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Pace plc Preliminary results for the year ended 31 December 2008

Pace announces record growth, upgrades outlook and initiates dividend

Saltaire, UK, 3 March 2009: Pace, the leading independent developer of digital TV technologies for the global payTV industry, announces its results for the year to 31 December 2008.

Please note Pace changed its year end to December in 2007 and acquired Royal Philips Electronics set-top box business (Pace France) in April 2008. Accordingly prior year comparatives are for 7 months only and do not include Pace France. Organic growth comparisons refer to the Pace business, excluding the addition of Pace France figures.

Financial Highlights

- Record revenues of £745.5m (seven months ended 31 December 2007: £249.9m).
- Adjusted[1] Group profit increased significantly to £28.5m (seven months ended 31 December 2007: £15.4m). Profit before tax was £13.8m (seven months ended 31 December 2007: £15.4m).
    - Organic growth saw revenues increase to £452.6m and profit before tax, amortisation of other intangibles and exceptional items to £20.1m.
    - Pace France delivered a strong contribution with revenues of £292.9m and profit before tax, amortisation of other intangibles and exceptional items of £8.4m (for the period 21 April to 31 December 2008).
- Strong balance sheet with net cash of £37.7m (seven months ended 31 December 2007: net borrowings £12.1m) and new banking facilities.
- Gross margin 18.1% (seven months ended 31 December 2007: 20.3%), reflecting the increased diversification of the enlarged Group product mix.
- Basic earnings per share of 4.0p (seven months ended 31 December 2007: 6.3p), with adjusted[1] earnings per share of 7.8p.
- Exceptional charges of £11.0m, including £2m costs relating to the successful Pace France integration, which will deliver future ongoing savings.
- Initiation of dividend, with full-year dividend of 0.6p recommended.

Operating Highlights

- Record operating performance
    - Volume shipments increased substantially to 13.1m set-top boxes (seven months ended 31 December 2007: 2.4m), including nearly 6 million from Pace France.

[1] Adjusted profit before tax and amortisation of other intangibles and exceptional items.

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- Increased market share through the Pace France acquisition and organic growth, becoming a top three global player.
- A series of high profile products were launched
    - Over 20 new high definition PVR products for markets worldwide, unmatched by any competitor.
    - A digital to analogue converter (DTA) for the US cable market ahead of all major competitors.
- Winner of a 2008 Queen's Award for International Trade.

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

"Pace delivered excellent results in 2008, with record revenues and shipments. We achieved a significant increase in profits, including the first contribution from our successful Pace France acquisition and we have delivered on our strategy to become a top three player in the global payTV market. We set out our ambitions to grow Pace's market share, but we have also placed a major emphasis on building a resilient business: I am very pleased to see that this strength enabled us to deliver such strong growth against a backdrop of economic downturn.

"The payTV sector is a major focus for the Group: the service delivered by the payTV industry to consumers is one of the best value forms of home entertainment available, and the increase in availability and quality of these services, such as high definition and PVR capability, is driving rapid growth in the sector. Our focus on having the right products, at the right time, to fuel the digital TV revolution has delivered excellent results and we will continue to grow market share.

"As Pace enters 2009, the Group is in a strong position to capture new opportunities in the global shift to digital TV. Pace has seen little impact on demand for its products but continues to take a prudent and cautious view of the market, in particular, monitoring trends for any impact of the global economic climate. However, due to new business wins, customary good order visibility, foreign exchange management and global operational synergies, the Board is now able to significantly raise expectations for Pace's 2009 performance and pay a dividend."

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Pace plc Preliminary Results for the year ended 31 December 2008

Results Overview

During 2008 Pace underwent a transformation. As a result of the Group's strategy to focus on organic growth and a successful acquisition of the set top box business of Royal Philips Electronics (now Pace France), Pace is now one of the top three players in the global set-top box market[2].

