



Pace plc Preliminary Results for the year ended 31 December 2010

A year of strong revenue and earnings growth and three acquisitions

Saltaire, UK, 8 March 2011: Pace, a leading global developer of technologies and products for managed subscription TV and broadband services, announces its results for the year ended 31 December 2010.

Financial Highlights

- Revenues increased by 17.4% to £1,330.9m (2009: £1,133.5m), with organic revenues¹ growing 9.7%
- Adjusted² EBITA up 35.6% to £103.6m (2009: £76.4m) with organic business¹ contributing £94.3m and acquisitions £9.3m
- Return on sales³ increased to 7.8% (2009: 6.7%)
- Total operating profit before exceptionals up 31.9% to £91.9m (2009: £69.7m)
- Profit before tax (after exceptionals) up 1.7% to £71.1m (2009: £69.9m)
- One-off exceptional costs of £19.0m from transaction related expenses, acquisition integration costs and restructuring to implement post-acquisition operating structure
- Adjusted⁴ basic EPS up 23.8% to 23.9p (2009: 19.3p), basic EPS 17.0p, down 4% post one-off exceptional costs (2009:17.7p)
- Proposed final dividend of 1.45p, resulting in total full year dividend of 2.175p, up 45% (2009: 1.5p)
- Closing net debt⁵ of £200.7m, after successful \$450m debt raising to fund acquisitions

Operating Highlights

2010 was a year of strong organic and acquisition led growth, in which the business:

- Increased volume shipments, including new gateway products, by 29% to 22.2m (2009: 17.2m)
- Completed three strategically important acquisitions, delivering a positive contribution to Group performance for the financial year
- On track to achieve cost efficiencies, including 2Wire operational synergies
- Established a leading position in the telecoms gateway market; number one in the USA
- Broadened product portfolio, creating new opportunities in software and services and enhancing the Group's leadership in technologies for the digitally converging home
- Continued to gain market share across all markets: from operators in emerging markets through to those now needing advanced connected home technologies

¹ Organic revenues exclude the contribution of Pace's three 2010 acquisitions (Bewan, 2Wire and Latens)

² Adjusted EBITA is operating profit before exceptional costs and amortisation of other intangibles

³ Adjusted EBITA as a per cent of sales is expressed as return on sales

⁴ Adjusted EPS is based on earnings before the post tax value of exceptional costs and amortisation of other intangibles

⁵ Net debt is borrowings net of cash and cash equivalents



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

“Pace has delivered a strong year with a 24% increase in underlying earnings and we successfully completed three acquisitions that are already earnings enhancing and delivering significant synergies.

“During 2010 we have continued to strengthen our position as a leading provider of technologies to the global market for managed subscription TV and broadband services. At the same time we opened up new opportunities in home networking and advanced gateways by adding significant new capabilities in software, services and support.

“Conditions across our global markets continue to be positive. Operators are utilising Pace’s widening range of products, technologies and services to enhance their consumer offering; from launching digital in emerging markets to providing solutions and services that enable home convergence in advanced markets.”

Outlook

In 2010 Pace delivered strong growth. This was achieved organically and through acquisition with Pace becoming the global number one in digital set-top boxes whilst establishing a leading position in advanced telecom gateways through the acquisition of 2Wire Inc. At the same time the Group added significant new capabilities to its technology and service offerings that have enhanced earnings and market position.

In 2011 the Group is looking to achieve further growth for its set-top box technologies and telecom gateways as well as add profitable new opportunities for its software, services and support. The Board believes the growing complexity and inter-dependency of payTV and broadband services, coupled with ongoing demand in current, emerging and advanced markets, will drive sustained demand for the Group’s products and services.

The Board expects 2011 revenue growth of a similar level to that achieved in 2010. The Group’s new gateway, software and services businesses will represent over 20% of total sales. The Board expects further return on sales progress as Pace develops its new business opportunities and further leverages its established and highly efficient operating model.

Overall, the Board is confident that Pace has created an excellent platform for growth as its customers continue to lead the global evolution of managed digital services into and around the home.

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Results Overview

In 2010 Pace made excellent progress against its strategy, with strong earnings and revenue growth and three acquisitions that have enhanced the Group's earnings and market position. Subscription TV and telecoms service providers (operators) look to Pace for technology solutions that enable them to deliver managed services to their end-users in a world of progressively more complex payTV and broadband technologies. In providing these solutions, Pace is building on well-established foundations: a strongly diversified customer base and a highly efficient operating model.

In the last year, Pace has expanded its share in the Group's core payTV markets, while simultaneously addressing new and emerging markets and technology opportunities through organic and acquired capabilities. This strategic focus has enabled the Group to grow overall revenues by 17.4%, to £1,330.9m (2009: £1,133.5m), with revenues before acquisitions (the 'organic' business) increasing 9.7%. There was a 35.6% increase in adjusted EBITA to £103.6m (2009: £76.4m) with £94.3m delivered organically and acquisitions contributing £9.3m. The Group's overall return on sales increased to 7.8% (2009: 6.7%), with the organic business at 7.6%. There was a one-off exceptional charge of £19.0m from transaction-related expenses, acquisition integration costs and restructuring to implement a post-acquisition operating structure.

