Pace Micro Technology plc

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Results
For the six months ended 29 November 2003

12 January 2004

SALIENT POINTS

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- Revenues increased 32% to £110.4m (2002: £83.4m)
- Steady improvement - EBITA profit of £1.1m (Second half of year to 31 May 2003: EBITA loss before exceptional items £0.4m)
- Overheads for half year reduced to £20.1m, with run rate for full year reduced to £40m p.a. (2002/03 £52.3m)
- Net cash position £13.8m (31 May 2003: £13.1m)
- Modest improvement in business performance expected

PACE

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SUMMARY FINANCIAL PERFORMANCE

	2003/04 H1 £m	2002/03 H1 £m	% change
Revenue	110.4	83.4	32
Gross Profit	21.1	10.6	99
Overheads	(20.1)	(26.3)	(23)
Profit/(loss) pre amortisation and interest	1.0	(15.7)	
Goodwill	(0.3)	(0.5)	
Interest	0.1	(0.2)	
Profit before Tax	0.8	(16.4)	

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BALANCE SHEET

	Nov 2003 £m	May 2003 £m
Fixed assets		
Tangible	11.3	12.7
Intangible	9.7	10.0
Stocks	14.3	16.0
Debtors	56.2	57.2
Net cash	13.8	13.1
Creditors (excl borrowings)	(34.1)	(38.6)
Provisions	(26.0)	(26.3)
Net assets	45.2	44.1

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CASH FLOW

	2003/04 H1 £m	2002/03 H1 £m
Net operating cash inflow	6.5	28.9
Returns on investments	0.1	(0.6)
Taxation	0.8	9.1
Capital expenditure	(1.5)	(1.4)
Acquisitions and disposals	(5.2)	-
Dividends and financing	-	(1.6)
Increase in cash	0.7	34.4

REVENUE BY GEOGRAPHIC MARKET

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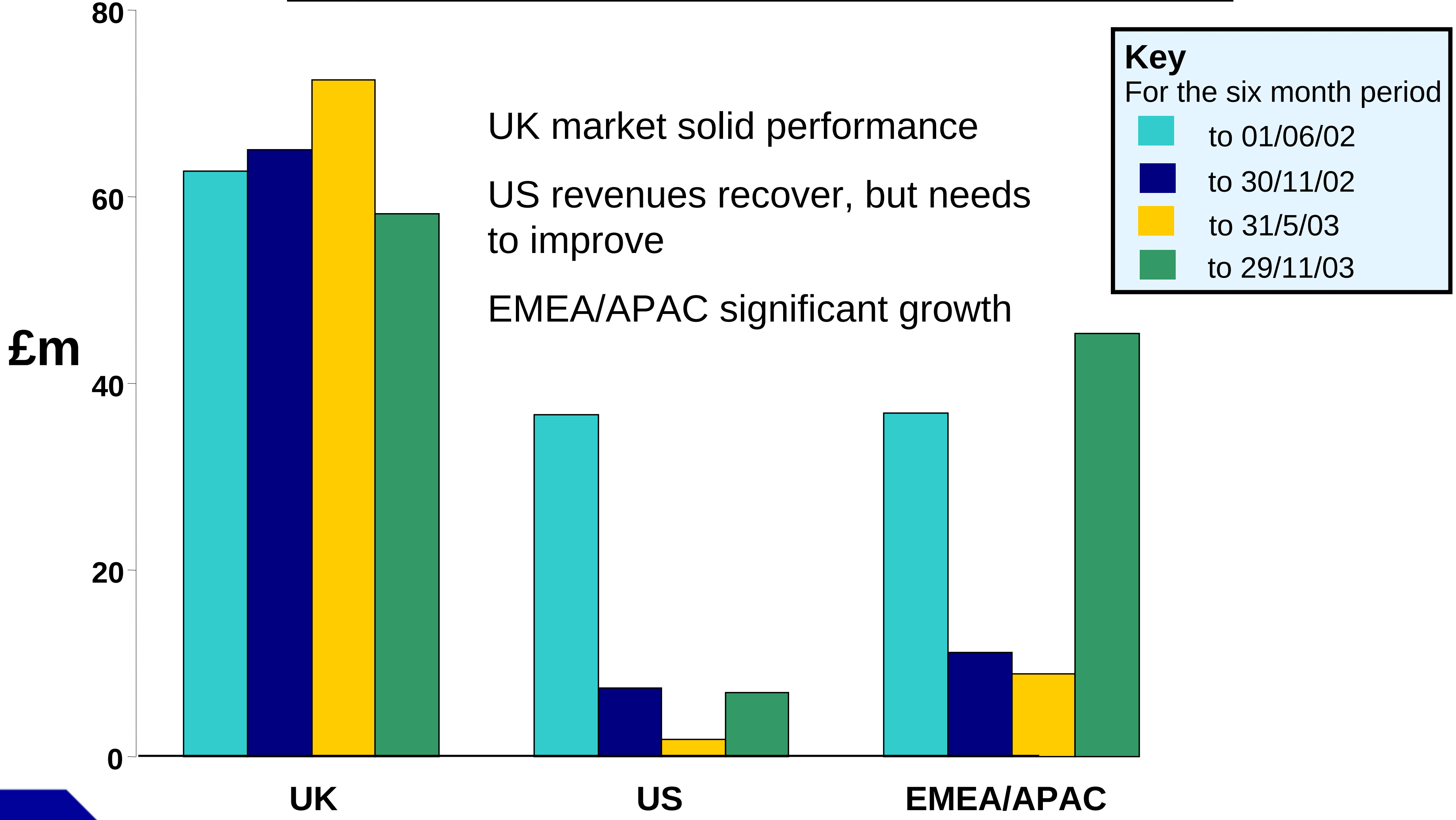
Sequential Revenues by half year: 2002 to 2003

