THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action to take, you are recommended to seek your own personal financial advice immediately from your stockbroker, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

If you sell or have sold or otherwise transferred all of your Ordinary Shares please send this document, together with the accompanying Form of Proxy immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted into any jurisdiction where to do so might constitute a violation of local securities laws or regulations. If you have sold or transferred part of your holding of Ordinary Shares you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

The distribution of this document and/or the accompanying Form of Proxy into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and/or the accompanying Form of Proxy come should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdictions.

The text of this Circular should be read as a whole. For a discussion of certain risks and other factors that should be considered in connection with the Resolutions, see the section entitled "Risk Factors" set out in Part II of this document. Your attention is drawn to the letter from the Chairman of Pace which is set out on pages 5 to 9 of this Circular in which the Board recommends that you vote in favour of the Resolutions. This Circular is being made available to all Shareholders, including any Shareholders not resident in the United Kingdom.

Pace plc

(incorporated in England and Wales under the Companies Acts 1948 to 1981 with registered number 1672847)

Proposed Acquisition of 2Wire, Inc.

and

Notice of General Meeting

Evercore Partners, which is regulated in the United Kingdom by the FSA, is acting exclusively for Pace and for no one else in relation to the matters referred to herein and will not be responsible to anyone other than Pace for providing the protections afforded to clients of Evercore Partners or for giving advice in relation to the Acquisition or any other matter referred to in this document.

Notice of the General Meeting, to be held at Pace, Salts Mill, Victoria Road, Saltaire, West Yorkshire BD18 3LF on 18 October 2010 at 9 a.m., is set out at the end of this document. Whether or not you intend to be present at the General Meeting, please complete the Form of Proxy enclosed with this document in accordance with the instructions printed on the Form of Proxy and return it to the Company's Registrars, Capita Registrars at 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 9 a.m. on 16 October 2010 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). As an alternative to completing and returning the Form of Proxy, you may submit your Form of Proxy electronically at www.paceshares.com. For security purposes, existing share portal users will need to enter their username and password. New users will need their surname, postcode and unique investor code (shown on the Form of Proxy) to complete the registration process before voting online. CREST members who wish to appoint a proxy or proxies may do so through the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 9 a.m. on 16 October 2010 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Completion and return of the Form of Proxy will not preclude you from attending and voting at the General Meeting, should you so wish.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

Capitalised terms have the meaning ascribed to them in the section headed "Glossary and Definitions" of this document.

This document has been made available to all Shareholders on the register of members of the Company at the close of business on 30 September 2010.

PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to the 2Wire Group as at and for the three years ended 31 December 2007, 2008 and 2009 contained in Section B of Part IV of this document (the "**2Wire Group Historical Financial Information**") has been prepared in accordance with IFRS and using the accounting policies of Pace. The financial information relating to the 2Wire Group as at 30 June 2010 and for the six months ended 30 June 2010 and 30 June 2009 contained in Section C of Part IV of this document (the "**2Wire Group Unaudited Interim Results**") has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and under the historical cost convention ("**IAS 34**").

The unaudited *pro forma* statement of net assets of the Enlarged Group (the "**Pro Forma Statement of Net Assets**") set out in Part V of this document has been prepared to illustrate the effect on the net assets of the Enlarged Group of the Acquisition as if it had occurred on 30 June 2010. The Pro Forma Statement of Net Assets has been prepared for illustrative purposes and, because of its nature, addresses a hypothetical situation and does not reflect Pace's actual financial position or results.

FORWARD-LOOKING STATEMENTS

This Circular includes statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements contain words such as "anticipate", "believe", "intend", "estimate", "expect" and words of similar meaning. All statements other than statements of historical facts included in this Circular, including, without limitation, those regarding the Pace Group's, the 2Wire Group's and the Enlarged Group's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to products and services) are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Pace Group, the 2Wire Group and the Enlarged Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Pace Group, the 2Wire Group and the Enlarged Group, present and future business strategies and the environment in which the Pace Group, the 2Wire Group and the Enlarged Group will operate in the future. These forward-looking statements speak only as at the date of this Circular, and are not guarantees of future performance; the Enlarged Group's actual results may differ materially from anything described in, or suggested by, the forward-looking statements contained in this Circular. Pace expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based except to the extent required by applicable law, the Prospectus Rules, the Listing Rules and the Disclosure Rules and the Transparency Rules. This section does not serve to qualify the working capital statement in paragraph 7 of Part VII of this Circular.

Additional factors that could affect the Enlarged Group's ability to achieve its objectives and could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those discussed in the section headed "Risk Factors" on pages 10 to 14 of this document.

Information contained in this document will be updated by way of Regulatory Information Service announcements where required by the Listing Rules, the Prospectus Rules and the Disclosure Rules and the Transparency Rules.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Posting and publication of the Circular	1 October 2010
Latest time and date for receipt of Form of Proxy for the General Meeting	9 a.m. on 16 October 2010
General Meeting	9 a.m. on 18 October 2010
Expected Completion of the Acquisition	October 2010

Each of the times and dates in this timetable is subject to change. References to time in this document are to London time, unless otherwise stated.

All references in this Circular to ''\$'' are to the US dollar. All references to ''£'', ''p'', ''sterling'', ''pounds'', and ''pence'' are to UK pounds and pence sterling. The rate of exchange used for the purposes of this Circular (other than in Parts IV and V of this Circular) is £1:\$1.5756 which is based on the mid-market rate quoted by Bloomberg as at 4.00 p.m. on 30 September 2010.

PART I

LETTER FROM THE CHAIRMAN OF PACE

(incorporated under the Companies Acts 1948 to 1981 and registered in England and Wales with registered number 1672847)

Directors:	*Registered Office:*
Robert Michael McTighe *(Non-executive Chairman)*	Victoria Road
Neil Gaydon *(Chief Executive Officer)*	Saltaire
Stuart Andrew Hall *(Chief Financial Officer)*	West Yorkshire
David Alyn McKinney *(Chief Operating Officer)*	BD18 3LF
Patricia Chapman-Pincher *(Non-executive Director)*	
John Grant *(Non-executive Director)*	
Michael Inglis *(Non-executive Director)*	

1 October 2010

To Shareholders, and for information only, to holders of awards under the Share Plans

Dear Shareholder,

Proposed acquisition of 2Wire, Inc.

