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PRESENTATION

Bill Burns *- Spirent Communications plc - Chief Executive Officer*

Morning, everyone. I'm Bill Burns. With me today is Eric Hutchinson, our Chief Financial Officer. Welcome to our 2012 first half earnings results presentation.

Before we get started, I'd like to point to the Safe Harbor Statement, if you could a second to look through it, we much appreciate it.

The agenda today will be, I'll cover the highlights, the first half results; Eric will cover the financial results in detail; and then I'll come back up and give you a market update and outlook for the second half.

Expectations of our strategy are delivering increased revenue profits, earnings per share and cash generation and we saw that continue into the first half of the year.

The industry fundamentals remain strong as the key growth areas around wireless device, mobile packet core and data center testing also remain strong through the first half year.

We continue to invest in our solutions portfolio, both organically and we'll talk more about this during the presentation, and through acquisition, as we've done a couple of small acquisitions in the case of Fanfare and Mu Dynamics.

We took action in the April timeframe to re-establish profitability at Service Assurance, as we saw a steep decline in legacy revenues within Service Assurance in the first half year, and we've seen macroeconomic conditions impact our order intake in the latter part of second quarter.

So the last six weeks of second quarter, we saw that the macroeconomic impact here in Asia -- or sorry, here in Europe, the flattening of China and the Asia market and the growth slowing a bit as people became a bit more cautious in the North America market.

And I think you saw this come through in almost everybody in technology's earnings results over the last two weeks or so. Everybody's feeling that same impact and we'll talk more about it during the presentation.

That said, Performance Analysis delivered a robust financial performance in the first half year and we'll cover that in detail.

If you look at the key performance indicators for the Group, now these are Group numbers, book-to-bill ratio of 92; 1% increase in revenue masked by the declines in Service Assurance and in Systems on the revenue side.

Operating profit overall grew by 9%. Return on sales increased to 24%, up from 22% a year ago, generating almost $50 million -- over $50 million in free cash flow during the period and adjusted EPS grew by 10%.

So strong financial results in the first half year, but we've seen some order slowdown in the last six weeks or so of the period.

If we look at Performance Analysis, really the key to Spirent these days, from a division perspective, revenue growth of 10%, up to $219 million; order intake, flat for the first half year, again impacted by the macroeconomic conditions we talked about earlier.

Operating profit, up 22% to $62 million and we've seen increase in return on sales, up to 28%, based on operating leverage and product mix. So good solid results from a Performance Analysis perspective in the first half year.

With that, I'll turn to Eric and let him cover the financial results in detail and then I'll come back and talk a bit about the market and then the outlook for second half.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

Thank you, Bill. Okay, so looking at the financial results, the first slide will be the Group consolidated results compared to the first half of last year. As Bill said, we've 1% revenue growth to $262.1 million. Behind that, we saw strong growth in Asia Pacific at the Group level, but decline in the European market.

The European market was down about 23%, but Asia Pacific was up, strongly increasing the proportion of the Group by about 5 percentage points being from Asia-Pac.

Gross margin you can see expanded in the period. That's both, as Bill said, the benefit of product mix, but also Performance Analysis becoming a bigger proportion of the Group, so that pushes up the Group margins on an averaging basis anyway, and we also took some costs out of Service Assurance, which I'll show you.

Product development, selling and distribution and administration I've pretty well controlled, so hence the expansion in the operating profit return on sales by 1.8 percentage points to 24%, so on an adjusted basis, a 9% growth in operating profit.

Best-in-class operating performance of these levels is definitely as we compare ourselves with the rest of the peer group.

We took exceptional items of $2.9 million, reorganization in inventory provision in Service Assurance, I'll touch on that when we come to that segment, and that's included in this number here, along with the acquisition expenses.

The effective tax rate, 29.9%, so that was in line with the guidance of 30% that we gave last time round. Result with the adjusted EPS growing 10% to $0.0689 per share.

Turning to Performance Analysis, here revenue was up 10%, so $219.4 million; that's at the upper end of our guidance of 7% to 10% through cycle and we don't deviate from that view of this is what this business should be delivering over time.

Modest increase in the gross margin. That was primarily due to the mix of products in the revenue stream. So it's within our normal level, 71% to 73% gross margin from this business.

Again, you can see relatively modest rates of growth in the overheads. We are continuing to invest in the product development in the areas that we've highlighted before to expand our wireless offerings and our enterprise offerings.

Result was that we expanded the operating margin to 28.3%, well above last year, together with 22% increase in the operating profit.

So, as Bill referred to, at the Group level, the book to bill was below 1 at 92. In Performance Analysis, it was 94 in the areas that were slowing and principally in Europe. And Bill will touch more on the markets and the product sets later.

So turning to Service Assurance, we saw a steep decline in legacy revenues. So we were flagging that this business was hitting hard times. The major service providers have stopped buying the hardware deployment on DSL broadband monitoring, on high speed data lines. They're reusing equipment they currently have.

So the business has now shrunk to the support contracts that we have, the long-term support contracts, and the Ethernet monitoring business. So a big drop, 46% to $16.7 million.

The gross margin here has benefited from both the remaining product mix, which is a higher margin business fundamentally, and some of our cost reduction actions, which took headcount out of manufacturing overhead and service support.

You can see the benefits of the cost reduction actions coming through on the overheads here as they're down year on year. That meant that, excluding the exceptional items, we've got the business back into a modest profit on a dramatically lower revenue number.

The annualized savings that we achieved in the restructuring was $5 million as we announced. The cost of achieving that saving was $1.7 million. So you should see incrementally in the second half about $2.1 million benefit from the cost saving action.

In addition, seasonally, second half year could be a little bit stronger on the revenue. But if you project out the same revenue with the cost savings and the higher margin, we'd expect this business to be moving back up towards the 20% return on sales.

We also took an exceptional inventory provision of $1.2 million in respect of that hardware legacy product stock. We just don't see that that will be sold within 12 months, which is our policy for provisioning. So we've returned the business to profitability on significantly lower revenues.

