SPIRENT PLC
Form 20-F
June 17, 2003

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As filed with the Securities and Exchange Commission on June 17, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o ANNUAL REPORT PURSUANT TO SECTION 12( ) or ( ) OF THE SECURITIES EXCHANGE ACT OF 1934

or

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

For the fiscal year ended December 31, 2002

or

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

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

Commission file number:

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: 942,760,977 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

TABLE OF CONTENTS

The items omitted from the table of contents for Form 20-F are either not applicable to this annual report or we have nothing to disclose in respect of that item.

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

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Information of Spirent

The selected consolidated profit and loss account data for each of the three years in the period ended December 31, 2002 and balance sheet data as of December 31, 2002 and 2001 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, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999 and 1998 are derived from our audited consolidated financial statements. All of these financial statements have been audited by Ernst & Young LLP, our independent auditors. 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 37 of Notes to the Financial Statements.

Consolidated Profit and Loss Account Data

	Year ended December 31				
	2002	2001	2000	1999	1998
	(£ millions, except per share and per ADS amounts)				
Amounts in accordance with UK GAAP					
Turnover	558.9	801.8	696.7	544.5	470.2
Operating (loss)/profit	(970.5)	(733.2)	110.0	81.4	70.1
Other Information					
Exceptional items					
Goodwill impairment	923.3	724.6			
Other	41.6	34.9	2.2		
Goodwill amortization	56.1	86.6	25.7	8.6	0.9
Operating profit before goodwill amortization and exceptional items	50.5	112.9	137.9	90.0	71.0
Income from interests in					
Joint venture	7.4	9.6	13.3	9.5	11.5
Associates	1.0	1.3	2.7	2.3	1.7
Amortization of goodwill on associates	(0.2)	(0.1)			
(Loss)/profit on disposal and closure of operations	(48.4)	14.5	(18.1)	(6.7)	

	Year ended December 31				
Provision against investment in own shares	(30.1)				
Profit on disposal of tangible fixed assets			3.2		
(Loss)/profit before interest	(1,040.8)	(707.9)	111.1	86.5	83.3
Net interest payable	(12.3)	(22.8)	(29.3)	(12.8)	(2.1)
(Loss)/profit before taxation	(1,053.1)	(730.7)	81.8	73.7	81.2
Taxation	(26.9)	(32.6)	(30.6)	(30.2)	(27.3)
Minority interest equity	(0.4)	(0.2)	(0.5)		
(Loss)/profit for the financial period	(1,080.4)	(763.5)	50.7	43.5	53.9
Basic (loss)/earnings per share (pence)	(117.12)	(83.43)	7.40	6.67	8.33
Headline earnings per share (pence)(1)	3.40	7.76	12.61	9.18	8.47
Diluted (loss)/earnings per share (pence)	(117.12)	(83.43)	7.18	6.39	8.29
Dividend per share (pence)	1.35	4.35	4.35	4.13	3.82
Dividend per share (US cents)	2.10	6.36	6.33	6.38	6.10
Dividend per ADS (pence)	5.40	17.40	17.40	16.52	15.28
Dividend per ADS (US cents)	8.40	25.44	25.32	25.52	24.40
Turnover by segment					
Continuing operations					
Performance Analysis	187.1	245.5	283.7	114.7	52.4
Service Assurance	128.3	185.1	5.5		
Communications	315.4	430.6	289.2	114.7	52.4
Network Products	164.7	170.4	181.4	158.1	149.2
Systems	78.8	124.0	135.4	149.6	149.2
	558.9	725.0	606.0	422.4	350.8
Discontinued operations		76.8	90.7	122.1	119.4
	558.9	801.8	696.7	544.5	470.2
Operating profit before goodwill amortization and exceptional items					
Continuing operations					
Performance Analysis	9.4	38.7	97.1	43.0	18.4
Service Assurance	21.4	44.7	1.5		
Communications	30.8	83.4	98.6	43.0	18.4

	Year ended December 31				
Network Products	15.0	15.3	25.3	21.8	20.7
Systems	4.7	6.1	2.7	10.8	16.2
	50.5	104.8	126.6	75.6	55.3
Discontinued operations		8.1	11.3	14.4	15.7
	50.5	112.9	137.9	90.0	71.0

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Amounts in accordance with US GAAP

	(£ millions, except per share and per ADS amounts) Year ended December 31				
	2002	**2001**	**2000**	**1999**	**1998**
Net (loss)/income	(774.3)	(773.7)	(39.6)	2.2	28.7
Net (loss)/income per share					
Basic (pence):					
Continuing operations	(83.93)	(89.17)	(6.10)	(1.15)	3.53
Discontinued operations		4.62	0.32	1.49	0.90
Net (loss)/income	(83.93)	(84.55)	(5.78)	0.34	4.43
Diluted (pence):					
Continuing operations	(83.93)	(89.17)	(6.10)	(1.11)	3.51
Discontinued operations		4.62	0.32	1.44	0.90
Net (loss)/income	(83.93)	(84.55)	(5.78)	0.33	4.41
Dividend per share (pence)	4.35	4.35	4.24	3.91	3.58
Dividend per share (US cents)	6.49	6.33	6.29	6.22	5.93
Net (loss)/income per ADS					
Basic (pence):					
Continuing operations	(335.72)	(356.68)	(24.40)	(4.60)	14.12
Discontinued operations		18.48	1.28	5.96	3.60
Net (loss)/income	(335.72)	(338.20)	(23.12)	1.36	17.72
Diluted (pence):					
Continuing operations	(335.72)	(356.68)	(24.40)	(4.44)	14.06
Discontinued operations		18.48	1.28	5.76	3.58

	(£ millions, except per share and per ADS amounts)				
Net (loss)/income	(335.72)	(338.20)	(23.12)	1.32	17.64
Dividend per ADS (pence)	17.40	17.40	16.96	15.64	14.32
Dividend per ADS (US cents)	25.96	25.32	25.16	24.88	23.72

(1) Headline earnings per share has been calculated to exclude all exceptional items and attributable taxation (see Note 12 of Notes to the Financial Statements for the reconciliation of headline earnings to basic earnings.)