This was achieved through Pace's approach of working with world-leading payTV operators to create new set-top box technologies to fuel the digital TV revolution. This approach, developed over the past twenty years, has enabled Pace to be first to market with many of the new technologies that have changed the way consumers watch TV. The combination of timely technological innovation and deep customer relationships has enabled Pace to establish and exploit its industry leadership.

Pace now has an unrivalled number of leading payTV operator customers and in 2008 launched a significant number of new products, in particular high definition and PVR, that enabled the Group to grow market share. In total Pace launched over 20 high definition PVR products, an achievement unmatched by any competitor. In addition, Pace launched a new digital cable adapter for Comcast, the largest order in Pace's history, which was executed ahead of schedule.

Following the acquisition of Pace France, Pace now operates from three main geographic bases; Pace UK, Pace France and Pace Americas. Each of these businesses sell bespoke products to a range of customers across different geographies and have continued to win new customers and expand market share with many of their existing operator customers. This has enabled Pace to maintain a balance of revenues from a wide range of customers around the world.

Pace achieved record growth in revenues and shipments of £745.5m and 13.1m set-top boxes respectively and significantly increased profit before tax, exceptional items and amortisation of other intangibles to £28.5m. Profit before tax was £13.8m (seven months ended 31 December 2007: £15.4m). Revenues increased organically to £452.6m and profit before tax, amortisation of other intangibles and exceptional items to £20.1m. Pace France made its first contribution with revenues of £292.9m and profit before tax, amortisation of other intangibles and exceptional items of £8.4m (for the period 21 April to 31 December 2008).

[2] Screen Digest, January 2009

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Pace sold 4.7m set-top boxes into the EMEA region (seven months ended 31 December 2007: 1.3m), with shipments into APAC of 1.1m (seven months ended 31 December 2007: 0.2m). Americas shipments totalled 7.3m units (seven months ended 31 December 2007: 0.9m). Pace's success in global markets was recognised with a Queen's Award for International Trade.

Pace entered 2008 benefiting from the management team's focus on creating an optimal operational structure. This has created a resilient and flexible customer centric business which was able to be managed effectively through the market and currency turmoil in the second half of 2008. Pace is already benefiting from the measures to manage costs and mitigate foreign exchange risk that were outlined in November 2008.

The Company continued to generate cash and closed the year with a positive net cash balance of over £37m. Following this strong performance the Board is delighted to announce that it will be recommending the initiation of a dividend, the first such payment to shareholders of a full year dividend of 0.6p per share. The dividend will be paid on 3 July to those shareholders on the register at close of business on 5 June. Going forward the Board intends to pursue a progressive dividend policy paying in the region of a one third, two thirds split between interim and final dividends.

Pace France

Pace France was acquired on 21 April 2008 for a consideration of £65.6m. The team made excellent progress in the integration programme. Pace France moved into profitability within three months, ahead of schedule, with overall contributed revenues of £292.9m with profit before tax, amortisation of other intangibles and exceptional items of £8.4m on volumes of 5.7m set-top boxes. For the twelve months ended 31 December 2007, Pace France recorded a loss before tax of £34m.

The acquisition added 20 customers, over 30 products, IPTV and a retail capability to the Group portfolio, enabling Pace to noticeably expand its global scale and footprint. Pace France has continued to win repeat business and launch new products, which so far has included a contract win with BT in the UK for its next-generation V-box, a hybrid HD-capable PVR due for delivery in 2009 and the launch of Le Cube for French operator CANAL+, Europe's first satellite / IP hybrid set-top box.

Pace is now seeing the benefits of the acquisition both in terms of the added scale and associated cost savings, which the management team is now building on. A series of operational efficiencies has been delivered, helping to bring together the two businesses to function efficiently

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and save significant costs for the whole Group. These include consolidating the supply chain, which has reduced management complexity, and increased economies of scale. The volume of components Pace now purchases has brought its own immediate impact in terms of price and negotiation, and, in addition, the diversity of components between the two businesses has been reduced to drive further purchasing economies of scale and reduce bill of material maintenance.

Efficiencies have also been made in the after sales and support group, and in core IT functions. Additional benefits, both in management time and cost savings, are expected during 2009.

