

SPIRENT PLC
Form 20-F/A
September 09, 2005

[QuickLinks](#) -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on September 9, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F/A

AMENDMENT No. 1

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

or

y **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 []

or

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

Date of event requiring this shell company report

Commission file number: 001-15206

SPIRENT PLC

(Exact name of Registrant as specified in its charter)

SPIRENT PLC

(Translation of Registrant's name into English)

Edgar Filing: SPIRENT PLC - Form 20-F/A

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)

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

Title of each class	Name of each exchange on which registered
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 3¹/₃p.

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 No

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

TABLE OF CONTENTS

	Page
EXPLANATORY NOTE	3
ITEM 18. FINANCIAL STATEMENTS	4
ITEM 19. EXHIBITS	5

You should rely only on the information contained in the Annual Report on Form 20-F for the year ended December 31, 2004 filed with the Commission as amended by this Amendment. We have not authorized anyone to provide you with information that is different. The information in this Amendment may only be accurate on the date of this Amendment.

EXPLANATORY NOTE

As disclosed in the Annual Report on Form 20-F for the fiscal year ended December 31, 2004, filed on May 18, 2005 (the "Original Filing"), Tyton Company of Japan, Limited ("Tyton"), which is a foreign business, was in the course of preparing its financial statements for its year ended March 31, 2005. As permitted under Regulation S-X 3-09(b)(2) the due date for filing stand-alone financial statements is September 30, 2005. Accordingly, under Rule 12b-15 of the United States Securities Exchange Act of 1934 (the "Exchange Act"), Spirent plc (the "Company", "we", "us" or "our") hereby amends its Original Filing (this "Amendment") to include the 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.

In addition, and also in accordance with Rule 12b-15 under the Exchange Act, we amend the Company's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 included in Item 18 in our Original Filing by:

presenting the Consolidated Profit and Loss Account without the line items, "Operating Exceptional Items", "Goodwill Amortization" and "Operating profit before goodwill amortization and exceptional items", which were included in the Original Filing; and

including a roll forward of stockholders' equity under generally accepted accounting principles in the United States ("US GAAP") for the year ended December 31, 2004 in Note 34 Differences between United Kingdom and United States Generally Accepted Accounting Principles.

This Amendment also amends Item 19. "Exhibits" to reflect the filing of new certifications by each of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and the furnishing of a new certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 as well as new consents by our independent registered public accounting firms and independent auditors.

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

ITEM 18. FINANCIAL STATEMENTS

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

Financial Statements

	<u>Page</u>
<i>Spirent plc</i>	
Report of Independent Registered Public Accounting Firm	F-1
Consent of Independent Registered Public Accounting Firm	F-2
Audited Financial Statements	
Consolidated Profit and Loss Account for the year ended December 31, 2004	F-3
Consolidated Profit and Loss Account for the year ended December 31, 2003	F-4
Consolidated Profit and Loss Account for the year ended December 31, 2002	F-5
Consolidated Statement of Total Recognized Gains and Losses for the years ended December 31, 2004, 2003 and 2002	F-6
Consolidated Balance Sheets at December 31, 2004 and 2003	F-7
Consolidated Cash Flow Statements for the years ended December 31, 2004, 2003 and 2002	F-8
Consolidated Statements of Movement in Shareholders' Funds for the years ended December 31, 2004, 2003 and 2002	F-9
Notes to the Financial Statements	F-13
<i>WAGO Kontakttechnik GmbH and WAGO Contact S.A. and Affiliates</i>	
Report of Independent Auditors	F-102
Independent Auditors' Consent	F-103
Audited Financial Statements	
Combined Balance Sheet at December 31, 2002	F-104
Combined Statements of Operations for the period ended April 4, 2003 and the year ended December 31, 2002	F-105
Combined Statement of Shareowners' Equity for the year ended December 31, 2002	F-106
Combined Statement of Cash Flows for the year ended December 31, 2002	F-107
Notes to Combined Financial Statements	F-108
<i>Tyton Company of Japan</i>	
Report of Independent Registered Public Accounting Firm	F-123
Consent of Independent Registered Public Accounting Firm	F-124
Financial Statements	
Balance Sheets at March 31, 2005 (unaudited) and 2004 (audited)	F-125
Statements of Income for the years ended March 31, 2005 (unaudited), 2004 (audited) and 2003 (unaudited)	F-126
Statements of Shareholders' Equity	F-127
Limited Notes to Financial Statements	F-128
<i>Financial Statement Schedule of Spirent plc</i>	
Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2004, 2003 and 2002	S-1

Edgar Filing: SPIRENT PLC - Form 20-F/A

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, 2004, 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 Depository and all Owners and holders from time to time of American Depository 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

Edgar Filing: SPIRENT PLC - Form 20-F/A

- 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)
- 15.3 Consent of Ernst & Young ShinNihon (included on page F-124)

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 Statements (Form S-8 No. 333-98607 and No. 333-127832) pertaining to the Spirent plc employee benefit plans listed on the facing sheets 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 Amendment No. 1 to the Annual Report (Form 20-F/A) for the year ended December 31, 2004.

ERNST & YOUNG LLP

London, England
September 9, 2005

F-2

SPIRENT plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended December 31, 2004

	Notes	Before exceptional items	Exceptional items (Note 6)	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
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

Year ended December 31, 2003			
Notes	Before exceptional items	Exceptional items (Note 6)	Total
(£ millions, except per share amounts)			
Turnover: Group and share of joint venture	488.6		488.6
Less: share of joint venture's turnover	(22.4)		(22.4)
Group Turnover	466.2		466.2
Cost of sales	(279.8)		(279.8)
Manufacturing Margin	186.4		186.4
Operating expenses	(160.1)	(7.5)	(167.6)
Operating Profit	26.3	(7.5)	18.8
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		3.6	3.6
Profit before Interest	31.1	(3.9)	27.2
Net interest payable	(9.3)		(9.3)
Exceptional interest payable		(16.1)	(16.1)
Other finance expense	(1.5)		(1.5)
Profit before Taxation	20.3	(20.0)	0.3
Taxation	(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	

Edgar Filing: SPIRENT PLC - Form 20-F/A

Prior year tax credit	(6.0)
Attributable taxation on exceptional items	(1.7)
	<hr/>
Headline earnings attributable to shareholders	21.5
	<hr/>

(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

Year ended December 31, 2002			
Notes	Before exceptional items	Exceptional items (Note 6)	Total
(£ millions, except per share amounts)			
		634.5	634.5
		(75.6)	(75.6)
Group Turnover	2,3	558.9	558.9
Cost of sales		(336.4)	(340.8)
Manufacturing Margin		222.5	218.1
Operating expenses	4	(228.2)	(1,188.7)
Operating Loss	2,3,5	(5.7)	(970.6)
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)
Non-operating Exceptional Items			(962.4)
Loss on the disposal and closure of operations	32		(48.4)
Loss before Interest		2.5	(1,013.3)
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)
Taxation	11	(8.4)	(18.5)
Loss after Taxation		(18.5)	(1,031.8)
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
Diluted Loss per Share	12		(113.90)p
(1) Headline earnings			
Basic loss attributable to shareholders			(1,050.7)

Edgar Filing: SPIRENT PLC - Form 20-F/A

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
	<hr/>
Headline earnings attributable to shareholders	31.0
	<hr/>

(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			
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

Edgar Filing: SPIRENT PLC - Form 20-F/A

	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

Edgar Filing: SPIRENT PLC - Form 20-F/A

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-end Rates		
	Year ended December 31			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.

Edgar Filing: SPIRENT PLC - Form 20-F/A

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.

F-21

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
	<u> </u>	<u> </u>	<u> </u>
Communications	19.9	13.8	30.8
Network Products	20.4	16.7	15.0
Systems	2.5	5.5	4.6
	<u> </u>	<u> </u>	<u> </u>
	42.8	36.0	50.4
	<u> </u>	<u> </u>	<u> </u>
Operating exceptional item, goodwill impairment:			
Continuing operations			
Performance Analysis			(330.7)
Service Assurance			(530.4)
	<u> </u>	<u> </u>	<u> </u>
Communications			(861.1)
Network Products			(21.7)
Systems			(40.5)
	<u> </u>	<u> </u>	<u> </u>
			(923.3)
	<u> </u>	<u> </u>	<u> </u>
Operating exceptional items, other:			
Continuing operations			
Performance Analysis	1.3	(5.1)	(28.3)
Service Assurance	(1.9)	(0.1)	(8.6)
	<u> </u>	<u> </u>	<u> </u>
Communications	(0.6)	(5.2)	(36.9)
Network Products			(3.3)
Systems			(1.4)
Non-segmental	(2.3)	(2.3)	
	<u> </u>	<u> </u>	<u> </u>
	(2.9)	(7.5)	(41.6)
	<u> </u>	<u> </u>	<u> </u>

Edgar Filing: SPIRENT PLC - Form 20-F/A

	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)
	<u> </u>	<u> </u>	<u> </u>
Communications	(8.8)	(9.4)	(54.3)
Network Products	(0.3)	(0.3)	(1.5)
Systems			(0.3)
	<u> </u>	<u> </u>	<u> </u>
	(9.1)	(9.7)	(56.1)
	<u> </u>	<u> </u>	<u> </u>
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)
	<u> </u>	<u> </u>	<u> </u>
Profit/(Loss) before Taxation	24.0	0.3	(1,023.4)
	<u> </u>	<u> </u>	<u> </u>

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
	<u> </u>	<u> </u>	<u> </u>
Communications	14.1	16.5	19.4
Network Products	10.7	12.0	12.1
Systems	0.6	0.8	2.1
	<u> </u>	<u> </u>	<u> </u>
	25.4	29.3	33.6
	<u> </u>	<u> </u>	<u> </u>

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
	<u>60.4</u>	<u>57.8</u>	<u>66.2</u>
Communications	60.4	57.8	66.2
Network Products	4.1	3.8	3.6
Systems	2.8	4.4	7.9
	<u>67.3</u>	<u>66.0</u>	<u>77.7</u>

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
	<u>120.0</u>	<u>146.1</u>	<u>185.8</u>
Communications	120.0	146.1	185.8
Network Products	97.9	93.7	98.3
Systems	6.6	5.0	5.6
	<u>224.5</u>	<u>244.8</u>	<u>289.7</u>
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)
	<u>214.1</u>	<u>235.0</u>	<u>333.6</u>
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)
	<u>172.0</u>	<u>157.3</u>	<u>143.4</u>
Assets less Liabilities (excluding Pension Liability)	172.0	157.3	143.4
Pension liability (note 10)	(27.0)	(35.2)	(46.2)
	<u>145.0</u>	<u>122.1</u>	<u>97.2</u>
Assets less Liabilities (including Pension Liability)	145.0	122.1	97.2

Long-lived Assets

	At December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			
Performance Analysis	19.0	22.7	34.9
Service Assurance	3.8	5.4	8.7
Communications	22.8	28.1	43.6
Network Products	61.8	60.3	62.8
Systems	1.7	1.8	3.6
	86.3	90.2	110.0

Total Assets

	At December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			
Performance Analysis	123.6	125.5	154.1
Service Assurance	75.1	81.6	121.1
Communications	198.7	207.1	275.2
Network Products	151.3	140.7	144.2
Systems	20.7	23.5	46.6
Segmental total assets	370.7	371.3	466.0
Investment in joint venture		0.3	50.1
Investment in associates	15.8	14.6	13.3
	386.5	386.2	529.4

Capital Expenditure

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Continuing operations			
Performance Analysis	10.0	6.1	11.9
Service Assurance	1.4	1.0	3.0
Communications	11.4	7.1	14.9
Network Products	13.6	9.4	11.9
Systems	0.6	0.5	1.0

Edgar Filing: SPIRENT PLC - Form 20-F/A

Year ended December 31

	25.6	17.0	27.8

F-25

3. Geographical Analysis**Turnover by Market**

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

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

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

Turnover by Source

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

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

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%).

Operating Profit/(Loss)

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Operating profit before goodwill amortization and exceptional items:			
Continuing operations:			
Europe	20.6	21.7	19.3
North America*	20.1	13.0	30.2
Asia Pacific, Rest of Americas, Africa	2.1	1.3	0.9
	<u>42.8</u>	<u>36.0</u>	<u>50.4</u>
Operating exceptional items, goodwill impairment:			
Continuing operations:			
Europe			(19.5)
North America*			(901.8)
Asia Pacific, Rest of Americas, Africa			(2.0)
			<u>(923.3)</u>
Operating exceptional items, other:			
Continuing operations:			
Europe	(2.1)	(2.3)	(3.6)
North America*	(0.8)	(5.2)	(37.3)
Asia Pacific, Rest of Americas, Africa			(0.7)
	<u>(2.9)</u>	<u>(7.5)</u>	<u>(41.6)</u>
Goodwill amortization:			
Continuing operations:			
Europe	(1.5)	(1.5)	(1.6)
North America*	(7.6)	(8.2)	(54.4)
Asia Pacific, Rest of Americas, Africa			(0.1)
	<u>(9.1)</u>	<u>(9.7)</u>	<u>(56.1)</u>
Operating Profit/(Loss)	<u>30.8</u>	<u>18.8</u>	<u>(970.6)</u>

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

United Kingdom operating profit was £6.4 million (2003 £8.4 million profit; 2002 £9.3 million loss).

United Kingdom operating exceptional items were £2.1 million (2003 £2.3 million; 2002 £2.1 million).

United Kingdom goodwill impairment was nil (2003 nil; 2002 £19.5 million).

Edgar Filing: SPIRENT PLC - Form 20-F/A

United Kingdom goodwill amortization was £1.4 million (2003 £1.4 million; 2002 £1.6 million).

F-27

Operating Assets

	At December 31		
	2004	2003	2002
	(£ millions)		
Europe	54.0	74.0	68.8
North America*	159.3	158.8	208.0
Asia Pacific, Rest of Americas, Africa	11.2	12.0	12.9
Segmental operating assets	224.5	244.8	289.7

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

United Kingdom operating assets were £38.0 million (2003 £34.1 million; 2002 £30.2 million).

Long-lived Assets

	At December 31		
	2004	2003	2002
	(£ millions)		
Europe	44.2	43.5	44.9
North America*	33.3	38.5	56.8
Asia Pacific, Rest of Americas, Africa	8.8	8.2	8.3
	86.3	90.2	110.0

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

United Kingdom long-lived assets were £18.4 million (2003 £18.9 million; 2002 £21.0 million).

4. Net Operating Expenses

	Year ended December 31		
	2004 Total	2003 Total	2002 Total
	(£ millions)		
Selling and distribution	116.7	110.0	124.6
Administration	52.8	58.3	1,064.7
Other operating income	(0.2)	(0.7)	(0.6)

Edgar Filing: SPIRENT PLC - Form 20-F/A

	<u>Year ended December 31</u>		
Net operating expenses	169.3	167.6	1,188.7
Included within administration costs above:			
Operating exceptional items			
Goodwill impairment			923.3
Other	2.9	7.5	37.2
Goodwill amortization	9.1	9.7	56.1
	<u>157.3</u>	<u>150.4</u>	<u>172.1</u>
Net operating expenses before goodwill amortization and exceptional items	157.3	150.4	172.1

F-28

5. Operating Profit/(Loss)

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

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Goodwill amortization	9.1	9.7	56.1
Goodwill impairment (note 7)			923.3
Exceptional items other (note 6)	2.9	7.5	41.6
Operating depreciation	25.2	29.0	33.2
owned assets			
finance leased assets	0.2	0.3	0.4
Operating lease costs	0.5	0.4	0.3
plant and equipment			
land and buildings	11.1	11.3	10.4
Advertising costs	5.3	6.0	7.0
Product development costs	67.3	66.0	77.7
Impact of exchange rate movements on profit before taxation			
(Cost)/benefit	(2.5)	0.7	(1.1)
Disclosure of fees paid to auditors			
Audit services			
Audit fees Ernst & Young LLP	1.4	1.2	1.2
Other fees paid to Ernst & Young			
Further assurance services	0.2	0.1	0.3
Tax services	0.4	0.6	1.2
	0.6	0.7	1.5
Other fees were paid to			
Ernst & Young LLP, United Kingdom	0.5	0.5	0.5
Ernst & Young overseas	0.1	0.2	1.0
	0.6	0.7	1.5

6. Operating Exceptional Items Other

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Finance renegotiation costs		2.3	
Restructuring costs (including asset write down and lease provisions)	1.6	5.2	32.4
Stock provisions			4.4
Acquisition retention bonuses			4.8
Exit from joint venture	1.3		
	2.9	7.5	41.6

Restructuring costs include the costs of redundancy and lease provisions for vacated properties. These costs are primarily within the Communications Group.

7. Goodwill Impairment

In accordance with FRS 10 "Goodwill and Intangible Assets", goodwill is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

At December 31, 2004 and 2003, after carrying out the appropriate valuation exercises no impairment charges were required.

The deterioration in trading in the second half of 2002 in the telecommunications market together with the significant fall in the Spirent share price did necessitate an impairment review of our businesses at that time. This review resulted in impairment losses totaling £923.3 million being recognized in 2002. The losses charged in 2002 are the aggregate from the impairment reviews of each individual income-generating unit and determined in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". The impairment loss restates the assets to value in use and has been measured using pre-tax discount rates of between 15 to 20%, that take account of the particular risks of the income-generating unit.

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

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

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Operating profit/(loss)	30.8	18.8	(970.6)
Depreciation	25.4	29.3	33.6
Loss/(profit) on disposal of tangible fixed assets	0.4	(0.1)	0.5
Tangible fixed asset write-downs	0.6	2.2	3.6
Goodwill impairment			923.3
Amortization of goodwill	9.1	9.7	56.1
Stock compensation expense	0.6	0.6	0.5
Deferred income received/(released)	4.9	0.2	(4.8)
(Increase)/decrease in debtors	(9.1)	3.8	2.9
(Increase)/decrease in stocks	(1.0)	3.1	15.2
Increase/(decrease) in creditors	9.3	5.7	(1.7)
(Decrease)/increase in provisions	(2.9)	(5.9)	18.4
Pension fund liability	(7.8)	0.8	(0.1)
Net cash inflow from operating activities	60.3	68.2	76.9

9. Net Interest Payable

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Interest receivable and similar income	1.6	3.1	4.0
Interest payable			
Senior unsecured loan notes	(6.7)	(8.8)	(11.8)
Bank loans and overdrafts	(0.9)	(2.6)	(3.1)
Other loans	(0.2)	(0.3)	(0.6)
Discount on unwind of lease provision	(0.2)		
Interest on finance leases	(0.4)	(0.5)	(0.1)
	(6.8)	(9.1)	(11.6)
Share of joint venture's interest		(0.2)	(0.7)
Net interest payable	(6.8)	(9.3)	(12.3)
Exceptional interest expense	(0.5)	(16.1)	
Total net interest payable	(7.3)	(25.4)	(12.3)

On prepayment of the senior unsecured loan notes a make-whole amount becomes due. These amounts, together with fees in relation to certain amendments to the terms of the loan notes and bank facility, are included above in the exceptional interest expense of £0.5 million (2003: £16.1 million).

10. Employees

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

	Year ended December 31		
	2004	2003	2002
	(Number)		
Manufacturing	2,705	2,768	3,276
Selling and distribution	1,394	1,310	1,397
Administration	422	420	506
	4,521	4,498	5,179

Payroll costs were:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Remuneration	160.7	154.5	176.7
Social security costs	17.4	17.3	19.7
Other pension costs	5.1	6.4	5.3

Year ended December 31

183.2	178.2	201.7
-------	-------	-------

F-31

(i) Directors' Remuneration**(a) Individual and total remuneration of the directors holding office during 2004**

	Salary	Fees(1)	Taxable benefits(2)	Bonus(3)	Total 2004(4)	Total 2003(4)	Total 2002(4)
(£ thousands)							
Executive Directors							
N. Brookes	250.0	0.1	22.1	23.3	295.5	744.7	545.3
M. Chung(5)	337.0		16.9	90.0	443.9	275.3	251.2
A. Gustafsson	183.3		117.0	283.3	583.6		
E. Hutchinson(6)	270.0	0.5	20.3	294.9	585.7	398.7	272.9
Non-executive Directors							
M. Beresford		37.0			37.0	37.0	37.0
F. D'Alessio		32.6			32.6		
G. Ennerfelt		30.0			30.0	30.0	30.0
A. Given		37.0			37.0	8.5	
K. Hellstrom		1.9			1.9		
R. Moley		35.0			35.0	35.0	35.0
J. Weston		150.0			150.0	150.0	22.5
J. Wyness		37.0			37.0	37.0	89.3
P. Cheng						35.0	35.0
G. Sarney							68.1
Total 2004	1,040.3	361.1	176.3	691.5	2,269.2	1,751.2	1,386.3
Total 2003	963.4	334.0	86.1	367.7	1,751.2		
Total 2002	981.8	317.0	87.5		1,386.3		

(1)

Nicholas Brookes and Eric Hutchinson earned these fees in respect of their services to the Board and its Committees. The non-executive directors receive a basic annual fee of £30,000 in respect of their services. John Weston receives an annual fee of £150,000 which covers both his basic annual fee and his additional duties as Chairman. Andrew Given and Marcus Beresford each received an additional £7,000 per annum in recognition of their extra responsibilities as Chairmen of the Audit Committee and Remuneration Committee, respectively. An additional annual fee, equivalent to that paid to the Chairman of the Audit or Remuneration Committee, is paid to the senior independent director (currently James Wyness). Richard Moley and Frederick D'Alessio each received an additional £5,000 per annum in recognition of the extensive international travelling commitment required to perform their duties.

(2)

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

In accordance with the Company's normal policy it was agreed to meet the costs, subject to a cap, of Anders Gustafsson relocating from the US to the UK in order to commence his appointment and these costs are included in his taxable benefits.

Edgar Filing: SPIRENT PLC - Form 20-F/A

(3) In 2001, Nicholas Brookes, My Chung and Eric Hutchinson each received deferred cash bonus awards which were held as Ordinary shares on a non-beneficial basis. The shares were released to the respective directors during 2004 and the market value of those shares at the time of release is included in the bonus figures above.

In 2003, Nicholas Brookes, My Chung and Eric Hutchinson earned annual bonuses of £200,000, £42,700 and £125,000, respectively. No bonuses were paid in 2002.

(4) The figures relate to the period of each director's Board membership. John Weston, Andrew Given, Frederick D'Alessio, Anders Gustafsson and Kurt Hellström were appointed to the Board in November 2002, October 2003, January 2004, August 2004 and December 2004, respectively. Paul Cheng, Nicholas Brookes and My Chung either retired or resigned as directors in December 2003, June 2004 and September 2004, respectively. George Sarney died in April 2002.