Systems, again, we were flagging that the US Medicare changes on reimbursement policy was slowing that market temporarily during 2012. And that's indeed the reason why you see the revenue down 15% to $26 million, gross margin in the right range at 36.2%.

The other product lines, apart from the consumer wheelchairs funded by Medicare, we saw growth in the high-end wheelchairs for rehabilitation for severely disabled people. We saw growth in mobility scooters as individual consumers are buying scooters if they're not getting wheelchairs. Their volumes are up there and we've made good progress in selling industrial controllers into goods handling equipment and small industrial vehicles.

Also, fundamentally, the business will benefit from long-term demographic trends. People are living longer. More of us need mobility and that is being funded in the long term. So we see this as a bit of a temporary phase in terms of the revenue progression and we continue to expand the served markets by taking it into industrial controllers.

So fundamentally, not a bad performance at 13% return on sales for this industrial segment. Profits are clearly down, but not wildly out of line.

Free cash flow, very solid. As Bill said, $50.4 million compared to $17.1 million. The big turnaround effect half year on half year is that we released $4.9 million out of working capital. There's a big increase that went in, in the first half of 2011. So this represents a very high conversion of our earnings; 127% conversion of earnings against a target of around 85% to 90%. So, again, we projected the good cash flow in the second half year.

The $50 million we invested in the acquisition of Mu Dynamics, $39.8 million, and to fund the dividend payments and some of the share buybacks that we did in the first quarter of the year. And the closing cash ended up $234.7 million, no debt.

The tax rate, as I said, was just about 30% on the first half year. We're calculating that, just to be clear, that the pretax profit, after excluding the charge for acquired intangible amortization, because that doesn't deduct -- that doesn't attract a tax deduction.

And as that will increase with the acquisitions, it's a distortion that would distort your numbers if you apply tax to that pretax profit including that charge.

Cash taxes paid were $15 million. That's about 26% of the profit for the period in the first half and we expect this year to be -- the full-year rate to be in line with the number we've used at the half year.

Again, just to clarify, adjusted EPS, we calculate that before the charge to the exceptional items of $2.9 million, before share-based payment, before the amortization of goodwill intangibles, acquisition expenses on the Mu Dynamics acquisition and any related tax effects on those items. And if there's any prior-year tax, we also exclude that. That resulted in our 10% increase to $0.0689 cents a share.

Then distributions, just to restate our policy. So it's to maintain a high dividend cover, a sustainable progressive dividend increase in line with earnings growth. So we've increased the interim dividend by 10% to $0.0139 a share. At $1.56 to GBP1, that's 89p a share. So in sterling terms, it's about a 16% increase. That's a cash distribution of $9.1 million and the cover is 5 times on adjusted earnings.

We made some share buybacks early in the year. Our policy rule is to make buybacks to cover any dilutive effect of share-based incentives. Just to put that in perspective, that's about 1% of the share capital in total. And, if we see the appropriate time, then we'll make some more share buybacks on the market.

With that, I'll hand back to Bill to talk about the market and the outlook. Thanks, Bill.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Thank you, Eric. We'll talk a bit about the market update and the second half outlook. If we look at the industry fundamentals overall, they absolutely remain strong. So we've talked for some time about these fundamental drivers across the telecom and IT industry and what we're seeing is, and we've said for a while, that for many years to come, we see these being the growth drivers, but at times, there's going to be some speed bumps along the way. I think that's what we're seeing now, is really the macroeconomic impact on everyone's business across the telecoms sector.

But when you look at these fundamental growth drivers, whether it's cloud computing and virtualization and the build out of data centers to support applications around the world.

Whether it's cyber security and the concern everyone has about protecting that data. Whether it's global situational awareness and the idea of applications wanting to use location based services to get better adaptability to the actual users.

Whether it's machine to machine, in the case of the Internet of things, of connecting all things or everything to the Internet, in some way. Whether it's the mobile Internet and the demand for any time, anywhere or always on Internet access.

Whether it's the big data analytics that are going on today, and the looking at that data and taking that data and adding it to what subscribers use in applications, to give them the right information to protect that data, in specific ways.

Or it's a smarter planet, in making the infrastructure smarter, power and traffic control and others, around the world. All these things will continue to grow over the next multiple years.

And what we see is that we test the underlying technologies that support these industry fundamental drivers. So whether that's high speed Ethernet, in the case of 10 gigabit or 40 gigabit or 100 gigabit Ethernet, whether it's 4G, LTE, the faster data rates within the wireless, whether it's global positioning and navigation. And we're doing some new things there, to -- we'll talk about later in the presentation about indoor navigation.

Whether it's the backhaul or the actual mobile traffic or offloading of the traffic from the wireless network onto the wire line network. Whether it's inside these large data centers and the build out of cloud computing and virtualization, and moving those applications from inside the enterprise environment, to outside in a hosted data center.

Whether it's more applications aware network, that's ultimately protected by security, we test across all these fundamental areas. And the breadth and depth of our solutions portfolio has never been stronger, and we continue to marry these test assets together, as we'll talk about during the presentation.

We've talked about our strategy, delivering the right solutions to our customers, that matter most to them, at the right time; about continuing to evolve and expand our solutions portfolio; about the global reach of our sales and marketing teams; about investing in our people that really drive innovation across Spirent; and really, about the idea that we continue to balance our portfolio to focus on the growing and emerging technology markets that are going to grow the fastest.

And executing on that strategy has driven revenue growth across Performance Analysis in the first half year. We've seen wireless device test up 33%. We've seen our mobile packet core testing area up 64%, data center testing up 22%.

And from a geographical perspective, we've seen North America up 10%, and Asia Pacific up 28%, masked by the decline of 23% in the European market in the first half year.

But we're seeing strong growth areas in the areas that we're focusing our resources internally, and that executing our strategy in the areas that are growing fastest, is driving growth for Spirent.

If we look at our solutions portfolio, and you start to -- the applications and the security and the data centers that host those, through the actual networks that deliver those applications to end users, all the way to the mobile devices that deliver them ultimately to the end user, Spirent tests across the breadth and depth of this network.