UK market solid performance

US revenues recover, but needs to improve

EMEA/APAC significant growth



GROSS MARGIN
Pre-exceptional items

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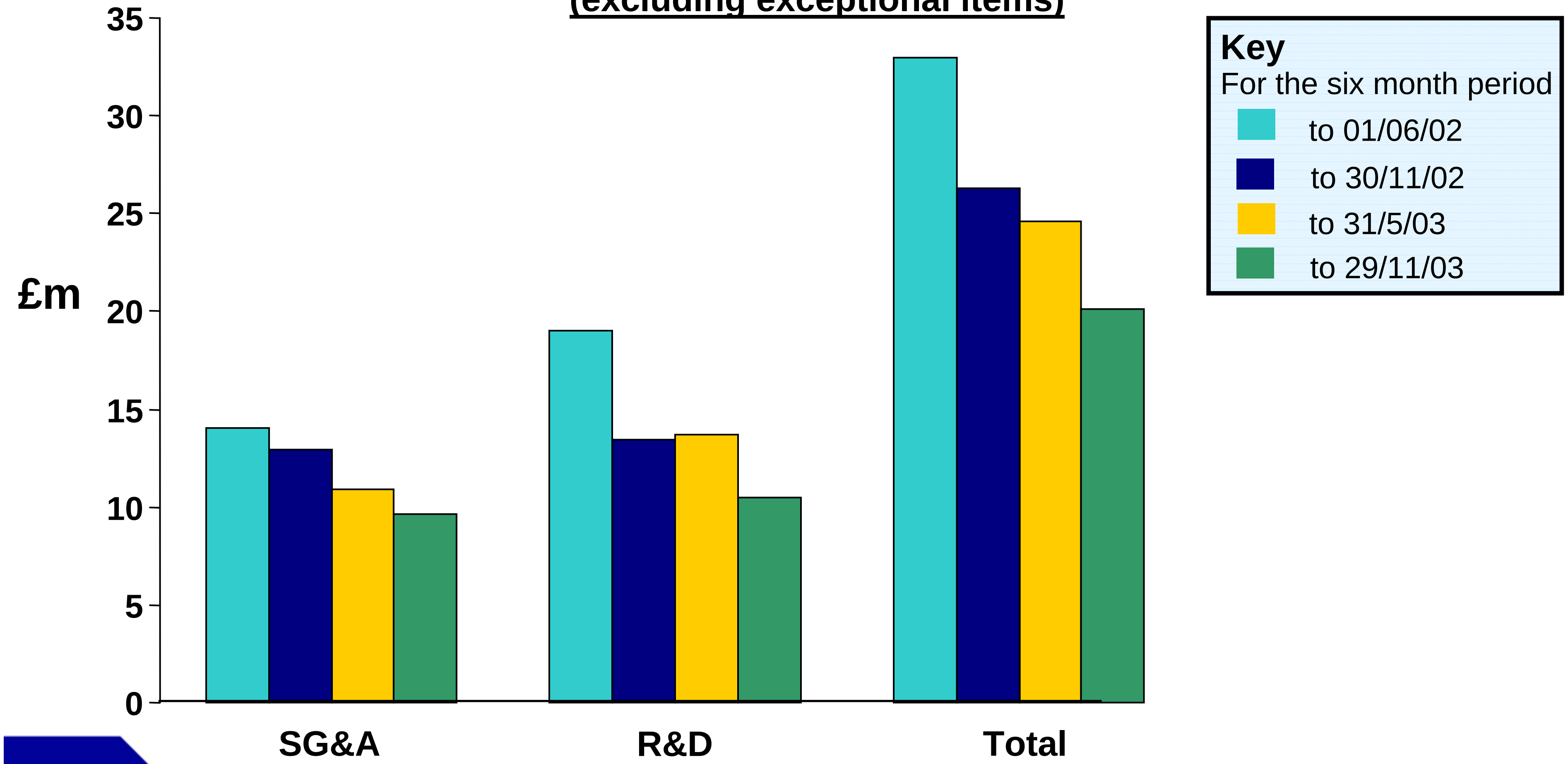
	2003/04 H1	2002/03 H1	2002/03 FY
Units (m)	1.0	0.7	1.3
Turnover (£m)	110.4	83.4	166.6
Gross Profit (£m)	21.1	10.6	34.8
Gross Margin %	19.1	12.7	20.9
Gross Margin% excluding Sky+		19.1	