(5) 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; 2003 \$350,000 per annum and 2002 \$350,000 per annum). An average exchange rate of £1 = \$1.83 was used in respect of 2004 remuneration (2003 £1 = \$1.64; 2002 £1 = \$1.51). 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.

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

(b) Directors' Pensions

The pensions earned from the non-contributory defined benefit arrangements in place for the executives in the United Kingdom during 2004 were as follows:

	Age at December 31, 2004	Years of pensionable service	Increase in accrued pension during the year	Increase, before inflation, in accrued pension during the year	Accumulated total accrued pension	
					At December 31, 2004(1)	At December 31, 2003
(£ thousands)						
N. Brookes(2)	57	17	8.3	3.3	286.1	277.8
E. Hutchinson	49	20	12.3	6.5	180.0	166.7
Total transfer value of pension(3)						

	Transfer value of the increase in accrued pension(3)	Transfer value, before inflation, of the increase in accrued pension(3)	At December 31, 2004	At January 1, 2004	Increase in total transfer value of pension during the year	Increase, before inflation, in total transfer value of pension during the year
N. Brookes(2)	144.0	55.3	5,078	4,876	201.6	113.9
E. Hutchinson	151.6	79.7	2,213	1,811	401.5	338.3

(1)

Edgar Filing: SPIRENT PLC - Form 20-F/A

The pension entitlements shown are those which would be paid annually from normal retirement age of 60 based on service to December 31, 2004. Eric Hutchinson's total accrued pension is restricted to 20 years' service.

F-33

Edgar Filing: SPIRENT PLC - Form 20-F/A

(2) Nicholas Brookes retired as a director and Chief Executive in June 2004 and the above figures relate to the period up to the date of his retirement.

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

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

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

	Year ended December 31		
	2004	2003	2002
	(£ thousands)		
Total emoluments for all directors	2,269	1,751	1,386
Gains made on exercise of share options(1)	8	1	6
Company contribution to 401(k) Retirement and Profit Share Plan(2)	11	12	13
Company contribution to the Cash Plan in respect of pensions(3)	11		
Pension and fees of the Life President(4)			33
Emoluments and ex gratia pension to former directors(5)	5	5	19
Consultancy payments and fee payments to former directors(6)			6
	2,304	1,769	1,463

(1) This relates to My Chung (2003 and 2004) and Eric Hutchinson (2002).

(2) Prevailing average conversion rates of £1 = \$1.51, £1 = \$1.64 and £1 = \$1.83 were used for 2002, 2003 and 2004, respectively. These payments relate to My Chung.

(3) These payments relate to Anders Gustafsson.

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

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

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

(ii) **Directors' Interests**

(a) *Summary of interests in Ordinary share capital*

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

F-34

Edgar Filing: SPIRENT PLC - Form 20-F/A

	December 31, 2004(1)			January 1, 2004(1)		
	Ordinary shares (beneficial)(2)	Ordinary shares (non-beneficial)	Options and rights to acquire Ordinary shares	Ordinary shares (beneficial)(2)	Ordinary shares (non-beneficial)	Options and rights to acquire Ordinary shares
Executive Directors(3)						
N. Brookes	2,973,398		3,583,990	2,947,083	26,315(4)	3,602,135
M. Chung	75,721		2,341,327	31,377	39,620(5)	3,174,349
A. Gustafsson		180,180(5)	1,800,000			
E. Hutchinson	738,381		3,282,447	726,210	12,171(4)	2,154,447
Non-Executive Directors						
M. Beresford	65,225			65,225		
F. D'Alessio	28,000					
G. Ennerfelt(6)	119,000,000			119,000,000		
A. Given						
K. Hellström						
R. Moley	1,010,000			1,010,000		
J. Weston	1,600,000			1,600,000		
J. Wyness	346,037			346,037		

- (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) Directors' beneficial holdings do not form part of remuneration provided by the Company.
- (3) The Company's executive directors, with other employees of the Group, are potential beneficiaries of certain Ordinary shares held in the Employee Share Ownership Trust (ESOT). The UK executive directors, with other employees of the Group, are also potential beneficiaries of the Spirent Sharesave Trust (SST), which was formerly known as the Spirent Qualifying Employee Share Ownership Trust. As potential beneficiaries of the ESOT and the SST, the respective directors are deemed by the Companies Act 1985 to be interested in some of the Ordinary shares held by those Trusts. At December 31, 2004, the deemed beneficial interests in the ESOT and the SST were 259,066 Ordinary shares and 3,508,136 Ordinary shares, respectively (December 31, 2003, 281,626 and 3,508,136 respectively). Further details on the Company's share plans are provided in note 30. The deemed interests of the executive directors in respect of the shares held in the ESOT and the SST are not included in the table above.
- (4) The non-beneficial interests of Nicholas Brookes and Eric Hutchinson represented their respective £100,000 and £46,250 deferred cash bonus awards made under the terms of the Annual Incentive Bonus Plan for 2000. The bonuses were used to purchase shares in the market in 2001 and the shares were held in the ESOT for a period of three years from that date. The directors obtained a beneficial interest in the shares when they were released from the ESOT in 2004 following completion of the three year deferral period.
- (5) The non-beneficial interests of My Chung and Anders Gustafsson over 39,620 shares and 180,180 shares, respectively, exist in a similar manner to that described in note 4 above except that My Chung's interest arises from a deferred cash bonus of \$175,000 and Anders Gustafsson's interest arises from a conditional award over shares to a value of £100,000. The awards were made to My Chung and Anders Gustafsson in 2001 and 2004, respectively, both in recognition of their appointments to the Board. My Chung obtained a beneficial interest in the shares when they were released from the ESOT in 2004 (on the third anniversary of his appointment to the Board). Anders Gustafsson's 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.
- (6) Göran Ennerfelt has a connected notifiable interest in the Spirent Ordinary shares held by Lexa BV which, for statutory purposes, is also deemed to be an interest of the director.

Edgar Filing: SPIRENT PLC - Form 20-F/A

(7)

Save as disclosed, there have been no changes between the 2004 year end and February 24, 2005 (the date on which these Accounts have been signed) in the Directors' beneficial or non-beneficial interests in the Ordinary share or loan capital of the Company or any subsidiary.

(b)

Options and rights to acquire Ordinary shares

	Plan type(1)	At December 31, 2004(2)	Exercised /lapsed during the year	Granted during the year	At January 1, 2004(2)	Date of grant	Exercise price per share	Date first exercisable	Expiry date
							(pence)		
N. Brookes	ESOS	221,068			221,068	09.30.96	136	09.30.99	06.29.05
	ESOS	30,410			30,410	04.23.97	118	04.23.00	06.29.05
	ESOS	43,922			43,922	04.27.98	152	04.27.01	06.29.05
	ESOS	149,590			149,590	05.11.00	334	05.11.03	06.29.05
	ESOS	205,000			205,000	04.09.01	305	04.09.04	06.29.05
	SRSOS(3)		18,145		18,145	10.05.01	93		06.30.04
	ESOS	468,000			468,000	04.02.02	134	06.30.04	10.01.05
	ESOS	774,000			774,000	05.02.02	113	06.30.04	11.01.05
	ESOS	1,692,000			1,692,000	03.25.03	16	06.30.04	09.24.06
M. Chung	ESOS	93,482			93,482	07.16.98	163	07.16.01	12.31.05
	ESOS	112,734			112,734	04.01.99	133	04.01.02	12.31.05
	ESOS	65,819			65,819	05.11.00	334	05.11.03	12.31.05
	SSIP	341,921			341,921	05.11.00	334	05.11.01	03.01.05
	SARP	42,740			42,740	05.12.00	335	05.12.01	03.01.05
	SSIP	250,000			250,000	12.08.00	613	12.08.01	03.01.05
	ESOS	80,000			80,000	04.09.01	305	04.09.04	12.31.05
	SSIP	178,747	16,253		195,000	04.09.01	305	04.09.02	03.01.05
	SSIP	499,995	250,005		750,000	04.02.02	134	04.02.03	03.01.05
	ESPP(4)		17,328		17,653	01.01.03	14	01.01.04	01.01.04
	ESOS	225,000			225,000	03.25.03	16	12.31.04	12.31.05
	SSIP	437,497	562,503		1,000,000	03.25.03	16	03.25.04	03.01.05
	ESPP	13,392		13,392		01.01.04	50	01.05.05	01.05.05
	SSIP(3)		600,000	600,000		08.05.04	56		12.31.04
A. Gustafsson	ESOS	1,800,000		1,800,000		08.05.04	56	08.05.07	08.04.14
E. Hutchinson	ESOS	17,652			17,652	04.27.95	108	04.27.98	04.26.05
	ESOS	42,928			42,928	04.29.96	140	04.29.99	04.28.06
	ESOS	33,786			33,786	04.23.97	118	04.23.00	04.22.07
	ESOS	29,586			29,586	04.27.98	152	04.27.01	04.26.08
	SRSOS	12,363			12,363	10.22.98	83	01.01.06	06.30.06
	ESOS	75,156			75,156	04.01.99	133	04.01.02	03.31.09
	ESOS	55,562			55,562	05.11.00	334	05.11.03	05.10.10
	ESOS	105,000			105,000	04.09.01	305	04.09.04	04.08.11
	SRSOS	8,693			8,693	10.05.01	93	12.01.08	05.31.09
	ESOS	234,000			234,000	04.02.02	134	04.02.05	04.01.12
	ESOS	387,000			387,000	05.02.02	113	05.02.05	05.01.12
	ESOS	1,128,000			1,128,000	03.25.03	16	03.25.06	03.24.13
	SRSOS	24,721			24,721	09.26.03	38	12.01.10	05.31.11
ESOS	1,128,000		1,128,000		08.05.04	56	08.05.07	08.04.14	

(1)

Key to plan type:

ESOS Executive Share Option Scheme

F-36

ESPP United States Employee Stock Purchase Plan

SARP Stock Appreciation Rights Plan

SRSOS United Kingdom Savings Related Share Option Scheme

SSIP Spirent Stock Incentive Plan (formerly known as Spirent Stock Option Plan).

An explanation of each plan and its operation is given in Note 30.

- (2) Figures relate to the period of each director's Board membership.
- (3) The options expired prior to the date first exercisable.
- (4) The final exercise price and number of purchase rights under the ESPP, an all employee share plan, cannot be determined until maturity (i.e. 12 months following the date of grant). The purchase rights granted calculation was based on the market price of an Ordinary share (less a 15 per cent discount) at the date of grant and the rate of exchange between the US dollar and sterling on the date of grant. In accordance with the rules of the ESPP, My Chung's purchase rights were exercised automatically as part of a maturity on January 1, 2004 over 17,328 Ordinary shares in respect to his 2003 ESPP account. The small difference between the rights outstanding at the year end and the amount purchased was caused by exchange rate fluctuations between the US dollar and sterling.

The middle market price of a Spirent Ordinary share on January 2, 2004 (the London Stock Exchange having been closed for trading on January 1, 2004) and December 31, 2004 was 58.25 pence and 73.75 pence, respectively, and during that period ranged between a high of 89.5 pence and a low of 47.75 pence per share.

Save as disclosed, there have been no changes between the year end and February 24, 2005 (the date on which these Accounts were signed) in the Ordinary or loan capital of the Company or any subsidiary.

(iii) Pension Costs

Defined Benefit Schemes

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

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

(a)

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

UK defined benefit plans at December 31			
	2004	2003	2002
	%	%	%
Valuation method	projected unit	projected unit	projected unit
Inflation	2.9	2.8	2.3
Rate of increase in salaries	3.6	3.5	3.0
Rate of increase for pensions in payment pre 2001 service	3.0	3.0	3.0
Rate of increase for pensions in payment post 2001 service	2.7	2.7	2.3
Rate of increase in deferred pensions	2.9	2.8	2.3
Rate used to discount schemes' liabilities	5.3	5.4	5.5

(b)

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

	2004 Long-term rate of return expected	At December 31, 2004	2003 Long-term rate of return expected	At December 31, 2003	2002 Long-term rate of return expected	At December 31, 2002
	%	(£ millions)	%	(£ millions)	%	(£ millions)
Equities	7.5	62.2	7.8	61.3	7.5	52.5
Gilts	5.0	11.9	4.8	15.3	4.5	15.7
Bonds	4.5	18.8	5.1	9.6	5.0	7.4
Cash	5.0	2.6	4.3	4.5	4.0	2.3
Property	6.5	4.6	6.8	1.8	6.5	4.3
Other	5.6	6.8	5.6	6.3	5.5	6.8
Total market value of assets		106.9		98.8		89.0
Actuarial value of liabilities		(144.2)		(142.2)		(130.9)
Net deficit in the schemes		(37.3)		(43.4)		(41.9)
Related deferred tax asset		11.1		13.0		
Deficit in the schemes, net of tax		(26.2)		(30.4)		(41.9)
Actuarial value of unfunded pension liability		(0.8)		(4.8)		(4.3)
Net pension liability		(27.0)		(35.2)		(46.2)

Edgar Filing: SPIRENT PLC - Form 20-F/A

(c)

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

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Analysis of amount charged to operating costs:			
Current service cost	1.8	2.2	1.8
Analysis of amount charged to other finance expense:			
Expected return on pension schemes' assets	6.6	5.7	6.7
Interest on pension schemes' liabilities	(7.3)	(7.2)	(7.0)
Other finance expense	(0.7)	(1.5)	(0.3)
Net profit and loss charge	2.5	3.7	2.1
Analysis of amount recognized in statement of total recognized gains and losses:			
Actual return less expected return on pension schemes' assets	3.6	5.5	(20.3)
Experience gains/(losses) arising on the schemes' liabilities	2.4	6.8	(0.9)
Changes in assumptions underlying the present value of the schemes' liabilities	(3.0)	(12.0)	(2.4)
Actuarial gain/(loss) recognized in the statement of total recognized gains and losses	3.0	0.3	(23.6)
Movement in deficit in the year:			
Net deficit in the schemes at January 1	(43.4)	(41.9)	(17.9)
Current service cost	(1.8)	(2.2)	(1.8)
Employer contributions paid	5.6	1.9	1.7
Other finance expense	(0.7)	(1.5)	(0.3)
Actuarial gain/(loss)	3.0	0.3	(23.6)
Net deficit in the schemes at December 31	(37.3)	(43.4)	(41.9)
(d) History of experience gains and losses			
Difference between the expected and actual return on the schemes' assets			
Amount	3.6	5.5	(20.3)
Percentage of the schemes' assets (%)	3.4	5.6	(22.8)
Experience gains and losses on the schemes' liabilities			
Amount	2.4	6.8	(0.9)
Percentage of the present value of the schemes' liabilities (%)	1.7	4.8	(0.7)
Total amount recognized in the statement of total recognized gains and losses			
Amount	3.0	0.3	(23.6)
Percentage of the present value of the schemes' liabilities (%)	2.1	0.2	(18.0)

The Group will continue to make additional contributions of £3.5 million per annum on July 1 in order to comply with the Minimum Funding Requirements for the UK defined benefit plans.

The above plans are funded and have full UK Inland Revenue tax-exempt approval by which benefits are limited due to the statutory earnings cap (an Inland Revenue limit on the amount of earnings that can be made pensionable under the plans for members who joined after May 1989).

Certain members whose salaries are in excess of this cap, have had their benefits increased through unapproved, unfunded arrangements, to the level that would otherwise have applied in respect of the basic salary only. The Company has contractually agreed to pay the additional retirement benefits itself and a provision at December 31, 2004 of £0.8 million (2003 £4.8 million; 2002 £4.3 million) is included in the net pension liability above. This represents the actuarial value as confirmed by the Company's pension advisers, of the unapproved benefit entitlements accrued at that date. The value is assessed and reviewed on a Market Value basis, in line with the Main Plan Valuation and adjusted each year by the charge for the year (equivalent to a contribution to a funded plan) of £0.1 million (2003 £0.2 million; 2002 £0.1 million) and interest on the unfunded liability of nil (2003 £0.3 million; 2002 £0.3 million).

Defined Contribution Schemes

United Kingdom

The Group maintains defined contribution schemes for employees in the United Kingdom. These plans are known as "Cash Builder" or "Pension Builder" and employer contributions into these schemes for 2004 were £0.1 million (2003 £0.1 million; 2002 nil).

United States

The Group maintains defined contribution pension benefit plans for employees of its US subsidiaries. These plans, also known as 401(k) plans, allows employees to defer a percentage of their salary for retirement. There are four different 401(k) plans within the US businesses and each of these plans has different features regarding company contributions, maximum deferral percentages and investment choices. The investment choices offered are among a selection of diversified mutual funds offering a broad mix of investment return potential with varying levels of risk. In aggregate the Company contributions to the various US plans totaled \$4.6 million for 2004 (2003 \$4.4 million; 2002 \$4.8 million). Total assets in the defined contribution plans at the end of 2004 were \$116.8 million (2003 \$103.1 million; 2002 \$88.0 million). There were no defined benefit plans in the United States in 2004.

Other Jurisdictions

Outside the United Kingdom and the United States employees are provided with pension arrangements determined in accordance with approved local practice and regulations and are defined contribution schemes.

Total contributions in respect of these schemes amounted to £0.3 million (2003 £0.2 million; 2002 £0.1 million).

Total company contributions to defined contribution schemes were £2.9 million (2003 £3.0 million; 2002 £3.6 million).

11. Taxation

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
(a) Analysis of charge based on profit/(loss) for the year			
Current tax			
Corporation tax			4.8
Overseas taxation	7.4	4.9	(4.4)
Tax arising on disposals overseas taxation			3.0
Under/(over) provision in prior years UK tax		1.1	(1.3)
Overseas taxation	(1.3)	(7.1)	(4.9)
	6.1	(1.1)	(2.8)
Share of joint venture's taxation		1.1	2.7
Share of associates' taxation	1.0	0.9	0.6
Total current tax charge	7.1	0.9	0.5
Deferred tax			
Origination and reversal of timing differences	1.7	(0.3)	7.4
Origination and reversal of deferred tax assets	(1.1)		19.0
Total deferred tax charge/(credit)	0.6	(0.3)	26.4
Total charge for the year	7.7	0.6	26.9

There was no tax effect in respect of the operating exceptional items (2003 £1.7 million credit; 2002 £3.5 million). In respect of the non-operating exceptional items no charge arises (2003 nil; 2002 £3.0 million).

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

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

A charge of £0.9 million (2003 £0.1 million; 2002 nil) arises on the actuarial gain or loss and this has been included in the statement of total recognized gains and losses.

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

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
United Kingdom	(7.0)	(21.1)	(1.2)
Overseas	31.0	21.4	(1,022.2)
	24.0	0.3	(1,023.4)

(b) The current tax charge for the year is lower than the standard rate of corporation tax in the United Kingdom of 30% (2003 30%; 2002 30%). The differences are explained as follows:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Profit/(loss) before tax	24.0	0.3	(1,023.4)
Profit/(loss) before tax multiplied by standard rate of corporation tax	7.2	0.1	(307.0)
Expenses not deductible for tax (primarily goodwill impairment and amortization)	3.8	7.3	317.5
Tax arising on disposals			3.0
Different tax rates on overseas earnings and other adjustments	(2.0)	(0.8)	0.6
Tax over provided in previous years	(1.3)	(6.0)	(6.2)
Movements in timing differences	(0.6)	0.3	(7.4)
Total current tax charge	7.1	0.9	0.5

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

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Profit/(loss) before tax at the UK statutory rate	7.2	0.1	(307.0)
Adjusted for:			
Permanent differences arising on amortization and impairment	1.7	2.9	293.8
Tax over provided in previous years	(1.3)	(6.0)	(6.2)
Taxation arising on disposals			17.5
Other permanent adjustments	2.1	4.3	0.5
Overseas rate differences	(2.0)	(0.7)	0.3
Reversal of deferred tax assets			19.0
Timing differences on exceptional items			9.0
Tax charge for the year	7.7	0.6	26.9

(c) Factors that may affect future tax charges

Deferred tax assets of £13.3 million (2003 £18.3 million; 2002 £20.1 million) arising principally on timing differences in the United States and United Kingdom have not been recognized. These assets can only be realized when they reverse against suitable taxable profits. Although the directors ultimately expect to realize these assets, there is currently insufficient evidence under FRS 19 "Deferred Tax" to recognize a deferred tax asset in respect of these timing differences.

In addition the Group has tax losses arising in the United States of £70.6 million (2003 £70.1 million; 2002 £23.1 million) and in the United Kingdom of £39.6 million (2003 £24.8 million; 2002 £10.2 million) that are available for offset against future taxable profits. A deferred tax asset has not been recognized in respect of these losses as their future recovery is uncertain.

In total, deferred tax assets amounting to £52.6 million (2003 £50.3 million; 2002 £31.2 million) have not been recognized on unutilized losses and timing differences.

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

12. Earnings/(Loss) per Share

Earnings/(loss) per share is calculated by reference to the profit/(loss) for the year and the number of Ordinary shares in issue during the year as follows:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Basic earnings/(loss) attributable to shareholders	16.0	(0.5)	(1,050.7)
Operating exceptional items:			
Other	2.9	7.5	41.6
Goodwill impairment			923.3
Goodwill amortization	9.1	9.7	56.1
Exceptional item loss/(profit) on disposal of operations	0.9	(3.6)	48.4
Exceptional interest charge	0.5	16.1	
Prior year tax credit	(1.3)	(6.0)	(6.2)
Attributable taxation on exceptional items		(1.7)	(3.5)
Attributable taxation on the loss on disposal of operations			3.0
Reversal of deferred tax assets			19.0
Headline earnings attributable to shareholders	28.1	21.5	31.0
	(Number)		
Weighted average number of shares in issue (millions) basic and headline	939.2	929.3	922.5
Dilutive potential of employee share options	18.1		
Weighted average number of shares in issue (millions) diluted	957.3	929.3	922.5
	(pence)		
Basic loss per share	1.70	(0.05)	(113.90)
Headline earnings per share	2.99	2.31	3.36
Diluted loss per share	1.67	(0.05)	(113.90)

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

13. Intangible Assets**Goodwill**

	<u>(£ millions)</u>
Cost:	
At January 1, 2003	1,842.9
Increase during the year (note 31)	2.7
Disposal of operations (note 32)	(4.1)
Exchange adjustment	(56.0)
	<u> </u>
At December 31, 2003	1,785.5
Exchange adjustment	(40.2)
	<u> </u>
At December 31, 2004	1,745.3
	<u> </u>
Amortization:	
At January 1, 2003	1,729.3
Provided during the year	9.7
Disposal of operations (note 32)	(3.5)
Exchange adjustment	(51.6)
	<u> </u>
At December 31, 2003	1,683.9
Provided during the year	9.1
Exchange adjustment	(36.5)
	<u> </u>
At December 31, 2004	1,656.5
	<u> </u>
Net book value at December 31, 2004	88.8
	<u> </u>
Net book value at December 31, 2003	101.6
	<u> </u>

Goodwill is amortized principally over 20 years.