1. INTRODUCTION

On 26 July 2010, Pace announced its proposed acquisition of the 2Wire Group, a leading provider of advanced residential Gateways and associated software and services for the broadband service provider market, for a total cash consideration of $475 million (£301 million). The acquisition price is inclusive of 2Wire's balance sheet cash at Completion, anticipated to be approximately $55 million (£35 million).

The terms and conditions of the Acquisition are contained in the Merger Agreement which is summarised in Part VI of this document. Due to its size, the Acquisition requires the approval of Pace Shareholders at the General Meeting to be held on 18 October 2010. The notice of General Meeting is set out on pages 85–86 of this document.

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why your Board considers the Acquisition to be in the best interests of Pace and to recommend that you vote in favour of the Resolutions.

2. RATIONALE FOR THE ACQUISITION

Pace is a leading technology developer for the global payTV market and was recently recognised as the world's largest supplier of digital set-top box technology. Pace supplies world leading operators with innovative products and technologies that deliver TV-led entertainment services.

Pace's primary strategic objectives are to be the world's best set-top box company and to build a leadership position in the technologies, services and products that deliver digital TV and converged home entertainment. The Company aims to achieve those objectives through organic development, complemented by disciplined acquisitions that deliver a strong geographic and customer fit, broaden the scale and technology capability of the business and are financially sound propositions.

Pace has a strong track record of delivery against its financial and strategic goals and the Company has demonstrated its ability to successfully grow its business and manage the integration process following strategically important transactions. Pace's acquisition of the Philips' set-top box business in 2008 enhanced the shape and scale of its business and the more recent acquisition of Bewan in April 2010 extended Pace's technology capability into Gateways.

Pace believes that in the world's most developed markets its customers' TV-led home entertainment and broadband services are moving towards integrated, converged offerings, making Gateway devices and the related software, applications and services increasingly important. In this context, know-how and experience with both service providers and end-users is a vital and key competitive differentiator, with the world's largest telcos and other service providers recognising value in the ability of their suppliers to provide a converged services offering.

The Board believes the Acquisition represents a logical extension of Pace's group strategy, enhancing Pace's successful US business in cable and satellite markets with an entry into the rapidly growing tier one telco residential Gateway market. At the same time, 2Wire's software and Gateway expertise will support Pace's development of its home entertainment convergence strategy.

Pace and 2Wire benefit from a complementary set of customer relationships. 2Wire's customers are primarily Americas based telcos, while Pace enjoys strong relationships with cable and satellite providers in the US and globally. Following Completion, Pace will become the number one provider of telco residential Gateway devices in the US and the number three globally. The global market for DSL and fibre based Gateways is expected to grow from $3.0 billion in 2009 to $6.7 billion by 2014, a compound annual growth rate of approximately 17%.

Your attention is drawn to the section headed "Risk Factors" in Part II of this document.

3. INFORMATION ON 2WIRE

2Wire is a US based provider of broadband solutions whose products and services include residential Gateways, multi-service media platforms, remote management systems, value-added services and customer support.

2Wire was founded in 1998 and launched its first residential Gateway product in 2000. Its headquarters are in San Jose, California and it has additional US offices in Nevada City, California; Phoenix and Tempe, Arizona; Austin and San Antonio, Texas; and Atlanta, Georgia. Across the globe, 2Wire is represented in India, China, France, Germany, Hong Kong, Latin America, Singapore and the United Kingdom. It employs approximately 1,000 employees globally, including approximately 550 in research and development, sales and administration and factory support and approximately 440 in customer care. In addition, 2Wire has approximately 600 agency staff working in its call centres. 2Wire is currently owned by a consortium including Alcatel-Lucent, AT&T, Telmex and Oak Investment Partners.

2Wire has established customer relationships in the tier one telco market, in particular with service providers in North America and is the number one supplier to the fast growing US telco residential market. AT&T has been a customer of 2Wire for 10 years and 2Wire provides software and hardware solutions to enable AT&T's U-verse suite of services which includes multiroom high definition TV, high-speed broadband and telephony. AT&T is 2Wire's largest customer representing approximately 64% of revenue for the 12 months to 31 December 2009. 2Wire's other customers include some of the leading service providers throughout the US, Canada, Latin America, Europe, Australia and Asia, including Telmex, BT, CenturyLink, Bell Canada and SingTel.

2Wire's end-to-end solutions are engineered for the service provider and optimised for the subscriber. While 2Wire's residential Gateways are at the core of its product offering, its device software and management software are vital components required to manage the increasing complexity of the digital home.

The main components of these offerings are outlined below:

Device hardware

- An extensive range of Gateway devices, from standard ADSL value orientated solutions to highly advanced, outdoor, VDSL2 bonded implementations. As of 30 June 2010, 2Wire had shipped over 31 million managed Gateways and is the number one provider of DSL Gateway devices in the Americas and the number one supplier worldwide of next-generation VDSL Gateway devices.

Software and applications platforms

- Device firmware application software, device management systems, service management systems, software development kits, service analytics tools and customer care tools.

Services

- An extensive suite of services including customer care, professional services, hosting services and return merchandise authorisation services.

2Wire operates call centres based in San Antonio, Texas and Tempe, Arizona. The centres offer technical support on installation, troubleshooting and product returns to subscribers, providing 2Wire and its customers with an important link to the subscriber base.

2Wire's intellectual property portfolio includes 49 US and foreign patents, as well as unpatented know-how, trademarks and copyrights. 2Wire has an additional 18 US patent applications pending and 22 applications pending in other jurisdictions.