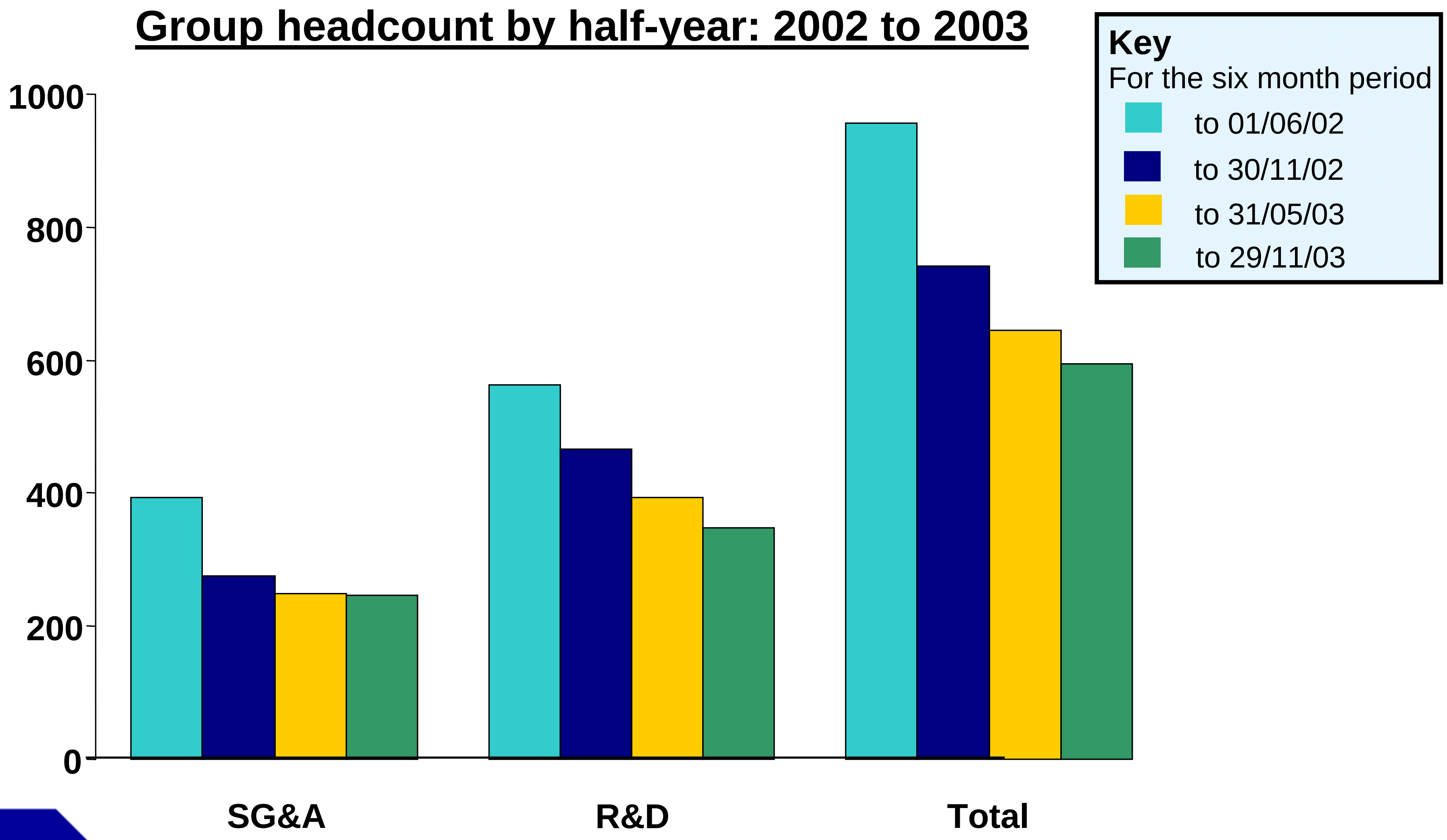
OVERHEADS £m

Sequential SG&A, R&D and total overheads by half-year: 2002 to 2003

(excluding exceptional items)



HEADCOUNT


Group headcount by half-year: 2002 to 2003
1000
800
600
400
200
0
SG&A
R&D
Total
Key
For the six month period
to 01/06/02
to 30/11/02
to 31/05/03
to 29/11/03

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Business Review

MARKET OVERVIEW

- **Globally now seeing some market recovery**
  - **Degree of recovery varies by market**
- **Market improvements, reflected in Pace performance**
  - **Turnover increased**
  - **Underlying margins stable, strong competition**
  - **Return to profit**
- **Five major new customer wins**
- **Current research and development focus on**
  - **Cost-reduction in existing products**
  - **New more complex technologies**
    - **high-definition, DVR**

UNITED KINGDOM AND IRELAND

Pace's most important market in H1 2003/04

- Largest part of Pace's business - 50%+
- Lower concentration than prior periods

Customer shipments to

- Sky Digital - important growth in Sky+ volumes
- NTL & Telewest - low demand as expected
- Freeview - low margin

Market stable

- Over 50% of homes now digital
- Focus on competitive position and product re-engineering

EMEA/APAC

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Important growth market in H1

- **Market activity increased significantly**

Began shipments on new customer wins

- **Sky Italia**
- **Viasat**
- **Foxtel***

New business won in Germany

- **Premiere**
- **Kabel Deutschland**

Will continue to compete strongly for further opportunities

Growth will be stimulated by competitive pricing

***initial trial volumes**

NORTH AMERICA

World's largest digital television market

Operator landscape in place and set for fierce competition;

