



## SPIRENT COMMUNICATIONS PLC

### INTERIM MANAGEMENT STATEMENT (UNAUDITED)

**London, UK – 8 November 2012:** Spirent Communications plc (“Spirent”, the “Company” or the “Group”) (LSE: SPT), a leading communications technology company, announces the following unaudited Interim Management Statement for the period from 1 July 2012 to date. Unless otherwise stated the financial information is for the three months ended 30 September 2012.

The sale of the Systems Division announced on 24 September 2012 was completed on 1 November 2012. The Systems Division has been classified as a discontinued operation in these results and comparatives have been restated to reflect this disposal.

#### Trading to date

As anticipated at the time of Spirent’s half-year results announcement market conditions during the third quarter were challenging, due to macro-economic factors. This caused our customers to exercise caution in the timing of their investment decisions which in turn tempered our short term growth rates.

#### Results summary

The results for the third quarter and for the first nine months of 2012 for the continuing Group are set out below:

\$ million	<b>2012</b> 3 <sup>rd</sup> quarter	2011 3 <sup>rd</sup> quarter	<b>2012</b> 9 months YTD	2011 9 months YTD
<b>Reported</b>				
Revenue	<b>111.7</b>	115.4	<b>347.8</b>	345.2
Operating profit	<b>25.9</b>	28.6	<b>79.1</b>	79.2
Basic earnings per share (cents)	<b>2.77</b>	2.95	<b>8.44</b>	8.38
Free cash flow <sup>1</sup>	<b>17.1</b>	25.8	<b>67.5</b>	42.9
<b>Adjusted</b>				
Operating profit <sup>2</sup>	<b>28.2</b>	29.3	<b>87.8</b>	82.5
Basic earnings per share <sup>3</sup> (cents)	<b>3.11</b>	3.06	<b>9.61</b>	8.80

#### Notes

1. Operating cash flow for the total Group after tax, net interest and net capital expenditure.
2. Before exceptional items, share-based payment, acquired intangible asset amortisation and acquisition related costs.
3. Adjusted basic earnings per share is based on adjusted earnings as set out in note 3 of Notes to the Interim Management Statement.

## Highlights - third quarter 2012

### Continuing operations

#### Financial

- Sale of Systems announced in September for \$64.0 million, cash consideration received on completion on 1 November 2012. It is envisaged that net proceeds will be returned to shareholders by way of on market share buybacks.
- Group revenue reduced 3% to \$111.7 million (Q3 2011: \$115.4 million); book to bill ratio was 92 for the quarter (Q3 2011: 105).
- Performance Analysis revenues steady at \$103.8 million (Q3 2011: \$104.0 million); Service Assurance down 31% to \$7.9 million (Q3 2011: \$11.4 million).
- Adjusted operating profit down 4% to \$28.2 million (Q3 2011: \$29.3 million). Reported operating profit, after charging acquisition costs, acquired intangible asset amortisation and share-based payments of \$2.3 million (Q3 2011: \$0.7 million), was \$25.9 million (Q3 2011: \$28.6 million).
- Return on sales maintained at 25%.
- Adjusted basic earnings per share from continuing operations rose 2% to 3.11 cents (Q3 2011: 3.06 cents). Basic earnings per share 6% lower at 2.77 cents (Q3 2011: 2.95 cents).
- Free cash generation of \$17.1 million (Q3 2011: \$25.8 million). Cash and cash equivalents at 30 September 2012 were \$191.7 million (1 July 2012: \$234.7 million), after the acquisition of Metrico Wireless for \$52.0 million in September 2012.

#### Operational

- Acquisition of Metrico Wireless in September, brings together Spirent's mobile device performance test strength in the lab with Metrico's field-based, subscriber-level focus.
- Released iTest Lab Optimizer, a next-generation lab management platform that improves test equipment utilisation, productivity and test cycle time for equipment vendors and operators.
- Check Point selected Spirent's Avalanche security solution to test the performance and scalability of the Check Point 61000 Security System using real-world traffic.
- Cisco partnered with Spirent to test the new ultra-low-latency, high-density, high-performance Cisco Nexus<sup>®</sup> 3548 Switch, using Spirent TestCenter<sup>™</sup> to test the 3548's latency performance.

