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Pace plc: Preliminary Results for the year ended 31 December 2012

Saltaire, UK, 5 March 2013: Pace plc, a leading global developer of technologies and products for PayTV and broadband service providers, today announces its results for the year ended 31 December 2012.

Adjusted EBITA up 11.8% to $158.1m, Free cash flow $182.7m, Dividend up 20.0% to 4.5c per share.

Financial highlights

- Revenues up 4.1% to $2,403.4m (2011: $2,309.3m).
- Adjusted EBITA[1] up 11.8% to $158.1m (2011: $141.4m) including the impact of Hard Disk Drive (HDD) supply disruption of $23.1m in H1 (2011: $8.9m).
- Adjusted EBITA margin 6.6% (2011: 6.1%), 7.3% before the impact of HDD supply disruption (2011: 6.4%).
- Profit after tax up 50.5% to $58.4m (2011: $38.8m).
- Basic EPS up 47.0% to 19.4c (2011: 13.2c) with Adjusted basic EPS[2] up 18.2% to 35.1c (2011: 29.7c).
- Proposed final dividend 3.06c per share, resulting in full year dividend of 4.50c per share, a 20.0% increase on 2011 (2011: 3.75c).
- Free cash flow[3] $182.7m (2011: $8.2m).
- Closing net debt[4] down 49.2% to $163.3m (2011: $321.7m).

Operating highlights

- New Executive Management team established in Q1 2012 with robust management processes and culture of accountability across the business.
- Significant progress made against the Strategic Plan laid out in November 2011:
  - **Transform core economics**:
    - Focus on operating efficiency has delivered sustainable savings in the year.
    - Transformation of supply chain that will deliver tangible benefits in 2013 and beyond well underway.
    - Managed well through HDD supply disruption following major flooding in Thailand, containing the financial impact within H1.
  - **PayTV hardware leadership**:
    - Reconfirmed as the market leader in PayTV hardware; global number one in Set-top boxes (“STBs”)[5] and Residential Gateways[6].
    - Maintained position at the forefront of technological development with the launch and deployment of Media Server platforms at DirecTV and Comcast, and a number of Media Server wins at operators in Europe, Latam and Asia Pacific.
    - Continued demand for Gateway platforms; Pace recently announced the deployment of the Pace 5168 Triple-Play Gateway at MTS, the fourth largest Telco in Canada.
  - **Widen out into Software, Services and Integrated Solutions**:
    - Achieved a number of key wins and deployments across all areas of our Software and Services offerings at customers such as BSkyB, Foxtel and Sky New Zealand, and have a strong pipeline into 2013.
    - Notable developments in H2 include:
      - Telstra, Australia’s leading telecommunications and information services company, has deployed the Pace ECO Service Management software suite. The ECO platform is currently supporting our customers to manage nearly 25 million devices across the world.

[1] Adjusted EBITA is operating profit before exceptional costs and amortisation of other intangibles.
[2] Adjusted basic EPS is based on earnings before the post-tax value of exceptional costs and the amortisation of other intangibles.
[3] Free cash flow is calculated as cash flow before proceeds from issue of shares, dividends, acquisition cash flows and debt repayment / draw down
[4] Net debt is borrowings net of cash and cash equivalents.
[5] By volume (2011): IMS Research The World Market for Digital Set-top Boxes & iDTVs – 2012 Edition
[6] By value (2011): Infonetics Broadband CPE and Subscribers Report 2Q 2012

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- The Latens software-based Conditional Access and Digital Rights Management (DRM) business made good headway, with a 68% growth in the number of subscribers the product is deployed to, on both Pace and other vendors' STB hardware.

2013 Outlook
Considerable progress has been made in delivering on our strategy in 2012 but there remains further opportunity in 2013 to develop and improve the performance of the Company.

The PayTV market remains resilient and demand for our products and services continues to be encouraging:
- Media Server upgrade cycle continues in North America and other markets.
- Increasing opportunities for software, services and integrated solutions.

Going into 2013, Pace has a clear plan and good line of sight to making further progress in the business:
- Revenues for 2013 expected to be broadly in line with 2012.
- Operating Margin for 2013 is expected to be c.7.5%.
- Strong cash flow will continue, and Pace expects to be in a positive cash position at the end of 2013.

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

"I am pleased to report that Pace has performed impressively in 2012, by delivering increased operating profits through both top-line growth and operational efficiency, with a particularly strong second half of the year. We have made good headway on executing our strategy and Pace is becoming a more profitable, cash generative company.

The strong operational performance in 2012 and the momentum we take into 2013 give the Board confidence to continue building on the progressive dividend policy that was introduced in 2009. Therefore the Board is recommending a final dividend of 3.06c per share, giving a full year dividend of 4.50c per share, a 20.0% increase on 2011. The proposed dividend reflects the improved cash generation of the business and Pace will look to continue to pay a progressive dividend off this new rebased level.

We have momentum, a sustainable platform to build from, and we expect to make further progress in 2013 and beyond".

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Pace's Full Year Results Presentation to Analysts will be held at the offices of Jefferies International Ltd at Vintners Place, 68 Upper Thames Street, London EC4V 3BJ, commencing at 09:00am.

This Presentation will also be available via live audio webcast, commencing at 09:00am. To register for this audio webcast, please go to: http://www.pace.com/ir

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Business Review

2012 has been a year of stabilisation and recovery for Pace. We have delivered a strong set of financial results, made good progress on our Strategic Plan, and laid the foundation for continued improvement in operating performance over the next few years.