And today we're calling this the -- well, it's a mouthful, the converged, high performance application-aware security -- I'm sorry, application-aware service delivery architecture. I can't even say it.

It's really about the idea of the convergence of the network, and the idea that customers want to understand what's the true application of experience. Not just for the mobile device, or not just of the network that delivers it, or not just for the applications that ride in the data center, but want to see, when it can cross all this converged areas, how well does the application perform, and what is the user experience.

And by marrying the different test assets of Spirent together, whether it's cloud computing, testing or virtualization or applications of security, whether it's mobile Internet, or high-speed Ethernet, or testing inside the actual enterprise itself. Or whether it's delivery on the actual devices across the 3G or 4G network. Whether it's voice over LTE, as we transition the voice network onto a packet-based network.

Whether it's global positioning or hybrid positioning, we'll talk about later in the presentation. We're marrying our test assets together, to bring our customers' testing across that full spectrum, and that's what our customers are demanding today.

It's how do we take the breadth and depth of Spirent's portfolio and apply it across the entire dimension of this converged network, this network that delivers high-speed applications all the way down to the end user.

And that really is the strength of Spirent. Our portfolio of products and services is well aligned to the opportunities in the areas that matter most to our customers, and we're converging those assets together to enhance the value of our test solutions to our customer.

We've talked a lot about expanding our served markets, both organically and through acquisition, and I'll go through five areas here that -- to focus on that.

One is we've talked for a while about what we test within wireless and how we're continuing to focus on expanding our wireless markets organically. We'll talk a bit about automation and how that's important to our customers and our acquisition of Fanfare.

Cyber security and cloud-based testing through our acquisition of Mu Dynamics, and then hybrid positioning, another organic investment that allows us to test global positioning, not just outdoors, but indoors as well.

So we're looking at ways to continue to grow Spirent, through growing our serviceable markets overall, through organic investments, as well as looking outside for acquisition.

If we look at wireless first. Busy slide, but if you start at the mobile devices, you take it back through the radio access network, 2G, 3G, 4G radio access network, you come back into the core of the actual network itself, within wireless.

You step back into the Internet and the application servers and the public switch telephone network, there's a lot of testing that needs to be done across this. And these are Spirent's test products that address this market.

But what's ever more important, and this isn't an exhaustive list, it's just many of the different things we test, and we continue to look to expand this portfolio of test solutions in wireless, every day.

So whether it's antennae performance testing, whether it's data throughput, whether it's call reliability, whether it's subscriber management, or emergency services, or small cells, we continue to add to the breadth and depth of our testing portfolio, around wireless. And we see this as an area that will continue to grow well into the future.

If we look at automation, through the acquisition of Fanfare back in 2011, this really was about automation. It's about reducing the test cycles inside our customer's environment and making testing easier. And they can take an automation tool and be able to capture test cases that used to be manual and they can automate them.

So they take a piece of equipment under test, they marry it with a piece of test equipment. They used to create manual testing and test this device through setting up test cases between these two, the test system and the actual device in their test.

Today, they capture all that into a software tool and they generate automated test cases, which they then need to generate automated reports that could be then reused over and over again.

So, from our perspective, it makes our customers more effective and more efficient in bringing new products to market, saving them money ultimately. It allows them to get better test coverage, because in a shorter amount of time, they can do more testing by automating it.

And it creates a stickiness around the test solution, because the full automation within the lab is designed around our test solution.

This is also done in open standard way. So our network test automation forum allows us to actually work with multi vendors and multiple service providers and network equipment vendors that are using the same standards around this software tool.

So we see this as a way to work closer with our customers, to truly add value to them, and the time to market they're bringing products and solutions to market from their development cycle overall.

Cyber security and cloud-based testing. So the acquisition of Mu Dynamics in 2012 really strengthened Spirent's security offering, with a best-in-class engine to create security and threats and resiliency assessment across our customers' firewalls and load balancers and devices they're building for their customers.

It also added application-aware networks and the idea that it's the first solution that enables real live application traffic to be quickly taken off the network and put into the lab environment for testing. So it can mimic Facebook traffic, or Skype traffic, and then it can go ahead and add security threats to that application traffic, very efficiently and effectively, marrying these two together to bring realism back into the lab.

And it's really what our customers are asking for is how do I get not only that end-to-end view, as I showed you in the earlier slide of how does the application really perform and the quality of experience out of the end device, but ultimately, how do I mimic that in a lab, so I can get more realistic testing, to see how that will perform, before I actually roll it out in the network.

The third aspect that Mu Dynamics brought was a cloud-based services test tool. And while it's just in its infancy today, very, very small, what we see is that enterprises and web developers and others will look to use more test tools across the web.

Hosted software that will allow them to test in a cloud environment that gives us a first entry into this market. And we'll continue to look at this as a way to expand our served markets over time. A shift from hardware and software test tools into a new market that allows us to do cloud-based testing and gives us a first foray into that.

If you look at hybrid positioning, just like wireless, another organic investment for us is marrying our assets together across global navigation and cellular today, where we have world-class offerings around outdoor navigation.

Marrying those with WiFi hotspots and sensors and phones that are typically used for gaming today and other things to actually tell where somebody is indoors, what floor of a building they're on. To be able to do anytime, anywhere location-based services.

So it's a way that we're marrying these test assets together across our mobility, across global positioning, marrying on some new technologies like sensor technologies, applying those into a single test solution, to test across our customers.

Because they're saying today, I don't want just navigation outdoors; I want to be able to simulate navigation indoors, and be able to do that for folks as well, to get better use of applications no matter where people are.

So it's another example of marrying test solutions together, along with new technologies, to expand our served markets.

So whether it's organically, through wireless; whether it's through the acquisition of Fanfare for automation; whether it's the addition of security assets and more application-aware in cloud testing with Mu. Whether it's the organic investment with hybrid positioning, we're looking to continue to find ways to address more servable market at Spirent, in addition to our strong portfolio of products we have today, in the fastest area growing within the telecommunications marketplace.