14. Tangible Assets

	Land and buildings				Fixtures, fittings and equipment	Total
	Freehold	Long lease	Short lease	Plant and machinery		
	(£ millions)					
Cost:						
At January 1, 2003	16.9	10.9	24.1	118.0	70.7	240.6
Exchange adjustment	(0.8)	0.1	(0.9)	(4.1)	(4.0)	(9.7)
Additions owned assets	0.3		0.2	11.6	4.6	16.7
leased assets					0.3	0.3
Disposals			(0.4)	(4.0)	(3.8)	(8.2)
Disposal of operations (note 32)			(0.6)	(0.8)	(1.2)	(2.6)
At December 31, 2003	16.4	11.0	22.4	120.7	66.6	237.1
Exchange adjustment	(0.8)	0.1	(0.8)	(4.4)	(3.5)	(9.4)
Additions owned assets	0.1	0.1	0.6	16.5	8.0	25.3
leased assets					0.3	0.3
Inter-class transfers				(0.7)	0.7	
Disposals			(0.2)	(2.8)	(4.5)	(7.5)
Disposal of operations (note 32)			(0.1)		(1.7)	(1.8)
At December 31, 2004	15.7	11.2	21.9	129.3	65.9	244.0
Depreciation:						
At January 1, 2003	2.7	1.5	4.3	81.0	41.1	130.6
Exchange adjustment	(0.2)		(0.6)	(2.8)	(3.3)	(6.9)
Provided during the year	0.4	0.3	2.0	14.6	12.0	29.3
Fixed asset write down			3.2			3.2
Disposals			(0.2)	(3.6)	(3.6)	(7.4)
Disposal of operations (note 32)			(0.2)	(0.7)	(1.0)	(1.9)
At December 31, 2003	2.9	1.8	8.5	88.5	45.2	146.9
Exchange adjustment	(0.2)		(0.5)	(3.3)	(2.9)	(6.9)
Provided during the year	0.4	0.4	1.5	14.0	9.1	25.4
Inter-class transfers				(0.4)	0.4	
Fixed asset write down		0.5			0.1	0.6
Disposals			(0.2)	(2.2)	(4.2)	(6.6)
Disposal of operations (note 32)			(0.1)		(1.6)	(1.7)
At December 31, 2004	3.1	2.7	9.2	96.6	46.1	157.7
Net book value at December 31, 2004	12.6	8.5	12.7	32.7	19.8	86.3
Net book value at December 31, 2003	13.5	9.2	13.9	32.2	21.4	90.2

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

	<u>Plant and machinery</u>	<u>Fixtures, fittings and equipment</u>	<u>Total</u>
	(£ millions)		
Net book value at January 1, 2003	0.4	0.7	1.1
Depreciation provided during the year		0.3	0.3
Net book value at December 31, 2003	0.4	0.6	1.0
Depreciation provided during the year		0.2	0.2
Net book value at December 31, 2004	0.3	0.5	0.8

15. Capital Commitments and contingent liabilities

	<u>At December 31</u>	
	<u>2004</u>	<u>2003</u>
	(£ millions)	
Capital expenditure commitments:		
Contracted but not provided	1.0	1.5

16. Investment in Joint Venture

	<u>(£ millions)</u>
At January 1, 2003	50.1
Share of retained profit	1.4
Additions	0.5
Disposal (note 32)	(54.3)
Exchange adjustment	2.6
At December 31, 2003	0.3
Share of retained loss	(0.7)
Additions	0.2
Accrued contribution to the joint venture	0.2
At December 31, 2004	

The joint venture company at December 31, 2004 and December 31, 2003 was:

	<u>% holding</u>	<u>Nature of business</u>
Spirent DM Limited	40	Communications

It was agreed in 2004 that the Group would exit from the Spirent DM joint venture.

Edgar Filing: SPIRENT PLC - Form 20-F/A

In 2003 the joint venture result included the Group's share of the profit of WAGO. Spirent divested of its interest in WAGO in April 2003.

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

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

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Profit and loss account			
Turnover		22.4	75.6
(Loss)/profit before tax	(0.7)	2.5	6.7
Taxation		(1.1)	(2.7)
(Loss)/profit after tax	(0.7)	1.4	4.0

The share of the gross and net assets of the joint venture at December 31, 2004 is nil (2003 £0.3 million).

17. Investment in Associates

	Share of retained profit and reserves
	(£ millions)
At January 1, 2003	13.3
Share of retained profit	1.1
Exchange adjustment	0.2
	14.6
At December 31, 2003	14.6
Share of retained profit	1.7
Exchange adjustment	(0.5)
	15.8
At December 31, 2004	15.8

The associated companies at December 31, 2004 and 2003 were as follows:

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

F-48

18. Stocks

	At December 31	
	2004	2003
	(£ millions)	
Raw materials	12.1	12.6
Work in progress	6.2	5.0
Finished goods	35.7	37.4
	<u>54.0</u>	<u>55.0</u>

19. Debtors

	At December 31	
	2004	2003
	(£ millions)	
Due within one year:		
Trade debtors	74.6	69.5
Owed by associates	0.3	0.2
Other debtors	6.3	8.2
Prepayments and accrued income	7.2	7.3
	<u>88.4</u>	<u>85.2</u>
Due after one year:		
Other debtors	0.2	0.2
Prepayments	1.3	1.5
	<u>1.5</u>	<u>1.7</u>
Total debtors	<u>89.9</u>	<u>86.9</u>

Trade debtors at December 31, 2004 are stated after deducting provisions for bad and doubtful debts of £1.3 million (2003 £1.6 million).

20. Notes to the Cash Flow Statement

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Returns on Investments and Servicing of Finance			
Interest received	1.6	3.6	4.0
Interest paid	(8.4)	(12.6)	(14.7)
Interest element of finance lease rental payments	(0.4)	(0.5)	(0.1)
Exceptional interest paid	(2.3)	(13.7)	
Net cash outflow for returns on investments and servicing of finance	(9.5)	(23.2)	(10.8)
Taxation			
Corporation tax paid		(3.3)	(11.9)
Overseas tax (paid)/received	(3.1)	12.2	7.7
Tax (paid)/received	(3.1)	8.9	(4.2)
Capital Expenditure and Financial Investment			
Capital expenditure	(25.3)	(16.7)	(27.6)
Receipts from sales of tangible assets	0.5	0.9	1.8
Net cash outflow for capital expenditure and financial investment	(24.8)	(15.8)	(25.8)
Acquisitions and Disposals			
Acquisition of subsidiaries (note 31)	(1.1)	(1.1)	(49.2)
Acquisition of joint venture		(0.5)	
Contribution to joint venture	(0.2)		
Disposal of operations (note 32)	2.5	62.0	55.6
Net cash inflow for acquisitions and disposals	1.2	60.4	6.4
Management of Liquid Resources			
Sale of investments		0.1	0.2
Financing			
Issue of share capital	1.5	0.7	2.4
New loans		9.4	75.7
Repayment of loans	(10.2)	(152.9)	(23.6)
Repayment of capital element of finance lease rentals	(0.8)	(0.8)	(0.7)
Net cash (outflow)/inflow from financing	(9.5)	(143.6)	53.8

21. Analysis of Changes in Net Debt

	January 1, 2002	Cash flow	Non cash changes	Exchange adjustment	December 31, 2002
	(£ millions)				
Cash at bank and in hand	27.6	56.8		(0.9)	83.5
Overdrafts	(0.4)	(0.2)			(0.6)
Net cash	27.2	56.6		(0.9)	82.9
Current asset investments	0.3	(0.2)			0.1
Bank loans due within one year	(10.0)	9.6			(0.4)
Other loans and finance lease obligations due within one year	(0.8)	0.2	(0.2)		(0.8)
Net liquid funds	16.7	66.2	(0.2)	(0.9)	81.8
Senior unsecured loan notes due after one year	(148.9)			13.9	(135.0)
Bank loans due after one year	(24.2)	(75.5)		0.3	(99.4)
Other loans and finance lease obligations due after one year	(22.7)	14.3	(0.2)	(0.6)	(9.2)
Net debt	(179.1)	5.0	(0.4)	12.7	(161.8)
	January 1, 2003	Cash Flow	Non cash changes	Exchange adjustment	December 31, 2003
	(£ millions)				
Cash at bank and in hand	83.5	(44.8)		(1.1)	37.6
Overdrafts	(0.6)	(0.1)			(0.7)
Net cash	82.9	(44.9)		(1.1)	36.9
Current asset investments	0.1	(0.1)			
Bank loans due within one year	(0.4)				(0.4)
Other loans and finance lease obligations due within one year	(0.8)	0.1			(0.7)
Net liquid funds	81.8	(44.9)		(1.1)	35.8
Senior unsecured loan notes due after one year	(135.0)	47.0	(0.2)	7.4	(80.8)
Bank loans due after one year	(99.4)	96.6	(0.6)	0.1	(3.3)
Other loans and finance lease obligations due after one year	(9.2)	0.6	(0.3)	(0.3)	(9.2)
Net debt	(161.8)	99.3	(1.1)	6.1	(57.5)

Edgar Filing: SPIRENT PLC - Form 20-F/A

	January 1, 2004	Cash Flow	Non cash changes	Exchange adjustment	December 31, 2004
	(£ millions)				
Cash at bank and in hand	37.6	14.7		(0.6)	51.7
Overdrafts	(0.7)				(0.7)
Net cash	36.9	14.7		(0.6)	51.0
Bank loans due within one year	(0.4)	(0.1)	0.3		(0.2)
Other loans and finance lease obligations due within one year	(0.7)	(0.1)		(0.1)	(0.9)
Net liquid funds	35.8	14.5	0.3	(0.7)	49.9
Senior unsecured loan notes due after one year	(80.8)	10.3		5.7	(64.8)
Bank loans due after one year	(3.3)	0.9		0.2	(2.2)
Other loans and finance lease obligations due after one year	(9.2)		(0.3)	0.2	(9.3)
Net debt	(57.5)	25.7		5.4	(26.4)

22. Creditors Due within One Year

	At December 31	
	2004	2003
	(£ millions)	
Trade creditors	28.0	27.6
Payments received on account	0.1	
Owed to associates	0.8	0.8
Other creditors	7.1	10.0
Accruals and deferred income	49.5	42.9
Corporation tax UK and overseas	26.2	24.7
Other taxes and social security costs	5.1	5.3
	116.8	111.3

23. Loans and Overdrafts

	At December 31	
	2004	2003
	(£ millions)	
Bank overdrafts:		
Secured	0.7	0.7
Bank loans due within one year (note 26)	0.2	0.4
Other loans and finance lease obligations due within one year (note 26)	0.9	0.7
	1.8	1.8

Edgar Filing: SPIRENT PLC - Form 20-F/A

Where applicable, overdrafts are secured either by mortgages on the freehold properties or by floating charges on the assets of the borrowing subsidiaries. The weighted average interest rate payable on the bank overdrafts is 3.4% (2003 3.6%).

24. Creditors Due After More Than One Year

	At December 31	
	2004	2003
	(£ millions)	
Senior unsecured loan notes (note 27)	64.8	80.8
Bank loans (note 26)	2.2	3.3
Other loans and finance lease obligations (note 26)	9.3	9.2
Other creditors	1.1	1.3
Deferred income	2.5	0.4
Pension	0.3	0.6
	80.2	95.6

25. Provisions for Liabilities and Charges

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Deferred Taxation			
At January 1	2.3	2.4	(24.3)
Exchange adjustment		(0.3)	1.4
Movement in respect of pension liability	(1.0)	0.5	(1.4)
Disposal of subsidiaries (note 32)			0.3
Charged/(credited) during the year (note 11)	0.6	(0.3)	26.4
	1.9	2.3	2.4
	At December 31		
	2004	2003	
	(£ millions)		
Deferred taxation provided:			
Capital allowances in advance of the corresponding charges for depreciation	1.4	1.4	
Other short-term timing differences	0.5	0.9	
	1.9	2.3	

In accordance with FRS 19 "Deferred Tax", deferred tax assets have not been recognized in respect of total tax losses of £110.2 million (2003 £94.9 million). In addition, deferred tax assets of £

Edgar Filing: SPIRENT PLC - Form 20-F/A

13.3 million (2003 £18.3 million), arising principally in respect of timing differences, have not been recognized (see note 11).

	Year ended December 31	
	2004	2003
	(£ millions)	
Other provisions		
Lease provisions		
At January 1	17.9	26.0
Charged during the year	1.7	1.0
Released during the year	(1.8)	(1.8)
Transfers out		(1.0)
Released in the year in relation to prior year disposals	(1.2)	
Discount on unwind of lease provision	0.2	
Utilized during the year	(4.1)	(5.1)
Exchange adjustment	(0.2)	(1.2)
	<u>12.5</u>	<u>17.9</u>
Restructuring costs		
Charged during the year	1.3	
	<u>1.3</u>	
Total other provisions	<u>13.8</u>	<u>17.9</u>
Current	4.2	4.6
Non-current	9.6	13.3
	<u>13.8</u>	<u>17.9</u>

The lease provisions are for the continuing obligations under leases in respect of properties which have been vacated by the Group. Where material lease provisions have been discounted. The Company expects these provisions to be utilized over the next 12 years.

The restructuring costs relate to our exit from the Spirent DM joint venture and will be paid in 2005.

26. Loans and Finance Lease Obligations

	At December 31	
	2004	2003
	(£ millions)	
Secured:		
Bank loans wholly repayable within five years	2.4	3.7
Other loans not wholly repayable within five years	0.6	0.7
Finance lease obligations	9.6	9.2
	<u>12.6</u>	<u>13.6</u>
Repayment schedules for amounts due at December 31 are as follows:		
Bank loans		
Between two and five years	2.0	2.8
Between one and two years	0.2	0.5
	<u>2.2</u>	<u>3.3</u>
Due after more than one year (note 24)	2.2	3.3
Due within one year (note 23)	0.2	0.4
	<u>2.4</u>	<u>3.7</u>
Total bank loans	<u>2.4</u>	<u>3.7</u>
Other loans and finance leases		
After five years	6.8	7.0
Between two and five years	1.7	1.5
Between one and two years	0.8	0.7
	<u>9.3</u>	<u>9.2</u>
Due after more than one year (note 24)	9.3	9.2
Due within one year (note 23)	0.9	0.7
	<u>10.2</u>	<u>9.9</u>
Total other loans and finance leases	<u>10.2</u>	<u>9.9</u>
	<u>12.6</u>	<u>13.6</u>

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

Repayment schedules for loans and finance leases at December 31, 2004 are as follows:

	Bank Loans	Other Loans	Finance Leases		
			Capital	Interest	Total
			(£ millions)		
Due within one year	0.2		0.9	0.5	1.6
Between one and two years	0.2		0.8	0.5	1.5
Between two and three years	0.2		0.7	0.4	1.3
Between three and four years	1.8		0.5	0.4	2.7
Between four and five years			0.5	0.2	0.7
After five years		0.6	6.2	0.8	7.6

Finance Leases

2.4	0.6	9.6	2.8	15.4
-----	-----	-----	-----	------

F-55

27. Senior Unsecured Loan Notes

	At December 31	
	2004	2003
	(£ millions)	
Due after more than one year		
Senior unsecured loan notes 2006	2.8	3.6
Senior unsecured loan notes 2009	62.2	77.4
	65.0	81.0
Less debt issuance costs	(0.2)	(0.2)
	64.8	80.8

At December 31, 2004 the following loan notes were in issue:

- (a) \$5.5 million bearing interest at 9.19% repayable on November 23, 2006
- (b) \$36.2 million bearing interest at 9.31% repayable on November 23, 2009
- (c) \$65.9 million bearing interest at 9.41% repayable on November 23, 2009
- (d) \$17.2 million bearing interest at 10.00% repayable on November 23, 2009. An interest rate derivative was entered into in 1999 to reduce the effective interest rate to 9.53%

Loan notes are repayable:

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

If Spirent plc repaid at its option the total principal amount of the loan notes at December 31, 2004 then a make-whole amount of \$22.1 million (£11.5 million) would become payable.

28. Financial Risk Management

The key objective of the Group Treasury department is to manage the financial risks of the business and to ensure that sufficient liquidity is available to the Group. All treasury activity operates within a formal control framework. The Board has approved treasury policies and guidelines and periodically reviews treasury activities. Additionally, it is the Group's policy that speculative treasury transactions are expressively forbidden.

The major risks managed by Treasury, under the approved policies, are liquidity and refinancing risk, interest rate and currency risk and counterparty credit risk. Financial instruments including derivatives are used to manage these exposures when deemed appropriate.

Financing

The Group's objective is to ensure that there are sufficient sources of funding to meet its 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.

F-56

Debt is largely sourced from the syndicated bank market and the US private placement market.

At December 31, 2004, the amount of senior unsecured loan notes was \$124.8 million, equivalent to £65.0 million at December 31, 2004 exchange rates. These notes have maturity dates of 2006 and 2009.

Committed bank facilities amounted to £30 million at December 31, 2004 on which there were no amounts drawn. These facilities matured on February 2, 2005 but were replaced with a new 364-day bank facility of £30 million. This new facility has a 12 month term-out option.

Interest Rate Management

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

At December 31, 2004 the Group's borrowings were composed of 51% of fixed rate debt. This excludes \$72.1 million of senior unsecured loan notes which have been swapped into floating rates through the use of interest rate swaps which terminate on November 23, 2009. These swaps are callable at the counterparties' option at six-monthly intervals.

Our interest charge excluding exceptional interest expense was £6.8 million (2003 £9.3 million; 2002 £12.3 million). A one percentage point movement in short-term dollar interest rates based on the year-end position would impact profit before taxation by approximately £0.3 million.

Currency Management

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

Group Treasury, by means of forward foreign exchange contracts, carries out the majority of the 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 and 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.

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

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

(a) Interest Rate Risk

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

Financial assets	At December 31, 2004		
	At floating interest rates	Non-interest bearing	Total
	(£ millions)		
Sterling	29.1	0.2	29.3
US dollar	9.1	1.8	10.9
Euro	5.8	0.4	6.2
Other	4.3	1.2	5.5
	48.3	3.6	51.9
Financial assets	At December 31, 2003		
	At floating interest rates	Non-interest bearing	Total
	(£ millions)		
Sterling	8.5	0.4	8.9
US dollar	17.2	1.1	18.3
Euro	4.0	0.6	4.6
Other	4.3	1.7	6.0
	34.0	3.8	37.8

The financial assets of the Group comprise:

	At December 31	
	2004	2003
	(£ millions)	
Debtors due after more than one year (excluding prepayments) (note 19)	0.2	0.2
Cash at bank and in hand (note 21)	51.7	37.6
	51.9	37.8

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

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

Edgar Filing: SPIRENT PLC - Form 20-F/A

At December 31, 2004

Financial liabilities	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
(£ millions)				
Sterling			3.0	3.0
US dollar	30.2	37.5	11.1	78.8
Euro	9.7	0.5	0.8	11.0
Other		0.2		0.2
	39.9	38.2	14.9	93.0

At December 31, 2003

Financial liabilities	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
(£ millions)				
Sterling			1.3	1.3
US dollar	43.7	40.4	16.1	100.2
Euro	10.0	0.4	1.8	12.2
Other	0.2	0.4		0.6
	53.9	41.2	19.2	114.3

At December 31, 2004

At December 31, 2003

Financial liabilities	Average interest rates of fixed rate liabilities	Weighted average period to maturity of fixed rate liabilities	Weighted average period to maturity of non-interest bearing liabilities	Average interest rates of fixed rate liabilities	Weighted average period to maturity of fixed rate liabilities	Weighted average period to maturity of non-interest bearing liabilities
	(%)	(years)	(years)	(%)	(years)	(years)
Sterling			5.0	11.5	2.3	4.7
US dollar	9.2	4.6	2.9	9.2	5.6	3.1
Euro	4.9	12.1	8.4	5.7	12.8	6.5
Other				11.2	2.1	
Group	8.1	6.4	3.6	8.6	6.9	3.5

F-59

Edgar Filing: SPIRENT PLC - Form 20-F/A

The financial liabilities of the Group comprise:

	At December 31	
	2004	2003
	(£ millions)	
Bank overdrafts, current installment of loans and finance lease obligations (note 23)	1.8	1.8
Senior unsecured loan notes due after more than one year (note 24)	64.8	80.8
Bank loans due after more than one year (note 24)	2.2	3.3
Other loans and finance lease obligations due after more than one year (note 24)	9.3	9.2
Other creditors falling due after more than one year (note 24)	1.1	1.3
Provisions (note 25)	13.8	17.9
	93.0	114.3

2003 comparatives have been restated to include provisions.

The floating rate liabilities at December 31, 2004 comprise primarily \$72.1 million (2003 \$72.1 million) of the senior unsecured loan notes for which interest rate swaps are in place. Other floating rate liabilities bear interest at various rates set with reference to the prevailing LIBOR or equivalent for the time period and country.

(b) Maturity of Financial Liabilities

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

	At December 31	
	2004	2003
	(£ millions)	
In one year or less, or on demand	6.0	6.4
In more than one year but not more than two years	6.0	4.7
In more than two years but not more than five years	70.0	14.5
In more than five years	11.0	88.7
	93.0	114.3
Undrawn Committed Borrowing Facilities:		
Expiring in one year or less	31.6	61.5

The committed borrowing facilities comprise primarily of a £30 million multi-currency revolving credit facility.

At December 31, 2004 the commitment fees payable on the unutilized portion of the loan facilities are 0.65% on the undrawn, uncanceled amount.

The Group put in place a new £30 million 364-day working capital facility effective from February 17, 2005 with a 12 month term-out option to replace the existing £30 million facility. The commitment fee on this facility is 0.30% per annum on the undrawn, uncanceled amount.

