payable	9		(16.1)	(16.1)
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			2.31 p
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 of operations	(3.6)
Exceptional interest payable	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.

SPIRENT plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended December 31, 2002 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	32		(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			3.36 p

	Note	Year ended December 31, 2002
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.

SPIRENT plc

CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES

	Year ended December 31		
	2004	**2003**	**2002**
	(£ millions)		
Profit/(Loss) Attributable to Shareholders	16.0	(0.5)	(1,050.7)
Gain on lapsed options	1.2	1.2	5.2
Exchange adjustment on subsidiaries, joint ventures and associates	(0.7)	6.1	(23.0)
UK current taxation on exchange adjustment			0.1
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	3.0	0.3	(23.6)
Taxation on actuarial gain or loss	(0.9)	(0.1)	
Total Recognized Gains and Losses	18.6	19.4	(1,097.4)

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.

SPIRENT plc

CONSOLIDATED BALANCE SHEET

	Notes	At December 31 2004		2003	
		(£ millions)			
Fixed Assets					
Intangible assets	13		88.8		101.6
Tangible assets	14		86.3		90.2
Investments					
Investment in joint venture	16			0.3	
Investment in associates	17	15.8		14.6	
			15.8		14.9
			190.9		206.7
Current Assets					
Stocks	18	54.0		55.0	
Debtors	19	89.9		86.9	
Cash at bank and in hand	21	51.7		37.6	
		195.6		179.5	
Current Liabilities					
Creditors due within one year	22	(116.8)		(111.3)	
Loans and overdrafts	23	(1.8)		(1.8)	
		(118.6)		(113.1)	
Net Current Assets			77.0		66.4
Assets less Current Liabilities			267.9		273.1
Long-term Liabilities					
Creditors due after more than one year	24		(80.2)		(95.6)
Provisions for Liabilities and Charges	25				
Deferred taxation		(1.9)		(2.3)	
Other provisions		(13.8)		(17.9)	
			(15.7)		(20.2)
Assets less Liabilities (excluding Pension Liability)			172.0		157.3
Pension Liability	10		(27.0)		(35.2)
Assets less Liabilities (including Pension Liability)			145.0		122.1
Capital and Reserves					
Called up share capital		31.9		31.5	
Share premium account		1.3		697.5	
Capital reserve		10.9		17.7	
Capital redemption reserve				0.7	

	At December 31			
Investment in own shares			(2.6)	
Profit and loss account	99.6		(624.9)	
Shareholders' Funds Equity(1)		143.7		119.9
Minority Interests Equity		1.3		2.2
		145.0		122.1

(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.

SPIRENT plc

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended December 31		
		2004	2003	2002
		(£ millions)		
Net Cash Inflow from Operating Activities	8	60.3	68.2	76.9
Dividends received from:				
Joint venture				0.2
Associates		0.1	0.1	0.1
Returns on investments and servicing of finance	20	(9.5)	(23.2)	(10.8)
Taxation	20	(3.1)	8.9	(4.2)
Capital expenditure and financial investment	20	(24.8)	(15.8)	(25.8)
Acquisitions and disposals	20	1.2	60.4	6.4
Equity dividends paid				(40.2)
Management of liquid resources	20		0.1	0.2
Financing	20	(9.5)	(143.6)	53.8
Net Cash Inflow/(Outflow)(1)		14.7	(44.9)	56.6

Reconciliation of net cash flow to movement in net debt

	Notes	Year ended December 31		
		2004	2003	2002
		(£ millions)		
Net Cash Inflow/(Outflow)		14.7	(44.9)	56.6
Cash outflow/(inflow) arising from the change in debt and lease financing		11.0	144.3	(51.4)
Cash inflow arising from the change in liquid resources			(0.1)	(0.2)
Movement arising from Cash Flows	21	25.7	99.3	5.0
Debt issue costs	21	0.3	(0.8)	
Loans and finance leases acquired with subsidiary	21,31			(0.2)
New finance leases	21	(0.3)	(0.3)	(0.2)
Exchange adjustment	21	5.4	6.1	12.7
Movement in Net Debt		31.1	104.3	17.3
Net debt at January 1	21	(57.5)	(161.8)	(179.1)
Net Debt at December 31	21	(26.4)	(57.5)	(161.8)

(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.