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Consolidated Cash Flow Data

	Year ended December 31				
	2002	2001	2000	1999	1998
	(£ millions)				
Amount in accordance with UK GAAP					
Net cash inflow from operating activities	76.9	141.2	125.7	101.7	77.2
Acquisitions and disposals	6.4	149.6	(536.6)	(232.9)	(28.1)
Financing	53.8	(152.8)	480.2	284.2	6.8
Amounts in accordance with US GAAP					
Cash inflow from operating activities	60.7	96.4	83.9	72.9	52.3
Cash (outflow)/inflow on investing activities	(17.9)	91.9	(596.1)	(272.7)	(64.9)
Cash inflow/(outflow) from financing activities	13.8	(192.6)	452.5	258.7	(8.9)

Consolidated Balance Sheet Data

	As at December 31				
	2002	2001	2000	1999	1998
	(£ millions)				
Amounts in accordance with UK GAAP					
Intangible assets	113.6	987.7	1,816.8	321.3	25.7
Other investments	2.1	34.1	33.4	12.3	5.7
Current assets	242.4	264.4	375.5	270.5	186.6
Total assets	531.5	1,486.4	2,415.5	757.9	357.2
Total liabilities	390.3	389.6	577.1	503.7	175.9
Current liabilities	109.3	178.0	219.4	269.6	93.7
Creditors due after more than one year	252.6	210.1	355.6	233.4	78.1

	As at December 31				
Shareholders' funds	139.1	1,094.4	1,834.7	250.3	178.9
Share capital	31.3	31.1	30.9	20.8	20.5
Amounts in accordance with US GAAP					
Intangible assets	94.4	907.8	1,803.5	430.0	
Other investments					
Current assets	243.5	266.0	377.2	275.8	
Total assets	512.1	1,374.5	2,376.4	874.8	
Total liabilities	446.4	407.4	587.4	480.3	
Current liabilities	108.0	151.6	187.3	213.4	
Creditors due after more than one year	294.9	219.9	358.5	266.9	
Shareholders' funds	63.6	964.7	1,785.3	390.6	
Share capital	31.3	31.1	30.9	20.8	

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Exchange Rate Information

We present our financial statements in UK pounds sterling. The financial statements of our WAGO joint venture are presented in euro; in 2000 these financial statements were presented in German Marks. 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 and the German Mark, in each case being the closing middle market price against pounds sterling. These rates are provided solely for the convenience of the reader and are not the exchange rates used by us in the preparation of our consolidated financial statements included in this annual report.

US Dollar

The noon buying rate on June 2, 2003 was $1.64 = £1.00. The following table sets forth the high and low rate for each month of the previous six months.

	High	Low
	(US dollars per pound sterling)	
May 2003	1.65	1.59
April 2003	1.60	1.55
March 2003	1.61	1.56
February 2003	1.65	1.57
January 2003	1.65	1.60
December 2002	1.61	1.56

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)			
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

Year ended December 31	High	Low	Average	End of year
1999	1.68	1.55	1.61	1.62
1998	1.72	1.61	1.66	1.66

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

Euro

The euro rate on June 2, 2003 was €1.39 = £1.00. The following table sets forth the high and low rate for each month of the previous six months.

	High	Low
	(euro per pound sterling)	
May 2003	1.43	1.38
April 2003	1.47	1.43
March 2003	1.48	1.45
February 2003	1.53	1.46
January 2003	1.54	1.50
December 2002	1.57	1.54

The following table sets forth information about the euro rate for the last four 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)			
2002	1.64	1.54	1.59	1.53
2001	1.67	1.56	1.61	1.64
2000	1.74	1.56	1.64	1.60
1999	1.61	1.40	1.52	1.60

The euro rates were fixed permanently against euro-zone currencies, including the German Mark, on January 1, 1999. We present information about the German Mark for 1998 below. The average rate was calculated by using the rate on the last business day of each month during the relevant year.

	High	Low	Average	End of year
	(German Marks per pound sterling)			
1998	3.10	2.73	2.93	2.78

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 continue to be harmed if the economy, and particularly the telecommunications industry into which we sell our products, remains depressed.

The current economic downturn which has continued into 2003 has resulted in worldwide reduced purchasing and capital spending in many of the industries and markets into which we sell our products, in particular the telecommunications industry. As a result we have experienced diminished product demand, excess manufacturing capacity and an erosion of average selling prices. The decline in demand for our products and services has had and may continue to have an adverse effect on our results of operations and we are not able to predict when this will cease. If the general economic conditions do not improve the markets for our products may decline further or fail to develop. Any further downturn in our customers' markets or in general economic conditions would be likely to result in a further reduction in demand for our products and services and could further harm our business, operating results and financial condition.

Since 2001 the major customers in our Communications group, the network equipment manufacturers and network service providers, have continued to restructure their operations in response to the significantly reduced overall market. This, coupled with certain regulatory issues for our customers in the United States, has resulted in reduced spending on our products and services. We cannot be sure how long the current downturn will last, as market visibility remains low, and how long our business will continue to be affected.

Our cost reduction actions may not achieve their target cost savings and may also harm our business, operating results and financial condition.

In response to the fall in revenues in our Communications group and general economic conditions, we have taken cost reduction actions and continue to take such measures to realign our cost base and resources. Our cost reduction actions are based on certain assumptions regarding the cost structure of our business, the nature and severity of the continuing downturn in the telecommunications industry and economic climate generally and our expected revenues, that may not prove accurate. Our actions have involved the implementation of a number of initiatives including the reduction of our operating costs, the exit from certain businesses, the re-organization of our operations, the reduction of our workforce and reductions in discretionary spending. While we are making progress towards achieving our target cost savings, we can provide no assurance that we will not be required to refine, expand or extend our cost reduction actions.

