Pace plc, Victoria Road, Saltaire BD18 3LF UK
Tel: +44 (0) 1274 532000 Fax: +44 (0) 1274 532010

Pace plc Interim Results for the six months ended 30 June 2011

Pace on track to meet revised May 2011 guidance

Saltaire, UK, 26 July 2011: Pace, a leading developer of technologies, products and services for global broadband and broadcast markets, announces its results for the six months ended 30 June 2011.

Financial Highlights[1]

- On track to meet revised May 2011 guidance
- Revenues increased 21% to $1,187.1m (six months ended 30 June 2010: $978.2m)
    - Increase acquisition-related; organic revenue down 3.5%
- Gross margin 19.0% (six months ended 30 June 2010: 18.6%)
    - Organic gross margin 15.6% (six months ended 30 June 2010: 18.5%)
    - Acquisitions gross margin 31.7% (pro forma six months ended 30 June 2010: 27.5%)
- Profit before interest, tax, and amortisation (EBITA) $68.4m, giving return on sales of 5.8% (six months ended 30 June 2010: $73.3m, return on sales 7.5%)
- Basic EPS of 7.1c (six months ended 30 June 2010: 16.5c), with adjusted[2] basic EPS of 14.2c (six months ended 30 June 2010: 17.4c)[3]
- Interim dividend increased to 1.25c (six months ended 30 June 2010: 1.12c)
- Net debt at $293.2m (at 31 December 2010: $311.1m)

Operating Highlights

- Progress made since May 2011 IMS update:
    - Inventory management has been normalised, with the majority of the financial impact absorbed in H1
    - The Networks business has been re-sized and is no longer loss-making
    - Impact of the Japanese Tsunami on potential availability of components has been largely mitigated; however a small number of at-risk components remain
    - Initial corrective measures have been implemented to address the profitability levels in Pace Europe
- Acquisition-related synergies were achieved earlier and are greater than anticipated
- Strategic review announced June 2011 underway; aiming to conclude around the time of the Group's Q3 IMS

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[1] Please note that the presentational currency changed to the US dollar as from 1 January 2011

[2] After adding back amortisation of other intangibles

[3] Updated on the **Correction to Interim Results released on 27 July 2011 (available at www.pace.com/IR)**

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

"Our first half results put Pace on track to meet its revised May 2011 profit guidance[4] of $150-170m for FY 2011. Progress is being made on each of the issues identified in May, and we continue to address those issues not fully resolved, particularly in Pace Europe.

"Acquisition-related synergies have been achieved ahead of plan. Additionally, this period has seen continued free cash flow generation, leading to a reduced net debt position of $293.2m.

"The strategic review announced last month is underway, with focus on Pace's strategy and opportunities for business improvements, aiming to conclude around the time of the Group's Q3 IMS."

Outlook

Given the Group's first half performance, including corrective actions identified and implemented, the Board reaffirms its May profit guidance of $150-170m for Full Year 2011.

Contacts

Andrew Dowler/Charles Chichester
Finsbury
+44 (0) 207 251 3801

Scott Sheldon/Stuart Hall
Pace plc
+44 (0) 207 251 3801 (26 July 2011 only)
+44 (0) 1274 532 000 (thereafter)

Pace's Interim Results Presentation to Analysts will be held at the offices of The Royal Bank of Scotland plc at 250 Bishopsgate, London EC2M 4AA, commencing at 8.45am.

This Interim Results Presentation will also be available via live audio webcast, commencing at 8.45am. To register for this audio webcast, please go to:
http://www.pace.com/ir or
http://cache.cantos.com/webcast/static/ec2/4000/5275/5345/9288/Lobby/default.htm

[4] Profit guidance relates to EBITA (after adding back of amortisation of other intangibles)

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Results Overview

In May 2011 Pace announced that while volume shipments and revenues were on track, Group profitability had been impacted by four factors that resulted in the Board revising down its full year profit guidance to the range of $150m - $170m.

Two of these issues operationally have been resolved—1) inventory management has been normalised, and 2) our Networks business has been re-sized and is now no longer loss-making. The other two issues require continuing management —3) the impact of the Japanese Tsunami on supply chain has been largely mitigated, however a small number of at-risk components remain, and 4) Pace continues to address issues related to the reduced profitability levels in Pace Europe.

The expected acquisition-related synergies, primarily resulting from the acquisition of 2Wire, have been achieved ahead of expectations, both on a gross profit as well as on an operating cost basis. The $30 million of targeted synergies have now all been achieved on a current run-rate basis. Additionally the operating cost synergies are larger than expected.

Pace's customers—leading payTV operators—are globally diverse: in H1 2011, revenues split 46% North America (H1 2010: 37%), 22% Latin America (H1 2010: 20%), 19% Europe (H1 2010: 33%), and 13% Rest of World (H1 2010: 10%). The Group's top three customers represented 41% of revenues—they are the two largest payTV operators in the world, and the telco with the largest payTV footprint—together they have circa 70m subscribers.

Conditions in global payTV markets remain positive. Pace is ranked as the global number one in set-top boxes by volume[5], and is the global number three in gateways by value[6].