If we look at the outlook and summary. Industry fundamental remainders -- drivers remain strong. We believe that's going to continue over the next several years.

We've seen good progress in Performance Analysis business in the first half of 2012. We can remain and continue to have best-in-class operating performance across the tester measurement industry.

Our current solutions portfolio is well positioned, and we continue to invest to expand our serve markets, as we talked about during the presentation.

Macroeconomic uncertainty is causing volatility in demand in the short term; we've talked about that. Our expectation is that we'd se mid to low single-digit growth for the second half year, but overall, we absolutely remain confident in Spirent's future.

With that, Eric and I will take questions.

QUESTIONS AND ANSWERS

Jonathan Imlah - *Canaccord Genuity - Analyst*

Jonathan Imlah from Canaccord. Two questions. You talked about the long-term support contracts in the Service Assurance division. What kind of proportion of overall revenues would those be? How much visibility does that give you on a run rate?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

They're now about 60% of the business, and they're three-year contracts. So they come up for renewal. So we have a good level of visibility on where that's going.

Jonathan Imlah - *Canaccord Genuity - Analyst*

Okay. Thanks. And sticking with Service Assurance. Most of the talk in the past of -- around divestment, has been on the Systems division. Do you think you will get to the stage where you could see yourselves divesting the Service Assurance division at some point, or is there too much cross-selling with the --?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

We see that the growth opportunity for the Service Assurance business is now much more closely aligned with the technologies that we've got in Performance Analysis. In other words, it's all about Ethernet.

In the past, the links between DSL, broadband and what's going on in the research lab was pretty weak. But going forward, the Ethernet side definitely aligns with Performance Analysis, and it also aligns with the way we're thinking about approaching the enterprise market as a new market to serve. So we think it's worth keeping from that point of view.

Kai Korschelt - *Deutsche Bank - Analyst*

Kai Korschelt, Deutsche Bank. Three questions for me. The first one was just if you could maybe comment on the trends you're seeing amongst the Chinese sensor vendors. It looks like they've been ruddering back some of the more ambitious smartphone shipment targets; whether that's had any impact on your business at that stage, and if that maybe means that at some point, demand here may come back maybe later this year or early next, which will be my first question.

The second question was just outside of the Systems business, could you remind us please of what your total government exposure is? Just wondering if that -- again, outside of Systems, if there -- if that has had any impact.

And my third question was, apologies, just on the balance sheet share buyback. I think there is still room for maybe more buybacks or a higher dividend or are you just planning to keep the cash in the balance sheet for potentially more acquisitions? Thank you.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

I think we've seen, overall, the China market be pretty flat this year. I think we've seen profit warnings from ZTE, profits way down and Huawei's growth slowed.

I think they're clearly feeling the impact of the European market overall, which was a big customer base for them. But also, the service providers within the China market, we haven't seen the -- probably, for some time, we won't see the releases of the 4G licenses, for instance, in China while there's a lot of trials and testing going on at the moment. You won't see that roll out for some time.

On the handset side, we've seen them continue to invest in their business. So we haven't -- where wireless has been okay, it's been more on the network side of the business there. But we've seen clearly China overall be pretty flat for us.

From a government perspective, Eric can talk to the percentages, but the place that we have seen slowdown in our government business in the first half of the year has been our Positioning business. So while the network side of the US Government business and the security side has remained -- had done pretty well in the first half year, our Positioning business is way off, primarily driven by large system sales.

A lot of larger contracts in US Government are just held up, things have stagnated there. Concerns about [force] cuts coming later this year and not much can get through Congress these days.

So it's been a difficult situation from a US Government prospective. So from a global Positioning perspective, that's been exposure in the first half year.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

So in terms of the proportion, excluding any government funding of wheelchairs, the Systems business, Service Assurance doesn't do any government business.

Performance Analysis, around about 9% is government related. Round about two-thirds of that is in the Positioning area. Well, it's actually paradoxically it's up, well, it was 8% last year.

What we've seen is we've seen strong growth in the general spending on government communications, as you'd expect, in the time of heightened awareness of threats, and wanting to make those rigorous and able to deal with a lot of traffic.

It's on the large government contracts, as Bill was saying, on the Positioning side, that we haven't seen any growth.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

As for buybacks and cash, I think that we continue to look to see if there's acquisitions out there that make sense. As we've said before, there's been a lot of different things for sale inside test and measurement.

A lot of things we've looked at, but we didn't believe it would give us the right growth rates or being fundamentally in the right areas for us to see that growth.

We moved ahead with two smaller acquisitions and, for now, we'll stay consistent with what we've said so far.

We don't see it as being a lot of cash from a technology company perspective, and if there was something bigger we want to do, we don't have the resources to go do that. So, at the moment, probably consistent with where we've been at.

Anuj Krishan - *UBS - Analyst*

Anuj Krishan from UBS. Bill, just if you could just perhaps talk about buying patterns and customer behavior at some of the customers, especially the ones that you talked about have heard profit warnings recently, so likes of Alcatel-Lucent and ZTE.

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And if the sense is we see a bit of rebound in the CapEx environment in the second half, particularly in China and the US, then as their confidence resumes in their own end markets, do you see them getting back to more normal levels of spending with you?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes, so I think that we saw this in the second half of last year in the late September, October, November timeframe. A lot of us were at an analysts' dinner together and we cautioned about the slowdown in order intake.

It came on very suddenly and it went away just as quickly as it all came good in the December timeframe. Spending continued globally through the first 4.5 months of this year, as things are going pretty well, despite the backdrop of the challenges here in Europe and talk of China slowing.

It seems like one day folks just woke up and said, uh-oh, maybe the Eurozone problems really are there and maybe China slowing is going to have an impact on my business and gee, North America, maybe it's not quite as robust in the enterprise and service provider market in the near term as I thought, which seemed to happen the second week of May.

Quite honestly, we're hopeful that come the fourth quarter this year that I think things will remain fairly slow through the third quarter. You've got the summer season and people taking time off, and we won't know until September. My gut tells me that things will stay slow through third quarter. I'm hopeful that things will pick back up in fourth quarter.

