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Pace plc: Interim Results for the 6 months ended 30 June 2015

Saltaire, UK, 28 July 2015: Pace plc ("Pace", the "Group"), a leading global developer of technologies and products for PayTV and broadband service providers, today announces its results for the 6 months ended 30 June 2015.

Solid H1 2015: Gross margin up 1.6ppt to 23.2%, operating margin up 1.6ppt to 10.9% and adjusted basic EPS up 11.4% to 28.4c. Strong H2 2015 anticipated and the proposed combination with ARRIS Group is progressing in-line with expectations.

Financial highlights

- Revenue down 5.3% to $1,078.6m (H1 2014: $1,138.9m), in-line with management expectations.
- Gross margin up 1.6ppt to 23.2% (H1 2014: 21.6%), gross profit up 2.0% to $250.7m (H1 2014: $245.8m).
- Adjusted EBITA[1] up 11.0% to $118.0m (H1 2014: $106.3m), operating margin[2] up 1.6ppt to 10.9% (H1 2014: 9.3%).
- Profit after tax up 54.2% to $85.4m (H1 2014: $55.4m).
- Basic Earnings per Share ("EPS") up 52.2% to 27.1c (H1 2014: 17.8c) with adjusted basic EPS[3] up 11.4% to 28.4c (H1 2014: 25.5c).
- Free cash flow[4] of $93.9m (H1 2014: $108.9m), free cash flow conversion of adjusted EBITA of 79.6% (H1 2014: 102.4%).
- Net debt[5] reduced by 97.5% to $2.3m (net debt as at 31 December 2014: $93.1m).
- In view of the proposed combination with ARRIS Group, the Board does not intend to recommend the payment of any further dividends at this time.

Operating highlights

- Increased operating profit on lower revenue due to improved product mix, improved supply chain efficiency and increased operational efficiency.
- Strong revenue growth anticipated in H2 2015 driven by new product launches and increased demand for existing products from key customers across a number of regions.
- Further progress made against the Strategic Plan originally laid out in November 2011:
- **Continue to transform core economics**:
  - Underlying operating costs[6] reduced by 11.6% whilst continuing to invest in growth opportunities.
  - Net debt was reduced by 97.5% to $2.3m and Pace expects to be in a net cash position in 2015.
- **Maintain PayTV hardware leadership**:
  - Strong uplift in Customer Premise Equipment ("CPE") revenue is anticipated in H2 2015 due to new product launches and increased demand for existing products with key customers.
  - A number of new wins and deployments have been achieved across all regions with customers including Liberty Global, RCN and Sky Italia / Telecom Italia.
- **Widening out**:
  - 34.0% increase in non-CPE revenue (H1 2014: 213.8% increase) to $225.0m (H1 2014: $167.9m) driven by strong demand for Networks products, especially in Latin America.
  - Pace achieved a number of key wins across all areas of our Software, Services and Networks offerings with customers including Cincinnati Bell, Emerging Market Communications and Foxtel.

ARRIS combination update

On 22 April 2015 the Board of Pace reached an agreement with ARRIS Group ("ARRIS") regarding the terms of a recommended cash and shares combination of Pace with ARRIS. The transaction is progressing in-line with expectations and, subject to the satisfaction, or where relevant, waiver, of all relevant conditions, the transaction is expected to complete in Q4 2015:

[1] Adjusted EBITA is operating profit before exceptional costs and amortisation of other intangible assets.
[2] Operating margin is adjusted EBITA as a percentage of revenue.
[3] Adjusted basic EPS is based on earnings before the post-tax value of exceptional costs and amortisation of other intangibles and adjusted for the one-off benefits of prior year adjustments to the tax charge.
[4] Free cash flow is calculated as cash flow before proceeds from issue of shares, dividends, acquisition cash flows and debt repayment / draw down.
[5] Net debt is borrowings net of cash and cash equivalents.
[6] Underlying operating costs are adjusted administrative expenses excluding the impact of IAS 38 accounting adjustments.

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- The merger control process is underway in all relevant jurisdictions (Brazil, Colombia, Portugal and the United States), with approval received from the German and South African authorities, and in the United States a second request is being responded to;
- The initial filing of the Form S-4 Registration Statement has been made with the United States Securities and Exchange Commission by ARRIS and along with the Scheme Circular is expected to be posted to shareholders in the next few months;
- Limited integration planning is underway to enable an effective transition to the combined entity.

Outlook
As previously stated, revenue momentum is expected to increase as the year progresses driven by new product launches and additional demand for existing products. As such, we anticipate strong revenue growth in H2 2015.

The outlook for the year is as follows:

- Revenue for 2015 is now expected to be in the range of $2.65bn to $2.72bn (2014: $2.62bn);
- Adjusted EBITA for 2015 is still expected to be c. $255m (2014: $241.1m);
- Free cash flow for 2015 is still expected to be in the range of $185m to $195m (2014: $204.0m).

Commenting on the results, Mike Pulli, Chief Executive Officer said:

"I am pleased to report we have had a solid first half of the year. As expected, revenue was lower than the comparable period as challenging economic conditions, the strength of the US Dollar and industry consolidation reduced demand in a number of regions. However, through a broader mix of revenue, improving supply chain effectiveness and continuing improvements in operational efficiency, the Group has shown the flexibility to continue to deliver improved profitability and strong cash generation despite weaker trading conditions.

On 22 April 2015 the Board of Pace reached an agreement with ARRIS regarding the terms of a recommended combination of Pace with ARRIS. The transaction is progressing in-line with expectations and we expect to complete in Q4 2015.

Whilst we are focused on closing the transaction with ARRIS, we continue to make good progress on executing our strategy as a standalone entity; key wins, deployments and increasing demand coupled with ongoing operational improvements give us confidence that we will maintain our momentum and make further progress in the second half of 2015 and beyond."

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A live audio webcast and conference call to present Pace's Half Year Results to analysts and investors will be held at 09:00am. To register for this audio webcast, please go to: http://www.pace.com/ir

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Business Review

Key highlights in the period

Pace is continuing to become a more profitable business with a broader product mix and continued strong cash flow generation. As expected, revenue in H1 2015 decreased by 5.3% ($1,078.6m vs $1,138.9m in H1 2014) as challenging economic conditions, the strength of the US Dollar and industry consolidation reduced demand in a number of regions. Operating margin in the period increased from 9.3% to 10.9% reflecting a more favourable product mix, improving supply chain effectiveness and lower operating costs. The cash flow performance of Pace remains strong with $93.9m of free cash flow generated in the period, 79.6% of adjusted EBITA, and net debt was reduced by 97.5% to $2.3m.

Strategic plan

Pace continues to evolve and deliver against the Strategic Plan and goals originally laid out in 2011. We are pleased to report that good progress has been made against these goals in H1 2015 and we are confident of further progress in H2 2015 and beyond.