Pace has established a leading position in high definition technology and increasingly payTV operators are demanding high definition (HD) 'hybrid' set-top boxes that combine broadband and broadcast content—the 'smartbox'. Smartboxes are powerful platforms that payTV operators are currently using to add libraries of on-demand and catch-up content for their customers, as well as enable multiple devices to access operator content. In this context, network and device management services will become increasingly important to operators to enable an expanded range of services and required customer support. Pace's unique product and service capability well suits this changing customer requirement landscape.

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[5] IHS Screen Digest, May 2011

[6] Infonetics Research, 2011

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North America

North America is the world's most advanced market for digital TV and broadband technology. Pace is the only vendor to all of Comcast, DirecTV and AT&T and in each case supplies, or will supply their most advanced in-home technology. The emergence of the in-home smartbox is an important trend in the US and one Pace is leading with the launch of Comcast's Xfinity product. In the residential gateway market, addressed through the Group's 2010 acquisition of 2Wire, a significant transition is taking place from ADSL to VDSL products, a technology that potentially doubles capacity to the home. In both market segments the increasing complexity of customers' in-home networks continues to create opportunities for network and call centre management services.

Pace's organic revenues in North American are down by 6.7% to $334.6m (H1 2010: $358.7m) (overall increase including acquisitions 52.0%). The North America organic product mix currently includes DTAs, which Pace has continued to ship at a significant level. HD shipments accounted for 36% (H1 2010: 47%) of the North American total. PVR shipments accounted for only 3% (H1 2010: 17%), this reflects the significant change in a customer requirement previously disclosed and is expected to recover as the smartbox starts to displace the current generation of PVRs.

Latin America

Latin America continues to grow significantly; Pace's revenues have increased circa 39% (32% growth in organic business) to $265.2m (H1 2010: $191.3m), which reflects strong market share. There is a strong appetite for HD products and since the 2010 World Cup, PVR volume has grown. In the organic product mix standard definition continues to be a relevant product category, with HD shipments at 23% (H1 2010: 24%), PVR shipments at 21% (H1 2010: 24%). Of the HD shipments HD PVR accounts for 89% of the volume (H1 2010: 50%).

Europe

Europe has been a challenging market for Pace with revenues down 32% (35% decline in organic business) to $220.0m (H1 2010: $321.2m) due to Pace's exit from retail markets, and a reduction in low margin sales in Italy, alongside the profitability issues identified in the May 2011 IMS update. Europe is a fragmented and highly customer-specific territory, although the predominant trend is for high definition and hybrid product platforms. Home networking is becoming increasingly important to advanced customers and Pace has utilised its acquired capabilities to win new business, including a new platform for a Northern European operator that combines Pace's set-top box, residential gateway and software technologies. In Western Europe a new Tier 1 cable operator is deploying Latens (Pace) cardless conditional access system, and a European telco has selected Pace's new residential gateway software.

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In the organic product mix PVR products were increasingly shipped with a separate hard disk drive and overall HD products comprised 94% (H1 2010: 91%) of shipments into this market. PVR and PVR capable products accounted for 55% (H1 2010: 34%) of shipments.

Rest of World

In the Rest of World, revenues have increased by 47% (40% growth in organic business) to $156.8m (H1 2010: $107.0m) primarily due to new customer wins, including operators in emerging markets such as India and Africa. The organic product mix comprised HD shipments at 72% (H1 2010: 64%) and PVR shipments at 63% (H1 2010: 45%).

Board changes

On 31 May 2011 Allan Leighton was appointed to the Board and became non-executive chairman on 21 June 2011.

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Financial Review

As announced on 8 March 2011, following the change in the functional currency of Pace plc from 1 January 2011, the results for the half year ended 30 June 2011 are Pace's first set of results to be presented in US dollars.

Additionally the results for H1 2011 include a full six months trading from the 2010 acquisitions of 2Wire, Latens and Bewan, making meaningful half-on-half comparisons difficult. Accordingly, the results are also analysed between the pre-acquisition 'organic' business and the acquisitions.

Group Trading Results

	H1 2011 $m	H1 2010 $m	FY 2010 $m
Revenue	**1,187.1**	978.2	2,062.9
Gross Profit	**225.6**	181.6	395.1
Gross Margin %	***19.0%***	*18.6%*	*19.2%*
Administrative expenses	**(157.2)**	(108.3)	(234.5)
EBITA*	**68.4**	73.3	160.6
Return on sales	***5.8%***	*7.5%*	*7.8%*

** Pre amortisation and FY 2010 exceptionals*

Group revenues increased by 21%, primarily as a result of the 2010 acquisitions, offset by a 3.5% decrease in organic revenues because of a strong prior period comparator and Pace's exit from the retail market.

Overall gross margins have increased to 19.0% from 18.6% due to higher gross margins from the acquired businesses, partly offset by decreases within the organic business due to the issues referred to in Pace's May 2011 IMS.

