



Pace plc Preliminary Results for the year ended 31 December 2009

Pace consolidates leadership in set-top box market with record performance

Saltaire, UK, 2 March 2010: Pace, the leading independent developer of digital TV technologies for the global payTV industry, announces its results for the year to 31 December 2009.

Financial Highlights¹

- Revenues increased 52% to £1,133.4m (2008: £745.5m)
- Profit before tax up 405% to £69.9m (2008 £13.8m)
- Adjusted² Group profit before tax up 168% to £76.5m (2008: £28.5m)
- Strong balance sheet with net cash of £73.5m (2008: £37.7m)
- Adjusted² operating margin increased to 6.7% (2008: 3.9%)
- Gross margin of 17.6% (2008: 18.1%) reflecting the increased diversification of the enlarged Group product mix
- Basic EPS of 17.7p (2008: 4.0p), with adjusted EPS of 19.3p (2008: 7.8p)
- Final dividend of 1.0p proposed (2008: 0.6p) taking total dividend for year to 1.5p (2008: 0.6p)

Operating Highlights

- Record operating performance, driven by
 - Strong demand from payTV operators in all global markets - volume shipments up 31% to 17.2m set-top boxes (2008: 13.1m)
 - Focus on execution delivering continued operating benefits
 - Synergies following the Pace France acquisition
 - Now ranked global number two set-top box provider to the payTV industry³
- Launched a number of market leading products, including
 - New HD, HD PVR and industry first hybrid PVR products for customers that included Astro, Comcast, Viasat, Sky Germany, BT Vision, Net Brazil, Cablevision and UPC Broadband
 - First commercial whole home solution launched in US market
 - Networks business developing to plan, shipping to first two customers plus partner programme
- Agreement to purchase Bewan Systems SA, a Paris-based IP and cable gateways specialist

¹ The prior year comparatives include contribution from the acquisition of the set-top box business of Royal Philips Electronics (now Pace France) from 21 April 2008 onwards.

² Adjusted is before amortisation of other intangibles. The 2008 comparator is also before exceptionals.

³ Screen Digest 2010





Commenting on the results, Neil Gaydon, Chief Executive Officer, said:

“In 2009 Pace delivered exceptional growth and record results and is now number two set-top box provider to the payTV industry globally. We consolidated our leadership position in the industry, shipping more set-top boxes to more customers and into more geographies than ever before. We are now the most diverse set-top box business by customer, product and geography. Our scale and product spread underpin our resilience, and provide a powerful platform to deliver ongoing sustainable growth.

Pace remains at the forefront of the biggest changes taking place in digital home entertainment. The quality of, demand for, and spend on digital home entertainment is growing. And we are ahead of the market in identifying and investing in new technologies to take advantage of this industry evolution. From 2010 high definition (HD) will become more mainstream and our operator customers will continue to invest in hybrid TV and bandwidth hungry technologies such as 3D, ultra high definition and whole home entertainment systems.”

Outlook

Having delivered an outstanding performance in 2009, Pace has entered 2010 in a strong operating and financial position; the pay TV market continues to be positive and there is good demand for the Group's products. Against this backdrop Pace expects a combination of solid volume growth and a modestly lower ASP resulting from product mix to lead to mid single digit revenue growth for the year. Gross margins are expected to increase, with a focus on operating cost and efficiency generating further improvements in operating margin. Pace will also continue tight management of its supply chain as it manages a sector-wide risk of component shortages.

Overall the Group looks forward to another successful year building on its position as a leading global player in the digital payTV market.



Pace plc Preliminary Results for the year ended 31 December 2009

Results Overview

Pace entered 2010 having delivered eight consecutive periods of growth, reporting revenues of £1,133.4m (2008: £745.5m); adjusted profit before tax of £76.5m (2008: £28.5m) and significantly increased profit before tax to £69.9m (2008: £13.8m). Strong cash generation saw Pace close the period with a net cash balance of £73.5m (2008: £37.7m): the Group has been able to continue managing the business from its own cash and is well-positioned to consider potential acquisitions to broaden its capability in digital TV technologies. Growth in revenues and profitability was matched by a growth in shipments with 17.2m (2008: 13.1m) set-top boxes delivered to customers across all global markets.

