2010 first half-year results

August 5, 2010
Safe harbour statement

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Spirent disclaims any intention or obligation to revise or update any forward-looking statements that may be made during this presentation or the subsequent question and answer session regardless of whether those statements are affected as a result of new information, future events or otherwise.
Welcome

Bill Burns, Chief Executive Officer
First half 2010 highlights

- Positive trends across the communications industry driven by the demand for data connectivity worldwide
- Increasing demand for our solutions to test data center, mobile backhaul and LTE equipment, networks, devices and applications
- Product innovation by Spirent continues unabated
- Customer endorsements by Verizon Wireless, Novatel Wireless, China Telecom and NTT Communications
- Strong financial performance with profit before tax up 37%
Key performance indicators H1 2010

- **Book to Bill**
  - H1 2010: 104
  - H1 2009: 91

- **Revenue**
  - H1 2010: $227.2m
  - H1 2009: $208.7m
  - +9%

- **Operating Profit**
  - H1 2010: $49.0m
  - H1 2009: $36.1m
  - +36%

- **Return on Sales**
  - H1 2010: 21.6%
  - H1 2009: 17.3%

- **Free Cash Flow**
  - H1 2010: $33.4m
  - H1 2009: $40.7m
  - +33%

- **Adjusted EPS**
  - H1 2010: 5.05c
  - H1 2009(2): 3.81c
  - (1) Before share-based payment, acquired intangible amortisation and prior year tax
  - (2) At a pro forma tax rate for H1 2009 of 32%
Performance Analysis

Financial highlights

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>H1 2010</th>
<th>H1 2009</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders</td>
<td>181.2</td>
<td>143.6</td>
<td>26%</td>
</tr>
<tr>
<td>Sales</td>
<td>170.3</td>
<td>153.8</td>
<td>11%</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>41.5</td>
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First half 2010 highlights

- **Financial:**
  Strong order intake recovery

- **Customer wins:**
  Verizon LTE, Novatel Wireless, China Telecom EVDO RevB and NTT Communications

- **New product introductions:**
  Spirent TestCenter Mobile Backhaul, Avalanche Virtual (Best of Interop Award) and Wi-Fi positioning

Division testing focus

- Ethernet, data center, cloud computing & applications
- Wireless device & infrastructure
- Satellite navigation
Service Assurance

Financial highlights

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<td>Sales</td>
<td>27.7</td>
<td>27.4</td>
<td>1%</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>6.1</td>
<td>3.9</td>
<td>56%</td>
</tr>
<tr>
<td>Return on Sales</td>
<td>22.0%</td>
<td>14.2%</td>
<td></td>
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First half 2010 highlights

• **Financial:** Profitability increased due to higher software content

• **Customer wins:** Top cable operators in North America for field test, European Ethernet Assurance

• **New product introductions:** Spirent TestCenter Live

Division testing focus

- Assurance & diagnostics
- Field test
- In home test
Systems

Financial highlights

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First half 2010 highlights

- **Financial:**
  - Exchange rate benefit year-on-year

- **Customer wins:**
  - New commercial applications

- **New product introductions:**
  - AC pallet truck controller

Division focus

- Motorised wheelchair
- Commercial & industrial
- Low speed electric vehicles
Financial review

Eric Hutchinson, Chief Financial Officer
## Comparative results H1 2010

<table>
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<tr>
<td>Sales</td>
<td>227.2</td>
<td>208.7</td>
<td>9%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>148.8</td>
<td>136.1</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>65.5%</td>
<td>65.2%</td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td>38.2</td>
<td>37.7</td>
<td></td>
</tr>
<tr>
<td>Selling &amp; distribution</td>
<td>42.0</td>
<td>38.1</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>19.6</td>
<td>24.2</td>
<td></td>
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<tr>
<td>Operating Profit</td>
<td>49.0</td>
<td>36.1</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Return on Sales</strong></td>
<td>21.6%</td>
<td>17.3%</td>
<td></td>
</tr>
<tr>
<td>Finance expense net</td>
<td>(0.2)</td>
<td>(0.6)</td>
<td></td>
</tr>
<tr>
<td>Pre Tax Profit</td>
<td>48.8</td>
<td>35.5</td>
<td>37%</td>
</tr>
<tr>
<td>Tax expense&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>(15.7)</td>
<td>(11.4)</td>
<td></td>
</tr>
<tr>
<td>Adjusted Net Income&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>33.1</td>
<td>24.1</td>
<td></td>
</tr>
<tr>
<td>Adjusted EPS&lt;sup&gt;(1)&lt;/sup&gt; (cents)</td>
<td>4.92</td>
<td>3.63</td>
<td>36%</td>
</tr>
<tr>
<td>Adjusted EPS Before Items&lt;sup&gt;(2)&lt;/sup&gt; (cents)</td>
<td>5.05</td>
<td>3.81</td>
<td>33%</td>
</tr>
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- Operating leverage delivered 36% profit growth
- Maintained gross margin, kept overheads in line
- Order book increased by $8.4 million
- EPS up 33% excluding tax distortion

Notes: (1) At a pro forma tax rate for H1 2009 of 32% and before prior year tax (2) Before share-based payment and acquired intangible amortisation
Performance Analysis review