(c) Currency Exposure of Financial Assets and Liabilities

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

At December 31, 2004 these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)				Total
	Sterling	US dollar	Euro	Other	
	(£ 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)

At December 31, 2003 these exposures were as follows:

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

F-61

(d) Fair Value of Financial Instruments

	As at December 31			
	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
	(£ millions)			
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	(1.8)	(1.8)	(1.8)	(1.8)
Long-term senior unsecured loan notes	(64.8)	(75.3)	(80.8)	(97.0)
Other long-term borrowings	(11.5)	(11.7)	(12.5)	(11.8)
Cash and other liquid funds	51.7	51.7	37.6	37.6
Other financial assets	0.2	0.2	0.2	0.2
Other financial liabilities	(14.9)	(14.9)	(19.2)	(19.2)
	(41.1)	(51.8)	(76.5)	(92.0)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps		(1.0)		(1.3)
Forward foreign exchange contracts		0.5		0.4
	(41.1)	(52.3)	(76.5)	(92.9)

The derivative financial instruments are as follows:

(a) Interest rate swaps for \$72.1 million (£37.6 million). The swaps terminate on November 23, 2009 and can be canceled at the bank's option at six monthly intervals with no mark to market settlement. The swaps have been transacted with two banks and are split \$48.0 million and \$24.1 million between them. The terms of the \$48.0 million swap allow for either party to exercise a break on November 23, 2005 or November 23, 2008. The swap for \$24.1 million allows either party to exercise a break at November 23, 2005. If a break is exercised a mark to market settlement is made at the fair value. At December 31, 2004, the fair value was £1.0 million which would have been payable by Spirent to the banks.

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

(e) Hedges

It is the Group's policy to hedge a proportion of its transactional currency exchange exposures using forward foreign currency contracts and its interest rate exposures by using interest rate swaps.

Gains and losses on instruments used for hedging are not recognized until the exposure that is being hedged itself is recognized.

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

	Year ended December 31			
	2004		2003	
	Gains	Losses	Total net gains/losses	Total net gains/losses
	(£ millions)			
Unrecognized gains/(losses) at January 1	0.4	(1.3)	(0.9)	0.9
(Gains)/losses arising in previous years recognized in the year	(0.4)		(0.4)	(0.9)
Gains/(losses) arising before January 1 that were not recognized in the year		(1.3)	(1.3)	
Gains/(losses) arising in the year that were not recognized	0.5	0.3	0.8	(0.9)
Unrecognized gains/(losses) on hedges at December 31	0.5	(1.0)	(0.5)	(0.9)
Expected to be recognized:				
In one year or less	0.5		0.5	0.4
In later years		(1.0)	(1.0)	(1.3)
	0.5	(1.0)	(0.5)	(0.9)

29. Operating Lease Commitments

Annual commitments which expire:

	At December 31	
	2004	2003
	(£ millions)	
In respect of land and buildings (subject to periodic rent reviews):		
Within one year	0.5	0.3
In the second to fifth years	5.0	5.2
Over five years	4.0	4.4
	9.5	9.9
In respect of plant and equipment:		
Within one year	0.2	0.4
In the second to fifth years	0.4	0.1
	0.6	0.5

Edgar Filing: SPIRENT PLC - Form 20-F/A

The aggregate payments, for which there are commitments under operating leases at December 31, 2004 fall due as follows:

	Land and Buildings	Plant and Equipment	Total
(£ millions)			
Due within one year	9.5	0.5	10.0
Between one and two years	8.5	0.3	8.8
Between two and three years	7.3	0.1	7.4
Between three and four years	5.3	0.1	5.4
Between four and five years	4.7		4.7
After five years	20.7		20.7
	56.0	1.0	57.0

30. Share Options

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

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

The Inland Revenue approved 1995 ESOS incorporates the guidelines issued by the Association of British Insurers (ABI) at that time. It was subsequently amended by the Board to facilitate the award of unapproved share options both in the UK and overseas. There are currently 328 participating executives in the ESOS.

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

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

All ESOS grants made after May 11, 2000 to the executive directors and certain senior managers are subject to enhanced performance conditions on exercise. The enhanced performance conditions require the Company's 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 Remuneration Committee may in future impose different performance targets which they consider to be no less demanding. Options granted under the 1985 ESOS are exercisable unconditionally.

(b) International Executive Share Option Scheme (IESOS)

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

(c) Spirent Stock Incentive Plan (SSIP)

The SSIP (formerly the Spirent Stock Option Plan) was introduced in 2000. This discretionary plan is primarily targeted at selected employees in the Communications group with grants normally determined annually by reference to the seniority and contribution of the individual, together with the performance of the relevant business and prevailing local market practice. Under the SSIP, grants are also permitted to selected newly hired and promoted employees on a monthly basis.

Following an Extraordinary General Meeting held in June 2004, shareholders approved the renewal of the SSIP until the Company's 2007 AGM along with several amendments including the ability to award stock appreciation rights (SARs) as well as stock options. SARs will deliver the appreciation value (i.e. the aggregated increase in the market value of an Ordinary share over the SAR price) in the form of new issue Ordinary shares. The SARs approach will help the Company manage its dilution headroom more efficiently as only the SAR gain and not the entire share value will need to be funded. Using a SARs-based approach, it is not possible to determine the precise level of dilution until the SARs are exercised. 20.1 million SARs, with exercise prices of between 56 pence and 71 pence were outstanding at December 31, 2004, however, no SARs were exercised in 2004.

Awards made pursuant to the SSIP normally vest over four years, provided that the employee remains in employment. Awards normally become 25% exercisable on the first anniversary of the date of grant, and thereafter in equal proportions on a monthly basis over a further 36 months. Any award not exercised by the seventh anniversary of grant will lapse.

SSIP awards granted from June 2004 to certain senior managers will only become exercisable subject to the achievement of certain performance conditions which are broadly the annual equivalent of the enhanced conditions for the ESOS, described above.

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

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

Spirent completed the acquisition of Netcom Systems Inc. (Netcom) in 1999. \$44.5 million of the total consideration was satisfied through the rollover of outstanding options over Netcom shares, primarily held by Netcom employees, into options over approximately 23.8 million Ordinary Spirent

shares (as adjusted) on substantially similar terms as previously existed under the NARSOP. All remaining outstanding options are fully vested and exercisable until they expire.

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

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

Unvested rolled over options were capable of immediate exercise (i.e. prior to their respective vesting date) and any shares arising from such an event were held in the ESOT until the relevant vesting date. The option holder was entitled to the beneficial (but not legal) interest in the shares whilst they were held in trust but they remained subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment was terminated prior to the vesting date. All ZARSOP options and resulting shares held in the ESOT have now fully vested.

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

Out of a total initial consideration for the acquisition of Caw Networks, Inc. (Caw) in 2002 of \$49 million, approximately \$4 million was in respect of Spirent Ordinary shares and options which arose on the roll-over of outstanding options and shares under the previous Caw employee stock plan. The options and shares will vest over a period expiring in 2006 on substantially similar terms as previously existed under the CARSP. The options are held by Caw employees and have a 10 year life from the original date of grant. Pursuant to the terms of the Merger Agreement for Caw, an additional cash payment of 78.8 US cents was payable as each share vested or upon the exercise of a vested option.

Any Ordinary shares issued under the CARSP are restricted until they have vested or are not at risk from forfeiture under the plan rules. Unvested rolled-over options are capable of immediate exercise (i.e. prior to their respective vesting date) and any shares arising from such an event are held in the ESOT until the relevant vesting date. The option holder is entitled to the beneficial (but not legal) interest in the shares while they are held in the ESOT but they remain subject to forfeiture (with the original option exercise prices being refunded to the participant) if the participant's employment is terminated prior to the vesting date.

In accordance with the original terms for acquiring Caw, in March 2004, Spirent allotted 4.3 million Ordinary shares and issued 75,000 options following the achievement by Caw of certain technical and financial earn out targets. Participation in the CARSP entitled the participants to a share in the earn out. Any earn out payment for an outstanding CARSP option was made by increasing the number of shares subject to the option and decreasing the per share exercise price so as to preserve the existing aggregate total exercise price. Of the 4.3 million shares, 54,000 shares were issued to the ESOT in respect of unvested restricted shares, which remained subject to forfeiture prior to vesting. As a result of the earn out, the additional cash payment referred to above was adjusted to 66.9 US cents as each share vests or upon the exercise of a vested option.

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

(g) United Kingdom Savings Related Share Option Scheme (SRSOS)

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

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

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

(h) United States Employee Stock Purchase Plan (ESPP)

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

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

(i) Global All Employee Share Purchase Plan (GAESPP)

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

(j) Stock Appreciation Rights Plan (SARP)

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

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

At December 31, 2004, the following rights were outstanding under the SARP:

Rights exercise dates	Rights price (p)	Number of rights outstanding (millions)
09.10.00 06.29.10	182 416	2.6
Spirent Employee Share Ownership Trust (ESOT)		

At December 31, 2004 the ESOT held 10.3 million Ordinary shares (2003 11.2 million Ordinary shares) to satisfy awards under various share based incentive schemes as described above. Of this number, 0.6 million Ordinary shares were unconditionally vested at December 31, 2004 (2003 1.3 million Ordinary shares).

Edgar Filing: SPIRENT PLC - Form 20-F/A

Movements in the options outstanding under the option schemes for the three years in the period ended December 31, 2004 and the related weighted average option prices are shown in the two tables below.

	1985 and 1995 Executive Share Option Scheme		International Executive Share Option Scheme		Spirent Stock Incentive Plan(1)		Caw Amended and Restated Stock Plan(2)		Netcom Amended and Restated Stock Option Plan	
	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price
	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)
Options outstanding at January 1, 2002	14.8	204	0.2	104	48.2	330			15.1	46
Granted/transferred into plan	5.4	128			42.1	99	1.2	12		
Exercised	(0.1)	109							(2.0)	22
Lapsed or canceled	(2.2)	213			(10.7)	274	(0.1)	12	(0.2)	95
Options outstanding at December 31, 2002	17.9	181	0.2	104	79.6	215	1.1	12	12.9	49
Granted/transferred into plan	7.6	16			21.1	57				
Exercised	(0.1)	29			(0.4)	16	(0.2)	11	(0.7)	20
Lapsed or cancelled	(3.0)	183			(37.6)	307	(0.2)	10	(1.0)	59
Options outstanding at December 31, 2003	22.5	125	0.2	104	62.7	108	0.7	11	11.2	50
Granted/transferred into plan	6.2	61			25.0	68	0.1	9		
Exercised	(0.1)	29			(2.6)	24	(0.3)	9	(1.5)	23
Lapsed or canceled	(1.5)	184	(0.1)	104	(8.4)	145	(0.2)	10	(1.0)	97
Options outstanding at December 31, 2004	27.1	107	0.1	104	76.7	94	0.3	9	8.7	50
Options exercisable										
At December 31, 2004	8.2	125	0.1	104	36.4	117	0.3	9	8.7	50
At December 31, 2003	5.4	147	0.2	104	25.4	142	0.7	11	11.2	50
At December 31, 2002	7.5	150	0.2	104	21.0	320	1.1	12	12.7	48

(1) Formerly the Spirent Stock Option Plan.

(2) The exercise consideration for options under this plan is paid in US dollars and has been translated into sterling in the above table at an exchange rate of £1 = \$1.83, being the average exchange rate for 2004.

Edgar Filing: SPIRENT PLC - Form 20-F/A

	Net-HOPPER Amended and Restated Plan(1)		Zarak Amended and Restated Stock Option Plan		Savings Related Share Option Scheme		Employee Stock Purchase Plan(2)		Global All Employee Share Purchase Plan(2)	
	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price	No. of shares	Weighted average option price
	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)	(millions)	(pence)
Options outstanding at January 1, 2002	0.2	58	2.0	185	6.7	107	1.0	98		
Granted/transferred into plan					4.0	41	3.0	14	0.3	14
Exercised	(0.2)	58	(0.1)	69	(0.8)	99	(1.0)	83		
Lapsed or canceled			(0.8)	159	(4.6)	106				
Options outstanding at December 31, 2002			1.1	220	5.3	61	3.0	14	0.3	14
Granted/transferred into plan					3.4	38	3.0	50	0.3	50
Exercised							(3.0)	14	(0.3)	14
Lapsed or cancelled			(0.3)	167	(1.6)	69				
Options outstanding at December 31, 2003			0.8	237	7.1	48	3.0	50	0.3	50
Granted/transferred into plan							2.5	50	0.2	50
Exercised					(0.1)	41	(3.0)	50	(0.3)	50
Lapsed or canceled			(0.2)	311	(1.1)	64				
Options outstanding at December 31, 2004			0.6	218	5.9	45	2.5	50	0.2	50
Options exercisable										
At December 31, 2004			0.6	218	0.2	110				
At December 31, 2003			0.8	237						
At December 31, 2002			1.1	220	0.1	135				

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

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

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

	Year ended December 31		
	2004	2003	2002
Dividend yield	0.9%	0.9%	0.9%
Expected volatility	105%	109.0%	70.0%
Risk free interest rate	3.5%	2.5%	2.7%
Expected life	4.2 years	4.1 years	4.9 years

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

	Year ended December 31		
	2004	2003	2002
Options granted at market value of the underlying shares	48p	31p	53p
Options granted at a discount to the market value of the underlying shares	21p	23p	23p

Summarized information about options outstanding under the share option schemes at December 31, 2004 is as follows:

Range of exercise prices (pence)	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contract life	Weighted average option price	Number exercisable	Weighted average option price
	(millions)	(years)	(pence)	(millions)	(pence)
1985 Executive Share Option Scheme					
108	0.1	0.3	108	0.1	108
1995 Executive Share Option Scheme					
16	7.5	8.2	16	1.9	16
56 to 72	7.0	9.2	62		
113 to 163	8.9	5.5	132	5.4	133
305 to 598	3.6	5.9	320	0.8	322
International Executive Share Option Scheme					
104	0.1	0.3	104	0.1	104
Spirent Stock Incentive Plan(1)					
6	0.2	4.8	6	0.1	6
13 to 18	10.4	5.0	17	9.9	17
22	0.1	5.3	22		
38 to 56	2.3	5.9	46	0.6	46
61 to 87	46.7	5.8	67	12.7	69
94 to 140	2.2	4.1	119	1.7	120
141 to 190	10.2	4.2	144	7.0	144
270 to 400	2.4	2.9	321	2.3	321
488 to 617	2.2	3.0	585	2.1	585
Caw Amended and Restated Plan(2)					
10 to 13	0.3	6.9	9	0.3	9
Netcom Amended and Restated Stock Option Plan					
15 to 18	3.5	2.3	18	3.5	18
24 to 36	2.2	2.9	24	2.2	24
54	0.1	3.2	54	0.1	54
90 to 121	2.5	3.9	98	2.5	98
151	0.4	4.5	151	0.4	151

Edgar Filing: SPIRENT PLC - Form 20-F/A

Options outstanding

Zarak Amended and Restated Stock Option Plan

127	0.5	5.5	127	0.5	127
350 to 572	0.1	5.8	519	0.1	519

F-71

Edgar Filing: SPIRENT PLC - Form 20-F/A

Savings Related Share Option Scheme

38 to 41	5.5	3.1	39		
83 to 103	0.3	1.3	93	0.1	93
142 to 518	0.1	1.2	214	0.1	143

Employee Stock Purchase Plan(3)

50	2.5	0.1	50		
----	-----	-----	----	--	--

Global All Employee Share Purchase Plan(3)

50	0.2	0.1	50		
----	-----	-----	----	--	--

(1) Formerly the Spirent Stock Option Plan.

(2) The exercise consideration for options under this plan is paid in US dollars and has been translated into sterling in the above table at an exchange rate of £1 = \$1.83, being the average exchange rate for 2004.

(3) The exercise price and number of purchase rights outstanding cannot ultimately be determined until the maturity of each respective offering period (that is usually 12 months following the date of grant). The exercise price and number of purchase rights outstanding as shown above are based on the market price of a Spirent Ordinary share (less the applicable 15% discount) as at the date of grant.

In accordance with the rules of the following share option schemes, options were exercised during the three years in the period ended December 31, 2004 which resulted in new shares being allotted as shown below:

	Number of Ordinary shares year ended December 31			Total consideration received year ended December 31		
	2004	2003	2002	2004	2003	2002
	(millions)			(£ million)		
Discretionary Schemes	2.7	0.4	0.1	0.6	0.1	0.1
Netcom Amended and Restated Stock Option Plan	1.5	0.7	2.1	0.3	0.1	0.5
Net-HOPPER Amended and Restated Plan			0.2			0.1
Zarak Amended and Restated Stock Option Plan			0.1			0.1
Caw Amended and Restated Stock Plan(1)	0.3	0.2		0.1		2.8
All Employee Share Schemes	3.4	3.3	1.8	0.5	0.5	1.6
	7.9	4.6	4.3	1.5	0.7	5.2

(1) The exercise consideration for options under this plan is paid in US dollars and has been translated into sterling in the above table at an exchange rate £1 = \$1.83, being the average exchange rate for 2004.

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

On January 4, 2005, 2.7 million Ordinary shares were allotted following the automatic exercise of purchase rights under the Company's United States Employee Stock Purchase Plan and the Global All Employee Share Purchase Plan. Between January 1, 2005 and February 24, 2005 approximately 1.2 million Ordinary shares were allotted following exercises under other employee share schemes.

At December 31, 2004 the following options and purchase rights over Ordinary shares have been granted and remained outstanding under the Company's various employee share schemes. Figures for the options outstanding and the exercise price per Ordinary share have each been adjusted, where relevant, for the 3:1 subdivision of share capital in 2000 and for the rights issues effected in 2000.

Option Scheme	Option exercise dates		Exercise price per share	Number of outstanding options
			(pence)	(millions)
Discretionary Schemes:				
1985 Executive Share Option Scheme	04.29.98	04.26.05	108	0.1
1995 Executive Share Option Scheme	04.29.99	08.04.14	16 598	27.0
International Executive Share Option Scheme	04.11.98	04.10.05	104	0.1
Spirent Stock Incentive Plan(1)	05.11.01	12.08.11	6 617	76.7
Acquisition Related Schemes:				
Netcom Amended and Restated Stock Option Plan	07.23.99	07.19.09	15 151	8.7
Zarak Amended and Restated Stock Option Plan	11.14.00	11.12.10	127 572	0.6
Caw Amended and Restated Stock Plan	08.15.02	06.25.12	15 20(2)	0.3
All Employee Share Save Schemes:(3)				
United Kingdom Savings Related Share Option Scheme	06.01.04	05.31.11	38 518	5.9
United States Employee Stock Purchase Plan(4)	01.04.05	01.04.05	50	2.5
Global All Employee Share Purchase Plan(4)	01.04.05	01.04.05	50	0.2
Total(5)				122.1

- (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 the Company's 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 the Company's overall dilution calculations.
- (2) Exercise prices per share for options under the Caw Amended and Restated Shock Plan are denominated in US dollars and are expressed as US cents in the above table.
- (3) The Company has taken advantage of the exemption within Urgent Issues Task Force ("UITF") Abstract 17 "Employee Share Schemes" in accounting for the all employee share schemes.

- (4) The exercise price and number of shares subject to the purchase rights outstanding cannot ultimately be determined until the maturity of each respective offering period (i.e. normally 12 months following the date of grant). The exercise price and number of purchase rights outstanding as shown above are based on the market price of an Ordinary share (less the applicable 15% discount) as at the date of grant.
- (5) At December 31, 2003 there were 108.5 million option/purchase rights outstanding.

31. Acquisition of Subsidiaries

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

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

Year ended December 31, 2004

No acquisitions occurred in the year ended December 31, 2004. The movements relate to prior year acquisitions and the purchase of minority shareholdings.

The issue of Ordinary shares related to the deferred consideration pursuant to the acquisition agreement with Caw Networks, Inc. made in 2002. 4.3 million Ordinary shares were issued on March 31, 2004 when the Spirent Ordinary share price was 75.5 pence. The consideration had been estimated at December 31, 2003 at £2.7 million.

During the year we acquired the minority shareholdings in two of our Network Products subsidiaries for a cash consideration of £1.1 million.

	Total
	(£ millions)
Minority interest	1.1
Purchase consideration comprised the following:	
Issue of Ordinary shares Caw Networks, Inc.	0.6
Cash (including expenses).	1.1
Adjustment to consideration in respect of prior year acquisitions.	(0.6)
	1.1
The cash flows in respect of the purchase of subsidiaries are as follows:	
Cash (including expenses).	(1.1)
Net cash outflow on acquisitions	(1.1)

Year ended December 31, 2003

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

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

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

Year ended December 31, 2002

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

- (1) July 2002 Certain assets of the remote special services test product line of Anritsu Company US were acquired for a cash consideration of \$26 million. The remote special services test product line was integrated into the Service Assurance division.
- (2) August 2002 The remaining 85% of Caw Networks, Inc not already owned by the Group, was acquired for an initial consideration of \$49 million comprised of approximately \$45 million in cash and \$4 million in a combination of Spirent restricted shares and options pursuant to an employee stock plan. The business was integrated into the Performance Analysis division.
- (3) September 2002 Certain intellectual property rights were acquired from UbiNetics for £6.5 million in cash.

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

	Total
	(£ millions)
Assets and liabilities acquired were:	
Tangible assets	0.8
Stocks	0.6
Debtors	3.6
Creditors	(1.5)
Cash	3.2
Loans and finance leases	(0.2)
Minority interest	0.4
	6.9
Net assets	6.9
Less: Previously included as an associate	(5.2)
Goodwill	51.0
	52.7
Purchase consideration comprised the following:	
Restricted stock	1.2
Options to acquire shares	0.1
Cash (including expenses)	53.4
Accrued	(0.9)
Consideration to be charged as compensation expenses	(1.1)
	52.7
The cash flows in respect of the purchase of subsidiaries are as follows:	
Cash (including expenses)	(53.4)
Cash (accrued in prior years)	1.0
Cash and overdrafts acquired	3.2
	(49.2)

32. Disposal of operations

Year ended December 31, 2004

During the year the Group disposed of its aerospace maintenance, repair and overhaul software (MRO) business within its Systems group. The business sold during the year contributed £1.2 million to the Group's operating cash flows, contributed nil in respect of net returns on investments and servicing of finance, paid £0.2 million of taxation and utilized £0.1 million for capital expenditure.