4. FINANCIAL INFORMATION ON 2WIRE

For the 12 months ended 31 December 2009, 2Wire reported sales of $465.8 million (£295.6 million), gross profits of $102.7 million (£65.2 million) and profit before tax of $3.7 million (£2.3 million). As at 31 December 2009, 2Wire had gross assets of $186.8 million (£118.5 million).

For the 6 months ended 30 June 2010, 2Wire reported sales of $237.0 million (£150.4 million), gross profits of $50.2 million (£31.9 million) and profit before tax of $7.4 million (£4.7 million). As at 30 June 2010, 2Wire had gross assets of $192.1 million (£121.9 million).

A full three-year financial track record for 2Wire, prepared in accordance with IFRS and using the accounting policies adopted by Pace and an historical six-month financial track record for 2009 and 2010 prepared in accordance with IAS 34 are set out in Section B and Section C respectively of Part IV of this document.

5. FINANCIAL EFFECTS OF THE ACQUISITION

2Wire is a profitable and cash generative business. The Acquisition is expected to be earnings and cashflow enhancing for the Company in the first full financial year of ownership.[1] Following the Acquisition, reduction of the Enlarged Group's net debt from combined business cashflows will be a priority.

The combination of the 2Wire and Pace businesses is expected to deliver meaningful synergy benefits of scale and a broader platform. Estimated run-rate pre-tax cost synergies of $30 million (£19 million) in the first full year of ownership are expected to arise from the combination of the Pace and 2Wire cost base and the purchasing benefits associated with a larger organisation. It is anticipated that the cost to achieve these synergies will be approximately $10 million (£6 million), which will be incurred in the first six months of ownership.

Furthermore, revenue synergies are anticipated to be realised from the combined product offerings and customer base.

6. PRINCIPAL TERMS OF THE ACQUISITION

Under the terms of the Merger Agreement, Pace has agreed to purchase 2Wire for an aggregate cash consideration of $475 million (£301 million) from a consortium of investors including Alcatel-Lucent, AT&T, Telmex and Oak Investment Partners. The acquisition price is inclusive of 2Wire's balance sheet cash at Completion, anticipated to be approximately $55 million (£35 million).

Completion is subject to the satisfaction of certain conditions, including approval from Pace Shareholders and receipt of the necessary regulatory approvals in the US (as more fully described in paragraph 7 of Part VI of this document). Approval of the Acquisition under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 was received on 20 August 2010 and on 30 September 2010 the Company received notice from the Committee on Foreign Investment in the United States confirming that it had concluded its review of the Acquisition and determined that the Acquisition does not present any unresolved national security concerns.

The terms of the Acquisition have been unanimously approved by the boards of directors of both Pace and 2Wire, and the necessary approvals from 2Wire shareholders have been obtained. Pace has agreed to pay a break fee to 2Wire of $8.0 million (£5.1 million) under the Merger Agreement in certain circumstances if Completion does not occur, including if Pace Shareholders do not approve the Acquisition. Further details of the break fee are set out in paragraph 9 of Part VI of this document.

1 Earnings enhancing before the amortisation of additional intangible assets recognised as part of the business combination under IFRS3 (revised) 'Business Combinations'. This statement does not constitute a profit forecast and should not be interpreted to mean that earnings in the first full year following the Acquisition, nor in any subsequent period, will necessarily match or be greater than those for any preceding financial year.

7. FINANCING OF THE ACQUISITION

The Company intends to finance the Acquisition, its related costs and expenses and the ongoing operations of the Enlarged Group from its existing cash resources and the Facilities made available pursuant to the Facilities Agreement which the Company entered into with the Banks on 31 August 2010, and which is summarised in paragraph 5.1(b) of Part VII of this document.

The Facilities comprise:

- a \$300 million term loan facility; and
- a \$150 million multi-currency revolving credit facility,

both of which have a final maturity date of 31 March 2014.

The Facilities Agreement contains customary provisions relating to voluntary and mandatory prepayment of the Facilities (including on a change of control of the Company).

It is anticipated that the Enlarged Group *pro forma* net debt will be approximately £200 million immediately following Completion.

8. NEW SHARE PLAN

The Company is seeking approval from Shareholders under the Listing Rules and pursuant to California securities laws to establish a new employees' share plan, the International PSP.

Following Completion, the Company intends to grant awards under the International PSP to selected employees within the 2Wire Group which will vest to the extent that 2Wire's Americas business meets performance targets in the first two financial years following Completion.

The International PSP may also be used in future to make awards to selected employees of the Enlarged Group, although executive directors of the Company will not participate in the International PSP.

Further details of the International PSP are set out in Part III of this document.

9. INTERIM RESULTS AND CURRENT TRADING

In the first half of 2010, Pace delivered a strong performance and continued to increase market share, building on its recognition by IMS Research as the world's number one set-top box company.[2] Trading in the second half of 2010 has remained resilient. Pace expects to issue an interim management statement on 28 October 2010.

10. OUTLOOK

The market demand for pay and subscription TV services continues to grow, and Pace's increasing penetration, technology capability and geographic reach give the Board confidence in Pace's platform for sustainable future growth.

The Group is now close to achieving its medium term 8% operating margin target, which the Board expects to be a sustainable level going forwards. Pace management will nevertheless strive to improve on this.

The Company announced on 26 July 2010 that given the Group's first half performance and good visibility for the remainder of the second half, the Board was in the process of revising its expectations for the 2010 financial year and in light of the Group's operating momentum, strong market position and the ongoing demand for digital TV technologies, that the Board believes Pace should have the objective of delivering annual revenue growth of at least mid-single digit over the medium term.

2Wire continues to perform in line with management expectations for the full fiscal year of 2010.

11. GENERAL MEETING

In view of its size relative to the Company, pursuant to the Listing Rules, the Acquisition requires the prior approval of Shareholders. In addition, Shareholder approval will be sought for the International PSP as mentioned in paragraph 8 above.

