



**Spirent Communications plc**  
Interim Report 2007

Spirent Communications plc is a leading communications technology company focused on delivering innovative systems and services to meet the needs of customers worldwide. We are a global provider of performance analysis and service assurance solutions that enable the development and deployment of next-generation networking technologies such as broadband services, Internet telephony, 3G wireless and web applications and security testing. The Systems group develops power control systems for specialist electrical vehicles in the mobility and industrial markets. Further information about Spirent Communications plc can be found at [www.spirent.com](http://www.spirent.com)

**Cautionary statement regarding forward-looking statements**

This Interim Report may contain forward-looking statements which are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. You can sometimes, but not always, identify these statements by the use of a date in the future or such words as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "should", "may", "assume" and other similar words. By their nature, forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to events and

depend on circumstances that will occur in the future. You should not place undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. The Company undertakes no obligation to update any forward-looking statements contained in this Interim Report, whether as a result of new information, future events or otherwise.

## Summary of results

£ million	First half 2007	First half 2006 <sup>a</sup>	Change (%)	Underlying change at constant currency (%)
<b>Reported</b>				
<b>Continuing operations</b>				
Revenue	114.2	134.2	(15)	(8)
Loss before tax	(4.5)	(15.7)		
Basic loss per share (pence)	(0.60)	(1.68)		
<b>Adjusted</b>				
<b>Continuing operations</b>				
Operating profit <sup>2</sup>	5.0	4.2	19	64
Profit before tax <sup>3</sup>	8.1	6.5	25	54
Adjusted earnings <sup>4</sup> per share (pence)	0.85	0.65	31	64

### Highlights

- Restructuring actions in the first half of 2007 on course to achieve £21.5 million of full year cost savings in 2008. Exceptional expenses lower than anticipated at £12.6 million of which £3.5 million are cash.
- Adjusted earnings per share from continuing operations increased from 0.65 pence in the first half of 2006 to 0.85 pence per share in the first half of 2007 after absorbing negative foreign exchange impact equivalent to 0.22 pence per share.
- Net cash inflow of £10.3 million in the first half, increasing cash to £106.9 million with no debt.
- Results of Strategic Review to be communicated to shareholders in October 2007 will address portfolio and product development priorities, further cost reduction opportunities and optimisation of balance sheet structure.

### Performance Analysis

- Operating profit increased by 20 per cent at constant currency on slight sales decline compared with the same period in the prior year.

- Legacy Broadband sales continued declining trend evidenced in 2006 offset by strong growth in Wireless and Positioning products and the new release of Spirent TestCenter™.
- Actions stemming from Operating Review in April expected to contribute to significant profit improvements in the second half of 2007.
- In Broadband, revenue was up 9 per cent sequentially from the first quarter to the second quarter in the period, and up 14 per cent over the prior half year at the top six customers which account for a third of Broadband revenue.

### Service Assurance

- Service Assurance operating profit exceeded expectations as downsizing actions taken in 2006 more than offset an anticipated revenue decline.

### Systems

- Operating profit declined by 32 per cent in sterling terms, in line with expectations, entirely due to movement in exchange rates.

#### Notes

- 1 The adjusted profit and earnings per share have been restated to include share-based payment and intangible amortisation.
- 2 Before exceptional items and goodwill impairment.
- 3 Before exceptional items, goodwill impairment and costs associated with the repayment of loan notes.
- 4 Adjusted earnings per share is based on adjusted earnings as set out in note 6.

## Executive Chairman's statement

The major focus of Spirent's attention in the first half of 2007 was on implementing the actions stemming from the Board's Operating Review in April 2007. These have proceeded well and we are on course to meet the cost objectives that were announced.

As indicated in April, we expected local currency (US\$) sales in the Performance Analysis business, Spirent's largest, to be essentially flat, reflecting market conditions and the continuing decline in sales of older legacy broadband products. Sales were in fact down slightly as strong growth in the Wireless and Spirent TestCenter™ products, which grew at constant currencies by 21 per cent and 127 per cent respectively, did not quite make up for the reduction in legacy sales. If current trends continue, these products should provide overall sales growth for Performance Analysis at some point in 2008. The smaller businesses, Service Assurance and Systems both produced results in line with or slightly better than expected.

Most of our sales, 90 per cent, are billed in US dollars but the negative effect of the increase in the sterling exchange rate was mitigated by the fact that approximately 85 per cent of our expenses were also incurred in dollars. As a result, while exchange rates reduced earnings in the first half by approximately 0.22 pence per share we were nevertheless able to increase adjusted earnings to 0.85 pence per share from 0.65 pence in the prior year.

The effects of the Operating Review on first half profits were minimal and so the first half is not a good indicator of future financial prospects. Our outlook for the second half is for flat to slight sequential growth in revenue in US dollars based on typical seasonal patterns. The cost reductions and the operating changes that have now been made should produce a significant improvement in second half profits.

We are actively involved in preparing a Strategic Review for the Board, an early outcome of which was the divestiture of the SwissQual business completed in July. The balance of the review will address the Company's business portfolio and product development priorities, as well as further cost containment opportunities and the structure of the balance sheet. We look forward to communicating the results of this review to shareholders in October.

As announced in June, Duncan Lewis has joined the Board bringing considerable telecoms experience with a number of major companies. I am now pleased to welcome Tom Maxwell, who has a long career in investment management, to the Board as an additional independent non-executive director with effect from 1 October 2007. Board composition, in terms of independent non-executive directors, is now compliant with the requirements of the Combined Code and, from 1 October the composition of the Board Committees will also be compliant.

