Contents

In this report, "Bookham Technology" or "the Group" means Bookham Technology plc and its subsidiary undertakings and "the Company" means Bookham Technology plc. "Bookham" and "ASOC" are registered trademarks of Bookham Technology plc.

Summary

Bookham Technology is a global leader in the design, manufacture and marketing of optical components, modules and subsystems using high volume production methods. Our technologies and broad product range enable us to deliver an extensive range of cost-effective, optical functionality and solutions to our customers, which offer higher performance, lower cost and provide greater subsystems capability to meet their customers' needs. Our components and subsystems are primarily used in the telecommunications industry but also in non-telecommunication sectors such as aerospace, industrial and military.

Bookham Technology at a glance:

- Acquisition of Nortel Networks' optical components businesses (November 2002)
- Acquisition of Marconi's optical components business (February 2002)
- Rapid integration of acquisitions
- Strengthened management team
- Strong cash position with £105.4 million at year end
- Stronger market positioning, giving breadth, depth and scale (customer requirement)
- Secure revenue base – customer supply agreements
- Strong differentiated product portfolio, proven and widely deployed
- Making cost structure competitive through restructuring manufacturing and overhead base

Facilities:

Milton, Abingdon (UK): Headquarters; ASOC R&D; ASOC wafer fab

Caswell (UK): Actives R&D; InP/GaAs wafer fab

Paignton (UK): Actives and amps R&D; Assembly (all products)

Ottawa (Canada): InP wafer fab; Actives R&D

Zurich (Switzerland): Pump laser chips, wafer fab and R&D

Chairman's and Chief Executive Officer's statement

"We have redefined the Company through targeted acquisitions; tight financial management, enhanced competitiveness and revenue opportunities; and broadened our product portfolio."

2002 was a watershed year for Bookham Technology. In the midst of the most extensive downturn in our industry, which hit our chosen market and product segment the hardest, Bookham was able to take the initiative and redefine the Company by means of targeted acquisitions and tight financial management. These have propelled Bookham to a top-three position in telecom optical components and have enormously enhanced our competitiveness and our ability to prosper.

We finished 2001 on a quarter with £2 million in revenues, based on a technology leadership position in integrated optics. We believe this will continue to be an important future market, but it is one that was down 95% over the previous year and we realised that it is unlikely to develop significantly through the current downturn.

Therefore, as most optical components companies continued to downsize and reduce investments, moving to an ever narrower focus in the market, Bookham chose to seize the consolidation opportunity to expand its position significantly and to redefine itself as a player with world scale and leadership. One year and two acquisitions later, we finished 2002 on a quarter with £14 million in revenues after four quarters of growth, and supply agreements with Nortel Networks and Marconi guaranteeing significant revenues for 2003 and beyond. In addition, we have one of the broadest and most competitive product portfolios in the industry.

Both acquisitions were share offers which maximised the cash we could retain to enable us to continue investing in products and sales growth. We also focused very heavily throughout the year on continued restructuring and cost reduction, to enable us to bring down our breakeven point. We ended the year with £105 million in cash.

On the basis of a much larger business, we believe we are now in a position to optimize the operations to reduce losses rapidly, enhance sales, and move steadily towards breakeven.

We have never abandoned our dream of becoming a major force in our marketplace through innovation and initiative. Now, however, we can pursue these same objectives with an established business, a full product and skill set and a worldwide competitive scale.

Redefining the Company through acquisitions

In this market, volume and scale are critical. Manufacturing and R&D necessarily involve heavy fixed costs in order to follow in fast product life cycles. In a deflated market, most players are below their own needs for critical mass and therefore previous business models do not work. We were not prepared to wait, hoping for an upturn in the market. So we set about changing this.

In February 2002, we acquired Marconi's optical components business. This was an important step, taking us into the actives market with one of the strongest technical capabilities in the world. Customers reacted well to our additional offering and we gained credibility. A key component of the acquisition was the supply agreement under which Marconi committed to purchase a minimum of £30 million of products over 18 months. The integration of the two companies was quickly completed and increased our experience in acquisitions.

Then, in November 2002, we acquired the optical components business of Nortel Networks (NNOC). This offered a different set of complementary products which gave us a broad portfolio together with a full set of skills and management experience. As with Marconi, we entered into a guaranteed three-year supply agreement with Nortel Networks. The integration process proceeded extremely fast and successfully, with business as usual by mid-first quarter 2003, less than three months from commencement.

Our current position

We now have a comprehensive product set comprising actives, passives and amplifiers, not just based on new technologies, but proven, widely deployed established products in the metro and long-haul markets. Our three cost-reducing technologies enable us to reduce costs with no loss of margins, which is particularly evident in our tunable integrated transmitter.

Meeting our customers' needs, growing revenues

Today our customers want full-line, independent solutions-capable partners. They require fewer suppliers, who need to be able to provide everything from components to complete subsystems. We can do that. Our customers have reacted very positively and we believe they support our new position. The top ten optical systems companies are key to the market and today we deal with most of them. Bookham is now in a prominent position to take advantage of any market upturn.

Financial management and cost controls
In today's market, cost control is imperative. We have to be able to enhance our competitiveness, minimise cash loss during the downturn and be able to save where possible so as to continue to invest in focused R&D. We have made huge progress with our cash burn being reduced each quarter (excluding the effect of acquisitions) but we have to continue. At the time of the acquisition of NNOC, we stated our objective was to achieve a 40% reduction in costs by the end of 2003 compared to first half 2002 (combined Bookham and NNOC); we have already achieved 25% from the first quarter of 2003.

Our new business model is aimed at growing market share even in the current flat market. We will also benefit when the inevitable upturn in the market happens.

Looking ahead
Going forward, we believe you will see our business model beginning to work and driving towards profitability.

There are some key pointers to watch out for. First, we believe you will see evidence of the successful integration of the two companies. Second, the stated cost reductions should start showing through in reduced overhead levels and lower cash burn. Third, we should see evidence of new customers and sales growth, enhancing the top line, and quarter-on-quarter evidence of moving towards profitability. Finally, market stabilisation will bring predictability, enabling better control of business, and visibility of the first signs of inventory excesses drying up, which have further suppressed the market.

2002 has been a painful but defining year for us and our employees. We are aware that our success depends on the skill and commitment of our employees and thank them for their hard work. We appreciate everyone's sacrifices, but believe we now have something to show for it. Now we must execute to become stronger and drive forward our dream.

Andrew Rickman
Chairman

Giorgio Anania
Chief Executive Officer

Review of business

Market conditions

During 2001 and 2002, the global telecommunications industry declined severely and this is expected to continue. The decline was primarily due to significantly reduced capital spending by telecommunications carriers. In addition, the size of the global optical components market in which we compete has been one of the hardest-hit segments and fell from $6.8 billion in 2000 to $2.2 billion in 2002. Ryan Hankin Kent (RHK), a market research and consulting group, estimates that the market will decline further to $2.1 billion in 2003 before recovering to $3 billion in 2005. This resizing of the market is resulting in industry consolidation which is expected to continue through 2003.

Redefining the Company

In 2002, we redefined our business through two targeted acquisitions, which we believe position us to be a leader in the optical components market. The acquisitions of the optical components businesses of Marconi and Nortel Networks have enhanced our competitiveness and ability to prosper. Revenue growth continued quarter on quarter throughout 2002 with additional benefits to earnings being achieved through tight financial management.

In February, the acquisition of Marconi's optical components business (MOC), based in Caswell, UK, was completed for an all-share consideration. At the time of completion, the ordinary shares issued represented just under 10% of the Company's issued share capital immediately prior to the acquisition and were valued at approximately £15.7 million. The acquisition was an important step, expanding the product portfolio into the actives market with a very strong laser chip design, strong manufacturing capability and leading-edge indium phosphide (InP) tunable laser and gallium arsenide (GaAs) modulator technologies. The products included narrowband and wideband tunable lasers, GaAs modulators and erbium doped fibre amplifiers (EDFAs).

In November 2002, the Company acquired the optical transmitter and receiver and optical amplifier businesses (NNOC) from Nortel Networks. The consideration for this acquisition was 61 million new ordinary shares (amounting to approximately 29.8% of the issued share capital of the Company following the acquisition), together with warrants to purchase 9 million new ordinary shares, loan notes to the value of $50 million (£31.6 million) repayable over a total of five years and cash of $10 million to reimburse Nortel Networks for restructuring expenses.

These NNOC businesses are located in Paignton (UK), Zurich (Switzerland), Ottawa (Canada) and Poughkeepsie (USA). This much larger transaction delivered a very significant set of complementary products to add to our growing portfolio together with a comprehensive set of technical skills and management experience. We believe that the economies of scale generated by the creation of the enlarged Group will facilitate increased cost efficiencies. The products acquired include optical amplifiers with vertically integrated pump laser chips, widely deployed 10Gb/s transceivers, and wide receiver line and transponder modules.

Key components of both these transactions were the guaranteed supply agreements that were entered into. Marconi made a minimum commitment to purchase £30 million of products, over an eighteen month period. Nortel Networks agreed to purchase between 50% and 80% of its total optical components requirement on a product-by-product basis over the three years following completion, with a guaranteed minimum of $120 million of optical components over a period of six quarters from completion.

Furthermore, we believe strong revenue enhancement opportunities exist beyond the supply agreements. We intend to do this by expanding our customer base to include other leading systems manufacturers who previously may not have purchased products from Marconi or Nortel Networks because they were competitors. We also intend to take advantage of the continuing consolidation in the market to win customers whose previous suppliers have either exited the business or have cut back their investment. We are pleased with the integration of both MOC and NNOC and, in particular, with the rapid progress with NNOC. The process is well ahead of schedule with the manufacturing and administrative functions having been already effectively combined.

As part of our cost-reduction plans, we have decided that we will be consolidating our manufacturing facilities. We will be transferring the Ottawa wafer fabrication facility into our Caswell facility during 2003. This has already begun; certain equipment has been shipped over and the first of the chips historically designed in Ottawa have been successfully produced in Caswell, meeting the high standards associated with the Ottawa facility. We have relocated our assembly and test facility in Caswell to the Paignton plant and product is planned to come through it in March 2003. In addition, we have completed the amplifier consolidation in Paignton and the chip preparation transfer from Caswell and Ottawa also into Paignton. This consolidation programme shifts our focus within the integration plan to further optimisation and continuous improvement.

Products and customers

We now have a comprehensive product set comprising actives, passives and amplifiers, not just based on new technologies but on proven, widely deployed established products with a history of reliability, wide acceptance and with many of the products shipping in volume. Our broader product portfolio enables us to offer the additional capability of providing subsystems and modules using our component set. This ability to offer a more comprehensive array of products addresses our customers' goal of reducing the number of suppliers from which they purchase.

Our current products are primarily configured for use in metropolitan and long-haul networks and include WDM/DWDM applications, where the need for high-volume, cost-effective components that feature reduced complexity and greater ease of production is particularly critical. Our portfolio falls into four categories: long-haul actives, long-haul smart passives, metro and amplifiers. Our products provide functionality for the various elements within the networking system, from transmitting to receiving, and include products that amplify, detect, combine and monitor light signals.

Today, customers want full-line, independent, solutions-capable partners and, therefore, fewer suppliers, who can provide everything from a full range of components to complete subsystems. We can offer this solution and are focused on continuing to work with key customers on the development of enhanced products. The top ten optical systems companies represent 85% of the market for our products and today we deal with most of them. We have expanded our customer base through its channels to market with both the MOC and NNOC products, and customers' reactions have been very positive.

We have established a direct sales and marketing force with sales people in the United Kingdom, China, France, Japan and the United States. Our direct sales force is supported by an applications engineering group capable of providing technical support for key customers internationally.

During 2002, we also achieved significant sales of optics lasers and modulators into non-telecom accounts. We took advantage of the same product building blocks used in our telecom integrated transmitters and we plan to explore these opportunities further, during 2003.

In addition, sales of our monolithic microwaveable integrated circuit (MMIC) products to non-telecom accounts, such as aviation/space and military applications, increased during the year.

Research and development (R&D)

Since our inception in 1988, we have historically devoted a significant amount of our resources to R&D activities which we view as a principal strategic investment. We believe that continued investment in our technology is critical to our future competitive success.

Our R&D facilities in Milton, Caswell and Paignton in the UK, and in Zurich, Switzerland, and Ottawa, Canada, include computer-aided design stations, modern laboratories and automated test equipment. We intend to devote continued R&D resources to expand our existing product line, to reduce production costs by improving our manufacturing processes, to provide increased device performance and reduce time to market in developing our products. Our R&D organisation continues to be a resource available to provide electronic integration expertise to meet customer-specific requirements as they arise and to evaluate the application of our technology to fibre-optic sensing devices and other applications.

Manufacturing capability

Following the NNOC and MOC acquisitions, our manufacturing capability has increased significantly. We own the 183,000 sq ft facility in Caswell, UK, which includes clean room wafer fabrication, manufacturing support functions and R&D capabilities, as well as office space. We also own the facility in Paignton, UK, which is approximately 240,000 sq ft, incorporating clean room, assembly and test and supporting laboratory, office and storage space.

We lease the other facilities. The headquarters and manufacturing facility based in Milton, Abingdon, UK, totals approximately 140,000 sq ft and includes silicon wafer fabrication, R&D and support functions. The facility in Zurich, Switzerland, is approximately 124,000 sq ft comprising office space and manufacturing, including clean room wafer fabrication and production laboratories. The facility in Ottawa, Canada, is approximately 75,000 sq ft and is principally manufacturing space incorporating clean room wafer fabrication and supporting R&D.