Acquisitions

Pace acquired three businesses in 2010 – Bewan Systems SA, 2Wire Inc and Latens Systems Ltd. All three acquisitions were funded through cash and \$450m (£290m) of debt raised in the year. As a result, Pace finished the year with net debt of £200.7m (2009: cash of £73.5m). The acquired businesses – 2Wire, a leading US provider of advanced residential gateways and associated software and services for the broadband service provider market⁶, Bewan, an IP and cable gateways specialist⁷, and Latens, a software specialist for the payTV market⁸ – made significant progress in operational and cultural integration into the Pace Group, and made a positive contribution to financial performance for the year.

Market performance

Pace has performed well across its global markets, enhancing its overall quality of earnings through a diverse geographic spread of customers. The Group's customer base continues to expand as end-user demand for managed subscription TV and broadband services in the home grows and evolves.

⁶ 2Wire was acquired for a net cash consideration of £283.4m

⁷ Bewan was acquired for £11.3m, including deferred and contingent consideration of £2.3m

⁸ Latens was acquired for £28.8m, including deferred and contingent consideration of £10m



The North American business grew by 26%, as operators continued to drive high definition (HD) services, with revenues of £541m (2009: £429m). Rapid uptake of high definition services in Latin America resulted in growth of nearly 100% with revenues of £242m (2009: £121m). This momentum continues, with NET Serviços in Brazil now working with Pace to develop three new platforms to enable deployment of advanced digital services to subscribers. In Europe, as expected, revenues declined by 14% to £367m (2009: £428m) as BSkyB internalised its set-top box supply and Pace started to exit European free-to-air retail. In the rest of the world, revenues grew by 17% to £181m (2009: £155m) as the Group continued its work with operators such as Multichoice in South Africa and Astro in Malaysia. Pace continues to evaluate opportunities in appropriate emerging markets and, for example, has recently commenced shipments to Tata Sky in India.

Each Pace product is custom designed for the specific requirements of an operator's service; from end-user requirements to market and technology needs. 2010 saw a 21% increase in global product shipments in the core set-top box business to 20.8m (2009: 17.2m). Overall device shipments, including the new advanced gateway products produced by 2Wire and Bewan, grew 29% to 22.2m. The Group's success in its core set-top box markets was recognised recently when Pace was named number one in the global set-top box market⁹ and awarded its latest Queen's Award for Enterprise in International Trade¹⁰.

Pace was able to satisfy its customer delivery requirements despite the expected industry-wide supply chain challenges. The Group expects these to continue until at least the end of 2011 but is confident that good order visibility and operational planning will ensure successful ongoing management of the issue.

Market evolution

Pace's customer base, which today includes over 160 of the world's leading operators, provides managed services, typically television and/or broadband, to a subscriber base. These operators are shaping the in-home entertainment and communications experience with their digital, HD, hybrid, 3D, home networking and broadband services.

Working with these customers gives Pace a unique vantage point on how markets are evolving and the technologies needed. In moving through any stage of market evolution an operator faces a set of complex decisions and Pace has continued to build its capability to ensure it has the product and technology answers a customer requires whatever its stage or rate of development. This insight led Pace to create its decentralised operating structure that enables close customer relationships across multiple highly differentiated markets. Pace continued to develop this structure in 2010 as it integrated

⁹ IMS survey of global digital set-top box shipments in 2009, published May 2010

¹⁰ Pace's third successive Queen's Award for Enterprise



its acquisitions and ensured that, as the business grows, it builds on its organisational philosophy of the customer at the heart of the business.

To meet the diverse requirements of Pace's customers and the markets they operate in, the Group is driving technology roadmap development on a number of important fronts. Pace continues to be exceptionally well positioned in its core set-top box and gateway markets and is a recognised industry leader in products that enable consumers to watch high quality HD and 3D services, use PVR technology and access the internet. In emerging markets where TV operators are just beginning to establish HD and PVR, Pace is now creating complete packaged solutions to enable new service launches.

In more advanced markets, where operators are blending traditional broadcast services with IP broadband content delivery, Pace is creating hybrid products. Hybrid enables operators to harness the potential of online over-the-top (OTT) applications within a managed TV service, increasing average revenue per user (ARPU) opportunity and subscriber retention. In the most advanced markets, where multiple services – video, voice and data – are converging in the home, the set-top box is, in some cases, evolving into an advanced media gateway. Pace is working with customers to develop this new generation of products that deliver multiple entertainment and broadband services into and around the home and manage content across multiple inter-connected devices.

Pace is continually laying the building blocks to be at the heart of convergence for its payTV and telecoms customers and in 2010 widened out its portfolio of products and services to take full advantage of this nascent market. Importantly, Pace is already working with a number of operators in North America, the world's most advanced market for networked home technology. Pace's Home Content Sharing platform, which delivers multiple streams of TV content around the home, is in commercial use by a number of US cable operators. AT&T, a new customer following the 2Wire acquisition, uses the Group's advanced gateway to drive its U-verse platform that delivers a converged digital TV, high speed internet and digital phone service into consumer homes.

In 2010, through acquisition and organic innovation, Pace added a range of important assets; from software to support services such as advanced call centres that manage the complexity and cost involved in delivering inter-dependent payTV and broadband services. Further development of these assets is enabling Pace to create innovative platforms for operators across all of its markets, from emerging to advanced. In doing this Pace is evolving a proposition that embraces in-home devices that enable content (OTT and linear) and next generation operator services while reducing cost of deployment and significantly improving customer support and the user experience. In turn, these developments are creating new and more profitable revenue streams for Pace.