Pace has over 100 payTV operator customers and in the last 18 months has created one of the world's most diverse set-top box businesses in terms of customers, products and markets. In 2009 revenues were well balanced across all geographies and, due to rigorous execution against strategy, the Group added new customers and grew market share with existing customers. The Group leveraged its leadership in HD, commenced shipments to Comcast in the US and won Cablevision (Argentina), Net Brazil, Sky Germany and Astro as new HD customers, in addition to announcing the first customers for MultiDweller® and launching an industry first whole home product.

The underlying trend in all of Pace's geographic markets is one of considerable growth in demand, with HD a key driver. Pace is an industry leader in HD and in 2009 was one of the global top two in terms of HD box shipments into the payTV market. By the end of 2009 only 4% of global TV households had made the switch to HD.

HD is just one of the significant changes that are taking place in TV; HD along with PVR, hybrid, on demand content, broadband, whole home TV and now 3D are creating tremendous consumer demand. Pace, in addition to its leadership in HD and PVR, has established itself at the forefront of hybrid technology and is already shipping this new product type to major payTV customers. Global penetration for most of these product or service developments is still only single digit so there is a great deal to play for.

Overall 2009 shipments into Europe and the rest of the world accounted for 51% of revenues. Pace continues to be the leader in Europe having delivered 6.2m set-top boxes into Europe (2008: 4.7m). A further 1.3m boxes were shipped into the Rest of the World region (2008: 1.1m).





Pace is now a major player in the Americas, which accounted for 49% of revenues on shipments of 9.7m boxes (2008: 7.3m). South America, with a mainly HD-ready customer base, is one of the fastest growing digital TV markets and has been a significant developing market for Pace. In North America Pace began deliveries of HD boxes to Comcast following on from the shipment of high volume, lower margin, digital converters (DTA) that it continues to roll out to the wider cable market. Importantly, as part of the Group strategy to position Pace at the heart of convergence in the digital TV home, it introduced its first commercial whole home system to a series of US cable operators to widespread industry acclaim.

Whole home, and the new generation of hybrid set-top boxes that combine broadcast and broadband content to add video delivery via the internet (known as OTT or over-the-top services), are cornerstone technologies for the converged digital TV home. Pace's capability in the development of converged solutions will be enhanced by the acquisition of Bewan Systems the Paris-based IP and cable gateways specialist. The consideration for the acquisition, part of which is subject to achievement of earn out targets, will be payable in cash and not exceed €12.5 million. The transaction is expected to be completed during the second quarter of 2010. For Pace, as payTV operators develop converged home entertainment services, advanced residential gateways will become increasingly important both as standalone devices and integrated into set-top box products that drive whole home networks.

Pace's products will also be used as customers start to launch 3D services during 2010. This will add an exciting new dimension to the TV viewing experience and demand further product and technology developments that Pace will develop to realise the full visual potential of 3D.

The first two customers for Pace's MultiDweller® technology were also announced: Canal Digital and Quadriga. Canal Digital, the leading television distributor in the Nordic market, will use MultiDweller to enhance its pay TV operations across Scandinavia, in particular using the platform to target hard-to-reach towns and regions where it is currently un-economic to upgrade to digital and high definition. Quadriga, a strategic business partner to many of the world's leading hotels, selected MultiDweller as part of its next-generation technology to deliver a unique, tailored portal for TV in guest rooms. MultiDweller has been designed to overcome a number of challenges associated with difficult-to-reach subscriber networks and is highly suited to hospitality markets.

The Group's world class engineering team has developed and delivered more products in 2009 than in any prior year, which speaks to Pace's growing efficiency, operational structure and business model. Pace's operating structure has allowed it to achieve maximum growth without a proportionate increase





in overheads. Pace has good customer order visibility and the team worked well in 2009 to anticipate, manage and plan for any problems within the supply chain, using a range of operational tools available to the business.

The benefits of the Pace France acquisition both in terms of the added scale and associated cost savings has continued and it is now a fully operational and profitable part of the Group. A series of operational efficiencies has been delivered with significant synergies.

Financial Review

In 2009 Pace shipped 17.2m set-top boxes (2008: 13.1m) with revenues of £1,133.4m (2008: £745.5m). Adjusted profit before tax was £76.5m (2008: £28.5m) and basic earnings per share were 17.7p (2008: 4.0p), with adjusted earnings per share of 19.3p (2008: 7.8p).