SPIRENT plc

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, 2002	1,100.0	36.7	933.2	31.1
Increase in authorized share capital May 2, 2002(1)	150.0	5.0		
Share options exercised			3.5	0.1
Issued on acquisition of Caw Networks Inc.(2)			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
Issued pursuant to acquisition of Caw Networks Inc.(3)			4.3	0.1
Share options exercised			7.9	0.3
At December 31, 2004	1,250.0	41.7	956.2	31.9

(1) 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.

(2) 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.

(3) 4,352,742 shares were issued, credited as fully paid, on March 31, 2004 relating to the deferred consideration pursuant to the acquisition agreement of Caw Networks Inc.

(4) At the Annual General Meeting held on May 11, 2004, shareholders gave authority for the Company to purchase up to 47.4 million of its own Ordinary shares in the market subject to certain specified conditions. As at February 24, 2005, 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, 2002(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 recognized 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(2)(3)(4)	31.3	696.1	17.6		0.7	(648.5)	(2.1)	95.1

At December 31, 2002(2)(3)(4)	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 recognized 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
Exchange adjustment on subsidiaries, joint venture and associates						(0.7)		(0.7)
Share issue	0.3	3.3	(2.1)					1.5
Issue of new shares Caw Networks, Inc	0.1	3.2	(2.7)					0.6
Reversal of employee share scheme cost						0.2		0.2
Cancellation of share premium and capital redemption reserve(8)		(702.7)			(0.7)	703.4		
Profit for the year						16.0		16.0
Goodwill on disposal of subsidiaries acquired before 1998						4.9		4.9
Transfer of investment in own shares(9)						(2.6)	2.6	
Gain on lapsed options			(1.2)			1.2		
Actuarial gain recognized on pension schemes						3.0		3.0
Taxation on actuarial gain						(0.9)		(0.9)
Other movements			(0.8)					(0.8)
At December 31, 2004(2)(3)(4)	31.9	1.3	10.9			99.6		143.7

(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, 2004 is £36.4 million (2003 £41.3 million; 2002 £43.9 million).

(3) The Company's profit and loss account at December 31, 2004 of £114.0 million surplus (2003 £583.5 million deficit; 2002 £566.7 million deficit) includes non distributable reserves of £51.1 million (2003 £51.1 million; 2002 £51.1 million) and a special non-distributable reserve of £61.6 million (2003 and 2002 nil).

(4) Cumulative exchange translation adjustments included in the profit and loss account balance at December 31, 2004 are a loss of £21.4 million (2003 £20.7 million; 2002 £26.8 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 (2003 3.5 million; 2002 3.5 million) held by the Spirent Sharesave Trust Limited (SST) (formerly the Spirent Qualifying Employee Share Ownership Trust ("QUEST")) and 9.5 million Ordinary shares (2003 9.5 million; 2002 9.1 million) held by the Employee Share Ownership Trust ("ESOT"). Shares held by the SST 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 various discretionary employee share schemes.

The market value of own shares held in trust at December 31, 2004 was £9.6 million (2003 £7.6 million).

(8) On November 24, 2004 Spirent plc was granted an order of the High Court for the approval of the cancellation of the share premium account and capital redemption reserve (the "Cancellation") which stood at that date at £702.7 million and £0.7 million, respectively. The Cancellation created a reserve in the accounts of the Company which was applied to eliminate the deficit in distributable reserves. The balance of this reserve created after the deficit in distributable reserves had been eliminated was transferred to a special non-distributable reserve. The special non-distributable reserve, which at December 31, 2004 stood at £61.6 million, will be increased in future years to the extent that the Company subsequently realises any value from its assets in excess of the value at which those assets were recorded in the Company's accounts at the time of the Cancellation.

The special non-distributable reserve will have a maximum value equal to the aggregate of the share premium account and capital redemption reserve at the time of the Cancellation, being £703.4 million. The special non-distributable reserve will be used to eliminate deficits arising in future years and is only capable of being distributed to the shareholders of the Company once all the creditors of the Company which existed at the date of the Cancellation have consented to the cancellation or been satisfied in full.

(9) The investment in own shares has been deducted from the profit and loss account at December 31, 2004.

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.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

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 each year. The investment in associates is accounted for using the equity method.

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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Key exchange rates used are as follows:

	Average Rates Year ended December 31			Year-end Rates December 31		
	2004	2003	2002	2004	2003	2002
US dollar	1.83	1.64	1.51	1.92	1.78	1.61
Euro	1.47	1.45	1.59	1.41	1.42	1.53

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 28.