Key highlights of the year
The Strategic Review we undertook in 2011 highlighted that we operate in sustainable and profitable markets where we have differentiated capabilities; however the Group must execute on its three primary objectives to take advantage of the opportunities for improving both the level and quality of its earnings. The Group is focused on these objectives and has made good progress both in delivering strong results in 2012 and paving the way for improvement in 2013 and beyond.

This progress is reflected in 2012 revenues of $2,403.4m, up 4.1% on 2011, and adjusted EBITA of $158.1m, equivalent to 6.6% of revenues, up 0.5ppt on 2011. Prior to the impact of Hard Disk Drive (“HDD”) supply disruption, Pace delivered an adjusted EBITA margin of 7.3%, up 0.9ppt on 2011.

Strategic plan

Transform core economics
Focus on operating efficiency has delivered sustainable savings in the year and Pace is well underway in the transformation of its supply chain that will deliver tangible benefits in 2013 and beyond.

- Operating expenses (pre-IAS 38 adjustments) reduced by $33.0m (10.6%) in 2012. This was achieved through the scaling down of corporate resources and a re-organisation of the Americas and International business units, whilst continuing to invest in the growth areas of Software and Services. As such, research and development expenditure as a percentage of underlying administrative spend increased by 2.4ppts to 57.0% (2011: 54.6%), a trend we intend to continue.
- The disruption to HDD supply resulting from flooding in Thailand was a major challenge in 2012. However, through keen operational focus and working closely with suppliers and customers, the impact of this issue was contained within the first half of the year, with an adverse impact of $76.8m to revenue and $23.1m to operating profit, well below initial expectations.
- Significant progress has been made in the rationalisation and transformation of our supply chain. In H2 2012, we selected two core Electronics Manufacturing Services (“EMS”) partners and aim to consolidate our manufacturing footprint around these by the end of H1 2013.
- We continue to make progress in the improvement and reduction of our Approved Vendor List (“AVL”); optimised component selection has ensured that new platforms utilise fewer component Stock Keeping Units (“SKUs”) and leveraging our EMS partner relationships has enabled Pace to reduce the number of vendors it buys from by over 12%.
- Inventory controls have been strengthened; inventory is now tightly aligned to confirmed future revenues and the mix of stock is improved with component stock reduced and faster turning finished goods increased. During the year, stock turns improved by 19.2% from 2011.
- Cash generation was strong throughout the year; free cash flow was $182.7m (2011: $8.2m), reflecting lower capital expenditure and re-alignment of the working capital. This has enabled Pace to significantly reduce its net debt, which is now less than 1 x net debt/adjusted EBITDA[7].

PayTV hardware leadership
Pace was reconfirmed as the market leader in PayTV hardware; global number one in Set-top boxes[8] and Residential Gateways[9], and has maintained its position at the forefront of technological development with the launch and deployment of Media Server platforms at DirecTV and Comcast, a number of Media Server wins across the world, and continued demand for our core Set-top box (“STB”) and Gateway platforms.

- STB and Media Server revenues were up 2.9% to $1,826.0m in 2012, driven largely by the high demand for Media Servers in H2 for both DirecTV’s Genie™ Advanced Whole-Home HD DVR and the XG1 for Comcast’s

[7] Adjusted EBITDA is adjusted EBITA after adding back depreciation
[8] By volume (2011): IMS Research The World Market for Digital Set-top Boxes & iDTVs – 2012 Edition
[9] By value (2011): Infonetics Broadband CPE and Subscribers Report 2Q 2012

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new X1 service. We expect this technology trend to continue into 2013, and we recently announced the approval for production of DirecTV's next generation HR44 Genie™ Media Server and C41 mini Genie™ client device.

- The move to Media Servers and whole home solutions is starting to move beyond North America and Pace has achieved a number of key wins in Europe, Asia-Pacific and Latin America that will be deployed in 2013 and 2014 including Foxtel, Telenet and Get TV in Norway.
- Building on our global partnership with TiVo that was announced in H1 2012, Pace has been undertaking field trials with an integrated solution consisting of TiVo software and Pace STBs and Gateways and is actively pursuing significant worldwide opportunities during 2013.
- Gateway revenues were up 8.3% to $469.4m in 2012. Key wins in the year included MTS, the fourth largest Telco in Canada.

Widen Out in Software, Services and Integrated Solutions

We have achieved a number of key wins and deployments across all areas of our Software and Services offerings and have a strong pipeline into next year. Revenues in this area increased 7.6% to $108.0m in 2012 and we expect further growth in 2013.

- The Pace Elements software platform continues to gain significant traction as part of an advanced integrated solution with a number of wins including Sky New Zealand and Foxtel.
- Pace Elements is also a key part of our integrated solutions for emerging markets; we have a number of operators deployed with this solution (Pace hardware, software and Latens Conditional Access System) in India and have an encouraging pipeline in Southern Asia, Central Eastern Europe and CIS.
- The Pace CMS software that was obtained through the 2Wire acquisition has been rebranded as the ECO Service Management Suite to reflect the evolving offering and simplify the marketing message. During the year there were a number of significant wins including BskyB, Telstra (Australia's leading telecommunications and information services company) and ON Brasil (our first ECO win in the key market of Brazil). The ECO platform is currently supporting our customers to manage nearly 25 million devices across the world.
- The Latens software-based Conditional Access and Digital Rights Management (DRM) business made good headway, with a 68% growth in the number of subscribers the product is deployed to, on both Pace and other vendors' STB hardware.