Year ended December 31, 2003

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

Edgar Filing: SPIRENT PLC - Form 20-F/A

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

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

Year ended December 31, 2002

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

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

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

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

Edgar Filing: SPIRENT PLC - Form 20-F/A

Net assets disposed of were as follows:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Fixed assets			
Tangible assets	0.1	0.7	8.2
Intangible assets		0.6	6.5
Stocks	0.2	2.3	13.0
Debtors	1.8	2.4	13.0
Creditors	(2.4)	(4.5)	(7.8)
Deferred taxation			0.3
Provisions	(1.2)		
Investment in joint venture		54.3	
	(1.5)	55.8	33.2
Goodwill charged to profit and loss account	4.9	2.6	70.8
	3.4	58.4	104.0
Net (loss)/profit on disposal of operations	(0.9)	3.6	(48.4)
	2.5	62.0	55.6
Satisfied by:			
Cash (less expenses)	2.5	62.0	55.6
The cash flows in respect of the disposal of operations are as follows:			
Cash (less expenses) net cash inflow from disposals	2.5	62.0	55.6

F-78

33. Related party disclosures

During the year Group companies entered into the following transactions with related parties who are not members of the Group.

	Year ended December 31, 2004		At December 31, 2004	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
(£ millions)				
Associates				
Tyton Company of Japan	1.3	0.8	0.3	0.6
3M/ECC		1.5		0.2

	Year ended December 31, 2003		At December 31, 2003	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
(£ millions)				
Associates				
Tyton Company of Japan	1.0	0.9	0.2	0.6
3M/ECC		1.2		0.2

Associates				
Tyton Company of Japan	1.0	0.9	0.2	0.6
3M/ECC		1.2		0.2

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash.

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

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

a) Revenue recognition

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

Under US GAAP, the rules for revenue recognition under multiple-element arrangements are detailed and prescriptive. These rules include the requirement that revenues be allocated to the

respective elements of such an arrangement on the basis of Vendor Specific Objective Evidence ("VSOE") for each element. Statement of Position ("SOP") 97-2 "Software Revenue Recognition" sets out precise requirements for establishing VSOE for valuing elements of a multiple-element arrangement. When VSOE for individual elements of an arrangement cannot be established in accordance with SOP 97-2, revenue is generally deferred and recognized over the term of the final element.

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

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

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

b) Goodwill and Other Intangible Assets

(i) Impairment of Goodwill and Long-lived assets

Under UK GAAP, FRS 10 "Goodwill and Intangible Assets" requires goodwill to be reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

At December 31, 2003 and 2004, the carrying value of goodwill was deemed to be recoverable and no impairment charge has been recognized for 2003 or 2004.

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

Impairment losses in 2002 of £330.7 million related to the Performance Analysis division, £530.4 million in respect of the Service Assurance division, £21.7 million for Network Products and £40.5 million for the Systems group.

In calculating the impairment losses for 2002, the directors, in line with best practice, also reviewed pre-1998 goodwill previously written off to reserves for those businesses in which an impairment loss

had been identified. An amount of £87.0 million was consequently reinstated and included in the total impairment charge of £923.3 million.

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

Under US GAAP, regarding goodwill or intangible assets with an indefinite life, SFAS No. 142 "Goodwill and Other Intangible Assets" became effective January 1, 2002, superseding SFAS No. 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed of". The Group was required to perform a transitional goodwill impairment test based on the carrying amount of goodwill as at that date. This indicated that the fair values of the Group's reporting units equalled or exceeded their carrying values and therefore the transitional goodwill impairment test did not result in any impairment being recorded.

Under SFAS No. 142, goodwill is no longer amortized but is subject to periodic review for impairment on a reporting unit basis. Having identified its reporting units the Group obtained independent valuations for SFAS No. 142 purposes at November 30, 2002, 2003 and 2004 for Service Assurance, Performance Analysis and Network Products.

SFAS No. 142 specifies that the test for goodwill impairment is a two-step approach. Step 1 is a comparison of the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying amount, the amount of the impairment loss must be measured. Step 2 states that the amount of the impairment loss, if any, is measured by comparing the implied fair value of goodwill to its carrying amount. Fair values were determined by applying a discounted cash flow method using post-tax discount rates of between 10% and 15%, depending on the weighted average cost of capital for a comparable set of companies to each respective reporting unit.

Step 1 results did not indicate impairment in any of the Group's reporting units at November 30, 2004, or at November 30, 2003 but did indicate impairment of goodwill in Service Assurance and Performance Analysis at November 30, 2002. After considering the fair values of the other intangible assets the implied fair values of goodwill were determined under Step 2 and compared to carrying values. On this basis, US GAAP goodwill impairment of £480.5 million in Service Assurance and £226.4 million in Performance Analysis was recognized during 2002. A further £0.5 million of goodwill impairment arose within Systems during 2002. In addition, £57.4 million of impairment arose during 2002 on other definite lived intangibles in Service Assurance under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" as outlined below.

Under US GAAP, effective for Spirent on January 1, 2002, SFAS No. 144 supersedes SFAS No. 121. SFAS No. 144 requires long-lived assets to be tested for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. SFAS No. 144 does not apply to goodwill or intangible assets with an indefinite life. The Group did not consider the criteria

necessitating an impairment review to have been met at November 30, 2004, or at November 30, 2003 but did at November 30, 2002 and obtained independent valuations as at that date for SFAS No. 144 purposes for other intangible assets within Performance Analysis division and Service Assurance division.

SFAS No. 144 requires long-lived assets to be written down to their fair value if the long-lived assets carrying amount is greater than the sum of undiscounted cash flows over the period of the long-lived assets useful life. The impairment amount is the difference between the long-lived assets carrying value and its fair value. Fair values are determined using the present values of future cash flows expected to be generated by the long-lived assets. Testing takes place at the lowest level for which identifiable cash flows generated by individual long-lived assets or groups thereof are largely independent of the cash flows of other groups of assets and liabilities.

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

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

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

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

(ii) Purchase accounting differences

Differences between UK GAAP and US GAAP arise with respect to the adoption of SFAS No. 142 and the determination of the cost of investment, the fair values of assets acquired, accounting for contingent consideration, the treatment of identifiable intangible assets and the amortization periods of goodwill as described in more detail below.

Under US GAAP, acquisitions subsequent to June 30, 2001 are subject to the provisions of SFAS No. 142 and therefore, goodwill arising on acquisitions subsequent to that date is not amortized. Goodwill amortization charged under UK GAAP from January 1, 2002 has therefore been reversed in reconciling UK GAAP to US GAAP.

In addition, under US GAAP, SFAS No. 141 "Business Combinations", effective January 1, 2002, clarifies the criteria to recognize identified intangible assets separately from goodwill. Consequently, an unamortized balance of £8.4 million was transferred from identified intangibles to goodwill on January 1, 2002, representing workforce in place which does not meet these new criteria.

(iii) Additional disclosures

The changes during 2004 in the carrying value of goodwill per segment are presented in the table below:

	Performance Analysis	Service Assurance	Network Products	Systems	Total
	(£ millions)				
Balance as of January 1, 2004	2.3	12.3	28.1	1.2	43.9
Currency translation adjustment	(0.2)	(0.9)			(1.1)
Balance as of December 31, 2004	2.1	11.4	28.1	1.2	42.8

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

	Developed Technology	Other	Total
	(£ millions)		
As at December 31, 2003			
Gross carrying amount	56.7	27.5	84.2
Accumulated amortization	(32.1)	(17.0)	(49.1)
Carrying amount	24.6	10.5	35.1
As at December 31, 2004			
Gross carrying amount	52.6	25.9	78.5
Accumulated amortization	(34.9)	(19.0)	(53.9)
Carrying amount	17.7	6.9	24.6

The amortization expense for the year ended December 31, 2004 is £8.7 million (2003 £10.4 million). Amortization expense for intangible assets is expected to be £8.0 million in 2005, £7.6 million in 2006, £6.8 million in 2007, £2.2 million in 2008 and nil in 2009.

c) Stock-based Compensation

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

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

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

(i) 1985 and 1995 Executive Share Option Schemes

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

(ii) International Executive Share Option Scheme

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

(iii) Savings Related Share Option Schemes

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

(iv) Netcom Amended and Restated Share Option Plan

This plan is accounted for as a fixed plan under APB 25 as a measurement date arises at the date of grant and no performance criteria exist. As of December 31, 2004, all options were vested and no further grants have been made under this plan.

(v) Zarak Amended and Restated Stock Option Plan

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

(vi) CAW Amended and Restated Stock Plan

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

(vii) Spirent Stock Incentive Plan

Where options with no performance criteria are granted under this plan it is accounted for as a fixed plan under APB 25 as a measurement date arises on the date of grant. Variable plan accounting is adopted for grants of options with performance criteria and for stock appreciation rights granted under this plan.

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

(viii) US Employee Stock Purchase Plan

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

(ix) Global All Employee Share Purchase Plan

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

(x) Stock Appreciation Rights Plan

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

(xi) Long Term Share Purchase Plan

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

The awards are subject to a six-year performance period comprising two periods of three years each. After the first performance period, the holder of the award has a reinvestment decision between cash and shares which impacts the matching criteria for the second three-year performance period. The basis of compensation expense recognition is to assume that after the first three-year performance period the minimum amount is reinvested in shares. Expense has been recognized based on performance to date. At December 31, 2004, no performance units were outstanding under the LTSP and the plan has now closed.

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

Share Option Plan	Year ended December 31		
	2004	2003	2002
	(£ millions)		
1985 and 1995 Executive Share Option Scheme	2.2	0.8	(0.7)
Spirent Stock Incentive Plan	0.2		
CAW Amended and Restated Stock Plan	0.4	0.6	0.3
Other	0.4	0.1	0.5
	3.2	1.5	0.1

d) Pensions

Under UK GAAP, in accordance with FRS 17 "Retirement Benefits" the assets of the Group's significant defined benefit schemes are measured at their market value at the balance sheet date and

the liabilities of the schemes measured using the projected unit method. The extent to which the schemes' assets exceed/fall short of the schemes' liabilities is shown as a surplus/deficit on the balance sheet net of deferred tax.

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

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

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

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

e) Profit on Disposal

The different treatment of goodwill arising on acquisitions prior to January 1, 1998 under UK GAAP and US GAAP, together with the use of different goodwill amortization periods and the adoption of SFAS No. 142, result in adjustments to profit or losses on disposal of businesses, as the determination of the profit or loss on disposal takes into account the unamortized balance of goodwill released. In addition, differences between UK GAAP and US GAAP as described in this note (including stock-based compensation and derivative financial instruments) may also affect the carrying value of the disposed of subsidiary, resulting in a different profit or loss on disposal. Under US GAAP, the profit or loss on disposal is also stated net of any related cumulative currency translation

differences and the effect of the disposal on the Projected Pension Liability (curtailment gain or loss) under SFAS No. 88.

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

f) Vacation Accrual

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

g) Derivative Financial Instruments

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

At December 31, 2004, the Group has in place an interest rate swap for \$72.1 million which terminates on November 23, 2009. The swap is callable at the bank's option at six monthly intervals. The fair value of this financial instrument at December 31, 2004 has been determined as £1.0 million liability. In addition, the Group has forward foreign exchange contracts in place at December 31, 2004, with a fair value of £0.5 million.

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

Under US GAAP, in accordance with SFAS No. 133, the fair values of derivative instruments are required to be recorded on the balance sheet, and any changes in such fair values which do not meet the criteria for hedge accounting under SFAS No. 133 are required to be recorded in the profit and loss account. Therefore, differences between UK GAAP and US GAAP arise which are recorded in net income/(loss) for US GAAP. On adoption of SFAS No. 133, the one-time cumulative accounting effect did not impact the Group's results of operations or comprehensive income under US GAAP because the fair value of the Group's derivative financial instruments approximated their carrying value. For the year ended December 31, 2004 the Group has recorded a £0.4 million gain (2003 £1.9 million loss) related to the changes in the fair value of derivative instruments, which do not meet the requirements of hedge accounting.

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

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

Edgar Filing: SPIRENT PLC - Form 20-F/A

Group's share of its associates' operating profit, interest and taxation were also reflected in the Company's consolidated financial statements.

In accordance with US GAAP, as set forth in Accounting Principles Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock" the Company's 51% interests in the WAGO joint venture were accounted for under the equity method. The equity method was required because the management agreement between Spirent and the joint venture parties established joint control. Spirent and the joint venture partners each could appoint two directors. A corporate resolution of the joint venture needed to have been approved by a super-majority of the shareholders; thus, no one joint venture partner had the ability to unilaterally control the joint venture. Accordingly, the Group's share of the after tax profits of the joint venture and associates would be reflected in the income statement as a single line item after minority interests and its net investment in the joint venture would also be included as a single line item in the balance sheet with the investment in the Group's other associated companies.

For the year ended December 31, 2002, the only differences arising related to stock-based compensation and the adoption of SFAS No. 133 in the joint venture's US GAAP basis financial statements. These differences together decreased the Group's net loss and increased shareholders' equity by £0.2 million and £0.8 million, respectively.

The Group disposed of its interests in WAGO during 2003.

i) Deferred Taxation

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

Under UK GAAP, a deferred tax asset arises in respect of the pension fund deficit calculated in accordance with FRS 17. Similarly, under US GAAP, a deferred tax asset has been recognized in respect of the additional minimum liability, which arises under SFAS No. 87. However, under UK GAAP, the pension fund deficit is shown net of the deferred tax asset on the balance sheet, whereas under US GAAP, the deferred tax asset is shown separately to the additional minimum liability. The presentation of the pension and deferred tax adjustments within the reconciliation of shareholders' equity reflects this classification difference.

j) Unamortized Debt Issue Costs

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

k) Discontinued Operations

Disposals in the years ended December 31, 2002, 2003 and 2004, did not qualify to be treated as discontinued operations under either UK GAAP or US GAAP.

Net Income/(Loss) under US GAAP

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

	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:			
a) Revenue recognition deferred revenue	9.9	12.2	(2.1)
deferred cost	(7.0)	(3.0)	(3.8)
	2.9	9.2	(5.9)
b) Goodwill and other intangible assets:			
(i) Impairment			158.5
(ii) Purchase accounting adjustments	0.4	(0.7)	39.1
	0.4	(0.7)	197.6
c) Stock-based compensation	(2.6)	(0.9)	0.2
d) Pension costs	(0.6)	2.2	(2.2)
e) Profit on disposal	5.0	(1.0)	49.4
f) Vacation payroll costs	0.8		0.5
g) Derivative financial instruments	0.4	(1.9)	2.1
h) Income from interests in joint ventures			0.2
i) 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)

Consolidated Statement of Income Under US GAAP

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Net sales	484.9	478.4	556.8
Cost of goods sold	(281.9)	(282.8)	(344.6)
Gross profit	203.0	195.6	212.2
Other operating income	0.2	0.7	0.6
Selling, general and administrative expenses	(172.1)	(169.3)	(993.1)
Share of income from associated companies and joint ventures	2.1	4.8	8.4
Gain on disposal and closure of operations	4.1	2.6	1.0
Operating income/(loss)	37.3	34.4	(770.9)
Interest expense	(7.0)	(27.2)	(10.6)
Income/(loss) before taxes and minority interest	30.3	7.2	(781.5)
Taxes	(5.1)	(1.3)	4.0
Minority interest	(0.3)	(0.2)	(0.4)
Net income/(loss)	24.9	5.7	(777.9)
	(pence)		
Net income/(loss) per share:			
Basic	2.65	0.61	(84.33)
Diluted	2.60	0.60	(84.33)

Statement of Comprehensive Income/(Loss)

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Net income/(loss) as adjusted to accord with US GAAP	24.9	5.7	(777.9)
Other comprehensive income:			
Minimum pension liability adjustment net of £1.9 million tax (2003 £12.9 million; 2002 nil)	1.9	10.5	(37.4)
Currency translation differences net of nil tax in all years	3.1	10.3	(47.7)
Comprehensive income/(loss) in accordance with US GAAP	29.9	26.5	(863.0)

Edgar Filing: SPIRENT PLC - Form 20-F/A

Movements in other comprehensive loss amounts are as follows:

	Currency translation differences	Minimum pension liability adjustment
	(£ millions)	
At January 1, 2002	(12.5)	(11.1)
Movement in the year	(47.7)	(37.4)
At December 31, 2002	(60.2)	(48.5)
Movement in the year	10.3	10.5
At December 31, 2003	(49.9)	(38.0)
Movement in the year	3.1	1.9
At December 31, 2004	(46.8)	(36.1)

The amount of cumulative translation adjustment transferred in respect of disposals was a gain of £0.1 million (2003 £0.3 million loss; 2002 £0.9 million gain).

Shareholders' Equity under US GAAP

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

	At December 31	
	2004	2003
	(£ millions)	
Shareholders' funds in accordance with UK GAAP	143.7	119.9
Adjustments:		
Intangible assets		
b) Goodwill		
Cost	(1,702.5)	(1,741.6)
Amortization	1,656.5	1,683.9
	(46.0)	(57.7)
b) Other intangible assets		
Cost	78.5	84.2
Amortization	(53.9)	(49.1)
	24.6	35.1
Current assets		
i) Deferred taxation on adjustments		
less than one year	5.8	18.8
greater than one year	28.4	20.3
a) Deferred cost		
less than one year	4.9	21.6
greater than one year	15.1	7.2
j) Other debtors	0.2	0.2
	54.4	68.1
Current liabilities		
f) Accruals		
vacation pay	(0.2)	(1.0)
a) Deferred revenue	(20.3)	(71.1)
g) Derivative financial instruments	(0.5)	(0.9)
	(21.0)	(73.0)
Long-term liabilities		
a) Deferred revenue	(60.9)	(26.7)
d) Accrued pension liability	(10.6)	(12.7)
j) Borrowings	(0.2)	(0.2)
	(71.7)	(39.6)
Provision for liabilities and charges		
i) Deferred taxation on adjustments	(9.0)	(11.7)
Total adjustments	(68.7)	(78.8)
Shareholders' equity as adjusted to accord with US GAAP	75.0	41.1

Edgar Filing: SPIRENT PLC - Form 20-F/A

Movements in stockholders' equity as adjusted to accord with US GAAP for the year ended December 31, 2004 are as follows:

	Year ended December 31, 2004
	(£ millions)
Stockholders' Equity under US GAAP	
Stockholders' equity at January 1, 2004	41.1
Exchange adjustment on subsidiaries, joint venture and associates	3.1
New shares issued other	1.5
New shares issued Caw Networks, Inc	0.6
Stock compensation	2.0
Profit for the year	24.9
Actuarial gain recognized on pension schemes	2.8
Taxation on actuarial gain	(0.9)
Other	(0.1)
	75.0
At December 31, 2004	75.0

Cash Flow Statement under US GAAP

Under US GAAP, cash and cash equivalents include short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. However, they do not include bank overdrafts. Generally, investments with original maturities of three months or less qualify under the definition of cash equivalents. This differs from UK GAAP, which adopts a narrower definition of cash and cash equivalents and excludes such short-term investments.

In addition, there are a number of presentational differences for a cash flow statement prepared in accordance with US GAAP. Under UK GAAP, there are separate headings for operating activities, dividends received from associates, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid and management of liquid resources, whereas under US GAAP there are only three categories: operating, investing and financing. The main differences in classification under US GAAP are as follows:

interest received and paid as well as dividends received are included in operating activities;

taxation cash flows are included in operating activities;

cash flows related to capital expenditure and financial investment and acquisitions and disposals are shown in investing activities; and

dividends paid are included in financing activities.

Edgar Filing: SPIRENT PLC - Form 20-F/A

The categories of cash flow activity under US GAAP are summarized below:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Cash inflow from operating activities	47.8	54.1	60.7
Cash (outflow)/inflow on investing activities	(23.6)	44.6	(17.9)
Cash (outflow)/inflow from financing activities	(9.5)	(143.6)	13.8
	14.7	(44.9)	56.6
Increase/(decrease) in cash and cash equivalents	14.7	(44.9)	56.6
Effect of exchange rate changes on cash and cash equivalents	(0.6)	(1.1)	(0.9)
Cash and cash equivalents at beginning of year	37.6	83.6	27.9
	51.7	37.6	83.6
Cash and cash equivalents at end of year	51.7	37.6	83.6

Additional information required by US GAAP in respect of earnings per share

The numerators and denominators used in the computation of basic and diluted earnings per share are as follows:

	Year ended December 31		
	2004	2003	2002
	(£ millions, except shares)		
Earnings			
Net income/(loss) as adjusted to accord with US GAAP used to compute basic and diluted earnings per share	24.9	5.7	(777.9)
	939.2	929.3	922.5
Weighted average number of shares in issue (millions)	939.2	929.3	922.5
Basic	939.2	929.3	922.5
Dilutive potential of employee share options	18.1	17.1	
	957.3	946.4	922.5
Diluted	957.3	946.4	922.5

Additional information required in respect of business combinations

During the year ended December 31, 2004, the minority shareholdings in two subsidiaries within Network Products were acquired for a total cash consideration of £1.1 million.

There were no acquisitions in the year ended December 31, 2003.

Three acquisitions were made in the year ended December 31, 2002 for a total cash cost of £49.2 million.

In July 2002 £16.4 million was invested in the acquisition of certain assets of the remote special services test product line of Anritsu Company US.

In August 2002 Spirent acquired the remaining, then, 85% not already owned by the Group, of Caw for an initial consideration including expenses of £26.7 million in cash and the rollover of outstanding options and shares under the previous Caw employee stock plan. Deferred consideration of

up to \$60 million in value was payable dependant on certain performance criteria being achieved by Caw for the year ended December 31, 2003. A certain level of the earn-out targets was achieved and the amount of deferred consideration due was \$10.0 million, which the Company elected to satisfy by the issue of new Ordinary shares. These shares were issued in 2004 with reference to an Ordinary share price of 120 pence in accordance with the terms of the acquisition agreement and with reference to the then prevailing US dollar to sterling exchange rate. At December 31, 2003 the value of this contingent payment was estimated to be £2.7 million and the cost of the acquisition was increased accordingly. On March 31, 2004 4.3 million Spirent Ordinary shares were actually issued in settlement of this obligation when the share price was 75.5 pence, resulting in a £0.6 million increase to the estimate made at December 31, 2003.

In September 2002 Spirent acquired a product line and certain intellectual property rights from UbiNetics for a cash consideration of £6.1 million including expenses.

Total goodwill of £42.0 million, including deferred consideration of £3.3 million in respect of Caw, arose as a result of the above acquisitions.

Intangible assets subject to amortization totaling £17.0 million were added during the year to December 31, 2002 in respect of acquisitions. Of this amount £11.3 million related to developed technology. The weighted-average amortization period for total intangible assets subject to amortization acquired in the year to December 31, 2002 was 5.6 years and for developed technology only it was 5.2 years.

