

Inspiration Innovation Intelligence



Bringing Technology Home



Pace Micro Technology plc AGM 2008



Neil Gaydon
Chief Executive Officer

Wednesday 23 April 2008



Today



- Pace Micro Technology Business Update
- Background to the acquisition of the Philips Set-top Box and Connectivity Solutions business

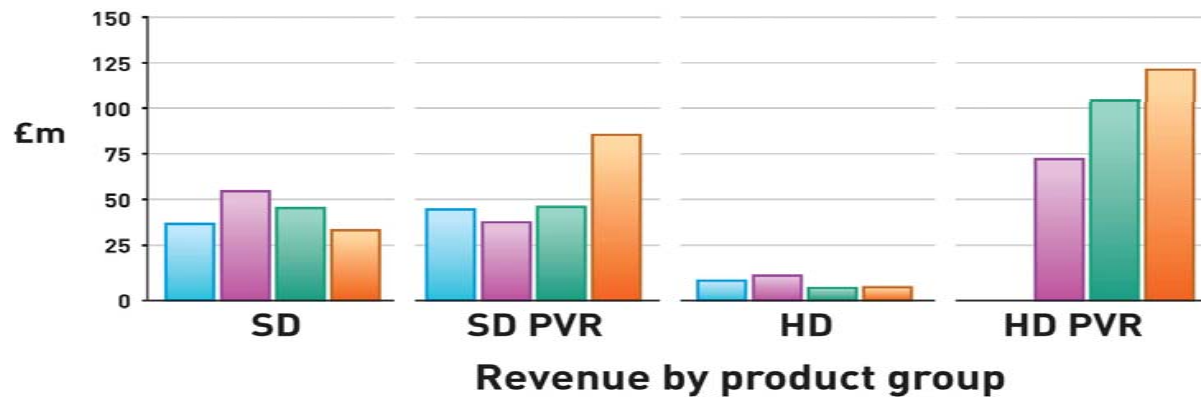
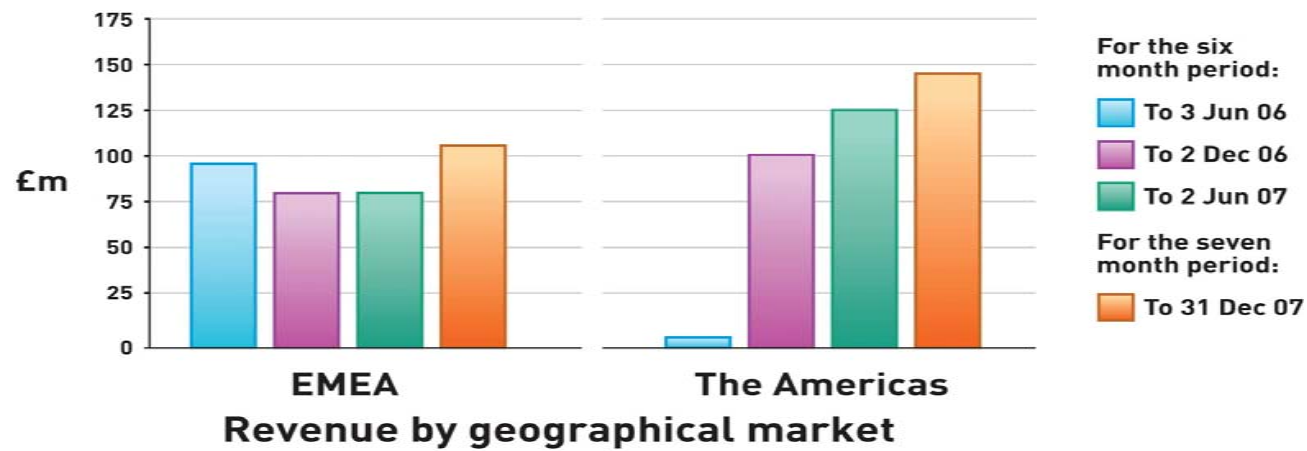
Highlights for the seven months to 31/12/07



- Exceptional performance during the period, in line with increased expectations
- Solid underlying business trends, platform for growth now in place
- Good balance of business across the group, broader product range
- Volume shipments 2.4m set-top boxes* (2006/2007: 3.9m)
- Revenues £249.9m* (2006/2007: £386.5m)
- Gross margin improvement to 20.3%* (2006/2007: 15.9%)
- Profit before tax £15.4m* (2006/2007: £4.9m)
- Earnings per share of 6.1p (year ended 2 June 2007: 3.0p)
- Announced intention to acquire Philips STB and CS business