## Group financial performance

### Results

#### Continuing operations

£ million	First half 2007	First half 2006 <sup>1</sup>	Change (%)	Underlying change at constant currency (%)
Revenue	114.2	134.2	(15)	(8)
Adjusted operating profit <sup>2</sup>	5.0	4.2	19	64
Return on sales <sup>2</sup> (%)	4.4	3.1		
Adjusted earnings per share <sup>3</sup> (pence)	0.85	0.65	31	64
Adjusted cash flows from operating activities <sup>4</sup>	19.4	(2.7)		

The Group is reporting an underlying change in revenue and adjusted operating profit given the significant effect the weakness of the US dollar has had on the operating results this period compared with the same period in the previous year. Underlying change is the change at constant currencies and eliminates the effect of fluctuating exchange rates on the translation of operating results and on the transactions during the period.

#### Notes

- 1 The adjusted profit and earnings per share have been restated to include share-based payment and intangible amortisation.
- 2 Before exceptional items and goodwill impairment.
- 3 Before exceptional items, goodwill impairment, costs associated with the repayment of loan notes and any related tax.
- 4 Before the cash cost of exceptional items and lump sum pension contributions.

#### Revenue

Reported revenue in sterling was down 15 per cent compared with the first half of 2006. At constant currencies revenue was down 8 per cent. The reduction in revenue can be attributed to a one-time contract in Service Assurance recognised in the first half of 2006 for £4.5 million, the effects of translation and transaction exchange of £8.3 million and £1.2 million respectively and the subdued market conditions experienced by our Performance Analysis division.

North America contributed 54 per cent of total revenue by market and this was down from 60 per cent in the first half of 2006 being the region most affected by currency translation and market conditions. By contrast, revenue in Europe grew marginally and now represents 19 per cent of total revenue compared with 15 per cent in the first half of 2006. Revenue in the Asia Pacific region was down in absolute terms period on period and represents 27 per cent of total revenue compared with 25 per cent in the first half of 2006.

#### Operating profit

Operating profit before exceptional items was £5.0 million compared with £4.2 million for the first half of 2006. This was after giving effect to exchange rate impact of £1.9 million in 2007 principally due to a weak US dollar and the comparison is further distorted by an inventory absorption credit in 2006 which did not recur in 2007. The cost reductions announced in April and the reductions in regulatory costs have resulted in approximately £1.6 million of profit improvement. The balance of the cost reduction benefits are expected to be seen in the second half 2007 and full year 2008.

Underlying profitability compared to the same period of 2006 is as follows:

£ million	First half 2007	First half 2006
Adjusted operating profit reported	5.0	4.2
Exchange effect of translation	0.5	–
Exchange effect on transactions	1.4	–
Underlying profit	6.9	4.2

#### Currency impact

The average sterling to US dollar exchange rate increased from 1.79 for the first half of 2006 to 1.97 for the first half of 2007. 90 per cent of our revenues are invoiced in US dollars so translation into sterling reduced reported revenue. Translation exchange impact reduced revenue by £8.3 million compared with the first half of 2006. The translation effect of exchange rates on operating profit was relatively smaller at £0.5 million. The Group experienced transaction losses compared with the prior year and the reduction in revenue due to the weakening of the US dollar period on period for the Group amounted to £1.2 million and the effect on operating profit was a reduction of £1.4 million. Based on current exchange rates currency is expected to continue to be a feature in the second half of 2007.

#### Cost of sales and operating expenses

Product development has been reclassified out of cost of sales to improve the transparency and is shown separately on the face of the income statement. In addition the costs of our customer service operations have been reclassified out of selling and distribution costs and into cost of sales which is considered a fairer representation of these costs. Comparative amounts have been restated to reflect these changes.

## Group financial performance continued

Gross margin excluding exceptional items was lower at 59.9 per cent compared with 60.5 per cent for the first half of 2006, principally due to a non-recurring inventory absorption credit in 2006.

As the development of Spirent TestCenter, a major new broadband product in our Performance Analysis division, is on-going, product development spending continues to form a substantial portion of our total costs. A total of £22.8 million, being 20 per cent of revenue, was expended during the first half of 2007 (first half 2006 £29.7 million and 22 per cent of revenue). Of this amount £18.8 million (first half 2006 £22.6 million) was incurred in the Performance Analysis division, £2.8 million (first half 2006 £5.9 million) in the Service Assurance division with the remaining £1.2 million (first half 2006 £1.2 million) in the Systems group. The Board continues to place emphasis on optimising returns from future product development investments.

Other operating costs, excluding exceptional items and goodwill impairment, were essentially unchanged at about 35 per cent of sales but were down in absolute terms at £40.6 million compared with £47.3 million in 2006. Approximately £1.6 million of savings have been realised from the actions resulting from the April Operating Review and reduction in regulatory expenses.

The charge for share-based payment was £1.0 million for the first half of 2007 compared with £2.4 million for the first half of 2006. This charge is lower than normal having been reduced by the high rate of cancellation and lapse of awards resulting from the restructuring actions that have taken place during the period, which reduced the charge by approximately £0.8 million.

