

# 2007 Interim Results

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9 August 2007

# Cautionary Statement

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This presentation and the subsequent question and answer session may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. There are risk factors that could cause our actual results to differ materially from those expressed in or implied by such statements.

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.

# Introduction

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- Objectives of Operating Review
  - Increase profitability at current sales levels
  - Set fixed costs at levels that reduce earnings volatility
  - Optimize operational gearing on sales increases
  - Increase transparency
- Foreign exchange
- Performance Analysis sales update
- Corporate governance commitments
- Strategic review

# Comparative earnings

- Continuing operations before exceptional items

	2007 H1		2006 H1	
	£m	\$m	£m	\$m
Sales	114.2	225.0	134.2	240.2
Cost of Sales	45.8	90.2	53.0	94.9
Gross Profit	68.4	134.8	81.2	145.3
Product Development	22.8	44.9	29.7	53.1
Selling & Distribution				
Administration	40.6	80.0	47.3	84.7
Operating Profit	5.0	9.9	4.2	7.5
Finance Income, net	3.1	6.1	2.3	4.1
Profit Before Tax	8.1	16.0	6.5	11.6
Tax	0.7	1.4	0.3	0.5
Net Income	7.4	14.6	6.2	11.1
EPS before share-based compensation and amortisation of intangibles	<b>1.01p</b>		<b>0.91p</b>	
EPS after share-based compensation and amortisation of intangibles	<b>0.85p</b>		<b>0.65p</b>	
Average \$/£ exchange rate		1.97		1.79

# Foreign exchange impact

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- H1 2007 compared to H1 2006

<i>£ millions</i>	<u>Performance Analysis</u>	<u>Service Assurance</u>	<u>Systems</u>
Sales	(6.8)	(1.5)	(1.2)
Operating Profit			
Transaction	(0.6)	-	(0.8)
Translation	(0.4)	(0.1)	-

- Communications business profits relatively insensitive to exchange rate movements
- UK-based Systems business highly sensitive to foreign exchange transaction effects

# Performance Analysis

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	2007 H1		2006 H1	
	£m	\$m	£m	\$m
Sales	80.6	158.6	90.5	162.0
Gross Profit	54.5	107.4	59.8	107.0
Operating Expenses	50.0	98.5	55.2	98.8
Reported Operating Profit	4.5	8.9	4.6	8.2
Inventory Adjustment	-	-	(2.3)	(4.1)
Foreign exchange impact	1.0	-	-	-
<b>Underlying Profit</b>	<b>5.5</b>	<b>8.9</b>	<b>2.3</b>	<b>4.1</b>

- Actions in H1 from the Operating Review should improve profits significantly in H2
- Planning for H2 revenue in US\$ flat to slight sequential increase

# Performance Analysis – composition of sales

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*\$ millions*

	<u>2007 H1</u>	<u>2006 H1</u>	<u>Increase / (Decrease)</u>
Wireless	49.8	41.3	8.5
Other Broadband	75.8	106.2	(30.4)
Spirent TestCenter	33.0	14.5	18.5

- Sequential revenue growth Q1 to Q2 of 16%
- Significant new investment in wireless to support further growth
- First Spirent TestCenter 2.0 series release at the end of May broadened addressable market to include development test
- Additional releases in H2 transfer additional functions from legacy products to Spirent TestCenter
- Product life cycle profile in Broadband becoming more favourable over time

# Major customers – Broadband only

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- Change in US \$ orders, H1 2007 v. H1 2006:

Cisco	20%
Alcatel-Lucent	(29%)
Motorola	71%
Juniper Networks	99%
NTT	6%
Nokia-Siemens Networks	32%

- Above equals 33% of H1 Broadband orders
  - Sales to 6 largest customers increased by 14%
- Technology leaders migrating to Spirent TestCenter
- Sales reductions concentrated in
  - Merging customers
  - Smaller customers



# Service Assurance

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	2007 H1		2006 H1	
	£m	\$m	£m	\$m
Sales	16.5	32.5	24.9	44.6
Operating Profit	0.9	1.8	0.1	0.2

- H1 2006 includes £4.5 million (\$8.0 million) of deferred revenue
- Cost reductions more than offset sales decline
- Foreign exchange impact minimal

# Systems

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	2007 H1		2006 H1	
	£m	\$m	£m	\$m
Sales	17.1	33.7	18.8	33.7
Operating Profit	1.7	3.3	2.5	4.5

- Operations principally in UK
  - High sensitivity to exchange rates
  - Profit impacted by £0.8 million
- Proposed actions to be taken
  - Increase manufacturing outsourcing to Far East
  - Adjust pricing where possible

# Free cash flow

<i>£ millions</i>	<u>2007 H1</u>	<u>2006 H1</u>
Net cash flow from operating activities	14.9	(5.6)
Net interest income	2.2	1.2
Costs of loan notes repayment	-	(9.7)
Net capital expenditure	(2.6)	(8.2)
<b>Free cash flow</b>	<b>14.5</b>	<b>(22.3)</b>
Disposals	-	278.5
Pension contributions	-	(47.0)
Acquisitions	(4.0)	(32.6)
Share capital	3.3	1.4
Share buyback	(4.2)	(7.2)
Transfers from cash on long-term deposit	0.7	-
Loan repayments	-	(72.6)
Cash inflow/(outflow)	10.3	98.2
Exchange and other	(1.0)	(0.7)
Closing cash and cash equivalents	106.9	146.3

- H1 2007 free cash flow equals 12.7% of sales

# Operating Review update

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- Cost reduction schedule

	Incremental Benefit		Cumulative	
	£m	\$m	£m	\$m
H1 2007	1.6	3.2	1.6	3.2
H2 2007	6.8	13.6	8.4	16.8
Full year 2008	13.1	26.2	21.5	43.0

- All scheduled actions in place
- H2 benefit may vary
  - Timing of outsourcing changeover
  - Usage of FIFO inventory

# Other

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- SwissQual
  - Disposal for \$3.0 million on 5 July
  - First half trading loss £3.4 million (\$6.7 million)
  - Strategic challenges did not justify turnaround investment required
- Corporate governance
  - Progress on commitment to restore compliance with Combined Code
    - added two additional independent directors
    - board composition now compliant
    - each board committee compliant from 1 October 2007
- New directors
  - Duncan Lewis appointed 1 July 2007
    - significant telecommunications executive experience at British Telecom and Cable and Wireless
  - Tom Maxwell to join the board 1 October 2007
    - provides strong investor perspective
    - senior investment management experience at Martin Currie and Ivory and Sime

# Summary

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- Operating Review implementation on course
- Outlook for significant profit increase in H2 with low dependence on sales growth
- Continuing investment to generate sales growth in broadband and wireless
- Strategic Review to address
  - Business portfolio
  - Product investment priorities
  - Cost containment opportunities
  - Balance sheet structure
- Expect to communicate results of review to shareholders in October 2007