Continue to transform core economics

In the period, further progress has been made in improving the efficiency and effectiveness of the business. As the major initiatives which commenced in late 2011 continue to deliver tangible benefits, a cost-focussed discipline and high level of accountability is now ingrained across Pace.

- Continued focus on operating efficiency has enabled Pace to reduce underlying operating costs (excluding IAS 38[7] adjustments) by 11.6% ($17.9m) whilst continuing to further invest in growth opportunities.
- Net debt was reduced by 97.5% to $2.3m and Pace expects to be in a net cash position in 2015.

Maintain PayTV hardware leadership

In-line with expectations, PayTV CPE revenue decreased 12.1% (H1 2014: 23.2% decrease) to $853.6m (H1 2014: $971.0m) reflecting reduced demand across a number of customers and regions. PayTV CPE revenue is expected to increase in most regions in H2 2015 due to new product launches and increased demand for existing products from key customers.

- Liberty Global has launched its advanced Horizon TV user interface experience based on Pace developed STBs at UPC Czech Republic – this solution has already been deployed at UPC Poland.
- Building on Pace's global partnership with TiVo that was announced in H1 2012, RCN in the US has selected Pace hardware to power their TiVo software solution.
- Pace High Definition STBs are now being deployed by Sky Italia, via their partnership with Telecom Italia, as part of their Internet Protocol TV ("IPTV") offering. Telecom Italia is the largest Telecoms operator in Italy.
- Pace's recently launched advanced DOCSIS 3.0 Cable Gateways have been selected by Service Electric Cable in the US, and are in trials with a number of operators with further launches expected in H2 2015.

Widening out

In the period, Pace achieved a 34.0% increase in non-CPE revenue (H1 2014: 213.8% increase, following the acquisition of Aurora Networks) to $225.0m (H1 2014: $167.9m) driven by the strong performance of Pace Networks, especially in Latin America. Notable developments in the period include the following:

- Strong demand for network products has continued from H2 2014 reflecting cable operators' need for increased bandwidth and Pace's product set being an efficient way to upgrade network infrastructure.
- Increased demand for Pace's next generation software products; Elements and ECO Service Management led to revenue growth which was offset by a reduction in revenue from customer care and legacy software and services contracts.
- The Elements Software Platform (including Titanium Conditional Access) is now deployed on over 10 million devices, a 26% increase in the last twelve months.
- Emerging Markets Communications (EMC) is a global satellite and terrestrial communications company specialising in delivering mission-critical, managed, network services for the global energy industry, mobile network operators, carriers, governments, NGOs, Maritime, Aeronautical and worldwide enterprises with locations in remote areas of the world, and has selected Pace to provide an integrated solution consisting of Pace Elements software and Pace hardware.

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[7] IAS 38 adjustments are the net of capitalised and amortised development costs under IAS 38 – Intangible Assets.

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- The ECO Service Management Platform is now managing nearly 36 million devices, a 7% increase in the last twelve months and was recently deployed by Cincinnati Bell, a leading local exchange and wireless provider in the US. In addition, Foxtel, the leading Subscription television provider in Australia will deploy ECO Monitor, Pace's service quality monitoring solution, live in August 2015. This will be the first deployment of this solution in the world.

Business performance

Product type revenue split

	H1 2015 $m	H1 2014 $m	FY 2014 $m
STB and Media Servers	**748.4**	893.9	2,003.5
Gateways	**105.2**	77.1	239.7
Software and Services	**51.9**	54.4	112.2
Networks	**173.1**	113.5	264.6
Total	**1,078.6**	1,138.9	2,620.0

The split in revenue across the various product categories is as follows: 69.4% STB and Media Servers (H1 2014: 78.4%), 9.8% Gateways (H1 2014: 6.8%), 4.8% Software and Services (H1 2014: 4.8%) and Networks 16.0% (H1 2014: 10.0%).

The 16.3% decrease in STB and Media Server revenue was expected due to weaker trading conditions in Latin America and Europe and reduced demand following a strong H2 2014. STB and Media Server revenue is expected to increase in H2 2015 due to customer specific new product launches and growing demand for existing products.

Revenue from Gateway products increased by 36.4% vs H1 2014 reflecting the demand for a number of next generation Gateway products launched mid-2014. Gateway revenues are expected to increase further in H2 2015 as customer demand for these new products continues to grow.

Revenue from Software and Services was down 4.6% vs H1 2014, as growth in Pace's next generation Elements and ECO Software products was offset by a reduction in revenue from Customer Care and legacy software and service contracts. Growth in H2 2015 is expected as key software projects are launched and Customer Care volumes increase.

Networks revenue in the period was up 52.5% vs H1 2014 with strong demand especially in Latin America.

Regional revenue split

	H1 2015 $m	H1 2014 $m	FY 2014 $m
North America	**704.9**	699.0	1,635.6
Latin America	**155.9**	185.8	373.2
Europe	**100.8**	117.1	291.2
Rest of World[8]	**117.0**	137.0	320.0
Total	**1,078.6**	1,138.9	2,620.0

The PayTV and broadband service provider industries which Pace serves continue to remain strong; global digital PayTV revenue and subscribers are at record levels and a Compound Annual Growth Rate ("CAGR") of 6.2%[9] for revenue and 6.4%[9] for subscribers is expected between 2014 and 2019.

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[8] Rest of the World is Asia Pacific , Middle East & Africa
[9] IHS Television Intelligence Service July 2015.

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Pace continues to have a globally diverse customer base and strong customer relationships from which to develop the business: in H1 2015 revenues split: 65.4% North America (H1 2014: 61.4%), 14.5% Latin America (H1 2014: 16.3%), 9.3% Europe (H1 2014: 10.3%), and Rest of World 10.8% (H1 2014: 12.0%).

Revenues in North America were up 0.8% at $704.9m in H1 2015 (H1 2014: $699.0m) as growth in Gateways offset a small reduction in STB and Media Servers following a strong H2 2014. We are confident that Pace will achieve strong revenue growth in North America in H2 2015 from this period due to new product launches and increasing demand for existing products with major customers.

In Latin America, revenue reduced 16.1% to $155.9m (H1 2014: $185.8m) due to challenging economic conditions and the strength of the US Dollar against local currencies leading to reduced demand. The Group remains confident that Pace is strategically well positioned with key customers in the region and in the mid-term Latin America offers opportunities for continuing strong revenues and profitability.

Revenues in Europe were down by 13.9% to $100.8m (H1 2014: $117.1m). The decrease was mainly due to challenging economic conditions in certain countries and the effects of operator consolidation leading to reduced demand, however modest growth is expected in this region in H2 2015 from this period.

Revenues in Rest of World decreased 14.6% to $117.0m (H1 2014: $137.0m). This decrease reflects reduced demand from a number of major customers following a strong H2 2014. We expect that demand will increase and strong revenue growth is expected in this region in H2 2015 from this period.