If they don't, I believe what you'll see is a bit of a rebound in first quarter, as new budgets are set and people have new money to spend. It seems at the working level, no-one's told everybody that things have slowed down.

Our sales teams are just as busy as they've ever been. The customers are working on as many projects as ever. They still have just as much confidence in their business because they believe in all those industry fundamentals I talked about.

I think this is a short-term came on very suddenly and is going to end at some point here very suddenly as people go, hey, to go win in the marketplace and if I believe in these fundamentals in my business, I'm gong to have to go spend some money to go do that. I think you'll see it come back as quick as it came on.

Now what the timing of that is, I don't know. I'm hopeful it's fourth quarter. The US Government, I'm hoping there's a little bit of spend before their year end at the end of September, but I don't know yet. That's why we thought it was prudent just to caution about what the growth rates will be second half.

We've looked at everybody else's announcements over the last couple of weeks, and they've all said the same thing; hey, we're just seeing a macroeconomic uncertainty for second half year and we felt it was prudent to caution that in our results.

But we're quite honestly hopeful that things may came back in fourth quarter. If they don't, we believe it's likely first quarter and next year there'll be another year of growth.

So I think the other thing is we're not predicting declines in revenue in second half. We're still predicting growth, just in a more moderate level. I think that's the right thing to do. It's what it feels like at the moment.

There'll be areas like LT where people continue to spend, they'll continue to spend. In wireless overall, they'll continue to build out the core. They'll continue to spend in their data center business units that are core to building out those data centers. Those areas will still get the spending.

Even in first half year, we saw our legacy business down and were able to overcome that through growth in other areas. So we feel good about the fundamentals overall. In the short term, we're just seeing a bit of a slowdown.

I think that if you look at our announcement, it's really no different than almost anybody else's from chip vendors, to equipment vendors, to even the mobile device guys are finally saying, hey, maybe some countries I'm seeing a bit of a slowdown.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

Just to put some color on that, the legacy business was about $17 million first half 2011, down to $9.5 million in the first half 2012. So it was a fairly significant drag on the total top-line growth number.

As we said, we saw Positioning didn't grow, but everything else did grow. If you look at our customer profile, we're focusing on the guys who aren't spending as much, but the people who are investing are spending significantly more money with Spirent on wireless development, on data center development than they did last year.

Anuj Krishan - *UBS - Analyst*

So on the second-half outlook of low to mid single-digit growth, is there any of this pickup that you're baking in into that guidance, that pickup in Q4? Or is it -- would you characterize it as being fairly cautious?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

We -- sorry, the fourth quarter we're projecting a normal seasonal balance, but it's a similar growth rate, the between 3% to 5%. But seasonally, Q4 would normally expect to be stronger. But we're not forecasting a big comeback.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

But could it be stronger? We're hopeful of that, but we don't know yet. We just don't know.

Nick James - *Numis - Analyst*

Nick James from Numis. Just to be clear on the orders, so is there any sign of customers canceling projects or deferring projects, or is it simply that they just haven't put the orders in at the time expected?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

No, the sales teams would tell you that they've never had a stronger sales funnel. They've never been busier, that they've, unfortunately, got more in their funnel that's in the upside, because they aren't willing to put their hand in the fire and say the order's going to come in the next four weeks, because they're just -- there's uncertainty in their customer base.

And that quite honestly, the management team in their customer base that's saying, I just don't know what's going to happen on my top line in the short term with spending. And in large enterprise or in the service provider environment, to go spend a lot of money right now.

So I think it's just near-term caution, and there's been no hint of orders canceling. We believe we're competitively very well positioned. There's no losing of business to anyone else.

It's just an overall slowing, and it's really at the senior management teams that over -- quite honestly, I think it came on pretty quickly for everybody.

I think you saw that those who had backlog to make the quarter, they shipped the quarter and came out with second half, hey, it's going to be slower. The guys that didn't had to come out with profit warnings. But I think it came on very quickly in the middle of May. 10 weeks ago, the beginning of May, we'd have told you everything's going great, as we did at the AGM, that things were continuing on.

We saw the exact same thing happen in the fall. It was all of a sudden the sentiment just changed very quickly in the market, and it'll change back just as quickly. The question is when.

Nick James - *Numis - Analyst*

And you mentioned in the statement that the Chinese version of GPS has been delayed in terms of the standard being written. How big was the impact of that, and when is that meant to finally get standardized?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes, I think we expected it to be a growth driver for us in Positioning this year. So we were hopeful that there was an announcement that was going to come out.

That's another government impact beyond the US Government that -- our thoughts are that likely that standard won't come out until next year. With the change in leadership in the Chinese Government, we believe not much will happen this year, and that'll likely happen in the next-year timeframe. That is a growth driver for us.

There's lots of other constellations that we have access to, so whether it's the Russian constellation and GLONASS, which is heavily used today in the chip sets. Galileo continues. We've got the Japanese satellite constellation. You've got India.

But there's a lot of opportunity within the commercial release of that specification in China, and we're looking forward to it because we believe it's a growth driver, one that took away from our growth rates in Positioning this year, quite honestly.

I think the declines in Positioning were really around the US Government; that would be more repeat business. This would have been more new business for us.

Nick James - *Numis - Analyst*

So was overall Positioning flat year on year in the first half?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

Slightly down.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Slightly down.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

A couple of million dollars.

Nick James - *Numis - Analyst*

But excluding the government part, was it up?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Oh, yes.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

Yes.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes, especially around the commercial side. So the commercial side married with our wireless test solutions is doing very, very well. Location-based services around the globe married with smartphones and devices and others, it continues to be a very strong market for us.

It's the large commercial -- large systems going into the government organizations, and we expected some growth drivers that didn't happen.

Nick James - *Numis - Analyst*

Okay. Great. Thank you.

Francois Meunier - *Morgan Stanley - Analyst*

Francois from Morgan Stanley. How much revenues do you have from CDMA versus LTE at the moment? Are you seeing loads of activity on [Voltis] for the launch in H2?