2 IMS Research survey of global digital set-top box shipments in 2009, published May 2010.

A General Meeting of the Company will be held on 18 October 2010 at 9 a.m., at which the following resolutions will be proposed as ordinary resolutions, the passing of which requires a majority of votes being cast in favour of each such resolution:

- to approve the Acquisition and to authorise the Directors to make such waivers, extensions and non-material amendments and variations to the terms and conditions of the Acquisition and to do all things as is considered necessary or expedient in connection with the Acquisition; and
- to approve the terms of the International PSP and to give the Directors a standard authority to establish further share plans or schedules based on, and within the limits set out in, the International PSP for jurisdictions other than California or the UK.

The full text of the Resolutions is set out in the notice convening the General Meeting at the end of this document.

12. FURTHER INFORMATION

Shareholders should read the whole of this document in respect of the Acquisition and not just rely on the summarised information, including the summarised financial information, contained in this Part I.

13. ACTION TO BE TAKEN

Enclosed with this document is a Form of Proxy for use by Shareholders in connection with the General Meeting or any adjournment thereof. Whether or not you propose to attend the General Meeting, please complete and return the Form of Proxy in accordance with the instructions printed on it, as soon as possible and in any event so that it may be received by the Registrars by no later than 9 a.m. on 16 October 2010. As an alternative to completing and returning the Form of Proxy, you may submit your Form of Proxy electronically at www.paceshares.com. For security purposes, existing share portal users will need to enter their username and password. New users will need their surname, postcode and unique investor code (shown on the Form of Proxy) to complete the registration process before voting online. CREST members who wish to appoint a proxy or proxies may do so through the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 9 a.m. on 16 October 2010 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Completion and return of the Form of Proxy will not preclude you from attending and voting at the General Meeting, should you so wish.

14. FINANCIAL ADVICE

The Directors have received financial advice from Evercore in relation to the Acquisition.

15. RECOMMENDATION

The Board considers that the Acquisition and the Resolutions are in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends you to vote in favour of the Resolutions to be proposed at the General Meeting. The Directors and the Pace Employee Benefits Trust have irrevocably undertaken to vote, or procure the vote, in favour of the Resolutions at the General Meeting in respect of their beneficial holdings of Ordinary Shares of, in aggregate, 11,263,514 Ordinary Shares, representing approximately 3.70% of the total issued share capital of Pace.

Yours sincerely

Mike McTighe
Non-executive Chairman

PART II

RISK FACTORS

You should carefully consider the risks and uncertainties described below, in addition to the other information in this document, before deciding what voting action to take in relation to your Ordinary Shares. If any of the adverse events described below actually occur, the business, financial condition and prospects of Pace, 2Wire and, following Completion, the Enlarged Group could be materially and adversely affected by any of these risks. In such case the price of the Ordinary Shares could decline and investors may lose all or part of their investment.

The following risks are those material risks of which the Directors are presently aware. Additional risks which are not presently known to the Directors, or that the Directors currently consider to be immaterial, may also negatively impact on Pace's, 2Wire's and, following Completion, the Enlarged Group's business, financial condition and prospects. However, the risk factors set out below should not be construed as a qualification of the opinion of the Company as to working capital set out in paragraph 7 of Part VII.

The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" in the preamble to this Circular.

(a) Risk factors relating to the Acquisition

Integration of the 2Wire Group

Following the Acquisition, it may be necessary for the Company to make changes to the structure of the Enlarged Group's business in order to optimise the potential benefits available from the integration of 2Wire. The Enlarged Group may face unforeseen difficulties both with the integration of 2Wire, and as structural changes are carried out. Furthermore, issues may come to light during the course of integrating 2Wire into the Enlarged Group that could have an adverse effect on the financial condition and results of operations of the Enlarged Group. The Acquisition will place additional demands on the management of the Enlarged Group and may require the provision of supplemental resource.

General uncertainty related to the Acquisition could harm Pace and 2Wire

Either or both of Pace's or 2Wire's current and prospective customers may, in response to the announcement of the Acquisition, delay or defer purchasing decisions. If Pace or 2Wire's customers delay or defer purchasing decisions, the revenues of Pace or 2Wire, respectively, could materially decline or any anticipated increases in revenue could be lower than expected. Also, speculation regarding the likelihood of Completion could increase the volatility of Pace's Ordinary Share price.

Third parties may terminate or alter existing contracts with 2Wire

2Wire has contracts with suppliers, distributors, customers and other business partners. Various contracts require 2Wire to obtain consent from these other parties in connection with the Acquisition. If these third party consents cannot be obtained on favourable terms, the Enlarged Group may suffer a loss of potential future revenue, and may lose rights to intellectual property that is material to the business of the Enlarged Group.

Failure to complete the Acquisition could harm Pace

Pace may be unable to complete the Acquisition if there is an event of default under the Facilities Agreement which causes the Banks to withdraw the availability of the Facilities prior to Completion and Pace is unable to raise alternative financing for the Acquisition. Additionally, Pace will be unable to complete the Acquisition if the necessary Shareholder approval is not received. In either of these circumstances, in addition to the transaction costs incurred by Pace in connection with the Acquisition, Pace may have to pay 2Wire \$8 million (£5.1 million) by way of a break fee and/or damages for breach of the Merger Agreement if 2Wire was to bring a successful claim.

Failure to complete the Acquisition may have an adverse effect on the financial condition and future operating results of Pace and the trading price of Ordinary Shares may decline.

The Escrow Fund may be insufficient to cover all claims

Escrow funds, being 10% of the aggregate consideration payable to each 2Wire stockholder pursuant to the Merger Agreement, will be put into escrow for a period of 12 months following Completion to meet potential claims by the Company against the 2Wire stockholders under the Merger Agreement. 2Wire stockholders' liability is limited to those sums held in the Escrow Fund, except in limited circumstances, and the Escrow Fund may not be sufficient to cover all of the Company's claims against the 2Wire stockholders.

The Enlarged Group may fail to realise the perceived benefits of the Acquisition, including synergies

The Enlarged Group may not realise the expected benefits and synergies from the Acquisition or may encounter difficulties in achieving these anticipated benefits and synergies. There can be no assurance that the Enlarged Group will realise these benefits and synergies in the time expected or at all. In addition, there can be no assurance that the costs of implementing the cost savings programme will not exceed those estimated. This could have a negative impact on the business, operating profit or overall financial condition of the Enlarged Group.

