Interim Results for the first half of 2006

10 August 2006
Anders Gustafsson
CEO

Inspired Innovation
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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.
Strategic progress

- Transformation into focused communications company completed
- Strongly focused management:
  - a broad portfolio of products
  - a core supplier to our customers
  - a leading brand
- Management and organisation significantly strengthened:
  - executing on our strategy
- Significantly strengthened balance sheet to support investment to keep ahead of the competition:
  - £31.2m spent on new products and enhancements to existing products
  - four strategic acquisitions, expanding our capability and technology into new and existing growth areas and widening our geographical reach
Results overview

- First half characterised by variable market conditions and significant product transition:
  - very competitive market place
  - short term delays to product launches
  - higher product development and sales and marketing spend

- Strong performance by new and enhanced existing products and target growth regions such as Asia

- Reported results include:
  - £157.1m profit after tax on disposal of the HellermannTyton Division
  - £3.9m for restructuring actions as announced on 29 June 2006
  - goodwill impairment of £9.5m

- Net cash at half year of £146.3m

- Sarbanes Oxley costs £1m in H1 2006; £3m expected for the full year

- Share buy back commenced and on track
Eric Hutchinson
Finance Director

Inspired Innovation
<table>
<thead>
<tr>
<th></th>
<th>First half 2006</th>
<th>First half 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£ million</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Continuing Group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>138.2</td>
<td>126.5</td>
</tr>
<tr>
<td>Adjusted operating profit&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Adjusted profit/(loss) before tax&lt;sup&gt;2&lt;/sup&gt;</td>
<td>6.1</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Adjusted earnings/(loss) per share&lt;sup&gt;2&lt;/sup&gt; (pence)</td>
<td>0.61</td>
<td>(0.13)</td>
</tr>
<tr>
<td>Basic loss per share (pence)</td>
<td>(1.82)</td>
<td>(4.87)</td>
</tr>
<tr>
<td><strong>Total Group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reported profit/(loss) for the period</td>
<td>141.3</td>
<td>(36.8)</td>
</tr>
</tbody>
</table>

**SA recovery in H106, offset by weak PA performance**

<sup>1</sup> Before material one-time items, goodwill impairment, intangible amortisation and share-based payment.

<sup>2</sup> As<sup>1</sup> and before the costs associated with repayment of loan notes and profit on disposal of operations.
## Segmental analysis

<table>
<thead>
<tr>
<th>£ million</th>
<th>First half 2006</th>
<th>First half 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Operating profit/(loss)$^1$</td>
</tr>
<tr>
<td>Performance Analysis</td>
<td>94.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Service Assurance</td>
<td>24.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Systems</td>
<td>18.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Non segmental</td>
<td>-</td>
<td>(2.8)</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>138.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>

$^1$ Before material one-time items, goodwill impairment, intangible amortisation and share-based payment.

- Product development spend for H1 2006 of £31.2m compared to £29.5m for the same period last year
- Sarbanes Oxley costs of £1m for H1 2006, expected to be £3m for the full year

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**Revenue growth, profit impacted by higher operating expenses**
# Performance Analysis

<table>
<thead>
<tr>
<th>£ million</th>
<th>First half 2006</th>
<th>First half 2005</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>94.5</td>
<td>87.6</td>
<td>8</td>
</tr>
<tr>
<td>Operating profit(^1)</td>
<td>3.3</td>
<td>11.4</td>
<td>(71)</td>
</tr>
<tr>
<td>Return on sales(^1) (%)</td>
<td>3.5</td>
<td>13.0</td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td>24.1</td>
<td>19.9</td>
<td>21</td>
</tr>
</tbody>
</table>

- Acquisitions contributed £4.3 million revenue and operating loss £0.5m
- Variable market conditions and significant move in products to new test platform
- Development spend predominantly Spirent TestCenter™
- Growth in security test, IP telephony, wireless infrastructure test
- Growth in Asia
- Wireless 29 per cent of revenues

*Investing for future market differentiation*

\(^1\) Before material one-time items, goodwill impairment, intangible amortisation and share-based payment.
## Service Assurance