Financial Review

In the year, Pace shipped 13.1m set-top boxes (seven months ended 31 December 2007: 2.4m) with revenues of £745.5m (seven months ended 31 December 2007: £249.9m). Profit before tax, exceptional items and amortisation of other intangibles was £28.5m (seven months ended 31 December 2007: £15.4m). Amortisation of other intangibles was £3.7m (seven months ended 31 December 2007 £nil).

There was an exceptional charge of £11.0m, which includes the previously advised £2m cost of the Pace France integration programme, a £4.2m cost for the planned closure of an existing Pace office in Grenoble and for costs due to synergies identified in the newly enlarged Pace business. These exceptional costs will deliver future ongoing savings.

As anticipated the Group's gross margin moved to 18.1% from 20.3%, due to a changing mix of high and low specification products, where average selling prices moved from £102 to £57. This has included an impact from products acquired through Pace France, which typically have a lower average selling price. Over time the impact of the synergies discussed above, across the Group will provide the opportunity to increase gross margins for the set-top box business towards historically higher levels.

All new product launches must pass an internally defined return on sales (ROS) benchmark before moving into development. Pace benchmarks its performance using a number of financial measures, but focuses on ROS as this reflects the benefit of volume impact rather than just margin.

Administrative expenses, which include Pace France and excluding the impact of IAS38, amortisation and exceptionals, were £105.1m (seven months ended 31 December 2007: £37.2m). R&D spend before the capitalisation and amortisation of development expenditure in line with IAS38 was £59.6m (seven months ended 31 December 2007: £21.5m) as Pace continued to invest in higher specification products such as HD PVR and new technologies and

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incorporated the overhead base from Pace France. An IAS38 charge of £0.9m (seven months ended 31 December 2007: credit £2.2m) is reflected in the income statement.

The interest charge was £0.7m (seven months ended 31 December 2007: £0.5m) reflecting a net borrowings position during part of the period. A tax charge of £2.8m (seven months ended 31 December 2007: tax charge £0.9m) relates to overseas tax charges of £2.9m and a deferred tax credit of £0.1m. From 2009 onwards, as a result of having utilised historic tax losses, Pace expects to return to a more normal tax rate. Retained profit for the period was £11.1m (seven months ended 31 December 2007: £14.4m).

The Group finished the year with a net cash position of £37.7m (31 December 2007: net borrowings £12.1m). The improvement in the cash position was a feature of the level of profitability in the year, together with the return to a more normalised working capital position compared to that at the previous period end. A new £35m revolving credit facility was secured with the Royal Bank of Scotland.

The balance sheet at 31 December 2008 reflects the impact of the assets and liabilities relating to the acquisition of Pace France. The main working capital items acquired at 21 April 2008 consisted of inventories of £9.4m, trade and other receivables of £61.6m and trade and other payables of £71.7m.

The acquisition of Pace France introduced significant Euro revenues whilst the large majority of the group's costs are in US$, reflecting component purchasing in the electronics industry which has traditionally been US$ denominated. In Q4 2008 there was very significant volatility in foreign exchange rates, which, whilst having minimal impact in 2008, did impact the outlook at that time for 2009. To minimise this impact management reacted quickly, enhancing the Group's foreign exchange policy and de-risking its foreign exchange exposure through a review of costs, projects and expenditure, as well as working with the value chain to better align the balance of exposure between purchases and sales in different currencies. As a result, over three quarters of expected 2009 revenues are now hedged and managed to match foreign exchange exposures.

The principal risks and uncertainties facing the Group, including those referred to in note 1 to this preliminary statement, have not changed from those set out in the 2007 Annual Report and Accounts.

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Market drivers

As one of the world's top three suppliers of digital set-top box technology, the Group is now able to leverage its much increased scale and build on its reputation for being first to market with new technology products. Pace has built its leadership position through close, and typically long-term, customer relationships and a product portfolio that addresses a full range of payTV operator requirements from lower-specification digital adapters through to the latest high definition personal video recorder (HD PVR) platforms via satellite, cable, IPTV, terrestrial or broadband.

