

2008 Preliminary Results



24 February 2009

Safe Harbour Statement

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.

Welcome

Bill Burns, Chief Executive Officer

Introduction

- 2008 – year of improved operating performance
- Adjusted operating profit up 91%
- Return on sales up to 19%
- Continue to invest in new product development
- Expense control reduced overheads
- Strong financial position
- Strong market position

Financial review

Eric Hutchinson, Chief Financial Officer

Comparative results

- Continuing operations before exceptional items

<i>(£ millions)</i>	<u>2007</u>	<u>2008</u>	<u>YoY % Growth</u>
Sales	237.0	257.9	9%
Gross Profit	147.8	166.6	
Gross Margin	62.4%	64.6%	
Product Development	44.5	45.3	
Selling & Distribution	47.1	46.7	
Administration	30.7	25.9	
Operating Profit	<u>25.5</u>	<u>48.7</u>	91%
Operating Margin	10.8%	18.9%	
Finance Income, Net	6.7	2.7	
Tax Expense ⁽¹⁾	<u>(1.5)</u>	<u>(5.3)</u>	
Net Income	30.7	46.1	
EPS	3.57p	6.24p	75%
EPS Before Items ⁽²⁾	3.95p	6.54p	
Average Shares Outstanding	859.8	738.5	

- Reduced overhead expense while continuing to invest in a high level of product development
 - Further £8.2 million of annualised cost reductions implemented in Q1 2009

(1) Before prior year items

(2) Before share-based compensation and amortisation of intangibles

Tax and adjusted EPS

	<u>£ million</u>	<u>EPS (pence)</u>
Reported earnings	74.8	10.13
Add: Share-based payment	1.5	0.20
Add: Intangible amortisation	0.7	0.10
Add: Exceptional interest, net	1.8	0.24
Less: Prior year tax credit	<u>(30.5)</u>	<u>(4.13)</u>
Adjusted earnings	48.3	6.54

- Reported earnings per share of 10.13p
 - Primary exceptional benefit of £28.7 million from net effect of prior year tax credit
- Tax credit relates to the agreement of prior year tax computations in various jurisdictions
- Effective tax rate in 2008 of 10.3% expected to increase to 15% in 2009

2008 quarterly earnings progression

- Performance Analysis

(\$ millions)	Q1		Q2		Q3		Q4	
Revenue	85.5		88.9		90.2		89.1	
Gross Profit	60.9	71.2%	63.8	71.8%	64.2	71.2%	67.2	75.4%
Overheads	44.2	51.7%	42.6	47.9%	43.2	47.9%	43.2	48.5%
Operating Profit ⁽¹⁾	16.7	19.5%	21.2	23.8%	21.0	23.3%	24.0	26.9%

- Gross margin increase due to completion of outsourcing programme and improved mix
- Overheads down \$16.0 million versus 2007

- Group results

(£ millions)	Q1	Q2	Q3	Q4
Operating Profit ⁽¹⁾	10.2	12.0	12.2	16.5
EPS (pence) ⁽¹⁾	1.30	1.53	1.60	2.11
\$ / £ Exchange Rate	1.98	1.97	1.89	1.57
Average Shares (mm)	768.7	745.1	737.3	714.6

- Exchange rate benefit of £1.6 million in Q4 2008
- Share count reduced to 664.0 million at year end (ranking for dividend)

(1) Before share-based compensation, amortisation of intangibles and prior year tax credits

2008 foreign exchange impact

- Sales increased by £16.0 million
- Operating profit increased by £2.6 million
- 2008 exchange rate of \$1.85 / £
 - 8% weaker versus 2007
 - Current rate of \$1.43 / £ is 23% weaker versus 2008
- Hedging benefit for 2009 will be £3.0 million compared to 2008
- Pro forma translation at \$1.45 / £
 - Sales increase of £48 million
 - Operating profit increase of £12 million

Pro forma EPS analysis

- Pro forma 2008 EPS increases to 9.26p under current assumptions

	<u>£ million</u>	<u>EPS (pence)</u>
Reported 2008 Results ⁽¹⁾	48.3	6.54
Pro Forma Adjustments to 2008 Results		
Exchange rate translation at \$1.45 / £	11.9	1.61
Exchange rate hedging benefit	3.0	0.41
Cost reductions implemented in Q1 2009 (3 quarters)	6.9	0.93
Finance income reduction ⁽²⁾	(3.1)	(0.42)
Tax effect on pro forma adjustments	(1.9)	(0.26)
Effect of tax rate change to 15%	(3.6)	(0.49)
Reduction in share count (738.5mm to 664.0mm)	-	0.94
Subtotal Adjustments	<u>13.2</u>	<u>2.72</u>
Pro Forma 2008 Results	<u>61.5</u>	<u>9.26</u>