<table>
<thead>
<tr>
<th>£ million</th>
<th>First half 2006</th>
<th>First half 2005</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>24.9</td>
<td>20.2</td>
<td>23</td>
</tr>
<tr>
<td>Operating profit/(loss)¹</td>
<td>0.7</td>
<td>(9.0)</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Return on sales¹ (%)</td>
<td>2.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Product development</td>
<td>5.9</td>
<td>8.5</td>
<td>(31)</td>
</tr>
</tbody>
</table>

- Revenues up - £4.5m contract for remote packet access test
- Profitable - benefit of prior year cost reductions
- DSL pick up with major carrier
- Development of triple play monitoring
- Continued leased line revenue decline
- Actions taken to reduce cost base at end of June

**Recovery over first half 2005 – near break-even outlook**

¹ Before material one-time items, goodwill impairment, intangible amortisation and share-based payment.
## Systems

<table>
<thead>
<tr>
<th>£ million</th>
<th>First half 2006</th>
<th>First half 2005</th>
<th>Change %</th>
</tr>
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<tr>
<td>Revenue</td>
<td>18.8</td>
<td>18.7</td>
<td>1</td>
</tr>
<tr>
<td>Operating profit(^1)</td>
<td>2.6</td>
<td>2.1</td>
<td>24</td>
</tr>
<tr>
<td>Return on sales(^1) (%)</td>
<td>13.8</td>
<td>11.2</td>
<td></td>
</tr>
</tbody>
</table>

- Volume growth, increase in low cost powered wheelchair controllers
- Product cost improvements increased profitability:
  - move of more production to China
- Benefit of new product launches – both low cost and high end

**Improved profitability through design enhancement and low cost manufacture**

\(^1\) Before material one-time items, goodwill impairment, intangible amortisation and share-based payment.
## Goodwill impairment and material one-time items

<table>
<thead>
<tr>
<th>£million</th>
<th>First half 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill impairment – Service Assurance</td>
<td>9.5</td>
</tr>
<tr>
<td>Material one-time items:</td>
<td></td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>3.9</td>
</tr>
<tr>
<td>Inventory absorption adjustment - credit</td>
<td>(2.3)</td>
</tr>
<tr>
<td></td>
<td>1.6</td>
</tr>
</tbody>
</table>

- Restructuring actions principally in Service Assurance division:
  - should enable a near break-even result for H2 2006
  - following which pro forma break-even sales for SA are estimated to be £36m per year

**Annual savings £9.0m**

**Cost £3.9m, cash spent in first half £1.9m**
## Net operating cash flow

<table>
<thead>
<tr>
<th>£ million</th>
<th>First half 2006</th>
<th>First half 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continuing operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit(^1)</td>
<td>3.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Cash cost of material one-time items</td>
<td>(1.9)</td>
<td>(2.9)</td>
</tr>
<tr>
<td>Depreciation and other</td>
<td>6.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Working capital, deferred income and other provisions(^2)</td>
<td>(11.3)</td>
<td>(6.8)</td>
</tr>
<tr>
<td><strong>Cash used in continuing operations</strong></td>
<td>(2.8)</td>
<td>(2.4)</td>
</tr>
<tr>
<td><strong>Cash (used in)/generated from discontinued operations</strong></td>
<td>(0.1)</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Cash (used in)/generated from operations</strong></td>
<td>(2.9)</td>
<td>9.6</td>
</tr>
<tr>
<td><strong>Tax paid</strong></td>
<td>(2.7)</td>
<td>(1.9)</td>
</tr>
<tr>
<td><strong>Net cash (used in)/from operating activities</strong></td>
<td>(5.6)</td>
<td>7.7</td>
</tr>
</tbody>
</table>

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**Working capital increase driven by ramp up of new product inventories**

\(^1\) Before material one-time items, goodwill impairment, intangible amortisation and share-based payment.