Additional information required by US GAAP in respect of pensions

The cost of the Group's defined benefit pension plans computed in accordance with US GAAP is summarized as follows:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Service cost	1.9	2.2	3.3
Interest cost	7.2	6.8	6.8
Expected return on plan assets	(7.5)	(7.6)	(5.9)
Amortization of transition asset		(0.7)	(0.7)
Amortization of unrecognized net loss	1.5	0.8	0.2
Curtailement gain			(2.0)
Net periodic pension cost	3.1	1.5	1.7

The curtailment gain of £2.0 million recognized in 2002 as part of the net periodic pension cost was a consequence of the disposal of the Sensing Solutions division which occurred during 2001. On June 30, 2002 the employees of the divested companies ceased to be active members of the Spirent Staff Plan which had the effect of reducing the projected benefit obligation by £2.0 million.

Edgar Filing: SPIRENT PLC - Form 20-F/A

The major assumptions used in computing the net periodic pension cost are:

	Year ended December 31		
	2004	2003	2002
	%	%	%
Assumed discount rate	5.30	5.40	5.50
Rate of compensation increase	3.60	3.50	3.00
Expected long-term rate of return on plan assets	6.50	6.90	7.00

The funding of the Company's defined benefit pension plans is as follows:

	At December 31	
	2004	2003
Fair value of plan assets	106.9	98.8
Projected benefit obligation	(144.2)	(142.2)
Projected benefit obligation in excess of plan assets	(37.3)	(43.4)
Unrecognized net loss	47.6	51.2
Recognition of additional minimum liability	(47.1)	(50.9)
Net amount recognized in the balance sheet	(36.8)	(43.1)

The measurement date is December 31.

The projected benefit obligation, the accumulated benefit obligation (ABO) and fair value of plan assets for pension plans with ABOs in excess of plan assets for Spirent at December 31, 2004 were £144.2 million (2003 £142.2 million), £143.7 million (2003 £141.9 million) and £106.9 million (2003 £98.8 million), respectively.

In 2004 the amount recognized in the balance sheet for accrued benefit liability and accumulated other comprehensive income is £47.1 million.

The disposal of P&G Controls Ltd and P&G Aerospace Ltd in March 2002 reduced the projected benefit obligation by £2.6 million as the employees ceased to be active members of the Spirent Staff Plan. This curtailment gain has been included in the profit on disposal calculation in accordance with SFAS No. 88.

The assets of the Group's UK defined benefit pension plans mostly comprise UK and other listed equities, property investments, bank deposits, UK Government index-linked stocks and insurance policies.

Edgar Filing: SPIRENT PLC - Form 20-F/A

The following table sets out the asset allocation for the Spirent Staff Plan, together with the target allocation for 2005:

Asset category	Target allocation	Percentage of plan assets at December 31	
	2005	2004	2003
	(%)	(%)	(%)
Equities	67	66	66
Gilts	15	17	17
Bonds	13	10	10
Cash		5	5
Property	5	2	2
	100	100	100

The Retirement Cash Plan assets of £6.8 million (2003 £6.3 million) are held with unitized managed funds whose underlying asset allocations are not disclosed.

The expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for the plans. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the plans' actuary.

The long-term investment strategy for the plans is to maintain the current asset allocation.

The plans are not permitted to have a direct shareholding in Spirent plc.

Movements in the fair value of the plans' assets and projected benefit obligations are as follows:

	Year ended December 31	
	2004	2003
(£ millions)		
Movements in Fair Value of Plan Assets		
At January 1	98.8	89.0
Employer contributions	5.6	1.9
Employee contributions	0.5	0.6
Benefit payments	(8.4)	(4.9)
Actual return on assets	10.4	12.2
	<u>106.9</u>	<u>98.8</u>
Movements in Projected Benefit Obligations		
At January 1	142.2	130.9
Service cost	1.9	2.2
Employee contributions	0.5	0.6
Interest cost	7.2	6.8
Benefit payments	(8.4)	(4.9)
Actuarial loss	0.8	6.6
	<u>144.2</u>	<u>142.2</u>

Cash Flows

Contributions

Spirent expects to contribute £2.0 million to its UK defined benefit plans in 2005. In addition, in order to comply with the minimum funding requirements Spirent will make a further annual pension contribution of £3.5 million on July 1, 2005.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	(£ millions)
2005	5.2
2006	5.5
2007	5.7
2008	5.9
2009	6.3
2010-2014	39.5

Edgar Filing: SPIRENT PLC - Form 20-F/A

Additional pro forma information required by US GAAP in respect of stock-based compensation

If compensation expense had been determined under the fair value methodology of SFAS No. 123, net loss and the related per Ordinary share amounts adjusted to accord with US GAAP would have been as follows:

	Year ended December 31		
	2004	2003	2002
	(£ millions)		
Net income/(loss) as reported under US GAAP	24.9	5.7	(777.9)
Stock-based employee compensation expense included in reported net income, net of tax	3.2	1.5	0.1
Stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(7.3)	(10.0)	(11.6)
Pro forma net income/(loss) under US GAAP	20.8	(2.8)	(789.4)
	(pence)		
Per Ordinary share:			
Basic	2.21	(0.30)	(85.57)
Diluted	2.17	(0.30)	(85.57)

Additional information required by US GAAP in respect of deferred taxation

The analysis of the US GAAP net deferred tax asset is as follows:

	At December 31	
	2004	2003
	(£ millions)	
Deferred taxation liabilities		
Liability arising on acquired identified intangibles	(9.0)	(11.7)
Capital allowances in excess of depreciation	(1.4)	(1.4)
Short-term timing differences	(0.5)	(0.9)
	(10.9)	(14.0)
Deferred taxation assets		
Pension liability	11.0	12.9
Deferred income	23.2	26.2
	34.2	39.1
Net deferred tax asset	23.3	25.1
Of which:		
Current	5.3	17.9
Non-current	18.0	7.2
	23.3	25.1

At December 31

F-99

Edgar Filing: SPIRENT PLC - Form 20-F/A

At December 31, 2004, the Group had US federal net operating loss carryforwards ("NOLs") of approximately \$135.6 million (2003 \$124.8 million). These arose primarily in one US subsidiary and resulted from the poor trading performance of that company. Under US income tax laws the company can realize the NOLs over a maximum period of 15 years.

Deferred tax assets of £13.3 million (2003 £18.3 million) have not been recognized.

Spirent does not provide deferred tax for potential taxes which could become payable on the distribution of retained earnings from its non-UK subsidiaries or joint venture or on the disposition of such interests where there is no intention to dispose of such interests.

Additional information required by US GAAP in respect of Associated Companies

The following information relates to our associated company Tyton Company of Japan, Limited and is prepared in accordance with accounting principles generally accepted in Japan:

	Year ended March 31	
	2004	2003
	(yen millions)	
Statements of income		
Net sales	5,059	4,614
Cost of sales	1,990	1,820
Income before income taxes	874	799
Balance Sheets		
Property, plant and equipment and other assets	3,177	
Current assets	3,817	
Total assets	6,994	
Current liabilities	714	
Other liabilities	520	
Total liabilities	1,234	
Total shareholders' equity	5,760	

Concentration of credit risk

Potential concentration of credit risk consists of cash, investments, and accounts receivable. The company is exposed to credit-related losses in the event of non-performance by counterparties to certain financial instruments. The Group does not generally seek collateral or other security from counter-parties. At December 31, 2004, the Group did not consider there to be any significant concentration of credit risk.

Impact of Recently Issued Accounting Standards Not Yet Adopted

SFAS No. 123 (R) Share-Based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) "Share-Based Payment", which is a revision of SFAS No. 123 "Accounting for Stock-Based Compensation". SFAS No. 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 No. 123(R) is similar to SFAS No. 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 No. 123 are no longer alternatives. SFAS No. 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 No. 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 No. 123.

SFAS No. 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 No. 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 nonmonetary exchange of assets, it will have no effect.

35. Subsequent Event (Unaudited)

On April 21, 2005, the Company announced that in the six-month period ending June 30, 2005 it anticipated charging one off costs of approximately £3 million in relation to reorganization expenses and stock write downs and anticipated further costs associated with the planned rationalization of the supply chain across the Communications group. The Company also announced that it anticipated taking a goodwill impairment charge in relation to the Service Assurance division.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
WAGO Kontakttechnik GmbH,
WAGO Contact S.A. and Affiliates
Minden, Germany

We have audited the accompanying combined balance sheet of WAGO Kontakttechnik GmbH, WAGO Contact S.A. and their affiliates (the "Company") as of December 31, 2002 and the related combined statements of operations, shareowners' equity, and cash flows for the year then ended. In addition we have audited the combined statement of operations for the short period from January 1, 2003 through April 4, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of WAGO Kontakttechnik GmbH, WAGO Contact S.A. and their affiliates as of December 31, 2002, the combined results of their operations and their cash flows for the year then ended, and the combined result of their operations for the short period ended April 4, 2003 in conformity with accounting principles generally accepted in the United States of America.

Hamburg, Germany
February 25, 2004

Allrevision Dornhof Kloss und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements on Form S-8 No. 333-98607 (Spirent Stock Option Plan, U.S. Stock Purchase Plan, *et al*) and No. 333-127832 (Spirent Stock Incentive Plan) of Spirent plc of our report dated February 25, 2004, relating to the combined financial statements of WAGO Kontakttechnik GmbH and WAGO Contact S.A. and affiliates as of and for the year ended December 31, 2002, and the combined result of their operations for the period January 1, 2003 through April 4, 2003 which report appears in this Amendment No. 1 to the December 31, 2004 Annual Report on Form 20-F/A of Spirent plc.

Allrevision Dornhof Kloss und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Hamburg, Germany
September 9, 2005

F-103

WAGO KONTAKTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES

Combined Balance Sheet

	As at December 31 2002
	(€ thousands)
Assets	
Current assets	
Cash and cash equivalents	23,639
Accounts receivable, net of allowance	34,240
Accounts receivable - related parties	653
Inventory	48,984
Prepaid expenses	585
Other current assets	6,947
Deferred income taxes	618
	<hr/>
Total current assets	115,666
	<hr/>
Property and equipment, net	100,342
Other assets	
Goodwill	1,276
Other assets	1,506
Unrealized gains of foreign exchange contracts	3,879
	<hr/>
	6,661
	<hr/>
	222,669
	<hr/>
Liabilities and Shareowners' Equity	
Current liabilities	
Accounts payable	8,896
Accrued expenses and other current liabilities	9,696
Income taxes and other taxes payable	2,485
Current portion of long-term debt	8,459
	<hr/>
Total current liabilities	29,536
	<hr/>
Long-term debt	23,170
Deferred income taxes	2,358
Other liabilities	10,344
Minority interest	5,008
Commitments and contingencies	
Shareowners' equity	
Share capital	11,052
Retained earnings	135,117
Accumulated other comprehensive income:	
Foreign currency translation adjustment	4,270
Unrealized gains on foreign exchange contracts net of taxes	1,814
	<hr/>
Total shareowners' equity	152,253
	<hr/>

Edgar Filing: SPIRENT PLC - Form 20-F/A

As at
December 31
2002

222,669

See notes to combined financial statements.

F-104

WAGO KONTAKTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES

Combined Statements of Operations

	Period ended April 4 2003	Year ended December 31 2002
	(€ thousands)	
Net sales	63,526	238,528
Cost of goods sold	(34,172)	(126,657)
Gross profit	29,354	111,871
Operating expenses		
Selling, general and administrative	18,484	78,907
Research and development	3,161	11,258
	(21,645)	(90,165)
Income from operations	7,709	21,706
Other income (expense)		
Interest income	93	317
Interest expense	(521)	(2,511)
Other	210	1,794
	(218)	(400)
Income before income taxes and minority interest	7,491	21,306
Provision for income taxes	(2,559)	(8,495)
Income before minority interest	4,932	12,811
Minority interest	(207)	(929)
Net income	4,725	11,882

See notes to combined financial statements.

WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES

Combined Statement of Shareowners' Equity

	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareowners' Equity
	(€ thousands)			
Balance, December 31, 2001	11,273	123,876	8,246	143,395
Comprehensive income:				
Net income		11,882		11,882
Foreign currency translation adjustment			(2,494)	(2,494)
Unrealized gains on foreign exchange contracts arising during the period, net of taxes of €773 thousand less reclassification and adjustment for gains included in net income, net of taxes of €567 thousand			1,241	1,241
			(909)	(909)
Total comprehensive income				9,720
Effect of share-based compensation	(221)			(221)
Distributions		(641)		(641)
Balance, December 31, 2002	11,052	135,117	6,084	152,253

See notes to combined financial statements.

WAGO KONTAKTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES

Combined Statement of Cash Flows

	Years ended December 31 2002
	(€ thousands)
Cash flow from operating activities	
Net income	11,882
Adjustments to reconcile net income to net cash provided by operating activities	
Minority interest	929
Depreciation and amortization	24,260
Unrealized gains on foreign exchange contracts net of taxes	(811)
Deferred income tax provision	271
Share-based compensation	(221)
Loss/(gain) on disposal of property and equipment	146
Change in operating assets and liabilities, net of foreign currency adjustments	
Accounts receivable trade and related parties	212
Inventory	4,515
Prepaid expenses	135
Other assets, current and noncurrent	(774)
Accounts payable	(2,189)
Accrued expenses and other current liabilities	2,956
Income taxes and other taxes payable	1,574
Other liabilities	630
Net cash provided by operating activities	43,515
Cash flows from investing activities	
Purchases of property and equipment	(17,688)
Proceeds from disposal of property and equipment	1,242
Acquisition of minority interests in subsidiary	(2,056)
Net cash used in investing activities	(18,502)
Cash flows from financing activities	
Proceeds from issuance of long-term debt	15
Payments on long-term debt	(10,799)
Distributions to shareowners	(641)
Distributions to minority interests	(118)
Net cash provided by (used in) financing activities	(11,543)
Effect of exchange rate changes on cash	(1,929)
Net increase in cash and cash equivalents	11,541
Cash and cash equivalents	
Beginning of year	12,098
End of year	23,639
Supplemental cash flow information:	
Amounts paid for interest	2,296

Years ended
December 31
2002

Amounts paid for income taxes

4,696

See notes to combined financial statements.

F-107

WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES

Notes to Combined Financial Statements

April 4, 2003

Note 1 Nature of operations

The WAGO Group ("Group") comprises the combination of WAGO Kontakttechnik GmbH and WAGO Contact S.A. These operations are legally independent, but have a common ownership structure.

WAGO Kontakttechnik GmbH, ("WAGO Germany"), is a limited liability company, organized under the laws of the Federal Republic of Germany, and was incorporated in 1951.

WAGO Contact S.A., ("WAGO Switzerland"), is a joint stock corporation, incorporated in 1977, and organized under the laws of the Federal Republic of Switzerland.

Both Companies are engaged in the production of an extensive range of wiring products and electric modules for the distributed control of automated processes. The products are marketed globally under the WAGO brand name. The Companies' world-wide headquarters are located in Minden, Germany. Principal manufacturing sites are located in Minden, Germany; Sondershausen, Germany; and Domdidier, Switzerland.

Affiliated companies

The subsidiaries, owned directly or indirectly, by WAGO Germany or WAGO Switzerland are:

Name of Company	Ownership Percentage	
	April 4, 2003	December 31, 2002
WAGO Contact S.A., France	85	85
WAGO Kontakttechnik Ges. mbH, Austria	100	100
WAGO Corporation, USA	97	97
WAGO Limited, Great Britain	100	100
WAGO Company of Japan Ltd., Japan	51	51
WAGO Elektro spol.s.r.o. Czech Republic	100	100
WAGO & Controls (India) Ltd., India	51	51
WAGO Electronic Pte. Ltd., Singapore	100	100
WAGO Elwag Sp. z.o.o., Poland	98	98
WAGO Electric (Tianjin) Ltd., China	100	100
WAGO Elettronica SRL, Italy	100	100
WAGO Elektro spol.s.r.o., Slovakia	90	90

Major shareowners

Share ownership of WAGO Germany and WAGO Switzerland until April 4, 2003 was as follows:

Spirent plc	51%
Members of the Hohorst family	49%

However, the management contracts between the Hohorst family and Spirent plc have the effect of establishing joint rather than sole control.

Effective April 4, 2003 Spirent sold its 51% interests in WAGO Germany and WAGO Switzerland to entities controlled by the Hohorst family.

Note 2 Summary of significant accounting policies

Basis of accounting

The combined financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States (US-GAAP).

Principles of combination

The accompanying financial statements present the financial position of WAGO Kontakttechnik, GmbH and its majority- and wholly-owned subsidiaries, and WAGO Contact S.A.

WAGO Kontakttechnik, GmbH and WAGO Contact S.A. are related through common ownership. Significant intercompany transactions and balances have been eliminated in combination.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates.

Cash and cash equivalents

The Group considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable consist of trade accounts receivable and are stated at cost less an allowance for doubtful accounts. Credit is extended to customers after an evaluation of the customer's financial condition, and generally collateral is not required. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio.

Inventory

Inventory is stated at the lower cost or market, with cost determined on the first-in, first-out (FIFO) basis. The Company records a provision for excess or obsolete inventory as required.

Property and equipment

Property and equipment are stated at cost. Alterations and major overhauls which increase the capacity of assets are capitalized. Repairs and maintenance are expensed as incurred.

Edgar Filing: SPIRENT PLC - Form 20-F/A

Depreciation of owned assets and amortization of assets under capital leases are provided on the straight-line method over the useful lives of the related assets, or the lease term for assets under capital leases, as follows:

Buildings	25 to 40 years
Machinery and equipment	3 to 5 years
Fixtures and fittings	3 to 20 years

Goodwill

In June 2001, the Financial Accounting Standards Board issued two Statements of Financial Accounting Standards, No. 141, *Business Combinations* (SFAS No. 141), and No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, *Business Combinations*, and FASB Statement No. 38, *Accounting for Pre-acquisition Contingencies of Purchased Enterprises*. All business combinations in the scope of SFAS No. 141 are to be accounted for using one method, the purchase method. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method for those business combinations is prohibited. The provisions of SFAS No. 141 also apply to all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. During 2002 the Company acquired additional interests from the minority shareholder of WAGO Contact S.A., France; the purchase of those interests were accounted for in accordance with the provisions of SFAS No. 141.

SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, *Intangible Assets*. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS No. 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives are not amortized but rather tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of the 40-year maximum life required by APBO No. 17. The Company adopted the provisions of SFAS No. 142 effective January 1, 2002. See Note 5.

Long-lived assets

Long-lived assets held and used by the Group are reviewed for impairment whenever changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Revenue recognition

Revenue is recognized when products are shipped, net of estimated allowances for product returns.

Foreign currency translation

The assets and liabilities of WAGO Kontakttechnik GmbH's foreign subsidiaries and affiliates are translated to EURO at exchange rates existing at the balance-sheet date, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a component of other comprehensive income.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred, except those that operate as a hedge of an identifiable foreign currency commitment.

Derivatives and hedging activities

In June 1998 the Financial Accounting Standards Board issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related Statements 137, 138, and 149 in June 1999, June 2000, and April 2003, respectively. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either set off against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings.

The ineffective portions of a derivative's change in fair value will be immediately recognized in earnings. The adoption of Statement No. 133, as amended, on January 01, 2001, resulted in the cumulative effect of an accounting change of €1,233 thousand, net of taxes of €762 thousand, being recognized as other comprehensive income.

Forward exchange contracts are used to hedge foreign exchange exposures arising from anticipated receipts and payments in foreign countries. Gains and losses on foreign currency contracts are offset against the foreign exchange gains and losses on the related financial assets and liabilities. Prior to the adoption of SFAS No. 133, where the contract was a hedge against anticipated transactions, gains and losses were deferred until the transaction occurs. In 2001 such gains and losses are recognized in the balance sheet net of taxes. The cumulative effect of the change in the accounting principles for Derivatives and Hedging Activities is recognized separately within the Combined Statement of Shareowners' Equity.

Warranty

The Group provides for the estimated cost to fulfill customer warranty claims based upon the recognition of the related revenue. Such reserves are determined based upon actual warranty cost experience and management's industry experience.

Income taxes

The provision for income taxes is determined in accordance with SFAS No. 109 *Accounting for Income Taxes* ("SFAS No. 109"), which requires the use of the asset and liability approach. Under this approach, deferred taxes represent the expected future tax consequences of temporary differences

between the carrying amounts and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that the rate change is enacted.

Concentration of credit risk

The Group performs ongoing credit evaluations of its customers and generally does not require collateral from its customers. The Group maintains an allowance for potential losses when identified.

Advertising costs

It is the Company's policy to expense all advertising costs as incurred. Advertising expense incurred until April 4, 2003 and during 2002 amounted to €1,925 thousand, and €8,984 thousand, respectively.

Research and development costs

The cost of research, development and product improvement costs are charged to expense as they are incurred.

Recently issued accounting pronouncements

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

In 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the provisions of FIN 45 did not have a material impact on the financial position or results of operations of the Company.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46) and in December 2003, issued Interpretation No. 46 (R), which revised FIN 46. FIN 46 (R) is an interpretation of ARB No. 51, *Consolidated Financial Statements*, and addresses consolidation by business enterprises of variable interest entities, as defined in that interpretation. As of April 4, 2003, the Group had not completed its evaluation of arrangements that may be subject to the provisions of

FIN 46 or FIN 46 (R). The Group leases facilities from entities that may be considered variable interest entities under the provisions of the Interpretations, and upon completion of the analysis, the Group may be determined to be the primary beneficiary under one or more of the arrangements. However, the leases with the entities have been accounted for as capital leases, and the application of FIN 46 (R) to these arrangements is not expected to have a significant impact on the financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Certain provisions of SFAS No. 150 are to be applied effective at the beginning of the first interim period beginning after June 15, 2003. The company believes it currently has no financial instruments within the scope of SFAS No. 150, and, accordingly, does not expect the adoption of the provisions to have a material impact on the financial position or results of operations of the company.

There were no other recently issued accounting pronouncements with delayed effective dates that would as of April 4, 2003 have a material impact on the Company's consolidated financial position and results of operations.

Note 3 Inventory

Inventory is comprised of the following:

	December 31 2002
	(€ thousands)
Raw materials	14,581
Work in process	10,821
Finished goods	23,582
	48,984

Note 4 Property and equipment

A summary of property and equipment follows:

	December 31 2002
	(€ thousands)
Land and buildings	59,726
Machinery and equipment	164,186
Furniture, fixtures, and office equipment	47,507
Construction in progress	5,440
	276,859
Less accumulated depreciation	(176,517)
	100,342

Edgar Filing: SPIRENT PLC - Form 20-F/A

Depreciation expense amounted to €5,604 thousand and €24,260 thousand through April 4, 2003 and in 2002, respectively.