### Exceptional items

Following completion of the Operating Review and as reported to shareholders in April, a number of changes were implemented. These changes focused on Performance Analysis, shared services and corporate overheads. In Performance Analysis actions resulting from the review focused on three main areas: product portfolio, operational efficiency and reduction in the number of facilities. As a result of these cost reduction actions, Spirent has recorded an exceptional charge in the first half of 2007 of £12.6 million. This charge includes redundancy and other restructuring costs of £3.5 million, provisions for onerous lease costs of £3.7 million and a write-down of assets which are now redundant of £5.4 million. The annualised cost savings from these actions are expected to be in the region of £21.5 million (US\$43 million). The cost savings derive from four main areas: reduced manufacturing costs £7.3 million, product development £4.5 million, sales and marketing spending £2.2 million and general administrative overhead reduction of £7.5 million. Some £1.6 million of savings have already benefited the second quarter but there will be a future benefit realised through the second half of 2007 with the total amount being

fully realised in the year ended 31 December 2008. We will continue to explore any further opportunities for cost savings in our businesses throughout the rest of the year.

### Net finance income

Cash and cash equivalents were £106.9 million at the end of the first half of 2007, cash is held in short term bank deposits and short dated commercial paper. Finance income was £3.2 million compared with income of £3.6 million in the first half of 2006, as the cash surplus had been reduced throughout 2006 by the on-market share repurchase programme. In 2006 interest payable of £1.3 million was incurred in relation to loan notes which were redeemed in February 2006 and there was a charge of £8.8 million reported related to the early redemption of the loan notes.

### Loss before tax for continuing operations

Reported loss before tax for continuing operations was £4.5 million compared with a loss before tax in the first half of 2006 of £15.7 million.

Adjusted profit before tax for continuing operations, to exclude exceptional items and goodwill impairment, was £8.1 million compared with £6.5 million for the first half of 2006.

### Tax

The tax charge for the first half of 2007 was £0.7 million, an effective rate of 8.6 per cent on the adjusted profit before tax (first half 2006 £0.3 million). We continue to incur a low effective rate due to tax losses carried forward.

### Discontinued operations

Discontinued operations in 2007 relate to the loss making SwissQual business that was acquired in January 2006. The disposal of this business was completed on 5 July 2007 for cash proceeds of US\$3.0 million (£1.5 million). At the end of the first half year an impairment charge of £4.5 million has been reported as the assets of this business have been written down to fair value less costs of sale as required by accounting standards. In the period, SwissQual reported revenue of £3.4 million and an operating loss of £3.4 million.

Discontinued operations in 2006 also include the HellermannTyton Division sold in February last year.

### Earnings per share

Basic loss per share for the Group was 1.55 pence, compared with earnings of 14.80 pence for the first half of 2006, earnings in 2006 include the profit on the sale of the HellermannTyton Division of £165.3 million. Adjusted earnings per share for continuing operations, being before exceptional items, goodwill impairment and cost

associated with the repayment of loan notes net of any related tax, was 0.85 pence compared with 0.65 pence in the first half of 2006.

### Financing and cash flow

Cash and cash equivalents were £106.9 million at the end of the first half of 2007 up from £97.6 million at 31 December 2006 with £10.3 million of cash being generated in the first half year, the Group continues to be debt free. The cash flows for the first half of 2006 reflect the sale of the HellermannTyton Division and the repayment of debt.

Net cash inflow from continuing operating activities before tax was £16.4 million (first half 2006 £51.6 million outflow). The outflow in 2006 included a contribution of £47.0 million to fund the UK final salary pension scheme.

Adjusted operating cash flow before tax from continuing operations is set out below:

£ million	First half 2007	First half 2006
Reported cash flows from continuing operating activities	16.4	(51.6)
Add back:		
UK final salary pension fund contribution	–	47.0
Cash cost of exceptional items	3.0	1.9
Adjusted cash flows from continuing operating activities	19.4	(2.7)

The cash outflow in respect of exceptional items comprised £1.4 million in respect of 2006 actions and £1.6 million in respect of those taken in 2007, with a further £1.9 million expected to be paid in the second half year.

Reported operating cash inflow for the Group after tax was £14.9 million (first half 2006 £52.6 million outflow) discontinued operations used £1.0 million of operating cash in the period (first half 2006 £1.7 million generated). Tax payments in the first half of 2007 amounted to £0.5 million compared with £2.7 million in the first half of 2006 (including discontinued operations). In the first quarter of 2007 we settled tax obligations on the sale of the HellermannTyton Division of £6.7 million. We received tax refunds amounting to £6.8 million during the period.

Capital expenditure was down, £2.4 million compared with £8.4 million in the first half of 2006, well below the depreciation charge for the period of £5.8 million for the continuing Group (first half 2006 £6.6 million).

We spent £4.0 million on deferred consideration in relation to our 2006 acquisitions and there will be further payments of approximately £1 million due in the second half year.

Net finance income received in the first half of 2007 was £2.2 million compared with net finance income received in the first half of 2006 of £1.2 million.

We returned £4.2 million of cash to shareholders during the period as part of the share buy back programme.

### Pension fund

The accounting valuation at the end of the first half of 2007 for the UK defined benefit plans was based on the triennial actuarial valuations of the plans at 1 April 2006 which were completed during the period. The surplus in the plans rose from £2.4 million at 31 December 2006 to £13.0 million at the end of the first half of 2007. The improvement in funding was due to rising equity markets and to changes to the values of financial assumptions, namely the rate of return on corporate bonds, underlying the calculation of the liabilities, during the interim period. The accounting rules however, limit the surplus that may be recognised by the Company and as such none of this surplus has been recognised on the balance sheet at the end of the first half of 2007. The Group has also reported a £0.7 million liability in respect of the UK unfunded plan at the end of the first half of 2007.

### Capital structure, on-market share repurchase programme and dividend

We returned a further £4.2 million of cash to shareholders representing 6.7 million shares continuing the on-market share repurchase programme commenced in May 2006. To date 97.0 million shares have been repurchased with £45.8 million of cash now returned of the original £50 million programme.