*for the seven month period ending 31 December 2007

Revenue analysis



Underlying performance Improvements



- Focus on Business Operating Model has continued
- Key improvements taking place
 - Customer centric business structure embedded
 - Development of Leadership Group within the business
 - Improved product creation process
 - Continued operational improvements
- Positive impact on gross margin performance – 20.3% for 7 months v 15.9% in 2006/07 (16.6% H2 2006/07)

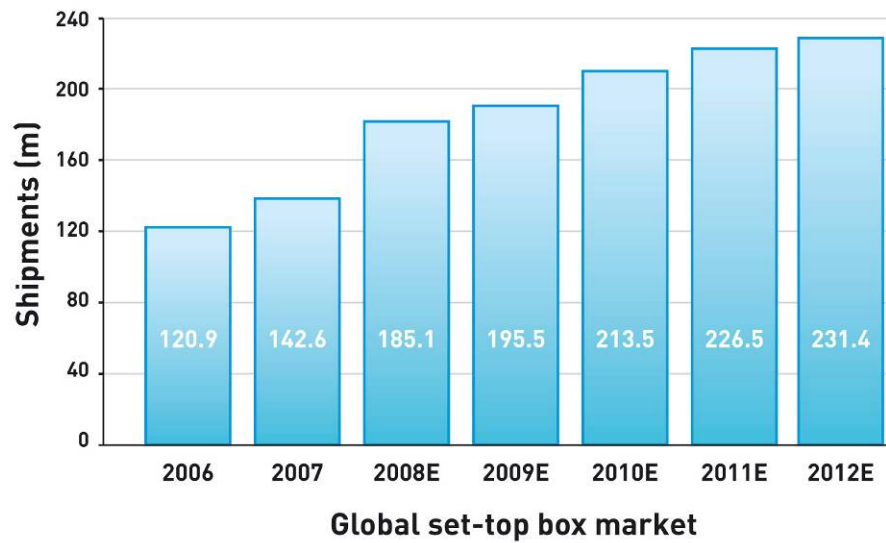
Business Overview



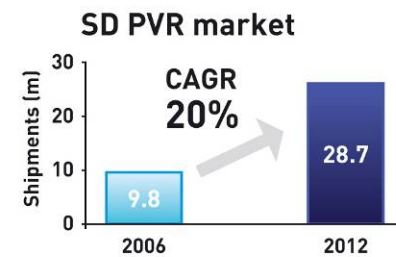
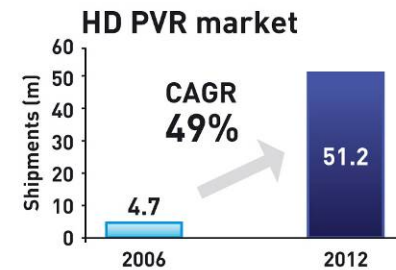
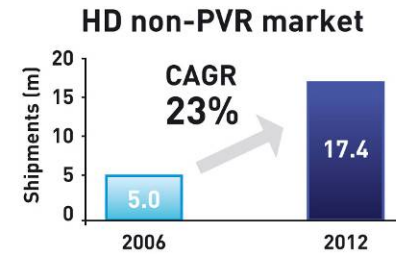
Neil Gaydon
Chief Executive Officer



The set-top box market



Source IMS Research 2007



Summary



- Pace is the leading digital TV technology company and provides products and services to the world's most successful payTV operators
- Customer revenues are well balanced between markets: in North America (58% of total) and European and Australasian markets (42%)
- Pace has developed its global customer base by:
 - Continuing to win new customers in all regions
 - Growing market share from existing customers
- Investment in new digital TV related technologies to grow the Company is taking shape by utilising existing Pace skills to extend market reach and create new products



- Revenues & shipments
 - £144.7m, 58% of overall revenues
 - Shipments 0.9m, 38% of overall shipments
- DirecTV, the world's largest satellite operator
 - Delivered next generation high definition MPEG-4 PVR
 - Order visibility through 2008 and developing new products for 2009
- Continuing momentum in largest market
 - Expanding addressable market through new products: successfully tested, launched and began to ship range of five CableCARD™ OCAP-ready products
 - Deepening existing operator relationships and winning new business: now over 40 North American cable customers
- Comcast the USA's largest cable operator
 - Continued to deliver CableCARD™ SD PVR and order coverage through 2008

EMEA and APAC



- Ongoing strong markets, with repeat orders & new client wins
- Revenues & shipments
 - £105.1m, 42% of overall revenues
 - Shipments 1.5m, 62% of overall shipments
- Deep relationships with News Corp companies and others continue
 - BSkyB, Sky Italia, Foxtel, Viasat, Sky New Zealand
 - Repeat orders across full product range
- HD PVR orders growing
 - Digiturk launched HD PVR service
 - First implementation of Irdeto/OpenTV platform
 - Led to Multichoice win in South Africa
 - Won order to launch Viasat HD PVR in Nordic region

