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 2009

Pace delivers record financial performance in first half

Financial highlights

Please note that the prior half year comparatives include 70 days of contribution from the acquisition of the set-top box business of Royal Philips Electronics (now Pace France) on 21 April 2008.

- Revenue for the period increased to £526.5m, in line with management's upgraded expectations for 2009 (six months ended 30 June 2008: £231.1m);
- Gross margin of 17.2% for the period (six months ended 30 June 2008: 21.0%), reflecting the increased diversification of Pace's product mix;
- Significant improvement in
    - Adjusted[1] operating margin to 6.5% (six months ended 30 June 2008: 5.0%);
    - Adjusted[1] profit before tax to £34.3m (six months ended 30 June 2008: £11.2m) and profit before tax to £31.0m (six months ended 30 June 2008: £10.5m);
- Strong net cash of £48.9m (December 2008: £37.7m);
- Adjusted[1] earnings per share of 8.3p (six months ended 30 June 2008: 3.3p), with basic earnings per share of 7.5p (six months ended 30 June 2008: 3.1p);
- Directors declare an interim dividend of 0.5p per ordinary share (six months ended 30 June 2008: nil).

Operating highlights

- Demand for Pace's products drove strong volume growth to 8.5m units (six months ended 30 June 2008: 2.8m units);
- Significant benefits delivered from continued operational improvements in project delivery and supply chain, and ongoing realisation of synergies from Pace France integration;
- Continued success in winning new customers and launching new products
    - Commenced shipments of HD set-top boxes to Comcast in the US
    - Sky in Germany announced as new HD customer
    - Today announcing Canal Digital as the first operator customer for Pace's MultiDweller™ technology[2]
    - Achieved meaningful market position in fast growing Latin American market;
- 2009 Queen's Award for Enterprise in Innovation recognised Pace's success in high definition TV technology.

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[1] Adjusted is before amortisation of other intangibles. The comparator for 2008 is before exceptionals.
[2] Canal Digital is part of Telenor Broadcast, the leading provider of television and broadcasting services to households and enterprises in the Nordic region.

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

"We are extremely pleased with our half year results as the Pace Group continues to consistently deliver against its customer, technology and product strategies. We signalled significant upgrades to management's expectations for the full year and with strong half year results we are firmly on track.

"Pace is taking full advantage of the growing global demand for our products and technologies in digital payTV markets, which, when coupled with our scale and excellent operational execution is enabling us to grow operating margins. The 6.5% adjusted operating margin achieved in the first half of 2009 puts us on track for our 8% medium term target.

"We expect our strong performance to continue during the second half, and with good order visibility we are confident in our ability to deliver against management's expectations for the full year."

Outlook

Demand for Pace's products and technologies continues to present considerable opportunities across global payTV markets. Pace's strategy and its proven operating model is enabling the Group to capitalise on these opportunities, despite current difficult macro economic conditions.

It is expected that Pace's average selling prices will increase in the second half of 2009 when compared to the first half as a result of the shift in product mix, while margin performance will remain at a similar level to the first half. Given these conditions and good order visibility, the Board remains confident that Pace is on track to meet management expectations for the full year 2009.

Contacts

Sarah West/Jonathan Glass
Brunswick
+44 20 7404 5959

Helen Kettleborough
Pace plc
Today only +44 20 7404 5959
Thereafter +44 1274 538005

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 3 June 2009

Results Overview

Pace has delivered its seventh consecutive period of growth, reporting revenues of £526.5m for the half year ended 30 June 2009 (six months ended 30 June 2008[3]: £231.1m), in line with upgraded management expectations for the full year operating performance as outlined in Pace's trading update on 7 April 2009. During the period Pace also achieved a significant increase in adjusted[4] profit before tax to £34.3m (six months ended 30 June 2008: £11.2m) and closed the period with net cash of £48.9m.

Pace has made considerable progress with its strategy to be a world leader in digital TV technology and has continued to perform well in all of its global markets, including North America and Europe, two of the world's most valuable markets. The Group commenced shipments of HD set-top boxes to Comcast in the US and won Sky in Germany as a new HD customer. The Group's revenues are well balanced with Pace's business in the Americas, accounting for 47.6% of revenues and Europe and the rest of the world delivering 52.4% of revenues. Pace has built on its close customer relationships, ensuring that it is first to market in the creation of high quality products developed to an operator's specific service and network requirements. Pace has over 100 payTV operator customers worldwide, with over 90 different set-top box platforms delivered during the period. The Group's customer base now includes 35 of the world's top 100 payTV operators[5].