Gross margin was 17.6% for the year, versus 18.1% in 2008. There was a negative 0.5% impact on gross margin due to the one off foreign exchange cost as a result of the foreign exchange strategy announced in November 2008 that provided certainty to manage the business through 2009. Gross margin progressively improved from H1 to H2 (17.2% to 17.9%) as the benefit of the Group's larger buying power started to take effect. Average selling prices, which are a feature of product mix, increased during the year from £57 to £66 with a H1 to H2 progression of £62 to £70. This development reflects the growing number of HD boxes in the second half after high volume DTA shipments in the first half.

Last year Pace introduced return on sales (operating margin) on a product-by-product basis as a new performance measure – this reflects the benefit of volume shipments and pricing on absolute profitability, rather than just margin, which is not always directly linked with profit. The ROS benchmark in place for each product has ensured that the full impact of all activities on overall profitability is considered. In 2009 Pace's overall ROS was 6.7% (2008: 3.9%) due to the growing global demand for its products and technologies, coupled with its scale and strong operating performance. The Group is on track to achieve its 8% medium term target.

Overheads, excluding the impact of IAS 38 and amortisation of other intangibles were £126.5m (2008: £105.1m, excluding exceptionals), incorporated a full year of the overhead base from Pace France while reflecting strong control over fixed costs as the business grows. R&D spend before capitalisation of development expenditure in line with IAS was £71.7m (2008: £59.6m) as Pace continued to invest in higher specification products such as HD PVR and new technologies. An amortisation credit in relation



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to capitalised development expenditure of £2.8m (2008: charge £0.9m) is reflected in the income statement.

Net interest credit was £0.2m (2008: net interest charge £0.7m) reflecting the positive cash balances held throughout the period. A tax charge of £18.5m (2008: £2.8m) relates to UK tax of £3.8m, as remaining tax losses were used, overseas tax charges of £13.7m and a deferred tax charge of £1.0m. Retained profit for the period was £51.4m (2008: £11.1m), an increase of 365% on 2008.

By currency Pace's revenues are split 61% in US\$, 32% in Euros, with other currencies accounting for 7%. Electronics component purchasing is typically US\$ denominated, which is reflected in the majority of the Group's costs. Using the balance within this currency profile, supplemented by an effective hedging strategy and treasury policy, the impact of foreign currency fluctuations on profit before tax have been minimised.

The Group saw strong cash inflow from operations, further strengthening the cash position, ending the period with a net cash position of £73.5m (2008: £37.7m). Pace continues to have a standby £35m revolving credit facility with the Royal Bank of Scotland.

The balance sheet reflects Pace's significant business growth, with net assets increasing 36% to £196.3m (31 December 2008: £143.9m) and net working capital increasing to £36.2m (31 December 2008: £9.5m). Capital expenditure increased to £12.9m (31 December 2008: £6.6m) as the Group invested in improvements to head office facilities, established new manufacturing lines to support new customer wins and installed industry leading reliability laboratories. Pace's investment in reliability is a strong point of competitive differentiation and over the medium term will support a reduction in the overall cost of life of products in the field.

The principal risks and uncertainties facing the Group, including those referred to in note 1 to these financial statements, have not changed from those set out in the 2008 Annual Report and Accounts, except for inclusion of the impact of new accounting standards applicable in the period.

Dividend policy

Due to the positive net cash and strong business performance, the Board has recommended a final dividend of 1.0p per share (2008: 0.6p), giving a full year dividend of 1.5p per share (2008: 0.6p). A progressive dividend policy was introduced in 2009 with the intention of paying in the region of a one third, two thirds split between interim and final dividends.





Market drivers

Pace's markets continue to present significant opportunity, from areas of traditional strength in Europe and North America, to new territories in South America and Asia. Demand for Pace products is growing, with shipments up over 30% from the previous year. There are several macro global market trends driving the ongoing growth in digital TV: consumer demand for digital home entertainment; global shift from analogue to digital; continuing momentum towards PVR and HD; the need for hybrid technology to link digital and broadband TV and over the top services; whole home convergence (the ability to create connected home entertainment networks) and the constantly evolving technology.

Pace has established a leading position in HD and its technology is set to enable millions worldwide to watch the 2010 football World Cup in unrivalled quality either through their payTV subscription or through free-to-air services such as the UK's recently-launched Freeview HD service, which will utilise Pace's latest DVB-T2 set-top box development. Researchers expect over 273m HD households by 2013, with over 10% of global TV households subscribing to a HD service.