(1) Before share-based compensation, amortisation of intangibles, prior year tax credits and exceptional items

(2) Consists primarily of interest rate and pension plan

EPS sensitivity analysis

- Pro forma EPS sensitivity to change in underlying Performance Analysis sales

Sales % change	Pro Forma (pence)	
	Change	EPS
5%	1.04	10.30
0%	-	9.26
(5%)	(1.04)	8.22
(10%)	(2.08)	7.18
(15%)	(3.12)	6.14
(20%)	(4.16)	5.10

- Each 1% change in PA sales changes EPS by 0.208p, assuming no further cost reductions
- Costs may be reduced further if sales are at lower end of range

- Sensitivity to exchange rate movements

\$ / £ Rate	Change			Pro Forma EPS (pence)
	Sales (£ mm)	Op. Profit (£ mm)	EPS (pence)	
1.35	16	4	0.41	9.67
1.45	-	-	-	9.26
1.55	(16)	(4)	(0.41)	8.85
1.65	(32)	(7)	(0.98)	8.28
1.75	(44)	(9)	(1.30)	7.96

- Each \$0.01 change in \$ / £ rate changes EPS by 0.041p



Free cash flow

<i>(£ millions)</i>	<u>2007</u>	<u>2008</u>
Net cash flow from operating activities	49.8	47.7
Net interest income	5.6	1.4
Net capital expenditure	<u>(5.2)</u>	<u>(6.9)</u>
Free cash flow	50.2	42.2
Net (Acquisitions) / Disposals	(11.7)	-
Share capital	4.4	2.4
Transferred from long-term deposits	<u>4.8</u>	<u>1.2</u>
Cash inflow before dividend and share buyback	47.7	45.8
Dividend paid	-	(3.7)
Share buyback	<u>(66.3)</u>	<u>(67.2)</u>
Cash (outflow)	(18.6)	(25.1)
Effect of foreign exchange rate changes	-	5.8
Closing cash and cash equivalents	79.0	59.7

- 2008 free cash flow of 5.71p per share equals 16% of sales
- Tax payment of £5.7 million in 2008 versus tax receipt of £6.0 million in 2007
- Over £137 million of cash returned to shareholders during last two years

Shareholder distributions

- Ordinary dividend
 - Maintain high dividend cover
 - Sustainable dividend policy
 - final dividend 0.6p per share
 - cash required £4.0 million
 - total dividend for the year 1.1p per share
 - total cash used £7.7 million
 - dividend cover 5.7x

- Share repurchases

	Shares⁽¹⁾ (millions)	% Reduction
Shares outstanding at 31 December 2007	783.5	
New shares issued for exercised options	6.3	
2008 share repurchases	<u>(125.8)</u>	
Shares outstanding at 31 December 2008	664.0	15.3%

- Share repurchases returned £67.0 million to shareholders
- Renew authority for share repurchases of up to 15% of shares outstanding at AGM

(1) Excludes treasury shares and shares in trust

Segment and market review

Bill Burns, Chief Executive Officer

Spirent today

- Global leader in Test & Measurement
- #1 or #2 position in markets addressed
- One of the most profitable Test & Measurement companies in the industry
- World class solutions across our entire portfolio
- Deep customer base...no matter where you are in the world, almost every service provider and network equipment manufacturer is our customer
- Breadth of capability from broadband to wireless to converged networks

Diversified portfolio of products and customers

- 2008 orders from a diverse customer base
 - NEMs 62%
 - Government, Enterprise & Other 23%
 - Service providers 15%
- 2008 orders diverse across geographies
 - Americas 54%
 - Asia 27%
 - Europe 19%
- Diversified customer base for 2008 Performance Analysis orders
 - Top 5 customers 21%
 - Top 20 customers 43%
- Diversified portfolio of products and services
 - From wireline to wireless
 - From the lab to network
 - From buried cables to satellites
 - From TAC center support to our Test Automation Alliance

2008 in review

- 2008 represented cautious spending by customers in most segments
- Difficult year in telecom with restructuring across the broad industry
- Traditional voice and fixed line telecom service revenues continue to shrink as broadband and wireless revenues continue to grow
- Telecom Network Equipment Manufacturers focus on profitability and growth
- Customers continued to invest in areas that represent their future, in which Spirent has strong capabilities
 - Ethernet
 - Wireless
 - Application delivery
 - Triple Play
 - Global positioning
 - Services