Business performance

Pace's markets have remained resilient during the year, with PayTV continuing to show growth despite difficult global economic conditions and perceived disruptive threats from new Over-the-Top (OTT) market entrants. Overall, in the markets in which Pace operates, digital PayTV subscribers are expected to grow at c.6% Compound Annual Growth Rate ("CAGR") between 2012 and 2016[10].

A major development this year has been the emergence of the Media Server product. As the market evolves to a more sophisticated digital device in the home, Pace is uniquely placed to support this technology upgrade cycle. A Media Server combines the functionality of the STB and the Gateway, augmenting traditional broadcast with IP-enabled services and enabling video content to be distributed around the home; a key component of the move to "TV Everywhere". This product category will evolve to become the main hub of the home, enabling any data connectivity (video, broadband, home automation etc.) around the home with both operator-provided and consumer-purchased devices. Pace were recently identified as a market leader in this product category by industry analysts IHS Screen Digest, a position which is forecast to continue to at least 2016[11].

North America

North America is the largest, most advanced and most profitable market for digital PayTV and broadband technology in the world, with over 110m PayTV subscribers and close to 120m broadband connections[12]. We believe the digital PayTV market in North America will continue to see low single digit annual growth in subscribers for the foreseeable future.

Pace is the only vendor to the largest operators in each of the Cable, Satellite and Telco markets; serving Comcast, DirecTV and AT&T respectively. In each case Pace supplies their most advanced in-home technology. In addition, Pace also serves a large number of tier two Cable and Telco operators in both the USA and Canada.

[10 and 12] IHS Television Intelligence Service 2013
[11] IHS Screen Digest Multimedia Home Gateways: The future of the digital home 2013

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Total revenues in North America increased by 23.7% to $1,317.6m in 2012 (2011: $1,065.1m), driven largely by strong demand from DirecTV and Comcast for Media Server products in H2. These confirmed Pace's continued position of technological leadership in our sector and we remain confident about the long-term strength of the market for our products in North America.

Gateway revenues increased by 14.5% to $448.7m, reflecting the continuing demand for high performance Residential Gateways from Telcos and Internet Service Providers ("ISPs") to effectively deliver high quality triple-play services.

Software and Services revenues in North America increased by 7.2% to $83.9m. This revenue is primarily comprised of customer care, ECO Service Management software and professional services.

Latin America

The Latam market is a large, diverse and fast growing market, within which Pace serves Satellite, Cable, IPTV and hybrid operators across the region, with Brazil, Mexico and Argentina the key markets.

The overall market has expanded significantly over the last few years and continues to display strong subscriber growth with a predicted 16% CAGR from 2012 to 2016[13]. This growth is led by a number of factors including greenfield markets, deregulation in Brazil, and a number of growing PayTV operators in the region. Demand for PayTV is strong at all levels of technology; Standard Definition ("SD") to support analogue to digital transition, High Definition ("HD") continues to grow to meet growing consumer expectations and operators are starting to develop high-end Personal Video Recorders ("PVRs") and Media Servers for rollout in 2013 and beyond.

Pace achieved a double-digit increase in profits in Latam despite revenues being down by 20.2% to $374.4m (2011: $469.0m). Pace reduced supply of low end "Zapper" STBs with a resultant loss of revenue but has benefited from focusing on high end products and integrated hardware and software solutions.

Pace's business in Latam continues to diversify; Pace is now providing product to eight of the ten largest PayTV providers in the region, and is making good progress in the sale and delivery of integrated solutions comprising Pace hardware and software, as well as Gateways and next generation Media Server products. The Company remains confident that Latam offers strong revenues and profitability and is strategically well positioned in key markets and customers in the region.

Europe

Europe remains a fragmented and highly customer specific territory for Pace. Revenues in Europe were down by 12.1% to $402.4m (2011: $457.7m). HDD supply disruption had an impact in this region but the decrease was mainly due to a reduced win rate of new products in 2011, which has adversely affected revenue in 2012. Sales performance is improving and we have achieved key wins in new and existing customers.

Single-digit growth is predicted in the underlying European market[14]; however, we expect significant growth in the Media Server segment of the market as operators in Europe follow the innovation of North American operators. Pace has been awarded the Media Server business for both Telenet, the largest Cable operator in Belgium and part-owned by Liberty Global, and Get TV in Norway.

In addition, the Group is seeing increasing demand from operators for integrated solutions, incorporating Pace hardware and software assets, that can be quickly deployed and that enable the operator to innovate and differentiate in highly competitive markets. Pace is focused on developing opportunities in this area of the market, and has a number of projects underway.

Rest of World

Rest of World covers a diverse range of markets which are developing at different rates: the highly developed markets in Australia, New Zealand and South East Asia, the "fast following" markets in Middle East and Africa, and the fast growing Indian market. Revenues in Rest of World are down 2.7% to $309.0m (2011: $317.5m). This decrease was primarily due

[13 and 14] IHS Television Intelligence Service 2013

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to HDD supply disruption in H1 as a number of operators delayed large marketing campaigns, due to the higher input prices of the supply constrained components.