\(^2\) As adjusted for material one-time items, but including £2.1 million cash outflow for prior year vacant property.
## Free cash flow

<table>
<thead>
<tr>
<th></th>
<th>First half 2006</th>
<th>First half 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£ million</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash (used in)/from operating activities</td>
<td>(5.6)</td>
<td>7.7</td>
</tr>
<tr>
<td>Net interest and other</td>
<td>1.2</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Net capital expenditure</td>
<td>(8.2)</td>
<td>(15.8)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(12.6)</td>
<td>(11.1)</td>
</tr>
<tr>
<td>Pensions</td>
<td>(47.0)</td>
<td>(3.5)</td>
</tr>
<tr>
<td>Make-whole and swap break fees</td>
<td>(9.7)</td>
<td>-</td>
</tr>
<tr>
<td>On-market share repurchase</td>
<td>(7.2)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>278.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(32.6)</td>
<td>-</td>
</tr>
<tr>
<td>Share capital issued</td>
<td>1.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Net repayment of borrowings</td>
<td>(72.6)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>98.2</td>
<td>(11.9)</td>
</tr>
<tr>
<td>Exchange</td>
<td>(0.7)</td>
<td>0.2</td>
</tr>
<tr>
<td>Closing cash and cash equivalents</td>
<td>146.3</td>
<td>39.3</td>
</tr>
</tbody>
</table>

*Discontinued operations net capex £1.2m*
Net proceeds from the disposal of Network Products

<table>
<thead>
<tr>
<th>£ million</th>
<th>First half 2006</th>
<th>Second half 2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash free/debt free equivalent value</td>
<td>297.6</td>
<td>-</td>
<td>297.6</td>
</tr>
<tr>
<td>Debt assumed</td>
<td>(9.4)</td>
<td>-</td>
<td>(9.4)</td>
</tr>
<tr>
<td>Cash consideration</td>
<td>288.2</td>
<td>-</td>
<td>288.2</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>(4.5)</td>
<td>(6.7)</td>
<td>(11.2)</td>
</tr>
<tr>
<td>Tax</td>
<td>(8.2)</td>
<td>-</td>
<td>(8.2)</td>
</tr>
<tr>
<td></td>
<td>275.5</td>
<td>(6.7)</td>
<td>268.8</td>
</tr>
</tbody>
</table>

Total proceeds from the disposal were £8.7m higher than anticipated
2006 Guidance

- **Interest:**
  - elimination of interest burden on long term debt of 9.2%
  - interest on pension fund moves from expense of £1.1m to income of about £1.5m
  - interest receivable on surplus cash for H2 at 4.75%

- **Effective tax rate** – c.15%

- **Tax cash payments** – c.£5m

- **Capital expenditure** – c.£13m

- **Depreciation** – c.£13m

- **Sarbanes Oxley costs** for the year expected to be £3m, one third incurred in H1 2006

- **Forex sensitivity** – 1c move = £1.0m impact on revenues, £0.1m impact on operating profit
Anders Gustafsson
CEO

Inspired Innovation
Spirent’s strategy

- Build communications business
- Grow by means of organic investment and selective acquisitions
- Maximise long term value of Systems group
- Improve operational effectiveness
- Good medium term prospects - drive profitable growth

Deliver shareholder value
Strategic initiatives

<table>
<thead>
<tr>
<th>Lead Growth Markets</th>
<th>Expand Globally</th>
<th>World Class Services</th>
<th>Breadth of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPTV, Triple Play</td>
<td>Asia Europe</td>
<td>Leverage industry expertise and best in class services</td>
<td>Deliver comprehensive and innovative solutions</td>
</tr>
<tr>
<td>IMS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wireless</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethernet</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Grow by means of organic investment and selective acquisitions
Market trends

Rapidly changing market

- Proliferation of new technologies
- IP services to avert voice revenue decline
- Changing customer landscape (M&A)
- IP skills-shortage fuelling partnerships
- R&D productivity

New T&M requirements

- Breadth of expertise (wireless, convergence, Ethernet/IP services)
- Scalable, modular testing architecture
- Quality of Service/Experience testing
- “From lab to live” testing for time-to-revenue acceleration
- Customer diversification and intimacy
- Global presence and reputation
- Testing services
- Solution Partnerships
- Testing productivity improvement
- Automation/Ease-of-use
Strategic initiatives - improve operational effectiveness

- Restructured sales team to better serve our major customers
- Deliver higher value solutions through “game-changing” product innovations, services and partnerships
- R&D effectiveness and improve time to market
- Simplify and strengthen our support processes
- Continue to unlock synergies between divisions to accelerate growth initiatives and improve operational efficiency

*Improve margins and revenues*
Complement organic growth with strategic acquisitions