The costs associated with implementing our cost reduction actions may exceed our realized savings and may also be higher than the amount that we have estimated. As a result, we may not meet or achieve the benefits of our cost reduction goals and in addition may be unable to reduce our cost structures in response to further declines in business conditions. Current and additional cost cutting initiatives may result in further cash and/or non-cash charges that could have an effect on our business, operating results and financial condition. In addition, reductions in our assets, workforce and businesses may adversely affect our ability to enhance our existing products and services, keep pace with technological advances in our field and remain competitive. Workforce reduction could lead to the loss of valuable staff and expertise and adversely affect general morale and the efficiency of our business. Therefore, our cost reduction initiatives may result in significant disruption and harm to our business

and may reduce our ability to benefit from a potential future recovery in the telecommunications industry.

The risk of a breach of financial convenants remains.

While our recently renegotiated borrowing terms have provided us with more headroom under certain of our financial covenants (see "Liquidity and Capital Resources" in Item 5 and "Material Contracts" in Item 10 below for a more detailed discussion of the renegotiated borrowing terms) we can provide you with no assurance that the covenants will not be breached and that further renegotiation of our borrowing terms will not be needed to further increase our level of headroom.

The renegotiated borrowing terms have increased our weighted average interest payments and placed new restrictions and tests on us, constraining our ability to make dividend payments, incur further debt, provide further security and make acquisitions and disposals. Such restrictions and tests will continue to apply until certain financial requirements are met (which in any event cannot occur prior to June 30, 2004). We are unable to give guidance as to when we are likely to meet these financial requirements and can give no assurance that they will indeed be achieved.

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

Given the decline in equity markets and reducing interest rates, which have both adversely affected funding levels, it is highly likely that a deficit in our defined benefit scheme will arise at our next actuarial valuation, which commenced on April 1, 2003. Until the valuation has been performed it is not possible to indicate what the deficit will be although, based on Financial Reporting Standard 17 ("FRS 17"), the funding position at December 31, 2002 was a deficit of £41.9 million before taxation, representing a funding deficit of 32%. A pension deficit, should it arise, is likely to result in increased pension contributions which will result in an increased cash funding cost to us which may have an adverse effect on our business. Our defined benefit pension scheme for UK employees was closed to new members on September 30, 2002 and has been replaced by a defined contribution scheme.

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

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

Our goodwill and other intangible assets may become further impaired.

If the demand for the products and services underlying our current goodwill decreases further as a result of the general economic downturn or other causes and, as a result, the estimated future undiscounted net cash flows from the acquired businesses are insufficient to recover the carrying value of the assets over their estimated lives, we may record further impairments of our goodwill and recognize asset impairment charges in the period in which that impairment is determined. Asset impairment charges of this nature could have an adverse effect on our financial position, our ability to comply with certain covenants and reported results of operations.

We perform reviews twice a year to determine if the carrying value of assets is impaired. The purpose of the review is to identify any facts or circumstances, either internal or external, which

indicate that the carrying value of the assets cannot be recovered. Most recently we recorded a goodwill impairment charge of £923.3 million relating principally to our Communications group. The remaining goodwill carrying value is £113.6 million. The impairment has resulted in a £575.9 million deficit in the distributable reserves. At the appropriate time and with the consent of the English courts it may be possible to utilize the share premium account which at December 31, 2002 stood at £696.1 million in order to off-set the deficit on distributable reserves. We can give no assurance that this consent would be forthcoming.

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.

For the fiscal year 2002, our average overall workforce was reduced from 7,812 to 5,179. This reduction has in part been due to the implementation of our cost reduction actions in order to realign our cost base and resources. It has resulted in the loss of many highly skilled employees who often had many years of management and operational experience in our business. The loss of such employees and the departure of further employees may impair our ability to run and expand our business effectively. The uncertainties associated with headcount reductions may cause key employees to leave and otherwise increase employee and management turnover and, even if these employees stay, the headcount reductions may adversely affect general morale and the efficiency of our business. This could result in significant disruption to 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.

We operate in 31 countries throughout the world. Our international operations are subject to a variety of potential risks arising out of the global economy, the political outlook, currency fluctuations, exchange control restrictions, investment in capital, the ability to enforce intellectual property rights, language and certain cultural differences in countries where we have operations.

Events such as the recent tensions in the Middle East, the continued threat of terrorism and the SARS virus outbreak in Asia may trigger unforeseen economic conditions and cause market demand to fluctuate in an unpredictable manner which could adversely affect our business.

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

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

We may at times engage in currency hedging transactions in an effort to cover any exposure to such fluctuations, and we may be required to convert currencies to meet our obligations. Under such circumstances, hedging transactions could have an adverse effect on our financial condition.

Because our operating results have fluctuated in the past and are likely to fluctuate in the future, our Ordinary share and ADS prices are volatile and may decline.

We have experienced and expect to continue experiencing, fluctuations in our operating results due to a number of factors beyond our control, including the following:

- the size and timing of orders from our customers;
- the degree to which our customers have allocated and spent their yearly budgets;

- the uneven buying patterns of our customers;
- the uneven pace of technology innovation; and
- economic downturns or other factors reducing demand for our products.

The market price for our Ordinary shares and ADSs may decline significantly if our operating results deteriorate.

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

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

Any acquisition involves risks to our business, including:

- an inability to integrate the operations, products and personnel of our acquired businesses and diversion of management's time and attention;
- an inability to expand our financial and management controls and reporting systems and procedures to incorporate the acquired businesses;
- potential difficulties in completing projects associated with purchased in-process research and development;
- assumption of unknown liabilities, or other unanticipated events or circumstances;

- the possibility that we may pay too much cash or issue too much of our stock as the purchase price for an acquired business relative to the economic benefits that we ultimately derive from operating the acquired businesses; and

- the need to record significant one-time charges or amortize intangible assets, which would lower our reported earnings.

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

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

We face aggressive competition and if we fail to compete effectively our turnover and operating results will suffer.