Australia and New Zealand are traditionally strong markets for Pace. In H1 2012, the Company launched its first advanced integrated solution with Sky New Zealand. In H2 2012, Foxtel (the largest PayTV operator in Australia), selected a Pace solution, consisting of Pace Elements software and Pace Media Server hardware, to deliver their next generation subscription TV service. The integrated whole home solution will enable Foxtel's subscribers to consume, discover and manage their viewing experience on any screen and from any location.

India is a key growth market for Pace as the country experiences large PayTV subscriber growth and the transition from analogue to digital progresses in the Cable sector. During the year, Pace secured deals with a number of operators for its integrated solution for Cable which combines STB hardware, Elements software platform and Latens Conditional Access System.

The Company remains confident that these markets will provide significant growth opportunities both at the high end of the market with HD, PVR and Media Server products, and also as the uptake of PayTV and digitisation continues in emerging greenfield markets allowing Pace to increase its footprint with new customers through Software and Integrated Solutions.

Board changes
On 6 September 2012, we welcomed Amanda Mesler to the Board as a new Non-executive Director.

Mike Inglis will be retiring from his role as a Non-executive Director on the Board at the Annual General Meeting on 24 April 2013.

2013 outlook
Pace has made considerable progress in 2012 but there remains further opportunity in 2013 to develop and improve the performance of the Company. We have a strong management team that is working well together, and have a relentless focus on the execution of the Strategic Plan.

The PayTV market that the Company serves remains resilient and the demand for our products and services continues to be encouraging. Next generation Media Server products are performing strongly in the US market where technology upgrade is driving revenue growth. In 2013, we will start to roll out these products to other operators in North America and other Regions. In addition, as the Group continues to develop its Software, Services and Integrated Solutions offerings, we are seeing increased opportunities for these assets in all markets that Pace serves.

Going into 2013, Pace has a clear plan and good line of sight to making further progress in the business:

- Revenues for 2013 expected to be broadly in line with 2012.
- Operating Margin for 2013 is expected to be c.7.5%.
- Strong cash flow will continue, and Pace expects to be in a positive cash position at the end of 2013.

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Financial Review

2012 was a year of stabilisation and recovery for Pace. Significant progress has been made and the financial position of the Company is much improved. This progress is reflected in the 4.1% increase in revenue (to $2,403.4m), an 11.8% increase in adjusted EBITA (to $158.1m) and a substantial reduction in net debt.

Profitability challenges experienced in 2011 have been addressed through self-help initiatives driven by our Transform Core Economics strategy. A tight focus on operating efficiency delivered sustainable savings in the year and actions are well underway in the transformation of our supply chain, which will deliver tangible benefits in 2013 and beyond.

Free cash flow generation has been very strong in 2012 at $182.7m (115.6% of adjusted EBITA), which includes the benefit of robust management and re-alignment of working capital (which reduced by 39.0% to $111.1m). As a result of the strong cash flow, net debt reduced in the year by 49.2% to $163.3m at 31 December 2012.

Group trading results

	FY 2012 $m	FY 2011 $m
Revenue	**2,403.4**	**2,309.3**
Gross profit	433.0	443.3
Gross margin %	*18.0%*	*19.2%*
Adjusted administrative expenses*	(274.9)	(301.9)
Adjusted EBITA*	**158.1**	**141.4**
Operating margin	*6.6%*	*6.1%*
Exceptional costs	(12.5)	(12.7)
Amortisation of other intangibles	(51.8)	(55.7)
Net finance expense	(13.7)	(18.3)
Profit before tax	**80.1**	**54.7**
Tax charge	(21.7)	(15.9)
Profit after tax	**58.4**	**38.8**
Gross margin % (Pre-HDD)	***18.4%***	***19.3%***
Adjusted operating margin (Pre-HDD)*	***7.3%***	***6.4%***

*Pre-exceptional costs and amortisation of other intangibles

Group Revenue of $2,403.4m (2011: $2,309.3m) increased by 4.1%; driven by strong demand for next generation Media Server product in the second half of the year. Revenue growth was achieved despite a $76.8m impact of HDD supply disruption (2011: $36.3m impact).

Gross profit of $433.0m (2011: $443.3m) is down 2.3%. HDD supply disruption impacted gross profit and adjusted EBITA by $23.1m in 2012 (2011: $8.9m). Gross margin percentage during the period, prior to HDD supply disruption, was 18.4%, an underlying decrease of 0.9ppt on 2011, reflecting a change in revenue mix towards products for our largest customers in H2 2012.

Administrative expenses pre-exceptional costs and amortisation of other intangibles decreased by $27.0m (8.9%) to $274.9m (2011: $301.9m). The underlying decrease, excluding the impact of IAS 38 accounting adjustments, is a decrease of $33.0m (10.6%) to $278.0m (2011: $311.0m). Considerable progress has been made in improving operating efficiency across the Company during the year; the cost saving reflects a scaling down of Corporate resources and a re-organisation of the Americas and International business units. Research and development

expenditure as a percentage of underlying administrative spend increased by 2.4ppts to 57.0% (2011: 54.6%) as resource was focused on development areas.

Adjusted EBITA was $158.1m (2011: $141.4m); an operating margin of 6.6% against 6.1% in 2011.

Exceptional costs of $12.5m (2011: $12.7m) relate to the change of Directors ($1.4m), restructuring costs in the Americas and International Strategic Business Units ("SBUs") and corporate ($7.6m) and the aborted proposal to acquire the Motorola Home business from Google ($3.5m).