Administrative expenses increased due to the 2010 acquisitions, and are explained further below. Overheads increased by $0.3m to $107.3m on an organic basis when compared to H1 2010 ($107.0m of H1 2010 comparator related to the organic business) and overheads from acquisitions increased by $48.6m to $49.9m ($1.3m of H1 2010 comparator related to acquisitions) resulting in an overall increase in Group expenses of $48.9m in H1 2011. Return on sales in H1 2011 for the Group was 5.8%. The organic business return on sales of 4.2% (H1 2010: 7.5%) was impacted by the issues referred to in Pace's May 2011 IMS. Return on sales from acquisitions was 11.7% as greater synergies from the acquisitions, both in bill of materials savings and overheads, delivered a better than expected performance.

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Segmental analysis

Following the integration of the 2010 acquisitions into the Group, coupled with a restructuring of the business, the Group now operates through Strategic Business Units (SBUs), which comprise Pace Americas, Pace Europe, Pace Enterprise and Pace India.

The SBUs are deemed by the Board to represent operating segments under IFRS 8, with revenues and EBITA as follows:

	H1 2011 $m	H1 2010 $m	FY 2010 $m
Revenue			
Pace Americas	715.1	497.3	1,120.6
Pace Europe	429.5	463.2	918.8
Pace Enterprise	27.1	7.2	21.0
Unallocated	15.4	10.5	2.5
Total Revenue	**1,187.1**	**978.2**	**2,062.9**
EBITA			
Pace Americas	**84.3**	**68.3**	**146.7**
Pace Europe	25.8	40.0	85.7
Pace Enterprise	**(7.8)**	**(4.4)**	**(7.4)**
Unallocated	(33.9)	(30.6)	(64.4)
Total EBITA	**68.4**	**73.3**	**160.6**

A strategic review of the business is underway, which may have an impact on the operating segments within the Group, and will be reflected accordingly in subsequent segmental reporting.

Movements in revenue are described in the Results Overview on pages three to five. 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 Europe SBU, revenues in Latin America belong to both the Americas and Europe SBUs and Pace Enterprise revenues are derived from North America, Europe and the Rest of World.

Pace Americas' revenues include the impact of the US business of the 2Wire acquisition that completed in October 2010. Pace Enterprise now includes the non-US 2Wire business, Bewan, acquired in April 2010, and Latens, acquired in November 2010. Both Pace Europe and Pace Enterprise were impacted by profitability issues identified in the May 2011 IMS update.

Unallocated revenues include revenues relating to Pace India, which, due to their materiality, do not warrant separate disclosure. Unallocated EBITA includes the profit impact from such revenues, in addition to head office costs and other unallocated overheads.

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Organic/ acquisitions analysis

To help explain the H1 2011 movements against the H1 2010 comparatives, the following analysis splits out the Group results into the organic business and acquisitions.

	Organic $m	Acquisitions $m	Group $m
Revenue			
H1 2011	**938.4**	**248.7**	**1,187.1**
H1 2010	972.3	5.9	978.2
Gross profit			
H1 2011	**146.7**	**78.9**	**225.6**
H1 2010	180.4	1.2	181.6
Gross margin %			
H1 2011	*15.6%*	*31.7%*	*19.0%*
H1 2010	*18.5%*	*20.3%*	*18.6%*
EBITA			
H1 2011	**39.4**	**29.0**	**68.4**
H1 2010	73.4	(0.1)	73.3
Return on sales %			
H1 2011	*4.2%*	*11.7%*	*5.8%*
H1 2010	*7.5%*	*(1.7)%*	*7.5%*

Organic revenues were 3.5% lower than H1 2010 because of a strong prior period comparator and Pace's exit from the retail market.

Organic gross margins decreased from 18.5% in H1 2010 to 15.6% in H1 2011, reflecting the issues noted in Pace's May 2011 IMS. The issues included adverse supply chain impacts following the Japanese Tsunami, together with a build-up of inventory, which delayed anticipated cost savings. There was also an underperformance in Pace Europe and the Networks division, the later has been resized and is no longer loss making.

Organic administrative expenses were $107.3m (H1 2010: $107.0m).

To provide further illustration of the performance of the acquired companies (reported results from acquisitions in H1 2010 contained 83 days of trading from Bewan), the following table compares the actual H1 2011 results to unaudited pro forma results for the comparative periods.

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	H1 2011 Actual $m	H1 2010 Pro forma $m
Revenue	**248.7**	250.1
Gross profit	**78.9**	68.7
Gross margin %	*31.7%*	*27.5%*
EBITA	**29.0**	6.5
Return on sales	*11.7%*	*2.6%*

Pro forma H1 2010 gross margin for 2Wire was 26.4% after adjusting for a reclassification of overhead costs from cost of sales to administrative expenses for consistency with treatment in H1 2011. Other acquisitions' gross margin lifted pro forma gross margin to 27.5%. The 4.2 percentage point improvement in H1 2011 compared to H1 2010 margins includes a 2ppt impact from the $10m pa expected bill of materials synergies identified at the time of acquisition. In addition, it includes 0.9ppt from product mix and 1.3ppt relating to a non-recurring release of deferred revenue.

Acquisition related overheads in H1 2011 of $49.9m show a reduction of $12.3m compared to pro forma H1 2010 overheads of $62.2m. Expense savings of $20m pa were expected from the acquisitions on an annual basis. However, greater synergies have been achieved through accelerated savings with $12.3m achieved in H1 2011.