Note 5 Goodwill

During 2002, the Company acquired an additional 25% interest in WAGO Contact S.A., France from the non-controlling shareholder. In accordance with SFAS No. 141, the acquisition was accounted for using the purchase method. The purchase price was €2,056 thousand, and the excess of purchase price over the proportionate share of the fair value of net assets acquired of € 823 thousand was recorded as goodwill.

The Company also has goodwill recorded in connection with the acquisition of two of its subsidiaries, WAGO Elektro spol.s.r.o. Czech Republic, and WAGO Elwag Sp. Z.o.o., Poland. Goodwill is evaluated for impairment for each subsidiary as of the beginning of the fiscal year. For the year ended December 31, 2002, and the period ended April 4, 2003, the results of the evaluations indicated no impairment of goodwill. The increase in the balance of goodwill for the year ended December 31, 2002 of €823 thousand was a result of the acquisition of minority interests described in the preceding paragraph.

The following table summarizes the effects of the adoption, as of January 1, 2002, of the provisions of SFAS No. 142.

	Year ended December 31 2002
	(€ thousands)
Reported net income	11,882
Add back goodwill amortization	
Adjusted net income	11,882

F-114

Note 6 Long-term debt

A summary of the Company's notes and capital lease obligations follow. The obligations are denominated in EURO unless otherwise indicated:

	December 31 2002
	(€ thousands)
Financial institution installment loans, bearing interest at annual rates from 0.83% to 0.08%, in 2002, denominated in Japanese Yen	1,312
Financial institution installment loan, bearing interest between 5.4% and 7.79% annually, quarterly payments of €93 thousand plus interest, maturity date March 2004, issued by a subsidiary, of which €426 thousand are guaranteed by WAGO Germany	429
Financial institution installment loan, bearing interest between 2.25% and 4.0% annually, maturities 2003 and 2004, collateralized by certain real estate, denominated in Swiss Francs	6,887
Financial institution installment loan, bearing interest at 5.1% annually, repayable quarterly with €48 thousand plus interest, collateralized by certain real estate, denominated in French Francs	1,517
Financial institution loans, bearing interest at 14.25% annually, repayable 2000-2004, secured by certain real property, denominated in Indian Rupees	73
Financial institution installment loans, bearing interest between 4.96% and 5.25% annually, quarterly payment of €141 thousand plus interest, maturity in 2008, collateralized by certain real estate	3,377
Line of credit agreements, maximum available of €20,217 thousand at December 31, 2002, bearing interest between 6.5% and 8.0% annually	
Short-term borrowings from financial institutions, bearing interest between 3.53% and 4.62% annually	
Employee's welfare funds loan, bearing interest of min. 5.5%, unsecured, maturity unlimited	325
Capital lease obligations, bearing interest between 7.05% to 11.74% annually, maturities 2002 through 2019	17,709
	<hr/>
	31,629
Less current portion	(8,459)
	<hr/>
Long-term portion	23,170
	<hr/>

Future maturities of long-term debt are as follows:

	(€ thousands)
2004	4,046
2005	1,831
2006	1,873
2007	1,595
Thereafter	13,825
	<hr/>
	23,170
	<hr/>

Note 7 Retirement plan

The Company has a defined benefit pension plan that covers substantially all of its employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Company. The plan is funded on a pay-as-you-go basis. The Company consults with an actuary for determining any estimates.

The following sets forth the status of the Plan and amounts recognized in the accompanying combined financial statements.

	2002	
	(€ thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	4,462	
Service cost	184	
Interest cost	238	
Actuarial (gain)/loss	(379)	
Benefits paid	(62)	
Benefit obligation, end of year	4,443	
Funded status	(4,443)	
Unrecognized net transition obligation	58	
Unrecognized actuarial gains	(58)	
Accrued pension cost	(4,443)	
	April 4, 2003	2002
Assumptions as of December 31		
Discount rate	5.5%	5.5%
Pension increase rate	2.5%	2.5%
	April 4, 2003	Year ended December 31, 2002
	(€ thousands)	
Components of net periodic pension cost		
Service cost	63	184
Interest cost	61	238
Actuarial gains	(20)	(379)
Net periodic pension cost	104	43

Note 8 Share-based compensation

Certain Group executives have been granted options to purchase Spirent plc Ordinary shares by Spirent plc. The Group does not incur any liability to Spirent plc in connection with the stock option awards.

Edgar Filing: SPIRENT PLC - Form 20-F/A

Historically under US GAAP, Spirent plc had elected to apply the recognition and measurement principles of APB 25, *Accounting for Stock Issued to Employees* to these stock option awards. Due to the performance criteria in the plans under which the stock options were granted, these plans were deemed to be variable plans under US GAAP.

Following the introduction of FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, which was effective from July 1, 2000, Spirent plc has accounted for unvested stock option awards granted after December 15, 1998, and any awards subsequent to July 1, 2000 under the fair value method of SFAS No. 123 *Accounting for Stock-Based Compensation*. The Group follows the same accounting for options as Spirent plc. As the Group does not incur any liability with respect to the options, amounts recognized as expense are reflected as contributed capital.

Compensation expense/(benefit) recognized in the Group's financial statements for the period ended April 4, 2003 and the year ended December 31, 2002 for stock option awards to WAGO employees were €2 thousand and €(221) thousand, respectively.

If compensation cost for stock options had been determined based on fair value at the date of grant, net income for the periods ended April 4, 2003 and December 31, 2002 would have been €4,725 thousand and €11,873 thousand, respectively.

The normal exercise period for stock options is between the third and tenth anniversary of the date of grant, subject to certain performance targets.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants issued in 2001 and 2000, respectively, no options were granted in 2002 or 2003; dividend yields of 1.6% and 2.5%, expected volatility of 68% and 49%, risk-free interest rates of 4.5% and 5.2%; and expected lives of 3.4 and 5.6 years. The weighted average fair value per share of options granted was (Great Britain pence) 142.0p, and 138.0p.

A summary of stock option activity follows (as restated to reflect Spirent plc share dividend and rights offering):

	Period ended April 4, 2003		Year ended December 31, 2002	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	(Great Britain pence)		(Great Britain pence)	
Outstanding at beginning of period	587,510	183.34	587,510	183.34
Granted				
Exercised	()	()	()	()
Forfeited/Expired	()	()	()	()
Outstanding at end of period	587,510	183.34	587,510	183.34

F-117

Edgar Filing: SPIRENT PLC - Form 20-F/A

The following table summarizes information about stock options at December 31, 2002:

Range of exercise prices	Outstanding stock options		Exercisable stock options		
	Shares	Weighted average remaining contractual life	Weighted average exercise price	Shares	Weighted average exercise price
(Great Britain pence)			(Great Britain pence)		(Great Britain pence)
104.14 to 152.08	415,070	4.58	128.04	451,070	128.04
305.00 to 334.11	172,440	7.89	316.37		

In accordance with the terms of the option agreements, the option holders have one year from the date of the disposal by Spirent of its interest in the Group to exercise any options. Accordingly, all unexercised options will expire on April 4, 2004.

Note 9 Financial instruments

Forward exchange contracts are used to hedge a portion of foreign exchange exposures arising from anticipated receipts and payments in foreign countries occurring within the following 59 months. At December 31, 2002 the Group held foreign exchange forward contracts for Japanese yen equating to €12,550 thousand, respectively.

The Group also enters into zero-cost option contracts to exchange Yen for EURO as part of its foreign currency exposure risk management activities. Contracts having the same terms and notional amounts for the purchased call component and the written put component have no net written premium and are accounted for as cash flow hedges. Certain contracts have notional amounts of the written put option component in excess of the notional amount of the purchased call component, resulting in a beneficial exchange rate, and are accounted for at fair value with changes in fair value recognized currently in earnings. The Group had open zero-cost options contracts designated as cash flow hedges for €11,100 thousand at December 31, 2002. The Group had open option contracts with the written put option component exceeding the purchased call option component for €8,000 thousand (written put) at December 31, 2002. Unrealized gains and losses on foreign exchange forward contracts used to hedge anticipated transactions at December 31, 2002 were approximately €4,152 thousand before taxes.

The Group also has entered into a cross-currency interest rate swap to hedge the currency and interest rate risk of certain of its debt agreements. The notional amount of the swap was €1,923 thousand at December 31, 2002.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments. Fair value approximates carrying value for the following financial instruments due to their short-term nature: cash and cash equivalents and accounts receivable and payable. The fair value of long-term debt is estimated by discounting future cash flows using interest

rates available to the Group with similar terms and maturities. Foreign currency agreements are valued based on quoted market prices of comparable instruments.

	December 31, 2002	
	Carrying Amount	Fair Value
	(€ thousands)	
Long-term debt	31,629	36,230
Foreign currency agreements	4,152	4,152
Interest rate swap	(272)	(272)

Note 10 Income taxes

The provision for income taxes follows.

	April 4, 2003	Year ended December 31, 2002
		(€ thousands)
Current provision		
Germany	1,791	5,062
Foreign	894	3,429
	<u>2,685</u>	<u>8,491</u>
Deferred provision		
Germany	(75)	(312)
Foreign	(51)	316
	<u>(126)</u>	<u>4</u>
	<u>2,559</u>	<u>8,495</u>

Deferred income taxes were provided for temporary differences in basis of assets and liabilities for financial statement and income tax purposes. These temporary differences consist principally of the recognition of bad debts, the recognition of obsolete inventory, the calculation of depreciation expense, the elimination of intercompany profits in inventory, the recognition of certain production expenses, the determination of pension expense, and unrealized gains and losses on foreign exchange contracts.

Edgar Filing: SPIRENT PLC - Form 20-F/A

The tax effects of temporary differences that give rise to deferred tax assets and liabilities include the following:

	December 31, 2002
	(€ thousands)
Current deferred tax assets (liabilities)	
Elimination of intercompany profits in inventory	1,110
Other	(492)
	<u>618</u>
Noncurrent deferred tax assets (liabilities)	
Depreciable basis of property and equipment	(1,616)
Pension accruals	187
Unrealized gains on foreign exchange contracts	(1,488)
Other	559
	<u>(2,358)</u>

Gross deferred tax assets were €1,966 thousand at December 31, 2002.

Gross deferred tax liabilities were €3,707 thousand at December 31, 2002.

Management believes that the Company will fully realize deferred tax assets based on future reversal of existing taxable temporary differences and current levels of operating income.

Income tax returns not barred by the statute of limitations are subject to examination by taxing authorities.

Note 11 Other balance sheet information

Valuation and qualifying accounts are deducted from the related balance sheet account, and consisted of the following at each year end.

	December 31, 2002
	(€ thousands)
Allowance for uncollectible accounts receivable	1,622
Reserve for obsolete inventory	1,681
	<u>3,303</u>

Edgar Filing: SPIRENT PLC - Form 20-F/A

The components of other liabilities at each year end were as follows:

	December 31, 2002
	(€ thousands)
Accrued pension liability	4,443
Other	5,901
	10,344

Note 12 Related party transactions

In the customary course of business, the Company leases certain land and buildings from shareowners and related interests. All of these properties are located in Minden, Germany. These lease agreements will expire on December 31, 2006 at which time certain lease extension provisions may be exercised. These lease agreements contain monthly lease charges amounting to €20 thousand. Lease expense recognized under these related party leases amounted to €60 thousand through April 4, 2003 and €239 thousand for 2002, respectively.

Group sales to Spirent plc were made in the ordinary course of business and amounted to €815 thousand through April 4, 2003 and €2,738 thousand for 2002, respectively.

In the customary course of business, the Company grants credit to Spirent plc and certain of its subsidiaries. Amount outstanding at December 31, 2002 was €653.

Note 13 Commitments and contingencies

A summary of the various commitments which the Company has entered into in the ordinary course of business follows:

Operating leases

Total expense under operating leases expense of €1,267 thousand, and €5,027 thousand was incurred through April 4, 2003 and during 2002, respectively.

Edgar Filing: SPIRENT PLC - Form 20-F/A

Under the terms of the Group's operating and capital lease agreements, future minimum lease payments for leases with terms greater than one year are as follows:

Year ended December 31,	Operating	Capital
	(€ thousands)	
2003	2,928	1,837
2004	2,338	1,837
2005	1,601	1,837
2006	1,176	1,529
2007	759	1,529
2008 and thereafter	959	19,747
	9,761	28,316
Amount representing interest		(10,607)
		17,709

The Company acquired certain operating facilities under the provisions of long-term leases. The economic substance of the leases are to finance the acquisition of the facilities. Accordingly, these leases have been accounted for as capital leases. During 2002 the company acquired one of the facilities formerly leased. The present value of minimum lease rentals for properties under capital lease of €19,910 thousand at December 31, 2002 have been capitalized in connection with the leases. Accumulated depreciation recognized on these facilities amounted to €2,886 thousand at December 31, 2002.

Other commitments

The Company has entered into various contracts to construct both buildings and machinery and equipment. At December 31, 2002, expected future payments under these contracts are not anticipated to exceed €5,967 thousand.

For investments in machinery, tools, equipment and buildings to be done in Sondershausen, Germany, the Company has a taxable government grant available of €6,785 thousand which covers investments of €30,156 thousand from December 12, 2001 until August 31, 2004. As of December 31, 2002 grants available of €5,910 thousand related to future investments of €26,266 thousand remained.

Note 14 Change in control

On April 4, 2003 Spirent plc sold its 51% interests in WAGO Germany and WAGO Switzerland to entities controlled by the Hohorst family.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Tyton Company of Japan, Limited

We have audited the accompanying balance sheet of Tyton Company of Japan, Limited as at March 31, 2004, and the related statements of income and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Japanese auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tyton Company of Japan, Limited at March 31, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in Japan which differ in certain respects from those generally accepted in the United States of America (see Note 10 of the Notes to the Financial Statements).

/s/ ERNST & YOUNG SHINNIHON

Tokyo, Japan
May 28, 2004

F-123

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-98607 and No. 333-127832) pertaining to the Spirent Stock Incentive Plan of Spirent plc of our report dated May 28, 2004, with respect to the financial statements of Tyton Company of Japan, Limited included in Amendment No. 1 to the Annual Report (Form 20-F/A) of Spirent plc for the year ended December 31, 2004.

/s/ ERNST & YOUNG SHINNIHON

Tokyo, Japan
September 9, 2005

F-124

TYTON COMPANY OF JAPAN, LIMITED

BALANCE SHEETS

	March 31,	
	2005	2004
	(Unaudited)	
	Thousands of yen	
Assets		
Current assets:		
Cash and cash equivalents	¥ 1,357,098	¥ 1,244,456
Notes and accounts receivable:		
Trade and other affiliates (Note 3)	344,411	325,896
Trade	1,740,680	1,626,297
Allowance for doubtful accounts	(5,101)	(13,590)
	2,079,990	1,938,603
Inventories	687,925	528,495
Deferred income taxes (Note 6)	66,289	64,074
Other current assets	29,343	41,599
Total current assets	4,220,645	3,817,317
Property, plant and equipment:		
Land	370,341	370,341
Buildings and improvements	1,273,724	1,150,132
Machinery and equipment	4,138,085	3,979,312
Motor and vehicles	35,538	35,058
Construction in progress	327,543	198,110
	6,145,231	5,732,953
Accumulated depreciation	(4,033,213)	(3,942,720)
	2,112,018	1,790,233
Other assets:		
Software	41,644	77,479
Deferred income taxes (Note 6)	219,501	191,357
Loans to employees and directors, with interest rate at 3.875% per annum	19,755	21,618
Investments in affiliated companies (Note 2)	664,604	664,604
Marketable equity securities (Note 4)	25,361	16,005
Lease deposits and other assets	483,181	415,214
	1,454,046	1,386,277
Total assets	¥ 7,786,709	¥ 6,993,827
Liabilities and shareholders' equity		
Current liabilities:		
Notes and accounts payable:		
Affiliates (Note 3)	¥ 84,160	¥ 74,937
Trade and other	114,822	138,576
	198,982	213,513
Accrued income taxes	313,128	204,046
Accrued consumption tax	19,075	23,111
Other accrued liabilities	281,801	273,050

Edgar Filing: SPIRENT PLC - Form 20-F/A

	March 31,	
	2005	2004
Total current liabilities	812,986	713,720
Severance and retirement benefits (<i>Note 5</i>)	579,337	516,727
Deposit received	33,728	3,880
Total liabilities	1,426,051	1,234,327
Shareholders' equity:		
Common stock, without par value:		
Authorized: 24,000 shares at March 31, 2005 (unaudited) and 6,400 shares at March 31, 2004		
Issued and outstanding: 6,000 shares at March 31, 2005 (unaudited) and 4,000 shares at March 31, 2004	300,000	200,000
Legal reserve (<i>Note 9</i>)	75,000	50,000
Retained earnings (<i>Note 9</i>)	5,976,392	5,505,705
Unrealized holding gains on securities (<i>Note 4</i>)	9,266	3,795
Total shareholders' equity	6,360,658	5,759,500
Total liabilities and shareholders' equity	¥ 7,786,709	¥ 6,993,827

See accompanying notes to financial statements.

F-125

TYTON COMPANY OF JAPAN, LIMITED

STATEMENTS OF INCOME

	Year ended March 31,		
	2005	2004	2003
	(Unaudited)		(Unaudited)
	Thousands of yen		
Net sales (<i>Note 3</i>)	¥ 5,705,042	¥ 5,059,470	¥ 4,614,322
Costs and expenses (<i>Note 5</i>):			
Cost of sales (<i>Note 3</i>)	2,673,718	1,990,277	1,820,229
Selling, general and administrative expenses (<i>Notes 7 and 8</i>)	1,929,967	2,243,120	2,061,637
	4,603,685	4,233,397	3,881,866
Operating income	1,101,357	826,073	732,456
Other income:			
Interest income	820	1,077	1,149
Other, net	46,510	47,243	64,914
	47,330	48,320	66,063
Income before income taxes	1,148,687	874,393	798,519
Income taxes (<i>Note 6</i>):			
Current	502,000	390,000	390,000
Deferred	(34,000)	(24,000)	(51,000)
	468,000	366,000	339,000
Net income	¥ 680,687	¥ 508,393	¥ 459,519

See accompanying notes to financial statements.

TYTON COMPANY OF JAPAN, LIMITED
STATEMENTS OF SHAREHOLDERS' EQUITY

	<u>Total</u>	<u>Common stock</u>	<u>Legal Reserve</u>	<u>Retained earnings</u>	<u>Unrealized holding gains on securities</u>
	Thousands of yen				
Balance at April 1, 2002 (<i>unaudited</i>)	¥ 4,938,683	¥ 200,000	¥ 50,000	¥ 4,687,793	¥ 890
Net income	459,519			459,519	
Change in fair value of available-for-sale securities (net of income tax of ¥273 thousand)	388				388
Bonuses to directors and statutory auditors	(10,000)			(10,000)	
Total comprehensive income	449,907				
Dividends ¥15,000 per share	(60,000)			(60,000)	
Balance at March 31, 2003 (<i>unaudited</i>)	5,328,590	200,000	50,000	5,077,312	1,278
Net income	508,393			508,393	
Change in fair value of available-for-sale securities (net of income tax of ¥1,624 thousand)	2,517				2,517
Bonuses to directors and statutory auditors	(20,000)			(20,000)	
Total comprehensive income	490,910				
Dividends ¥15,000 per share	(60,000)			(60,000)	
Balance at March 31, 2004	5,759,500	200,000	50,000	5,505,705	3,795
Net Income	680,687			680,687	
Share issue		100,000		(100,000)	
Increase in legal reserve			25,000	(25,000)	
Change in fair value of available-for-sale securities	5,471				5,471
Bonuses to directors and statutory auditors	(25,000)			(25,000)	
Total comprehensive income	661,158				
Dividends ¥15,000 per share	(60,000)			(60,000)	
Balance at March 31, 2005 (<i>unaudited</i>)	¥ 6,360,658	¥ 300,000	¥ 75,000	¥ 5,976,392	¥ 9,266

See accompanying notes to financial statements.

TYTON COMPANY OF JAPAN,

LIMITED NOTES TO FINANCIAL STATEMENTS

(Information with respect to the years ended March 31, 2005 and 2003 is unaudited)

1. General and Significant Accounting Policies

Description of Business

Tyton Company of Japan, Limited (the "Company") is owned 49%-owned by Spirent plc (a UK company), 30%-owned by Kyoritsu Electric Industries Company Limited and 21%-owned by Sansei Bussan Company Limited.

The Company was incorporated under the Commercial Code of Japan on October 29, 1970 for the purpose of manufacturing and selling cable accessories, tools and other related products mainly to Japanese customers.

Basis of Presentation

The Company maintains its accounting records and prepares their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying financial statements of the Company are prepared on the basis in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and from accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. The actual results could differ from those estimated.

Inventories

Inventories are stated at the lower of cost or market, cost being determined mainly by the average cost method.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the respective assets, which are as follows:

Buildings and improvements	3-50 years
Machinery and equipment	2-15 years
Motor and vehicles	2-6 years

Software

Software is stated at cost and amortized by the straight-line method over its estimated useful life of 5 years.

Investments in Affiliated Companies

Investments in affiliated companies are accounted for using the cost method.

Severance and Retirement Benefits

The Company has defined benefit plans, which are either funded or unfunded plans, covering substantially all employees who are entitled to lump-sum or annuity benefit payments, the amounts of which are determined by reference to their ability-based grade, length of service, and the conditions under which the termination occurs.

In addition, directors are customarily entitled to lump-sum payments under the directors' retirement plan. Provision for the retirement allowances for directors has been estimated.

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities measured using the enacted tax rates. Transactions subject to consumption tax are recorded at amounts exclusive of consumption tax.

Foreign Currency Transactions

Certain assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate as of the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the exchange rates prevailing when such transactions are made. The resulting exchange gains and losses are credited or charged to income.

Revenue Recognition

The Company recognizes revenue when goods are shipped.

Allowance for Doubtful Accounts

Allowance for doubtful receivables, including both trade and notes receivable, is the Company's best estimate of the amount of probable credit losses in their existing receivables. The allowance is determined based on, but not limited to, historical collection experience adjusted for the effects of the current economic environment and the financial performance of debtors. Write-offs of accounts receivable historically have been within management's expectations.