- Released new Hybrid Location Technology Solution to test a new generation of hybrid positioning technologies that employ Wi-Fi, Global Navigation Satellite System, sensors and cellular signals.
- Spirent and Brocade gave the first public demonstration of a live 100Gb per second OpenFlow network, using Spirent TestCenter's Software Defined Networking application.
- Growing interest in testing for the Chinese Compass ("Beidou") navigation satellite system, with several new orders secured in Asia and North America.

### **Market conditions and outlook**

The fundamental drivers for the test and measurement market remain strong, although the global macro-economic environment is uncertain. The underlying revenues in the fourth quarter of 2012 are expected to be similar to last year and with the addition of revenues from acquisitions could show some growth overall.

### **Bill Burns, Chief Executive Officer, commented:**

"We have made good strategic progress in the third quarter executing on the acquisition of Metrico Wireless and disposing of the non-core Systems Division, allowing us to focus the Group's activities exclusively on the faster growing test and measurement market. As a result, we intend to increase investment in the technologies that will serve our customers' evolving needs while at the same time pursuing initiatives to expand our served markets."

### **Third quarter performance**

#### **Overview**

Revenue for the third quarter of 2012 for the continuing Group was 3 per cent lower compared with 2011, as a result of flat revenues in Performance Analysis and the continued decline in demand in Service Assurance for its legacy products. Adjusted operating profit was down by 4 per cent compared with the third quarter of 2011 on lower revenue. Adjusted earnings per share grew by 2 per cent to 3.11 cents.

### **Performance Analysis**

Revenues were steady at \$103.8 million (Q3 2011: \$104.0 million) and operating profit was down by 6 per cent to \$27.7 million (Q3 2011: \$29.5 million). The book to bill ratio was 93 compared with 105 for the third quarter of 2011. Demand for our wireless test solutions continued to grow, however, this was offset by weakness in demand for wireline infrastructure equipment and by further delays in the procurement of positioning test solutions. We experienced weakness in Europe and from the US government coupled with a marked slowdown in growth in China.

### **Service Assurance**

Revenue fell by 31 per cent compared with the third quarter of 2011 and operating profit was up by \$0.4 million, reflecting the cost reductions made during the first half of 2012 in response to the rapid fall in Service Assurance's legacy business. We expect this division to operate at similar levels in the fourth quarter of 2012.

### **Discontinued operations – Systems**

The Systems Division has been classified as a discontinued operation. The sale for \$64.0 million to Curtiss-Wright Corporation was completed after the end of the quarter on 1 November 2012. The result for Systems after tax was \$0.6 million for the third quarter (Q3 2011: \$1.9 million); this is after charging costs of \$1.0 million in relation to the divestment.

The net proceeds from the sale after tax and expenses are expected to be approximately \$61 million and it is envisaged that they will be returned to Spirent's shareholders by way of on market share buybacks.

### **Acquisitions**

Metrico Wireless, Inc. ("Metrico") was acquired in September for \$52.0 million. Metrico is included within the Performance Analysis division. The acquisition brings together Spirent's strength in the lab with Metrico's focus on subscriber-level device testing in the field, resulting in a unique end-to-end test portfolio. This timely offering enables Spirent to address the needs of service providers and device manufacturers who must contend with disruptive technologies including 4G data, voice over LTE and the cloud. It enables service providers and their suppliers to minimise time to market, improve subscriber satisfaction and loyalty, and reduce device return rates.

Revenue from Metrico was \$1.6 million in the third quarter and it made a positive contribution to profit in the period from the 13 September 2012 closing date.

Acquired intangible asset amortisation for Metrico is expected to be in the region of \$5 million per annum.

## Cash

Free cash generation was \$17.1 million in the third quarter (Q3 2011: \$25.8 million). Year to date free cash flow was \$67.5 million compared with \$42.9 million in 2011. Cash and cash equivalents closed at \$191.7 million (1 July 2012: \$234.7 million). The cash position reflects the payment of the interim dividend for 2012 of \$9.4 million and the acquisition of Metrico Wireless for \$52.0 million.

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## Enquiries

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*A conference call for analysts will take place today at 8:00am. A replay of the conference call will be available in the Investor section of the Spirent Communications plc website [www.spirent.com](http://www.spirent.com).*

## About Spirent Communications plc

Spirent Communications plc is a global leader in test and measurement inspiring innovation within development labs, communication networks and IT organisations. We enable today's communication ecosystem as well as tomorrow's emerging enterprises to deploy life enriching communications networks, devices, services and applications. Further information about Spirent Communications plc can be found at [www.spirent.com](http://www.spirent.com).