News Corp/ DirecTV acquisition & Comcast/ AT&T integration completed

Consumer demand for high definition content, DVR capability, widescreen flat panel TV's growing

Pace position

- **Challenging, with slow demand in H1, Pace DC550 HD shipped to Time Warner and Bright House**
- **Investment continues due to anticipated market opportunity**
- **Margins improved, but profitability dependent on future growth**
- **Comcast Motorola product delayed until mid 2004**
- **Pace DVR development commenced during H1**

Pace focus: growing market share through existing customers

RESEARCH & DEVELOPMENT

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Pace continues to invest in R&D

- **Over 50% of Pace employees are engineers**

Engineering skills enable Pace's market position to

- **Develop class leading STBs across all technologies incl. DVR, high definition and renewed focus on IPTV products to target the re-emerging telco market**
- **Lead in cost competitive products**
- **Continue creating wide-ranging technology & supplier relationships**
- **Remain at forefront of digital TV innovation**

Greater efficiencies through engineering, including some S/W development being carried out in India

ENABLING FURTHER COST SAVINGS

- **Pace now benefiting from diversifying manufacturing sites in 2003**
- **Extension of outsourced manufacturing**
  - **New facility established in China**
  - **Well-placed to service business in Far East and US**

OUTLOOK

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Performance recovery achieved in 2002/03 continues

- Revenues increased
- Gross margins lower than last year, some improvement in prospect
- Overhead savings

Going forwards anticipate

- Modest improvement in business performance

Progress dependent on:

- Customer ability to rollout products
- Pace ability to win new business
- Further product cost-reduction