The Group is building a new business base in Latin America, a market experiencing real momentum in digital viewing. Pace has developed an enviable customer portfolio with payTV operators including DIRECTV PanAmericana[6], Net Brazil where Pace was recently announced as launch supplier for high definition (HD) set-top boxes, Sky Mexico, Sky Central America and Sky Brazil[7].

Pace shipped 8.5m boxes during the period (six months ended 30 June 2008: 2.8m). The average selling price of £62 (six months ended 30 June 2008: £83) reflects the changing mix of products sold in the period and Pace's ability to create the full range of products its customers require to evolve their services, from low-cost adapters through to powerful HD personal video recorders

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[3] The comparative half includes 70 days of contribution from the acquisition of the set-top box business of Royal Philips Electronics
[4] Adjusted is before amortisation of other intangibles. The comparator for 2008 is before exceptionals.
[5] Screen Digest 2009. The top 100 is ranked on operator revenues. Of the top 100, 29 are in markets Pace considers non-addressable for technical or local supply reasons. On this basis, Pace supplies 49% of the top 100 payTV operators in its addressable markets.
[6] Broadcasting to Argentina, Columbia, Ecuador, Uruguay, Venezuela.
[7] Sky Central America, Mexico and Brazil are part of Liberty Global.

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(PVR[8]). Geographically Pace delivered 3m boxes into EMEA, 0.9m into Latin America, 4.2m into North America and 0.4m into Asia Pacific.

Overall high definition shipments accounted for 57% of Pace's global revenues (six months ended 30 June 2008: 55%). Pace continues to lead in HD PVR deployments, adding three new HD PVR products as operators utilise this technology to attract and retain high-value consumers.

Forty-three per cent of revenues derive from a range of standard definition products and includes ongoing shipments of Pace's new digital converter product for the US market. Pace secured large converter orders in 2008 and was 'first to market' ahead of other suppliers selected by the operator. The converters are designed to free up network bandwidth and enable cable operators to add HD services. These will, in due course, support demand for more HD set-top box products that Pace is already well positioned to provide through its growing US cable product range.

Overall adjusted[9] operating margins increased to 6.5% (six months ended 30 June 2008: 5.0%) through Pace's programme of ongoing operational synergies and business efficiencies and competitive position as a global top three player. Pace now has a more efficient operating structure and is able to develop a higher volume of products of greater complexity without a proportionate increase in overheads. At the same time Pace has continued to invest in the development of customer relationships and on time delivery of new set-top box platforms.

Financial Review

Please note that the prior half year comparatives include 70 days of contribution from the acquisition of the set-top box business of Royal Philips Electronics, now Pace France.

In the six months to 30 June 2009, Pace shipped 8.5m set-top boxes (six months ended 30 June 2008: 2.8m) with revenues of £526.5m (six months ended 30 June 2008: £231.1m). Adjusted[9] profit before tax was £34.3m (six months ended 30 June 2008: £11.2m). Basic earnings per share was 7.5p (six months ended 30 June 2008: 3.1p) with adjusted[10] earnings per share 8.3p (six months ended 30 June 2008: 3.3p).

As anticipated the Group's gross margin was 17.2% (for the six months ended 30 June 2008: 21.0%), as Pace has developed its product portfolio and grown its customer base. Reflecting this changing mix, average selling prices fell from £83 to £62 across Pace's full range of high and low specification set-top boxes. This change also includes lower price point products acquired through

[8] A PVR is a set-top box with integral hard disk drive to record and play back content.
[9] Adjusted is before amortisation of other intangibles. The comparator for 2008 is before exceptionals.

the Pace France business and higher volume shipments of a digital-to-analogue converter product for the Americas cable market.