Spirent Communications plc Ordinary Shares are traded on the London Stock Exchange (ticker: SPT). The Company operates a Level 1 American Depositary Receipt ("ADR") programme with each ADR representing four Spirent Communications plc Ordinary Shares. The ADRs trade in the US over-the-counter ("OTC") market under the symbol SPMYY and the CUSIP number is 84856M209. Spirent ADRs are quoted on the Pink OTC Markets electronic quotation service which can be found at [www.pinksheets.com](http://www.pinksheets.com).

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### Cautionary statement regarding forward-looking statements

*This document may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise.*

**Condensed consolidated income statement (unaudited)**

**Period ended 30 September 2012**

\$ million	Period to 30 September 2012		Period to 2 October 2011	
	3 <sup>rd</sup> quarter	Year to date	3 <sup>rd</sup> quarter	Year to date
<u>Continuing operations</u>				
<b>Revenue</b>	<b>111.7</b>	<b>347.8</b>	115.4	345.2
Cost of sales	(30.8)	(99.3)	(35.2)	(105.7)
<b>Gross profit</b>	<b>80.9</b>	<b>248.5</b>	80.2	239.5
Product development	(21.1)	(63.3)	(20.8)	(62.3)
Selling and distribution	(21.4)	(67.9)	(21.8)	(66.6)
Administration	(12.5)	(38.2)	(9.0)	(31.4)
<b>Operating profit</b>	<b>25.9</b>	<b>79.1</b>	28.6	79.2
Net finance income	0.4	1.1	0.3	0.9
<b>Profit before tax</b>	<b>26.3</b>	<b>80.2</b>	28.9	80.1
Tax	(8.1)	(24.8)	(9.2)	(24.1)
<b>Profit for the period from continuing operations</b>	<b>18.2</b>	<b>55.4</b>	19.7	56.0
<u>Discontinued operations</u>				
Profit for the period from discontinued operations	0.6	3.2	1.9	5.3
<b>Profit for the period attributable to owners of parent Company</b>	<b>18.8</b>	<b>58.6</b>	21.6	61.3
<b>Earnings per share (cents)</b>				
<u>Continuing operations</u>				
Basic	2.77	8.44	2.95	8.38
Diluted	2.76	8.40	2.92	8.30
<u>Discontinued operations</u>				
Basic	0.09	0.49	0.28	0.79
Diluted	0.09	0.48	0.28	0.79
<u>Total Group</u>				
Basic	2.86	8.93	3.23	9.17
Diluted	2.85	8.88	3.20	9.09

**Notes to the Interim Management Statement**

**1 Segmental analysis**

\$ million	Period to 30 September 2012		Period to 2 October 2011	
	3 <sup>rd</sup> quarter	Year to date	3 <sup>rd</sup> quarter	Year to date
<b>Revenue from continuing operations</b>				
Performance Analysis	103.8	323.2	104.0	302.8
Service Assurance	7.9	24.6	11.4	42.4
	<b>111.7</b>	<b>347.8</b>	115.4	345.2
<b>Operating profit from continuing operations</b>				
Performance Analysis	27.7	89.8	29.5	80.2
Service Assurance	1.6	2.2	1.2	6.5
Total reportable segment profit before exceptional items	29.3	92.0	30.7	86.7
Exceptional items - Service Assurance	-	(2.9)	-	-
Total reportable segment profit	29.3	89.1	30.7	86.7
Unallocated amounts				
Corporate	(1.1)	(4.2)	(1.4)	(4.2)
Acquisition related costs	(0.5)	(2.0)	-	(1.2)
Acquired intangible asset amortisation	(1.2)	(2.4)	(0.3)	(1.3)
Share-based payment	(0.6)	(1.4)	(0.4)	(0.8)
	<b>25.9</b>	<b>79.1</b>	28.6	79.2

**Other information – continuing operations**

\$ million				
Depreciation	3.8	10.9	3.2	9.3
Capital expenditure	4.4	11.5	5.5	14.0

## 2 Discontinued operations

On 24 September 2012 the Group announced the sale of its Systems Division for a cash consideration of \$64.0 million. At the period end the disposal was subject to the usual and customary terms. The sale completed on 1 November 2012.