Hybrid set-top boxes are powerful devices that payTV operators are currently using to add huge libraries of on-demand and catch-up TV for their customers. These boxes can be easily evolved to provide access to the open internet for OTT services and internet widget applications for such things as weather reports, social networking and interactive advertising. And set-top boxes, unlike most other consumer electronic devices, can be upgraded as they operate on a managed payTV network; ensuring end-users are easily kept abreast of the rapidly changing content environment. It is a proposition that becomes even more important as the core set-top box becomes increasingly complex due to the convergence of home entertainment.

The next generations of technology also include 3D and ultra HD, which is expected to become commercially available around 2017. By 2013 global payTV revenues are forecast to reach \$14bn, in an overall market for digital TV that will see annual payTV set-top box shipments at over 124 million units. Pace's scale, technology leadership and global view makes it well placed to capitalise on all of these trends.

PayTV operators have successfully used advances in broadcast and broadband technologies to deliver compelling services that engage consumers and deliver income growth for the industry. The majority of consumers want products that are coupled to services. This removes customer care concerns of billing, technical support and uncertainty around whether the technology in which they have invested will soon become obsolete.





As a result the quality, demand for and spend on digital home entertainment is growing rapidly and Pace continues to be at the forefront of this technology evolution. Pace's strategy in 2010 is to develop its position at the heart of home entertainment convergence for the payTV industry, the next evolutionary shift in the industry.

Whole home digital entertainment solutions

Consumers used to HD and PVR now want intelligent new technologies that interconnect devices, enable them to move video, voice and data content around the home and create opportunities to integrate personal content with all other digital devices. Pace has demonstrated early leadership – its first whole home product, announced in October 2009, was released in the US with early customers signed up and many more showing interest. The US TV market is arguably the most advanced in the world, but, as the technology is adopted and other geographic markets develop, this represents an opportunity for Pace.

The appetite for convergence presents new business opportunities as Pace is able to identify, develop and commercialise product solutions ahead of the market. This ability to lead new markets has been demonstrated in MultiDweller, the first offering from Pace's Networks Division. Pace Networks opens up a new market in the infrastructure equipment sector, targeting the under-served market for delivering digital services into hard-to-reach places such as apartment blocks, hotels and conurbations not attached to cable networks. As planned, 2009 saw the first commercial deployments and in 2010 new customers will be added and distribution routes further developed and the division is expected to be breakeven, followed by a major market push in 2011 bringing return on investment.

Pace is already working with its customers and partners on the 'next-generation' of set-top boxes and new technologies, many for shipment in 2011. These will continue to push the boundaries, featuring advancements in whole home PVR, support for more applications, OTT services and widgets, better energy efficiency and 3D. Pace is at the leading edge of technological change and has a clear strategy to be at the heart of convergence for digital TV that we continue to successfully execute against. This capitalises on Pace's many relationships with customers, partners and suppliers as well as the Group's technical excellence and financial resources. Pace now has the ability and capability to take advantage of the right market opportunities to further develop its business.



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CONSOLIDATED INCOME STATEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	12 months ended 31 Dec 2009 £000	12 months ended 31 Dec 2008 £000
Revenue	2	1,133,442	745,475
Cost of sales		(933,965)	(610,268)
Gross profit		199,477	135,207
Administrative expenses:			
Research and Development expenditure		(68,832)	(60,480)
Other administrative expenses:			
Before exceptional items		(54,830)	(45,553)
Exceptional integration costs	3	-	(10,962)
Amortisation of other intangibles		(6,667)	(3,715)
Total Administrative expenses		(130,329)	(120,710)
Other operating income		508	-
Operating profit		69,656	14,497
Finance income – interest receivable		337	202
Finance expenses – interest payable		(134)	(871)
Profit before tax		69,859	13,828
Tax charge	4	(18,473)	(2,774)
Profit after tax		51,386	11,054
Profit attributable to:			
Equity holders of the Company		51,386	11,054
Earnings per ordinary share:			
Basic	5	17.7p	4.0p
Diluted	5	17.2p	3.9p





**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2009**

	12 months ended 31 Dec 2009 £000	12 months ended 31 Dec 2008 £000
Profit for the period	51,386	11,054
Other comprehensive income:		
Exchange differences on translating foreign operations	(9,487)	12,580
Net change in fair value of cash flow hedges transferred to profit or loss gross of tax	(12,551)	(828)
Deferred tax adjustment on above	3,718	240
Effective portion of changes in fair value of cash flow hedges gross of tax	19,645	(4,495)
Deferred tax adjustment on above	(5,307)	1,300
Other comprehensive income for the period, net of tax	(3,982)	8,797
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	47,404	19,851
Total comprehensive income attributable to: Equity holders of the Company	47,404	19,851