2Wire business may not perform in line with expectations

If the results and cash flows generated by the 2Wire Group are not in line with the Company's expectations, it may materially impact on the financial performance of the Enlarged Group, and a write-down may be required against the carrying value of Pace's investment in the 2Wire Group which might have an adverse effect on the Enlarged Group's financial position and operating results. Such a write-down will reduce the Company's ability to generate distributable reserves by the extent of the write-down and consequently may affect the Enlarged Group's ability to pay dividends.

(b) Risk factors relating to Pace, 2Wire and/or the Enlarged Group

The Enlarged Group will have increased borrowings which may limit its financial flexibility

The Enlarged Group will have an increased amount of indebtedness and debt service obligations, which may impair its financial flexibility and its ability to pay dividends.

The Enlarged Group's increased indebtedness has important consequences for Shareholders. It could potentially cause the Enlarged Group to dedicate a substantial portion of cash flow from operations to payments to service debt, depending on the level of borrowings, prevailing interest rates and exchange rate fluctuations. It could also curtail the Enlarged Group's ability to pay dividends, and limit the Enlarged Group's ability to borrow additional funds.

Dependence on key customers and contracts

The 2Wire Group and, to a lesser extent, Pace, each has a relatively limited number of key customers and contracts that constitute a significant proportion of their respective businesses. In particular, the 2Wire Group's largest customer, AT&T, accounted for approximately 64% of revenues in the year ended 31 December 2009. In most cases, the key customers make no contractual commitment as to minimum volumes, and there can be no assurance that any of the Enlarged Group's customers will continue to purchase the Enlarged Group's products or services to the same extent, or at all, in the future. The loss of one or more of these key customers or contracts could result in lower than expected revenue, and may have an adverse effect on the financial condition and future operating results of the Enlarged Group. Dependence on a relatively limited number of key customers could also result in increased pressure from customers to deliver contracts at lower margins upon renegotiation of contract terms, which may have an adverse effect on the financial condition and future operating results of the Enlarged Group.

Technological change

The set top box and connectivity solutions markets and the wider high-tech consumer electronics markets in which the Enlarged Group shall operate are subject to both rapid rates of technological development and changes in customer requirements. The Enlarged Group intends to monitor on a regular basis both technological changes and changes in consumer preferences and tastes, in order to facilitate early identification and development of market-leading products and services. Nevertheless, the Enlarged Group may not be able to maintain the competitive advantage of its products or develop and deliver improved technological capability in its products, which could have an adverse effect on the Enlarged Group's business, financial position and operating results.

Dependence on key suppliers and outsourced engineering and design capability

The Enlarged Group will have only a limited number of potential suppliers for certain materials and hardware used in its products and a number of the agreements with suppliers could be short term in nature. It may prove difficult to source materials or hardware of sufficient quality or within required timescales if these suppliers do not continue to serve the Enlarged Group. It may also prove difficult to source materials or hardware at sufficiently economic prices. Should the Enlarged Group be unable to find alternative sources of supply, this could have a material impact on the Enlarged Group's ability to fulfil existing customer orders and win new contracts, which could have an adverse effect on the Enlarged Group's business, financial position and operating results.

Intellectual property

The Enlarged Group will depend to a material extent on the investments previously made, and to be made in the future, in intellectual property. The Enlarged Group owns a number of patents and licences that will be integral to the business in the future. The Enlarged Group will be exposed to the potential risk of these patents and/or licences being subject to challenge, unlawful copying or other unfair competitive practices. Notwithstanding that the Enlarged Group will aim to continue to protect its intellectual property in order to preserve its competitive position, there is a risk that its competitive position will be damaged by unlawful, unfair or unforeseen practices, or of its patents and/or licences being successfully challenged, any of which could have an adverse effect on the Enlarged Group's business, financial position and operating results.

Product liability claims

In common with many companies in the consumer electronics industry, the Enlarged Group will be exposed to the risk of product liability claims made by customers, should the Enlarged Group's products not fulfil the terms of the contracts under which they are sold. The Enlarged Group intends to put in place quality control and other operational procedures to mitigate this risk.

Exposure to warranty claims

Pace and 2Wire provide product warranties for set top boxes and other products. 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, although these estimates improve during the lifetime of the product in the field. A provision for warranties is recognised when the underlying products are sold, though Pace and 2Wire remain exposed to the risk of warranty claims over and above the level provided by management estimates, which could have an adverse effect on the Enlarged Group's business, financial position and operating results.

Infringement of third party intellectual property rights

Pace and 2Wire's products incorporate third party technology, usually provided under licence by the third party. Inadvertent actions may expose the Enlarged Group to the risk of infringing third party intellectual property rights. Potential claims can be submitted many years after a product has been deployed. The Enlarged Group is therefore exposed to the risk that it has been, or will in future be, subject to claims relating to infringement of third party intellectual property rights, notwithstanding the measures put in place by the Directors to mitigate this exposure. The Enlarged Group will vigorously defend or negotiate all claims but, in the absence of agreement, unforeseen royalty claims could have an adverse effect on the Enlarged Group's business, financial position and operating results.

Product delivery risk

In common with a number of competitors in the set top box industry, both Pace and 2Wire are at risk of technological, supply chain, product development and other related problems that could delay delivery of contracted volumes of set top boxes to customers. The set top box industry is subject to a rapid rate of technological change, reflected in increasing development and manufacturing complexity and in increasingly demanding consumer requirements, all of which can result in unforeseen problems in ensuring timely delivery of products on pre-agreed, contracted timescales. The Enlarged Group is subject to the risk that such development and manufacturing complexity, and unforeseen problems in the product delivery chain, could result in the Enlarged Group being unable to fulfil contracts in a timely and/or complete manner. This could lead to customers seeking renegotiation of terms, invoking non-performance clauses of contracts or delaying or cancelling expected future orders from the Enlarged Group, all of which could have an adverse effect on the Enlarged Group's business, financial position and operating results.