The aggregate potential manufacturing floor space in all these facilities is approximately 230,000 sq ft and includes fabrication processing for indium phosphide, gallium arsenide and silicon. This includes clean room facilities for each of the technology processes, together with assembly and test capability and reliability/quality testing. The manufacturing facilities house sophisticated semiconductor processing equipment, such as epitaxy reactors, metal deposition systems, photolithography, etching, analytical measurement and control equipment. The assembly and test facilities include specialised automated assembly equipment, temperature and humidity control and reliability and testing facilities.

Restructuring

Throughout the year, we continued to restructure in order to reduce costs, while improving revenues and investing in new products. In the second quarter of 2002, we announced that we would be closing our two facilities in Maryland, US, and Swindon, UK, resulting in significant annual savings. By the fourth quarter of 2002, both facilities had been closed and the sites disposed of.

The continued progress on cost-reduction efforts following the integration of MOC and NNOC has contributed to significant reductions in operating expenses of the combined company. In order to reduce breakeven point, we have decided to downsize the manufacturing and R&D of our ASOC product line at the Milton facility in order to realign resources more appropriately with current market and revenue opportunities, to focus resources on product lines producing revenues in the short and medium term, and to reduce our overall cash burn. We anticipate that this will involve a reduction in headcount of approximately 200 people. We will continue to sell and support ASOC-based passive products which are qualified and shipping to customers and retain both an ASOC R&D and manufacturing capability. We continue to believe that there is a significant future revenue opportunity for the ASOC platform, however, current market conditions have required us to focus on revenue-generating activities.

Management and personnel

The Company has continued to strengthen its management and operational team. Liam Nagle and Mike Scott, formerly of NNOC, joined the officer team and further increased the strength of the management team. At the year end, the Company employed a total of 1,945 people worldwide.

Biographies

Senior management team

Dr Giorgio Anania MA PhD, 44, President and Chief Executive Officer and Board member
Giorgio Anania joined Bookham Technology as Senior Vice President Sales and Marketing in 1998, was appointed President in August 2000 and CEO in February 2001. He was previously Vice President for Sales, Marketing and Business Development at Flamel Technologies, a French medical equipment company, which he helped take public on Nasdaq. Previously he was Strategic Marketing Manager for Telecom at Raychem Corporation in California, where he created one of the US's first DSL businesses. Giorgio also spent several years as a strategy consultant at Booz Allen in New York and OC2C in Paris. Giorgio has an MA in Physics and a PhD in Thermonuclear Fusion.

Steve Abely, 46, Chief Financial Officer
Steve Abely joined the Company in October 2001 as Chief Financial Officer. Steve has over 20 years' experience including senior financial positions in various US technology companies, and brings with him a good knowledge of US financial markets and a track record in management of rapid growth business environments. Previously, he was CFO of Arescom Technology, a private broadband access equipment provider, based in California. From 1994 to 1999 he was first CFO and then President of StorMedia, a component supplier to the disk drive industry.

Dr Steve Turley MA BA PhD, 49, Chief Commercial Officer
Steve Turley joined the Company in October 2001 as Chief Commercial Officer. He was formerly Vice President, Strategic Partnerships with Nortel Networks' High Performance Optical Component Solutions group. Steve is responsible for the entire commercial and product side of the company, driving its overall product strategy and taking leadership of the sales, marketing, product management and business development teams. He has over 25 years' experience in the optoelectronics and telecommunications industry worldwide.

Liam Nagle, 40, Chief Operating Officer
Liam Nagle joined the Company as Chief Operating Officer in November 2002. He held various positions with Nortel Networks, most recently Vice President Optical Components Operations from 2000 to 2002. Previous roles included Vice President of Global Operations and Vice President of Europe Middle East and Africa Operations for the Enterprise Solutions Group. Liam also previously held senior operations and finance positions with Bay Networks, Intel Corporation and Apple Computer Inc. He is responsible for the entire operations side of the company.

Dr Mike Scott BSc PhD, 54, Chief Technology Officer
Mike Scott joined the Company as Chief Technology Officer in December 2002. He was previously employed by Nortel Networks Corporation in various capacities from October 1982 to December 2002, most recently as Vice President technology and Product Development for Nortel's optical components business unit. Previous positions include Vice President of Technology (Microelectronics) and Assistant Vice President of Hardware Technology. He has a Bachelors degree and PhD in Materials Science from the University of Cambridge in the UK.

Philip Davis MA, 37, General Counsel and Company Secretary
Philip Davis joined Bookham Technology in January 2001. He was previously senior legal counsel at ICI plc, which he joined in 1996. He trained and qualified as a solicitor with the firm Mayer, Brown, Rowe & Maw.

Chairman and Non-Executive Directors

Dr Andrew Rickman OBE PhD MBA, 43, Chairman
Andrew Rickman was Chief Executive Officer and President from the time he founded Bookham Technology in 1988 and became Chairman in August 2000. Previously, he was with GenRad, where he worked in applications engineering and product management. In 2001 he received an Honorary Doctorate of Technology from Kingston University and was also awarded an Honorary Doctorate at the University of Surrey. During 2000 he was awarded an OBE for services to telecommunications.

Joseph Cook MBA, 51, Non-executive Director
Joe Cook joined the board in February 2002. He is Senior Vice President of Engineering for a major global telecommunications provider. Before joining MCL in 1979, he was a communications engineer for the Bechtel Corporation. He is an active member on two advisory boards, for the University of Texas at Dallas as well as the Oklahoma State University.

Lori Holland BS(Econ), 44, Non-executive Director
Lori Holland joined the board in 1999, having previously been the Chief Financial Officer of Zaffire, Inc., NeoMagic Inc., and Read-Rite Corporation. Lori has served as a consultant to various technology startups and is on the Board of Directors of the Valley Medical Center in Silicon Valley.

Jack St Clair Kilby MS(EE) MNAE, 79, Non-executive Director
Jack Kilby was appointed to the board of Bookham Technology in January 2000. In December 2000, he shared the Nobel Prize in Physics for his work on the invention of the integrated circuit. Jack was awarded the US National Medal of Science in 1970 and is an inductee in the US National Inventors Hall of Fame.

Dr W Arthur Porter PHD FIEE, 61, Non-executive Director
Skip Porter joined the board in 1998. He is currently The Southwestern Bell Chair Dean of Engineering and University Vice President for Technology Development at the University of Oklahoma. He was previously President and Chief Executive Officer of Houston Advanced Research Center. He was awarded the Institute of Electrical and Electronics Engineers' Centennial Medal for extraordinary achievement.

Robert Rickman MA MSc, 45, Non-executive Director
Robert Rickman was on the board of Bookham Technology from 1988 to 1990 and was reappointed in 1994. He is a director of Highland Timber PLC and a number of private companies. Robert is the brother of Andrew Rickman.

Prof David Simpson CBE FRSE FIEE DSc DTech DBA, 76, Vice Chairman
David Simpson joined the board as Chairman in 1995. He became Vice Chairman in August 2000. Before joining Bookham Technology, he was President, from 1976 to 1986, of Gould Corporation in Chicago, US. David is a director of a number of private companies.

Financial review

Year ended 31 December 2002
All US dollar numbers have been translated at $1.61=£1 for the convenience of the reader.

The results under US and UK GAAP are substantially the same, differences only are presented.

Revenues: Revenues for 2002 were £34.6 million ($55.7 million), up 58% from £21.9m in 2001. The increase in the 2002 revenues over 2001 is primarily the result of sales to Nortel Networks from the NNOC acquired sites. Marconi Communications and Nortel Networks were over 10% customers, representing 38% and 31% of revenue for the year respectively.

Operating loss (before exceptional items): The gross loss (loss at the gross margin level before exceptional items) under UK GAAP was £18.1 million ($29.1 million), up from £8.3 million in 2001. Operating expenses excluding National Insurance provision on stock options declined 3% compared with 2001, mainly as a result of the increased costs arising from the NNOC and MOC acquisitions being offset by the continuing process of cost reduction efforts.

Restructuring charges (exceptionals for UK GAAP and one-time charges for US GAAP): Net exceptional charges under UK GAAP were £36.7 million ($59.1 million). Of this, £5.1 million related to the closures of the Maryland and Swindon locations. The Company also wrote down £28.1 million of equipment considered excess and took provisions for excess inventory of £1.2 million. Under US GAAP the net one-time charges were £45.5 million ($73.3 million), including IPR&D write downs of £8.8 million.

Net loss (including exceptionals for UK GAAP and one-time charges for US GAAP): Net interest for the year decreased from £10.9 million in 2001 to £5.3 million ($8.5 million) in 2002 as a result of increasing expenditures from the expanded business. Further, interest rates were lower in 2002 than in 2001. The net loss under UK GAAP for 2002 was £101.4 million ($163.3 million) and loss per share was £0.67 ($1.08). The net loss under US GAAP was £110.0 million ($177.1 million) and loss per share was £0.73 ($1.17).

Funding
At 31 December 2002, our cash balances were £105.4 million and our loans were £31.1 million. Liquid assets surplus to the immediate operating requirements of Group companies are managed centrally and invested to protect the safety of the principal in a variety of money market securities. Non-sterling revenues provided a natural hedge against non-sterling commitments for operating costs and expenditure during 2002.

Outlook
The Group anticipates revenues for the first quarter 2003 to be in the range of £20–£23 million and cash burn of £18–£21 million. The Group has seen firm order flow to date in the first quarter 2003. Although our outlook for revenues remains limited beyond the first quarter 2003, there is potential for increased demand in the second half of the year.

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

A review of the Group's activities and its future development is contained on pages 2 to 10.

Results for the year
The Group made a loss of £101,360,000 (2001 £113,238,000) after taxation and the directors will not be recommending a dividend.

Research and development
The Group conducts research and development in fibre-optical components.

Annual General Meeting
Notice of the Annual General Meeting is enclosed together with a form of proxy.

Share capital
All changes in the share capital of the Company are detailed in note 21.

Directors and their interests
The present directors are listed on pages 8 and 9 and their beneficial interests in the shares of the Company are given on page 19.

Charitable and political contributions
The Group donated £1,377 during the year. No political contributions were made during the year.

Subsequent events
Subsequent events are described on page 48.

Substantial shareholdings
As at 1 March 2003, the following had notified the Company of an interest in 3% or more of the ordinary share capital of the Company:

	Ordinary Shares	
	Number	**%**
Nortel Networks Corporation[(1)]	**61,000,000**	**29.8**
Andrew Rickman[(2)]	**27,673,809**	**13.50**
AMVESCAP[(3)]	**22,032,596**	**10.75**
Marconi Optical Components Limited	**12,891,000**	**6.28**

(1) These shares are held by the following direct or indirect wholly-owned subsidiaries of Nortel Networks Corporation in the following amounts: Nortel Networks Optical Components Limited, (37,210,585) and Nortel Networks Limited (23,789,415).

(2) Includes 9,000,000 ordinary shares held by the Rickman 1998 Accumulation and Maintenance Settlement Trust, of which Andrew Rickman is a trustee.

(3) Includes 8,543,750 ordinary shares held by Invesco Perpetual U.K. Growth Fund, registered in the name of Vidacos Nominees Ltd. None of the ordinary shares are beneficially owned by AMVESCAP.

Employees
The Group's policy is to consult and discuss with employees those matters likely to affect employees' interests. Meetings for this purpose are held at least quarterly. These meetings also seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance. The employee share scheme encourages the involvement of employees in the Group's performance.

It is the policy of the Group that disabled people, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The Group is prepared to modify procedures and equipment, wherever this is practicable, so that full use can be made of an individual's abilities. Training, career development and promotion are, as far as practicable, identical for all employees according to their skills and abilities.

Health, safety and welfare
The directors recognise the high standards required to ensure the health, safety and welfare of the Group's employees at work, its customers and the general public. Group policies and practices are regularly reviewed with the objective that high standards of health and safety are achieved and maintained.

Environment
The Group's environment policy is on page 54.

Creditor payment policy
The Group's current policy concerning the payment of creditors for goods and services is as follows:

- to pay in accordance with its contractual and legal obligations; and

- wherever it is reasonable to do so, to settle the terms of payments with those suppliers when agreeing terms for each transaction and to ensure that those suppliers are made aware of the terms of payments by their inclusion in the relevant contracts.

Creditor days for the Group at 31 December 2002 were 46 days (2001: 41 days) as calculated in accordance with the Companies Act 1985.

Auditors
A resolution to re-appoint auditors, Ernst and Young LLP, will be proposed at the Annual General Meeting.

By order of the board

Philip Davis Company Secretary

19 March 2003

Corporate governance

The directors are committed to high standards of corporate governance and recognise the importance of adopting good corporate governance practices which are in the best interests of the shareholders.

During the twelve months from January to December 2002, the Group complied in all respects with the provisions of the Code of Best Practice set out in Section 1 of the Combined Code except for provisions A3.2 (in respect of part of 2002) and A6.1 as detailed below or in the Directors' Remuneration Report set out on pages 16 to 19.