Administrative expenses, excluding the impact of amortisation of other intangibles and exceptional items, were £57.0m (six months ended 30 June 2008: £36.9m) reflecting the fully integrated costs of the enlarged Group for the complete period (six months ended 30 June 2008: 70 days) and the positive impact of the cost synergies identified in the exceptional charge reported in the 2008 financial statements.

Amortisation of other intangibles was £3.4m relating to trade marks and licence agreements and customer contracts and relationships arising on the acquisition of Pace France. There were no exceptional items in the first half (six months ended 30 June 2008: £0.6m). Other operating income was £0.5m (six months ended 30 June 2008: £nil) from profit on the sale of a property.

The net interest credit was £0.1m (six months ended 30 June 2008: charge £0.4m) reflecting the positive cash balances held throughout the period and the significant decline in interest rates. A tax charge of £9.3m (six months ended 30 June 2008: tax charge £2.6m) relates to a UK tax charge of £4.4m, overseas tax charges of £2.7m and a deferred tax charge of £2.2m. As expected, as a result of having utilised historic tax losses, Pace has now returned to a more normal tax rate.

Retained profit for the period was £21.7m (six months ended 30 June 2008: £7.9m). The directors have declared an interim dividend of 0.5p per ordinary share (2008: nil) payable on 11 December 2009 to shareholders on the register on 13 November 2009.

At 30 June 2009, the net working capital position was £15.8m (31 December 2008: £9.5m), inventory was £81.5m (31 December 2008: £57.2m), mainly due to the increased levels of business with trade and other receivables £175.8m (31 December 2008: £231.0m). The reduction in receivables was primarily due to the timing of revenues with debtor days of 58 (31 December 2008: 55) due to a slight change in customer mix. Trade and other payables was £241.4m (31 December 2008: £278.7m) with creditor days of 55 (31 December 2008: 63) due to changes in the supplier mix. As a result, the Group finished the period with a net cash position of £48.9m (31 December 2008: £37.7m).

Foreign exchange rates continued to be volatile during the period. The Group took decisive action in 2008 to enhance its foreign exchange policy that reduced exposure and provided a stable base for decision making. As a result over 90% of the Group's foreign exchange exposure has been hedged for 2009.

The principal risks and uncertainties facing the Group, including those referred to in note 1 to this Interim Statement, have not changed from those set out in the Annual Report and Accounts for the year ended 31 December 2008.

Growth Drivers

Pace's markets continue to grow as the world moves to digital and payTV operators utilise advances in broadcast and broadband technologies to develop services that engage consumers and deliver income growth. Pace is exceptionally well positioned within this market, through its customer relationships, products and technologies and industry partnerships. Over 490 million set-top boxes are expected to be shipped into the payTV market between 2009 and 2012 with an estimated value of over USD56bn[10]. The demand created by analogue switch-off programmes is also a contributing factor as markets continue to make wide scale switches to digital broadcasting.

High definition television, which improves picture quality by a factor of four, is the fastest growing set-top box market segment: in 2008 17% of global shipments into the payTV market were for HD boxes, but by 2013 it will be over 35%. By the end of 2008 less than 3% of homes in Western Europe were HD, but by 2013 over 31%[10] will have made the transition. Pace reiterates its view of HD as a strong growth driver for the business going forwards.

Pace is a leader in HD technology and has delivered more than 20 unique HD PVR platforms for payTV operators in all major global markets, an achievement unmatched by any competitor. An increasing number of operators are launching HD non-PVRs as their entry-level set top box for both standard and high definition subscribers. This approach gives operators future upgrade opportunities that make commercial sense due to the narrowing price differential between standard and HD products. Pace anticipated this move and is already delivering boxes to fulfil this new demand, alongside the development of next generation HD opportunities, including hybrid platforms that combine broadcast with broadband content delivery. Hybrid products are being used by satellite and terrestrial operators to add 'on demand' content services that are popular with consumers and much more easily offered by cable and IPTV operators.

Today Pace provides hybrid products to BT Vision and Canal+ with their Le Cube. According to Screen Digest Pace provide two of the world's four hybrid satellite payTV platforms and by 2013 expects 24.3m service-supported hybrid satellite set-top boxes to be installed in subscriber homes. Pace has utilised its skills in IPTV products to develop its new hybrid boxes. Pace also targets the

[10] Source: Screen Digest 2009.