Volatility of revenues

The combination of dependence on relatively few key customers or contracts and the award by those customers of infrequent, but sizeable, contracts is common to both the Enlarged Group and many competitors in the set top box industry. As a result, the Enlarged Group could be exposed to the risk of volatility in timing or delivery of future revenues, which could have an adverse effect on the Enlarged Group's business, financial position and operating results.

(c) General risk factors

Economic and market cycles and volatility

The Enlarged Group's business may be affected by the general risks faced by all companies operating in the same markets as the Enlarged Group. The growth and development of the consumer electronics markets in which the Enlarged Group will operate depend on numerous factors, many of which are beyond its control and the exact effect of which cannot be accurately predicted. Such factors include general economic and political activities, including the extent of any governmental regulation and taxation. The Enlarged Group could be affected adversely by changes in economic, political, administrative, taxation or other regulatory factors, whether under English law or in any other jurisdictions in which the Enlarged Group operates now or in the future.

Approximately 44% of total sales of the Enlarged Group will be to customers in the US and the Enlarged Group is therefore particularly affected by US economic conditions. Recessionary economic cycles may adversely affect the businesses of the Enlarged Group's customers, which may have the effect of reducing the volume of products or services they purchase from the Enlarged Group and thus may materially adversely affect the Enlarged Group's consolidated results of operations.

Exposure to foreign exchange fluctuations

The Enlarged Group will conduct a majority of its business outside the UK and in a number of foreign currencies. The Enlarged Group will be exposed to the potential effects of exchange rate fluctuations between currencies in which the Enlarged Group operates relative to Sterling which, notwithstanding any hedging arrangements that may be put in place, may cause fluctuations in the Enlarged Group's financial results both as a result of foreign currency translation and transaction exposure. There can be no guarantee that hedging arrangements put in place by the Enlarged Group will be sufficient and accordingly, the Enlarged Group's results may be adversely affected by adverse currency fluctuations.

Competitive pressures

The Enlarged Group will be exposed to the risk that its competitors may be able to respond more quickly to new or emerging technologies or to changing consumer trends. Existing and/or increased competition could reduce the Enlarged Group's market share and thereby have an adverse effect on its business, financial and operating results.

Environmental, health and safety laws, regulations and standards

Pace and 2Wire are subject to a broad range of laws, regulations and standards, including those relating to pollution, health and safety of employees, protection of the public, protection of the environment and the storage and handling of hazardous substances and waste materials. These regulations and standards are becoming increasingly stringent.

It is Pace's policy to require that all of its subsidiaries comply with applicable laws, regulations and standards. However, violations of such laws, regulations and standards, in particular environmental and health and safety laws, could result in restrictions on the operations of the Enlarged Group's sites, damages, fines or other sanctions and increased costs of compliance with potential reputational damage.

PART III

SUMMARY OF THE PACE INTERNATIONAL PERFORMANCE SHARE PLAN

1 BACKGROUND

The International PSP will be used initially to promote alignment of participating employees from the 2Wire Group with Enlarged Group performance by providing incentives delivered in the form of Ordinary Shares. The initial awards proposed to be granted to those 2Wire Group employees will only vest to the extent that performance targets based on the performance of 2Wire's Americas business in the first two financial years following Completion are achieved in those periods. The majority of 2Wire Group employees are based in the US, particularly in California.

The International PSP follows closely the terms of the Performance Share Plan, as approved by Shareholders on 22 April 2009. However, executive directors of the Company may not participate in the International PSP.

It is the Company's intention to satisfy awards made under the International PSP using shares purchased in the market by an employees' share trust, although the Company will also have the facility to issue new Ordinary Shares at par or to transfer shares from treasury for the International PSP.

2. GENERAL

The International PSP will enable selected employees of the Company and its subsidiaries (excluding executive directors of the Company) to be granted awards ("**Awards**") in respect of Ordinary Shares. After Completion, it is intended that the Company will grant Awards to selected employees of the 2Wire Group.

Awards granted under the International PSP are not transferable (except on death). Benefits under the International PSP are not pensionable benefits.

The operation of the International PSP will be overseen by a duly authorised committee of the board of directors of the Company (the "**Committee**").

Awards granted under the International PSP will be conditional rights to acquire Ordinary Shares for no cost. The vesting of Awards will be subject to the satisfaction of performance conditions and continued employment.

3. ELIGIBILITY

Under the International PSP, all employees of the Group (other than executive directors of the Company) are eligible to participate at the discretion of the Committee. After Completion, this will include the employees of the 2Wire Group.

4. GRANTS OF AWARDS

Awards under the International PSP may be granted:

- in the period of six weeks following approval of the International PSP by the Shareholders at the General Meeting;
- in the period of six weeks commencing on the second dealing day following the announcement by the Company of its results for any period;
- within six weeks of a person commencing employment with the Group (including, for the avoidance of doubt, within six weeks of Completion, in relation to the employees of the 2Wire Group); and
- exceptionally, and subject to the Model Code requirements of the Listing Rules and other relevant restrictions on dealings in shares, on any other day on which the Committee determines that exceptional circumstances exist.

If regulatory or statutory restrictions prevent Awards from being granted in these periods, the Awards may be made within six weeks of the removal of all such restrictions.

No payment will be required for the grant of an Award.

No Awards may be granted more than ten years after approval of the International PSP by the Shareholders at the General Meeting.

5. INDIVIDUAL LIMITS

The maximum number of Ordinary Shares that may be awarded to a participant in the form of Awards in any financial year will be limited so that the market value of such shares on the award date will not exceed 100% of basic salary, although the Committee can decide to increase this to a maximum of 200% of basic salary if it considers that exceptional circumstances exist to justify it.