Amortisation of other intangibles, primarily reflecting the annual charge for intangible assets acquired in 2010, was $51.8m (2011: $55.7m).

Segmental analysis

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

	FY 2012 $m	Restated FY 2011 $m
Revenue		
Pace Americas	1,441.9	1,350.6
Pace International	953.6	953.1
Other	7.9	5.6
Total Revenue	**2,403.4**	**2,309.3**
Adjusted EBITA		
Pace Americas	144.0	157.9
Pace International	72.3	60.3
Other	(58.2)	(76.8)
Total Adjusted EBITA	**158.1**	**141.4**

Movements in revenue are described above. Although not wholly consistent, revenues in North America belong primarily to the Americas SBU, revenues in Europe and Rest of World belong largely to the International SBU, and revenues in Latam belong to both the Americas and International SBUs.

The performance of Pace International improved with flat revenue despite disruption to the HDD supply chain in H1 and operating margin improved from 6.3% to 7.6%. Pace Americas' revenue increased by $91.3m (6.8%) in 2012 reflecting strong demand for next generation Media Server products, and operating margin declined from 11.7% to 10.0%.

Other amounts include central and unallocated costs and other immaterial SBUs, which are operating segments that are allowed to be aggregated under IFRS 8.

The reduction in Other loss of $18.6m (24.2%) relates primarily to cost savings realised through Corporate restructuring.

Finance costs
Net financing costs of $13.7m (2011: $18.3m) reflect a reduction in average net debt during the period.

Profit before tax
Profit before tax was $80.1m (2011: $54.7m); an increase of $25.4m (46.4%) on 2011.

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Taxation
The tax charge of $21.7m (2011: charge $15.9m) results from the full year effective tax rate of 27.1% (2011: 29.1%).

The rate reduction reflects lower corporate taxes in the UK.

Profit after tax
Profit after tax was $58.4m (2011: $38.8m); an increase of $19.6m (50.5%) on 2011.

Earnings per share
Basic earnings per share ("EPS") was 19.4c (2011: 13.2c), an increase of 47.0%. Adjusted basic EPS, which removes the tax effected impact of the exceptional costs and amortisation of other intangibles to reflect underlying performance, is 35.1c (2011: 29.7c), an increase of 18.2%.

Balance sheet

Intangible development expenditure assets increased by $2.4m (2011: $9.3m increase) due to continued investment in product development.

Tangible fixed assets increased in the period as capital expenditure of $22.6m was offset by the depreciation charge of $21.0m and disposal of assets and exchange adjustments totalling $1.8m. The $22.6m capital expenditure reflected a reduction of $18.9m from 2011 and is a more normal level for the Company.

A final payment of $15.7m was made in 2012 as deferred consideration for Latens.

Working capital
Net working capital was reduced by $71.0m (39.0%) in the period as commercial terms with suppliers were re-aligned to match Pace's working capital cycle, inventory control processes strengthened and a more focused approach was taken to cash collection from our customers.

Inventory increased by $32.1m (21.4%) to $182.1m during 2012; however, the mix of stock has significantly improved, with component stock reduced and faster turning finished goods increased. Increased inventory is required to meet strong anticipated revenue in the first quarter of 2013. Average stock turn in the year was 8.7 times against 7.3 times in 2011.

Debtor days were reduced by 8 days to 53 days at December 2012; this contributed c.$68m to the full year cash flow. Overall debtor balances increased reflecting the increased level of trade in Q4 2012 compared to Q4 2011.

Creditor days were increased from 73 days to 83 days at December 2012 contributing a one-off benefit to cash flow of c.$58m.

Debt
Net debt of $163.3m (31 December 2011: $321.7m) reduced by $158.4m (49.2%) in 2012. During the year two scheduled facility re-payment instalments were paid of $37.5m each in June and December 2012. The remaining facility continues to be repaid through payments of $37.5m every six months, with a final payment of $75.0m due on 31 March 2014.

A key target for the Group is to reduce the balance sheet leverage (calculated as net debt divided by adjusted EBITDA over the preceding 12 months). At 31 December 2012 this was 0.9 times, a substantial improvement from the position at 31 December 2011.

Liquidity and cash flows
A key performance measure for the Group is free cash flow, which was $182.7m (2011: $8.2m) and represented 102.0% of adjusted EBITDA (2011: 4.8%). Cash outflows from interest payable net of interest received were $11.1m (2011: $13.6m). Cash invested in acquisitions in the form of deferred consideration paid was $15.7m (2011: $6.4m). Cash spent on exceptional costs was $17.9m (2011: $14.3m).

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The Board is confident that the Company will continue to be strongly cash flow positive in 2013 and that the Company's committed bank facilities are more than sufficient to meet its short to medium term funding needs.

Foreign currency

In the period approximately 76% of the Group's revenues were denominated in USD, 10% in Euros, 13% in Brazilian Real and 1% in Sterling.

The impact of non-USD revenues, costs and overheads continues to be addressed through Pace's foreign exchange hedging strategy.

Critical accounting policies

The Directors consider that the Group has the following critical accounting policies, as they require the use of estimates and are subjective in their nature.

- Revenue recognition
- Impairment
- Taxation
- Provisions
- Intangible assets
- Hedge accounting

Details of accounting policies and estimates can be found within the notes to the Financial Statements.