Finance Costs

The net interest charge was $9.9m (H1 2010: credit $0.5m) and primarily related to interest and amortisation of fees relating to the debt of $450m, raised to fund acquisitions in October 2010. A blended effective interest rate of 4.3% (H1 2010: nil) applied during the first half; which included the amortisation of $2.7m of the initial cost of raising the loan facilities entered into during 2010.

Taxation

The tax charge of $8.5m (H1 2010: charge $21.3m) results from applying the expected full year effective tax rate of 29%, which is representative of the on-going expected effective tax rate.

The significant items resulting in the deferred tax credit of $4.3m are the amortisation of intangibles and the utilisation of tax losses against profits arising in the first half.

Earnings per share and retained profit

Basic earnings per share was 7.1c (H1 2010: 16.5c). Adjusted basic earnings per share, which removes the impact of the amortisation of other intangibles to reflect underlying performance, was 14.2c (H1 2010: 17.4c).

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Retained profit for the period was $20.9m (H1 2010: $48.6m).

Balance Sheet

Property, plant and equipment increased from $52.7m at 31 December 2010 to $63.6m as a result of purchases of $24.3m and depreciation of $14.3m. The key items of capital expenditure related to: the relocation of Pace's French office; refurbishment of the San Jose, Austin and Saltaire sites (total building costs of $9m); and ongoing investments in the manufacturing sites and costs relating to IT system improvements (total costs of $2.2m); with the balance primarily relating to maintenance capital expenditure.

The movement during the period on goodwill balances reflects foreign exchange movements on non-US dollar denominated balances that are taken to the translation reserve. There was also an adjustment of provisional fair values estimated at 31 December 2010 of $3.2m in respect of a decrease to deferred revenue balances that restated opening goodwill by an equivalent amount.

Other intangibles decreased following an amortisation charge of $29.1m (H1 2010: $3.9m), which included a full six month impact from the 2010 acquisitions, and foreign exchange movements. The total amortisation charge for the year ending 31 December 2011 is expected to be circa $56m. The amortisation period of these intangibles varies from one to ten years, but the majority of the assets are expected to be amortised by the end of 2015.

Provisions of $85.4m (31 December 2010: $86.8m) include provisions for royalties, warranties and the remaining $16.7m of deferred consideration.

Working Capital

	Jun 2011 $m	Dec 2010 $m
Inventory	222.2	222.7
Trade and other receivables	391.6	433.8
Trade and other payables	(495.4)	(541.6)
Less: 2010 exceptional charge payables	2.1	12.9
Net working capital	**120.5**	**127.8**
Inventory days	*44*	*42*
Receivable days	*54*	*55*
Payables days	*67*	*74*

Working capital efficiency remains an important focus of Pace. Excluding the impact of 2010 exceptional items included within trade and other payables overall net working capital has decreased by $7.3m from

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31 December 2010.

In total, inventory levels have remained constant with the year-end. However they include circa $25m (Dec 2010: nil) of raw material components purchased following the Japanese Tsunami in March. It is expected that these components will be utilised during H2 2011 returning components stock to normalised levels.

Trade receivables were $368.8m at 30 June 2011 (31 December 2010: $400.1m) with a slight improvement in receivables days from 55 to 54 days.

Trade payables days have moved from 74 to 67 days reflecting a change in composition of suppliers payable at June 2011 compared with December 2010, with trade payables of $401.3m (31 December 2010: $455.7m).

$10.8m of payables relating to 2010 exceptional charges (recorded within trade and other payables on the balance sheet) were settled in H1 2011, $2.1m of payables relating to these items remain outstanding at June 2011.

Debt

In 2010 Pace raised $450.0m of debt through a $300.0m term loan and a $150.0m revolver facility to fund the acquisitions, primarily 2Wire. The term loan will be repaid over four years via six half yearly payments of $37.5m, commencing June 2011, and a final payment of $75.0m.

The first term loan repayment of $37.5m was paid in the period.

The Group finished the period with net debt of $293.2m (31 December 2010: $311.1m), an improvement of $17.9m.

A key target for the Group is to reduce the balance sheet leverage (calculated as net debt divided by EBITA over the preceding 12 months). At 30 June 2011 this was 1.9x which was in line with the position at 31 December 2010.

Cash Flow

The business continued to be cash generative at an operating level during H1 2011. A key performance measure for the Group is free cash flow[7], which was $41.1m (H1 2010: $41.4m) and represented 60% of adjusted EBITA (H1 2010: 56%). Cash outflows from interest payable were $7.2m (H1 2010: nil). Cash invested in acquisitions in the form of deferred consideration paid was $5.6m (H1 2010: $10.1m). Cash

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[7] Free cash flow is calculated as cash flow before interest, exceptionals, proceeds from issue of shares, acquisition cash flows and debt repayment/draw down

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spent on exceptional costs incurred in 2010, was $10.8m (H1 2010: $1.6m).

Foreign Currency

The Board has decided to change the Company's functional and Group's presentational currency to US dollars ("USD"), given that the significant majority of revenues and costs are generated and incurred in USD following the full integration of 2Wire into the Group in 2011. In the period approximately 81% of the Group's revenues were denominated in USD, 16% in Euros, 2% 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.