6. DILUTION LIMIT

Awards may be granted over unissued or existing shares. No Award may be granted under the International PSP if it would cause the number of new shares issued or issuable pursuant to Awards or options granted in the preceding 10 years under any of the Company's employees' share plans to exceed 10% of the Company's issued ordinary share capital at the proposed date of grant. If Awards are to be satisfied by a transfer of existing shares, the percentage limit stated above will not apply. The 10% limit will also apply to Awards or options satisfied by the transfer of treasury shares for so long as this is required by the Association of British Insurers guidelines.

For the purposes of California securities laws only, the International PSP must include a limit specifying the total number of shares which are available under the International PSP. This number of shares will be 10% of the Company's issued ordinary share capital at the date on which the International PSP is established. This does not extend the overall 10% dilution limit described above.

7. VESTING OF AWARDS AND PERFORMANCE CONDITIONS

Awards will be subject to performance conditions and will normally vest following the announcement of the Company's results, at the end of the performance period, once the Committee has confirmed the extent to which each Award shall vest.

Initial Awards to be made to selected employees of the 2Wire Group after Completion will be granted as follows:

- 50% of the Award will be subject to a performance condition based on achievement of the budget profit before tax for 2Wire's Americas business for the 2011 financial year; and
- 50% of the Award will be subject to a performance condition based on achievement of the budget profit before tax for 2Wire's Americas business for the 2012 financial year.

These targets are considered to be stretching by Pace.

Profit before tax for the 2Wire's Americas business will be drawn from the figures used to calculate the Enlarged Group's statutory accounts adjusted to exclude exceptional items, to take account of foreign exchange adjustments, changes in accounting policies, the impact of allocations of central costs, the impact of centrally accrued bonuses and other items that the Committee determines appropriate to ensure it reflects underlying long-term performance.

The Committee can set different performance conditions from those described above for future Awards.

The Committee may also vary the performance conditions applying to existing Awards if an event has occurred (such as significant acquisitions or disposals) which causes the Committee reasonably to consider that it would be appropriate to amend the performance conditions, provided the Committee considers such an amendment to be fair and reasonable and not materially less or more difficult to satisfy than the original conditions would have been but for the event in question.

8. CESSATION OF EMPLOYMENT

If a participant leaves the Group (or gives or receives notice to leave the Group), his or her unvested Awards will normally lapse. However, in any particular case, the Committee has discretion either to:

- allow a time-apportioned number of the unvested Award shares (determined having regard to that part of the original vesting period which has then elapsed) to be retained and to vest, if at all, after determination of the applicable performance conditions; or
- allow a number of the unvested Award shares (determined having regard to both the extent to which the original vesting period has then elapsed and the extent to which the applicable performance conditions are likely to be satisfied) to vest immediately.

In either case, the Committee will retain discretion to adjust vesting outcomes.

9. TAKEOVER, RECONSTRUCTION, ETC.

In the event of a takeover of the Company, unvested Awards can vest subject to the application of the relevant performance conditions until the time of the takeover and subject to a time pro-rating requirement (determined having regard to that part of the original vesting period that has then elapsed).

Additionally, in the event of a scheme of arrangement (not being an internal corporate reorganisation), a winding-up of the Company or (at the discretion of the Committee) a demerger, the Committee may determine that a proportion of any unvested Awards may vest, calculated on the same basis as for a takeover of the Company.

For all unvested Awards, the Committee will retain discretion to adjust vesting outcomes in the event of a takeover or other corporate action.

10. VARIATIONS OF CAPITAL

If there is a rights or capitalisation issue, sub-division, consolidation, reduction or other variation of the Company's share capital, or the implementation by the Company of a demerger or payment of a special dividend the Committee may adjust the number of shares subject to Awards.

11. AMENDMENTS

The Committee may amend the International PSP. However, the provisions governing eligibility requirements, equity dilution, individual award levels, the basis for determining participants' rights to acquire shares and the adjustments that may be made following a rights issue or any other variation of capital cannot be altered to the advantage of existing or new participants without the prior approval of the Shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the International PSP, to take account of a change in legislation or developments in the law or to obtain or maintain favourable tax, exchange control or regulatory treatment for existing or new participants in the International PSP or for any member of the Group.

12. OVERSEAS JURISDICTIONS

The Company is also seeking standard Shareholder authority to be able to establish schedules to or further share plans based on the International PSP, but modified to take account of local securities laws, exchange controls or tax in jurisdictions other than California or the UK, provided any shares made available under such schedules or further plans are treated as counting against any limits on individual or overall participation in the International PSP.

This summary does not form part of the rules of the International PSP and should not be taken as affecting the interpretation of its detailed terms and conditions.

PART IV

FINANCIAL INFORMATION RELATING TO THE 2WIRE GROUP

SECTION A

Accountants' Report on the 2Wire Group Historical Financial Information

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The Directors
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1 October 2010

Dear Sirs

2Wire, Inc. and its subsidiaries (the "2Wire Group")

We report on the financial information set out in Section B of this Part IV (the "**2Wire Group Historical Financial Information**"). The 2Wire Group Historical Financial Information has been prepared for inclusion in the circular dated 1 October 2010 (the "**Circular**") of Pace plc (the "**Company**") on the basis of the accounting policies set out in paragraph 2 of Section B. This report is required by item 13.5.21R of the Listing Rules of the United Kingdom Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the 2Wire Group Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the 2Wire Group Historical Financial Information gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the 2Wire Group Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the 2Wire Group Historical Financial Information and whether the accounting policies are appropriate to the 2Wire Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 2Wire Group Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the 2Wire Group Historical Financial Information gives, for the purposes of the Circular dated 1 October 2010, a true and fair view of the state of affairs of the 2Wire Group as at the dates stated and of its results, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

SECTION B

The 2Wire Group Historical Financial Information

CONSOLIDATED INCOME STATEMENTS

For the years ended 31 December 2007, 2008 and 2009

	Note	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Revenue	3	452,217	655,081	465,752
Cost of sales		(419,557)	(507,364)	(363,040)
Gross profit		**32,660**	**147,717**	**102,712**
Administrative expenses:				
Research and development expenditure		(47,957)	(58,706)	(47,323)
Other administrative expenses		(42,180)	(58,637)	(49,203)
Amortisation/impairment of other intangibles	9	(571)	(4,407)	(907)
		(90,708)	**(121,750)**	**(97,433)**
Operating (loss)/profit	4	**(58,048)**	**25,967**	**5,279**
Finance income – interest receivable	5	1,852	2,538	545
Finance expenses – interest payable	5	(2,184)	(7,987)	(2,138)
(Loss)/profit before tax		**(58,380)**	**20,518**	**3,686**
Tax charge	7	(255)	(1,065)	(387)
(Loss)/profit after tax		**(58,635)**	**19,453**	**3,299**
Attributable to:				
Equity holders of 2Wire		(58,635)	19,453	3,299
(Loss)/earnings per ordinary share (cents)				
Basic	8	(95.4)	31.3	5.3
Diluted	8	(95.4)	29.5	5.1

The results are not necessarily indicative of the results for future periods since the historical funding structure does not reflect the future funding structure.