Performance Analysis review

<i>(\$ millions)</i>	<u>2007</u>	<u>2008</u>	<u>H1 2008</u>	<u>H2 2008</u>
Sales	338.4	353.7	174.4	179.3
Gross Profit	238.7	256.1	124.7	131.4
<i>Gross Margin</i>	70.5%	72.4%	71.5%	73.3%
Product Development	73.8	69.8	35.4	34.4
Other Expenses	<u>120.3</u>	<u>106.8</u>	<u>53.3</u>	<u>53.5</u>
Operating Profit	44.6	79.5	36.0	43.5
<i>Operating Margin</i>	13.2%	22.5%	20.6%	24.3%
Free Cash Flow	81.6	79.7	28.5	51.2
<i>FCF Margin</i>	24.1%	22.5%	16.3%	28.6%

- Improved gross margin through design and outsourcing of manufacturing
- Expense controls resulted in \$7.7 million reduction in overheads in H2 2008 versus H2 2007
- Continued innovation through new product development



Performance Analysis 2008 orders and revenue trends

	H1		H2	
	\$mm	YoY %	\$mm	YoY %
Orders	177.0	6%	171.4	(13%)
Revenue	174.4	10%	179.3	0%

- Market slowdown in Q4 2008
- 2008 year-end order book remained strong

	Change vs. 2007	
	\$mm	%
Wireless	7.3	6%
New Broadband	11.7	8%
Subtotal	19.0	7%
Legacy Broadband	(34.4)	(38%)
Total	(15.4)	(4%)

- Underlying growth in new products masked by legacy decline
 - Legacy business now reduced to 19% of sales



Service Assurance review

<i>(\$ millions)</i>	<u>2007</u>	<u>2008</u>	<u>H1 2008</u>	<u>H2 2008</u>
Sales	68.6	61.9	31.3	30.6
Operating Profit	6.6	8.5	4.6	3.9
<i>Operating Margin</i>	9.6%	13.7%	14.7%	12.7%
Free Cash Flow	6.6	3.7	4.4	(0.7)
<i>FCF Margin</i>	9.6%	6.0%	14.1%	(2.3%)

- Profitability maintained through increased efficiency and cost control
- Important contracts won in next-generation network service assurance with North American service providers
- Triple Play orders continue
- Growth in professional services
- Prospects for new products offer stability to revenue stream



Systems review

<i>(£ millions)</i>	<u>2007</u>	<u>2008</u>	<u>H1 2008</u>	<u>H2 2008</u>
Sales	33.4	33.2	16.6	16.6
Operating Profit	3.8	4.3	2.1	2.2
<i>Operating Margin</i>	11.4%	13.0%	12.7%	13.3%
Free Cash Flow	5.1	3.6	2.0	1.6
<i>FCF Margin</i>	15.3%	10.8%	12.0%	9.6%

- Shift from high-end wheelchair controllers to lower cost solutions continues
- Growth in industrial systems
- New products for mobility and industrial market
- Exchange rate hedging benefit for 2009 of £1.0 million
- Demand for wheelchairs relatively resilient

Market dynamics – 2009 and beyond

- Demand for location aware, anytime, anywhere, internet connectivity continues to grow
- Wireless infrastructure requires higher speed, uncompromised performance, carrier-class reliability and superior Quality of Experience
- Higher Ethernet speeds are required to deliver superior Quality of Service

Competition is driving the need for Service Providers to deploy Next-Generation Networks to meet this demand

Network Equipment Manufacturers are prioritising their spending to capitalise on these opportunities – their future depends on it

Spirent solutions – 2009 and beyond

- Higher density and higher speed Ethernet (10 / 40 / 100 GbE)
- Realistic end-to-end network emulation including applications and security
- Global Positioning including Location Based Services
- Datacenter and storage
- LTE infrastructure and device performance testing
- Automation framework – Test Automation Alliance
- Global services organisation that enhances the value of our offerings within our customer's environment

Investing in the areas that matter most to our customers



Summary and outlook

- 2008 results reflect significant operational improvements
 - Benefits of outsourced manufacturing
 - Design for more efficient products – higher performance coupled with lower cost
 - Expense control
- Solid order book maintained
- Uncertain market outlook in 2009
- Further annualised cost savings of £8.2 million implemented in Q1 2009
- New products and solutions offerings focused in the areas that matter most to our customers
- Continued product innovation offers competitive advantage
- Research and development spending expected to be less impacted by downturn
- EPS scenarios show relative resilience