Dividend

The Board has declared an interim dividend of 1.25c per share (H1 2010: 1.12c) in line with the progressive dividend policy introduced in 2009 (one-third, two-thirds split between interim and final dividends).

Dividends will be paid in sterling, equivalent to 0.766 pence per share. This is based on an exchange rate of £ = $1.6312, being the rate applicable on 25 July 2011, the date on which the Board resolved to pay the interim dividend.

The dividend will be payable on 9 December 2011 to shareholders on the register on 11 November 2011.

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 2010. They included: customer and market risks, product liability claims, credit risks, royalties, regulatory risks and currency risks. The full Annual Report and Accounts are available at www.pace.com.

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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 their 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
26 July 2011

The directors, who, with the exception of Allan Leighton, all served throughout the period, are:

- Allan Leighton – Chairman*
- Neil Gaydon – Chief Executive Officer
- Stuart Hall – Chief Financial Officer
- David McKinney – Chief Operating Officer
- Patricia Chapman-Pincher – Non-executive director
- John Grant – Non-executive director
- Mike Inglis – Non-executive director
- Mike McTighe – Non-executive director

* Appointed as non-executive Director on 31 May 2011, appointed as non-executive Chairman on 21 June 2011

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Condensed Consolidated Interim Income Statement
for the six months ended 30 June 2011

	Notes	**Unaudited 6 months ended 30 June 2011 $m**	Restated Unaudited 6 months ended 30 June 2010 $m	Restated Audited Year ended 31 December 2010 $m
Revenue	2	**1,187.1**	978.2	2,062.9
Cost of sales		**(961.5)**	(796.6)	(1,667.8)
Gross profit		**225.6**	181.6	395.1
Administrative expenses:				
Research and development expenditure		**(87.2)**	(55.6)	(120.0)
Other administrative expenses				
Before exceptional costs		**(70.0)**	(52.7)	(114.5)
Exceptional costs		**-**	-	(29.5)
Amortisation of intangibles		**(29.1)**	(3.9)	(18.1)
Total administrative expenses		**(186.3)**	(112.2)	(282.1)
Operating profit		**39.3**	69.4	113.0
Finance income – interest receivable		**0.1**	0.5	1.2
Finance expenses – interest payable		**(10.0)**	-	(4.0)
Profit before tax		**29.4**	69.9	110.2
Tax charge	3	**(8.5)**	(21.3)	(32.9)
Profit after tax		**20.9**	48.6	77.3
Profit attributable to:				
Equity holders of the Company		**20.9**	48.6	77.3
Basic earnings per ordinary share (cents)	4	**7.1**	16.5	26.4
Diluted earnings per ordinary share (cents)	4	**6.8**	15.7	25.0

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Condensed Consolidated Interim Statement of Comprehensive Income
for the six months ended 30 June 2011

	Unaudited 6 months ended 30 June 2011 $m	Restated Unaudited 6 months ended 30 June 2010 $m	Restated Audited Year ended 31 December 2010 $m
Profit for the period	**20.9**	48.6	77.3
Other comprehensive income:			
Exchange differences on translating foreign operations	**12.8**	(5.1)	3.3
Exchange differences on change in presentational currency	**-**	(25.6)	(11.8)
Net change in fair value of cash flow hedges transferred to profit or loss gross of tax	**7.1**	(16.1)	(19.4)
Deferred tax adjustment on above	**(2.1)**	4.6	6.2
Effective portion of changes in fair value of cash flow hedges gross of tax	**(19.7)**	45.3	14.1
Deferred tax adjustment on above	**5.9**	(13.9)	(4.7)
Other comprehensive income for the period, net of tax	**4.0**	(10.8)	(12.3)
Total comprehensive income for the period	**24.9**	37.8	65.0
Attributable to:			
Equity holders of the Company	24.9	37.8	65.0

The notes on the following pages are an integral part of the condensed consolidated interim financial statements.

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Condensed Consolidated Balance Sheet
at 30 June 2011

	Notes	**Unaudited 30 June 2011 $m**	Restated Unaudited 30 June 2010 $m	Restated Audited 31 December 2010 $m
ASSETS				
Non Current Assets				
Property, plant and equipment		**63.6**	35.0	52.7
Intangible assets – goodwill		**344.4**	105.5	338.4
Intangible assets – other intangibles		**244.1**	16.4	273.7
Intangible assets – development expenditure		**43.1**	43.2	44.6
Deferred tax assets		**55.6**	3.6	69.9
Total Non Current Assets		**750.8**	203.7	779.3
Current Assets				
Inventories	5	**222.2**	105.2	222.7
Trade and other receivables	6	**391.6**	416.2	433.8
Cash and cash equivalents		**113.9**	140.2	131.4
Current tax assets		**-**	3.3	1.9
Total Current Assets		**727.7**	664.9	789.8
Total Assets		**1,478.5**	868.6	1,569.1
EQUITY				
Issued capital		**28.3**	28.2	28.2
Share premium		**73.0**	72.0	72.6
Merger reserve		**109.9**	109.9	109.9
Hedging reserve		**(11.0)**	21.5	(2.2)
Translation reserve		**(31.2)**	(66.2)	(44.0)
Retained earnings		**228.8**	188.1	211.4
Total Equity		**397.8**	353.5	375.9
LIABILITIES				
Non Current Liabilities				
Other payables		**0.2**	-	6.2
Deferred tax liabilities		**91.0**	22.8	108.5
Provisions	8	**49.0**	33.2	43.9
Borrowings	9	**184.0**	-	219.8
Total Non-Current Liabilities		**324.2**	56.0	378.4
Current Liabilities				
Trade and other payables	7	**495.4**	420.6	541.6
Current tax liabilities		**1.6**	12.4	7.6
Provisions	8	**36.4**	26.1	42.9
Borrowings	9	**223.1**	-	222.7
Total Current Liabilities		**756.5**	459.1	814.8
Total Liabilities		**1,080.7**	515.1	1,193.2
Total Equity and Liabilities		**1,478.5**	868.6	1,569.1