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'pure' IPTV market, which the Group expects to be an important, albeit a relatively smaller market than the much larger satellite and cable segments.

Pace has begun to position its products and technologies to be at the heart of convergence in the digital TV home. The set-top-box, particularly new hybrid PVRs, is perfectly placed to establish a TV-driven home network: it is a cost-effective, secure and trusted device and the corner stone of payTV on which the economics of many media and sports industries depend. Pace expects to start its first commercial rollout of a home networking product within the next 12 months, an important market development that is expected to be a growth driver for Pace. The introduction of home networks will open up Pace's opportunity in the delivery of converged entertainment in the home, going beyond the TV content.

Another Pace growth driver is MultiDweller and the Group has today announced our first customer, Canal Digital, the leading television distributor in the Nordic market[11]. Canal Digital will use MultiDweller to enhance its payTV operations in the Scandinavian market. MultiDweller will also simplify the delivery of high definition and other advanced television services, helping the operator to increase its reach across hard-to-reach multidweller subscribers in the Nordic market.

MultiDweller makes it possible for payTV and other entertainment operators to sell converged triple play services into managed and closed networks, such as payTV for apartment blocks.

Other developments

To drive the ongoing development of the Group's future strategy in the global market for digital TV technology, the Group announced on 29 June 2009 the appointment of Scott Sheldon as its first Chief Strategy Officer. Scott has joined the Pace Executive team from N M Rothschild & Sons where he was a Director and Global Head of Technology Investment Banking covering hardware, software, services and semi-conductor clients on a global basis.

On 17 April 2009 Koninklijke Philips Electronics N.V. placed its remaining Pace shares, received as consideration for the sale of their set-top box and connectivity solutions business.

[11] Canal Digital is part of Telenor Broadcast, the leading provider of television and broadcasting services to households and enterprises in the Nordic region.

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Pace®

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

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

  (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Anthony J Dixon

Company Secretary

27 July 2009

The Directors, who all served throughout the period, are:

- **Mike McTighe** – 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

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CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE 6 MONTHS ENDED 30 JUNE 2009

	Note	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008 £000	12 months ended 31 Dec 2008 £000
Revenue	2	526,543	231,052	745,475
Cost of sales		(435,891)	(182,618)	(610,268)
Gross profit		90,652	48,434	135,207
Administrative expenses:				
Research and Development expenditure		(31,112)	(22,194)	(60,480)
Other administrative expenses Before exceptional items		(25,872)	(14,708)	(45,553)
Exceptional integration costs	3	-	(628)	(10,962)
Amortisation of other intangibles		(3,352)	-	(3,715)
Total Administrative expenses		(60,336)	(37,530)	(120,710)
Other operating income		508	-	-
Operating profit		30,824	10,904	14,497
Finance income – interest receivable		145	59	202
Finance expenses – interest payable		-	(434)	(871)
Profit before tax		30,969	10,529	13,828
Tax charge	4	(9,291)	(2,636)	(2,774)
Profit after tax		21,678	7,893	11,054
Profit attributable to:				
Equity holders of the Company		21,678	7,893	11,054
Basic earnings per ordinary share	5	7.5p	3.1p	4.0p
Diluted earnings per ordinary share	5	7.3p	3.1p	3.9p

All figures presented on pages 9 to 19, for the 6 months ended 30 June 2009 and 30 June 2008, are unaudited. The figures in respect of the 12 months ended 31 December 2008 are audited.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE 6 MONTHS ENDED 30 JUNE 2009

	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008* £000	12 months ended 31 Dec 2008 £000
Profit for the period	**21,678**	**7,893**	**11,054**
Other comprehensive income:			
Exchange differences on translating foreign operations	(10,747)	177	12,580
Net change in fair value of cash flow hedges transferred to profit or loss gross of tax	5,261	-	(828)
Deferred tax adjustment on above	(1,591)	-	240
Effective portion of changes in fair value of cash flow hedges gross of tax	(11,202)	-	(4,495)
Deferred tax adjustment on above	3,419	-	1,300
Other comprehensive income for the period, net of tax	**(14,860)**	**177**	**8,797**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**6,818**	**8,070**	**19,851**
Total comprehensive income attributable to:			
Equity holders of the Company	6,818	8,070	19,245