Outlook
As previously stated, revenue momentum is expected to increase as the year progresses driven by new product launches and additional demand for existing products. As such, we anticipate strong revenue growth in H2 2015.

The outlook for the year is as follows:

- Revenue for 2015 is now expected to be in the range of $2.65bn to $2.72bn (2014: $2.62bn);
- Adjusted EBITA for 2015 is still expected to be c. $255m (2014: $241.1m);
- Free cash flow for 2015 is still expected to be in the range of $185m to $195m (2014: $204.0m).

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Directors' Confirmation on Ordinary Course Profit Forecasts
The Group is currently in an offer period and consequently pursuant to the requirements of Rule 28 of the City Code on Takeovers and Mergers in relation to any repeated ordinary course profit forecast included in this half-yearly financial report it is required to repeat the profit forecast and include a statement by the directors that it remains valid and provide a confirmation by the directors that the profit forecast has been properly compiled on the basis of the assumptions stated and that the basis of accounting used is consistent with the company's accounting policies.

This profit forecast (the "Profit Forecast") is a repetition of a profit forecast for the year ending 31 December 2015 made in the Group's preliminary results for the year ended 31 December 2014 released on 3 March 2015 and constitutes an "ordinary course profit forecast" for the purposes of Rule 28 of the City Code on Takeovers and Mergers.

Basis of preparation
The Profit Forecast has been prepared on a basis consistent with the Group's accounting policies, which are in accordance with IFRS. These accounting policies are expected to apply for the full year ending 31 December 2015, and were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2014 and unaudited interim financial statements for the period ended 30 June 2015.

The Profit Forecast is based on the actual results included in the unaudited interim financial statements for the six months ended 30 June 2015 and a management forecast for the six months ended 31 December 2015.

The Profit Forecast excludes any costs associated with any combination of Pace plc and ARRIS Group Inc. (the "Combination") or any other associated accounting impact as a direct result of the Combination.

The Profit Forecast has been prepared on the basis that the Combination will have no financial impact on the Group before 31 December 2015.

Principal assumptions
The directors of Pace plc have prepared the Profit Forecast on the basis of the following assumptions:

- Factors outside the influence or control of the Directors of Pace plc (or other members of the Group's management)
  - There will be no material change to existing prevailing global macroeconomic or political conditions;
  - There will be no material changes in conditions of markets in which the Group operates;
  - The main exchange rates, inflation, tax and interest rates in the Group's principal markets, will remain materially unchanged from prevailing rates;
  - Customers will take products in line with forecasts provided by them or in line with forecasts prepared by the Group where no customer provided forecast exists;
  - There will be no material events impacting the ability to transport the Group's products to customers;
  - There will be no catastrophic disruption to any of the Group's Electronic Manufacturing Services partners or supplies of significant components used by the Group;
  - There will be no material change in legislation or regulatory requirements impacting on the Group's operations or its accounting policies;
  - There will be no material change to the level of competition experienced by the Group from providers of similar products and services;
  - There will be no adverse impact on the Group from consolidation of companies within the end-markets in which Pace operates;
  - The announcement of the Combination will not result in any material changes to the Group's obligations to customers;
  - The announcement of the Combination will not have an impact on the timing of the Group's customers placing new or executing existing orders; and
  - The announcement of the Combination will not have any material impact on the Group's ability to negotiate new business.
- Factors within the influence or control of the Directors of Pace plc (or other members of the Group's management)
  - The Group's rate of converting customer demand to revenue will not differ materially from past experience;
  - The Group will launch and deliver new products on schedule;
  - There will be no unexpected technical issues with the Group's products or process;
  - The Group's forecasting accuracy will not differ materially from past experience;

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- The announcement of the Combination will not have a material impact on the Group's ability to retain and motivate employees;
- Pricing of products to customers and input pricing for products is consistent with those forecast;
- Operating costs will remain in line with normal trading activity and are managed in line with revenue;
- The Group's accounting policies will be consistently applied in the financial year to 31 December 2015; and
- There will be no material change to the Group's existing operational strategy.

In addition to the factors above, risks relating to the Group's trading are stated in the Risk management and principal risks section of the Pace plc Annual Report and Accounts for the year ended 31 December 2014.

Directors' confirmation

The Directors of Pace plc confirm that the Profit Forecast remains valid and has been properly compiled on the basis of the principal assumptions stated and the basis of accounting is consistent with the Group's accounting policies.

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Financial Review

Group trading results

	H1 2015 $m	H1 2014 $m	FY2014 $m
Revenue	**1,078.6**	**1,138.9**	**2,620.0**
Gross profit	250.7	245.8	532.5
Gross margin %	*23.2%*	*21.6%*	*20.3%*
Adjusted administrative expenses*	(132.7)	(139.5)	(291.4)
Adjusted EBITA*	**118.0**	**106.3**	**241.1**
*Operating margin***	*10.9%*	*9.3%*	*9.2%*
Exceptional costs	(5.0)	(3.5)	(7.3)
Amortisation of other intangible assets	(24.3)	(27.7)	(52.9)
Net finance expense	(3.6)	(3.1)	(5.2)
Profit before tax	**85.1**	**72.0**	**175.7**
Tax credit / (charge)	0.3	(16.6)	(27.7)
Profit after tax	**85.4**	**55.4**	**148.0**

* Pre-exceptional costs and amortisation of other intangible assets.
** Operating margin is adjusted EBITA margin.

Group Revenue of $1,078.6m (H1 2014: $1,138.9m) decreased by 5.3%, in-line with expectations, as challenging economic conditions in certain countries, the strength of the US Dollar and industry consolidation reduced demand in a number of regions, particularly in the STB and Media Servers product segment.

In the period, Pace had three customers which individually account for more than 10% of the Group's total revenue. Together these account for 53.5% of the Group's total revenue (H1 2014: 42.7%).

Gross profit was up 2.0% at $250.7m (H1 2014: $245.8m). Gross margin percentage during the period was 23.2%, an increase of 1.6ppt on H1 2014, reflecting improved product mix and supply chain efficiencies. Gross margins are expected to be lower in H2 2015 as the product mix shifts more towards CPE.

Adjusted administrative expenses decreased by $6.8m (4.9%) to $132.7m (H1 2014: $139.5m). Underlying operating costs, excluding the impact of IAS 38 accounting adjustments, decreased by $17.9m (11.6%) to $136.0m (H1 2014: $153.9m) reflecting the annualised run-rate savings of synergies from the Networks Strategic Business Unit ("SBU") integration and further efficiencies across the business.

The IAS 38 net credit in H1 2015 was $3.3m ($27.3m of development expenditure was capitalised and $24.0m amortised) reflecting the full period run-rate of the Networks SBU and the development activity ahead of product launches at the end of the half and in H2 2015.