As part of the on-going Strategic Review we are evaluating the optimal balance sheet structure.

Dividend policy is also kept under review by the Board, however no dividend is being paid in respect of the first half of 2007.

### Review of US listing and SEC registration

The recent adoption of new rules by the US Securities and Exchange Commission (“SEC”) gave Spirent the opportunity to terminate its reporting obligations under the US Securities Exchange Act of 1934 (“the Exchange Act”). Spirent believes that the administrative burden and increasing costs associated with maintaining the listing on the New York Stock Exchange and the reporting requirements necessary for its registration with the SEC under the Exchange Act outweighed the benefits to Spirent and its shareholders.

The average daily trading volume of shares represented by Spirent’s American Depositary Receipts (“ADRs”) was very small, accounting for 0.5 per cent of the total number of Spirent Ordinary shares traded in the relevant 12 month period. In light of this level of trading activity and the recent adoption of new rules by the SEC, Spirent has changed

## Group financial performance continued

its ADR facility with The Bank of New York to a Level 1 Programme. This means that the Company's ADRs are now traded in the US over-the-counter market. The Company's Ordinary shares will continue to trade on the London Stock Exchange.

On 5 June 2007 Spirent filed an application to terminate the US registration of its ADRs and Ordinary shares. The Company's Exchange Act reporting obligations have now ceased and termination of registration will occur 90 days after filing, subject to the SEC having no objections.

### Outlook

The major focus of Spirent's attention in the first half of 2007 was on implementing the actions stemming from the Board's Operating Review in April. These have proceeded well and we are on course to meet the cost objectives that were announced.

The effects of the Operating Review on first half profits were minimal and so the first half is not a good indicator of future financial prospects. Our outlook for the second half is for flat to slight sequential growth in revenue in US dollars based on typical seasonal patterns. The cost reductions and the operating changes that have now been made should produce a significant improvement in second half profits.

### Business group development and performance Communications

£ million	First half 2007	First half 2006	Change (%)	Underlying change at constant currency (%)
Revenue				
Performance Analysis	80.6	90.5	(11)	(3)
Service Assurance	16.5	24.9	(34)	(28)
Communications group	97.1	115.4	(16)	(9)
Operating profit before exceptional items and goodwill impairment				
Performance Analysis	4.5	4.6	(2)	20
Service Assurance	0.9	0.1	>100	>100
Communications group	5.4	4.7	15	38
Return on sales (%)				
Performance Analysis	5.6	5.1		
Service Assurance	5.5	0.4		
Communications group	5.6	4.1		

### Performance Analysis

The market conditions for test equipment for Performance Analysis in the first half of 2007 were subdued. Underlying revenues in US dollar

terms for Performance Analysis were below the same period last year by 3 per cent.

Despite the decrease in total sales for the division, the underlying rate of profitability was improved. The prior year benefited from an increase in inventory value through overhead absorption of £2.3 million and exchange impacted the results by £1.0 million. After taking into account these items profits improved on lower sales, largely as a result of cost improvements actioned during the first half year.

By geographic region Asia sales increased, but other regions, notably North America, were down. Wireless and Positioning revenues were 31 per cent of the continuing Performance Analysis business.

Similar trends continued from last year in that top customers were working through merger integrations, reducing activity levels in the market, although the impact of this is declining in importance. A number of other major customers showed meaningful growth in activity.

Customer consolidation is driving a move to larger, more strategic relationships which favour vendors that have broader technology assets in meeting testing requirements across multiple platforms (wireless and wireline assets, integrated technologies on single platforms). Addressing customer requirements driven by technology and service convergence offers an opportunity for Spirent given its asset base across wireless, wireline and service assurance solutions.

With regard to the Performance Analysis Broadband activities, a further major release of Spirent TestCenter was made at the end of May 2007 using our Inspire Architecture™ delivering increased productivity for customers. This resulted in the highest recorded monthly order intake for Spirent TestCenter in June 2007. Overall the decline in existing product revenues outweighed the growth in new product revenues for Broadband in the period. It is worth noting that the top six customers, which make up a third of the global revenue in the Broadband business, delivered a 14 per cent revenue increase in the first half of 2007 compared with the first half of 2006. In addition, overall Broadband revenue increased by 9 per cent from the first quarter of 2007 to the second quarter of 2007.

The market conditions for the Performance Analysis Wireless division were in line with expectations. Revenue grew strongly by 21 per cent at constant currency in the first half year compared to the same period last year. Notably location based service test requirements grew markedly. CDMA activity tracked plan and fader product sales continued to be robust on the back of sustained investment by customers in WiMaX. This is in areas where we have seen competitors enter the market.

New development areas include video test capability, upgrades to location based systems and the ability to deliver more automated solutions for mobile device testing. Regionally growth was strong in

Asia with additional equipment manufacturers entering the mobile handset market.

We have continued to build on the strength of our product capabilities in the GPS emulation market, where all market segments have been buoyant. New customers provided a significant portion of revenue and in addition revenues were recorded for the sale of Galileo simulators.

### Service Assurance

The market for traditional service assurance solutions continues to be in long term decline as service providers transition capital spending to next-generation services. In addition, the consolidation of network service providers has reduced the number of target customers for service assurance solutions. The result of this market trend is that customers continue to drive for lower costs resulting in pressure on maintenance contracts. Despite this, our control over costs within our own operations has resulted in improved profit performance for the division.

Operating profit was significantly improved sequentially and over the same period last year. However, revenues were down from the first half of 2006 due to £4.5 million of revenue from a one-time project for remote packet access testing that occurred in the prior year.