Financial Review

Income statement

In 2010 revenues were £1,330.9m (2009: £1,133.5m), delivering total growth of 17.4%, of which 9.7% was organic. The three acquisitions, Bewan, 2Wire and Latens, delivered £87.3m in revenue, adding 7.7% to Group revenue.

Gross margin performance was strong, increasing to 19.2% with the organic business contributing 18.5% (2009: 17.6%). This was achieved despite greater use of air freight to ensure on time customer product delivery, following delays caused by capacity constraints in the global supply chain environment. A substantive improvement in the supply chain is not expected until at least the end of 2011, but the Group is confident that its good order visibility and operational planning will ensure ongoing successful management of the issue.

Administrative expenses, including research and development, excluding exceptional costs and amortisation of intangibles were £151.3m (2009: £123.6m). Overall gross margin for the organic business increased by £30.6m, while overheads before exceptional costs increased by only £12.2m. This demonstrated Pace's ability to drive operational leverage and flow the increase in gross margin to the bottom line, improving organic return on sales from 6.7% in 2009 to 7.6% in 2010.

Adjusted EBITA increased by 35.6% to £103.6m (2009: £76.4m). The organic business delivered £94.3m of adjusted EBITA, an increase of 23.4% on 2009. The three acquisitions delivered £9.3m of adjusted EBITA.

Exceptional costs of £19.0m were incurred in the year. These included £5.9m of acquisition transaction costs, £10.3m of post-acquisition restructuring and integration costs, and £2.8m for the planned closure of Pace's European free-to-air retail operations. The investment in restructuring and integration costs will deliver cost efficiencies across the Group, including \$30m in annual operational synergies expected from the 2Wire acquisition.

Amortisation of intangibles increased from £6.7m in 2009 to £11.7m in 2010. The increase is a result of the three 2010 acquisitions that gave rise to other intangibles of £172.4m and an amortisation charge of £6.9m in the period since acquisition.

From 2011, the ongoing annual amortisation charge relating to these new intangibles will be in the region of £31m per year increasing the annual amortisation charge to £36m. The amortisation period of these intangibles varies from one to ten years, but the majority of the assets are expected to be amortised by the end of 2015.

Net finance expenses were £1.8m (2009: income £0.2m) and primarily related to interest and



amortisation of fees relating to the debt of \$450m, raised to fund acquisitions. Further detail is included in the balance sheet section.

Profit before tax was £71.1m, up 1.7% on 2009 (2009: £69.9m).

The tax charge for the year was £21.2m (2009: £18.5m) with an effective tax rate of 29.7% (2009: 26.5%), reflecting the mix of profits by geographic region. In 2011 the effective rate is expected to be just below the 2010 rate, with the reduction in the UK tax rate partly offset by higher taxable profits in the US.

Adjusted basic EPS increased by 23.8% to 23.9p (2009: 19.3p). Basic EPS was impacted by exceptional costs and decreased by 4.0% to 17.0p (2009: 17.7p).

Balance sheet

The balance sheet now incorporates the three 2010 acquisitions, the debt to fund these and the intangibles and goodwill arising on acquisition. The purchase price allocation exercise relating to the acquisitions is now substantially complete.

Bewan, 2Wire and Latens were acquired for a total consideration of £323.5m including £12.3m of deferred payments. The other intangibles were valued on acquisition at £172.4m and goodwill arising on the acquisitions was valued at £150.7m. In addition, assets and liabilities with a fair value of £0.4m were recognised, including: £34m of inventories, £50m of trade and other receivables and £96m of trade and other payables, hence changing the shape of net working capital for the Group¹¹.

At 31 December 2010, the net working capital position for the Group was £74.2m (2009: £36.2m). Within this, inventory was £143.7m (2009: £87.1m), trade and other receivables £279.9m (2009: £211.7m) and trade and other payables £349.4m (2009: £262.6m). The year end working capital position is expected to be representative of the Group's on-going working capital requirements.

Capital expenditure for 2010 increased to £19.8m (2009: £12.4m) as Pace continued a programme to update its engineering laboratories in Europe, India and the US, invest in Brazilian support and improve its head office facilities.

Provisions increased to £56.0m (2009: £33.8m). The majority of the increase relates to the acquisitions, either in the form of contingent consideration or in the form of warranty provisions. The balance represents restructuring provisions and increases in warranty provisions in line with the growth of the business and the maturity profile of products under warranty.

The business continued to be cash generative. Free cash flow¹² was £36.4m (2009: £37.4m) and

¹¹ Net working capital is defined as the sum of inventories and trade and other receivables net of trade and other payables

¹² Free cash flow reconciliation to the cash flow statement is set out in note 9



represented 35% of adjusted EBITA. Cash outflows from dividends paid, share activity and interest was £8.9m (2009: £2.0m). Cash invested in acquisitions in the form of net consideration paid, transaction costs and working capital was £290.8m¹³. Cash spent on exceptional costs was £10.9m (2009: nil).

Pace raised \$450m (£290m) of debt to fund the acquisitions, primarily 2Wire, and finished the year as expected with a net debt position of £200.7m (2009: cash of £73.5m). The funds were raised through a \$300m term loan and a \$150m revolver facility. The loan will be repaid over four years via six half yearly payments of \$37.5m and a final payment of \$75m.

Risk management

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 2009 Annual Report and Accounts. They include: customer and market risks, product liability claims, credit risks, royalties, regulatory risks and currency risks.