Also, you mentioned as part of the Mu acquisition, Facebook and Twitter. How much revenues are generating from those two guys? Are you selling to Facebook and Twitter and these type of customers directly at the minute, or is it something which is coming later? Thank you.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

So CDMA revenues last year were about 9%. They're about 8% this time round, so they're flat.

The LTE business is growing very strongly. It's about -- it's 9%. So wireless overall is 30% of our revenues on the wireless device testing side, so LTE is double that. But you've also got strong LTE drivers in our infrastructure testing, our mobile packet core. So it's four times bigger than CDMA I'd guess at the moment.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes. So CDMA down, as you'd expect. 3G up and 4G up. LTE significantly, 80%, 90%, which gets you to 33% growth in wireless device test for first half.

The -- overall, what I was talking about was the application traffic around Facebook or Twitter traffic, or Skype traffic. Some of those are customers of ours today, so a Skype would be a customer of ours, as an example.

Facebook and Twitter wouldn't be. They don't do a lot of testing on their own. They use a lot of hosted data centers themselves. So today, they're not our customers, but -- from a social networking perspective, but others are. It just depends on the nature of the business.

Francois Meunier - *Morgan Stanley - Analyst*

Thank you.

Alex Duval - *Goldman Sachs - Analyst*

Alex Duval from Goldman Sachs. Just a couple of questions, if I may. Firstly, just in terms of W-CDMA, could you give us any further color on that? And I'm thinking particularly W-CDMA and LTE over the next couple of years. Can you give us any color in terms of how we should think of growth? Particularly, on LTE, would you still characterize this as being at a very early stage in the cycle?

And I've still got a further question.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

I think we see both -- we've said for a while, we see CDMA revenues will decline. They've held up more robust than what we thought, especially last year.

They've declined this year. Reason being that you still need this backwards compatible testing between CDMA and 4G LTE. Verizon being first and the largest CDMA vendor or operator, that's given a bit of an uptick to the CDMA revenues as people buy combinations of CDMA and 4G LTE test solutions.

A lot of these technologies are very early stage, so 40 gigabit, 100 gigabit Ethernet; very, very early stage. The deployment of virtualization in the cloud environment, still very early stages. LTE, still very early stages of LTE.

You have DOCOMO and Verizon and AT&T and lots of other trial networks or small networks around the world. But the growth of LTE is well, well ahead of us.

And then beyond LTE, you go to LTE Advanced with faster speeds. You're seeing new thinking today around -- initially, it was, I'll keep the voice on my existing 3G network and I'll transition the data to the 4G. Now the thinking is, hey, the spectrum is so much of a scarcity that I want to get that voice traffic and free the spectrum off of 3G, and move all the voice traffic to voice over LTE.

So there's even more pressure on moving that voice traffic on to the LTE networks, because it uses a lot less spectrum, as packet-based voice versus 3G voice.

So I think you're seeing a lot of testing in that area, that'll continue for a long time as that transitions from 3G to 4G.

So I think we see, just in its infancy, lots of growth still in 3G, as people go to higher data rates; as they transition off of 3G to 4G; as they move voice from 3G to 4G; and then as they need to continue to test the backwards compatibility.

So I think that while being primarily Verizon and KDDI, and a couple of other places around the world, you'll see more CDMA sales when China Telecom moves to an LTE, or TD LTE, from that perspective. So we'll see an uptick again there, as people want to develop handsets for that market.

So CDMA will decline, I think 3G wide band CDMA will remain okay, it'll continue to grow. The big growth will come through LTE, but a lot of that will be the backwards compatibility testing to everything else. So I think we feel really good about it.

Alex Duval - *Goldman Sachs - Analyst*

And just one follow-up -- in fact, two. You just talked previously about earlier stage testing, so a stage earlier than you'd typically test. Can you give us some feel about what kind of boost to growth that could be, and how you're thinking about your positioning there?

And then just one other thing in terms of Ethernet. The more vanilla Ethernets, so more 1G, things like that, I would expect to be more macro sensitive in a period of uncertainty. Can you give us some commentary around that for the full year and maybe into next year, how you're feeling about that at the moment?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes. So I think across our wireless portfolio, we continue to look to expand into new areas of testing. So the more we can do from a breadth and depth of a technology perspective, the more areas in which we can test within that. And then the wider we can become in our test assets on where they're used.

So whether that's from the lab into the final stages, into the actual field itself, there's testing that joins just to the lab before a device goes to the network that both network operators and equipment vendors use to actually do testing in the final stage. That's an adjacent area.

The other adjacent areas move more upstream. So before a device is a final device, just before it's coming together and we test it today, that's another adjacent area that we continue to look at.

And both of those, we believe expanding organically our wireless test assets in general will continue to drive more growth for us, because we think wireless will continue to be one of the growth drivers.

There's other areas that relate to wireless that move back to fixed line. So as that spectrum is so compressed and such a scarce resource today, people want to do things like WiFi offload.

So we're taking -- in that case, expanding into marrying our wireless test assets with our wire line Ethernet test assets, because people want protocols and others to be able to take the mobile traffic and take it off of the spectrum, the 4G spectrum, and move it to WiFi, and back and forth very easily, which is giving an opportunity for us as well. So that's another area we're expanding our wireless testing into new areas, from that perspective.

From an Ethernet perspective, the fastest growing interface is still 10 gigabit Ethernet today. Still at its infancy is 40 gigabit and 100 gigabit Ethernet, so growing very fast, but a very small piece of the market.

The view seems to be that the data centers will move to 40 gigabit Ethernet; the service providers likely predominantly will move to 100 gigabit Ethernet. That'll take time.

So you're still seeing a lot of 1 gigabit Ethernet ports sold. Fastest growing and probably the most sold today would be 10 gigabit. And that's probably happened over the last 12 months or so. And then you'll slowly see the shift to 40 gigabit and 100 gigabit Ethernet over time.