Adjusted EBITA was $118.0m (H1 2014: $106.3m); an operating margin of 10.9% against 9.3% in H1 2014 due to improved product mix, supply chain efficiencies and reduced operating costs. Operating margins are expected to be lower in H2 2015 as the product mix shifts more towards CPE.

Exceptional costs of $5.0m (H1 2014: $3.5m) relate to the transactions costs incurred in the proposed combination with ARRIS ($2.8m), restructuring costs across the business ($1.3m) and aborted acquisition costs ($0.9m).

Amortisation of other intangible assets, reflecting the charge for intangible assets related to acquisitions made in both 2010 and 2014, was $24.3m (H1 2014: $27.7m).

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Segmental analysis
The Group operates through SBUs. Pace Americas, Pace International and Pace Networks are deemed by the Board to represent operating segments under IFRS 8, with revenues and adjusted EBITA as follows:

	H1 2015 $m	H1 2014 $m	FY 2014 $m
Revenue			
Pace Americas	638.2	675.7	1,561.6
Pace International	267.3	348.2	793.8
Pace Networks	173.1	115.0	264.6
Other	-	-	-
Total revenue	**1,078.6**	**1,138.9**	**2,620.0**
Adjusted EBITA			
Pace Americas	74.1	62.6	150.2
Pace International	24.7	49.0	88.3
Pace Networks	45.3	16.2	47.4
Other	(26.1)	(21.5)	(44.8)
Total adjusted EBITA	**118.0**	**106.3**	**241.1**

Movements in revenue are described below. Although not wholly consistent, revenues from STB and Media Servers, Gateways and Software and Services in North America belong primarily to the Americas SBU, in Europe and Rest of World belong largely to the International SBU, and in Latin America belong to both the Americas and International SBUs. All revenue from Network products belong to the Networks SBU.

H1 2015 revenue was split across the business units as follows; Americas 59.2% (H1 2014: 59.3%), International 24.8% (H1 2014: 30.6%), Networks 16.0% (H1 2014: 10.1%) and Other 0.0% (H1 2014: 0.0%).

Pace Americas' revenue decreased by $37.5m (5.5%), adjusted EBITA increased by $11.5m (18.4%) and operating margin increased to 11.6% compared to H1 2014 at 9.3%. Pace International revenues decreased by $80.9m (23.2%) compared to H1 2014 and adjusted EBITA decreased by $24.3m (49.6%) and operating margin decreased from 14.1% to 9.2%. Pace Networks revenue increased by $58.1m (50.5%) to $173.1m (H1 2014: $115.0m), adjusted EBITA increased by $29.1m (179.6%) to $45.3m (H1 2014: $16.2m) and operating margin increased from 14.1% to 26.2%.

Other amounts include unallocated central costs that are not classified as reportable segments under IFRS 8. The loss in Other, primarily Corporate costs, increased by 21.4% to $26.1m (H1 2014: loss of $21.5m).

Finance costs
Net financing costs of $3.6m (H1 2014: $3.1m) reflect lower interest received due to a different geographical spread of cash balances.

Profit before tax
Profit before tax was $85.1m (H1 2014: $72.0m); an increase of $13.1m (18.2%) on H1 2014.

Taxation
The tax credit of $0.3m (H1 2014: $16.6m charge) reflects one-off prior year adjustments reducing the tax charge by $18.8m. These adjustments resulted from both the release of tax provisions following the closure of previously uncertain prior year tax positions and also the recognition of prior year tax assets relating to a range of items, the largest of which is research and development tax credits now expected to be claimed. Excluding these one-off factors, the underlying tax charge was $18.5m (H1 2014: $16.6m) resulting from an annual effective tax rate of 21.7% (H1 2014: 23.0%). The cash cost of corporate tax was $12.1m (H1 2014: $2.8m), 14.2% of profit before tax (H1 2014: 3.9%).

Profit after tax
Profit after tax was $85.4m (H1 2014: $55.4m); an increase of $30.0m (54.2%) on H1 2014.

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Earnings per share
Basic EPS was 27.1c (H1 2014: 17.8c), an increase of 52.2%. Adjusted basic EPS, which removes the tax affected impact of the exceptional costs and the amortisation of other intangible assets and the one-off benefits of prior year tax adjustments to reflect underlying performance, was 28.4c (H1 2014: 25.5c), an increase of 11.4%.

Balance sheet
Intangible development expenditure assets increased by $2.8m (H1 2014: $14.9m increase) in the period to $87.8m (31 December 2014: $85.0m), reflecting the full period run-rate of IAS 38 adoption in the Networks SBU. Development expenditure of $27.3m (H1 2014: $34.3m) was offset by amortisation of $24.0m (H1 2014: $19.4m) and a $0.5m reduction due to exchange adjustments (H1 2014: $nil).

Tangible fixed assets decreased by $5.4m in the period as capital expenditure of $9.2m (H1 2014: $12.5m) was offset by a depreciation charge of $13.5m (H1 2014: $14.4m) and a $1.1m reduction due to exchange adjustments (H1 2014: nil).

Working capital
In the period working capital decreased by $11.1m (7.8%) to $131.4m (as at December 31 2015: $142.5m).

Inventory increased by $69.6m (41.4%) to $237.6m during the period reflecting the build up to meet the expected increased volume in H2 2015. Average stock turn in the period was 2.8 times against 3.7 times in H1 2014 as the inventory build commenced earlier than in the comparative period.

Debtor days were 68 days at the end of the half compared with 66 days at 31 December 2014 and 59 days at 30 June 2014, reflecting customer mix and slow payments by a number of customers.

Creditor days increased to 99 days at the end of the half compared with 90 days at both 31 December 2014 and 30 June 2013, as terms were aligned with Pace's EMS partners to match our inventory build profile.

Debt
In the period net debt reduced by $90.8m (97.5%) from $93.1m to $2.3m and the Group expects to be in a net cash position in 2015.

A key target for the Group is to maintain an appropriate balance sheet leverage (calculated as net debt divided by adjusted EBITDA over the preceding 12 months) to provide a strong foundation and the flexibility for Pace to progress its strategic options. At 30 June 2015 the net debt / LTM adjusted EBITDA ratio was 0.01x, well within the 2.0x net debt to EBITDA ratio target set as an appropriate and efficient capital structure for Pace.

Liquidity and cash flows
A key performance measure for the Group is free cash flow, which was $93.9m (H1 2014: $108.9m) and represented 79.6% of adjusted EBITA (H1 2014: 102.4%). Cash outflows from interest payable net of interest received were $2.9m (H1 2014: $2.0m). Cash spent on exceptional costs was $3.0m (H1 2014: $4.1m) and the net cash cost of tax was $12.1m (H1 2014: $2.8m).