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<tr>
<td>Gross Profit</td>
<td>120.6</td>
<td>109.7</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td><strong>70.8%</strong></td>
<td><strong>71.3%</strong></td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td>30.9</td>
<td>30.2</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>48.2</td>
<td>46.6</td>
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<tr>
<td><strong>Operating Profit</strong></td>
<td><strong>41.5</strong></td>
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- Revenue growth at high end of expectations
- Order book increased by $10.9 million
- Gross margin impacted by large contract volume discounts
- Profit growth 26%, increase in RoS to 24.4%
Performance Analysis - half yearly progress

- Order intake ahead of H1 2008, the last pre-recessionary period
- Operating profit also ahead by $3.5 million, up 9%
- Increase in return on sales
Service Assurance review

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<tr>
<td><strong>Gross Margin</strong></td>
<td>64.3%</td>
<td>58.0%</td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td>5.2</td>
<td>5.6</td>
<td></td>
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- Revenue broadly flat as expected
- Gross margin increased due to high software content; more usual sales mix expected in H2
- Significant increase in return on sales to 22%
Systems review

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<tr>
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<td>10.4</td>
<td>10.4</td>
<td></td>
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<tr>
<td><strong>Gross Margin</strong></td>
<td>35.6%</td>
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- Revenue growth at high end of range
- Gross margin reduction as a result of Medicare reimbursement requiring product cost reduction
- Exchange rate hedge losses of $1.7 million in H1 2009 not repeated
- Return on sales increase to 17.1%
## Free cash flow

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<tr>
<td><strong>Operating profit</strong></td>
<td>49.0</td>
<td>36.1</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>5.9</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Intangible amortisation and share-based payment</strong></td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>(6.9)</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Cash flow from operations</strong></td>
<td>48.9</td>
<td>50.8</td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>(8.2)</td>
<td>(5.8)</td>
</tr>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td>40.7</td>
<td>45.0</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Net capital expenditure</strong></td>
<td>(7.6)</td>
<td>(4.6)</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>33.4</td>
<td>40.7</td>
</tr>
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- Closing cash of $183.3 million
- Free cash flow of 4.96 cents per share
- Investment in the business for growth
Dividend & EPS

- **EPS**
  - Basic EPS rose 12% to 5.08c
  - Adjusted basic EPS 4.92c; increase 36% at constant 32% tax rate

- **Ordinary dividend**
  - Maintain high dividend cover
  - Sustainable, progressive dividend policy

- **Interim dividend up 18%** 1.10c per share
  - Payable in £ (at $1.59:£1) 0.69p per share (2009: 0.55p)
  - Increase 25% in sterling terms
  - Total cash $7.4 million
  - Dividend cover 4.5x
Strategy update and outlook

Bill Burns, Chief Executive Officer
Our strategy

- Focus on growing and emerging markets
- Invest in our solutions portfolio
- Innovation
- ‘Right Solution’ at the ‘Right Time’
- Global reach
Data center consolidation overview

“Current” enterprise IT environment

- Branch office
  - Application servers decentralized, difficult to manage, update and secure
  - Required functionality delivered by multiple network elements
- Data center
  - Need to manage and maintain two separate networks - Ethernet and Storage
  - Low utilization of server resources
  - Applications delivered by internal resources
Data center consolidation overview

“Future” enterprise IT environment

- **Branch office**
  - Application servers moved to data centers making them easier to manage, update and secure
  - Integrated network elements deployed to simplify management and reduce cost

- **Data center**
  - Storage over Ethernet eliminates need for dedicated Storage network
  - Virtualized servers and network elements to improve utilization of data center resources

- **Cloud computing**
  - Applications hosted externally and delivered over the Internet
What we test with Spirent TestCenter?

- Testing integrated functionality using a single test platform
- Validate performance, availability, security and scalability
- High Speed Ethernet 40 Gb & 100 Gb
- Cloud Computing
- Virtual Servers running multiple applications
- Next Generation Data Center
- Integrated Switch & Router + SAN Switch
- Converged Ethernet Network
- Ethernet Based Storage
- Users
- Ethernet Network
- Integrated Switch & Router, plus Firewall, Load Balancer or WAN Accelerator
- Internet
- Wide Area Network
- Performance monitoring & diagnostics
- Storage over Ethernet
- Application Quality of Experience “QoE”
- Virtualized servers & application testing across data centers and networks
Executing on our data center strategy

Focus on growing and emerging markets
- High Speed Ethernet market growing 18% annually\(^{(1)}\)
- Cloud computing market growing 25% annually\(^{(2)}\)

Investing in our solutions portfolio
- Industry’s most comprehensive data center testing solution
- Test coverage of all emerging technologies

Innovations
- Industry 1\(^{st}\) virtual application test solution
- Industry 1\(^{st}\) test methodology for cloud computing

‘Right Solution’ at the ‘Right Time’
- Most cost effective, highest density 40GbE test solution
- A leader in Ethernet, cloud & virtual testing

Global reach
- Leveraging our global presence
- Customers: Chip, NEMs, Service Providers & Enterprise

Notes: (1) Source: Infonetics (2) Source: IDC SaaS Market Sizing
Summary & outlook

- Positive momentum across the communications industry over the last three quarters
- Spirent is a substantial test and measurement company now beginning to realise its potential
- Developing new innovative solutions, while thoughtfully managing costs
- Best in class profitability now coupled with top line growth
- Well placed to achieve profitable growth during the second half-year