But all that has been all about scale. So we've recently tested almost 1,500 to 1,600 ports of Ethernet on Juniper's switch for inside the data center. So a lot of that becomes -- that's 1,600 ports of 10 gigabit. A lot of that's a scale testing perspective. They really want to know how well it's going to perform at scale. So that's where the growth really comes from in those Ethernet ports.

So 40 gigabit and 100 gigabit, people have single interfaces or two interfaces on a device today, that eventually will scale just like 10 gigabit does, but not for many years to come. So lots of growth left in Ethernet.

Lee Simpson - *Jefferies - Analyst*

Lee Simpson from Jefferies. I wonder if I could ask a question on Mu Dynamics actually. It looks like you've integrated the business quite quickly.

I just wondered what the run rate would be, additional sales run rate from Mu Dynamics, how accretive that might be in fiscal year '13?

And really, is there any lessons that you've learnt from integrating this business that you might take to other acquisitions you might have coming up perhaps in big data, or elsewhere, the next couple of years?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes. So still very early stages. Since the transaction closed, we're actually moving the team this week into our building. They were a couple of blocks away in Silicon Valley. We've taken that product very quickly and integrated it into our wireless test assets.

So we married some of the application test products that they had, along with our wireless test products inside the mobile packet core to simulate real live application traffic for the mobile device folks that wanted to test in that area.

We're integrating it into our Spirent TestCenter product as well, both the application and the security piece. So all that work continues, and we're literally only eight weeks into it.

So we expect a lot from that acquisition, from the idea that it really enhances our ability to really look and duplicate real live applications within the lab. It also enhances our security testing.

There's a lot of testing around security today in an area called fuzzing where you can actually take real live protocols and you alter them very slightly to get them through firewalls as attacks.

So it's not as obvious as an attack. You try to alter things just a very little bit, so by quickly being able to take this application traffic and be able to fuzz it and change from the security perspective very quickly, it's a real powerful test tool inside the lab for firewalls and load balancers and all the devices that protect the network. That's where we see the real opportunity.

In addition, their customer base was primarily North America. So while it's a small revenue stream, it really was North America-based and we're going to take it into our channels in Asia and in Europe as well. So that's another opportunity to expand that business.

So it really adds to the growth rate within networks and applications within Performance Analysis, so that business is a 3% to 5% growth rate. It won't change that growth rate dramatically, but it enhances our offerings in that area and certainly will add to the growth.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

Can I just remind you what we've said on Mu. We said that we expected to consolidate $9 million to $10 million of revenue post acquisition in 2012.

We're using the contribution to fund the development, to integrate that product into our existing product lines, as Bill was saying, in 2012 and the beginning of 2013.

We also said that we expected to consolidate something like $17 million to $20 million of revenue in 2013, and we expected to make the Group average return on sales on that number, which is about 24%.

So that's what we've got out there. So the profit really will start to come through in H2 2013 as we get through the integration costs on the development.

Lee Simpson - *Jefferies - Analyst*

The guidance for H2 is including Mu?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

The guidance we've given includes Mu. We consolidated $2 million in H1.

Lee Simpson - *Jefferies - Analyst*

Maybe just one, sorry, final question. Sorry about that. Working capital management for back half year, it was remarkably strong first half. You've got a good free cash flow on the back of that.

What's the policy going forward? How can you sustain the payables, the balance in payables and receivables going forward?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

So the working capital position will probably be fairly neutral in the second half, at the growth rates were indicating. So it should be a solid free cash flow generation in the second half year.

Phil Smith - *Fairfax - Analyst*

Phil Smith from Fairfax. Just trying to understand within PA the moving parts and where you've seen growth change. You talked about Positioning, 9%, sales were flat; CDMA, 9% last year and 8% now. Can you just give me a bit more color on the other breakdowns of percentages and how you saw them change within the period?

And also, just give a bit more detail of what you saw happening in Europe, specific areas of business that you saw impacted and a bit more reasons why you think that might come back, is it temporary stalling and potentially coming back in Q4?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

In terms of the proportions of the business, Bill highlighted three strong growth areas on his chart. That represents about 50% of Performance Analysis' revenues in H1 2012, they were about 40% of the revenues in H1 2011.

So the wireless business is about 30% on that chart and the mobile packet call we said last year was around about 4%; now it's grown to about 7%.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

First half, we'd probably say that we saw a, as we've seen for a while, core switching routing pretty flat; Positioning, difficult first half from a US Government perspective, as we've talked about. Legacy systems, Eric talked about, down in the first half. So those offset some of the growth rates of the strong growing areas.

Geography-wise we had said 10%, North America; Asia Pacific, 28%; Europe was down 23%, so from a geography perspective.

Your second question of why do we think things will recover. I think just it's with how quickly things change the other way. Just 10 weeks ago now, I think we think the same thing will happen as happened last year.

It was -- ultimately, we saw in December last year, people continued to believe fundamentally in their business. That remains. They believe in the technology drivers. They believe what's underpinning telecom and IT and ultimately, if they don't invest, somebody else will.

If they're behind in the marketplace, they've got to build products to bring to market to compete with the people that are winning in the market.

So I think, for all those reasons, what we're seeing is that people have a lot of belief that this growth will continue and the opportunities will continue, both in the enterprise IT sector as well as in mobility; that the service providers will continue to invest to grow their networks and they feel good about their business.

So I think that while they're not immune to the macro economy in the short term, I think they believe fundamentally in their business and that's why we believe it'll come back around pretty quickly here.

But it's just hard to predict at the moment. It came on very quickly and I think it'll turn around just as quick. Is it fourth quarter or first quarter? I don't know yet.

We believe there'll be a bit of uptick, as Eric said, and we've worked that into the numbers for fourth quarter, but we'll see. Maybe there's a bit of bounce on top of that.

If not, I'd expect first quarter rebound as people get their budgets reset and say, I've got a business that I've got to deliver products into the market because if I don't, someone else will. And the opportunity is going to be out there and they feel good about it.

So I don't think anybody in telecom or IT has their heads down long term. I think it's a short term that they're saying, hey, the world doesn't quite feel as it good as it felt at the beginning of the year and that's what's impacting things.