We face aggressive competition in all of our businesses. Our competitors are numerous including highly specialized firms as well as in-house capability within customers, and new competitors may emerge. Some of our competitors have greater name recognition, larger customer bases, and greater financial, marketing, sales and other resources. To stay competitive we will need to introduce successful new products and also may have to adjust prices of some of our products and manage financial returns

effectively. Our operating results will suffer and our business will be harmed if we do not compete effectively.

If we do not introduce successful new products, services and enhancements, our turnover and operating results will suffer.

The success of our new product and service offerings will depend on several factors, including our ability to:

- identify customer needs properly;

- price our products competitively;

- innovate and develop new technologies and applications;

- successfully commercialize new technologies in time to compete effectively;

- manufacture and deliver our products in sufficient volumes on time at a competitive cost;

- differentiate our offerings from our competitors' offerings; and

- develop new channels to market and adapt our products to respond to opportunities presented by Internet-based business models.

Our turnover and operating results will suffer if our new products and services are not successful.

Our research and development requires significant investment, which may not be recouped through increased turnover.

The development of new products generally requires a substantial investment before we can determine the commercial viability of these innovations. If we fail to predict adequately our customers' needs and future activities, we may invest heavily in research and development of products and services that do not lead to significant turnover.

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

Third parties may claim that we are infringing their intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of intellectual property rights of others that may cover some of our technology, products and services. We could suffer litigation or licensing expenses, or could be prevented from selling certain products as a result of third-party infringement claims. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We may also be subject to significant damages or injunctions against development and sale of certain of our products. We often rely on obtaining licenses of intellectual property. We cannot assure you that these licenses will be available in the future on favorable terms or at all.

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

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

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

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

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

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

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

Several 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 quota systems to divide their available stock among potential customers. We may be affected because the quota allocated to our business is too small or because suppliers change the way they apportion their available stock to our disadvantage. If we cannot obtain sufficient quantities of these products at an acceptable cost, we may not be able to meet customer demands in the desired timeframe at a commercially acceptable cost, which may result in the loss of customers and a reduction in turnover and profits.

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

Prices fluctuate for some of the commodity raw materials our Network Products group uses to manufacture its products. If prices for commodities such as copper, 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 may be adversely affected.

Some of our customers may not have sufficient resources to order or pay for products they have ordered as a result of the current economic climate.

Due to the economic downturn, many of our customers have failed to meet forecasts and are continuing to forecast that their revenues for the foreseeable future will generally be lower than anticipated. Many of these customers are experiencing, or are likely to experience, serious cash flow problems, and they are finding it increasingly difficult to obtain financing on attractive terms, if at all.

As a result, if some of these customers are not successful in generating sufficient revenues or securing alternate financing arrangements, they may not be able to pay, or may delay payment for, the amounts that they owe us. Furthermore, they may not order as many products from us as originally forecasted or any products at all. The inability of our customers to pay us or to pay us in a timely manner for our products may adversely affect our cash flow and the timing of our revenue recognition and harm our business, operating results and financial condition. The failure of our customers to order products will also result in decreased revenues.

Remaining liabilities from discontinued businesses could adversely affect our results.

We have concluded a number of divestments of our non-core businesses. We may, however, have contingent liabilities arising out of those discontinued businesses that could adversely affect the results of our operations.

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 Internet-related activities and communications generally, including the Internet but also wireless and other technologies, have been particularly volatile. A significant portion of our activities is based on communications 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;
- 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.

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Fluctuations in the exchange rate between the pound sterling and the US dollar may affect the price at which our ADSs trade on US 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 US 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, such as the announcement of movements in interest rates. 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 for our Ordinary shares or ADSs.

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 US 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, US securities laws. See "Item 4. Information on the Company Enforcement of Civil Liabilities".

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ITEM 4. INFORMATION ON THE COMPANY

Overview of Our Business

Spirent plc ("the Company") is the parent company of a group of international network technology companies providing state-of-the-art systems and solutions for a broad range of customers worldwide. In the mid 1990s Spirent embraced a strategy focusing on high-growth, high-margin, 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, 2002, we had total turnover of £558.9 million and operating profit before goodwill amortization and exceptional items of £50.5 million. Our Communications group remains our largest business, representing 59% (2001 66%) of ongoing turnover and 63% (2001 84%) of ongoing operating profit before goodwill amortization and exceptional items in the year ended December 31, 2002.

During the year ended December 31, 2002, our segment of the telecommunications industry was adversely affected by a further drop in spending by our major customers, the network equipment manufacturers and network service providers. This, together with the general slowdown in the world economy, the continuing uncertainties created by the 2001 terrorist attacks in the United States and the tensions in the Middle East resulted in a significant decline in the market environment. In response to the declining market conditions we realigned our cost base during 2002. This involved an 11% reduction in workforce, the reorganization of our operations and reductions in discretionary spending within the Communications group. As part of our ongoing control of costs we implemented further cost reductions in the Communications group in May 2003 and also exited from our under-performing very high-speed optical testing activities.

We are committed to remaining at the forefront of technological developments and continued to invest in new product development, spending £77.7 million in 2002.

During 2002 we continued our strategy of focusing our activities by completing the divestments of our aerospace component businesses, Switching Systems International Inc and Monitor Labs Incorporated, from within our Systems group. In April 2003 we completed the divestment of our 51% interests in WAGO, our interconnection joint venture, to our joint venture partners.

During 2002 we added to the scope of our Communications group through the acquisition of a remote special services test product line and a Wideband Code Division Multiple Access (WCDMA) base station emulator product line, which have been integrated into our Service Assurance and Performance Analysis divisions, respectively. In August 2002 the remaining 85% of Caw Networks, Inc. ("Caw") not already owned by the Communications group was acquired and has been integrated into the broadband activities of our Performance Analysis division.

The main activities of our operating groups are:

Communications. Our Communications group is a worldwide provider of integrated performance analysis and service assurance systems for next-generation network technologies. Our solutions enable our customers to develop and deploy network equipment and services by emulating real-world conditions and assuring end-to-end performance of large-scale networks.