Dividend policy

Due to the positive operating cash flow and strong business performance, the Board has recommended a final dividend of 1.45p per share (2009: 1.0p) giving a full year dividend of 2.175p per share (2009: 1.5p), an increase of 45%. 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 and the 2010 final dividend is in line with this policy.

Change in presentation currency

By currency Pace's revenues in 2010 were 73% in US\$ and 25% in Euros, with other currencies accounting for 2%. Electronics component purchasing is typically US\$ denominated, which is reflected in the majority of the Group's costs. In 2010, the average exchange rate between the pound sterling and the US dollar was \$1.55 compared to \$1.57 in 2009, whilst the pound sterling to Euro rate was €1.16, 4% higher than the average of €1.12 in 2009. The relatively small movement in exchange rates in 2010, along with the Group's currency profile, hedging strategy and treasury policy, minimised the impact of foreign currency fluctuations on the profitability of the Group in 2010.

Following the full integration of 2Wire into the Group in 2011, the majority of the Group's revenues and earnings will be denominated in US dollars. Accordingly, the Board has decided to change the Group's presentation currency to US dollars from 1 January 2011. At the same time, the functional currency of the parent company will change from sterling to US dollars. The change will allow the financial statements to be presented in the currency that most closely represents the Group's

¹³ Cash invested in acquisitions reconciliation is set out in note 9



operations. The first set of financial results to be presented in US dollars will be the interim results for the six months ending 30 June 2011.



CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £m	2009 £m
Revenue	2	1,330.9	1,133.5
Cost of sales		(1,076.0)	(934.0)
Gross profit		254.9	199.5
Administrative expenses:			
Research and Development expenditure		(77.4)	(68.8)
Other administrative expenses:			
Before exceptional costs		(73.9)	(54.8)
Exceptional costs	3	(19.0)	-
Amortisation of other intangibles		(11.7)	(6.7)
Total Administrative expenses		(182.0)	(130.3)
Other operating income		-	0.5
Operating profit		72.9	69.7
Finance income – interest receivable		0.8	0.3
Finance expenses – interest payable		(2.6)	(0.1)
Profit before tax		71.1	69.9
Tax charge	4	(21.2)	(18.5)
Profit after tax		49.9	51.4
Profit attributable to:			
Equity holders of the Company		49.9	51.4
Earnings per ordinary share:			
Basic	5	17.0p	17.7p
Diluted	5	16.1p	17.2p



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010	2009
	£m	£m
Profit for the period	49.9	51.4
Other comprehensive income:		
Exchange differences on translating foreign operations	2.1	(9.5)
Net change in fair value of cash flow hedges transferred to profit or loss gross of tax	(12.5)	(12.5)
Deferred tax adjustment on above	4.0	3.7
Effective portion of changes in fair value of cash flow hedges gross of tax	9.1	19.6
Deferred tax adjustment on above	(3.0)	(5.3)
Other comprehensive income for the period, net of tax	(0.3)	(4.0)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	49.6	47.4
Total comprehensive income attributable to:		
Equity holders of the Company	49.6	47.4



CONSOLIDATED BALANCE SHEET
 AT 31 DECEMBER 2010

	Note	2010 £m	2009 £m
Non Current Assets			
Property, plant and equipment		34.0	19.6
Intangible assets - goodwill		218.3	70.4
Intangible assets – other intangibles		176.6	14.0
Intangible assets – development expenditure		28.8	28.7
Deferred tax assets		45.1	6.4
Total Non Current Assets		502.8	139.1
Current Assets			
Inventories		143.7	87.1
Trade and other receivables		279.9	211.7
Cash and cash equivalents		84.8	73.5
Current tax assets		1.2	2.6
Total Current Assets		509.6	374.9
Total Assets		1,012.4	514.0
EQUITY			
Issued capital		15.2	15.2
Share premium		40.1	39.4
Merger reserve		55.5	55.5
Hedging reserve		(0.7)	1.7
Translation reserve		5.6	3.5
Retained earnings		126.9	81.0
Total Equity		242.6	196.3
LIABILITIES			
Non Current Liabilities			
Other payables		4.0	2.3
Deferred tax liabilities		70.0	14.7
Provisions	7	28.3	19.3
Borrowings		141.8	-
Total Non Current Liabilities		244.1	36.3
Current Liabilities			
Trade and other payables		349.4	262.6
Current tax liabilities		4.9	4.3
Provisions	7	27.7	14.5
Borrowings		143.7	-
Total Current Liabilities		525.7	281.4
Total Liabilities		769.8	317.7
Total Equity and Liabilities		1,012.4	514.0



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
Balance at 31 December 2008	14.9	37.0	55.5	(3.8)	13.0	27.3	143.9
Total comprehensive income for the period	-	-	-	5.5	(9.5)	51.4	47.4
Deferred tax on share options	-	-	-	-	-	1.8	1.8
Income tax on share options	-	-	-	-	-	2.9	2.9
Dividends to equity shareholders	-	-	-	-	-	(3.2)	(3.2)
Employee share incentive charges	-	-	-	-	-	2.5	2.5
Movement in employee share trusts	-	-	-	-	-	(1.7)	(1.7)
Issue of shares	0.3	2.4	-	-	-	-	2.7
Balance at 31 December 2009	15.2	39.4	55.5	1.7	3.5	81.0	196.3
Total comprehensive income for the period	-	-	-	(2.4)	2.1	49.9	49.6
Deferred tax on share options	-	-	-	-	-	(1.5)	(1.5)
Dividends to equity shareholders	-	-	-	-	-	(5.2)	(5.2)
Employee share incentive charges	-	-	-	-	-	6.1	6.1
Movement in employee share trusts	-	-	-	-	-	(3.4)	(3.4)
Issue of shares	-	0.7	-	-	-	-	0.7
Balance at 31 December 2010	15.2	40.1	55.5	(0.7)	5.6	126.9	242.6



**CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010 £m	2009 £m
Cash flows from operating activities		
Profit before tax	71.1	69.9
Adjustments for:		
Share based payments charge	6.1	2.5
Depreciation of property, plant and equipment	10.5	7.6
Amortisation and impairment of development expenditure	33.6	39.5
Amortisation of other intangibles	11.7	6.7
Loss/ (profit) on sale of property, plant and equipment	0.3	(0.6)
Net financial expense/ (income)	1.8	(0.2)
Movement in trade and other receivables	(12.0)	21.3
Movement in trade and other payables	(14.9)	(13.0)
Movement in inventories	(20.8)	(28.8)
Movement in provisions and other payables	(0.2)	(1.3)
Cash generated from operations	87.2	103.6
Interest paid	(1.8)	(0.1)
Tax paid	(25.2)	(12.4)
Net cash generated from operating activities	60.2	91.1
Cash flows from investing activities		
Purchase of property, plant and equipment	(19.8)	(12.4)
Proceeds from disposal of property, plant and equipment	-	0.9
Acquisition of subsidiaries, net of cash acquired	(270.8)	-
Development expenditure	(36.7)	(42.3)
Interest received	0.8	0.3
Net cash used in investing activities	(326.5)	(53.5)
Cash flows from financing activities		
Proceeds from external borrowings	285.5	-
Proceeds from issue of share capital	0.7	2.7
Dividends paid	(5.2)	(3.2)
Proceeds from exercise of employee share options	-	2.3
Purchase of own shares by employee benefit trust	(3.4)	(4.0)
Net cash used in financing activities	277.6	(2.2)
Net change in cash and cash equivalents	11.3	35.4
Cash and cash equivalents at start of period	73.5	37.7
Effect of exchange rate fluctuations on cash held	-	0.4
Cash and cash equivalents at end of period	84.8	73.5



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. The functional and presentational currency of Pace plc is £ (UK Sterling) and the accounts are presented in £ millions. The 2009 accounts were presented in £ thousands and therefore certain immaterial differences between these accounts and the comparatives shown herein may have arisen due to roundings.

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 areas of estimation uncertainty and critical accounting judgements are as follows:

Operating Segments

Following the introduction of IFRS 8 Operating Segments, effective for accounting periods beginning on or after 1 January 2009, the Group has determined that, based on its internal reporting framework and management structure, it has two reportable segments. Such determination is necessarily judgemental 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 detail is provided in notes 2 and 8.

Warranties

Pace provides warranties for its products. 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 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.



SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY (CONTINUED)

Contingent liabilities

In the previous year the Group disclosed contingent liabilities with regard to EU Import duty classification and a Writ issued against the Company.

Following developments during the year, namely a successful appeal against the retrospective assessment of import duty, together with advanced negotiations with the issuer of the Writ, the Directors have removed the contingent liabilities disclosures from the 2010 financial statements.

Acquisition accounting

As part of the accounting for business combinations it is necessary to perform a purchase price allocation exercise to identify appropriate categories of intangible assets that have been purchased. Such exercise involves judgement with regard to the types of assets identified and the useful economic lives applied with regard to amortisation rates. The amounts recognised are calculated by reference to management forecasts and assumed discount rates, obsolescence curves and attrition rates.

For significant acquisitions, whilst the Directors use appropriately qualified independent valuation advisors to assist in the purchase price allocation work, the exercise inherently requires significant judgement and estimation to be taken.

GOING CONCERN

The Group has borrowing facilities, to a maximum of \$450m, in place until March 2014. These are in the form of a \$150m revolver facility and a \$300m term loan, repayable via six instalments of \$37.5m each, due every six months and a final \$75m payment. These facilities are subject to financial performance covenants which the Group currently complies with.

The Board's assessment of the Group and Company's ability to continue as a going concern has taken into account the effect of the current economic climate, current market position and the new borrowings in the year. The principal risks that the Group is challenged with have been set out in the Risks and Uncertainties section of the Directors' report, within the Annual report along with how the Directors intend to mitigate those risks.

The Board has prepared a working capital forecast based upon trading assumptions and other medium term plans and has concluded that the Group will continue to meet its financial performance covenants and will have adequate working capital available to continue its operational existence in the foreseeable future.

FINANCIAL INFORMATION

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2010 or 2009 but is derived from these accounts. Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 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 498 (2) or (3) of the Companies Act 2006.



2 Revenue

	2010 £m	2009 £m
The geographical analysis of revenue by destination is as follows:		
Europe	366.6	428.2
North America	541.2	429.1
Latin America	242.3	121.5
Rest of world	180.8	154.7
	1,330.9	1,133.5

Consideration of IFRS 8

The Group's principal activities are the development, design and distribution of digital television technologies for the global PayTV and telecommunication industries. Following the acquisitions of Bewan Systems SA ("Bewan"), 2Wire, Inc. ("2Wire") and Latens Systems Ltd ("Latens") in 2010, the Group has added to its activities, the development, design and distribution of advanced residential gateways, associated software and services for the broadband service provider market and software services for the payTV market. The Group also provides engineering design, software applications and support services to multiple service operators, broadcasters, telecommunications companies and retail markets worldwide.