The set-top box market will continue to grow as consumers around the world switch to digital and invest in new high definition and PVR products, and prioritise TV-led home entertainment spend ahead of other discretionary expenditure. Pace is primarily focussed on the payTV market and by 2012 global payTV revenues are forecast to reach $182bn, in an overall market for digital TV that will see annual set-top box shipments reach 200 million units per year[3].

As Pace's markets continue to grow, the Group is actively looking at opportunities to leverage its leadership in encrypted digital TV. The speed of demand will be driven by payTV operators seeking to utilise new technology in the competition for subscribers and triple-play revenues. This will create continued demand for Pace's increasingly sophisticated HD and PVR products and for low-cost digital to analogue adapters that will facilitate the analogue switch-off, freeing-up bandwidth for more high definition content. At the same time Pace is establishing its position in the market for converged home entertainment, a key focus for longer-term product opportunities. TV is the most technically difficult element of delivering entertainment convergence in the home, which Pace is well positioned to exploit as operators seek out 'whole home' entertainment solutions.

In the wider market, government-mandated analogue switch off schemes, underway in many of the major digital TV markets, and programmes such as the UK's Digital Britain initiative, will drive demand across a wide range of digital set-top boxes. Innovation, particularly in the payTV entertainment industry, is delivered through the set-top box, which is constantly evolving with each new product generation improving the quality and extent of the digital viewing experience.

These opportunities, within the context of a conservative and measured view of the market and the economy, do, when combined with Pace's market position and its diversified blue-chip customer base, give management increasing confidence in the medium to long-term potential for the business to continue to outperform.

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[3] Screen Digest, January 2009

Pace's MultiDweller™, which opens up a new market for Pace in the infrastructure sector for higher value, higher margin equipment, is now moving into commercial deployment with its first operator customers. The product makes it possible for payTV and other entertainment operators to sell their convergent triple play services in places such as apartment blocks and hotels that are today difficult and expensive to access. In Europe alone over 50% of households are in multi-dwelling units. To date Pace has taken a cautious approach to the potential impact this new line of business may have, but as commercial deployments are closer Pace's confidence in the product and the market it will address continues to grow.

Outlook

As Pace enters 2009, the Group is in a strong position to capture new opportunities in the global shift to digital TV. Pace has seen little impact on demand for its products but continues to take a prudent and cautious view of the market, in particular, monitoring trends for any impact of the global economic climate. However, due to new business wins, customary good order visibility, foreign exchange management and global operational synergies, the Board is now able to significantly raise expectations for Pace's 2009 performance and pay a dividend.

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CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Revenue	2	745,475	249,875
Cost of sales		(610,268)	(199,040)
Gross profit		135,207	50,835
Administrative expenses:			
Research and Development expenditure		(60,480)	(19,293)
Other administrative expenses:			
Before exceptional costs & amortisation		(45,553)	(15,656)
Exceptional costs	3	(10,962)	-
Amortisation of other intangibles		(3,715)	-
Total Administrative expenses		(120,710)	(34,949)
Operating profit		14,497	15,886
Finance income		202	53
Finance expenses		(871)	(589)
Profit before tax		13,828	15,350
Tax charge	4	(2,774)	(935)
Profit after tax		11,054	14,415
Attributable to:			
Equity holders of the Company		11,054	14,415
Basic earnings per ordinary share	5	4.0p	6.3p
Diluted earnings per ordinary share	5	3.9p	6.1p