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CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2009

	Note	31 Dec 2009 £000	31 Dec 2008 £000
ASSETS			
Non Current Assets			
Property, plant and equipment		19,550	14,702
Intangible assets - goodwill		70,360	76,337
Intangible assets – other intangibles		14,017	22,744
Intangible assets – development expenditure		28,738	26,490
Available for sale financial assets		-	349
Deferred tax assets		6,431	7,119
Total Non Current Assets		139,096	147,741
Current Assets			
Inventories		87,046	57,229
Trade and other receivables		211,736	231,009
Cash and cash equivalents		73,509	37,717
Current tax assets		2,621	204
Total Current Assets		374,912	326,159
Total Assets		514,008	473,900
EQUITY			
Issued capital		15,179	14,949
Share premium		39,444	37,023
Merger reserve		55,490	55,490
Hedging reserve		1,722	(3,783)
Translation reserve		3,518	13,005
Retained earnings		80,995	27,245
Total Equity		196,348	143,929
LIABILITIES			
Non Current Liabilities			
Other payables		2,232	-
Deferred tax liabilities		14,653	15,733
Provisions	7	19,340	17,566
Total Non Current Liabilities		36,225	33,299
Current Liabilities			
Trade and other payables		262,584	278,718
Current Tax liabilities		4,338	-
Provisions	7	14,513	17,954
Total Current Liabilities		281,435	296,672
Total Liabilities		317,660	329,971
Total Equity and Liabilities		514,008	473,900





CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	11,684	36,885	-	-	425	18,608	67,602
Total comprehensive income for the period	-	-	-	(3,783)	12,580	11,054	19,851
Deferred tax on share options	-	-	-	-	-	(606)	(606)
Employee share incentive charges	-	-	-	-	-	1,011	1,011
Movement in employee share trusts	-	-	-	-	-	(2,822)	(2,822)
Issue of shares	3,265	138	55,490	-	-	-	58,893
Balance at 31 December 2008	14,949	37,023	55,490	(3,783)	13,005	27,245	143,929
Total comprehensive income for the period	-	-	-	5,505	(9,487)	51,386	47,404
Deferred Tax on share options	-	-	-	-	-	1,845	1,845
Income Tax on share options	-	-	-	-	-	2,881	2,881
Dividends to equity shareholders	-	-	-	-	-	(3,206)	(3,206)
Employee share incentive charges	-	-	-	-	-	2,536	2,536
Movement in employee share trusts	-	-	-	-	-	(1,692)	(1,692)
Issue of shares	230	2,421	-	-	-	-	2,651
Balance at 31 December 2009	15,179	39,444	55,490	1,722	3,518	80,995	196,348





**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009**

	12 months ended 31 Dec 2009 £000	12 months ended 31 Dec 2008 £000
Cash flows from operating activities		
Profit before tax	69,859	13,828
Adjustments for:		
Share based payments charge	2,536	1,011
Depreciation of property, plant and equipment	7,607	4,504
Amortisation and impairment of development expenditure	39,529	21,895
Amortisation of other intangibles	6,667	3,715
Profit on sale of property, plant and equipment	(600)	-
Net financial (income)/charges	(203)	669
Movement in trade and other receivables	21,295	(67,810)
Movement in trade and other payables	(12,984)	124,572
Movement in inventories	(28,792)	(19,188)
Movement in provisions	(1,268)	4,098
Cash generated from operations	103,646	87,294
Interest paid	(134)	(993)
Tax paid	(12,439)	(3,584)
Net cash generated from operating activities	91,073	82,717
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,416)	(6,584)
Proceeds from disposal of property, plant and equipment	949	-
Acquisition of subsidiary, net of cash acquired	-	(3,134)
Development expenditure	(42,370)	(20,995)
Interest received	337	200
Net cash used in investing activities	(53,500)	(30,513)
Cash flows from financing activities		
Proceeds from issue of share capital	2,651	376
Dividends paid	(3,206)	-
Proceeds from exercise of employee share options	2,354	407
Purchase of own shares by employee benefit trust	(4,046)	(3,229)
Net cash used in financing activities	(2,247)	(2,446)
Net change in cash and cash equivalents	35,326	49,758
Cash and cash equivalents at start of period	37,717	(12,094)
Effect of exchange rate fluctuations on cash held	466	53
Cash and cash equivalents at end of period	73,509	37,717





NOTES

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of derivative instruments.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY

The Group's main accounting policies affecting its results of operations and financial condition are set out in the Group's financial statements. Judgements and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions.