* Restated to reflect final goodwill and fair value adjustments on acquisition of Pace France, made after 30 June 2008 (see note 1)

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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AT 30 JUNE 2009

	Note	30 Jun 2009 £000	30 Jun 2008* £000	31 Dec 2008 £000
ASSETS				
Non Current Assets				
Property, plant and equipment		15,813	11,205	14,702
Intangible assets – goodwill		67,261	63,423	76,337
Intangible assets – other intangibles		16,482	21,812	22,744
Intangible assets – development expenditure		27,346	27,923	26,490
Available for sale financial assets		-	349	349
Deferred tax assets		9,299	3,474	7,119
Total Non Current Assets		136,201	128,186	147,741
Current Assets				
Inventories		81,473	33,937	57,229
Trade and other receivables		175,793	140,536	231,009
Cash and cash equivalents		48,929	13,669	37,717
Current tax assets		2,898	-	204
Total Current Assets		309,093	188,142	326,159
Total Assets		445,294	316,328	473,900
EQUITY				
Issued capital		14,996	14,934	14,949
Share premium		37,521	36,885	37,023
Merger reserve		55,490	55,490	55,490
Hedging reserve		(7,896)	-	(3,783)
Translation reserve		2,258	602	13,005
Retained earnings		54,991	27,008	27,245
Total Equity		157,360	134,919	143,929
LIABILITIES				
Non Current Liabilities				
Other Payables		1,969	3,937	-
Deferred tax liabilities		12,537	9,491	15,733
Provisions	6	15,674	18,122	17,566
Total Non Current Liabilities		30,180	31,550	33,299
Current Liabilities				
Trade and other payables		241,419	136,326	278,718
Current Tax liabilities		4,364	739	-
Provisions	6	11,971	12,794	17,954
Total Current Liabilities		257,754	149,859	296,672
Total Liabilities		287,934	181,409	329,971
Total Equity and Liabilities		445,294	316,328	473,900

* Restated to reflect final goodwill and fair value adjustments on acquisition of Pace France, made after 30 June 2008 (see note 1)

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	11,684	36,885	-	-	425	18,608	67,602
Total comprehensive income for the period	-	-	-	-	177	7,893	8,070
Employee share incentive charges	-	-	-	-	-	461	461
Movement in employee share trusts	-	-	-	-	-	46	46
Issue of shares	3,250	-	55,490	-	-	-	58,740
Balance at 30 June 2008*	14,934	36,885	55,490	-	602	27,008	134,919
Total comprehensive income for the period	-	-	-	(3,783)	12,403	3,161	11,781
Deferred tax on share options	-	-	-	-	-	(606)	(606)
Employee share incentive charges	-	-	-	-	-	550	550
Movement in employee share trusts	-	-	-	-	-	(2,868)	(2,868)
Issue of shares	15	138	-	-	-	-	153
Balance at 31 December 2008	14,949	37,023	55,490	(3,783)	13,005	27,245	143,929
Total comprehensive income for the period	-	-	-	(4,113)	(10,747)	21,678	6,818
Deferred Tax on share options			-	-	-	3,954	3,954
Employee share incentive charges	-	-	-	-	-	755	755
Movement in employee share trusts	-	-	-	-	-	1,359	1,359
Issue of shares	47	498	-	-	-	-	545
Balance at 30 June 2009	14,996	37,521	55,490	(7,896)	2,258	54,991	157,360

* Restated to reflect final goodwill and fair value adjustments on acquisition of Pace France, made after 30 June 2008 (see note 1)

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CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
FOR THE 6 MONTHS ENDED 30 JUNE 2009