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Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

	Share capital $m	Share premium $m	Merger reserve $m	Hedging Reserve $m	Translation reserve $m	Retained earnings $m	Total equity $m
Balance at January 2010 (restated)	**28.2**	**71.5**	**109.9**	**1.6**	**(35.5)**	**140.2**	**315.9**
Profit for the period	-	-	-	-	-	48.6	48.6
Other comprehensive income	-	-	-	19.9	(30.7)	-	(10.8)
Total comprehensive income for the period ended June 2010	**-**	**-**	**-**	**19.9**	**(30.7)**	**48.6**	**37.8**
Transactions with owners:							
Deferred tax on share options	-	-	-	-	-	(1.1)	(1.1)
Dividends to equity shareholders	-	-	-	-	-	(4.3)	(4.3)
Employee share incentive charges	-	-	-	-	-	4.7	4.7
Issue of shares	-	0.5	-	-	-	-	0.5
Balance at June 2010 (restated)	**28.2**	**72.0**	**109.9**	**21.5**	**(66.2)**	**188.1**	**353.5**
Profit for the period	-	-	-	-	-	28.7	28.7
Other comprehensive income	-	-	-	(23.7)	22.2	-	(1.5)
Total comprehensive income for the period ended December 2010	**-**	**-**	**-**	**(23.7)**	**22.2**	**28.7**	**27.2**
Transactions with owners:							
Deferred tax on share options	-	-	-	-	-	(1.1)	(1.1)
Dividends to equity shareholders	-	-	-	-	-	(3.7)	(3.7)
Employee share incentive charges	-	-	-	-	-	4.7	4.7
Movement in employee share trusts	-	-	-	-	-	(5.3)	(5.3)
Issue of shares	-	0.6	-	-	-	-	0.6
Balance at December 2010 (restated)	**28.2**	**72.6**	**109.9**	**(2.2)**	**(44.0)**	**211.4**	**375.9**
Profit for the period	-	-	-	-	-	20.9	20.9
Other comprehensive income	-	-	-	(8.8)	12.8	-	4.0
Total comprehensive income for the period ended June 2011	**-**	**-**	**-**	**(8.8)**	**12.8**	**20.9**	**24.9**
Transactions with owners:							
Deferred tax on share options	-	-	-	-	-	(1.0)	(1.0)
Dividends to equity shareholders	-	-	-	-	-	(5.8)	(5.8)
Employee share incentive charges	-	-	-	-	-	3.3	3.3
Issue of shares	0.1	0.4	-	-	-	-	0.5
Balance at June 2011	**28.3**	**73.0**	**109.9**	**(11.0)**	**(31.2)**	**228.8**	**397.8**

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Condensed Consolidated Interim Cash Flow Statement
for the six months ended 30 June 2011

	Unaudited 6 months ended 30 June 2011 $m	Restated Unaudited 6 months ended 30 June 2010 $m	Restated Audited Year ended 31 December 2010 $m
Cash flows from operating activities			
Profit before tax	**29.4**	69.9	110.2
Adjustments for:			
Share based payments charge	**3.3**	4.7	9.4
Depreciation of property, plant and equipment	**14.3**	7.0	16.3
Amortisation of development expenditure	**34.9**	27.4	52.0
Amortisation of other intangibles	**29.1**	3.9	18.1
Loss on sale of property, plant and equipment	**-**	-	0.5
Net finance expense / (income)	**9.9**	(0.5)	2.8
Movement in trade and other receivables	**40.3**	(90.6)	(15.6)
Movement in trade and other payables	**(57.5)**	35.2	(23.4)
Movement in inventories	**(0.5)**	30.4	(32.2)
Movement in provisions	**3.7**	10.3	(0.3)
Cash generated from operations	**106.9**	97.7	137.8
Interest paid	**(7.2)**	-	(2.8)
Tax paid	**(17.1)**	(14.8)	(39.2)
Net cash generated from operating activities	**82.6**	**82.9**	**95.8**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	**(5.6)**	(10.1)	(422.4)
Purchase of property, plant and equipment	**(24.3)**	(12.5)	(30.6)
Development expenditure	**(33.2)**	(30.6)	(56.9)
Interest received	**0.1**	0.5	1.2
Net cash used in investing activities	**(63.0)**	**(52.7)**	**(508.7)**
Cash flows from financing activities			
Proceeds from external borrowings	**-**	-	442.6
Repayment of long-term debt	**(37.5)**	-	-
Proceeds from issue of share capital	**0.4**	0.5	1.1
Dividend paid	**-**	-	(8.0)
Purchase of own shares by employee benefit trust	**-**	-	(5.3)
Net cash generated (used in) / from financing activities	**(37.1)**	**0.5**	**430.4**
Net change in cash and cash equivalents	**(17.5)**	**30.7**	**17.5**
Cash and cash equivalents at the start of the period	131.4	118.3	118.3
Effect of exchange rate fluctuations on cash held	-	(8.8)	(4.4)
Cash and cash equivalents at the end of the period	**113.9**	**140.2**	**131.4**