Key sources of estimation uncertainty and critical accounting judgements are as follows:

Warranties

Pace provides product warranties for its set-top boxes. It is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of a product before field deployment data is available. These estimates improve during the lifetime of the product in the field.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

Royalties

Pace's products incorporate third party technology, usually under licence. Inadvertent actions may expose Pace to the risk of infringing third party intellectual property rights. Potential claims can still be submitted many years after a product has been deployed. Any such claims are always vigorously defended.

A provision for royalties is recognised where the owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. Having taken legal advice, the Board considers that there are defences available that should mitigate the amounts being sought. The Group will vigorously negotiate or defend all claims but, in the absence of agreement, the amounts provided may prove to be different from the amounts at which the potential liabilities are finally settled. The provision is based on the latest information available.

Operating segments

Following the introduction of IFRS 8 Operating Segments, effective for accounting periods beginning on or after 1 January 2009, the Directors have determined that, based on its internal reporting framework and management structure, it has only one reportable segment. Such determination is necessarily judgmental in its nature and has been determined by management in preparing the financial statements. The level of disclosure of segmental and other information is determined by such assessment.

Further details of the considerations made and the resulting disclosures are provided in note 3 to the financial statements.

Intangible assets

The Group business includes a significant element of research and development activity. Under accounting standards, principally IAS38 Intangible Assets, there is a requirement to capitalise and amortise development spend to match costs to expected benefits from projects deemed to be commercially viable. The application of this policy involves the ongoing consideration by management of the forecasted economic benefit from such projects compared to the level of capitalised costs, together with the selection of amortisation periods appropriate to the life of the associated revenues from the product.

Such considerations made by management are a key judgement in preparation of the financial statements.



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SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY (CONTINUED)

Contingent liabilities

1. EU Import duty classification

Pace, along with other set top box manufacturers and broadcasters, has continued to monitor the re-interpretation by European Union customs authorities of customs regulations that could result in the extension of import duties to interactive set-top boxes with hard disk drives manufactured outside, but imported into, the EU. On 7th May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note "EN" (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the European Union. As a consequence, Pace is potentially exposed to a retrospective Customs Duty liability in respect of such set-top boxes it has imported.

Having previously obtained Binding Tariff Information ("BTI") rulings from HMRC, which provide protection in respect of much of the potential period of retrospective application of duty on relevant products and having taken legal advice, management's opinion is that the retrospective application of the Explanatory Note would not be supportable in law.

As of the date of this announcement, an assessment has been received from HMRC in an amount of £7.7m. Having taken legal advice management's best estimate is that no material outflow of economic benefit would be required to discharge this obligation. Accordingly Pace, in common with other affected importers, is carrying out an appeal against the retrospective assessment made to defend its position on this matter. As such, at 31 December 2009 any potential liability should be considered contingent. A bank guarantee is held whilst the appeal continues.

2. Writ Issued against Company

A writ has been issued against the Company by a former customer relating to the supply of set top boxes in 2000/01. The amount claimed is circa \$7.2m. The Directors believe that they have good defences to the claim and therefore, in the absence of any liability, no provision has been made. In addition on 15 July 2007 Pace filed a counterclaim for circa \$10m against this former customer and a related third party.

CHANGE IN ACCOUNTING POLICIES

Determination and presentation of operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's chief operating decision maker ("CODM"). This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of operating segment disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Under both IFRS 8 *Operating Segments* and IAS 14 *Segment Reporting* the group has determined that it only has one reportable segment. IFRS 8 has been applied to aggregate operating segments on the grounds of similar economic characteristics. This position will be monitored as the Group develops.



ISO 9001:2008 - FM 35904
ISO 14001:2004 - EMS 60224
ISO 27001:2005 - IS 89282



Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these financial statements as of and for the year ended on 31 December 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspect, there is no impact on earnings per share.

GOING CONCERN

The Group has in place borrowing facilities to December 2011 to a maximum of £35m. These facilities are subject to financial performance covenants.