The Performance Analysis division of our Communications group develops testing solutions for a broad range of communications technologies critical to the deployment of next-generation networks. Our systems test wireless and wireline networks and equipment, including core terabit routers, broadband access devices, next-generation wireless handsets, Internet infrastructure and storage area networks. Our systems enable customers to emulate large-scale networks, introduce

impairments and stress test equipment to ensure maximum performance and conformance to industry standards.

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

In 2002 our Communications group had turnover of £315.4 million and operating profit before goodwill amortization and exceptional items of £30.8 million.

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

Network Products designs and manufactures a broad range of high-grade nylon ties, clips, channels and fixings for fastening cables and wires in electrical, communications, automotive, industrial equipment, aerospace and construction applications. We also produce products with value-added identification and security features. 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. We also produce a range of products used in the installation of local area and wide area communication networks. Our 'Network Sciences' structured cabling system includes GigaBand Category 6 and MegaBand Category 5e systems.

In 2002 our Network Products group had turnover of £164.7 million and operating profit before goodwill amortization and exceptional items of £15.0 million.

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

The power controls business is a leading supplier of sophisticated electronic control systems for use in specialized electrically powered vehicles. These include medical vehicles such as powered wheelchairs and mobility scooters, which is the principal activity of this business, as well as small industrial vehicles such as floor cleaning vehicles and aerial access platforms. These systems allow the user to control the direction and speed of the vehicle as well as controlling other aspects of the vehicles' functions, including seating or platform position, lights, turn indicators and vehicle diagnostics.

We develop and supply ground-based maintenance, repair and overhaul (MRO) software systems, brand named GOLD and AuRA , that provide customers with maintenance work flow management, inventory control, repair order management, recording and forecasting capabilities and configuration management of aircraft. Aviation Information Solutions (AIS) designs, manufactures and integrates hardware and software solutions that assist with pilot training and enable customers to operate their aircraft more efficiently, safely and effectively. The AIS product range includes airborne file servers, the AvVantage electronic flight bag, and flight deck and cabin instruments and displays as well as software applications for use by flight crew and ground-based personnel.

In 2002 our Systems group had turnover from ongoing businesses of £53.8 million and operating profit before goodwill amortization and exceptional items of £3.4 million.

Our turnover for ongoing businesses by market in 2002 comprised: North America 57% (2001 63%), Europe 27% (2001 24%), and Asia Pacific, Rest of Americas and Africa 16% (2001 13%). A breakdown of turnover by market and by source is given below.

Turnover by Market

	Year ended December 31		
	2002	**2001**	**2000**
		(£ millions)	
Continuing operations:			
Europe(1)	144.6	153.8	152.8
North America(2)	302.9	410.5	289.9
Asia Pacific, Rest of Americas, Africa	86.4	85.3	72.9
	533.9	649.6	515.6
Divested operations			
Europe(1)	4.8	24.9	32.0
North America(2)	19.5	46.0	52.3
Asia Pacific, Rest of Americas, Africa	0.7	4.5	6.1
	25.0	75.4	90.4

	Year ended December 31		
Discontinued operations:			
Europe(1)		20.7	21.1
North America(2)		45.7	56.5
Asia Pacific, Rest of Americas, Africa		10.4	13.1
		76.8	90.7
	558.9	801.8	696.7

(1) United Kingdom turnover was £48.3 million (2001 £71.4 million; 2000 £75.8 million). United Kingdom turnover in respect of divested operations, included in the above, was £2.9 million (2001 £15.4 million; 2000 £23.5 million) and in respect of discontinued operations nil (2001 £8.2 million; 2000 £5.4 million).

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

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Turnover by Source

	Year ended December 31		
	2002	2001	2000
		(£ millions)	
Continuing operations:			
Europe(1)	151.4	150.9	128.4
North America(2)	350.2	472.0	357.5
Asia Pacific, Rest of Americas, Africa	32.3	26.7	29.7
	533.9	649.6	515.6
Divested operations			
Europe(1)	6.3	32.8	40.6
North America(2)	18.7	42.6	49.8
	25.0	75.4	90.4
Discontinued operations:			
Europe(1)		20.6	20.3
North America(2)		48.3	61.4
Asia Pacific, Rest of Americas, Africa		7.9	9.0
		76.8	90.7

	Year ended December 31		
	558.9	801.8	696.7

(1) United Kingdom turnover was £71.6 million (2001 £107.5 million; 2000 £115.8 million). United Kingdom turnover in respect of divested operations, included in the above, was £5.6 million (2001 £30.5 million; 2000 £39.2 million) and in respect of discontinued operations nil (2001 £13.3 million; 2000 £14.3 million). Exports from the United Kingdom were £32.4 million (2001 £46.3 million; 2000 £49.0 million), representing 5.8% of total sales (2001 5.8%: 2000 7.0%).

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

In 2002 our share of turnover and operating profit from WAGO, our interconnection joint venture, was £75.6 million and £7.4 million, respectively. After the completion of the divestment of our 51% interests in WAGO in April 2003 the income derived from our attributable share of WAGO will no longer be included in our consolidated financial statements.

Strategy

Our overall strategy is to provide state-of-the-art systems and solutions for a broad range of customers worldwide. We aim to deliver this strategy by focusing on five key elements:

Focusing on high-technology markets. We are committed to serving customers' needs in rapidly developing industries, such as communications, by continually investing in new products.

Becoming truly global as a company. We intend to provide consistently high-quality products and support worldwide to respond to our customers' global needs.

Anticipating market changes. Based on our understanding of customers' requirements within our three operating groups we believe we are well placed to anticipate market trends.

Moving up the value chain. We are committed to providing greater value to our customers by using our expertise in related technologies to deliver end-to-end solutions and systems rather than individual components.

Improving profitability through integration. We aim to increase efficiency wherever possible. Our group structure presents opportunities for increasing efficiency by integrating areas such as research and development, sales and marketing, where appropriate.