New business developments



Pace is leveraging its competitive advantages & skills in digital TV technology to develop in new markets

1. Pace Networks

- A new business unit to target opportunities further up the digital delivery chain
- First product is MultiDweller™ that enables operators to deliver a full suite of interactive digital services to customers in multiple dwelling units (MDUs)
- Initial route to market is existing payTV and telco operators
- Currently in customer trials

2. Retail development

- Convergence trend emerging – delivery of broadband and broadcast content on one device
- Pace is developing a new style set-top box to meet this requirement for retail markets in 2008
- Will allow "pay-as-you-go" business models where consumers can mix some subscription channels with on-demand movies and free content

- Solid sustainable platform for growth embedded across the group
- Demand being driven by increasing competition among pay TV providers, new entrants, new content delivery systems and analogue switch off in many markets
- HD market opportunity: by end-2007 only 4% (just over 2m) of digital STBs shipped in EMEA were HD against 16m new HD-ready TV panels
- Pace is confident that it is investing in the right products and technologies
- Some new initiatives coming to fruition e.g. MultiDweller
- Board is confident that Pace is on track to meet its expectations for 2008

Acquisition of the Philips Set-top Box and Connectivity Solutions business



Transaction information



- The acquisition closed on Monday 21 April
- The transaction valued the Philips STB & CS business at €88m (£63m)
- Consideration revised based on matters arising since 19 December 2007
- Consideration of up to 64.5m Pace shares, making Philips a 21.6% shareholder, and up to €5m in cash over three years
 - Philips is locked into a 17% shareholding in Pace for one year

Philips Set-top Box and Connectivity Solutions



- Established in 1982 and based in Suresnes, Paris
 - 335 employees
 - Turnover of €415.7m for the year ended 31 December 2007
- One of the leading global developers of digital set-top box products
 - Supplies major payTV operators in Europe, the Americas and Asia
 - Key operator customers include Canal+, UPC, DirecTV, Sky Latin America, Telefonica and BT
 - A growing business in European retail markets
 - Product range covers satellite, cable, DTT and IPTV products with an increasing focus on higher end products including high definition and PVR
 - Industry recognised research and development and product quality
- Connectivity Solutions targets broadband distribution in the home with operator and retail customers

PHILIPS

Strategic rationale



- The combination has brought together two of the world's leading set top box companies creating an unmatched global customer portfolio
 - Share a 20 year STB heritage and engineering focus
 - Strong complementary fit from product, customer and geographic perspectives with very limited overlap
 - Will apply Pace's proven operating model, developed over last 18 months
 - Use of Philips' established retail brand for up to three years
- There is significant potential for improved efficiencies and opportunities for growth
 - Pace's proven operating model and business structure can be applied with substantial potential benefits
 - The increased scale of an enlarged group and broader reach will lead to a better balance of activities and improved visibility

Strategic rationale



- Combines world leading engineering expertise in digital TV technology & enhances Pace's technological position
 - Both companies have strong positions in satellite and cable
 - Philips STB & CS adds IPTV, DTT and connectivity solutions, all current growth sectors
 - Widening of software and applications knowledge, importantly in conditional access and DRM systems, which will increase the number of payTV operators that can be targeted
 - Pace and Philips STB & CS are each developing new products based on advanced networking and broadcast broadband convergence technologies