The Group operates through a number of operating segments, being groupings of "Customer Account Teams" underpinned by the technology used for each customer. Each Customer Account Team is involved in the design and distribution of, and services relating to set-top boxes and residential gateways to major payTV operators, telecommunications operators and retailers. The exceptions to these in the year were:

- The Networks Customer Account Team, which was established in 2009 and is not material to the Group;
- The Bewan Customer Accounts Team which was established in 2010 following the acquisition of that business and is not material to the Group.
- The 2Wire and Latens businesses which were not fully integrated into Customer Account Teams in 2010.

Following the introduction of IFRS 8, effective for accounting periods beginning on or after 1 January 2009, the Group has made the following considerations to arrive at the disclosure made in these financial statements. IFRS 8 requires the segment information presented in the financial statements to be that which is used internally by the Chief Operating Decision Maker ("CODM") to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board of Directors as its chief operating decision maker. The Board of Directors review internal monthly management reports, budget and forecast information to evaluate the performance of the business and make decisions.

Operating segments have then been identified based on the internal reporting information, and management structures within the Group. From such information Customer Account Teams are determined to represent operating segments.

Following the identification of operating segments, the Group has then assessed the similarity of the economic characteristics of the various operating segments. Given the similarity of the products and services and markets operated in within each Customer Account Team of the existing business i.e. before acquisitions, it has been concluded that each operating segment has fundamentally the same economic characteristics. Given this, the Group has considered the overriding core principles of IFRS 8 and has determined that it is appropriate to aggregate these operating segments into one reportable segment for the purposes of disclosure in the financial statements.

Acquisitions made during the year were not fully integrated into CATs in 2010. The CODM reviewed information to monitor them separately from the existing business. Therefore it is considered appropriate to disclose them as a separate reportable segment in the current year. This information is set out below and in note 8.



As the new acquisitions are fully integrated into the Group in 2011, further consideration will be given to reportable segments.

The following shows the segmental information.

Segmental information

	2010	2009
	£m	£m
Revenues		
Revenue for existing business	1,242.0	1,142.1
Revenue for acquisitions business	87.3	-
Other revenue	-	8.8
Unallocated FX	1.6	(17.4)
Consolidated revenue	1,330.9	1,133.5
Total assets for existing business	364.8	325.1
Total assets for acquisitions business	144.7	-
Unallocated amounts	502.9	188.9
Consolidated total assets	1,012.4	514.0
Profit or loss		
Total profit or (loss) for existing business	101.8	94.7
Profit or (loss) for acquisitions business	9.3	-
Other profit or (loss)	(1.4)	2.8
Unallocated amounts:		
Other corporate expenses	(6.1)	(21.1)
Exceptional items	(19.0)	-
Amortisation of intangibles	(11.7)	(6.7)
Interest	(1.8)	0.2
Consolidated profit before tax	71.1	69.9

3 Exceptional items

	2010	2009
	£m	£m
Restructuring and integration costs	10.3	-
Acquisition transaction costs	5.9	-
Retail business exit costs	2.8	-
	19.0	-

The restructuring and integration costs relate to the integration of acquisitions into the Group and employee costs in relation to the new Group structure that has been implemented to manage the enlarged Group. The acquisition transaction costs relate to all three acquisitions in the year and have been accounted for in accordance with IFRS 3 (Revised) Business Combinations. The Retail business exit costs include employee and other closure costs with respect to the planned closure of Pace's European free-to-air retail operations.



4 Taxation

	2010 £m	2009 £m
Current tax charge/(credit):		
Charge for the year	28.2	15.1
Adjustments in respect of prior years	(0.5)	2.4
Total current tax charge	<u>27.7</u>	<u>17.5</u>
Deferred tax charge/ (credit):		
Origination and reversal of timing differences in current year	(6.5)	2.7
Adjustment in respect of previous periods	-	(1.7)
Total deferred tax charge/(credit)	<u>(6.5)</u>	<u>1.0</u>
Total Tax charge	<u>21.2</u>	<u>18.5</u>

5 Earnings per ordinary share

	2010	2009
Basic earnings per ordinary share	17.0p	17.7p
Diluted earnings per ordinary share	16.1p	17.2p
Adjusted basic earnings per ordinary share	23.9p	19.3p
Adjusted diluted earnings per ordinary share	22.7p	18.7p

The calculation of basic earnings per ordinary share is based on profit after tax of £49.9m (2009: £51.4m) divided by the weighted average number of ordinary shares in issue of 293,700,084 (2009: 289,925,353), excluding shares held by the Employee Benefits Trust.

Diluted earnings per ordinary share varies 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 309,204,907 (2009: 299,350,758).