Corporate history and background

The first of our companies was established in 1936. The Company was incorporated on July 16, 1949 as Bowthorpe Holdings Limited. In 1955 Bowthorpe Holdings Limited was listed on the London Stock Exchange. The Company re-registered on July 15, 1981 as Bowthorpe Holdings PLC and was re-named Spirent plc in May 2000. 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.

The Communications group has grown through a combination of acquisition and organic development since 1995. Our Network Products group and the remaining power controls and aerospace businesses within our Systems group have been part of the overall Group for some time.

Communications Group

Our Communications group develops, markets and sells specialized communications testing, monitoring and management systems for customers worldwide. We serve several categories of customer including network equipment manufacturers, independent product evaluation specialists, network operators, network service providers, large enterprises and government departments. Our products help customers analyze the performance of new communications equipment and services in order to assist their development and evaluation processes and to monitor performance in order to enhance the reliability of these products and services once they are introduced into communications networks.

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.

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

Our Performance Analysis division provides instruments and systems that measure and analyze the performance of network and terminal equipment, particularly the devices that route voice and data messages to their destination. Our products are mainly used in the research and development laboratories of network equipment manufacturers but are also used by independent evaluation bodies, network operators, network service providers, large enterprises and government departments to assess the capabilities of such equipment. We have expertise in many of the technologies being used by our customers to create new generations of network equipment that are better able to handle high-speed data communications, in addition to traditional voice calls. In addition, we provide products and systems that automate the testing of mobile phone handsets and wireless network equipment. We make instruments that assist in the design and development of equipment that determines a geographical position from signals received from orbiting satellites, as used in commercial and military applications. We also provide portable instruments that assist engineers to install and maintain communications network lines linking homes and offices to a core network. With the acquisition and integration of Caw into the Performance Analysis division in 2002 we now provide equipment that can simulate Internet traffic to stress test websites and web infrastructure devices such as firewalls.

Our Service Assurance division provides systems that enable network service providers to monitor and assure the performance quality of their network services. This helps them to ensure that network services are operating smoothly, to locate quickly any equipment faults and to correct them as rapidly as possible. Our systems combine software applications, hardware probes that gather data from the physical network, and technical support services.

The technology and expertise of the Performance Analysis and Service Assurance divisions are highly 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 unique 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.

In September 2002 we acquired a third generation (3G) wireless base station emulator product line and certain intellectual property rights from UbiNetics for £6.1 million in cash. This has brought us expertise in WCDMA, the 3G wireless technology being adopted in countries in Europe and Asia.

In August 2002 the remaining 85% of Caw not already owned by Spirent was acquired for an initial consideration including expenses of £26.7 million in cash. We acquired our initial 16% interest in Caw in October 2001 for consideration of £6.4 million including expenses, which gave us the ability to offer application layer testing of websites and firewalls. Caw was reported as an associated company until the acquisition in August 2002 of the majority holding. Caw has now been integrated into the Performance Analysis division.

In July 2002 we acquired a remote special services test product line from Anritsu Company US for a cash consideration of £16.4 million. The product line has been integrated into the Service Assurance division and brings us a large installed base and ongoing business at BellSouth

Corporation and Korea Telecom.

An important part of our strategy is to increase our international presence and during 2002 we opened sales and support services offices for the Performance Analysis division in Beijing, Shanghai and Guangzhou to better serve customers in the important Asian region. Our efforts in Asia were also reinforced by the opening in Beijing in early 2003 of a Service Assurance sales and support services office for the Asian region and the formation of Spirent DM, a partnership with two local companies, to facilitate the development of service assurance products for the Chinese market.

The strategic objective of our Communications group continues to be to establish a leadership position as a provider of innovative performance analysis and service assurance solutions to enable customers to develop, deploy and assure next-generation network equipment and services worldwide more economically and efficiently.

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 departments.

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

The worldwide market for service assurance systems 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. Spirent is one of the world's largest providers of service assurance systems and has a leading position in DSL and private line service assurance in the North American market.

Products

Products from our 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 and reliability.

Our Performance Analysis division is focused on key next-generation technologies and markets such as Gigabit and 10-Gigabit Ethernet in the access and metro networks, voice over Internet Protocol (VoIP), Internet Protocol version 6 (IPv6), Internet infrastructure and security testing, storage area networks, position location testing and 3G wireless. Our investments in these areas resulted in numerous new products and enhancements to existing product lines being launched during 2002 including the first end-to-end performance analysis and radio frequency channel emulation system for the wireless Local Area Network (LAN) market, a fully automated system for testing WCDMA mobile handsets, a system for the analysis of Internet infrastructures simultaneously from the physical layer to the application layer, and a test system for storage area networks. Spirent is especially active in the 10-Gigabit Ethernet and IPv6 segments which respectively aim to ease bottlenecks in broadband metro and access networks and provide higher levels of security and broader address space for the next phase of the Internet.

During 2002 we strengthened our position in wireless testing particularly for next-generation wireless technologies including CDMA-2000 and WCDMA. We successfully introduced new systems that provide automated conformance, network emulation and position location testing for CDMA-2000 mobile handsets. We also expanded our 3G wireless portfolio through the acquisition of a WCDMA base station emulator product line during the year which has brought us important capabilities in WCDMA technology.

We further addressed the testing and performance analysis needs of users and providers of Internet and security applications in 2002 with the Avalanche and Reflector products acquired through Caw. With these systems customers are able to generate large amounts of Internet traffic in the laboratory to stress test network equipment and actual website or security applications to ensure their robustness.

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

During 2002 we continued to provide service assurance systems to the US incumbent local exchange carriers, particularly for private line and DSL services. The year saw the initial large-scale deployment of the CenterOp platforms, Sentry and Perform , for fault and performance management. In the wireless space our service assurance systems provide centralized remote test and performance monitoring for the core, or land side, of mobile networks. An important driver for the acceptance of our systems is their ability to measure the performance of, or interoperate with, a wide range of network elements and other OSS. In 2002 we advanced our certification program and now have interoperability with network elements and OSS from a broad range of leading suppliers worldwide.