\$ million	Period to 30 September 2012		Period to 2 October 2011	
	3 <sup>rd</sup> quarter	Year to date	3 <sup>rd</sup> quarter	Year to date
<b>Revenue</b>	<b>13.4</b>	<b>39.4</b>	14.8	45.4
Cost of sales	(8.3)	(24.9)	(9.2)	(28.6)
<b>Gross profit</b>	<b>5.1</b>	<b>14.5</b>	5.6	16.8
Expenses	(3.0)	(9.0)	(3.1)	(9.7)
Expenses of sale incurred to date	(1.0)	(1.0)	-	-
<b>Profit before tax</b>	<b>1.1</b>	<b>4.5</b>	2.5	7.1
Tax	(0.5)	(1.3)	(0.6)	(1.8)
<b>Profit for the period from discontinued operations</b>	<b>0.6</b>	<b>3.2</b>	1.9	5.3

## 3 Earnings per share

Cents	Period to 30 September 2012		Period to 2 October 2011	
	3 <sup>rd</sup> quarter	Year to date	3 <sup>rd</sup> quarter	Year to date
<b><u>Earnings per share</u></b>				
Basic from continuing operations	2.77	8.44	2.95	8.38
Basic from discontinued operations	0.09	0.49	0.28	0.79
<b>Basic total Group</b>	<b>2.86</b>	<b>8.93</b>	3.23	9.17
Diluted from continuing operations	2.76	8.40	2.92	8.30
Diluted from discontinued operations	0.09	0.48	0.28	0.79
<b>Diluted total Group</b>	<b>2.85</b>	<b>8.88</b>	3.20	9.09
<b><u>Adjusted earnings per share</u></b>				
Adjusted basic from continuing operations	3.11	9.61	3.06	8.80
Adjusted basic from discontinued operations	0.25	0.64	0.28	0.79
<b>Adjusted basic total Group</b>	<b>3.36</b>	<b>10.25</b>	3.34	9.59
Adjusted diluted from continuing operations	3.10	9.56	3.03	8.72
Adjusted diluted from discontinued operations	0.25	0.64	0.28	0.79
<b>Adjusted diluted total Group</b>	<b>3.35</b>	<b>10.20</b>	3.31	9.51
<b>Weighted average number of shares in issue at period end</b>				
Basic (million)		656.4		668.5
Diluted (million)		660.1		674.3



### 3 Earnings per share continued

A reconciliation of adjusted earnings is provided below:

\$ million	3 <sup>rd</sup> quarter 2012		
	Continuing operations	Discontinued operations	Total Group
<b>Profit for the period attributable to owners of parent Company</b>	<b>18.2</b>	<b>0.6</b>	<b>18.8</b>
Expenses of sale of Systems	-	1.0	1.0
Acquisition related costs	0.5	-	0.5
Acquired intangible asset amortisation	1.2	-	1.2
Share-based payment	0.6	-	0.6
Adjusted earnings	20.5	1.6	22.1

\$ million	3 <sup>rd</sup> quarter 2011		
	Continuing operations	Discontinued operations	Total Group
<b>Profit for the period attributable to owners of parent Company</b>	19.7	1.9	21.6
Acquired intangible asset amortisation	0.3	-	0.3
Share-based payment	0.4	-	0.4
Adjusted earnings	20.4	1.9	22.3

\$ million	3 <sup>rd</sup> quarter year to date 2012		
	Continuing operations	Discontinued operations	Total Group
<b>Profit for the period attributable to owners of parent Company</b>	<b>55.4</b>	<b>3.2</b>	<b>58.6</b>
Exceptional items	2.9	-	2.9
Expenses of sale of Systems	-	1.0	1.0
Acquisition related costs	2.0	-	2.0
Acquired intangible asset amortisation	2.4	-	2.4
Share-based payment	1.4	-	1.4
Tax effect on the above items	(1.0)	-	(1.0)
Adjusted earnings	63.1	4.2	67.3

\$ million	3 <sup>rd</sup> quarter year to date 2011		
	Continuing operations	Discontinued operations	Total Group
<b>Profit for the period attributable to owners of parent Company</b>	56.0	5.3	61.3
Prior year tax credit	(0.3)	-	(0.3)
Acquisition related costs	1.2	-	1.2
Acquired intangible asset amortisation	1.3	-	1.3
Share-based payment	0.8	-	0.8
Tax effect on the above items	(0.2)	-	(0.2)
Adjusted earnings	58.8	5.3	64.1