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). The adjusted earnings amounts are calculated as follows:

	2010 £m	2009 £m
Profit after tax	49.9	51.4
Amortisation charge	11.7	6.7
Tax effect of above	(3.9)	(2.2)
Exceptional costs	19.0	-
Tax effect of above	(6.4)	-
Adjusted profit after tax	<u>70.3</u>	<u>55.9</u>



6 Dividends per ordinary share	Per share	2010	Per share	2009
		£m		£m
2009 Final: paid 2 July 2010	1.0p	3.0	0.6p	1.7
2010 Interim: paid 10 December 2010	0.725p	2.2	0.5p	1.5
	1.725p	5.2	1.1p	3.2

In addition, the Directors are proposing a final dividend for 2010 of 1.45p per share. This will be payable on 6 July 2011 to shareholders on the register at 10 June 2011, 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 £m	Warranties £m	Other £m	Total £m
At 31 December 2008	8.8	21.4	5.3	35.5
Charge for the period	2.7	15.8	-	18.5
Utilised	(0.6)	(17.3)	(1.9)	(19.8)
Exchange adjustments	-	(0.4)	-	(0.4)
At 31 December 2009	10.9	19.5	3.4	33.8
<i>Due within one year</i>	-	11.1	3.4	14.5
<i>Due after more than one year</i>	10.9	8.4	-	19.3
Acquisitions	-	3.6	-	3.6
Charge for the period	4.4	20.0	15.0	39.4
Utilised	(5.6)	(13.6)	(1.0)	(20.2)
Exchange adjustments	-	(0.4)	(0.2)	(0.6)
At 31 December 2010	9.7	29.1	17.2	56.0
<i>Due within one year</i>	-	20.5	7.2	27.7
<i>Due after more than one year</i>	9.7	8.6	10.0	28.3

Other provisions include deferred contingent consideration in relation to the Bewan and Latens acquisitions and retirement and restructuring provisions.



8 Acquisitions in the period

The Group has made the following three acquisitions during the year, all of which were 100% acquired:

Acquisition Date	Subsidiary	Cash consideration	Deferred and contingent consideration	Fair value of net assets acquired (i)	Goodwill arising on Acquisition (ii) (iv)(v)	Costs (iii)
		£m	£m	£m	£m	£m
8 April 2010	Bewan Systems SA	9.0	2.3	4.8	6.5	0.2
20 October 2010	2Wire, Inc.	283.4	-	158.8	124.6	5.5
4 November 2010	Latens Systems Ltd	18.8	10.0	9.2	19.6	0.2
Total		311.2	12.3	172.8	150.7	5.9

- (i) As at 31 December 2010 the fair values of acquired assets, liabilities and goodwill have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair value of the acquired net assets. There were no significant fair value adjustments arising on the acquisitions other than the recognition of intangible assets and deferred tax noted below.
- (ii) The goodwill arising on the acquisitions relates to the skills and talents of the acquired business workforces, the synergies expected to be achieved from integrating the business into the existing business and the benefits of future market expansion. These benefits are not recognised separately from goodwill as the future economic benefits arising cannot be reliably measured.
- (iii) Costs directly attributable to each acquisition have been expensed within exceptional items (note 3).
- (iv) None of the goodwill is expected to be deductible for income tax purposes.
- (v) There were no material differences between the gross contractual amounts receivable and the fair value of receivables disclosed as 'other current assets'.

Bewan Systems SA ("Bewan"), founded in 1996, and based in Paris, is a leading European supplier of secure network solutions and unified communications, for the home and office users as well as for Telecoms and Internet operators. The company offers a comprehensive range of easy-to-deploy hardware and software solutions designed to accelerate the digital convergence process and allow universal access to the mobile digital home. Bewan's solutions are used daily by millions of users and around a dozen major telecoms operators in Europe, Africa and the Middle East.

2Wire, Inc. ("2Wire"), head quartered in San Jose, CA, is a leading provider of advanced residential gateways and associated software and services for the broadband service provider market. 2Wire has established customer relationships in the tier one telco market, in particular with service providers in North America. AT&T has been a customer of 2Wire for 10 years and 2Wire provides software and hardware solutions to enable AT&T's U-verseSM suite of services that includes multiroom high definition TV, high-speed broadband and telephony.

Latens Systems Ltd ("Latens") is a Belfast based software specialist for the payTV market. Formed in 2002, Latens has pioneered the development of dynamic, software-based Conditional Access for payTV and IPTV operators. Latens' key differentiator is that its solutions have been developed by broadcast and security experts specifically for payTV and content distribution to a variety of set top boxes, PCs and other consumer devices.



	Recognised amount of identifiable assets acquired and liabilities assumed			
	Bewan £m	2Wire £m	Latens £m	Total £m
Net assets acquired:				
Intangible assets – customer contracts and relationships	-	86.5	6.1	92.6
Intangible assets – technology and patents	-	69.2	5.7	74.9
Intangible assets – other	0.6	5.6	0.8	7.0
Property, plant and equipment	0.2	4.5	0.2	4.9
Other current assets	3.4	84.2	1.7	89.3
Other current liabilities	(3.6)	(102.4)	(3.0)	(109.0)
Provisions/non current liabilities	(0.1)	(7.8)	(0.2)	(8.1)
Deferred tax	(0.2)	(19.4)	(1.8)	(21.4)
Cash and cash equivalents	4.5	38.4	0.1	43.0
Borrowings	-	-	(0.4)	(0.4)
	<hr/>	<hr/>	<hr/>	<hr/>
Identifiable net assets	4.8	158.8	9.2	172.8
Goodwill	6.5	124.6	19.6	150.7
	<hr/>	<hr/>	<hr/>	<hr/>
Total consideration	11.3	283.4	28.8	323.5
Satisfied by:				
Cash consideration	9.0	283.4	18.8	311.2
Deferred and contingent consideration	2.3	-	10.0	12.3
	<hr/>	<hr/>	<hr/>	<hr/>
Total consideration transferred	11.3	283.4	28.8	323.5
	<hr/>	<hr/>	<hr/>	<hr/>
Cash consideration	9.0	283.4	18.8	311.2
Cash and cash equivalent balances acquired	(4.5)	(38.4)	0.3	(42.6)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash flow on acquisitions completed in 2010	4.5	245.0	19.1	268.6
Deferred consideration paid during 2010 in respect of acquisitions completed in earlier years				2.2
				<hr/>
Net cash flow on acquisitions				270.8
				<hr/>