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CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Note	31 Dec 2008 £000	31 Dec 2007 £000
ASSETS			
Non Current Assets			
Property, plant and equipment		14,702	8,621
Intangible assets – goodwill	7	76,337	9,436
Intangible assets – other intangibles	7	22,744	-
Intangible assets – development expenditure		26,490	15,882
Available for sale financial assets		349	349
Deferred tax assets		7,119	5,059
Total Non Current Assets		147,741	39,347
Current Assets			
Inventories		57,229	28,668
Trade and other receivables		231,009	102,382
Cash and cash equivalents		37,717	-
Current tax assets		204	-
Total Current Assets		326,159	131,050
Total Assets		473,900	170,397
EQUITY			
Issued capital		14,949	11,684
Share premium		37,023	36,885
Merger reserve		55,490	-
Hedging reserve		(3,783)	-
Translation reserve		13,005	425
Retained earnings		27,245	18,608
Total Equity		143,929	67,602
LIABILITIES			
Non Current Liabilities			
Deferred tax liabilities		15,733	-
Provisions	6	17,566	12,487
Total Non Current Liabilities		33,299	12,487
Current Liabilities			
Trade and other payables		278,718	72,625
Current tax liabilities		-	460
Interest bearing loans and borrowings		-	12,094
Provisions	6	17,954	5,129
Total Current Liabilities		296,672	90,308
Total Liabilities		329,971	102,795
Total Equity and Liabilities		473,900	170,397

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 2 June 2007	11,659	36,751	-	-	227	2,300	50,937
Profit for the period	-	-	-	-	-	14,415	14,415
Currency translation adjustments	-	-	-	-	198	-	198
Total income and expense for the period	-	-	-	-	198	14,415	14,613
Deferred tax adjustments	-	-	-	-	-	606	606
Employee share incentive charges	-	-	-	-	-	570	570
Movement in employee share trusts	-	-	-	-	-	717	717
Issue of shares	25	134	-	-	-	-	159
Balance at 31 December 2007	11,684	36,885	-	-	425	18,608	67,602
Profit for the period	-	-	-		-	11,054	11,054
Net change in fair value of cash flow hedges transferred to profit or loss net of tax	-	-	-	(588)	-	-	(588)
Effective portion of changes in fair value of cash flow hedges net of tax	-	-	-	(3,195)	-	-	(3,195)
Currency translation adjustments	-	-	-	-	12,580	-	12,580
Total income and expense for the period	-	-	-	(3,783)	12,580	11,054	19,851
Deferred tax adjustments	-	-	-	-	-	(606)	(606)
Employee share incentive charges	-	-	-	-	-	1,011	1,011
Net movement in employee share trusts	-	-	-	-	-	(2,822)	(2,822)
Issue of shares	3,265	138	55,490	-	-	-	58,893
Balance at 31 December 2008	14,949	37,023	55,490	(3,783)	13,005	27,245	143,929

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Cash flows from operating activities		
Profit before tax	13,828	15,350
Adjustments for:		
Share based payments charge	1,011	570
Depreciation of property, plant and equipment	4,504	2,483
Amortisation of development expenditure	21,895	9,958
Amortisation of other intangibles	3,715	-
Loss on sale of property, plant and equipment	-	136
Net financial charges	669	536
Movement in trade and other receivables	(67,810)	(49,874)
Movement in trade and other payables	124,572	12,828
Movement in inventories	(19,188)	(3,400)
Movement in provisions	4,098	3,551
Cash generated/(used in) from operations	87,294	(7,862)
Interest paid	(993)	(468)
Tax paid	(3,584)	(242)
Net cash generated from/(used in) operating activities	82,717	(8,572)
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,584)	(4,258)
Acquisition of subsidiary, net of cash acquired	(3,134)	-
Development expenditure	(20,995)	(12,170)
Interest received	200	53
Net cash used in investing activities	(30,513)	(16,375)
Cash flows from financing activities		
Proceeds from issue of share capital	376	159
Proceeds from exercise of employee share options	407	717
Purchase of own shares by employee benefit trust	(3,229)	-
Repayment of loans	-	(159)
Net cash generated from financing activities	(2,446)	717
Net change in cash and cash equivalents	49,758	(24,230)
Cash and cash equivalents at start of period	(12,094)	12,049
Effect of exchange rate fluctuations on cash held	53	87
Cash and cash equivalents at end of period	37,717	(12,094)

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NOTES

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of derivative instruments.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY

The Group's main accounting policies affecting its results of operations and financial condition are set out in the Group's financial statements. Judgements and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions. Key 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.