Next-generation service offerings are beginning to be deployed and service providers are evaluating our next-generation service assurance solutions. One of the first service providers to select a next-generation service assurance solution is Telus, a Canadian carrier, which signed a contract to deploy our triple play solution late last year. During the first half of 2007 Telus commenced successful deployment of our next-generation hardware and software triple play service assurance solution.

### Systems

£ million	First half 2007	First half 2006	Change (%)	Underlying change at constant currency (%)
Revenue	17.1	18.8	(9)	(3)
Operating profit/(loss)	1.7	2.5	(32)	–
Return on sales (%)	9.9	13.3		

The Systems group comprises PG Drives Technology, a leading supplier of control systems for electrically powered medical and small industrial vehicles. Revenue was down due to changes in US government healthcare funding for powered wheelchairs, which created a shift from premium systems to lower-cost solutions. The US dollar exchange rate also had a marked affect on revenue and profit. We continued to relocate more production into the Far East to support our activities in the Asia Pacific Region and to gain product and logistical cost benefits.

During the first half of 2007 we began penetrating new industrial market segments (forklift trucks and golf carts) with our new Sigma and X30/25 products. Later this year we are planning more new product launches that will enable us to further strengthen our position in the medical mobility market.

### Non-segmental costs

Non-segmental costs excluding exceptional costs, being those which are not directly attributable to the operating segments, were lower at £2.1 million compared with £3.0 million in the first half of 2006. Corporate overheads were reduced as a result of the Operating Review and a number of activities were integrated into the business units. The termination of the Company's reporting obligations under the US Exchange Act has reduced corporate compliance costs.

### Board

As announced in June, Duncan Lewis joined the Board as an independent non-executive director bringing extensive telecoms experience to the Company.

The Company is now pleased to announce that Tom Maxwell will be appointed as an additional independent non-executive director with effect from 1 October 2007 and will become a member of the Audit and Nomination Committees. A Member of the Chartered Institute of Bankers in Scotland and a Member of the Society of Investment Professionals, Tom has considerable financial and investment experience. He has previously worked for, among others, Martin Currie Investment Management Limited and Ivory & Sime Investment Management plc.

As a result of Mr Maxwell's appointment, Gerard Eastman will cease to be a member of the Audit and Remuneration Committees on 1 October 2007, enabling their composition to become compliant with the Combined Code. Mr Eastman will remain as a non-executive director on the Board and a member of the Nomination Committee.

Board composition, in terms of independent non-executive directors, is now compliant with the requirements of the Combined Code and, from 1 October the composition of the Board Committees will also be compliant.

## Consolidated income statement

£ million	Notes	First half 2007			First half 2006 (restated) <sup>1</sup>		
		Before exceptional items	Exceptional items <sup>2</sup>	Total	Before exceptional items and goodwill impairment	Exceptional items <sup>2</sup> and goodwill impairment	Total
<b>Continuing operations</b>							
<b>Revenue</b>	2, 3	114.2	–	114.2	134.2	–	134.2
Cost of sales		(45.8)	(2.4)	(48.2)	(53.0)	–	(53.0)
<b>Gross profit</b>		68.4	(2.4)	66.0	81.2	–	81.2
Product development		(22.8)	–	(22.8)	(29.7)	–	(29.7)
Selling and distribution		(25.6)	–	(25.6)	(30.9)	–	(30.9)
Administration		(15.0)	(10.2)	(25.2)	(16.4)	(13.4)	(29.8)
<b>Operating profit/(loss)</b>	2	5.0	(12.6)	(7.6)	4.2	(13.4)	(9.2)
Finance income		3.2	–	3.2	3.6	–	3.6
Finance costs		(0.1)	–	(0.1)	(1.3)	–	(1.3)
Costs associated with the repayment of loan notes		–	–	–	–	(8.8)	(8.8)
<b>Profit/(loss) before tax</b>		8.1	(12.6)	(4.5)	6.5	(22.2)	(15.7)
Tax – overseas		(0.7)	–	(0.7)	(0.3)	–	(0.3)
<b>Profit/(loss) for the period from continuing operations after tax</b>		7.4	(12.6)	(5.2)	6.2	(22.2)	(16.0)
<b>Discontinued operations</b>	4						
Profit/(loss) for the period from discontinued operations		(3.8)	(4.5)	(8.3)	0.2	157.1	157.3
<b>Profit/(loss) for the period attributable to equity holders of parent</b>		3.6	(17.1)	(13.5)	6.4	134.9	141.3
<b>Earnings/(loss) per share (pence)</b>	6						
Basic and diluted earnings/(loss)				(1.55)			14.80
Basic and diluted loss from continuing operations				(0.60)			(1.68)

1 The first half of 2006 has been restated to reflect the presentation of SwissQual as a discontinued operation, the reclassification of product development costs out of cost of sales and the reclassification of the costs of customer service operations to cost of sales from selling and distribution expense.