The board has considered the independence of the non-executive directors and believes that all the non-executive directors are currently independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. For part of 2002, one of our directors, Lori Holland, had a consulting agreement with us for the provision of management consulting services for compensation consisting of cash and reimbursement of expenses. This consulting agreement was terminated with effect from 1 August 2002 whereupon Ms Holland entered into a directors' fee agreement in respect of her duties as Chairman of the Audit Committee. See ''Related party transactions'' on page 46.

The following narrative statement together with the Directors' Remuneration Report set out on pages 16 to 19 explain how the Group has applied the principles of good corporate governance contained in the Combined Code:

The board

For most of 2002, following Mr Joseph Cook's appointment as a non-executive director in February, the board comprised two executive directors and six non-executive Directors. Directors' biographical details are set out briefly on pages 8 and 9. The board is headed by the Chairman and is responsible to shareholders for leading and controlling the Group. It meets at least eight times a year, reviewing trading performance, ensuring adequate funding facilities are in place, setting and monitoring strategy, reviewing risk management processes, examining business expansion opportunities and overseeing shareholder reporting.

In the board's opinion, the presence of six non-executive directors, with David Simpson as the senior independent non-executive, provides a proper balance of authority with the Chairman and the Chief Executive Officer.

When appointing new directors, the board receives recommendations from the Nomination Committee, which considers candidates' experience and knowledge of the technology sector together with their ability to contribute to a specific area of importance to the Company. Due to the infrequent changes to the board there is no formal induction policy for new directors, with appropriate arrangements being made as required. All directors have access to the advice and services of the Company Secretary, and are permitted to take independent professional advice if necessary for the conduct of their duties, at the Group's expense.

To enable it to carry out its responsibilities, detailed information on the Group's operations is supplied to the board and reviewed at its meetings by the Chief Executive Officer and the Chief Financial Officer.

Subject to the provisions of the Companies Act 1985 and the requirement to retire by rotation, there is no limit on the number of years any of our directors may serve as a director. At every Annual General Meeting, any director who was elected or last re-elected at or before the Annual General Meeting held in the third calendar year before is subject to retirement by rotation. A director retiring by rotation may be re-elected at the Annual General Meeting. Our Articles of Association do not require directors to retire at a specific age.

The board has a Compensation Committee, a Nomination Committee and an Audit Committee. The members of these committees are detailed below.

Compensation Committee

The Compensation Committee is responsible for determining the contract terms, remuneration and other benefits of the executive directors and other senior executive officers, including their performance-related pay. The Remuneration Report, which includes details of directors' remuneration and beneficial interests in the Company's share capital, together with information on their service contracts and letters of appointment, is set out on pages 16 to 19.

The members of the Compensation Committee are:

W. Arthur Porter (Chairman)
David Simpson
Lori Holland

Nomination Committee
The Nomination Committee is responsible for nominating candidates to fill board vacancies and making recommendations on board composition and balance.

The members of the Nomination Committee are:

Andrew Rickman (Chairman)
David Simpson
Lori Holland
W. Arthur Porter

Audit Committee
The Audit Committee meets not less than four times annually and is responsible for, among other things, monitoring and planning, and reviewing the Group's annual and quarterly reports and accounts. It also involves the Group's auditors in that process, focusing particularly on compliance with legal requirements, accounting standards and the requirements of the UK Financial Services Authority, NASDAQ and the US Securities and Exchange Commission, and on an ongoing basis reviews the effectiveness of our systems of internal financial controls. It also advises the board on the appointment of the Group's auditors together with their remuneration for both audit and non-audit work. The ultimate responsibility for reviewing and approving our annual and quarterly reports and accounts remains with the board of directors.

The members of the Audit Committee are:

Lori Holland (Chairman)
David Simpson
W. Arthur Porter

Communication with shareholders
As part of the Group's communication activities, detailed presentations are made to major institutional investors on a regular basis, including whenever a major event occurs. The board takes feedback received from these presentations and from other communications for shareholders into consideration wherever appropriate.

The Annual General Meeting is the occasion when the directors are routinely available to answer questions from shareholders, and the directors view this public accountability for their actions as being the main purpose of the meeting.

Accountability and Audit
The Board believes that it has an ongoing process in accordance with the guidance of the Turnbull Committee on internal control, for identifying, evaluating and managing the significant risks faced by the Group. This process is described more fully below and has been in place for the year under review by the board and up to the date of approval of the annual accounts for the financial year ended 31 December 2002.

The Group does not currently have an internal audit function but as the Group continues to grow this is kept under review by the board.

The board has reviewed the effectiveness of its internal controls over operational and financial risks in the following manner:

- the board met eight times during the year. At each such board meeting, executive briefings were presented to provide the board with detailed operational and financial information on the Group's activities and plans. Specific significant risks presented by the management team were discussed as deemed necessary; and

- the Group's auditors were engaged to review the Group's reported results and balance sheet at each quarter end, and to audit the annual results and balance sheet which are included in this report.

In December 2002, the Group carried out an annual assessment of the effectiveness of internal controls by conducting a formal review of its strategic business risks and the management actions in place for monitoring and minimising these risks. The results of this review have been reported to the board and a suitable risk management programme has been developed.

The board had overall responsibility for the Group's systems of internal control and for monitoring their effectiveness. Such systems can only provide reasonable and not absolute assurance against material misstatements or loss. The key elements of the Group's internal controls are outlined below.

Control environment – the existence of a clear organisational structure and well-defined lines of responsibility and delegation of appropriate authority. The integrity and competence of personnel are ensured through high recruitment standards, training and development programmes.

Risk management – business strategy and plans are reviewed by the board. Appraisals and evaluations of the financial implications are undertaken prior to commitments on major projects.

Financial reporting – a comprehensive system of budgets and forecasts with monthly reporting of actual results against targets.

Control procedures – the Group currently has authorisation levels and procedures. Many of the processes are documented in the Group's quality manuals. The systems of internal financial controls are formally being documented and updated to take into account the Group's growth. In addition, the Audit Committee meets with the Group's auditors to discuss the results of their audit work.

Going Concern

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the forseeable future. The reasons for this expectation are discussed further in the "Chairman's and Chief Executive Officer's Statement" and the "Review of Business" above. For these reasons, the directors continue to adopt the going-concern basis in preparing the accounts.

Directors' remuneration report

Information not subject to audit

Compensation Committee and advisors

The Group's Compensation Committee is composed entirely of the non-executive directors identified on page 13 and is chaired by W. Arthur Porter. The committee makes recommendations to the board, within agreed terms of reference, on an overall remuneration package for executive directors and other senior executives. The fees for the non-executive directors are determined by the board within the limits stipulated in the Articles of Association.

During 2002 the committee appointed Watson Wyatt Partners, a leading firm of executive remuneration consultants, to assess comparability to the marketplace and in particular to the remuneration policies of the Group's competitors or other similar companies. As of 2002, these comparator companies were: Stratos Lightwave, ONI Systems, New Focus, JDS Uniphase, Ditech Communications, Corvis, Avanex, Finisar and Harmonic Inc (the ''Comparator Companies'').

Remuneration policy

The Company's policy on directors' remuneration for 2003 and subsequent financial years is that the overall package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package for executive directors consists of basic salary, benefits, share options, performance related bonuses and pensions, with a significant proportion based on performance and dependent upon the achievement of demanding targets. Consideration is given to pay and employment policies elsewhere in the Group, especially when determining annual salary increases.

The details of individual components of the directors' remuneration package and terms of engagement are as follows:

Basic salary and benefits: The salary and benefits are reviewed annually by the Compensation Committee after a review of the individual's performance and the overall performance of the business. Where appropriate the Committee has regard to published remuneration information and to specific advice from independent remuneration consultants. Inflation is also taken into consideration. Benefits principally comprise a car and private healthcare.

Share options: Share options to the executive directors are granted periodically by the board on the recommendation of the Compensation Committee, which may take advice from independent remuneration consultants. Share option grants may take the form of performance options, or be granted as time vesting options, or may on occasion include both performance and time vesting elements as criteria for vesting.

Where performance options are granted, the performance criteria used take the form of specified targets and principally relate to sales and to profits of the Company before interest and tax. The performance criteria are measured on a quarterly basis and have been chosen to align executive directors' interests with those of shareholders and to support the Company's objective in achieving sustained growth and long-term profitability.

Where time vesting options are granted, these vest according to a set profile, typically with a quarter of the options vesting twelve months from the date of grant, with the remaining three-quarters vesting monthly over the next three years. As the Company is not yet a mature company operating in a stable environment, the grant of time vesting options is considered by the Compensation Committee to be appropriate to incentivise and reward executive directors over the longer term for achieving growth and profitability for the Group, as reflected in share price appreciation.

Where a combination of performance and time vesting criteria are included in a single option grant the effect is for the performance targets (relating to sales, reduction in overhead costs and to profit before interest and tax) to accelerate the vesting of options which would otherwise vest on the typical time vesting basis.

Share options are also granted the non-executive directors. Such grants are made annually at or around the time of the Annual General Meeting. The level of such grants is determined by reference to annual grants of Comparator Companies. Share options granted to non-executive directors do not contain performance criteria and vest immediately on grant, with the intention of making them akin to a grant of shares in the Company. The share options granted to the non-executive directors are a key constituent of their remuneration package (the other element being fees, as described below).

All options granted are at the market price prevailing at the date of grant.

Performance related bonuses: The Compensation Committee determines a bonus for the executive directors based on criteria agreed with that person at the beginning of the financial year and, usually, at the beginning of each financial quarter. The bonus is designed to provide a direct link between each individual's remuneration and the performance of the Company in the short term. The performance criteria for the bonus include the achievement of budgeted profits and revenue growth of the Company and these are assessed following each publication of the Company's quarterly results.

Bonuses for the executive directors are based on revenue, profit before interest and tax and, if threshold financial targets are met, the achievement of personal objectives.

Pensions: The Chief Executive Officer is a member of the Bookham Technology plc Employee Pension Scheme (see note 24), a defined contribution scheme, and receives contributions from the Group equivalent to 9% of his basic salary. The Chairman is a member of a personal defined contribution pension plan and receives pension contributions from the Group equivalent to 20% of his basic salary.

Fees: The fees for non-executive directors are determined by the board within the limits stipulated in the Articles of Association. The non-executive directors are not involved in any discussions or decision about their own remuneration. The remuneration of the non-executive directors takes the form of fees and annual grants of share options, which are set by the board having taken advice from independent remuneration consultants on appropriate levels and with reference to the annual grants of Comparator Companies.

Service contracts and letters of appointment: The Company's policy is for executive directors to have rolling contracts of employment with provision for termination on no more than 12 months' notice. Payments on termination are restricted to the value of salary for the notice period. None of the non-executive directors have service contracts. Letters of appointment provide for an initial specified period of appointment, (generally until the Annual General Meeting in the third year after appointment) subject to review. There are no predetermined special provisions for executive or non-executive directors with regard to compensation in the event of loss of office.

Service contracts and letters of appointment

The service contracts and letters of appointment of the directors include the following terms:

	Date of Contract	Unexpired Term*	Notice Period
Executive Directors			
Andrew Rickman	23 July 2001	Rolling	12 months
Giorgio Anania	23 July 2001	Rolling	12 months
Non-Executive Directors			
David Simpson	1 August 2000	Rolling**	6 months
Robert Rickman	20 March 2000	Rolling**	6 months
Lori Holland	20 March 2000	Rolling**	6 months
Arthur Porter	20 March 2000	Rolling**	6 months
Jack Kilby	20 March 2000	Rolling**	6 months
Joseph Cook	4 February 2002	Rolling**	6 months

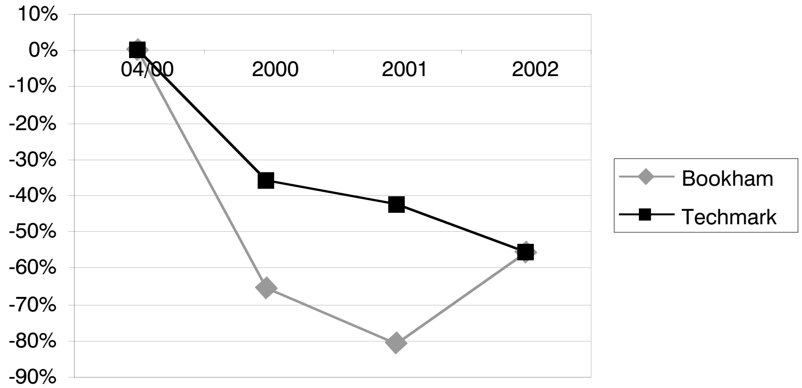
* All terms of appointment are subject to the provisions of the Companies Act 1985 and the requirement to retire by rotation.

** All letters of appointment are initially for a specified period of appointment, subject to review.

Biographical details of all directors can be found on pages 8 and 9.

Performance graph

The graph below shows the Company's share price since its initial public offering in 2000, compared with the FTSE Techmark 100 Index.



The FTSE Techmark 100 Index was selected as it comprises companies similar to the Company.

Information subject to audit

Directors' remuneration

The remuneration of the directors is as follows:

Name	Salary or Fees £000	Benefits In Kind £000	Bonus £000	Total 2002 £000	Total 2001 £000
Andrew Rickman	**167**	**17**	**11**	**195**	274
Giorgio Anania	**190**	**11**	**172**	**373**	237
David Simpson	**7**	**–**	**–**	**7**	7
Lori Holland	**17**	**–**	**–**	**17**	6
W. Arthur Porter	**7**	**–**	**–**	**7**	6
Jack St. Clair Kilby	**6**	**–**	**–**	**6**	6
Robert Rickman	**7**	**–**	**–**	**7**	6
Joseph Cook	**2**	**–**	**–**	**2**	–

Pension entitlements

The pension entitlements of the directors for the year ended 31 December 2002 took the form of contributions to money purchase pension schemes and were as follows:

	Total 2002	Total 2001
Andrew Rickman	**22**	23
Giorgio Anania	**16**	11

Directors' interests

The directors' interests in the company's ordinary shares were as set out below.