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

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

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed in note 28.

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.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and when the Group has transferred to the buyer the significant risks and rewards of ownership. In addition, revenue is only recognized when collectibility is probable.

For the sale of services, revenue is recognized in accounting periods in which the service is rendered. Revenue from maintenance contracts is recognized over the period of performance.

Revenue from products sales of hardware and software is recognized at the time of delivery and acceptance and when there are no significant vendor obligations remaining. It is not until acceptance has occurred that the risks and rewards of ownership are transferred to the buyer. Terms of acceptance are dependent upon the specific contractual arrangement agreed with the customer.

Contractual arrangements are accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other because

they are capable of being provided separately from one another and it is possible to attribute reliable fair values to every component. To the extent that a separate component comprises a product sale of hardware or software, revenue is recognized as described above. Revenue is recognized on other components as the Group fulfills its contractual obligations and to the extent that it has obtained the right to consideration.

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.

Employee benefits

When an employee has rendered services to the Group during an accounting period, short term benefits expected to be paid in exchange for those services are recognized in the same accounting period.

Share based compensation

The Group operates a stock appreciation rights plan which gives rise to a profit and loss charge in respect of the intrinsic value of the award. This expense is charged over the vesting period.

Other share based awards do not currently attract a profit and loss charge, as, other than the SAYE schemes discussed below, shares are not granted at a discount to the market price at the date of the invitation.

The Group operates Inland Revenue approved SAYE schemes together with equivalent schemes for overseas employees that allow the grant of options at a discount to the market price at the date of the invitation. The Group and the Company have made use of the exemption under Urgent Issues Task Force ("UITF") Abstract 17 "Employee Share Schemes" not to recognize any compensation charge in respect of these schemes.

These schemes are discussed in more detail in note 30.

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 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.

Government Grants

Government grants towards research and development costs are recognized as income over periods which match them with the related costs and are deducted in reporting the related expense.

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.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable represents the amount expected to be paid or recovered in respect of taxable profit for the year and is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

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 on the balance sheet only when the value can be measured reliably or the intangible asset is purchased as part of the acquisition of a business. Such intangible assets are amortized over their useful economic lives on a straight line basis. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

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

Tangible fixed assets are shown at cost less depreciation, depletion and any impairments. The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

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.

Leases

Finance leases, which transfer substantially all the risks and rewards of ownership of the assets concerned, are capitalized in the balance sheet at net present value. The corresponding liabilities are recorded as long-term or current liabilities depending on the period when they are due. The interest

elements of the rental obligations are charged to the profit and loss account over the periods of the leases as a finance cost. Capitalized leased assets are depreciated over their estimated useful life.

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.

Provisions

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

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

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.

The reportable segments are:

Communications Group

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.

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. The Performance Analysis division develops solutions for testing the performance, functionality and conformance of telecommunications equipment. This is achieved by simulating voice, video and data traffic and large-scale networks and by creating real-world conditions in the laboratories of network equipment manufacturers, telecommunications service providers, enterprises and government departments. By subjecting equipment and networks to impairments and stresses customers are able to ensure that the equipment or services they are about to launch or deploy will withstand real-world conditions thereby reducing the commercial risks inherent in developing or adopting new products.

b) Service Assurance division

The Service Assurance division was formed at the end of 2000 with the acquisition of Hekimian. The Service Assurance division provides systems that enable telecommunications service providers to test and assure broadband leased line, DSL and IP services. Products include operations support systems software, remote test probes, network access systems and consulting and technical services. The division also supply portable systems for fault identification and testing of copper telephone lines in the field. Our systems help service providers reduce their operational costs by automating and centralizing

their network testing and service assurance processes, reducing the need for expensive physical intervention and facilitating faster responses to customers' problems.

Network Products group

The Network Products group provides innovative solutions for fastening, identification, protection and connectivity of wires in electrical and communication networks in a broad range of applications.

Systems group

Our Systems group comprises PG Drives Technology, a leading supplier of power control systems for powered medical and small industrial vehicles.

Turnover

	Year ended December 31		
	2004	**2003**	**2002**
		(£ millions)	
Continuing operations			
Performance Analysis	176.8	148.7	184.0
Service Assurance	74.7	91.7	131.4
Communications	251.5	240.4	315.4
Network Products	187.8	174.4	164.7
Systems	35.7	51.4	78.8
	475.0	466.2	558.9

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, 2004.