Foreign currency
In the period approximately 81.3% of the Group's revenues were denominated in US Dollar (H1 2014: 76.9%), 8.0% in Brazilian Real (H1 2014: 13.1%), 7.1% in Euro (H1 2014: 6.4%), 3.1% in South African Rand (H1 2014: 2.7%), 0.4% in Australian Dollar (H1 2014: 0.4%) and 0.1% in Sterling (H1 2014: 0.5%).

The impact of non-US Dollar revenues, costs and overheads continues to be addressed through Pace's foreign exchange hedging strategy. The group is largely hedged for the remainder of 2015 through a series of forward contracts.

Risks and Uncertainties
Save as referred to above, the principal risks and uncertainties facing the Group have not changed from those set out in the Annual Report and Accounts for the year ended 31 December 2014. The risks and uncertainties related to: customers and markets, suppliers, royalties, currency, innovation, product liability claims, natural disasters, and IT systems and security. The full Annual Report and Accounts are available at www.pace.com.

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Dividend
In view of the proposed combination with ARRIS, the Board does not intend to recommend the payment of any further dividends at this time.

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Responsibility statement of the directors in respect of the half-yearly financial report

The directors confirm that, to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Anthony J Dixon
Company Secretary
27 July 2015

The directors are:

- Allan Leighton – Non-executive Chairman
- Mike Pulli – Chief Executive Officer
- Mark Shuttleworth – Chief Financial Officer
- Patricia Chapman-Pincher – Non-executive director
- John Grant – Non-executive director
- Mike Inglis – Non-executive director
- Amanda Mesler – Non-executive director

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Condensed Consolidated Interim Income Statement
for the six months ended 30 June 2015

	Notes	**Unaudited 6 months ended 30 June 2015 $m**	Unaudited 6 months ended 30 June 2014 $m	Audited Year ended 31 December 2014 $m
Revenue	2	**1,078.6**	1,138.9	2,620.0
Cost of sales		**(827.9)**	(893.1)	(2,087.5)
Gross profit		**250.7**	245.8	532.5
Administrative expenses:				
Research and development expenditure		**(41.7)**	(46.4)	(83.7)
Amortisation of development expenditure		**(24.0)**	(19.4)	(45.4)
Other administrative expenses				
Before exceptional costs		**(67.0)**	(73.7)	(162.3)
Exceptional costs	4	**(5.0)**	(3.5)	(7.3)
Amortisation of other intangible assets		**(24.3)**	(27.7)	(52.9)
Total administrative expenses		**(162.0)**	(170.7)	(351.6)
Operating profit		**88.7**	75.1	180.9
Finance income – interest receivable		**0.4**	1.1	2.5
Finance expenses – interest payable		**(4.0)**	(4.2)	(7.7)
Profit before tax		**85.1**	72.0	175.7
Tax credit / (charge)	3	**0.3**	(16.6)	(27.7)
Profit for the period	2	**85.4**	55.4	148.0
Profit attributable to:				
Equity holders of the Company		**85.4**	55.4	148.0
Basic earnings per ordinary share (cents)	5	**27.1**	17.8	47.4
Diluted earnings per ordinary share (cents)	5	**26.3**	17.0	45.6

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Condensed Consolidated Interim Statement of Comprehensive Income for the six months ended 30 June 2015

	Unaudited 6 months ended 30 June 2015 $m	Unaudited 6 months ended 30 June 2014 $m	Audited Year ended 31 December 2014 $m
Profit for the period	**85.4**	55.4	148.0
Other comprehensive income:			
Items that are or may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	**(13.9)**	6.4	(19.7)
Net change in fair value of cash flow hedges transferred to profit or loss, gross of tax	**(8.6)**	1.5	2.3
Deferred tax adjustment on above	**1.9**	(0.3)	(0.4)
Effective portion of changes in fair value of cash flow hedges, gross of tax	**3.8**	(0.1)	2.7
Deferred tax adjustment on above	**(0.8)**	-	(0.4)
Other comprehensive income for the period, net of tax	**(17.6)**	7.5	(15.5)
Total comprehensive income for the period	**67.8**	62.9	132.5
Attributable to:			
Equity holders of the Company	**67.8**	62.9	132.5

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Condensed Consolidated Interim Balance Sheet at 30 June 2015

	Notes	**Unaudited 30 June 2015 $m**	Unaudited 30 June 2014 $m	Audited 31 December 2014 $m
ASSETS				
Non-Current Assets				
Property, plant and equipment		**57.8**	65.0	63.2
Intangible assets – goodwill	6	**464.8**	489.4	471.1
Intangible assets – other intangibles	6	**184.2**	233.4	208.2
Intangible assets – development expenditure	6	**87.8**	79.3	85.0
Deferred tax assets		**27.5**	42.9	31.2
Total Non-Current Assets		**822.1**	910.0	858.7
Current Assets				
Inventories	7	**237.6**	166.3	168.0
Trade and other receivables	8	**582.8**	549.4	909.1
Cash and cash equivalents		**254.2**	122.4	182.1
Current tax assets		**6.1**	4.2	4.3
Total Current Assets		**1,080.7**	842.3	1,263.5
Total Assets		**1,902.8**	1,752.3	2,122.2
EQUITY				
Issued capital		**29.5**	29.1	29.1
Share premium		**86.6**	84.6	85.1
Merger reserve		**109.9**	109.9	109.9
Hedging reserve		**0.3**	0.9	4.0
Translation reserve		**(93.2)**	(53.2)	(79.3)
Retained earnings		**610.7**	442.3	518.3
Total Equity		**743.8**	613.6	667.1
LIABILITIES				
Non-Current Liabilities				
Deferred tax liabilities		**83.9**	96.4	89.7
Provisions	11	**85.6**	83.7	100.6
Borrowings	12	**215.1**	256.7	237.8
Total Non-Current Liabilities		**384.6**	436.8	428.1
Current Liabilities				
Trade and other payables	9	**689.0**	603.8	934.6
Current tax liabilities		**10.7**	30.9	23.5
Provisions	11	**33.3**	33.9	31.5
Borrowings	12	**41.4**	33.3	37.4
Total Current Liabilities		**774.4**	701.9	1,027.0
Total Liabilities		**1,159.0**	1,138.7	1,455.1
Total Equity and Liabilities		**1,902.8**	1,752.3	2,122.2

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Condensed Consolidated Interim Statement of Changes in Shareholders' Equity for the six months ended 30 June 2015