	2002	2001
Andrew Rickman*	**27,673,809**	27,673,809
David Simpson	**436,561**	436,561
Robert Rickman**	**1,148,878**	1,148,878
Giorgio Anania	**237,630**	237,630

* Includes 9,000,000 ordinary shares held by the Rickman 1998 Accumulation and Maintenance Settlement Trust.

** Includes 999,000 ordinary shares held by Marion Rickman, wife of Robert J. Rickman.

Interests in options

The Compensation Committee determines the grant of share options to the executive directors and the board determines the grant of share options to non-executive directors. The options granted during the year were at the prevailing market prices and the conditions for their exercise are described in note 21. Details of the share options held by the directors are as follows:

Name	Date of Grant	31 December 2001	Granted during Year	Exercised During Year	31 December 2002	Exercise Price per ordinary share £	Date from which Exercisable	Expiry Date
Giorgio Anania	**07/09/98**	280,000	**–**	**–**	**280,000**	**1.083**	**07/03/00**	**07/09/08**
	24/03/99	180,000	**–**	**–**	**180,000**	**1.200**	**31/12/00***	**24/03/09**
	02/04/99	600,000	**–**	**–**	**600,000**	**1.200**	**02/10/00**	**02/04/09**
	13/03/00	180,000	**–**	**–**	**180,000**	**10.000**	**31/12/01***	**13/03/10**
	03/08/01	1,000,000	**–**	**–**	**1,000,000**	**1.710**	**03/02/03**	**03/08/11**
	08/02/02	–	**224,000**	**–**	**224,000**	**1.220**	**08/08/03**	**08/02/12**
	14/11/02	–	**1,207,360**	**–**	**1,207,360**	**0.780**	**14/11/03****	**14/11/12**
David Simpson	**15/04/98**	333,600	**–**	**–**	**333,600**	**0.847**	**15/10/99**	**15/04/08**
	18/06/99	76,110	**–**	**–**	**76,110**	**1.200**	**18/06/99**	**18/06/09**
	30/04/01	64,378	**–**	**–**	**64,378**	**3.230**	**30/04/01**	**30/04/11**
	12/06/02	–	**12,000**	**–**	**12,000**	**0.790**	**12/06/02**	**12/06/12**
Lori Holland	**20/01/99**	256,338	**–**	**–**	**256,338**	**1.083**	**20/01/99**	**20/01/09**
	18/06/99	76,110	**–**	**–**	**76,110**	**1.200**	**18/06/99**	**18/06/09**
	30/04/01	64,378	**–**	**–**	**64,378**	**3.230**	**30/04/01**	**30/04/11**
	12/06/02	–	**12,000**	**–**	**12,000**	**0.790**	**12/06/02**	**12/06/12**
W. Arthur Porter	**15/04/98**	243,235	**–**	**–**	**243,235**	**0.847**	**15/10/99**	**15/04/08**
	30/04/01	64,378	**–**	**–**	**64,378**	**3.230**	**30/04/01**	**30/04/11**
	12/06/02	–	**12,000**	**–**	**12,000**	**0.790**	**12/06/02**	**12/06/12**
Jack St. Clair Kilby	**31/01/00**	76,110	**–**	**–**	**76,110**	**4.322**	**31/01/00**	**31/01/10**
	30/04/01	40,236	**–**	**–**	**40,236**	**3.230**	**30/04/01**	**30/04/11**
	12/06/02	–	**12,000**	**–**	**12,000**	**0.790**	**12/06/02**	**12/06/12**
Robert J. Rickman	**18/06/99**	76,110	**–**	**–**	**76,110**	**1.200**	**18/06/99**	**18/06/09**
	30/04/01	64,378	**–**	**–**	**64,378**	**3.230**	**30/04/01**	**30/04/11**
	12/06/02	–	**12,000**	**–**	**12,000**	**0.790**	**12/06/02**	**12/06/12**

* Options which vest and become exercisable upon completion of certain performance criteria, being the achievement of specified revenue targets over a specified two year period, provided certain threshold cost conditions are met.

** Options which are capable of earlier exercise on satisfaction of performance criteria, being the achievement of specified revenue targets, specified overhead cost reduction targets and specified targets for profits before interest and tax over the period to 2005.

140,488 options lapsed during 2002 following the resignation of Mr. Graham Miller on 31/12/01.

Gains made by directors on share options

The table below shows gains made by individual directors from the exercise of share options and the market price of the Company's shares at the dates of exercise:

	Year ended 31 December 2002		2001	
	Gain £000	**Market Price £/share**	Gain £000	Market Price £/share
Robert Rickman	–	–	139	£3.31
David Simpson	–	–	1,531	£6.90
David Simpson	–	–	139	£3.31

All share options granted to directors were granted under either the 1995 Scheme or the 1998 Scheme, details of which are included in note 21.

The market price of the Company's shares on 31 December 2002 was £0.75 per share and the high and low share prices during the year were £1.78 and £0.45 respectively.

Statement of directors' responsibility

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going-concern basis. The directors are responsible for keeping proper accounting records and for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregular activities.

Independent auditors' report to the members of Bookham Technology plc

We have audited the Group's financial statements for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 32. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Operating and Financial Review and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss of the Group for the year then ended; and

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst and Young LLP
Registered Auditors
Reading
19 March 2003

Consolidated profit and loss account

for the year ended 31 December 2002

	Note	Before Exceptional Items £000	Exceptional Items (Note 3) £000	2002 £000	2001 £000
Turnover[1]					
Continuing operations					
Ongoing		**6,630**	**–**	**6,630**	21,921
Acquisitions: NNOC		**12,779**	**–**	**12,779**	–
MOC		**15,194**	**–**	**15,194**	–
Group turnover	1, 2	**34,603**	**–**	**34,603**	21,921
Cost of sales		**(52,653)**	**(21,549)**	**(74,202)**	(47,534)
Gross loss		**(18,050)**	**(21,549)**	**(39,599)**	(25,613)
Administrative expenses					
Research and development		**(33,527)**	**(6,244)**	**(39,771)**	(77,609)
National insurance on share options		**–**	**–**	**–**	782
Selling, general and admin expenses		**(17,387)**	**(3,744)**	**(21,131)**	(21,274)
Other		**(1,249)**	**(5,126)**	**(6,375)**	(527)
		(52,163)	**(15,114)**	**(67,277)**	(98,628)
Other operating income	6	**175**	**–**	**175**	76
Operating loss					
Continuing operations					
Ongoing		**(66,832)**	**(36,663)**	**(103,495)**	(99,015)
Acquisitions (NNOC)	20	**(3,137)**	**–**	**(3,137)**	–
Discontinued operations	20	**(69)**	**–**	**(69)**	(25,150)
Group operating loss	2	**(70,038)**	**(36,663)**	**(106,701)**	(124,165)
Interest receivable	7	**5,795**	**–**	**5,795**	11,405
Interest payable	8	**(454)**	**–**	**(454)**	(478)
Loss on ordinary activities before taxation	3	**(64,697)**	**(36,663)**	**(101,360)**	(113,238)
Tax on loss on ordinary activities	9	**–**	**–**	**–**	–
Loss on ordinary activities after taxation		**(64,697)**	**(36,663)**	**(101,360)**	(113,238)
Loss per ordinary share (basic & diluted) (£)	10	**(0.43)**	**(0.24)**	**(0.67)**	(0.88)

(1) Turnover has been analysed between continuing activities and acquired activities. An analysis of operating loss between existing and MOC acquired activities has not been given, as the directors do not believe that such an analysis would be meaningful or possible due to the integration of manufacturing facilities, research and development activities and administrative functions that has already taken place. The analysis of operating loss for the acquisition relates to NNOC only.

Statement of total recognised gains and losses

	Note	2002 £000	2001 £000
Loss for the financial year	22	**(101,360)**	(113,238)
Exchange difference on translation of subsidiaries	22	**44**	1
Total losses recognised in the year		**(101,316)**	(113,237)

The notes on pages 27 to 50 form an integral part of these financial statements.

Consolidated balance sheet

as at 31 December 2002

	Note	2002 £000	2001 £000
Fixed Assets			
Intangible assets	11	**42,553**	1,666
Tangible assets	12	**51,442**	34,579
		93,995	36,245
Current Assets			
Stocks	14	**23,679**	2,564
Debtors	15	**21,405**	5,001
Cash at bank and in hand		**105,418**	184,814
		150,502	192,379
Creditors: amounts falling due within one year	16	**(29,302)**	(17,675)
Net current assets		**121,200**	174,704
Total assets less current liabilities		**215,195**	210,949
Creditors: amounts falling due after more than one year	17	**(31,329)**	–
Provisions for liabilities and charges	18	**(3,428)**	(79)
Net Assets		**180,438**	210,870
Capital and reserves			
Called-up share capital	21, 22	**683**	434
Share premium account	22	**404,187**	338,576
Other reserves	22	**10,740**	5,716
Profit and loss account	22	**(235,172)**	(133,856)
Equity shareholders' funds	22	**180,438**	210,870

Approved by the board of directors on 19 March 2003 and signed on its behalf by:

Andrew Rickman
Director

The notes on pages 27 to 48 form an integral part of these financial statements.

Company balance sheet
as at 31 December 2002

	Note	2002 £000	2001 £000
Fixed Assets			
Intangible assets	11	**42,553**	1,666
Tangible assets	12	**39,056**	34,579
Investments	13	**107**	62
		81,716	36,307
Current Assets			
Stocks	14	**15,858**	2,524
Debtors	15	**42,071**	4,784
Cash at bank and in hand		**103,441**	184,722
		161,370	192,030
Creditors: amounts falling due within one year	16	**(25,980)**	(17,405)
Net current assets		**135,390**	174,625
Total assets less current liabilities		**217,106**	210,932
Creditors: amounts falling due after more than one year	17	**(31,058)**	–
Provisions for liabilities and charges	18	**(2,433)**	(79)
Net Assets		**183,615**	210,853
Capital and reserves			
Called-up share capital	21, 22	**683**	434
Share premium account	22	**404,187**	338,576
Other reserves	22	**10,740**	5,716
Profit and loss account	22	**(231,995)**	(133,873)
Equity shareholders' funds	22	**183,615**	210,853

Approved by the board of directors on 19 March 2003 and signed on its behalf by:

Andrew Rickman
Director

The notes on pages 27 to 48 form an integral part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Net cash outflow from operating activities	26	**(61,684)**	(44,385)
Return on investments and servicing of finance:			
Interest received		**5,776**	11,405
Interest paid		**(391)**	(4)
Interest element of finance lease rentals		**(43)**	(301)
		5,342	11,100
Capital expenditure and financial investment			
Purchase of intangible fixed assets		**(95)**	(1,812)
Purchase of tangible fixed assets		**(10,102)**	(39,896)
Proceeds on disposal of fixed assets		**44**	96
		(10,153)	(41,612)
Acquisitions and disposals			
Sale of subsidiary undertaking		**–**	–
Net overdrafts disposed of with subsidiary undertaking		**(69)**	–
Purchase of subsidiary undertakings		**(12,060)**	(6,796)
Net cash outflow before management of liquid resources and financing		**(78,624)**	(81,693)
Management of liquid resources			
Reduction of short-term investments	27	**–**	1,525
Financing			
Issue of ordinary share capital	22	**125**	1,256
Expenses of share issues	22	**–**	–
Capital element of finance lease rental payments	27	**(897)**	(1,357)
		(772)	(101)
(Decrease)/increase in cash	27	**(79,396)**	(80,269)
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	27	**(79,396)**	(80,269)
Cash outflow from finance lease repayments	27	**897**	1,357
Cash inflow from decrease in liquid resources	27	**–**	(1,525)
(Decrease)/increase in net funds resulting from cashflows	27	**(78,499)**	(80,437)
Loans arising on acquisition	27	**(31,359)**	–
(Decrease)/increase in net funds in the year	27	**(109,858)**	(80,437)
Net funds at beginning of the year	27	**183,917**	264,354
Net funds end of the year	27	**74,059**	183,917

The notes on pages 27 to 48 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2002

1 Accounting policies
The financial information contained in this report has been prepared in accordance with applicable accounting standards in the United Kingdom.

A summary of the principal accounting policies, which have been applied for all periods covered by this report, is set out below.

1) Basis of accounting
In preparing the financial statements for the current year, the Group has adopted FRS 19 'Deferred Tax' and the transitional arrangements of FRS 17 'Retirement Benefits' relating to accounting periods ending on or after 22 June 2002. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement. Adoption of FRS 19 has not required any revisions to the financial statements in either the current or prior years.

The financial information in this report has been prepared under the historical cost convention and on a going-concern basis.

2) Group consolidation
The Group accounts consolidate the accounts of Bookham Technology plc and all its subsidiary undertakings drawn up to 31 December each year. No profit or loss account is presented for Bookham Technology plc as permitted by section 230 of the Companies Act 1985.