2 Exceptional items are equivalent to material one-time items which were presented in previous financial information.

## Consolidated statement of recognised income and expense

£ million	First half 2007	First half 2006
<b>Income and expense recognised directly in equity</b>		
Exchange differences on retranslation of foreign operations	(1.0)	(3.9)
Actuarial gains/(losses) on defined benefit pension plans	(2.6)	6.8
	(3.6)	2.9
<b>Transfers to income statement</b>		
Exchange gain transferred to profit on sale	–	(1.3)
Gains on cash flow hedges	–	(1.9)
<b>Net expense recognised directly in equity</b>	(3.6)	(0.3)
<b>Profit/(loss) for the period</b>	(13.5)	141.3
<b>Total recognised income and expense for the period attributable to equity holders of parent</b>	(17.1)	141.0

## Consolidated statement of changes in equity

£ million	First half 2007	First half 2006
Total recognised income and expense	(17.1)	141.0
New shares issued	2.5	1.0
Share-based payment	1.0	2.7
On-market share repurchase	(4.2)	(8.2)
Employee share ownership trust	0.8	0.4
Minority interests sold	–	(1.9)
Total movement	(17.0)	135.0
At 1 January	182.8	122.2
At the end of the period	165.8	257.2

## Consolidated balance sheet

£ million	1 July 2007	2 July 2006	31 December 2006
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	57.7	96.3	63.3
Property, plant and equipment	17.8	27.7	25.3
Trade and other receivables	1.4	1.6	1.4
Cash on deposit	7.7	–	8.5
Defined benefit pension plan surplus	–	4.3	2.4
Deferred tax	1.0	1.1	1.2
	85.6	131.0	102.1
<b>Current assets</b>			
Inventories	18.8	32.3	25.4
Trade and other receivables	52.8	59.5	63.8
Derivative financial instruments	0.3	0.4	0.1
Cash and cash equivalents	106.9	146.3	97.6
	178.8	238.5	186.9
Assets held in disposal group held for sale	5.6	–	–
<b>Total assets</b>	<b>270.0</b>	<b>369.5</b>	<b>289.0</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(52.5)	(67.6)	(61.8)
Current tax	(30.7)	(31.1)	(30.5)
Provisions and other liabilities	(6.8)	(3.3)	(5.9)
	(90.0)	(102.0)	(98.2)
<b>Non-current liabilities</b>			
Trade and other payables	(0.8)	(1.0)	(0.5)
Defined benefit pension plan deficit	(0.7)	(0.9)	(1.4)
Provisions and other liabilities	(8.2)	(8.4)	(6.1)
	(9.7)	(10.3)	(8.0)
Liabilities included in disposal group held for sale	(4.5)	–	–
<b>Total liabilities</b>	<b>(104.2)</b>	<b>(112.3)</b>	<b>(106.2)</b>
<b>Net assets</b>	<b>165.8</b>	<b>257.2</b>	<b>182.8</b>
<b>Capital and reserves</b>			
Share capital	32.0	32.3	32.5
Share premium account	13.7	8.7	10.6
Capital redemption reserve	0.7	–	–
Capital reserve	4.7	6.8	5.5
Translation reserve	(7.1)	0.3	(6.1)
Retained earnings	121.8	209.1	140.3
<b>Total equity</b>	<b>165.8</b>	<b>257.2</b>	<b>182.8</b>

## Consolidated cash flow statement

£ million	Notes	First half 2007	First half 2006
<b>Cash flows from operating activities</b>			
Cash flows from operations	7	15.4	(49.9)
Tax paid		(0.5)	(2.7)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>14.9</b>	<b>(52.6)</b>
<b>Cash flows from investing activities</b>			
Interest received		2.2	2.1
Transfer from long term deposit		0.7	–
Disposal of operations		–	278.5
Purchase of property, plant and equipment		(2.4)	(8.4)
Purchase of intangible assets		(0.3)	–
Proceeds from sale of property, plant and equipment		0.1	0.2
Acquisition of subsidiaries		(4.0)	(32.6)
<b>Net cash (used in)/from investing activities</b>		<b>(3.7)</b>	<b>239.8</b>
<b>Cash flows from financing activities</b>			
Interest paid		–	(0.9)
Costs associated with the repayment of loan notes and swap break fees		–	(9.7)
Proceeds from the issue of share capital and employee share ownership trust		3.3	1.4
On-market share repurchase		(4.2)	(7.2)
Repayment of borrowings		–	(95.6)
New borrowings		–	23.0
<b>Net cash used in financing activities</b>		<b>(0.9)</b>	<b>(89.0)</b>
Net increase in cash and cash equivalents		10.3	98.2
Cash and cash equivalents at the beginning of the period		97.6	48.8
Transfer of cash and cash equivalents to assets of disposal group held for sale		(0.5)	–
Effect of exchange rate changes		(0.5)	(0.7)
<b>Cash and cash equivalents at the end of the period</b>		<b>106.9</b>	<b>146.3</b>

## Notes to the financial information

### 1. Basis of preparation

The consolidated interim financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year to 31 December 2006, which have been filed with the Registrar of Companies. The consolidated interim financial information is unaudited but has been reviewed by the auditors and their report to Spirent Communications plc is set out on page 16. The consolidated interim financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The comparative financial information for the year to 31 December 2006 is based on the statutory accounts for that period apart from as stated below. The auditors' report on those accounts was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985.

The Group has reclassified product development costs out of cost of sales and is disclosing these costs separately in the income statement. The change has been made to improve the transparency of the Group's results.

The costs of customer service operations have been reclassified from selling and distribution expense to cost of sales. This reflects the increasing proportion of revenues derived from the provision of added value services, and the Board has concluded that this classification is a fairer representation of the commercial operations and the gross profit achieved by the Group.

Comparatives have been restated accordingly.

The Interim Report for the period ended 1 July 2007 was approved by the directors on 9 August 2007.