	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008 £000	12 months ended 31 Dec 2008 £000
Cash flows from operating activities			
Profit before tax	30,969	10,529	13,828
Adjustments for:			
Share based payments charge	755	461	1,011
Depreciation of property, plant and equipment	3,401	2,240	4,504
Amortisation of development expenditure	17,210	8,449	21,895
Amortisation of other intangibles	3,352	-	3,715
(Profit)/loss on sale of property, plant and equipment	(600)	13	-
Net financial (income)/charges	(145)	375	669
Movement in trade and other receivables	55,216	22,747	(67,810)
Movement in trade and other payables	(41,196)	(5,953)	124,572
Movement in inventories	(24,244)	4,793	(19,188)
Movement in provisions	(7,875)	(507)	4,098
Cash generated from operations	36,843	43,147	87,294
Interest paid	-	(396)	(993)
Tax paid	(4,244)	(774)	(3,584)
Net cash used in operating activities	32,599	41,977	82,717
Cash flows from investing activities			
Purchase of property, plant and equipment	(5,386)	(2,625)	(6,584)
Acquisition of subsidiary, net of cash acquired	949	(3,134)	(3,134)
Development expenditure	(19,265)	(10,881)	(20,995)
Interest received	147	59	200
Net cash used in investing activities	(23,555)	(16,581)	(30,513)
Cash flows from financing activities			
Proceeds from issue of share capital	545	224	376
Proceeds from exercise of employee share options	1,359	46	407
Purchase of own shares by employee benefit trust	-	-	(3,229)
Net cash generated from financing activities	1,904	270	(2,446)
Net change in cash and cash equivalents	10,948	25,666	49,758
Cash and cash equivalents at start of period	37,717	(12,094)	(12,094)
Effect of exchange rate fluctuations on cash held	264	97	53
Cash and cash equivalents at end of period	48,929	13,669	37,717

NOTES

1 BASIS OF PREPARATION

This unaudited interim financial information is for the 6 month period ended 30 June 2009 and is prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and under the historical cost convention as modified by the revaluation of derivative instruments.

The statutory annual financial statements for the year ended 31 December 2008 were prepared in accordance with adopted IFRS.

As required by the Disclosure and Transparency Rules of the Financial Services Authority the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2008.

INTERIM FINANCIAL INFORMATION

The condensed financial information is not the Company's statutory accounts. The interim financial information for the 6 month periods ended 30 June 2008 and 30 June 2009 has not been audited but has been reviewed by the auditors. Their review report for the 6 month period ended 30 June 2009 is set out on page 19. Figures for the 12 month period ended 31 December 2008 are extracted from the Company's consolidated statutory financial statements for that financial year. Those financial statements have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Provisional goodwill and fair value adjustments were made in the interim financial information for the 6 month period ended 30 June 2008. Such adjustments were finalised in the statutory financial statements for the 12 month period ended 31 December 2008. In accordance with IFRS 3 "Business Combinations", such final adjustments have now been reflected in the financial information as at 30 June 2008. The final adjustments have been to separately reflect Intangible Assets - Other Intangibles (£21,640,000), reduce Intangible Assets – Development Expenditure (£3,660,000), increase Current Assets (£2,421,000), increase Non Current Liabilities (£8,220,000) and a consequential overall reduction in Intangible assets – Goodwill by £11,785,000. There is no material impact from these adjustments on reported profit for the period.

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.

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

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY (CONTINUED)

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.

Contingent liabilities

1. EU Import duty classification

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

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

As of the date of this announcement, an assessment has been received from HMRC in an amount of £7.7m. Having taken legal advice management's best estimate is that no material outflow of economic benefit would be required to discharge this obligation. Accordingly Pace, in common with other affected importers, is carrying out an appeal against the retrospective assessment made to defend its position on this matter. As such, at 30 June 2009 any potential liability should be considered contingent.

2. Writ Issued against Company

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

Change in accounting policy

Determination and presentation of operating segments

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

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY (CONTINUED)

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

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

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

Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as of and for the six months period ended on 30 June 2009.

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

GOING CONCERN

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

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

2 Revenue

	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008 £000	12 months ended 31 Dec 2008 £000
The geographical analysis of revenue by destination is as follows:			
United Kingdom	41,192	31,453	110,251
Continental Europe	185,839	76,468	239,109
Far East and Australasia	42,993	31,896	81,883
Americas	250,504	86,592	300,161
Rest of world	6,015	4,643	14,071
	526,543	231,052	745,475

The CEO reviews internal management reports on a monthly basis. Based on the information provided to the CEO, who is the chief operating decision maker, the Group has determined that the business has one reporting segment.