Dividend

The Board has recommended a final dividend of 3.06c per share (2011: 2.50c per share), an increase of 22.4% in line with the progressive dividend policy introduced in 2009. The full year proposed dividend increases 20.0% to 4.50c per share (2011: 3.75c per share). The increase reflects the Board's confidence in the outlook for the Company and its improving financial position. Pace will look to continue to pay a progressive dividend off this new rebased level.

Dividends will be paid in sterling, equivalent to 2.029 pence per share. This is based on an exchange rate of £ = $1.508, being the closing rate applicable on 4 March 2013, the date on which the Board resolved to recommend the final dividend. The proposed dividend will be payable on 5 July 2013 to shareholders on the register on 7 June 2013.

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	**2012** **$m**	2011 $m
Revenue	2	**2,403.4**	2,309.3
Cost of sales		**(1,970.4)**	(1,866.0)
Gross profit		**433.0**	443.3
Administrative expenses:			
Research and development expenditure		**(155.4)**	(160.6)
Other administrative expenses			
Before exceptional costs		**(119.5)**	(141.3)
Exceptional costs	3	**(12.5)**	(12.7)
Amortisation of intangibles		**(51.8)**	(55.7)
Total administrative expenses		**(339.2)**	(370.3)
Operating profit		**93.8**	73.0
Finance income - interest receivable		**0.5**	0.2
Finance expenses - interest payable		**(14.2)**	(18.5)
Profit before tax		**80.1**	54.7
Tax charge	4	**(21.7)**	(15.9)
Profit for the year		**58.4**	38.8
Profit attributable to:			
Equity holders of the Company		**58.4**	38.8
Earnings per ordinary share			
Basic earnings per ordinary share (cents)	5	**19.4**	13.2
Diluted earnings per ordinary share (cents)	5	**18.5**	12.5

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	$m	$m
Profit for the year	**58.4**	38.8
Other comprehensive income:		
Exchange differences on translating foreign operations	**(2.7)**	(8.1)
Net change in fair value of cash flow hedges transferred to profit or loss gross of tax	**(11.2)**	15.0
Deferred tax adjustment on above	**3.0**	(4.0)
Effective portion of changes in fair value of cash flow hedges gross of tax	**4.9**	(8.1)
Deferred tax adjustment on above	**(1.3)**	2.2
Other comprehensive income for the year, net of tax	**(7.3)**	(3.0)
Total comprehensive income for the year	**51.1**	35.8
Attributable to:		
Equity holders of the Company	**51.1**	35.8

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CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2012

	Notes	**2012 $m**	2011 $m
ASSETS			
Non-Current Assets			
Property, plant and equipment		**62.8**	63.0
Intangible assets - goodwill		**337.9**	335.6
Intangible assets - other intangibles		**166.2**	218.0
Intangible assets - development expenditure		**56.3**	53.9
Deferred tax assets		**37.4**	67.2
Total Non-Current Assets		**660.6**	737.7
Current Assets			
Inventories		**182.1**	150.0
Trade and other receivables		**558.7**	402.3
Cash and cash equivalents		**74.7**	48.7
Current tax assets		**12.0**	4.6
Total Current Assets		**827.5**	605.6
Total Assets		**1,488.1**	1,343.3
EQUITY			
Issued capital		**28.7**	28.3
Share premium		**79.0**	73.1
Merger reserve		**109.9**	109.9
Hedging reserve		**(1.7)**	2.9
Translation reserve		**(54.8)**	(52.1)
Retained earnings		**299.0**	245.0
Total Equity		**460.1**	407.1
LIABILITIES			
Non-Current Liabilities			
Deferred tax liabilities		**70.3**	95.7
Provisions	7	**51.5**	41.6
Borrowings		**74.7**	147.3
Total Non-Current Liabilities		**196.5**	284.6
Current Liabilities			
Trade and other payables		**631.8**	373.5
Current tax liabilities		**10.7**	9.6
Provisions	7	**25.7**	45.4
Borrowings		**163.3**	223.1
Total Current Liabilities		**831.5**	651.6
Total Liabilities		**1,028.0**	936.2
Total Equity and Liabilities		**1,488.1**	1,343.3

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital $m	Share premium $m	Merger reserve $m	Hedging reserve $m	Translation reserve $m	Retained earnings $m	Total equity $m
Balance at January 2011	**28.2**	**72.6**	**109.9**	**(2.2)**	**(44.0)**	**211.4**	**375.9**
Profit for the year	-	-	-	-	-	38.8	38.8
Other comprehensive income	-	-	-	5.1	(8.1)	-	(3.0)
Total comprehensive income for the year	**-**	**-**	**-**	**5.1**	**(8.1)**	**38.8**	**35.8**
Transactions with owners:							
Deferred tax on share options	-	-	-	-	-	(2.9)	(2.9)
Dividends to equity shareholders	-	-	-	-	-	(10.1)	(10.1)
Employee share incentive charges	-	-	-	-	-	7.8	7.8
Issue of shares	0.1	0.5	-	-	-	-	0.6
Balance at December 2011	**28.3**	**73.1**	**109.9**	**2.9**	**(52.1)**	**245.0**	**407.1**
Profit for the year	-	-	-	-	-	58.4	58.4
Other comprehensive income	-	-	-	(4.6)	(2.7)	-	(7.3)
Total comprehensive income for the year	**-**	**-**	**-**	**(4.6)**	**(2.7)**	**58.4**	**51.1**
Transactions with owners:							
Dividends to equity shareholders	-	-	-	-	-	(12.3)	(12.3)
Employee share incentive charges	-	-	-	-	-	7.9	7.9
Issue of shares	0.4	5.9	-	-	-	-	6.3
Balance at December 2012	**28.7**	**79.0**	**109.9**	**(1.7)**	**(54.8)**	**299.0**	**460.1**