### 2. Segmental analysis

£ million	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total
<b>First half 2007</b>						
<b>Revenue</b>	80.6	16.5	97.1	17.1	–	114.2
<b>Operating profit/(loss) before exceptional items</b>	4.5	0.9	5.4	1.7	(2.1)	5.0
Exceptional items (note 5)	(7.6)	(2.7)	(10.3)	–	(2.3)	(12.6)
<b>Operating profit/(loss)</b>	(3.1)	(1.8)	(4.9)	1.7	(4.4)	(7.6)
<b>Other information</b>						
Product development	18.8	2.8	21.6	1.2	–	22.8
Share-based payment	0.7	0.2	0.9	–	0.1	1.0
Intangible amortisation	0.4	–	0.4	–	–	0.4
<b>First half 2006</b>						
<b>Revenue</b>	90.5	24.9	115.4	18.8	–	134.2
<b>Operating profit/(loss) before exceptional items and goodwill impairment</b>	4.6	0.1	4.7	2.5	(3.0)	4.2
Exceptional items (note 5)	(1.5)	(2.4)	(3.9)	–	–	(3.9)
Goodwill impairment	–	(9.5)	(9.5)	–	–	(9.5)
<b>Operating profit/(loss)</b>	3.1	(11.8)	(8.7)	2.5	(3.0)	(9.2)
<b>Other information</b>						
Product development	22.6	5.9	28.5	1.2	–	29.7
Share-based payment	1.5	0.6	2.1	0.1	0.2	2.4
Intangible amortisation	0.1	–	0.1	–	–	0.1

£ million	Performance Analysis	Service Assurance	Communications	Systems	Non-segmental	Continuing operations Total
<b>Year 2006</b>						
<b>Revenue</b>	179.5	43.6	223.1	35.8	–	258.9
<b>Operating profit/(loss) before exceptional items and goodwill impairment</b>	10.6	(1.1)	9.5	4.7	(5.8)	8.4
Exceptional items	(3.8)	(5.3)	(9.1)	–	0.3	(8.8)
Goodwill impairment	–	(19.1)	(19.1)	–	–	(19.1)
<b>Operating profit/(loss)</b>	6.8	(25.5)	(18.7)	4.7	(5.5)	(19.5)
<b>Other information</b>						
Product development	42.0	9.5	51.5	2.3	–	53.8
Share-based payment	3.6	1.2	4.8	0.1	0.3	5.2
Intangible amortisation	0.5	–	0.5	–	–	0.5

Revenue and operating profit for discontinued operations are disclosed in note 4.

### 3. Geographical analysis

£ million	First half 2007	First half 2006
<b>Revenue by market</b>		
<b>Continuing operations</b>		
Europe	21.9	20.7
North America	61.1	79.8
Asia Pacific, Rest of Americas, Africa	31.2	33.7
	114.2	134.2
<b>Revenue by source</b>		
<b>Continuing operations</b>		
Europe	32.0	31.8
North America	72.6	92.3
Asia Pacific, Rest of Americas, Africa	9.6	10.1
	114.2	134.2
<b>Average exchange rates</b>		
US dollar	1.97	1.79
Euro	1.48	1.46

## Notes to the financial information continued

### 4. Discontinued operations

£ million	First half 2007	First half 2006 (restated) <sup>1</sup>
Revenue	3.4	32.0
Operating profit/(loss)	(3.4)	0.9
Share of profit of associates	–	0.2
Profit on disposal of operations	–	165.3
Loss recognised on the measurement to fair value less costs to sell	(4.5)	–
Net finance costs	–	(0.1)
Profit/(loss) before tax	(7.9)	166.3
Tax	(0.4)	(0.8)
Tax on the disposal of operations	–	(8.2)
Profit/(loss) for the period	(8.3)	157.3

1 Restated to reflect the presentation of SwissQual as a discontinued operation.

Discontinued operations relate to the HellermannTyton Division which was sold on 15 February 2006 and SwissQual which has been classified as a discontinued operation at 1 July 2007. The sale of SwissQual was completed on 5 July 2007. SwissQual was included within the Performance Analysis division.

### 5. Exceptional items

£ million	First half 2007	First half 2006 (restated) <sup>1</sup>
Restructuring costs	3.5	3.9
Lease provisions	3.7	–
Write-down of redundant assets	5.4	–
	12.6	3.9

1 Restated to exclude the effect of the inventory absorption adjustment.

Exceptional items are discussed in more detail in the Interim Report under Group financial performance.

### 6. Earnings/(loss) per share

	First half 2007	First half 2006	Year 2006
<b>Earnings/(loss) per share (pence)</b>			
Basic and diluted	(1.55)	14.80	11.75
Basic and diluted from continuing operations	(0.60)	(1.68)	(2.45)
Adjusted	0.41	0.67	1.73
Adjusted from continuing operations	0.85	0.65	1.48
<b>Weighted average number of shares in issue (million)</b>			
Basic and adjusted	873.7	954.5	925.9
Dilutive potential of employee share options	10.5	6.1	3.8
Diluted	884.2	960.6	929.7

£ million	Continuing operations	Discontinued operations	Total operations
<b>First half 2007</b>			
<b>Profit/(loss) for the period attributable to equity holders of parent</b>	(5.2)	(8.3)	(13.5)
Exceptional items	12.6	–	12.6
Loss recognised on the measurement to fair value less costs to sell	–	4.5	4.5
<b>Adjusted earnings attributable to equity holders of parent</b>	7.4	(3.8)	3.6