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.

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 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 31 December 2008 any potential liability should be considered contingent.

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.

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.

FINANCIAL INFORMATION

The financial information set out in this document does not constitute the company's statutory accounts for the year ended 31 December 2008, or the 7 month period ended 31 December 2007, but is derived from the year ended 31 December 2008 accounts. Statutory accounts for the 7 month period ended 31 December 2007 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2008, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2 Revenue

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
The geographical analysis of revenue by destination is:		
United Kingdom	110,251	48,451
Continental Europe	239,109	41,107
Asia Pacific	81,883	15,586
North America	264,114	144,731
Rest of the World	50,118	-
	745,475	249,875

The Directors have undertaken a review of the Group's continuing operations and its associated business risks and consider that the continuing operations should be reported as a single business segment. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be reported as a single business segment in line with the Group's internal reporting framework.

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3 Exceptional items

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
Integration costs	2,016	-
Restructuring and reorganisation costs	8,946	-
	10,962	-

The integration costs relate to costs incurred in relation to the integration of the acquired set top box business of Royal Philips Electronics.
The restructuring and reorganisation charges relate to a restructuring programme within the Group and represent incremental costs to the business in relation to employee costs which either have been incurred or are expected to be incurred in the next twelve months.

4 Tax charge

	Year ended 31 Dec 2008 £000	7 months ended 31 Dec 2007 £000
The tax charge is based on the estimated effective rate of taxation on trading for the period and represents:		
Current tax:		
Overseas tax charge	(2,921)	(420)
Total current tax charge	(2,921)	(420)
Deferred tax:		
Origination and reversal of timing differences	1,097	(1,367)
Adjustment in respect of previous periods	(950)	1,169
Effect of change in tax rate	-	(317)
	147	(515)
Tax charge	(2,774)	(935)

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5 Earnings per ordinary share

Basic earnings per ordinary share have been calculated by reference to the profit after taxation, and the average number of qualifying ordinary shares of 5p in issue of 274,757,069 (seven months ended 31 December 2007: 229,141,578).

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 277,807,083 (seven months ended 31 December 2007: 234,652,472).

To better reflect underlying performance adjusted earnings per share is shown below. This measure makes adjustments to statutory profit after tax to remove the impact of the amortisation of intangibles relating to the acquisition in the period (£2,451,000 after tax) and the exceptional charges in the period (£7,892,640 after tax).

Adjusted basic earnings per ordinary share	7.8p
Adjusted diluted earnings per ordinary share	7.7p

6 Provisions

	Royalties under negotiation £000	Warranties £000	Other £000	Total £000
At 31 December 2007	9,208	8,408	-	17,616
Acquisitions	-	9,783	1,438	11,221
Charge/(credit) for the year	206	13,903	3,456	17,565
Utilised	(603)	(13,139)	-	(13,742)
Exchange adjustments	-	2,493	367	2,860
At 31 December 2008	8,811	21,448	5,261	35,520
Due within one year	-	*12,693*	*5,261*	*17,954*
Due after more than one year	*8,811*	*8,755*	-	*17,566*

Other provisions relate to onerous leases in respect of Pace France and restructuring provisions in relation to the restructuring of the Pace Europe business.

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7 Acquisition in the year

The acquired business in the year 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 21st 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 acquisition date fair value of net assets/(liabilities) acquired and goodwill and intangible assets arising was as follows:

	Book value prior to acquisition £000	Fair value adjustments £000	Fair value of net assets/ (liabilities) acquired £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.

Other 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.

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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.

Circulation to shareholders

The Annual Report and Accounts will be made available in due course to Pace shareholders via Pace's website (www.pace.com) unless a shareholder has requested to receive a printed copy. The Annual Report and Accounts will be available to the public from the Company's registered office at Pace plc, Victoria Road, Saltaire, West Yorkshire, BD18 3LF.