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CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 $m	2011 $m
Cash flows from operating activities		
Profit before tax	**80.1**	54.7
Adjustments for:		
Share based payments charge	**7.9**	7.8
Depreciation of property, plant and equipment	**21.0**	29.0
Amortisation of development expenditure	**54.3**	47.9
Amortisation of other intangibles	**51.8**	55.7
Loss on sale of property, plant and equipment	**-**	1.6
Net finance expense	**13.7**	18.3
Movement in trade and other receivables	**(162.3)**	30.3
Movement in trade and other payables	**258.5**	(170.2)
Movement in inventories	**(33.0)**	72.2
Movement in provisions	**5.6**	2.7
Cash generated from operations	**297.6**	150.0
Interest paid	**(11.6)**	(13.8)
Tax paid	**(23.8)**	(29.7)
Net cash generated from operating activities	**262.2**	106.5
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**(15.7)**	(6.4)
Purchase of property, plant and equipment	**(22.6)**	(41.5)
Development expenditure	**(57.4)**	(57.0)
Interest received	**0.5**	0.2
Net cash used in investing activities	**(95.2)**	(104.7)
Cash flows from financing activities		
Repayment of long-term debt	**(135.0)**	(75.0)
Proceeds from issue of share capital	**6.3**	0.6
Dividend paid	**(12.3)**	(10.1)
Net cash used in financing activities	**(141.0)**	(84.5)
Net change in cash and cash equivalents	**26.0**	(82.7)
Cash and cash equivalents at the start of the year	**48.7**	131.4
Cash and cash equivalents at the end of the year	**74.7**	48.7

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NOTES

1 Basis of preparation and business environment

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

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.

Functional and presentational currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars which is the Company's functional and presentational currency.

The pound sterling/US dollar exchange rate at 31 December 2012 was 1.62 (2011: 1.55).

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:

Warranties
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 the light of actual performance.

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

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

Operating segments
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The Board of Directors has determined that, based on its current internal reporting framework and management structure, it has two reportable segments.

Such determination is necessarily judgmental in its nature and has been determined for the preparation of the financial statements. The level of disclosure of segmental and other information is determined by such assessment. Further details of the considerations made and the resulting disclosures are provided in note 2.

Intangible assets
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 spend to match costs to expected benefits from projects deemed to be commercially viable. The application of this policy involves the ongoing consideration by management of the forecasted economic benefit from such projects compared to the level of capitalised costs, together with the selection of amortisation periods appropriate to the life of the associated revenues from the product.

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Going concern
The Group has borrowing facilities in place until March 2014. At 31 December 2012 these are in the form of a $150m term loan, which is subject to repayment through instalments of $37.5m each, due every six months plus a final payment of $75m, and a $150m revolver credit facility. These facilities are subject to financial performance covenants which the Group currently complies with.

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.

Financial information
The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2012 or 2011. Statutory accounts for 2011 have been delivered to the registrar of companies, and those for 2012 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 Segmental analysis

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.

During the year the Group consolidated Pace Europe, Pace Enterprise and certain other immaterial operating segments into a new SBU named Pace International. This was done in order to reflect the management structure of those operating segments, which changed in the period.

The Group has the following reportable segments:

- Pace Americas
- Pace International
- Other

Other includes central and unallocated costs and other immaterial SBUs, which are operating segments that are aggregated under IFRS 8.

Reconciliations between Pace Americas and Pace International and the geographical revenue disclosure given are not possible, due to the different revenue streams which sit under each reportable segment.

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 where appropriate, pricing is determined on an arm's length basis. There are no material Inter-segment transactions.

The tables below present segmental information on the revised basis, with prior periods amended to conform to the current period presentation.

Year ended 31 December 2012	**Pace Americas $m**	**Pace International $m**	**Other $m**	**Total $m**
Segmental income statement				
Revenues	1,441.9	953.6	7.9	2,403.4
Adjusted EBITA	144.0	72.3	(58.2)	158.1
Exceptional items				(12.5)
Amortisation of other intangibles				(51.8)
Interest				(13.7)
Tax				(21.7)
Profit for the year				58.4

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Year ended 31 December 2011 (restated)	**Pace Americas $m**	**Pace International $m**	**Other $m**	**Total $m**
Segmental income statement				
Revenues	1,350.6	953.1	5.6	2,309.3
Adjusted EBITA	157.9	60.3	(76.8)	141.4
Exceptional items				(12.7)
Amortisation of other intangibles				(55.7)
Interest				(18.3)
Tax				(15.9)
Profit for the year				38.8

Major customers

Transactions with the Group's three (2011: two) largest customers represented 49% (2011: 27%) of the Group's total revenues and are disclosed within the Pace Americas reporting segment.