2. Investments in Affiliated Companies

The Company owns a 49% interest in both Wago Company of Japan, Ltd ("Wago Japan"), a joint venture with Wago Kontakttechnik GmbH, and Hellermann Asian Private Limited ("Hellerman"), a joint venture with Spirent B.V.

Wago Japan and Hellerman have carrying values of ¥39,200 thousand and ¥625,404 thousand, respectively. These joint ventures have fiscal years that differ from March 31 by 91 days or less.

3. Balances and Transactions with Affiliated Companies

Balances with affiliated companies at March 31, 2005 and 2004 are summarized as follows:

	March 31,	
	2005	2004
	(Thousands of yen)	
Receivables from:		
Kyoritsu Electric Industries Company Limited	¥ 241,956	¥ 233,416
Sansei Bussan Company Limited	2,306	1,923
Hellermann Tyton USA	22,507	14,091
Hellermann Asian Private Limited	72,270	71,825
Hellermann Tyton UK	746	60
Other	4,626	4,581
	¥ 344,411	¥ 325,896
Payables to:		
Sansei Bussan Company Limited	¥ 58,549	¥ 39,828
Hellermann Tyton USA	9,126	18,836
Hellermann Asian Private Limited	10,888	6,611
Other	5,597	9,662
	¥ 84,160	¥ 74,937

Transactions with affiliated companies for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Year ended March 31,		
	2005	2004	2003
	(Thousands of yen)		
Sales to:			
Kyoritsu Electric Industries Company Limited	¥ 544,176	¥ 518,857	¥ 492,853
Sansei Bussan Company Limited	13,631	20,557	33,394
Hellermann Tyton USA	69,339	47,017	57,547
Hellermann Asian Private Limited	146,874	116,260	101,859
Hellermann Tyton UK	67,551	375	20,700
Other	11,518	15,113	14,651
	¥ 853,089	¥ 718,179	¥ 721,004
Purchases from:			
Sansei Bussan Company Limited	¥ 537,352	¥ 501,371	¥ 436,910
Hellermann Tyton USA	49,994	47,650	40,703
Hellermann Asian Private Limited	108,361	88,545	55,470
Hellermann Tyton UK	57,407	39,967	42,091
Other	16,490	12,625	8,472
	¥ 769,604	¥ 690,158	¥ 583,646

Year ended March 31,

F-130

4. Investments in Securities

The Company classifies its investments in marketable equity securities, which all have a readily determinable fair value, as available for sale. Management does not intend to sell its equity securities within the next twelve months. Investments in equity securities have a cost of ¥9,928 thousand and ¥9,685 thousand and gross unrealized holding gains of ¥15,433 thousand and ¥6,320 thousand at March 31, 2005 and 2004. The Company did not realize any gains in the three-year period ended March 31, 2005.

5. Severance and Retirement Benefits

The components of net periodic benefit cost for the years ended March 31, 2005, 2004 and 2003, and reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plan assets, the funded status and the amounts recognized in the balance sheet for the Company's defined benefit plans as of March 31, 2005 and 2004 are outlined as follows:

	March 31, 2005		
	Employees	Directors	Total
	(Thousands of yen)		
Components of net periodic benefit cost:			
Service cost	¥ 42,388	¥ 37,300	¥ 79,688
Interest cost	11,259		11,259
Expected return on plan assets	(5,542)		(5,542)
Amortization of actuarial loss	6,300		6,300
Amortization of prior service cost	587		587
Net periodic benefit cost	¥ 54,992	¥ 37,300	¥ 92,292

	March 31, 2004		
	Employees	Directors	Total
	(Thousands of yen)		
Components of net periodic benefit cost:			
Service cost	¥ 41,273	¥ 37,300	¥ 78,573
Interest cost	12,352		12,352
Expected return on plan assets	(4,931)		(4,931)
Amortization of actuarial loss	4,496		4,496
Amortization of prior service cost	587		587
Net periodic benefit cost	¥ 53,777	¥ 37,300	¥ 91,077

Edgar Filing: SPIRENT PLC - Form 20-F/A

March 31, 2003

	Employees	Directors	Total
--	-----------	-----------	-------

(Thousands of yen)

Components of net periodic benefit cost:			
Service cost	¥ 38,161	¥ 21,500	¥ 59,661
Interest cost	11,346		11,346
Expected return on plan assets	(4,899)		(4,899)
Recognized net actuarial loss	3,203		3,203
Amortization of prior service cost	587		587
Net periodic benefit cost	¥ 48,398	¥ 21,500	¥ 69,898

Actuarial gain or loss is being amortized by the straight-line method over 10 years.

Prior service cost is being amortized by the straight-line method over 10 years.

March 31, 2005

	Employees	Directors	Total
--	-----------	-----------	-------

(Thousands of yen)

Changes in benefit obligation:			
Benefit obligation at beginning of year	¥ 562,942	¥ 196,700	¥ 759,642
Service cost	42,388	29,600	71,988
Interest cost	11,259		11,259
Actuarial loss	8,831		8,831
Prior service cost	587		587
Benefits paid	(1,401)	(5,300)	(6,701)
Benefit obligation at end of year	624,606	221,000	845,606
Changes in plan assets:			
Fair value of plan assets at beginning of year	184,748		184,748
Actual return on plan assets	2,537		2,537
Employer contribution	12,810		12,810
Fair value of plan assets at end of year	200,095		200,095
Funded status	(424,511)	(221,000)	(645,511)
Unrecognized actuarial gain or loss	62,063		62,063
Unrecognized prior service cost	4,111		4,111
Accrued severance and pension costs	¥ (358,337)	¥ (221,000)	¥ (579,337)

Edgar Filing: SPIRENT PLC - Form 20-F/A

March 31, 2004

	March 31, 2004		
	Employees	Directors	Total
	(Thousands of yen)		
Changes in benefit obligation:			
Benefit obligation at beginning of year	¥ 494,099	¥ 177,400	¥ 671,499
Service cost	41,273	37,300	78,573
Interest cost	12,352		12,352
Actuarial loss	24,346		24,346
Prior service cost			
Benefits paid	(9,128)	(18,000)	(27,128)
Benefit obligation at end of year	562,942	196,700	759,642
Changes in plan assets:			
Fair value of plan assets at beginning of year	164,394		164,394
Actual return on plan assets	11,235		11,235
Employer contribution	12,859		12,859
Benefits paid	(3,740)		(3,740)
Fair value of plan assets at end of year	184,748		184,748
Funded status	(378,194)	(196,700)	(574,894)
Unrecognized actuarial gain or loss	53,469		53,469
Unrecognized prior service cost	4,698		4,698
Accrued severance and pension costs	¥ (320,027)	¥ (196,700)	¥ (516,727)

The key actuarial assumptions used in the accounting for the plans as of March 31, 2005, 2004 and 2003 are as follows:

	March 31,					
	2005		2004		2003	
	Employees	Directors	Employees	Directors	Employees	Directors
Discount rate	2.0%		2.0%		2.5%	
Expected long-term rate of return on plan assets	3.0%		3.0%		3.0%	

F-133

Edgar Filing: SPIRENT PLC - Form 20-F/A

6. Income Taxes

The Company pays corporation, inhabitants' and enterprise income taxes, which, in the aggregate, resulted in a statutory tax rate of 39.96%, 39.96% and 41.34% in 2005, 2004 and 2003, respectively.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	March 31, 2005	
	Current	Non-current
	Thousands of yen	
Deferred tax assets:		
Severance and retirement benefits	¥	¥ 225,635
Depreciation and amortization		4,489
Other accrued liabilities	44,591	
Allowance for doubtful accounts	2,038	
Enterprise tax	19,983	
Other	285	
	66,897	230,124
Valuation allowance		
	66,897	230,124
Deferred tax liabilities:		
Net unrealized gain on marketable equity securities		6,167
Depreciation and amortization		4,456
Other	608	
	608	10,623
Net deferred tax assets	¥ 66,289	¥ 219,501
	March 31, 2004	
	Current	Non-current
	(Thousands of yen)	
Deferred tax assets:		
Severance and retirement benefits	¥	¥ 194,748
Depreciation and amortization		4,348
Other accrued liabilities	40,304	
Allowance for doubtful accounts	5,430	
Enterprise tax	18,735	
	64,469	199,096
Valuation allowance		
	64,469	199,096
Deferred tax liabilities:		
Net unrealized gain on marketable equity securities		2,525
Depreciation and amortization		5,499
Other	395	(285)
	395	7,739

Edgar Filing: SPIRENT PLC - Form 20-F/A

March 31, 2004

Net deferred tax assets	¥ 64,074	¥ 191,357
-------------------------	----------	-----------

F-134

7. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2005 and 2004, which would have been reflected in the balance sheets if finance leases of equipment currently accounted for as operating leases had been capitalized.

	Year ended March 31,	
	2005	2004
	(Thousands of yen)	
Acquisition costs	¥ 8,058	¥ 46,533
Accumulated depreciation	(6,217)	(43,750)
Net book value	¥ 1,841	¥ 2,783

Future minimum lease payments for the above leased assets under capital lease agreements at March 31, 2005 were ¥3,701 thousand, less amounts representing interest of ¥127 thousand, due in the year ended June 30, 2008.

Operating leases are mainly for office space and office equipment. Total rental expense of such operating leases for the years ended March 31, 2005, 2004 and 2003 were ¥24,876 thousand, ¥125,056 thousand and ¥157,112 thousand, respectively.

8. Research and Development Expenses and Advertising Expenses

Research and development expenses and advertising expenses included in selling, general and administrative expenses for the years ended March 31, 2005, 2004 and 2003 were as follows:

	March 31,		
	2005	2004	2003
	(Thousands of yen)		
Research and development expenses	¥ 11,032	¥ 28,146	¥ 26,930
Advertising costs	59,022	61,607	68,459

9. Legal Reserve and Retained Earnings

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that if the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the excess may be available for appropriation either as a return of capital or as dividends by resolution of the shareholders.

The legal reserve is not available for dividends but may be used to eliminate or reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

Legal reserve of ¥75,000 thousands is included in retained earnings

The amount of retained earnings available for dividends under the Code is based on the amount recorded in the Company's books maintained in accordance with Japanese accounting practices. The

maximum amount of retained earnings of the Company available for cash dividends at March 31, 2005 totaled ¥5,976,392 thousand.

10. Reconciliation to Accounting Principles Generally Accepted in the United States

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in Japan (JGAAP). JGAAP varies in certain significant respects from accounting principles generally accepted in the United States (U.S. GAAP). Differences, which have significant consequences on the Company's results of operations and shareholders' equity, are summarized as follows:

Equity method investments

In Japan, companies are permitted to issue stand-alone financial information accounted for under JGAAP that do not record consolidating entries, as defined under the Japanese Commercial Code (JCC). Consolidating entries include increases to the carrying value of investments accounted for under the equity method for the investor's share of the investee's operating results.

Under U.S. GAAP, Accounting Principles Board (APB) Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, requires that the investor's share of the investee's earnings or losses be included in net income with the carrying value of the investment adjusted accordingly. APB 18 also requires the elimination of intercompany profit until such transactions are realized and dividends received. If financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the investor ordinarily should record its share of the earnings (losses) of an investee from the most recent financial statements available. The lag in reporting should be consistent from period to period (i.e. differ less than 93 days from March 31).

Revenue recognition

Under JGAAP, revenue can be recognized upon either shipment or delivery. After initial selection, the revenue recognition policy must be consistently applied. The Company's accounting policy is to recognize revenue upon shipment.

U.S. GAAP requires that revenues be recognized upon the culmination of the earnings process, which occurs when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed and determinable and collection is reasonably assured. Typically, the Company enters into sales contracts whereby title and risk of loss transfer to the buyer upon delivery. For certain distributors, the Company provides extended payment terms (typically, 120 days after delivery) and accepts a note receivable evidencing such terms. In addition, the Company provides a price concession, in the form of a purchase discount when the aforementioned note is received. Under U.S. GAAP, the selling price is not fixed and determinable upon delivery and, as such, revenue recognition occurs as the notes are received, generally 30 days after shipment. The reversal of sales and related costs of goods sold decreased revenues by ¥13,957 thousand and cost of goods sold by ¥6,254 thousand for the year ended March 31, 2004.

Statement of cash flows

Under JGAAP, a statement of cash flows is not required when reporting on a stand-alone basis.

U.S. GAAP requires the presentation of a statement of cash flows prepared in accordance with Statement of Financial Accounting Standard (FAS) No. 95, *Statement of Cash Flows*.

Accrued vacation

Under JGAAP, an employee's accumulated right to take vacation earned as a result of services rendered is expensed when taken.

U.S. GAAP Statement of Financial Accounting Standard (FAS) No. 43, *Accounting for Compensated Absences*, requires the accrual of compensated future absences such as vacation if the employer's obligation relates to services already rendered, the obligation relates to rights that vest or accumulate, payment is probable, and the amount can be reasonably estimated.

Cash surrender value of life insurance policies

Under JGAAP, life insurance premiums paid are capitalized and expensed in the period that the eligible individual retires.

Under U.S. GAAP, life insurance premiums are expensed in the period incurred. In addition, Financial Accounting Standard Board Technical Bulletin (FTB) No. 85-4, *Accounting for Purchases of Life Insurance*, requires that the amount that could be realized under the insurance contract, such as cash surrender value as of the date of the statement of financial position, should be reported as an asset and changes in the cash surrender value should be an adjustment to the income statement.

Asset retirement obligations

In Japan, the provisions of lease agreements typically require the lessee to restore lease office space to its original condition. Such costs may include painting, carpeting, cleaning and repairing minor damages to the building that result from modifications made during the lease term. JGAAP requires these costs to be expensed as incurred.

Under U.S. GAAP, FAS 143, *Accounting for Asset Retirement Obligations*, applies to legal obligations that arise from written contracts, including lease agreements that obligate the lessee to remove leasehold improvements. Statement 143 requires that the initial liability and corresponding asset be measured at fair value based on expected cash flows taking into consideration current market and credit rate risks. The Company would have adopted FAS 143 in the current year resulting in a cumulative effect adjustment.

Directors' bonuses and statutory auditors' bonuses

JGAAP requires that bonuses paid to directors and statutory auditors represent a reduction of retained earnings upon payment.

Under U.S. GAAP, bonuses are expensed as incurred and recognized in the income statement.

Edgar Filing: SPIRENT PLC - Form 20-F/A

Reconciliation of net income for the year ended March 31, 2004:

	<u>(Thousands of yen)</u>
Net income as reported under JGAAP	¥ 508,393
U.S. GAAP adjustments:	
(a) Equity earnings of affiliated companies, net of dividends and elimination of intercompany profit	107,866
(b) Recognition of cash surrender value of life insurance policies	2,176
(c) Compensated absences	(8,395)
(d) Asset retirement obligation, cumulative effect on an accounting change	(5,794)
(e) Amortization of asset retirement costs capitalized	(849)
(f) Accretion of asset retirement obligation interest	(331)
(g) Accrued bonuses	(25,000)
(h) Difference in revenue recognition principles	(7,703)
(i) Income tax effect of adjustments	(33,224)
	<u> </u>
Net income under U.S. GAAP	¥ 537,139
	<u> </u>

Reconciliation of shareholders' equity at March 31, 2004:

	<u>(Thousands of yen)</u>
Shareholders' equity as reported under JGAAP	¥ 5,759,500
U.S. GAAP adjustments:	
(a) Equity earnings of affiliated companies, net of dividends and elimination of intercompany profit	461,451
(b) Recognition of cash surrender value of life insurance policies	(37,172)
(c) Compensated absences	(46,904)
(d) Asset retirement obligation, cumulative effect on an accounting change	(5,794)
(e) Amortization of asset retirement costs capitalized	(849)
(f) Accretion of asset retirement obligation interest	(331)
(g) Accrued bonuses	(25,000)
(h) Difference in revenue recognition principles	(82,574)
(i) Deferred income taxation above adjustments	(115,152)
(j) Foreign currency translation adjustment of affiliated company net of taxes of ¥36,600 thousand	(54,991)
	<u> </u>
Shareholders' equity under U.S. GAAP	¥ 5,852,184
	<u> </u>

Edgar Filing: SPIRENT PLC - Form 20-F/A

A reconciliation of the significant balance sheet accounts under JGAAP to the amounts determined under U.S. GAAP is as follows:

	March 31, 2004
	(Thousands of yen)
Investments in affiliated companies:	
As reported under JGAAP	¥ 664,604
Equity earnings of affiliated companies, net of dividends and elimination of intercompany profit	369,860
	<hr/>
As adjusted under U.S. GAAP	1,034,464
	<hr/>
Other accrued liabilities:	
As reported under JGAAP	273,050
Compensated absences	46,904
Accrued bonuses	25,000
	<hr/>
As adjusted under U.S. GAAP	344,954
	<hr/>
Lease deposits and other assets:	
As reported under JGAAP	415,214
Recognition of cash surrender value of life insurance policies	(37,172)
Asset retirement costs capitalized	12,739
Accumulated amortization asset retirement costs capitalized	(5,095)
	<hr/>
As adjusted under U.S. GAAP	385,686
	<hr/>
Deferred income taxes (current and noncurrent):	
As reported under JGAAP	255,431
Adjustments for GAAP differences	(78,550)
	<hr/>
As adjusted under U.S. GAAP	176,881
	<hr/>
Asset retirement obligation	¥ 14,618
	<hr/>
Inventories:	
As reported under JGAAP	528,495
Adjustment for revenue recognition principles	52,924
	<hr/>
As adjusted under U.S. GAAP	581,419
	<hr/>
Deferred revenue	¥ 111,009
	<hr/>

Edgar Filing: SPIRENT PLC - Form 20-F/A

Statement of cash flows prepared in accordance with FAS 95 using the indirect method for the year ended March 31, 2004, is shown below:

	Year ended March 31, 2004
(Thousands of yen)	
Operating activities	
Net Income	¥ 537,139
Adjustments to reconcile net income to net cash provided by operating activities:	
Cumulative effect of change in accounting principle	3,476
Depreciation and amortization	346,859
Deferred income taxes	13,168
Equity earnings of affiliated company, net of dividends	(107,866)
Provision for doubtful accounts	1,360
Reserve of severance and retirement benefits	54,830
Loss on sale (disposal) of property, plant and equipment	3,351
Unrealized gain on investment securities	(1,624)
Unrealized loss on director's retirement insurance fund	(2,176)
Changes in operating assets and liabilities:	
Account receivable	(178,909)
Inventories	(59,065)
Other current assets	(36,777)
Account payable	84,032
Income tax payable	(153,155)
Consumption tax payable	(19,408)
Accrued expenses and deferred revenue	116,714
	601,949
Investing activities	
Purchases of property, plant and equipments	(609,758)
Purchases of intangible assets	(11,949)
Purchase of investment securities	(200)
Repayment of loan to employees and directors, net	5,759
Proceeds from sales of property, plant and equipment	16,553
Payment (receipt) for lease deposits and other assets	(42,719)
Other liabilities	1,730
	(640,584)
Financing activities	
Payments on capital lease obligations	(5,816)
Cash dividend paid	(60,000)
	(65,816)
Net (decrease) increase in cash	(104,451)
Cash and cash equivalents at beginning of year	1,348,997
	¥ 1,244,546
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	¥
Income taxes	¥ 543,870

Additional U.S. GAAP Disclosures*Investments in affiliated companies*

Summarized combined financial information relating to affiliated companies accounted for under the equity method at March 31, 2004 and for the year then ended:

	(Thousands of yen)
As of and for the year ended March 31, 2004	
Current assets	¥ 3,114,874
Noncurrent assets	648,007
Current liabilities	1,585,674
Noncurrent liabilities	66,054
Revenues	4,330,087
Net income	235,131

Concentration of credit risk

The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support customer receivables. The Company accepts notes receivables from its customers, which is a general business practice in Japan. Potential credit-related losses could occur in the event of non-performance by counterparties to certain financial instruments.

SPIRENT PLC

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of year	Additions charged to Profit and Loss	Exchange Differences	Deductions	Balance at end of year
(£ millions)					
Year ended December 31, 2002					
Provisions for bad and doubtful debts	9.3	0.4	0.2	(2.8)	7.1
Year ended December 31, 2003					
Provision for bad and doubtful debts	7.1	(1.8)	(0.5)	(3.2)	1.6
Year ended December 31, 2004					
Provision for bad and doubtful debts	1.6		0.2	(0.5)	1.3

S-1

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment on its behalf.

SPIRENT PLC

By:

/s/ ANDERS GUSTAFSSON

Anders Gustafsson
Chief Executive Officer

September 9, 2005

QuickLinks

[TABLE OF CONTENTS](#)

[EXPLANATORY NOTE](#)

[SPIRENT plc REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

[CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

[SPIRENT plc CONSOLIDATED PROFIT AND LOSS ACCOUNT](#)

[SPIRENT plc CONSOLIDATED PROFIT AND LOSS ACCOUNT](#)

[SPIRENT plc CONSOLIDATED PROFIT AND LOSS ACCOUNT](#)

[SPIRENT plc CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES](#)

[SPIRENT plc CONSOLIDATED BALANCE SHEET](#)

[SPIRENT plc CONSOLIDATED CASH FLOW STATEMENT](#)

[SPIRENT plc CONSOLIDATED STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS](#)

[SPIRENT plc NOTES TO THE FINANCIAL STATEMENTS](#)

[REPORT OF INDEPENDENT AUDITORS](#)

[INDEPENDENT AUDITORS' CONSENT](#)

[WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES Combined Balance Sheet](#)

[WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES Combined Statements of Operations](#)

[WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES Combined Statement of Shareowners' Equity](#)

[WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES Combined Statement of Cash Flows](#)

[WAGO KONTAKTTECHNIK GmbH, WAGO CONTACT S.A. AND AFFILIATES Notes to Combined Financial Statements April 4, 2003](#)

[REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

[CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

[TYTON COMPANY OF JAPAN, LIMITED BALANCE SHEETS](#)

[TYTON COMPANY OF JAPAN, LIMITED STATEMENTS OF INCOME](#)

[TYTON COMPANY OF JAPAN, LIMITED STATEMENTS OF SHAREHOLDERS' EQUITY](#)

[TYTON COMPANY OF JAPAN, LIMITED NOTES TO FINANCIAL STATEMENTS \(Information with respect to the years ended March 31, 2005 and 2003 is unaudited\)](#)

[SPIRENT PLC VALUATION AND QUALIFYING ACCOUNTS](#)

[SIGNATURES](#)