Marconi Optical Components ("MOC") and Nortel Networks Optical Components ("NNOC") have been included in the Group accounts using the acquisition method of accounting. Accordingly, the Group Profit and Loss Account and Statement of Cash Flows include the results and cash flows of MOC for the 11 month period from its acquisition on 1 February 2002, and NNOC for the 7 week period from its acquisition on 8 November 2002.

The Group Profit and Loss Account and Statement of Cash Flows include the results and cash flows of Measurement Microsystems Inc. for the 7 month period until its disposal on 1 August 2002.

Intra-Group sales and profits are eliminated fully on consolidation.

3) Turnover
Turnover represents the amounts (excluding value-added tax) derived from the provision of goods and services to third-party customers during the period.

Turnover is recognised upon shipment.

The Group uses the percentage-of-completion method, based on costs incurred and milestones accepted by the customer for recognising revenues on fixed-fee, non-recurring engineering contracts.

4) Research and development expenditure
Research and development expenditure is charged to the profit and loss account in the period in which the expenditure is incurred.

5) Goodwill
Goodwill is calculated as the surplus of cost over fair value attributed to the net assets (excluding goodwill) of subsidiaries. Goodwill is amortised on a straight line basis over its estimated useful life. Goodwill is reviewed in accordance with FRS 10 and impairment loss is included in accumulative amortisation.

6) Intangible fixed assets and amortisation
Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Intangible fixed assets are stated at cost less amortisation. Amortisation is provided by the Group to write off the cost of intangible fixed assets on a straight-line basis over their estimated useful economic lives. Intangible fixed assets consist of patent licence fees payable to third parties and patents acquired from third parties.

7) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided by the Group to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful economic lives as follows:

Buildings	Twenty years
Plant and machinery	Three to five years
Fixtures, fittings and equipment	Three to five years
Computer equipment	Three years

No depreciation is provided for land or for assets in the course of construction.

8) Investments

Investments in subsidiary undertakings are shown at cost less provision for any impairment in value.

9) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all direct costs of manufacture and a proportion of manufacturing overheads.

10) Government grants

Government grants received in respect of research and development expenditure are credited to the profit and loss account in the period to which the relevant expenditure relates.

11) Leases

Assets held under finance leases are capitalised and depreciated over their estimated useful lives or the term of the lease, whichever is shorter. Future instalments under such leases, net of financial charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligations.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

12) Foreign currency translation

In individual companies, balances denominated in foreign currencies are translated into reporting currencies at the rates ruling at the year end. Transactions in foreign currencies are translated into reporting currencies using rates of exchange ruling at the date of the transaction. Exchange differences are dealt with in the profit and loss account.

On consolidation, the balance sheets of the Group's overseas subsidiary undertakings are translated into sterling at rates of exchange ruling at the year end. The profit and loss accounts of the Group's overseas subsidiary undertakings are translated into sterling using average rates of exchange. Translation differences are taken to reserves.

13) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

- deferred tax assets are recognised only to the extent that the directors consider that it is 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 measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

14) Pension costs

The Group pays contributions into the Group defined contribution pension scheme for the executive directors and employees. In addition, the Company has a defined contribution plan for the benefit of one director. The charge to the profit and loss account reflects those contributions payable in the period. The Group has no other liability in respect of these pension contributions.

15) Share options issued to employees

The Group recognises as a charge to the profit and loss account (''stock compensation expense'') the amount by which the intrinsic value of any share options issued to employees exceeds their respective exercise prices at the date of grant. The intrinsic value is assessed by reference to the market value of the Company's shares. These costs are recognised over the vesting period. Amounts charged to the profit and loss account are included in other reserves.

16) Warrants and share options issued to non-employees

Where share options or warrants are granted to non-employees in respect of services rendered, the fair value of the consideration received is recognised as a cost over the period to which the services relate. With the exception of costs related to fundraising, which are included in issue costs and charged to the share premium account, costs are charged to the profit and loss account.

2 Segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within the ordinary activities of the Business, stated net of value added tax or similar taxes. The Group has one class of business: the design, development, manufacture and marketing of fibre-optic components. It operates in three principle geographic markets, the United Kingdom, European Union (excluding UK) and North America.

Turnover profit/(loss) before taxation and net assets are analysed below by geographical area:

Turnover

	2002 **£000**	2001 £000
Sales to third parties by destination:		
United Kingdom	**21,273**	13,306
North America	**10,613**	3,095
European Union (excl UK)	**2,373**	375
Japan	**59**	3,862
Rest of the World	**285**	1,283
	34,603	21,921

	2002 **£000**	2001 £000
Sales to third parties by origin:		
United Kingdom	**34,577**	21,921
European Union (excl. UK)	**24**	–
North America	**2**	–
	34,603	21,921

Profit/(loss) before taxation

	2002 **£000**	2001 £000
Continuing operations		
United Kingdom	**(103,764)**	(124,170)
North America	**(1,832)**	–
European Union (excl UK)	**(1,049)**	–
Rest of the World	**13**	5
	(106,632)	(124,165)
Discontinued operations		
North America	**(69)**	–
	(106,701)	(124,165)
Net interest and income from activities	**5,341**	10,927
Loss on ordinary activities before taxation	**(101,360)**	(113,238)

Net assets

	2002 **£000**	2001 £000
Continuing operations		
United Kingdom	**183,617**	210,853
North America	**(2,099)**	421
European Union (excl UK)	**(1,153)**	–
Rest of the World	**73**	66
	180,438	211,340
Discontinued operations		
North America	**–**	(470)
Total net assets	**180,438**	210,870

3 Loss on ordinary activities before taxation

This is stated after charging/(crediting):

	2002 £000	2001 £000
Auditors' remuneration:		
Audit	**452**	139
Other services*	**107**	91
Amortisation:		
Goodwill	**442**	1,679
Patents, licences and other	**894**	1,147
Depreciation:		
Owned assets	**8,261**	7,137
Assets held under finance leases	**1,031**	1,224
Loss/(gain) on disposal of fixed assets	**(44)**	(8)
Loss/(gain) on foreign exchange	**(500)**	194
Amounts payable under operating leases:		
Hire of plant and machinery	**665**	166
Land and buildings	**2,770**	1,153
Exceptional items:		
Impairment of intangible fixed assets	**1,005**	22,396
Impairment of tangible fixed assets	**27,052**	32,597
Stock write-downs and order cancellation costs	**980**	4,653
Voluntary severance costs	**2,499**	3,190
Restructuring costs	**5,127**	–
	36,663	62,836
Analysed as:		
Cost of sales	**21,549**	17,358
Research and development expenses	**6,244**	39,473
Selling, general and administrative expenses	**3,744**	6,005
Other operating expenses	**5,126**	–
Total exceptional items	**36,663**	62,836

* In addition, auditors received £1,013,000 for services in connection with their role as Reporting Accountants in accordance with UK Listing Authority requirements and due diligence relating to the acquisitions of MOC and NNOC. These amounts are included in the costs of acquisitions (Note 20).

4 Staff costs

The average number of persons employed by the Group (including executive directors) during the period, analysed by category, was as follows:

	2002 £000	2001 £000
Administration	**78**	78
Sales	**55**	48
Research and development	**283**	266
Manufacturing	**635**	387
	1,051	779

	2002 £000	2001 £000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**23,250**	26,306
Stock compensation expense	**193**	329
Social security costs	**2,059**	2,544
Other pension costs	**1,437**	999
	26,939	30,178

Payroll costs exclude the unpaid portion of the provision for National Insurance liabilities on share options referred to in Note 18.

5 Directors

Details, for each director, of remuneration, compensation for loss of office, pension entitlements and interests in share options are set out on pages 16 to 19.

6 Other operating income

	2002 £000	2001 £000
Sale of scrap and other income	**175**	76

7 Other interest receivable and similar income

	2002 £000	2001 £000
Bank interest	**5,795**	11,405

8 Interest payable and similar charges

	2002 £000	2001 £000
Finance charges payable in respect of finance leases	**146**	478
Interest on loan notes	**308**	–
	454	478

Finance charges payable includes £83,000 (2001: £173,000) of amortisation in respect of warrants issued to a leasing Company in 1999, as described in Note 21.

9 Taxation

	2002 £000	2001 £000
Tax on loss on ordinary activities:		
Current	**–**	–
Deferred (Note 18)	**–**	–
	–	–

Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are reconciled below:

	2002 £000	2001 £000
Loss on ordinary activities before tax	**(101,360)**	(113,238)
Loss on ordinary activities multiplied by the tax rate above	**(30,048)**	(33,971)
Effect of:		
Disallowed expenses and non-taxable income	**192**	111
Depreciation in excess of capital allowances	**11,153**	16,072
Tax losses (not recognised)	**18,703**	17,788
Current tax charge for the period	**–**	–

10 Loss per ordinary share

Loss per ordinary share has been calculated by dividing the loss for the financial year by the weighted average number of ordinary shares in issue during the year, as set out below:

	2002 £000	2001 £000
Loss for the financial year (£000)	**(101,360)**	(113,238)
Weighted average number of shares	**150,996,196**	128,533,108
Loss per ordinary share (basic and diluted) (£)	**(0.67)**	(0.88)

The Group had share options and warrants which are potential ordinary shares outstanding during the period. Conversion of these potential ordinary shares into ordinary shares would decrease the net loss per ordinary share and would not therefore be dilutive.

11 Intangible fixed assets

	Company			Group		
	Goodwill £000	Patents & Licences £000	Total £000	Goodwill £000	Patents & Licences £000	Total £000
Cost						
At 1 January 2002	**–**	**2,046**	**2,046**	**18,224**	**8,703**	**26,927**
Additions during the year	**–**	**92**	**92**	**–**	**92**	**92**
Acquisition (Note 20)	**35,352**	**7,784**	**43,136**	**35,352**	**7,784**	**43,136**
Disposals during the year	**–**	**–**	**–**	**(18,224)**	**(6,657)**	**(24,881)**
At 31 December 2002	**35,352**	**9,922**	**45,274**	**35,352**	**9,922**	**45,274**
Accumulated amortisation						
At 1 January 2002	**–**	**380**	**380**	**18,224**	**7,037**	**25,261**
Charge during the year	**442**	**894**	**1,336**	**442**	**894**	**1,336**
Impairment during the year	**–**	**1,005**	**1,005**	**–**	**1,005**	**1,005**
Disposals during the year	**–**	**–**	**–**	**(18,224)**	**(6,657)**	**(24,881)**
At 31 December 2002	**442**	**2,279**	**2,721**	**442**	**2,279**	**2,721**
Net book value at 31 December 2002	**34,910**	**7,643**	**42,553**	**34,910**	**7,643**	**42,553**
Net book value at 31 December 2001	**–**	**1,666**	**1,666**	**–**	**1,666**	**1,666**

ASOC related patents and licences were impaired during the year due to a decline in market growth of the ASOC product line. These assets were being amortised over three and five years.

The goodwill and patents resulting from the 2001 acquisition of Measurement Microsystems A-Z Inc, which were fully written down at the beginning of the year, were disposed of as part of the divestment in the Company during the year.

12 Tangible fixed assets

Group	Freehold land £000	Buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Computer equipment £000	Total £000
Cost						
At 1 January 2002	12,324	–	59,520	5,843	6,662	84,349
Additions during the year	–	–	8,469	108	3,072	11,649
Acquisitions (Note 20)	4,113	7,645	28,471	759	571	41,559
Disposals	–	–	(10,866)	–	(311)	(11,177)
At 31 December 2002	16,437	7,645	85,594	6,710	9,994	126,380
Accumulated depreciation						
At 1 January 2002	3,686	–	38,632	2,764	4,688	49,770
Charge for the year	–	1,088	6,856	795	553	9,292
Disposals	–	–	(10,866)	–	(311)	(11,177)
Impairment during the year	–	–	23,722	–	3,331	27,053
At 31 December 2002	3,686	1,088	58,344	3,559	8,261	74,938
Net book value at 31 December 2002	12,751	6,557	27,250	3,151	1,733	51,442
Net book value at 31 December 2001	8,638	–	20,888	3,079	1,974	34,579

Company	Freehold land £000	Buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Computer equipment £000	Total £000
Cost						
At 1 January 2002	12,324	–	59,344	5,843	6,346	83,857
Additions during the year	–	–	8,330	108	3,072	11,510
Acquisitions (Note 20)	4,113	7,645	14,486	759	571	27,574
Transfers	–	–	1,029	–	–	1,029
Disposals	–	–	(10,690)	–	–	(10,690)
At 31 December 2002	16,437	7,645	72,499	6,710	9,989	113,280
Accumulated depreciation						
At 1 January 2002	3,686	–	38,456	2,762	4,375	49,279
Charge for the year	–	1,088	6,146	795	552	8,581
Disposals	–	–	(10,689)	–	–	(10,689)
Impairment during the year	–	–	23,722	–	3,331	27,053
At 31 December 2002	3,686	1,088	57,635	3,557	8,258	74,224
Net book value at 31 December 2002	12,751	6,557	14,864	3,153	1,731	39,056
Net book value at 31 December 2001	8,638	–	20,888	3,081	1,972	34,579

ASOC related equipment was impaired during the year due to a decline in market growth of the ASOC product line. These assets were being amortised in line with the Group policy.

The net book value of assets held under finance leases was £nil at 31 December 2002 (2001 £1,031,000). Assets held under finance leases are included in plant and machinery above.