Geographical analysis

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

Revenue by destination	**2012 $m**	2011 $m
Europe	**402.4**	457.7
North America	**1,317.6**	1,065.1
Latin America	**374.4**	469.0
Rest of World	**309.0**	317.5
	2,403.4	2,309.3

Segment assets are based on the geographical location of the assets. The split of non-current assets by location is as follows:

Non-current assets	**2012 $m**	2011 $m
UK	**134.4**	65.7
Europe	**124.7**	183.9
Latin America	**3.5**	5.4
North America	**359.8**	412.6
Rest of World	**0.8**	2.9
	623.2	670.5

Non-current assets relate to property, plant and equipment and intangible assets, and, as required under IFRS 8, exclude deferred tax assets, financial instruments and post-employment benefit assets.

The Group has three main revenue streams, being Set-top boxes & Media Servers, Gateways, and Software & Services. 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.

	2012 $m	2011 $m
Set-top boxes & Media Servers	**1,826.0**	1,775.4
Gateways	**469.4**	433.5
Software & Services	**108.0**	100.4
	2,403.4	2,309.3

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3 Exceptional items

	2012 $m	2011 $m
Restructuring and reorganisation costs	**7.6**	11.1
Directors' loss of office	**1.4**	1.6
Aborted acquisition costs	**3.5**	-
	12.5	12.7

Restructuring and reorganisation costs in 2012 and 2011 relate to different 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 the aborted acquisition of the Motorola Home business.

4 Taxation

	2012 $m	2011 $m
Current tax charge:		
Charge for the year	**21.0**	28.8
Adjustments in respect of prior years	**(3.7)**	(1.3)
Total current tax charge	**17.3**	27.5
Deferred tax charge / (credit):		
Origination and reversal of timing differences in the current year	**-**	(9.0)
Impact of change in tax rate	**(0.3)**	(1.1)
Adjustment in respect of prior years	**4.7**	(1.5)
Total deferred tax charge / (credit)	**4.4**	(11.6)
Total tax charge	**21.7**	15.9

A change in the Corporation tax rate from 26% to 24% was substantively enacted on 17 July 2012 and is effective from 1 April 2012. A further reduction from 24% to 23% was substantively enacted under the same legislation and will be effective from 1 April 2013. The relevant deferred tax balances have therefore been re-measured.

A reduction to the Corporation tax rate has been announced and is expected to be enacted subsequently to reduce the rate by 2% per annum to 21%, effective 1 April 2014. This change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in these financial statements.

5 Earnings per ordinary share

	2012	2011
Basic earnings per ordinary share	**19.4c**	13.2c
Diluted earnings per ordinary share	**18.5c**	12.5c
Adjusted basic earnings per ordinary share	**35.1c**	29.7c
Adjusted diluted earnings per ordinary share	**33.4c**	28.1c

The calculation of basic earnings per share is based on a profit after tax of $58.4m (2011: $38.8m) divided by the weighted average number of ordinary shares in issue of 300,344,669 (2011: 294,189,977), excluding shares held by the Employee Benefits Trust.

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	2012	2011
Number of shares (million)		
Weighted average number of ordinary shares in issue during the year	**300.3**	294.2
Dilutive effect of options outstanding	**15.1**	16.8
Diluted weighted average number of ordinary shares in issue during the year	**315.4**	311.0

Diluted earnings per ordinary share varies from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options.

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 earnings amount is calculated as follows:

	2012 $m	2011 $m
Profit after tax	**58.4**	38.8
Amortisation charge	**51.8**	55.7
Tax effect of above	**(14.0)**	(16.2)
Exceptional items	**12.5**	12.7
Tax effect of above	**(3.4)**	(3.7)
Adjusted profit after tax	**105.3**	87.3

6 Dividend per ordinary share

	2012		2011	
	Per share	**$m**	Per share	$m
2011 Final: paid 4 July 2012	**2.50c**	**7.5**	2.25c	6.6
2012 Interim: paid 7 December 2012	**1.44c**	**4.8**	1.25c	3.5
	3.94c	**12.3**	3.50c	10.1

In addition, the directors are proposing a final dividend for 2012 of 3.06 cents per share. This will be payable on 5 July 2013 to shareholders on the register at 7 June 2013, subject to approval by shareholders at the forthcoming Annual General Meeting, and has not been included as a liability in these financial statements.

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7 Provisions

	Royalties under negotiation $m	Warranties $m	Other $m	Total $m
At 31 December 2010	15.0	45.1	26.7	86.8
Net charge for the year	8.1	14.7	11.9	34.7
Utilised	(2.9)	(24.7)	(8.5)	(36.1)
Transfer	0.6	-	0.1	0.7
Exchange adjustments	-	0.7	0.2	0.9
At 31 December 2011	**20.8**	**35.8**	**30.4**	**87.0**
Net charge for the year	8.5	21.0	5.2	34.7
Utilised	(2.4)	(18.9)	(26.3)	(47.6)
Transfer	-	1.6	-	1.6
Exchange adjustments	0.6	0.5	0.4	1.5
At 31 December 2012	**27.5**	**40.0**	**9.7**	**77.2**
Due within one year	-	18.9	6.8	25.7
Due after one year	27.5	21.1	2.9	51.5

Other provisions mainly relate to retirement and exceptional restructuring provisions within the Group.

8 Free cash flow and cash investment in acquisitions

	2012 $m	2011 $m
Free cash flow		
Cash generated from operations	**297.6**	150.0
Tax paid	**(23.8)**	(29.7)
Purchase of property, plant and equipment	**(22.6)**	(41.5)
Development expenditure	**(57.4)**	(57.0)
Net interest paid	**(11.1)**	(13.6)
Free cash flow	**182.7**	8.2

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.