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 30 June 2011

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 2011 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 2011 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 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

The comparative figures for the financial year ended 31 December 2010 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.

This consolidated interim financial information has been reviewed, not audited. The auditors review report for the six month period ended 30 June 2011 is set out on page 27.

Change in functional currency

IAS 21, 'The Effects of Changes in Foreign Exchange Rates', describes functional currency as 'the currency of the primary economic environment in which an entity operates'. The Group and Company now incur and source a significant majority of revenues and costs in US dollars.

The change in functional currency reflects the accumulation over time of those factors which are the main determinants of functional currency. Having considered the aggregate effect of all relevant factors, the directors concluded that this point was reached in the first quarter of 2011, following the integration of 2Wire Inc into the Pace Group. Accordingly, the directors determined that the functional currency of Pace plc had changed to USD from 1 January 2011.

In accordance with IAS 21 this change has been accounted for prospectively from this date.

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Change in presentation currency

From 1 January 2011 the Group also changed its presentation currency to US dollars. Comparative information has been restated in US dollars in accordance with the guidance defined in IAS 21. The 2010 interim and full year income statements and associated notes have been retranslated from pounds sterling to US dollars using the procedures outlined below:

- Assets and liabilities were translated into US dollars at closing rates of exchange.
- Trading results were translated into US dollars at the rates of exchange prevailing at the dates of transaction, or average rates where they are a suitable proxy.
- Share capital, share premium and other capital reserves were translated at the historic rates prevailing at the dates of transactions.
- Differences resulting from the retranslation on the opening net assets and the results for the year have been taken to reserves.

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 the judgements about 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:

Warranties

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

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

Royalties

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

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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

The Board of Directors has determined that, based on its current internal reporting framework and management structure, it has three reportable segments. Such determination is necessarily judgmental in its nature and has been determined for the preparation of the Half Year Financial Information. The level of disclosure of segmental and other information is determined by such assessment.

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.

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

Prior period acquisition

An adjustment of $3.2m has been made to reduce goodwill and deferred income within accruals and other payables relating to the acquisition of 2Wire, provisionally stated in the financial statements for the year ended 31 December 2010. No other adjustments to estimates made, or goodwill, derived at acquisition have been included in the current period.

$5.6m of a total $22.3m in respect of deferred consideration has been paid in the period. The remaining $16.7m is due to be paid partly during H2 2011 and the remainder during H1 2012.

Accounting policies

Except as described elsewhere in these results, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected annual earnings.

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The group has not yet decided when to adopt IFRS 9.

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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.

During the period the Group updated its assessment of operating segments following the continued integration of prior year acquisitions. Segmental information is now provided on the basis of Strategic Business Unit ("SBU") areas, being the basis on which the Group manages its worldwide interests.

This assessment was made based on the current internal reporting framework and management structure. The Group continues to assess these structures and, following the announcement of a strategic review by the Chairman, the internal reporting framework and management structure which is operated presently, may not necessarily be the structure which is operated at the year end.

The Group currently has the following reportable segments:

- Pace Americas
- Pace Europe
- Pace Enterprise

Reconciliations between Pace Americas, Pace Europe, Pace Enterprise and the geographical revenue disclosure given below are not possible, due to the different revenue streams which sit under each reportable segment. Unallocated amounts include central / unallocated revenue, costs and other immaterial SBUs.

Information regarding the results of the reportable segments is included below. Performance is measured based on segmental Earnings before Interest, Tax and Amortisation ("EBITA") before exceptional items, as included in the internal management information that is reviewed by the CODM. This 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. There are no material Inter-segment transactions. Revenues disclosed below materially represent revenues to external customers and where appropriate, pricing is determined on an arm's length basis.