Fixed assets include assets in the course of construction amounting to £nil at 31 December 2002 (2001 £7,569,000).

13 Investments in Group undertakings

Details of the investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

Name of undertaking	Activity	Country of incorporation	Proportion of voting rights and shares held
Bookham Technology Inc	Manufacturing & Distribution	USA	100%
Bookham Technology KK	Distribution	Japan	100%
Bookham Acquisition Inc	Manufacturing & Distribution	Canada	100%
Bookham Exchange Inc	Intermediate holding Company	Canada	100%α
Bookham (Switzerland) AG	Manufacturing & Distribution	Switzerland	100%
Measurement Microsystems A-Z Inc	Research & Development	Canada	25%ß

α Held by Bookham Acquisition Inc.

ß Held by Bookham Exchange Inc.

Subsidiary undertakings operate principally in their country of incorporation and all of the above companies have been included in the Group consolidation.

The Group's investment in Measurement Microsystems A-Z Inc ("MM") was fully provided at 1 January and 31 December 2002. During the year, the Group disposed of 75% of this investment as reflected in note 20. As part of the disposal it was agreed that the Group would have no representation on the board of, nor influence over the management of, MM and therefore its results have not been consolidated since the date of disposal and the Group's interest in MM has been treated as an investment from the date of disposal.

Company	Subsidiary undertakings £000	Total £000
Cost		
As at 1 January 2002	**6,858**	**6,858**
Additions	**45**	**45**
Disposals	**–**	**–**
As at 31 December 2002	**6,903**	**6,903**
Provision		
As at 1 January and 31 December 2002	**6,796**	**6,796**
Net book value at 31 December 2002	**107**	**107**
Net book value at 1 January 2002	**62**	**62**

14 Stocks

	Company		Group	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Raw Materials	**4,172**	1,589	**5,553**	1,629
Work in progress	**7,790**	15	**7,553**	15
Finished goods	**3,896**	920	**10,573**	920
	15,858	2,524	**23,679**	2,564

The difference between purchase price or production cost of stocks and their replacement cost is not material.

15 Debtors

	Company		Group	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Trade debtors	**17,776**	822	**17,781**	822
Amounts due from Group undertakings	**21,411**	–	**–**	–
Other debtors	**1,278**	1,751	**1,864**	1,791
Prepayments and accrued income	**1,606**	2,211	**1,760**	2,388
	42,071	4,784	**21,405**	5,001

Amounts due from Group undertakings are unsecured, interest-free and have no fixed date of repayment.

16 Creditors: amounts falling due within one year

	Company		Group	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Current instalments due on loans (Note 19)	**–**	–	**30**	–
Obligations under finance leases (Note 25(3))	**–**	897	**–**	897
Trade creditors	**10,952**	7,820	**11,913**	9,324
Amounts owed to Group undertakings	**–**	2,629	**–**	–
Other creditors	**4,197**	911	**4,826**	911
Taxation and social security	**1,149**	565	**1,149**	565
Accruals and deferred income	**9,682**	4,583	**11,384**	5,978
	25,980	17,405	**29,302**	17,675

17 Creditors: amounts falling due after more than one year

	Company		Group	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Loans (note 19)	**31,058**	–	**31,329**	–

18 Provisions for liabilities and charges

Group	Provision for warranties £000	Environmental provision £000	National insurance on share options £000	Other liabilities £000	Total £000
At 1 January 2002	**–**	**–**	**79**	**–**	**79**
Exchange adjustments	**–**	**–**	**–**	**29**	**29**
Arising on acquisition	**1,030**	**1,266**	**–**	**966**	**3,262**
Arising during the year	**58**	**–**	**–**	**–**	**58**
At 31 December 2002	**1,088**	**1,266**	**79**	**995**	**3,428**

Company	Provision for warranties £000	Environmental provision £000	National insurance on share options £000	Total £000
At 1 January 2002	**–**	**–**	**79**	**79**
Arising on acquisition	**1,030**	**1,266**	**–**	**2,296**
Arising during the year	**58**	**–**	**–**	**58**
At 31 December 2002	**1,088**	**1,266**	**79**	**2,433**

Provision for warranties

A provision is recognised for expected warranty claims on products sold over the last year. It is expected that most of these costs will be incurred in the next financial year.

Environmental provision

The Group has provided for potential environmental liabilities of sites where there is a history of soil contamination. The Company is committed to an ongoing programme of monitoring and soil sampling, and has thus made a one-off provision relating to potential costs of future remediation works at the sites.

National Insurance on share options

Provision has been made at 31 December 2002 for UK National Insurance liabilities that are expected to crystallise upon the exercise of certain share options granted under unapproved schemes between 6 April 1999 and 14 November 2000. The provision comprises the difference between the exercise price and the estimated fair market value of the shares at the balance sheet date at the current NIC rate, and apportioned on a straight-line basis over the vesting period of the options. The Group becomes unconditionally liable to pay the National Insurance upon exercise of the options. In accordance with UK legislation introduced in 2001, certain options which had an exercise price in excess of the market price at 7 November 2000 will not give rise to any future liability for NIC. Details of the vesting of share options are given in note 21.

Other liabilities

Provision has been made for potential historic employee related costs following the acquisitions which are expected to be settled within a year.

Deferred tax

	Provided		Unprovided	
Group	**2002 £000**	2001 £000	**2002 £000**	2001 £000
Depreciation in excess of capital allowances	**–**	–	**(23,695)**	(12,447)
Trading losses	**–**	–	**(52,047)**	(32,371)
Tax on loss on ordinary activities	**–**	–	**(75,742)**	(44,818)

	Provided		Unprovided	
Company	**2002 £000**	2001 £000	**2002 £000**	2001 £000
Depreciation in excess of capital allowances	**–**	–	**(23,695)**	(12,447)
Trading losses	**–**	–	**(50,636)**	(32,371)
Tax on loss on ordinary activities	**–**	–	**(74,331)**	(44,818)

The above deferred tax assets have not been recognised, which is in accordance with the requirements of FRS 19.

19 Loans

	Company		Group	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Amounts falling due:				
in one year or less or on demand	**–**	–	**30**	–
in more than one year but not more than two years	**–**	–	**30**	–
in more than two years but not more than five years	**31,058**	–	**31,148**	–
in more than five years	**–**	–	**151**	–
	31,058	–	**31,359**	–
Less: included in creditors: amounts falling due within one year	**–**	–	**(30)**	–
	31,058	–	**31,329**	–

Details of loans not wholly repayable within five years are as follows:

	Group	
	2002 £000	2001 £000
5% loan repayable by 31 December 2013*	**151**	–

* This loan is repayable in equal monthly instalments over the 11 years until 31 December 2013 and these amounts have been reflected accordingly between the different repayment periods in the tables above.

The long-term loans are secured by fixed charges over various of the Group's properties.

20 Acquisitions and disposals

Marconi Optical Components
On 1 February 2002 the Group acquired MOC for a consideration of £15,655,000 satisfied by the issue of 12,891,000 ordinary shares.

Analysis of the acquisition of MOC:

	Book Value £000	Adjustments £000	Fair value £000
Net assets at the date of acquisition:			
Tangible fixed assets	**48,820**	**(39,219)**	**9,601**
Stock	**7,542**	**(182)**	**7,360**
	56,362	**(39,401)**	**16,961**

Analysis of consideration:	
Costs associated with the acquisition	**1,306**
Bookham ordinary shares	**15,655**
	16,961

The adjustments from the book to fair values were based upon assessments of the resale values in open market conditions in a declining market sector.

MOC earned a loss in the period from 1 April 2001 to 31 January 2002 as shown in the table below:

	£000
Turnover	**7,930**
Operating loss	**(35,756)**
Loss on fixed asset disposal	**(54,201)**
Other exceptional costs	**(3,080)**
Loss before tax	**(93,037)**
Taxation	**–**
Loss for the 10 months ended 31 January 2002	**(93,037)**

There were no other recognised gains and losses.

Nortel Networks Optical Components

On 8 November 2002 the Group acquired NNOC for a consideration of £92,090,000 ($153 million) satisfied by the issue of 61,000,000 ordinary shares, 9,000,000 ordinary share warrants, loan notes to the value of £31,642,000 ($50 million) and the payment of a cash consideration of £5,848,000.

Analysis of the acquisition of NNOC:

Provisional

	Book Value £000	Adjustments £000	Fair Value £000
Net assets at the date of acquisition:			
Intangible fixed assets	–	7,784	7,784
Tangible fixed assets	57,768	(25,810)	31,958
Stock	33,727	(7,338)	26,389
Creditors falling due within one year	–	(4,493)	(4,493)
	91,495	(29,857)	61,638
Goodwill arising on acquisition			35,369
			97,007
Analysis of consideration:			
Cash			5,848
Bookham ordinary shares			47,580
Bookham ordinary share warrants			7,020
Loan notes			31,642
Costs associated with the acquisition			4,917
			97,007

The adjustments from the book to fair values were based upon assessments of the resale values in open market conditions in a declining market sector.

NNOC contributed £(5.2) million to the Group's net operating cash flows, paid £nil in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £(0.5) million for capital expenditure and financial investment.

NNOC earned a loss after tax of £220,604,000 in the year ended 31 December 2002 (2001 – £385,700,000), of which a loss before tax of £216,404,000 and a tax credit of £13,923,000 arose in the period from 1 January 2001 to 8 November 2002. The summarised profit and loss account for the period from 1 January 2002 to the effective date of acquisition is as follows:

	£000
Turnover	64,784
Operating loss	(56,804)
Restructuring charges	(159,600)
Loss before tax	(216,404)
Taxation	13,923
Loss for the 10½ months ended 8 November 2002	(202,481)

There were no other recognised gains and losses.

Measurement Microsystems (A-Z) Inc

On 1 August 2002, the Group disposed of Measurement Microsystems A-Z Inc. The disposal is analysed as follows:

	£000
Net Assets	**69**
Loss on disposal	**(69)**
Consideration	**–**

The loss attributable to members of the parent Company includes losses of £69,000 incurred by Measurement Microsystems A-Z Inc. up to its date of disposal on 1 August 2002. In the period to 31 December 2001, a loss of £25,150,000 was incurred split as follows: charge for impairment of intangible fixed assets of £22,396,000, amortisation of intangible assets of £2,485,000, and other research and development expenditure of £269,000.

During the year Measurement Microsystems A-Z Inc. utilised £0.2 million of the Group's net operating cash flows, paid £nil in respect of net returns on investments and servicing of finance, and utilised £nil for capital expenditure and financial investment.

21 Share capital

Called-up share capital

	2002 £000	2001 £000
Authorised		
300,000,000 ordinary shares of ⅓p each (2001: 200,100,000)	**1,000**	667
Allotted, issued and fully paid		
204,950,872 ordinary shares of ⅓p each (2001: 130,160,413)	**683**	434

2002

During 2002, the Company issued 320,657 Ordinary shares under the 1995 and 1998 Employee Share Option Schemes and 1,559 Ordinary shares under the 2001 Approved Share Save Scheme.

During 2002, the Company issued 577,243 Ordinary shares to the shareholders of Measurement Microsystems A-Z Inc.

On 1 February 2002, the Company issued 12,891,000 Ordinary shares of ⅓ pence each at £1.21 each to Marconi plc in consideration for the Acquisition of the Marconi Optical Component Business.

On 5 November 2002, the Company's shareholders approved an increase in the authorised share capital of the Company by approving the creation of an additional 99,900,000 Ordinary shares.

On 11 November 2002, the Company issued 61,000,000 Ordinary shares of ⅓ pence each at £0.78 each to Nortel Networks Corporation in consideration for the acquisition of their Optical Amplifier and Optical Transmitter and Receiver Businesses.

Employee share option schemes

At 31 December 2002, the Group had four employee share option schemes, details of which are set out below.

1995 Scheme

Pursuant to the 1995 Employee Share Option Scheme (the "1995 Scheme"), options to purchase ordinary shares were granted to employees during the period from 10 July 1995 to 29 September 1998. At 31 December 2001 there were no options authorised for future issuance under this scheme and there were 695,735 share options outstanding. The options expire ten years after the date of grant and are exercisable to the extent vested. Vesting generally occurs at the rate of one-third each at 18 months, 30 months and 42 months after the date of grant. All share options were granted for £nil consideration. The scheme is unapproved by the UK Inland Revenue.

1998 Scheme

At 31 December 2002 there were 20,460,658 share options outstanding. The options expire ten years after the date of grant and are exercisable to the extent vested. Except as set out below, vesting generally occurs at the rate of one-third each at 18 months, 30 months and 42 months after the date of grant.

Included in the above are a total of 3,754,882 performance options that were outstanding at 31 December 2002 under the 1998 Scheme. These options vest one-quarter every six months based on the achievement of specific targets. Where targets are exceeded by a defined percentage, there is a potential for one-half of the options to vest at the end of each six-month period.

If these targets are not met, these options will vest in full in four to seven years after the date of grant as specified in the individual option certificates. The total amount of shares subject to options granted does not vary as a result of the potential earlier vesting.

The exercise prices and number of shares shown below relate to the shares after the six-for-one share split on 13 March 2000.

All share options granted under the 1998 Scheme have been granted for £nil consideration. The scheme is unapproved by the UK Inland Revenue.

Details of directors' share options are given in the Directors' Remuneration Report on pages 16 to 19.