£ million	Continuing operations	Discontinued operations	Total operations
<b>First half 2006 (restated)<sup>1,2</sup></b>			
<b>Profit/(loss) for the period attributable to equity holders of parent</b>	(16.0)	157.3	141.3
Exceptional items	3.9	–	3.9
Goodwill impairment	9.5	–	9.5
Costs associated with the repayment of loan notes	8.8	–	8.8
Profit on the disposal of operations	–	(157.1)	(157.1)
<b>Adjusted earnings attributable to equity holders of parent</b>	<b>6.2</b>	<b>0.2</b>	<b>6.4</b>
<b>Year 2006 (restated)<sup>1</sup></b>			
<b>Profit/(loss) for the year attributable to equity holders of parent</b>	(22.7)	131.5	108.8
Exceptional items	8.8	–	8.8
Goodwill impairment	19.1	27.7	46.8
Costs associated with the repayment of loan notes	8.8	–	8.8
Profit on the disposal of operations	–	(156.9)	(156.9)
Prior year tax credit	(0.3)	–	(0.3)
<b>Adjusted earnings attributable to equity holders of parent</b>	<b>13.7</b>	<b>2.3</b>	<b>16.0</b>

1. The first half of 2006 and the year 2006 have been restated to present SwissQual as a discontinued operation.

2. Adjusted earnings for the first half of 2006 has been restated to include share-based payment and intangible amortisation.

## 7. Reconciliation of profit/(loss) before tax to cash generated from operations

£ million	First half 2007	First half 2006 (restated) <sup>1</sup>
<b>Continuing operations</b>		
Operating loss	(7.6)	(9.2)
Goodwill impairment	–	9.5
Amortisation of intangible assets	0.4	0.1
Depreciation of property, plant and equipment	5.8	6.6
(Profit)/loss on disposal and impairment of property, plant and equipment	3.0	(0.1)
Share-based payment	1.0	2.4
Deferred income received	4.1	0.4
Decrease/(increase) in receivables	4.6	(2.9)
Decrease/(increase) in inventories	5.0	(6.1)
Decrease in payables	(2.5)	(3.2)
Increase/(decrease) in provisions	2.6	(2.1)
Defined benefit pension fund	–	(47.0)
<b>Cash flows from continuing operating activities</b>	<b>16.4</b>	<b>(51.6)</b>
<b>Discontinued operations</b>		
Operating profit/(loss)	(3.4)	0.9
Amortisation of intangible assets	0.6	0.8
Depreciation of property, plant and equipment	0.2	1.7
Profit on disposal of property, plant and equipment	–	(0.1)
Share-based payment	–	0.3
Decrease/(increase) in receivables	3.0	(0.1)
Increase in inventories	(0.2)	–
Decrease in payables	(1.2)	(1.8)
<b>Cash flows from discontinued operating activities</b>	<b>(1.0)</b>	<b>1.7</b>
<b>Cash flows from operating activities</b>	<b>15.4</b>	<b>(49.9)</b>

1. The first half of 2006 has been restated to present SwissQual as a discontinued operation.

## Independent review report to Spirent Communications plc

### Introduction

We have been instructed by the Company to review the financial information for the six months ended 1 July 2007 which comprises the Consolidated income statement, Consolidated balance sheet, Consolidated cash flow statement, Consolidated statement of recognised income and expense, Consolidated statement of changes in equity and the related notes 1 to 7. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed. The accounting policies are consistent with those that the directors intend to use in the next annual accounts.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 1 July 2007.

### Ernst & Young LLP

London

9 August 2007

## Shareholder information

### Ordinary Shares and American Depositary Receipts

Spirent Ordinary shares are traded on the London Stock Exchange (ticker: SPT). The Company operates a Level 1 American Depositary Receipt (“ADR”) programme with each ADR representing four Spirent Ordinary shares. The ADRs trade in the US over-the-counter market under the symbol SPMYY and the CUSIP number is 84856M209. The Bank of New York\* is the authorised depository bank for the Company’s ADR programme. Spirent ADRs are quoted on the Pink Sheets electronic quotation service which can be found at [www.pinksheets.com](http://www.pinksheets.com)

### Spirent’s Registrars\*

Enquiries concerning shareholdings, change of address or other particulars should be directed in the first instance to the Company’s Registrar, Lloyds TSB Registrars on 0870 600 3970. They also provide a range of online shareholder information services at [www.shareview.co.uk](http://www.shareview.co.uk), where shareholders can check their holdings and find practical help on transferring shares or updating their details.

### Share dealing services

Lloyds TSB Registrars Shareview Dealing is a service that provides a simple and convenient way of buying and selling Spirent Ordinary shares. For telephone services call 0870 850 0852 between 8.00am and 4.30pm, Monday to Friday and for Internet services visit [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). A postal share dealing service for buying and selling Spirent Ordinary shares is also available and a dealing form can be obtained by calling 0870 600 3970.

### Spirent website

Additional information about Spirent, including previous annual and interim reports, current share price information and company news is available on our website at [www.spirent.com](http://www.spirent.com)

### Individual Savings Accounts

Information about investing in Spirent Ordinary shares through an Individual Savings Account (“ISA”) may be obtained from Lloyds TSB Registrars on 0870 242 4244 or at [www.shareview.co.uk](http://www.shareview.co.uk). ISAs are also offered by other organisations.

### Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations, which may use it as a mailing list, resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS, United Kingdom or call +44 (0)20 7291 3310 for an application form or visit [www.mpsonline.org.uk](http://www.mpsonline.org.uk). This is a free service and can remove your name from up to 95 per cent of Direct Mail lists.

### ShareGIFT

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomical to sell them. Details of the scheme are available from ShareGIFT at [www.sharegift.org](http://www.sharegift.org) or telephone +44 (0)20 7828 1151.

\*Contact details appear on the back cover.

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