	Share capital $m	Share premium $m	Merger reserve $m	Hedging Reserve $m	Translation reserve $m	Retained earnings $m	Total equity $m
Balance at January 2014	**29.0**	**83.7**	**109.9**	**(0.2)**	**(59.6)**	**384.2**	**547.0**
Profit for the period	-	-	-	-	-	55.4	55.4
Other comprehensive income	-	-	-	1.1	6.4	-	7.5
Total comprehensive income for the period ended June 2014	**-**	**-**	**-**	**1.1**	**6.4**	**55.4**	**62.9**
Transactions with owners:							
Employee share incentive charges	-	-	-	-	-	2.7	2.7
Issue of shares	0.1	0.9	-	-	-	-	1.0
Balance at June 2014	**29.1**	**84.6**	**109.9**	**0.9**	**(53.2)**	**442.3**	**613.6**
Profit for the period	-	-	-	-	-	92.6	92.6
Other comprehensive income	-	-	-	3.1	(26.1)	-	(23.0)
Total comprehensive income for the period ended December 2014	**-**	**-**	**-**	**3.1**	**(26.1)**	**92.6**	**69.6**
Transactions with owners:							
Dividends to equity shareholders	-	-	-	-	-	(18.7)	(18.7)
Employee share incentive charges	-	-	-	-	-	3.8	3.8
Issue of shares	-	0.5	-	-	-	-	0.5
Purchase of own shares by employee benefit trust	-	-	-	-	-	(1.7)	(1.7)
Balance at December 2014	**29.1**	**85.1**	**109.9**	**4.0**	**(79.3)**	**518.3**	**667.1**
Profit for the period	-	-	-	-	-	85.4	85.4
Other comprehensive income	-	-	-	(3.7)	(13.9)	-	(17.6)
Total comprehensive income for the period ended June 2015	**-**	**-**	**-**	**(3.7)**	**(13.9)**	**85.4**	**67.8**
Transactions with owners:							
Employee share incentive charges	-	-	-	-	-	5.0	5.0
Tax credit relating to share option schemes	-	-	-	-	-	2.0	2.0
Issue of shares	0.4	1.5	-	-	-	-	1.9
Balance at June 2015	**29.5**	**86.6**	**109.9**	**0.3**	**(93.2)**	**610.7**	**743.8**

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Condensed Consolidated Interim Statement of Cash Flows
for the six months ended 30 June 2015

	Unaudited 6 months ended 30 June 2015 $m	Unaudited 6 months ended 30 June 2014 $m	Audited Year ended 31 December 2014 $m
Cash flows from operating activities			
Profit before tax	**85.1**	72.0	175.7
Adjustments for:			
Share based payments charge	**5.0**	2.7	6.5
Depreciation of property, plant and equipment	**13.5**	14.4	29.0
Amortisation of development expenditure	**24.0**	19.4	45.4
Amortisation of other intangible assets	**24.3**	27.7	52.9
Loss on sale of property, plant and equipment	**-**	-	0.1
Net finance expense	**3.6**	3.1	5.2
Movement in trade and other receivables	**301.6**	(18.6)	(383.4)
Movement in trade and other payables	**(231.8)**	1.9	329.2
Movement in inventories	**(75.3)**	33.4	31.7
Movement in provisions	**(4.6)**	(15.2)	(0.7)
Cash generated from operations	**145.4**	140.8	291.6
Interest paid	**(3.3)**	(3.1)	(6.1)
Tax paid	**(12.1)**	(2.8)	(11.5)
Net cash generated from operating activities	**130.0**	134.9	274.0
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	**(4.3)**	(295.3)	(295.3)
Purchase of property, plant and equipment	**(9.2)**	(12.5)	(26.0)
Development expenditure	**(27.3)**	(34.3)	(66.2)
Interest received	**0.4**	1.1	2.5
Net cash used in investing activities	**(40.4)**	(341.0)	(385.0)
Cash flows from financing activities			
Proceeds from external borrowings	**-**	310.0	310.0
Repayment of external borrowings	**(19.4)**	(15.5)	(31.0)
Proceeds from issue of share capital	**1.9**	1.0	1.5
Dividend paid	**-**	-	(18.7)
Purchase of own shares by employee benefit trust	**-**	-	(1.7)
Net cash (used in) / generated from financing activities	**(17.5)**	295.5	260.1
Net change in cash and cash equivalents	**72.1**	89.4	149.1
Cash and cash equivalents at the start of the period	**182.1**	33.0	33.0
Cash and cash equivalents at the end of the period	**254.2**	122.4	182.1

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Notes to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2015

1. BASIS OF PREPARATION AND GENERAL INFORMATION

General information

Pace plc (the 'Company') is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Victoria Road, Saltaire, BD18 3LF.

The Company is listed on the London Stock Exchange.

The condensed consolidated interim financial statements for the six months ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the 'Group').

Basis of preparation

This consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRSs as adopted by the European Union.

The consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2014 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor 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.

The Board's assessment of the Group's ability to continue as a going concern has taken into account the effect of the current economic climate, current market position and the level of borrowings in the year. The principal risks that the Group is challenged with, and which have not changed at 30 June 2015, were set out in the Risk Management and Principal Risks section of the 2014 Annual Report along with how the directors intend to mitigate those risks.

The Group has prepared a financial and working capital forecast based upon trading assumptions and other short-term and medium-term plans. The Group has sensitised these plans for a number of potential scenarios, including working capital management and revenue reduction, and has concluded that the Group will continue to meet its financial performance covenants and will have adequate working capital available to continue in operational existence for the foreseeable future.

This consolidated interim financial information has been reviewed, not audited. The auditors review report for the six month period ended 30 June 2015 is set out on page 28.

Significant judgements, key assumptions and estimation uncertainty

The preparation of interim statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
Key sources of estimation uncertainty and critical accounting judgements are as follows:

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Warranty provisions
Pace provides product warranties for its products. Although 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 light of actual performance.

Royalty provisions
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.

Provisions for royalty claims are recognised when it is considered more likely than not that an outflow of economic resources will be required to settle a claim that has resulted from the sale of a product allegedly using technology of a patent owner, and the amount of the outflow can be reliably measured. The directors have made provision for the potential royalty payable based on the latest information available, which represents the best estimate of the expenditure required to settle the present obligation. 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.

Impairment reviews
As is required by International Accounting Standards, the Group carries out impairment reviews of its non-financial assets on an annual basis, or when indicators of impairment exist. Such reviews involve assessing the value in use of an asset or cash-generating unit (CGU) by reference to its estimated future cash flows, discounted to their present value. The judgements in relation to impairment reviews relate to the assumptions applied in calculating the value in use, and the future performance expectations.

Intangible assets – Capitalised Development costs
The Group business includes a significant element of research and development activity. Under accounting standards, principally IAS 38 "Intangible Assets", there is a requirement to capitalise and amortise development expenditure 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.

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in the Annual Report and Accounts.

Taxes on income in the interim periods are accrued using the weighted average tax rate based on the tax rates expected to be applicable to expected annual earnings.

Changes in accounting policies

The Group has adopted the following new standards with a date of initial application of 1 January 2015:

- Defined benefit plans: Employee contributions (amendments to IAS 19).
- Annual improvements to IFRSs 2010 – 2012 and 2011 – 2013 cycles – various standards.