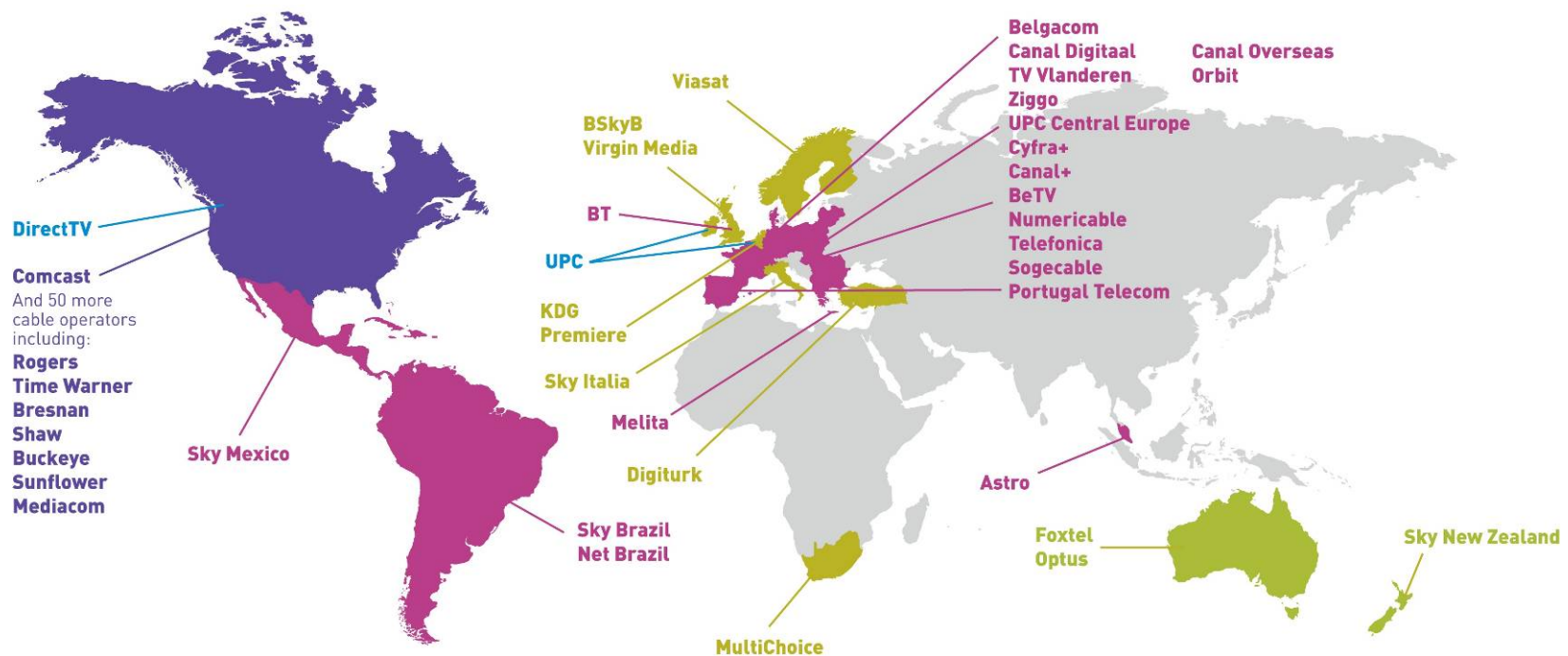
Global scale



Rank	Company Name	Estimated 2006 Market Share
1	Thomson	11.6%
2	Motorola	8.4%
3	Tongda	5.2%
4	SA/Cisco	4.3%
5	Philips	4.2%
6	PBI (China)	3.4%
7	Humax	3.4%
8	Pace Micro	3.3%
9	ZhuoYi	2.8%
10	Echostar	2.6%

Source: IMS Research on 2006 shipments (2007 figures not yet available)

Geographic fit with Pace



Creating a leading global STB business

Challenges



- Transaction specific
 - First time Pace has made a major acquisition
 - Managing Philips to Pace brand transition
 - General integration risks

- Some business risks will remain little changed, e.g.
 - Reliance on key customers
 - Technological change
 - Product delivery risk
 - Dependence on key suppliers

Strategic priorities of the Enlarged Group



- Implement Pace's business structure, systems and operating model into the Philips STB and CS business
- Consolidate new customer relationships and obtain revenue synergies
- Engage Philips' STB and CS employees with the vision, values and objectives of the Enlarged Group
- Capitalise on the engineering and technology capabilities to identify and create new customer and business opportunities
- Improve efficiency and secure cost-savings
- Utilise the increased scale to create efficiencies in the supply chain
- Optimise the development and manufacturing operations of the Enlarged Group

Financial opportunity



- Focus on improving gross margin
 - A key success area for Pace, moving from 15.3% in H1 06/07 to 20.3% in seven months to 31/12/07
 - Philips' STB & CS margins are improving, moving from 10.3% in FY 06 to 14.1% in FY 07, with opportunity for further improvements as new products are launched
- Expected to be EPS dilutive in 2008 and to enhance full year 2009*
- Areas of opportunity
 - Optimise purchasing across the Enlarged Group
 - Manufacturing and supply chain efficiencies
 - Elimination of Philips' head office recharge
- Will work to identify other efficiencies

*The statement that this Acquisition is expected to be earnings dilutive for Pace in the year ending 31 December 2008 and earnings enhancing in the year ending 31 December 2009 relate to future actions and circumstances, which, by their nature, involve risks, uncertainties and other factors. These statements do not constitute a profit forecast and should not be interpreted to mean that earnings for any future financial period would necessarily match or be greater or less than those for any preceding financial period. Earnings in this context represent net after tax earnings on an IFRS basis, excluding the amortisation of intangible assets and any exceptional items.