**Company acquired**

- **SwissQual**
  January – initial consideration £27.8m

- **QuadTex Systems**
  February – initial consideration £4.3m

- **Scientific Software Engineering**
  July – initial consideration £5.4m

- **Imperfect Networks**
  August – initial consideration £2.2m

**Market focus**

- **Wireless Video Subscriber Experience testing (Diversity)**

- **IMS and VoIP protocol development testing (Spirent ProtocolTester)**

- **3G Wireless Infrastructure testing (Landslide)**

- **Security testing (ThreatEx)**

*In line with our strategic initiatives*
Divisional performance - PA

- Overall market “flattish”
- M&A continues its negative impact:
  - largest customer Cisco down 35 per cent
  - other M&A customers down 19 per cent
- Customers unaffected by M&A up 13 per cent
- Strong growth and market share gains in Asia
- Aim to grow share in core and build lead in top growth areas in H2:
  - **Core markets**: Security, Access, SWAT, Metro Routing, Switching, Triple Play, and IP Telephony
  - **Expansion markets**: 3G wireless infrastructure, IMS, WiMAX, and manufacturing test
- Offensive sales strategy:
  - Compete and win on functionality and productivity
PA product performance

- Declining or cannabilised existing products:
  - SmartBits
  - AX

- Enhanced existing products:
  - Abacus
  - Avalanche
  - Positioning

- Growing new products:
  - Spirent TestCenter
  - Spirent Protocol Tester
  - Landslide
  - ThreatEx

- Product spending peaking this year – productivity benefit in 2007
Spirent TestCenter™ - “the game changer”

- **Launch of new unified platform:**
  - competitive wins with new and existing customers
  - significantly ramped revenues

- **Further product releases in H2:**
  - further improve functionality and productivity

- **“The Game Changer”:**
  - improves productivity and time to market
  - addresses rapid technology change
  - scalability and performance

- **Improves our R&D productivity**
New customers in Q2 for Spirent TestCenter™

- Optical Ethernet Div. Italy
- 3 new Business units
- 3 new NTT Labs
- 90+ customers
What customers are saying..

**Optical Ethernet NEM:**
- "Wow, this is very impressive. In our environment, we need a tool with port density, that's easy to use, and has a simple automation framework. This product has all three!"

**Ethernet Switch NEM Test Engineers:**
- "We are finding bugs [in our products] with Spirent TestCenter that were not found with [the competitors tester].”
- “The 10 Gigabit Ethernet on Spirent TestCenter is a ‘slam dunk’ versus your competition. It gives me investment protection by being able to change 10 Gigabit interfaces.”

**Core Carrier Router NEM:**
- “Spirent TestCenter was stable during the entire two week evaluation. We were doing large scale QoS testing with many streams. [The competitor’s] box was so unstable and buggy that we will not give it serious future consideration.”
Divisional performance - SA

- Market for existing solutions continues to decline:
  - maximise value capture from existing business whilst continuing to invest in new 3P solutions

- Proactively managed legacy cost base

- Next Gen solutions still being evaluated by customers:
  - risk/reward profile increasing due to customer M&A
  - more lumpy and unpredictable new business pipeline
  - focus on winning in core accounts

- Highest level of revenue for new packet based solutions

- Launched new field test product (TechEx):
  - integrated and cost effective 3P field test unit

- Future growth dependent on 3P contracts, which continue to be delayed

Well positioned for success
Significant product transition and variable market conditions

These factors are expected to continue in H2

Introduction of new products and enhancements to our existing products

Contribution from acquisitions

Expected to lead to a modest increase in revenue for 2006 compared with 2005

Combined with benefits of restructuring actions, is expected to result in an improved performance for year as a whole
Conclusion

- Spirent transformed:
  - focused communications company
  - significantly improved financial position

- Well placed to grow organically:
  - leading positions in multiple market segments globally
  - innovative and successful next-generation products and solutions
  - ability to leverage investments from the lab to the live network
  - gaining market share as a result of our significant investment

- We are also growing through selective, strategic acquisitions
Our vision

Be recognised as the “partner of choice” for delivering test and measurement solutions that ensure the success of next generation network equipment and services

Enable our customers to achieve faster time to revenue for their products and services by improving their testing productivity and quality of their offerings

Differentiate ourselves through our unique “from lab to live” converged solutions, testing services and the quality of our global customer support