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2. SEGMENTAL REPORTING

In accordance with IFRS 8 “Operating Segments”, the chief operating decision-maker (“CODM”) has been identified as the Board of Directors which reviews internal monthly management reports, budget and forecast information to evaluate the performance of the business and make decisions.

The Group determines operating segments on the basis of Strategic Business Unit (“SBU”) areas, being the basis on which the Group manages its worldwide interests.

The Group has the following operating segments which are also reportable segments for the purpose of IFRS 8 as at 30 June 2015:

- Pace Americas;
- Pace International; and
- Pace Networks.

Other amounts include unallocated central costs that are not classified as reportable segments under IFRS 8.

Performance is measured based on segmental adjusted EBITA, as included in the internal management information which is reviewed by the CODM. Adjusted EBITA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments, relative to other entities that operate within these industries.

Revenues disclosed below materially represent revenues to external customers and pricing is determined on an arm’s length basis. There are no material inter-segment transactions.

6 months ended 30 June 2015	**Pace Americas $m**	**Pace International $m**	**Pace Networks $m**	**Other $m**	**Total $m**
Segmental income statement					
Revenues	**638.2**	**267.3**	**173.1**	**-**	**1,078.6**
Adjusted EBITA	**74.1**	**24.7**	**45.3**	**(26.1)**	**118.0**
Exceptional costs					**(5.0)**
Amortisation of other intangible assets					**(24.3)**
Net interest payable					**(3.6)**
Tax credit					**0.3**
Profit for the period					**85.4**

6 months ended 30 June 2014	Pace Americas $m	Pace International $m	Pace Networks $m	Other $m	Total $m
Segmental income statement					
Revenues	675.7	348.2	115.0	-	1,138.9
Adjusted EBITA	62.6	49.0	16.2	(21.5)	106.3
Exceptional costs					(3.5)
Amortisation of other intangible assets					(27.7)
Net interest payable					(3.1)
Tax charge					(16.6)
Profit for the period					55.4

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Year ended 31 December 2014	Pace Americas $m	Pace International $m	Pace Networks $m	Other $m	Total $m
Segmental income statement					
Revenues	1,561.6	793.8	264.6	-	2,620.0
Adjusted EBITA	150.2	88.3	47.4	(44.8)	241.1
Exceptional costs					(7.3)
Amortisation of other intangible assets					(52.9)
Net interest payable					(5.2)
Tax charge					(27.7)
Profit for the period					148.0

Geographical analysis
In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Revenue by destination	**6 months ended 30 June 2015 $m**	6 months ended 30 June 2014 $m	Year ended 31 December 2014 $m
North America	**704.9**	699.0	1,635.6
Latin America	**155.9**	185.8	373.2
Europe	**100.8**	117.1	291.2
Rest of World	**117.0**	137.0	320.0
	1,078.6	1,138.9	2,620.0

The Group has four main revenue streams, being Set-top boxes (STB) and Media Servers, Gateways, Software and Services, and Networks. These revenue streams arise in each operating segment and are not defined by geographical locations.

The following table provides an analysis of the Group's revenue streams according to those classifications.

	6 months ended 30 June 2015 $m	6 months ended 30 June 2014 $m	Year ended 31 December 2014 $m
Set-top boxes and Media Servers	**748.4**	893.9	2,003.5
Gateways	**105.2**	77.1	239.7
Software and Services	**51.9**	54.4	112.2
Networks	**173.1**	113.5	264.6
	1,078.6	1,138.9	2,620.0

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3. TAX CHARGE

	6 months ended 30 June 2015 $m	6 months ended 30 June 2014 $m	Year ended 31 December 2014 $m
Current tax charge			
Charge for the period	**13.8**	19.2	31.9
Adjustment in respect of prior periods	**(10.7)**	-	(4.1)
Total current tax charge	**3.1**	19.2	27.8
Deferred tax charge / (credit)			
Origination and reversal of temporary differences in the current period	**4.7**	(2.6)	(1.9)
Adjustment in respect of prior periods	**(8.1)**	-	1.8
Total deferred tax charge / (credit)	**(3.4)**	(2.6)	(0.1)
Total tax charge / (credit)	**(0.3)**	16.6	27.7

The tax charge is recognised using the best estimate of the weighted average annual effective tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2014 is 21.7% (2013: 23.0%).

The adjustment in respect of prior periods results from the release of tax provisions following the closure of uncertain prior period tax positions and also the recognition of prior period tax assets relating to a range of items, the most significant being research and development tax credits now expected to be claimed.

4. EXCEPTIONAL COSTS

	6 months ended 30 June 2015 $m	6 months ended 30 June 2014 $m	Year ended 31 December 2014 $m
ARRIS Group combination costs	**2.8**	-	-
Restructuring and reorganisation costs	**1.3**	0.7	1.5
Aborted acquisition costs	**0.9**	-	-
Acquisition and integration costs	**-**	2.8	5.8
	5.0	3.5	7.3

ARRIS Group combination costs relate to professional service fees in respect of the proposed combination of Pace plc and ARRIS Group. Restructuring and reorganisation costs relate to restructuring programmes within the Group and represent the costs of redundancy and associated professional fees. Aborted acquisition costs relate to professional service fees in respect of aborted acquisitions. Acquisition and integration costs include professional service fees in respect of the acquisition of Aurora Networks Inc, and subsequent integration costs in 2014.

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5. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per share is based on profit after tax of $85.4m (30 June 2014: $55.4m) divided by the weighted average number of ordinary shares in issue of 314,634,202 (30 June 2014: 311,916,677), excluding shares held by the Employee Benefit 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 weighted average number of ordinary shares in issue during the period is calculated using the treasury stock method which accounts for the fact that not all options are wholly dilutive. The diluted number of qualifying ordinary shares was 324,866,655 (30 June 2014: 325,634,403).

To better reflect underlying performance adjusted earnings per share is also calculated. This is calculated as profit after tax adjusted to exclude the post-tax impact of exceptional costs and amortisation of other intangible assets, and the adjustment to the current tax charge in respect of prior periods, as below:

	6 months ended 30 June 2015	6 months ended 30 June 2014	Year ended 31 December 2014
Adjusted basic earnings per ordinary share (cents)	**28.4**	25.5	63.6
Adjusted diluted earnings per ordinary share (cents)	**27.5**	24.4	61.2

Within the adjusted earnings per ordinary share calculations, the earnings amount is calculated as follows:

	6 months ended 30 June 2015 $m	6 months ended 30 June 2014 $m	Year ended 31 December 2014 $m
Profit after tax	**85.4**	55.4	148.0
Amortisation of other intangible assets	**24.3**	27.7	52.9
Tax effect of above	**(5.3)**	(6.4)	(8.4)
Exceptional costs	**5.0**	3.5	7.3
Tax effect of above	**(1.1)**	(0.8)	(1.2)
Adjustment to current tax charge in respect of prior periods	**(18.8)**	-	-
Adjusted profit after tax	**89.5**	79.4	198.6

The Group's annual effective tax rate of 21.7% (30 June 2014: 23.0%) has been used to calculate the tax effect of adjusted items.