The Board has prepared a working capital forecast based upon assumptions as to trading and has concluded that the Group has adequate working capital, will meet the financial performance covenants and that therefore it is appropriate to use the going concern basis of preparation for this financial information.

FINANCIAL INFORMATION

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2009 or 2008. Statutory accounts for 2008 have been delivered to the Registrar of Companies, and those for 2009 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985 in respect of the accounts for 2008 nor a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2009.

2 Revenue

	12 months ended 31 Dec 2009 £000	12 months ended 31 Dec 2008 £000
The geographical analysis of revenue by destination is as follows:		
United Kingdom	84,368	110,251
Europe	343,765	239,109
North America	429,085	179,302
Latin America	121,471	84,812
Rest of world	154,753	132,001
	1,133,442	745,475

The Board of Directors review internal management reports on a monthly basis. Based on the information provided to the Board of Directors, which is the chief operating decision maker, the Group has determined that the business has one reportable segment.



ISO 9001:2008 - FM 35904
 ISO 14001:2004 - EMS 60224
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3 Exceptional items

	12 months ended 31 Dec 2009 £000	12 months ended 31 Dec 2008 £000
Restructuring and reorganisation costs	-	(8,946)
Integration costs	-	(2,016)
	<hr/>	<hr/>
	-	(10,962)

4 Tax charge

	12 months ended 31 Dec 2009 £000	12 months ended 31 Dec 2008 £000
The tax charge is based on the estimated effective rate of taxation and represents:		
Current tax:		
UK tax charge	3,782	-
Overseas tax charge	11,275	2,921
Prior year adjustments	2,405	-
	<hr/>	<hr/>
Total current tax charge	17,462	2,921
Deferred tax:		
Origination and reversal of timing differences	2,731	(1,097)
Adjustment in respect of previous periods	(1,720)	950
	<hr/>	<hr/>
Total deferred tax charge/(credit)	1,011	(147)
	<hr/>	<hr/>
Tax charge	18,473	2,774





5 Earnings per ordinary share

	12 months ended 31 Dec 2009	12 months ended 31 Dec 2008
Basic earnings per ordinary share	17.7p	4.0p
Diluted earnings per ordinary share	17.2p	3.9p
Adjusted basic earnings per ordinary share	19.3p	7.8p
Adjusted diluted earnings per ordinary share	18.7p	7.7p

Basic earnings per ordinary share have been calculated by using profit after taxation, and the average number of qualifying ordinary shares of 5p in issue of 289,925,353 (2008: 274,757,069), excluding shares held by the Pace plc Employee Benefits Trust.

Diluted earnings per ordinary share vary from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic earnings. The diluted number of qualifying ordinary shares was 299,350,758 (2008: 277,807,083).

To better reflect underlying performance, adjusted earnings per share is also calculated (adjusting profit after tax to remove amortisation of other intangibles and exceptional items, post tax).

6 Dividends per ordinary share

	Per share	2009 £000	Per share	2008 £000
2008 Final: paid 3 July 2009	0.6p	1,736	-	-
2009 Interim: paid 11 Dec 2009	0.5p	1,470	-	-
	1.1p	3,206	-	-

In addition, the Directors are proposing a final dividend for 2009 of 1.0p per share. This will be payable on 2 July 2010 to shareholders on the register at 4 June 2010, subject to approval by shareholders at the forthcoming Annual General Meeting, and has not been included as a liability in these financial statements.

7 Provisions

	Royalties under Negotiation £000	Warranties £000	Other £000	Total £000
At 31 December 2008	8,811	21,448	5,261	35,520
Charge for the period	2,705	15,796	-	18,501
Utilised	(569)	(17,324)	(1,865)	(19,758)
Exchange adjustments	-	(410)	-	(410)
At 31 December 2009	10,947	19,510	3,396	33,853
<i>Due within one year</i>	-	11,117	3,396	14,513
<i>Due after more than one year</i>	10,947	8,393	-	19,340

Other provisions relate to onerous lease and restructuring provisions in relation to the restructuring of the Pace Europe business.





Circulation to shareholders

The Annual Report and Accounts will be made available in due course to Pace shareholders via Pace's website (www.pace.com) unless a shareholder has requested to receive a printed copy. The Annual Report and Accounts will be available to the public from the Company's registered office at Pace plc, Victoria Road, Saltaire, West Yorkshire, BD18 3LF.



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