Carmen Boyero - *Nomura - Analyst*

Carmen Boyero from Nomura. I wonder if you could give a bit more color on the profitability level for the second half given the moderate guidance? In particular, gross margins were very strong in the first half, so how do you see that evolving in the second half and whether or not you plan to temporarily adjust your investment plans in further development, give the macroeconomic uncertainty?

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

So the gross margin trends that we saw in the first half should repeat in the second half year because the proportion of the business which is now Performance Analysis is just pushing up the Group's gross margin.

So gross margin in Performance Analysis, stable really, same again; gross margins in Service Assurance, stable, same again. I think it's similarly with Systems. So on a mix basis, you should see the same percentage hike on the Group level.

In terms of the overhead management, we are controlling costs pretty tightly. We are funding specific investments in the expansion areas. We're just controlling resource levels very tightly, given the uncertainty that's going on.

So progression in terms of the overheads in the second half year, excluding one-off items, will be pretty much the same as it was in the first half, hence the operating margin for Performance Analysis, we're expecting to be the same sort of percentage operating margin that we saw in the second half of last year; an increase in the operating margin in Service Assurance; and about the same margin in Systems.

So, again, you saw a 2 percentage expansion in gross -- in operating profit return on sales in H1. That should translate to about the same number for the full year.

Alban Cousin - *Arete Research - Analyst*

Alban from Arete. Can you talk a little bit about the other areas of networking that you may not be addressing as much today? The F5s of this world and also, whether you see bottom shelf with Oracle or VMware in the future as well as additional sales to the current business, which is called Juniper?

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Yes. So there's areas in which we don't test today. Someone asked earlier about the Facebooks and Twitters of the world, they don't do a lot of testing today.

We do think there's opportunities in the enterprise market overall to take some of our test assets either in a small way organically, or possibly through acquisition, to consider that market, that along with lots of other opportunities in wireless and others that we've talked about today.

VMware and the virtual side of that, whether it's Microsoft's offering or VMware or others, there are opportunities we believe ultimately within test and measurement. We've taken our test tools today and turned them into virtual test tools. So Spirent TestCenter test can be used in a virtual environment.

We believe there's likely more opportunities within that environment as resources are used across different servers and tracking the availability of that, being -- having access to the information between those servers as they move around in a virtual world; communications equipment now turning in to virtual pieces of equipment; Ethernet switches inside the virtual world.

So we believe there will be more opportunities inside virtual testing. Again, it's a small piece of our revenue today, but we've got those offerings, both our application test product and Spirent TestCenter, both can be used in a virtual world.

So while we talk a lot about adjacent areas where we're expanding our certain market, we're also looking at not so adjacent areas and saying, are there bigger opportunities within the test and measurement space that may not be just as closely adjacent that we'd go look out and figure can we serve through the test assets we have today, through some of the investments Eric's talking about, or do we go that by acquisition.

So, we're continuing to look to move to larger served markets where we can that we think are high growth and new technology areas that would make sense for us.

So the answer's yes, we continue to look at all those as market opportunities.

Alban Cousin - *Arete Research - Analyst*

(inaudible - microphone inaccessible)

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

No, I don't. Today, we work with them because, like I said, we put our test tools inside a virtual environment. But I'd rather not predict them specifically.

John King - *Barclays - Analyst*

John King from Barclays. Just actually following up on that question. Do you expect, over time, that you might start to sell the tools more as a software rather than wrapped around hardware?

And I guess just secondly, going back to cost base, it's a pretty decent performance, given some of the declines in a couple of the business lines. Is there any sense that you might have to put a bit of the costs back in as and when you see the uptick? Thanks.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

So from a software perspective, all the value in the tools we sell is in software today anyway. Most of our customers want to buy a hardware and software test tool together. They just don't want to have to go buy the server to run the software on. They've got to go through their IT departments to do that. Just they want to buy the tool.

So even if it's on an off the shelf Intel processor, they'd rather buy it from me in an appliance than to actually have to go buy it and integrate the software themselves overall. But all the value's really in the software ultimately.

We're able to use more off the shelf hardware these days. So with the curve of processors and what we're seeing from Intel and others and the speed of those processors, in the past, we had to develop more custom hardware than we do today. We still have to do some, but a lot of what we use is off the shelf.

So I think we continue to see more value in the software and a move to less hardware, certainly less custom hardware and more off the shelf hardware, which is less expensive hardware, which ultimately will drive more software sales. But I don't think it'll shift significantly in the short term.

The other area I think we see is that with the access into Mu, we've got our first product inside the cloud testing environment. I think you'll see more of that. As people move more of their applications in the enterprise environment out into the cloud, they want to be able to test the user experience associated with that.

So, along with Mu, came a very small offering around cloud-based testing, hosted testing in the cloud. And today, it's focused on application developers and website developers, so very, very tiny revenue stream.

But we think it's an interesting product to be able to look more into what does it really mean to test in a total software environment within the cloud and do more testing tools and move that way.

It'll never obsolete testing of tools in an environment where you can have controlled environments inside a lab. People will need to continue to do that. But there are opportunities where people will want to test the real live network on the application and their firewall and their data center and the true use all the way down to actual mobile device.

And we believe that may be an opportunity for us, just like more in virtual, just like more in wireless. It's all the areas we're exploring to, again, expand our served markets and figure out where's the best place to put our investments to continue to grow Spirent.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

So in terms of overheads management, if we see a recovery or recovery to a stronger growth rate, yes, we'll invest more in the business to expand into new markets. That primarily will be in product development and sales and marketing.

But that rate of increase will invariably lag any bounce back that we see in terms of order intake. But we would grow it, but we wouldn't -- certainly wouldn't plan to grow it above sales growth. So we're always looking to preserve the margin structure.

Bill Burns - *Spirent Communications plc - Chief Executive Officer*

Thank you, everybody. Thanks for your time.

Eric Hutchinson - *Spirent Communications plc - Chief Financial Officer*

Yes, thank you very much. Thank you.