Inter-segmental Transactions

	Year ended December 31								
	2004			2003			2002		
	External	Inter-segmental	Total	External	Inter-segmental	Total	External	Inter-segmental	Total
	(£ millions)								
Turnover									
Continuing operations									
Performance Analysis	176.8		176.8	148.7		148.7	184.0	0.1	184.1
Service Assurance	74.7	0.1	74.8	91.7	0.2	91.9	131.4	0.4	131.8
Communications	251.5	0.1	251.6	240.4	0.2	240.6	315.4	0.5	315.9
Network Products	187.8		187.8	174.4		174.4	164.7		164.7
Systems	35.7		35.7	51.4		51.4	78.8	1.1	79.9
	475.0	0.1	475.1	466.2	0.2	466.4	558.9	1.6	560.5

Corporate Charge Allocation

Corporate charges are allocated among segments in line with operating results.

Profit/(Loss) before Taxation

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Operating profit before goodwill amortization and exceptional items:			
Continuing operations			
Performance Analysis	19.7	4.4	10.0
Service Assurance	0.2	9.4	20.8
Communications	19.9	13.8	30.8
Network Products	20.4	16.7	15.0
Systems	2.5	5.5	4.6
	42.8	36.0	50.4
Operating exceptional item, goodwill impairment:			
Continuing operations			
Performance Analysis			(330.7)
Service Assurance			(530.4)
Communications			(861.1)
Network Products			(21.7)
Systems			(40.5)
			(923.3)
Operating exceptional items, other:			
Continuing operations			
Performance Analysis	1.3	(5.1)	(28.3)
Service Assurance	(1.9)	(0.1)	(8.6)
Communications	(0.6)	(5.2)	(36.9)
Network Products			(3.3)
Systems			(1.4)
Non-segmental	(2.3)	(2.3)	
	(2.9)	(7.5)	(41.6)

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Goodwill amortization:			
Continuing operations			
Performance Analysis	(3.7)	(3.9)	(20.8)
Service Assurance	(5.1)	(5.5)	(33.5)
Communications	(8.8)	(9.4)	(54.3)
Network Products	(0.3)	(0.3)	(1.5)
Systems			(0.3)
	(9.1)	(9.7)	(56.1)
Operating Profit/(Loss)	30.8	18.8	(970.6)
(Loss)/income from interests in joint ventures	(0.7)	2.7	7.4
Income from interests in associates	2.8	2.1	1.0
Amortization of goodwill on associate			(0.2)
Net interest expense	(6.8)	(9.3)	(12.3)
Exceptional interest payable	(0.5)	(16.1)	
(Loss)/profit on the disposal and closure of operations	(0.9)	3.6	(48.4)
Other finance expense	(0.7)	(1.5)	(0.3)
Profit/(Loss) before Taxation	24.0	0.3	(1,023.4)

Depreciation

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			
Performance Analysis	12.0	13.2	15.5
Service Assurance	2.1	3.3	3.9
Communications	14.1	16.5	19.4
Network Products	10.7	12.0	12.1
Systems	0.6	0.8	2.1
	25.4	29.3	33.6

Product Development

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			
Performance Analysis	43.2	39.4	44.6
Service Assurance	17.2	18.4	21.6
Communications	60.4	57.8	66.2
Network Products	4.1	3.8	3.6
Systems	2.8	4.4	7.9
	67.3	66.0	77.7

Operating Assets

	At December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			
Performance Analysis	68.6	85.6	113.8
Service Assurance	51.4	60.5	72.0
Communications	120.0	146.1	185.8
Network Products	97.9	93.7	98.3
Systems	6.6	5.0	5.6
Segmental operating assets	224.5	244.8	289.7
Investment in joint venture		0.3	50.1
Investment in associates	15.8	14.6	13.3
Corporation tax payable	(26.2)	(24.7)	(19.5)
Operating Assets	214.1	235.0	333.6
Net borrowings	(26.4)	(57.5)	(161.8)
Provisions for liabilities and charges	(15.7)	(20.2)	(28.4)
Assets less Liabilities (excluding Pension Liability)	172.0	157.3	143.4
Pension liability (note 10)	(27.0)	(35.2)	(46.2)
Assets less Liabilities (including Pension Liability)	145.0	122.1	97.2

Long-lived Assets

	At December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			