2001 Approved Employee Share Option Scheme
The 2001 Approved Employee Share Option Scheme was approved by shareholders in February 2000. All executive directors and employees are eligible to participate. Options are granted at no cost at the discretion of the board, and vesting may include performance conditions. The option price is the market value of the Group's shares on the date of the grant, and options vest between three and ten years from date of grant. At 31 December 2002, the total options authorised for future issuance under this scheme, when combined with the 1998 Scheme and the 2001 Approved Sharesave Scheme, did not exceed 10% of the issued ordinary share capital of the Company, excluding shares subject to rights granted under any of the Company's employee share schemes prior to April 18, 2000. The scheme has been approved by the Inland Revenue.

2001 Approved Sharesave Scheme
The Approved Sharesave Scheme was approved by shareholders in February 2000. All full time directors and all employees with five years service or such shorter period as the board determines and those that the board deems appropriate, are eligible to participate in the scheme. Options to be issued under the scheme are dependent on the savings made by the employee and the option price determined by the board, which shall be not less than 85% of the mid-market price on the date preceding the date which the employees are invited to apply for options. Options will normally be exercisable for three to five years from the commencement of the savings contract established by the employee. At 31 December 2002, the total options authorised for future issuance under this scheme, when combined with the 1998 Scheme and the 2001 Approved Employee Share Option Scheme, did not exceed 10% of the issued ordinary share capital of the Company, excluding shares subject to rights granted under any of the Company's employee share schemes prior to April 18, 2000. The scheme has been approved by the Inland Revenue.

Stock compensation expense
The Group has granted share options to certain employees at exercise prices below the fair market value of the underlying ordinary shares at the date of grant. The differences have been charged to the profit and loss account over the vesting period of the options. The stock compensation expense was £193,000 in the year ended 31 December 2002 (2001 £329,000).

Ordinary share warrants and options issued to non-employees
During 1999, the Company issued a warrant to purchase 137,988 ordinary shares to a leasing Company. The warrant was immediately exercisable at £7.20 per share and expires on 11 April 2004. During 2002, no warrants in respect of shares were exercised and warrants in respect of 131,262 shares were exercisable as of 31 December 2002.

During 1999, the Group granted share options to three consultants to purchase 57,600 ordinary shares under the 1998 Scheme. These options vested upon the completion of specified performance requirements, all of which were met in the year ended 31 December 2000. Options over 48,000 shares are exercisable at £6.50 and options over 9,600 shares are exercisable at £7.20. During 2002, the Group granted share options to one consultant to purchase 400,000 ordinary shares under the 1998 Scheme, 25,000 of these options vested immediately and the remaining 375,000 vest upon completion of specified performance criteria. During 2002, no options were exercised. The remaining options expire ten years from the date of grant.

The profit and loss account includes a charge of £83,000 (2001 £173,000) in respect of warrants and options granted to non-employees.

During the 2002, the Company issued a warrant to purchase 9,000,000 ordinary shares to Nortel Networks Inc as part of the purchase price for the acquisition of NNOC, which is exercisable at the option of Nortel Networks. The warrant is immediately exercisable at ⅓ pence per share, and expires on 8 November 2012.

No shares have been authorised for future issuance of warrants. The number of shares reported in this note does not reflect the six-for-one share split approved on 13 March 2000.

	Range of exercise prices	Options outstanding	Weighted average exercise price £
Outstanding as at 31 December 1999	£0.003–£3.10	11,180,.394	1.03
Granted	£4.322–£36.05	3,354,210	12.56
Exercised	£0.003–£1.36	(2,413,145)	0.68
Cancelled	£0.75–£36.05	(93,074)	3.17
Outstanding as at 31 December 2000	£0.003–£36.50	12,028,385	4.28
Granted	£1.12–£7.03	6,559,192	2.09
Exercised	£0.003–£1.083	(1,556,338)	0.35
Cancelled	£1.20–£36.50	(2,960,913)	7.51
Outstanding as at 31 December 2001	£1.083–£36.50	14,070,326	3.31
Granted	£0.70–£1.22	10,715,413	0.86
Exercised	£0.186–£1.083	(322,216)	0.39
Cancelled	£0.70–£36.05	(2,584,345)	3.59
Outstanding as at 31 December 2002	£0.70–£36.05	21,879,178	1.86

22 Reconciliation of movements in shareholders' funds

Group	Share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total shareholders' funds £000
At 31 December 2001	434	338,576	5,716	(133,856)	210,870
Loss for the year	–	–	–	(101,360)	(101,360)
Arising on share issues	249	63,291	–	–	63,540
Warrants issued relating to acquisition	–	–	7,020	–	7,020
Shares issued in respect of conversion of warrants	–	2,272	(2,272)	–	–
Refund of share issue costs	–	48	–	–	48
Translation adjustment	–	–	–	44	44
Stock compensation expense	–	–	193	–	193
Warrant/non employee option expense	–	–	83	–	83
At 31 December 2002	683	404,187	10,740	(235,172)	180,438

Company	Share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total shareholders' funds £000
At 31 December 2001	434	338,576	5,716	(133,873)	210,853
Loss for the year	–	–	–	(98,121)	(98,121)
Arising on share issues	249	63,291	–	–	63,540
Warrants issued relating to acquisition	–	–	7,020	–	7,020
Shares issued in respect of conversion of warrants	–	2,272	(2,272)	–	–
Refund of share issue costs	–	48	–	–	48
Stock compensation expense	–	–	193	–	193
Warrant/non employee option expense	–	–	83	–	83
At 31 December 2002	683	404,187	10,740	(231,995)	183,615

At 31 December 2002, other reserves comprise of shares issued to warrant holders and non-employees in consideration for services performed (£2,232,000), shares reserved for issue in connection with the acquisition of NNOC (£7,018,000), shares issued to employees at values below the fair market value at date of issue (£1,377,000), and shares reserved for issue in connection with the acquisition of Measurement Microsystems A-Z Inc. (£113,000).

23 Company profit and loss account

In accordance with the exemption allowed by Section 230 of the Companies Act 1985 no profit and loss account has been presented by the Company. The loss for the financial year dealt with in the accounts of the Company is £98,121,000 (2001 £113,244,000).

24 Pensions

The Group pays contributions into the Group's defined contribution pension scheme for directors and employees.

The Group also has a defined contribution plan for the benefit of one director.

The Group's contributions to the plans are charged to the profit and loss account in the year to which they relate. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group does not accept any responsibility for the benefit gained from these schemes. Accordingly the Group has no other liability in respect of these pension arrangements. There were no amounts outstanding in respect of payments due to pension plans at 31 December 2002 (2001 £nil).

25 Commitments

1) Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil for the Group at 31 December 2002 (2001 £2,795,000).

2) Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	Company		Group	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Land and buildings				
Operating leases which expire:				
Within one year	**40**	334	**651**	679
In the second to fifth years inclusive	**813**	–	**1,419**	49
After the fifth year	**110**	568	**110**	1,803
	963	902	**2,180**	2,531
Other				
Operating leases which expire:				
Within one year	**238**	13	**238**	13
In the second to fifth years inclusive	**126**	112	**127**	112
	364	125	**365**	125

3) Finance lease commitments

Commitments for future minimum payments under finance leases are as follows:

	Company & Group	
	2002 £000	2001 £000
Within one year	**–**	897

26 Reconciliation of operating loss to net cash flow from operating activities

	2002 £000	2001 £000
Operating loss	**(106,701)**	(124,165)
Loss on disposal of subsidiary undertaking	**69**	–
Depreciation, amortisation and impairment charge	**38,678**	66,180
Stock compensation expense	**193**	329
Warrant/non-employee option expense	**137**	–
(Profit)/loss on sale of fixed assets	**(44)**	(8)
Decrease/(increase) in stocks	**12,635**	4,397
Decrease/(increase) in debtors	**(17,833)**	8,238
Increase in creditors	**11,078**	1,563
Increase/(decrease) in provisions for liabilities and charges	**104**	(909)
Net cash/outflow from operating activities	**(61,684)**	(44,375)

27 Analysis of net funds

	Cash at bank and in hand £000	Finance leases £000	Loans £000	Total £000
At 31 December 2001	**184,814**	**(897)**	**–**	**183,917**
Cash flow	**(79,396)**	**897**	**–**	**78,499**
Loans arising on acquisition	**–**	**–**	**(31,359)**	**(31,359)**
At 31 December 2002	**105,418**	**–**	**(31,359)**	**74,059**

28 Financial instruments

The Group's financial instruments comprise finance leases, cash and liquid resources, loans and various items, such as debtors and creditors, that arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Group's risk management policy is disclosed on page 15.

Interest rate risk

The Group finances its operations through a mixture of shareholders' funds, loan notes, finance leases and working capital. Throughout the period, the Group's only exposure to interest rate fluctuations was on its cash deposits.

The Group monitors its interest rate risk on cash balances primarily through cash flow forecasting. Cash which is surplus to immediate requirements is invested in short-term deposits with banks with maturity dates of up to three months and invested in overnight money market accounts.

Foreign currency risk

As the Group has grown and become increasingly inational in scope, it has become more subject to fluctuations based upon changes in the exchange rates between the currencies in which it collects revenue and pays expenses. In the future, it is expected that a substantial portion of the revenues will be denominated in U.S. dollars, while the majority of expenses will continue to be denominated in pounds sterling. In addition, the loan notes issued in connection with the acquisition from Nortel Networks are denominated in U.S. dollars. The consolidated financial statements are prepared in pounds sterling and translated into U.S. dollars for U.S. reporting purposes. As a result, even when foreign currency expenses substantially offset revenues in the same currency, the Group's net income may be diminished or net loss increased, when reported in U.S. dollars in the financial statements. The Group therefore anticipates engaging in currency hedging transactions in an effort to cover any exposure to such fluctuations and may be required to convert currencies to meet its obligations.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

Interest rate risk profile of financial assets and liabilities

Financial assets

The currency profiles of the Group's financial assets were:

	2002 £000	2001 £000
Floating rate financial assets:		
Sterling	**102,879**	180,465
Canadian dollars	**1,464**	51
US dollars	**802**	3,471
Swiss francs	**247**	–
Euro	**22**	824
Japanese yen	**4**	3
	105,418	184,814

Interest earned on floating rate financial assets varies according to changes in bank deposit account interest rates.

Financial liabilities

The currency profile of the Group's financial liabilities at 31 December is as follows:

	2002 £000	2001 £000
Fixed rate financial liabilities:		
US dollars	**31,058**	–
Swiss francs	**301**	–
	31,359	–

	Fixed Rate financial liabilities	
Currency	Weighted average Interest rate %	Weighted average period for which rate is fixed years
US dollars	**5.6**	**3.8**
Swiss francs	**5.0**	**10**

Currency exposure of net monetary assets/liabilities

The below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved.

	Net foreign currency monetary assets/(liabilities)				
Functional currency of Group operations	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
2002					
Sterling	**–**	**(20,812)**	**(439)**	**(318)**	**(21,569)**
Canadian dollars	**–**	**(108)**	**–**	**–**	**(108)**
Swiss francs	**(23)**	**(24)**	**(12)**	**–**	**(59)**
Total	**(23)**	**(20,944)**	**(451)**	**(318)**	**(21,736)**
2001					
Sterling	–	3,461	654	(61)	4,054

Maturity of financial liabilities

	2002 £000	2001 £000
In one year or less or on demand	**30**	–
In more than one year but not more than two	**30**	–
In more than two years but not more than five	**31,148**	–
In more than five years	**151**	–
	31,359	–

Fair value

In the opinion of the directors, there was no difference between the fair value of the Group's financial instruments and their carrying value. Fair values are assessed by reference to market values and discounted cash flows.

Borrowing facilities

At 31 December 2002, the Group had no undrawn lines of credit or other borrowing facilities in place.

29 Related party transactions

During 1998, the Group entered into a contract with Lori Holland for the provision of consultancy services. Lori Holland became a director in 1999 and her emoluments and share options received as a director are reported on pages 17 to 19. In respect of her consultancy services, Lori Holland received £23,000 (2001 £59,000).

During 2002, £nil (2001 £nil) was charged to the profit and loss account on revaluation of the options received in respect of consultancy services which vested in 2000. Lori Holland exercised none of these options during 2002. All options had vested and 42,723 options were outstanding at 31 December 2002.

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at December 31, are as follows:

Related party	Sales to related party £000	Purchases from related party £000	Amounts owed from related party £000	Amounts owed to related party £000
Marconi Communications				
2002	**13,179**	**1,346**	**6,919**	**–**
2001	**3,205**	**4**	**–**	**–**
Nortel Networks				
2002	**10,845**	**526**	**8,425**	**(524)**
2001	**8,763**	**1,606**	**433**	**(121)**

Marconi Communications has a 6.3% interest in the Company

Nortel Networks has a 29.9% interest in the Company

30 Subsequent events

Subsequent to year-end the Company announced significant reductions in manufacturing and development activities in the ASOC product line, further reducing the Company's overhead structure and reducing the level of revenue required to reach the breakeven point for the Company.

An impairment of £27 million and £1.2 million relating to tangible fixed assets and inventory respectively relating to the closure, have been included in the results for the year.