3 Exceptional items

	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008 £000	12 months ended 31 Dec 2008 £000
Restructuring and reorganisation costs	-	-	(8,946)
Integration costs	-	(628)	(2,016)
	-	(628)	(10,962)

4 Tax charge

	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008 £000	12 months ended 31 Dec 2008 £000
The tax charge is based on the estimated effective rate of taxation and represents:			
Current tax:			
UK tax charge	(4,365)	-	-
Overseas tax charge	(2,691)	(1,051)	(2,921)
Total current tax charge	(7,056)	(1,051)	(2,921)
Deferred tax:			
Origination and reversal of timing differences	(3,051)	(2,009)	1,097
Adjustment in respect of previous periods	816	424	(950)
Total deferred tax (charge)/credit	(2,235)	(1,585)	147
Tax charge	(9,291)	(2,636)	(2,774)

5 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 of 5p in issue of 288,483,268 (2008: 254,539,721).

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 295,633,623 (2008: 258,832,041).

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) as below:

	6 months ended 30 Jun 2009 £000	6 months ended 30 Jun 2008 £000	12 months ended 31 Dec 2008 £000
Adjusted basic earnings per ordinary share	8.3p	3.3p	7.8p
Adjusted diluted earnings per ordinary share	8.1p	3.2p	7.7p

6 Provisions

	Royalties under negotiation £000	Warranties £000	Othe £00	Total £000
At 31 December 2008	8,811	21,448	5,261	35,520
Charge for the period	596	5,583	-	6,179
Utilised	(140)	(8,936)	(3,686)	(12,762)
Exchange adjustments	-	(805)	(487)	(1,292)
At 30 June 2009	9,267	17,290	1,088	27,645
Due within one year	*-*	*10,883*	*1,088*	*11,971*
Due after more than one year	*9,267*	*6,407*	*-*	*15,674*

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

7 Acquisition in the previous period

The acquired business in the previous period relates to the set-top box and connectivity solutions business of Royal Philips Electronics ("Pace France"). Pace France employs approximately 335 staff predominantly based in France and is a leading designer and supplier of a range of digital TV products including satellite, cable, terrestrial and IPTV set-top box products. A 100% interest was purchased on 21 April 2008.

The consideration payable is made up of:

	£000
Share issued (64,481,049) at market value	58,517
Deferred and contingent consideration	3,937
Acquisition fees	3,134
Acquisition consideration payable	65,588

The acquisition has been accounted for using the purchase method as required by IFRS 3. The fair value of net assets/(liabilities) acquired and goodwill and intangible assets arising was as follows:

	Book value prior to acquisition	Fair value adjustments	Fair value of net assets/ (liabilities) acquired
	£000	£000	£000
Intangible fixed assets – development expenditure	16,450	(6,841)	9,609
Intangible fixed assets – other	-	21,640	21,640
Tangible fixed assets	2,212	-	2,212
Deferred tax liability	(5,758)	(3,733)	(9,491)
Current assets	70,964	-	70,964
Current liabilities	(70,516)	(1,171)	(71,687)
Non-current liabilities	(9,658)	(1,563)	(11,221)
Total net assets/(liabilities) acquired	3,694	8,332	12,026
Goodwill recognised			53,562
Total investment cost (as above)			65,588

The fair value adjustments include an adjustment to capitalised development expenditure to align accounting methodologies and the establishment of provision for onerous lease and warranty costs.

The separately identified intangibles consist of balances relating to trademark and licence agreements, Know-How and customer contracts and associated relationships.

Goodwill recognised on acquisition is attributable to the skills and technical talent of the acquired business workforce, and the synergies expected to be achieved from integrating the business into the existing business.

From the date of acquisition (21 April 2008) to 31 December 2008, the contribution of Pace France to the Group results was as follows:

	£000
Revenue	292,909
Profit before tax, amortisation and exceptional items	8,400

Proforma results for the Group for the year ended 31 December 2008, on the basis that the acquisition had been made at the beginning of the period, are as follows:

	£000
Revenue	865,020
Profit before tax, amortisation and exceptional items	27,077

The above figures do not include the amortisation of the separately identified intangibles, which consists of a £3.7m charge in the period to 31 December 2008. The intangible assets are being amortised over various periods ranging from 1 year to 5 years.

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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 2009 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 2009 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
27 July 2009