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 Acterna Corporation, Agilent Technologies, Inc., Ixia and Network Associates, Inc., as well as the internal development of communications test equipment by network equipment manufacturers. Competitors in our service assurance sector include Acterna Corporation, Agilent Technologies, Inc., Micromuse Inc., Telcordia Technologies Inc., and Tollgrade Communications, Inc.

We believe we compete effectively in these markets and that our key competitive advantages are our close relationships with customers, our breadth of industry-leading products, our focus on being first-to-market, our recruitment and retention of top engineering talent, and our technological expertise in high-speed digital, wireline and wireless 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., Foundry Networks, Inc., Motorola, Inc., Nortel Networks Corporation, NTT Group, QUALCOMM Incorporated and 3Com Corporation. We also sell to both the evaluation laboratories and the operations departments of service provider customers including AT&T Corp., BT Group plc, and Cable & Wireless plc. 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 Accenture Ltd, Aetna Inc., Bank of America Corporation, The Boeing Company, eBay Inc., IBM, Microsoft Corporation and the US Army.

Our Service Assurance division's traditional customer focus has been on North American service providers. We have significant service assurance installations in nearly every top-tier service provider in North America, including BellSouth Corporation, Qwest Communications International Inc., SBC Communications Inc., Sprint FON Group and Verizon Communications Inc. Each of these accounts represents a long-term multi-level customer relationship, with lengthy selling cycles and long-term commitments by both parties. Wireless service providers also present important market opportunities and customers include AT&T Wireless Services, Inc., Nextel Communications, Inc., Sprint PCS Group, T-Mobile USA and Verizon Wireless. Spirent systems are now used by seven of the top ten mobile service providers in the United States.

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 continue to pursue opportunities in Europe and Asia.

Sales, Marketing and Support

Our Performance Analysis division has a worldwide sales force operating from offices throughout North America, Europe and Asia. In 2002 we established direct sales and support offices in multiple locations in China. 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 and manufacturer's representatives.

Our Service Assurance division maintains a direct sales force operating from offices throughout North America and Europe. In early 2003 we established a sales and support services office in Beijing to serve the important Asian region.

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. This approach to our manufacturing process lets us retain maximum flexibility and responsiveness to customer demands with minimum human and capital resources.

In 2002 we consolidated the manufacturing activities of several of our Performance Analysis business units into one centralized facility located in California. Additional facilities remain in New Jersey, Canada and the United Kingdom. These facilities currently comprise approximately 37,000 square feet.

Our Service Assurance division manufactures the majority of its products in a state-of-the-art 64,000 square foot facility in Gaithersburg, Maryland. We outsource the manufacture of certain high volume products to other suppliers.

Network Products Group

Our Network Products group provides innovative solutions for fastening, identifying, insulating, organizing, routing and connectivity that add value to electrical and communication networks in a wide range of applications marketed under the HellermannTyton name worldwide. Our main activity is the design and manufacture of a broad range of high-grade nylon ties, clips, channels and fixings for fastening cables and wires in electrical, communications, automotive, industrial equipment, aerospace and construction applications. We also produce products with value-added identification and security features such as standard cable markers, application tailored labels, printed customized markers and tags, tamper-evident fixings, security seals and printed ties for clinical waste. Our heatshrink insulation, convoluted tubing and cable covering products provide insulation and physical protection for wires and cables. We 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 communication networks such as raceways, ducting, racks, patch panels and modular jacks. Our 'Network Sciences' structured cabling system includes GigaBand Category 6 and MegaBand Category 5e systems with performance which far exceeds the required standards.

While global vehicle production was broadly flat in 2002 the trend towards increasing electronic/electrical systems content and lighter vehicles requiring increased use of plastics has provided underlying market growth. As a result we have been able to increase our penetration with vehicle manufacturers, their first tier suppliers and major vehicle cable harness manufacturers worldwide. Our sales in the US heavy vehicles market recovered in 2002 after a significant market downturn in 2001.

Due to our product quality and innovation we have 'preferred supplier' status with several important automotive manufacturers and tier one suppliers worldwide.

The market for our broadband products (used in wide area networks to route and organize fiber optic cables in large telephone exchanges and outside plant) and structured cabling products (used in local area networks to provide network connectivity) remained very weak in both the United States and the United Kingdom throughout 2002 due to the depressed conditions in the telecoms market and reductions in enterprise IT spending.

Despite a generally weak global economy in 2002 we increased our penetration with distributors, wholesalers and catalogue houses that sell a broad range of our products worldwide. The major contract we signed with the UK's Royal Mail during the year to provide ties for mail sacks has commenced well with 60% of all orders now being placed using an XML e-procurement system.

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 communication 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 spectrum 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 defense.

Products

Fixings. Our fixing products provide fastening solutions for bundling, securing and fixing wires, cables, pipes, hoses and components including, where conditions and applications demand, exceptional performance and reliability. 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. These precision-engineered tools are available in manual, power-assisted and automated versions. Our Autotool range was expanded in the year with the introduction of two major new models: the AT2060 for fixings and the ALA for identification. We now have a large installed base of Autotool and printing systems at customer sites worldwide and our contracts to supply the associated cable ties and identification labels and markers represent a valuable source of continuing business for the Network Products group

Connectivity, routing and organizing. We offer a range of products for routing, organizing, connecting, protecting and accessing copper and fiber optic cables for power, voice and data. Our 'Network Sciences' range of structured cabling systems and associated components includes GigaBand Category 6 and MegaBand Category 5e systems which are used in a LAN environment within buildings. The range includes the panels, outlets, adapters and enclosures necessary to provide interconnection within a network with extensive applications in building. Our fiber optic management systems comprise proprietary enclosures and fiber management components for both underground and above ground application. We also offer ducting systems in solid, standard, slotted and high-density slotted channel formats.

Insulation and protection. 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 include heatshrink shapes for high specification requirements for low and medium voltage application, and convoluted tubing and spiral binding for routing and protecting wire harness assemblies.