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

6 months ended 30 June 2011	**Pace Americas $m**	**Pace Europe $m**	**Pace Enterprise $m**	**Unallocated $m**	**Total $m**
Segmental income statement					
Revenues	**715.1**	**429.5**	**27.1**	**15.4**	**1,187.1**
EBITA	**84.3**	**25.8**	**(7.8)**	**(33.9)**	**68.4**
Amortisation					**(29.1)**
Interest					**(9.9)**
Tax					**(8.5)**
Profit after tax					**20.9**

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6 months ended 30 June 2010 (restated)	**Pace Americas $m**	**Pace Europe $m**	**Pace Enterprise $m**	**Unallocated $m**	**Total $m**
Segmental income statement					
Revenues	497.3	463.2	7.2	10.5	978.2
EBITA	68.3	40.0	(4.4)	(30.6)	73.3
Amortisation					(3.9)
Interest					0.5
Tax					(21.3)
Profit after tax					48.6

Year ended 31 December 2010 (restated)	**Pace Americas $m**	**Pace Europe $m**	**Pace Enterprise $m**	**Unallocated $m**	**Total $m**
Segmental income statement					
Revenues	1,120.6	918.8	21.0	2.5	2,062.9
EBITA before exceptional items	146.7	85.7	(7.4)	(64.4)	160.6
Exceptional items					(29.5)
Amortisation					(18.1)
Interest					(2.8)
Tax					(32.9)
Profit after tax					77.3

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 2011 $m**	Restated 6 months ended 30 June 2010 $m	Restated Year ended 31 December 2010 $m
Europe	**220.0**	321.2	568.2
North America	**545.1**	358.7	838.9
Latin America	**265.2**	191.3	375.6
Rest of World	**156.8**	107.0	280.2
	1,187.1	978.2	2,062.9

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3 TAX CHARGE

	6 months ended 30 June 2011 $m	Restated 6 months ended 30 June 2010 $m	Restated Year ended 31 December 2010 $m
Total current tax charge	**(12.8)**	(23.8)	(43.0)
Total deferred tax credit	**4.3**	2.5	10.1
Tax charge	**(8.5)**	(21.3)	(32.9)

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 2011 is 29%.

4 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share have been calculated by using profit after taxation, and the average number of qualifying ordinary shares in issue of 293,365,917 (30 June 2010: 294,128,571).

Diluted earnings per ordinary share vary from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic earnings. The diluted number of qualifying ordinary shares was 309,468,050 (30 June 2010: 308,836,368).

To better reflect underlying performance, adjusted earnings per share is also calculated (adjusting profit after tax to remove amortisation of other intangibles, post tax) as below:

	6 months ended 30 June 2011	Restated 6 months ended 30 June 2010	Restated Year ended 31 December 2010
Adjusted basic earnings per ordinary share (cents)	**14.2**	17.4	37.1
Adjusted diluted earnings per ordinary share (cents)	**13.4**	16.6	35.2

5. INVENTORIES

	30 June 2011 $m	Restated 30 June 2010 $m	Restated 31 December 2010 $m
Raw materials and consumable stores	**51.6**	23.2	37.8
Finished goods	**170.6**	82.0	184.9
	222.2	105.2	222.7

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6. TRADE AND OTHER RECEIVABLES

	30 June 2011 $m	Restated 30 June 2010 $m	Restated 31 December 2010 $m
Trade receivables	**368.9**	375.0	400.1
Other receivables	**16.0**	36.5	25.6
Prepayments and accrued income	**6.7**	4.7	8.1
	391.6	416.2	433.8

7. TRADE AND OTHER PAYABLES

	30 June 2011 $m	Restated 30 June 2010 $m	Restated 31 December 2010 $m
Trade payables	**401.3**	347.4	455.7
Social security and other taxes	**4.6**	4.5	3.4
Other payables	**19.0**	20.4	14.6
Accruals	**70.5**	48.3	67.9
	495.4	420.6	541.6

8. PROVISIONS

	Royalties under negotiation $m	**Warranties $m**	**Other $m**	**Total $m**
At 31 December 2010 (restated)	15.0	45.1	26.7	**86.8**
Charge for the period	6.8	5.0	0.9	**12.7**
Utilised	(0.2)	(11.1)	(4.1)	**(15.4)**
Exchange adjustments	-	1.2	0.1	**1.3**
At 30 June 2011	21.6	40.2	23.6	**85.4**
Due within one year	-	15.3	21.1	**36.4**
Due after more than one year	21.6	24.9	2.5	**49.0**

Other provisions relate to onerous leases from acquisition, deferred consideration and retirement provisions in Pace France business.

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9. BORROWINGS

The carrying value of the period end borrowings position is as follows:

	30 June 2011 $m	30 June 2010 $m	31 December 2010 $m
Non-current liabilities			
Bank term loans	**184.0**	-	219.8
Total	**184.0**	-	219.8
Current liabilities			
Bank term loans	**73.1**	-	72.7
Bank revolving credit facility	**150.0**	-	150.0
Total	**223.1**	-	222.7

The face value of the borrowings is $187.5m (31 December 2010: $225m) in respect of bank term loans within non-current liabilities, $75m (31 December 2010: $75m) in respect of bank terms loans within current liabilities and $150m (31 December 2010: $150m) in respect of bank revolving credit facility.

The difference between the face value amounts and the amounts in the above table is $3.5m (31 December 2010: $5.2m) in non-current liabilities and $1.9m (31 December 2010: $2.3m) in current liabilities which represents facility arrangement fees and interest costs.

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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 2011 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 shareholders' equity, the condensed consolidated interim cash flow 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 Services Authority ("the UK FSA"). 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 FSA.

As disclosed in note 1, 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 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Chris Hearld
For and on behalf of KPMG Audit Plc
Chartered Accountants
Leeds
26 July 2011