Bewan

The acquisition of Bewan enhances Pace's capability in the development of converged solutions as advanced residential gateways become increasingly important both as standalone devices and in combination with set-top box products that drive whole home networks.

The contingent consideration relates to an earn-out agreement, for which the maximum payable amount of €2.5m has been recognised (the minimum earn out being nil). Based on current expectations the directors expect the maximum earn out to be achieved.

Intangibles relating to brands have been identified and are being amortised over a period of three years.

Bewan has earned revenues of £11.6m and made profits from operations (excluding exceptionals and amortisation) of £0.7m in the period since acquisition.

2Wire

This acquisition extends Pace's US market coverage with entry into the tier one telco market. 2Wire, with its expertise in the broadband residential gateway market, will help address a full range of US operator requirements to complement Pace's current position in the US with cable and satellite operators. 2Wire's software and gateway expertise will further drive development of Pace's home entertainment convergence strategy. The transaction introduces deep client relationships with important customers including AT&T and offers benefits from increased scale and operational synergies.

Given the above, key intangibles identified as part of the purchase price allocation exercise concern customer contracts and relationships, technology, patents and maintenance agreements. Such intangible balances are being amortised over periods ranging from one year to eight years.

Since the acquisition 2Wire has earned revenues of £74.5m and made profits from operations (excluding exceptionals and amortisation) of £8.6m.



Latens

The acquisition of Latens helps further widen Pace's capabilities, particularly with regard to technology, skills and know-how concerning cardless conditional access security, downloadable security, browser based middleware and user interface deployments and back-end/ head-end know how.

From the purchase price allocation exercise carried out intangible assets have been identified and relate to customer relationships, technology and brand name and are being amortised over periods of up to ten years.

The deferred and contingent consideration relates to an earn-out agreement, for which the maximum payable amount of £5m has been recognised (the minimum earn out being nil). Based on current expectations the directors expect the maximum earn out to be achieved and paid in 2012. In addition £5m has been recognised as deferred consideration, linked partially to key employees remaining with the Group until at least 31 December 2011, and is payable no later than 1 May 2012. This payment has been reviewed in accordance with IFRS3 application guidance and is considered to be consideration and not remuneration.

Since the acquisition Latens has earned revenues of £1.2m and made a loss from operations (excluding exceptionals and amortisation) of £0.1m.

The following summary presents an analysis of the Group profit before tax before acquisitions and the results of the acquisitions in the period from acquisition.

	Group Excluding Acquisitions 2010 £m	Acquisitions 2010 £m	Total Group 2010 £m	Total Group 2009 £m
Revenue	1,243.6	87.3	1,330.9	1,133.5
Cost of sales	(1,013.5)	(62.5)	(1,076.0)	(934.0)
Gross profit	230.1	24.8	254.9	199.5
Administrative expenses before exceptional items and amortisation of other intangibles	(135.8)	(15.5)	(151.3)	(123.6)
Other operating income	-	-	-	0.5
Earnings before interest, tax, amortisation and exceptionals	94.3	9.3	103.6	76.4
Exceptional costs			(19.0)	-
Amortisation of other intangibles			(11.7)	(6.7)
Operating profit			72.9	69.7
Net Finance (expense)/ income			(1.8)	0.2
Profit before tax			71.1	69.9



The following summary presents the Group as if the businesses acquired had been acquired on 1 January 2010. The amounts include the results of the acquired businesses but do not include any exceptional items or any amortisation of separately identified intangibles, which are being amortised over various periods ranging from one year to ten years. In addition the amounts do not include any possible synergies from the acquisitions. The results of the acquired companies for the period before acquisition have not been adjusted to reflect Pace accounting policies nor to reflect fair value adjustments made on acquisition. The information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined entities.

	Proforma Group £m
Revenue	1,608.3
Profit before tax, amortisation and exceptional items	108.1

9 Free cash flow and cash investment in acquisitions

	2010 £m	2009 £m
Free cash flow		
Cash generated from operations	87.2	103.6
Tax paid	(25.2)	(12.4)
Purchase of property, plant and equipment	(19.8)	(12.4)
Proceeds from disposal of property, plant and equipment	-	0.9
Development Expenditure	(36.7)	(42.3)
Exceptionals paid in the year	10.9	-
Acquisitions working capital increase from date of acquisition to year end	20.0	-
Free cash flow	36.4	37.4
	2010 £m	2009 £m
Cash investment in acquisitions in the year		
Acquisition of subsidiaries, net of cash acquired	(270.8)	-
Acquisitions working capital increase from date of acquisition to year end	(20.0)	-
Cash investment in acquisitions in the year	(290.8)	-

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.