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6. INTANGIBLE ASSETS

	Goodwill $m	Development Expenditure $m	Customer contracts and relationships $m	Technology and patents $m	Other $m	Other intangibles $m
Cost						
At 31 December	471.1	167.8	194.3	239.8	10.9	445.0
Additions	-	27.3	-	-	-	-
Exchange adjustments	(6.3)	(0.5)	-	-	-	-
At 30 June 2015	**464.8**	**194.6**	**194.3**	**239.8**	**10.9**	**445.0**
Amortisation						
At 31 December	-	82.8	95.8	133.2	7.8	236.8
Provided in the period	-	24.0	7.4	16.8	0.1	24.3
Exchange adjustments	-	-	(0.2)	(0.1)	-	(0.3)
At 30 June 2015	**-**	**106.8**	**103.0**	**149.9**	**7.9**	**260.8**
Net book value at 31 December 2014	471.1	85.0	98.5	106.6	3.1	208.2
Net book value at 30 June 2015	**464.8**	**87.8**	**91.3**	**89.9**	**3.0**	**184.2**

7. INVENTORIES

	As at 30 June 2015 $m	As at 30 June 2014 $m	As at 31 December 2014 $m
Raw materials and consumable stores	**37.7**	24.7	38.3
Work-in-progress	**1.0**	4.0	-
Finished goods	**198.9**	137.6	129.7
	237.6	166.3	168.0

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8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2015 $m	As at 30 June 2014 $m	As at 31 December 2014 $m
Trade receivables	**530.1**	513.0	843.2
Other receivables	**41.5**	26.3	57.0
Prepayments and accrued income	**11.2**	10.1	8.9
	582.8	549.4	909.1

9. TRADE AND OTHER PAYABLES

	As at 30 June 2015 $m	As at 30 June 2014 $m	As at 31 December 2014 $m
Trade payables	**615.4**	508.9	825.4
Social security and other taxes	**5.8**	3.0	3.2
Other payables	**12.1**	12.3	19.1
Accruals and deferred income	**55.7**	79.6	86.9
	689.0	603.8	934.6

10. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments qualify for hedge accounting and have an asset fair value at the balance sheet date of $1.1m (31 December 2014: asset of $4.4m). They are disclosed within trade and other receivables. The carrying value is equivalent to the fair value.

The Group's financial instruments, namely forward exchange contracts, have been determined to represent Level 2 instruments (appropriate where Level 1 quoted prices are not available but fair value is based on observable market data). Level 2 fair values for simple over-the-counter derivative financial instruments are based on broker quotes. Those quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate. There were no transfers between levels during the period.

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11. PROVISIONS

	Royalties under negotiation $m	Warranties $m	Other $m	Total $m
At 31 December 2014	49.9	59.5	22.7	132.1
Charge for the period	4.1	16.0	-	20.1
Utilised	(3.8)	(11.5)	(13.1)	(28.4)
Transfer	-	0.6	(0.7)	(0.1)
Unused amounts reversed	(1.4)	(1.4)	(0.1)	(2.9)
Exchange adjustments	(0.9)	(0.8)	(0.2)	(1.9)
At 30 June 2015	**47.9**	**62.4**	**8.6**	**118.9**
Due within one year	-	27.1	6.2	33.3
Due after more than one year	47.9	35.3	2.4	85.6

Other provisions mainly relate to employee related obligations and exceptional restructuring provisions within the Group.

12. BORROWINGS

The carrying value of the borrowings position is as follows:

	As at 30 June 2015 $m	As at 30 June 2014 $m	As at 31 December 2014 $m
Non-current liabilities			
Bank term loans	**215.1**	256.7	237.8
Total	**215.1**	256.7	237.8
Current liabilities			
Bank term loans	**41.4**	33.3	37.4
Bank revolving credit facility	**-**	-	-
Total	**41.4**	33.3	37.4

The face value of the borrowings is $217.0m (31 December 2014: $240.2m) in respect of bank term loans within non-current liabilities, $42.6m (31 December 2014: $38.8m) in respect of bank terms loans within current liabilities and $Nil (31 December 2014: $Nil) in respect of the bank revolving credit facility.

The difference between the face value amounts and the amounts in the above table is $1.9m (31 December 2014: $2.4m) in non-current liabilities and $1.2m (31 December 2014: $1.4m) in current liabilities which represents facility arrangement fees and interest costs.

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13. FREE CASH FLOW

	As at 30 June 2015 $m	As at 30 June 2014 $m	As at 31 December 2014 $m
Cash generated from operations	**145.4**	140.8	291.6
Tax paid	**(12.1)**	(2.8)	(11.5)
Purchase of property, plant and equipment	**(9.2)**	(12.5)	(26.0)
Development expenditure	**(27.3)**	(34.3)	(66.2)
Net interest paid	**(2.9)**	(2.0)	(3.6)
Other acquisition related cash flows	**-**	19.7	19.7
Free cash flow	**93.9**	108.9	204.0

The acquisition related cash flows in 2014 relate to non-recurring and non-operating cash flows associated with the Aurora acquisition.

14. RECONCILIATION OF UNDERLYING OPERATING COSTS

	6 months ended 30 June 2015 $m	6 months ended 30 June 2014 $m	Year ended 31 December 2014 $m
Total administrative expenses	**162.0**	170.7	351.6
Deduct:			
Exceptional costs	**(5.0)**	(3.5)	(7.3)
Amortisation of other intangible assets	**(24.3)**	(27.7)	(52.9)
IAS 38 credit / charge:			
Capitalisation	**27.3**	34.1	66.2
Amortisation	**(24.0)**	(19.7)	(45.4)
Underlying operating costs	**136.0**	153.9	312.2

15. CONTINGENCIES

At present the Group is not a party in any legal proceedings in which the directors believe that is it probable that the resolution of such proceedings will result in a material liability for the Group. Currently there are legal proceedings against the Group in which it is asserted that certain of the Group's products infringe third-party patents, but in each of those proceedings the Group does not believe that it is probable that the resolution of such proceedings will result in a material liability for the Group.

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INDEPENDENT REVIEW REPORT TO PACE PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the Condensed Consolidated Interim Income Statement, the Condensed Consolidated Interim Statement of Comprehensive Income, the Condensed Consolidated Interim Balance Sheet, the Condensed Consolidated Interim Statement of Changes in Shareholder's Equity, the Condensed Consolidated Interim Cashflow Statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Mike Barradell
for and on behalf of KPMG LLP
Chartered Accountants
1 The Embankment
Neville Street, Leeds, LS1 4DW
28 July 2015