31 Claims and Litigation

On 7 November 2001, a class action complaint was filed against the Company and others in the United States District Court for the Southern District of New York. The complaint names as defendants the Company; Goldman, Sachs & Co. and FleetBoston Robertson Stephens Inc., two of the underwriters of the Company's initial public offering in April 2000 (the "Underwriters"); and Andrew G. Rickman, Stephen J. Cockrell and David Simpson, each of whom was an officer and/or Director at the time of the initial public offering. The complaint asserts claims under certain provisions of the security laws of the United States.

The complaint alleges, among other things, that the prospectus for the Company's initial public offering was materially false and misleading in describing the compensation to be earned by the Underwriters in connection with the offering, and in not disclosing certain alleged arrangements among the Underwriters and initial purchasers of ordinary shares from the Underwriters. The complaint seeks unspecified damages (or in the alternative rescission for those class members who no longer hold Ordinary Shares), costs, attorneys' fees, experts' fees, interest and other expenses. The Company believes it has meritorious defences and indemnification rights to such claims and therefore believes that such claims will not have a material effect on the Company.

32 Additional information for US investors

The consolidated financial statements are prepared in accordance with UK Generally Accepted Accounting Principles ("GAAP") which differ in certain material respects from US GAAP. Such differences, as presented below, involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

Reconciliation of US GAAP accounts to UK GAAP accounts

The following table provides a reconciliation of the loss for the financial year, total assets and equity shareholders' funds prepared under UK GAAP to the equivalent information prepared under US GAAP:

	2002 £000	2001 £000
Loss for the financial year under UK GAAP	**(101,360)**	(113,238)
US GAAP Adjustments:		
National insurance contributions on stock options	**–**	(907)
In-process research and development	**(8,810)**	(6,454)
Additional impairment and amortisation of intangible assets	**(362)**	–
Amortisation of goodwill	**442**	340
Additional impairment and depreciation of tangible assets	**131**	6,114
Net loss as adjusted to accord with US GAAP	**(109,959)**	(114,145)

	2002 £000	2001 £000
Equity shareholders' funds under UK GAAP	**180,438**	210,870
US GAAP Adjustments:		
Goodwill and other intangibles		
Goodwill	**(35,369)**	(18,224)
Other intangibles	**20,481**	(4,172)
Cost	**(14,888)**	(22,396)
Amortisation	**(1,242)**	22,396
Net	**(16,130)**	–
Tangible fixed assets		
Cost	**(11,425)**	(32,957)
Depreciation	**1,453**	32,957
Net	**(9,972)**	–
National insurance contributions on stock options	**79**	79
Equity shareholders' funds under US GAAP	**154,415**	210,949

a) National Insurance contributions on share option gains Under US GAAP, provision for National Insurance liabilities on share options is only made during the period to the extent that the options have been exercised. Under UK GAAP, provision is made at each balance sheet date by charging the expected future cost on a straight-line basis over the vesting period of the options.

b) Non-employee compensation Under US GAAP, the fair value of warrants and options issued to non-employees is recognised as an asset and credited to a separate capital reserve on issue and taken to the profit and loss account over the period in which the related services are received. The non-employee stock compensation attributable to research and development, cost of net revenues, and selling and general administrative expenses is disclosed on the face of the financial statements. Under UK GAAP, the fair value is charged to the profit and loss account on the same basis as for US GAAP but the full credit is not immediately recognised in shareholders' equity. The charge to the profit and loss account is credited to other reserves each year.

c) Acquisition accounting Under UK GAAP the total consideration, including contingent consideration, has been recorded as an investment by Bookham Technology plc. The fair value of consideration in the form of ordinary shares is measured at the completion date. The excess of the total consideration over the fair value of the net assets acquired represents goodwill and is included in intangible assets on the balance sheet. Under US GAAP, the consideration paid, excluding the contingent consideration that has not been earned, has been recorded as an investment. The fair value of consideration in the form of ordinary shares is measured on the date of announcement of the acquisition. The excess of the total consideration over the fair value of the net assets and in-process research and development (IPR&D) represents goodwill and is included in intangible assets on the balance sheet. IPR&D is charged to the profit and loss account at the date of the acquisition. The best estimate of the fair value of the IPR&D was determined using the technology contribution approach, which discounts expected future cash flows from projects under development to their net present value.

d) Impairment charges Under UK and US GAAP Intangible fixed assets and tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.]Under UK GAAP the assessment is carried out using discounted cash flows whereas under US GAAP discounted cash flows are only used in the event that undiscounted cash flows indicate an impairment may exist. In the event that an impairment charge is required, this is reflected through an increase in accumulated amortisation/depreciation for the asset but under US GAAP this is reflected through a reduction in the cost element of the asset.

e) Consolidated statement of cash flows The US GAAP cash flow statement reports changes in cash and cash equivalents, which include short-term highly liquid investments. Only three categories of cash flow are reported, being: operating activities (including tax and interest); investing activities (being capital expenditure, acquisitions and disposals); and financing activities. Under UK GAAP, cash does not include short term deposits and investments which cannot be withdrawn without notice and without incurring a penalty. Such items are shown as short term investments. Under US GAAP, deposits with a maturity of less than three months at inception which are convertible into known amounts of cash are included as cash and cash equivalents except amounts held in collateral accounts as security for outstanding obligations which are classified as restricted cash.

f) Comprehensive income statement The requirement of FAS 130 to provide a comprehensive income statement is met by the Statement of total recognised gains and losses (page 23). If comprehensive income were presented in accordance with US GAAP, the difference would be the difference between the loss for the financial year under UK GAAP and the net loss under US GAAP as described above.

Condensed consolidated US GAAP financial information in UK sterling and US dollars

The following information is provided for the convenience of US shareholders. The sterling amounts have been translated solely for the convenience of the reader at US$1.61 = £1.

Condensed Consolidated Profit and Loss Accounts US GAAP

for the year ended 31 December 2002

	2001 £000	**2002** **£000**	**2002** **$000**
Net revenues:	21,921	**34,603**	**55,711**
Cost of net revenues	36,103	**54,686**	**88,044**
Gross loss	(14,182)	**(20,083)**	**(32,333)**
Operating expenses			
Research and development	39,152	**34,548**	**55,622**
Selling, general and administrative	15,830	**17,602**	**28,339**
IPR&D	6,454	**8,810**	**14,184**
Impairment loss	48,879	**28,057**	**45,172**
Closure costs	–	**5,127**	**8,254**
National insurance on stock options	127	**–**	**–**
Stock-based compensation	329	**193**	**311**
Total costs and expenses	110,771	**94,337**	**151,882**
Operating loss	(124,953)	**(114,420)**	**(184,215)**
Other income/(expense)			
Grant and other income	76	**176**	**283**
Interest income	11,405	**5,795**	**9,330**
Interest expense	(478)	**(454)**	**(731)**
Gain/(loss) on foreign exchange	(195)	**(1,056)**	**(1,700)**
Total other income, net	10,808	**4,461**	**7,182**
Loss before income taxes	(114,145)	**(109,959)**	**(177,033)**
Provision for income taxes	–	**–**	**–**
Net loss	(114,145)	**(109,959)**	**(177,033)**
Net loss per ordinary share (basic and diluted) (£)	(0.89)	**(0.73)**	**(1.17)**
Weighted average ordinary shares outstanding	128,533,108	**150,996,196**	**150,996,196**
Stock-based compensation, as below is excluded from the following categories:			
Cost of net revenues	87	**50**	**81**
Research and development	36	**16**	**26**
Selling, general and administrative expenses	206	**127**	**204**
Total	329	**193**	**311**

Condensed consolidated balance sheets US GAAP
as at 31 December 2002

	2001 £000	**2002 £000**	**2002 $000**
Assets			
Current assets			
Cash and cash equivalents	184,814	**105,418**	**169,723**
Accounts receivable, net	822	**17,781**	**28,627**
Inventories	2,564	**23,679**	**38,123**
Prepaid expenses and other current assets	4,179	**3,624**	**5,835**
Total current assets	192,379	**150,502**	**242,308**
Intangible assets, net	1,666	**26,423**	**42,541**
Property and equipment, net	34,579	**41,470**	**66,767**
	228,624	**218,395**	**351,616**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	7,093	**11,913**	**19,180**
Short-term capital lease obligations	897	**–**	**–**
Accrued expenses and other liabilities	9,685	**17,389**	**27,996**
	17,675	**29,302**	**47,176**
Loans	–	**31,329**	**50,440**
Other long-term liabilities	–	**3,349**	**5,392**
Total liabilities	17,675	**63,980**	**103,008**
Shareholders' equity:			
Ordinary shares:			
⅓p nominal value; 200,100,000 and 300,000,000 authorised; 130,160,413 and 204,950,872 issued and outstanding	434	**683**	**1,100**
Ordinary share warrants and options issued to non-employees	3,939	**5,894**	**9,489**
Additional paid-in capital	385,630	**436,530**	**702,813**
Deferred compensation	(276)	**–**	**–**
Accumulated other comprehensive income	(39)	**6**	**10**
Accumulated deficit	(178,739)	**(288,698)**	**(464,804)**
Total shareholders' equity	210,949	**154,415**	**248,608**
	228,624	**218,395**	**351,616**

Condensed consolidated statements of cash flow US GAAP

for the year ended 31 December 2002

	2001 £000	**2002 £000**	**2002 $000**
Cash flows used in operating activities:			
Net loss	(114,145)	**(109,959)**	**(177,034)**
Adjustments to reconcile net loss to net cash used in operating activities:			
In-process research and development	6,454	**8,810**	**14,184**
Depreciation, amortisation and impairment	59,726	**38,467**	**61,932**
Stock-based compensation	329	**193**	**311**
Expense related to warrants issued for services	173	**83**	**134**
Loss/(gain) on sale of property and equipment	(8)	**(44)**	**(71)**
Assets and liabilities:			
Restricted cash	450	**–**	**–**
Accounts receivable, net	8,187	**(14,152)**	**(22,785)**
Inventories, net	4,397	**12,635**	**20,342**
Prepaid expenses and other current assets	51	**(3,681)**	**(5,926)**
Accounts payable	(3,136)	**4,820**	**7,760**
Accrued expenses and other liabilities	4,687	**6,417**	**10,331**
Net cash used in operating activities	(32,835)	**(56,411)**	**(90,822)**
Cash flows used in investing activities			
Purchase of intangible assets	(1,812)	**(95)**	**(153)**
Purchase of property and equipment	(39,896)	**(10,102)**	**(16,264)**
Proceeds from sale of property and equipment	96	**44**	**71**
Acquisitions of business – net cash acquired	(6,796)	**(12,060)**	**(19,417)**
Net cash used in investing activities	(48,408)	**(22,213)**	**(35,763)**
Cash flows provided by financing activities			
Proceeds from issuance of ordinary shares	1,256	**125**	**201**
Repayment of capital lease obligations	(1,357)	**(897)**	**(1,444)**
Net cash used in financing activities	(101)	**(772)**	**(1,243)**
Effect of exchange rate on cash	–	**–**	**–**
Net decrease in cash and cash equivalents	(81,344)	**(79,396)**	**(127,828)**
Cash and cash equivalents at beginning of year	266,158	**184,814**	**297,551**
Cash and cash equivalents at end of year	184,814	**105,418**	**169,723**
Supplemental disclosure of non-cash transactions			
Warrants and shares issued for acquisitions	29,993	**53,358**	**85,906**
Supplemental cash flow disclosure			
Interest paid	281	**454**	**731**

Environmental Statement

Quality management

Bookham Technology is committed to providing integrated optical and RF components to the highest standards, to meet and exceed customer requirements. To help achieve these goals, the Group uses a quality management system developed to meet the requirements of ISO 9001 and TL 9000. TL 9000 is the telecom-specific quality management system and Bookham Technology was the first European-based Company to receive accreditation to this system in October 2000. All of our products are designed to meet high reliability standards. Our commitment to quality ensures the best possible solutions for our customers.

The environment

We provide quality products consistent with an environmentally responsible goal. The Group ensures the following steps are taken:

- As a minimum, we comply with the appropriate legislation, regulations and codes of practice
- We identify and evaluate any environmental effects associated with the infrastructure and supply of integrated optical and RF components, in order to control and reduce their environmental impact
- We regularly set and review challenging environmental objectives and targets
- We ensure the responsible use of all natural resources and the minimisation of waste, pollution and energy consumption
- We implement the training of all employees to ensure that they are environmentally aware and that neither they, the community nor the environment are exposed to harm as a result of our operations.

Bookham Technology's ISO14001 accredited sites are committed to the continual improvement of their performance by the monitoring of environmental issues and through involvement with suppliers, customers, regulatory authorities and the community.

Disclaimer

Forward-looking statements

Statements made in this financial commentary and elsewhere in this report include certain forward-looking statements that involve risks and uncertainties. Important factors that could case actual results to differ from those indicated by such forward-looking statements include, among others, uncertainties relating to demand for the Group's products, demand for optical components generally and overall future growth in the market for optical components, uncertainties relating to the Group's investment in, and reorganisation of, its manufacturing capacity yields and inventory, intellectual property issues, issues surrounding integration of the optical components business acquired from Nortel Networks and other uncertainties that are discussed in the "Risk Factors" section of the Group's annual report on Form 20-F for the fiscal year ended 31 December 2002 dated 19 March 2003 which is on file with the Securities and Exchange Commission. Forward-looking statements represent the Group's estimates as of the date made, and should not be relied upon as representing the Group's estimates as of any subsequent date. While the Group may elect to update forward-looking statements in the future, it disclaims any obligation to do so.

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