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 products 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, routing and organizing Avaya Inc.; Brand-Rex, a subsidiary of Novar plc; Legrand; Molex Inc.; Panduit Corp.; The Siemon Company; Thomas & Betts Corporation; 3M Company and Tyco Electronics Corporation. There are also a number of smaller more regionally focused players competing in this market.

Insulation and protection 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. During 2002 we successfully completed the move into our new production and distribution facility in Jundaí, Brazil without any interruption to customer service. We also

increased the range of products being manufactured at the Wuxi, China facility after increasing the production space last year. 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

Our Systems group now comprises two businesses which develop, manufacture and sell integrated systems for the power controls market and the aerospace market. Our systems typically combine hardware, software and high levels of customer service and support. In April 2002 we sold our aerospace component businesses for a net consideration of £37.6 million which comprised a number of subsidiaries in the United Kingdom and the United States which manufactured a range of aerospace hardware products including cockpit voice recorders, flight data retrieval systems and in-flight fire detection systems. The divestments of Switching Systems International Inc, a power management business, and Monitor Labs Incorporated, an environmental monitoring business, from our Systems group were also completed during 2002 for a net cash consideration of £18.0 million.

Power controls business

Our power controls business develops and manufactures electronic control systems for specialist electrically powered vehicles in the healthcare sector, such as powered wheelchairs and mobility scooters, and the small industrial vehicles sector, such as floor cleaning vehicles and access platforms. All of these systems enable the user to control the power, speed and other functions of these electrically powered vehicles.

Our strategy for the power controls business is to continue to develop strong positions as a focused supplier of systems that add significant value to the performance of our customers' products. In particular, we have built our market leadership position in our key healthcare mobility market largely as a result of our innovative design approach. We have now begun to exploit our technology in other related markets, particularly specialty electrically powered industrial vehicles.

Markets

Our power controls activities serve two principal customer groups. These are manufacturers of healthcare mobility equipment and equipment manufacturers making specialist battery powered electric vehicles.

Products

Our innovative designs for power control devices for wheelchairs and mobility scooters offer exceptional ease-of-use, cost-effectiveness and features, making them adaptable to a wide variety of manufacturers' requirements. During 2002 we launched the VSI power control system for wheelchairs and a competitively priced mobility scooter controller, the S-Drive. We are now expanding our product range into specialist controllers for industrial applications and have had initial success in penetrating this market with the multi-functional TRIO™ product.

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 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 products are sold through a direct sales force. At December 31, 2002, we had sales support personnel based in the United States, the United Kingdom and the Far East and we continue to have personnel in all of these locations.

Manufacturing

Our devices are designed and manufactured in the United Kingdom.

Aerospace business

Our aerospace business supports aircraft operators, both military and civil, with a range of information management products, combining both hardware and software, to enable the operators to improve their efficiency while improving flight safety. Software products such as GRAF , Vision, GOLD and AuRA help to improve the safety and efficiency of aircraft maintenance, repair and overhaul by providing timely and effective management information from the large volumes of data which are generated, monitored and recorded during the routine operation and servicing of aircraft. Our ReVision software is targeted at improving the efficiency of pilot training.

Our aerospace hardware products are used to acquire and process data and to display or transmit information onboard the aircraft. Products such as our airborne file servers, electronic flight bags, pilot access terminals and maintenance access terminals provide platforms for our flight operations and airborne maintenance software applications. We also supply a range of instruments displays for use on the flight deck and display systems for use by passengers.

Our strategic objective is to be a leader in integrated information management products for the aerospace industry.

Markets

The market for our aerospace products comprises three major customer groups: commercial airlines; military aircraft operators (airforce, army and navy); and airframe manufacturers of rotary and fixed wing aircraft.

Many of our products are upgrade items for in-service aircraft and as such civil airlines or military aircraft operators are typically our primary customers. Airframe manufacturers, as well as being customers for our electronics products, form a significant part of our maintenance software customer base. Aerospace equipment manufacturers, such as engine or avionics suppliers, frequently have considerable repair and overhaul operations and thus form part of our maintenance software customer base.

Products

Our aerospace business has developed a range of integrated solutions that allow airlines and airforces to improve their safety, operational efficiencies, customer service and mission effectiveness. Our aerospace activities primarily focus on three areas: electronics; applications software; and integrated solutions.

Electronics. Electronic products include airborne computer information systems including file servers that host networked software applications, display terminals for use by pilots and cabin crew and engine instrument displays.

Applications software. Our integrated maintenance software, GOLD and AuRA , enable the management of MRO processes in both military and commercial environments. Our proprietary flight data replay and analysis software, GRAF and Vision, enables safety and performance trends to be quickly assessed and displayed so that corrective action may be taken. Our proprietary training software, ReVision, records information throughout simulator training sessions and enables comprehensive debriefing sessions to take place at workstations that are remote from the simulator.

Integrated solutions. Our AIS unit offers products which combine our electronics hardware and applications software into integrated systems tailored to customers needs.

Competition

The markets for our aerospace products are highly competitive. We believe we compete effectively, particularly through our understanding of the key issues facing aviation customers, our breadth of product offering, and our competence and reputation in the aerospace industry.

Although we believe we have no direct competitors competing across our full range of capabilities, we face competition from several sources. Our hardware electronics activities face competition from established avionics companies, including Honeywell International Inc., Rockwell Collins, Inc., Smiths Group plc, Teledyne Technologies Incorporated and Universal Avionics Systems Corporation. Our MRO software activities face competition from:

enterprise resource planning suppliers, principally IFS AB (including IFS Defence Ltd), Oracle Corporation and SAP Corporation;

smaller software competitors with MRO offerings, including Software Solutions Unlimited, Inc., TRAX USA Corporation, Avexus Inc., VISaer, Inc., AeroInfo Systems Inc., Mxi Technologies Ltd. and Western Data Systems (now part of Manugistics Group, Inc.); and

legacy maintenance management systems offerings, including Sabre Holdings Corporation (Maxi-Me