(Loss)/earnings per ordinary share has been calculated using the weighted average number of ordinary shares of 2Wire, Inc. ("2Wire"). This is not representative of the calculation going forward which will be presented for Pace plc ("Pace") and its subsidiaries, as enlarged by the proposed acquisition by Pace of 2Wire and its subsidiaries (the "2Wire Group") and calculated using the weighted average number of ordinary shares of Pace.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND EXPENSE

For the years ended 31 December 2007, 2008 and 2009

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
(Loss)/profit for the period	**(58,635)**	**19,453**	**3,299**
Other comprehensive income and expense:			
Exchange differences on translating foreign operations	16	202	(227)
Total comprehensive income and expense for the year	**(58,619)**	**19,655**	**3,072**
Attributable to:			
Equity holders of 2Wire	(58,619)	19,655	3,072

CONSOLIDATED BALANCE SHEETS

At 1 January 2007, 31 December 2007, 2008 and 2009

	Note	*1 January 2007 $'000*	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Non Current Assets					
Property, plant and equipment	9	11,033	14,437	14,125	10,820
Intangible assets – purchased goodwill	9	—	3,783	3,783	3,783
Intangible assets – computer software	9	1,117	927	3,065	3,906
Intangible assets – other intangibles	9	—	6,773	2,366	1,459
Intangible assets – development expenditure	9	1,938	2,201	2,754	2,342
Other non-current assets		134	518	630	904
Total Non Current Assets		**14,222**	**28,639**	**26,723**	**23,214**
Current Assets					
Inventories	13	53,259	43,566	39,492	31,193
Trade and other receivables	14	84,984	103,745	79,461	53,815
Cash and cash equivalents		42,945	63,851	114,072	78,554
Total Current Assets		**181,188**	**211,162**	**233,025**	**163,562**
Total Assets		**195,410**	**239,801**	**259,748**	**186,776**
Equity					
Share capital	20	6	6	6	6
Additional paid in capital	20	243,252	265,438	276,235	282,594
Translation reserve		—	16	218	(9)
Retained deficit		(185,833)	(244,468)	(225,015)	(221,716)
Total Equity		**57,425**	**20,992**	**51,444**	**60,875**
Non Current Liabilities					
Provisions	19	1,193	16,430	6,095	4,479
Other payables	15	7,972	9,724	9,118	12,321
Total Non Current Liabilities		**9,165**	**26,154**	**15,213**	**16,800**
Current Liabilities					
Trade and other payables	15	99,347	165,593	170,423	95,817
Current tax liabilities		149	256	1,048	120
Provisions	19	2,819	23,723	20,495	13,164
Bank borrowings	16	26,505	3,083	1,125	—
Total Current Liabilities		**128,820**	**192,655**	**193,091**	**109,101**
Total Liabilities		**137,985**	**218,809**	**208,304**	**125,901**
Total Equity and Liabilities		**195,410**	**239,801**	**259,748**	**186,776**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

At 1 January 2007, 31 December 2007, 2008 and 2009

	Share capital $'000	*Additional paid in capital $'000*	*Translation reserve $'000*	*Retained deficit $'000*	*Total equity $'000*
At 1 January 2007	**6**	**243,252**	**—**	**(185,833)**	**57,425**
Total comprehensive income for the year	—	—	16	(58,635)	(58,619)
Transactions with owners:					
Employee share incentive charges	—	11,997	—	—	11,997
Issues of shares	—	10,034	—	—	10,034
Issues of shares upon exercise of share options	—	155	—	—	155
Total transactions with owners	**—**	**22,186**	**—**	**—**	**22,186**
At 31 December 2007	**6**	**265,438**	**16**	**(244,468)**	**20,992**
Total comprehensive income for the year	—	—	202	19,453	19,655
Transactions with owners:					
Employee share incentive charges	—	10,846	—	—	10,846
Issues of shares upon exercise of share options	—	51	—	—	51
Cash settlement of share options	—	(100)	—	—	(100)
Total transactions with owners	**—**	**10,797**	**—**	**—**	**10,797**
At 31 December 2008	**6**	**276,235**	**218**	**(225,015)**	**51,444**
Total comprehensive income for the year	—	—	(227)	3,299	3,072
Transactions with owners:					
Employee share incentive charges	—	6,681	—	—	6,681
Issues of shares upon exercise of share options	—	45	—	—	45
Repurchase of shares	—	(367)	—	—	(367)
Total transactions with owners	**—**	**6,359**	**—**	**—**	**6,359**
At 31 December 2009	**6**	**282,594**	**(9)**	**(221,716)**	**60,875**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December 2007, 2008 and 2009

	Note	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Cash flows from operating activities				
(Loss)/ profit before tax		**(58,380)**	**20,518**	**3,686**
Adjustments for:				
Share based payments charge		11,885	9,828	6,906
Depreciation of property, plant and equipment		6,528	7,266	8,126
Amortisation of development expenditure		2,701	3,208	3,489
Amortisation of other intangibles & computer software		1,476	2,098	2,767
Impairment of intangibles		—	3,500	—
Loss/(profit) on sale of property, plant and equipment		221	264	(22)
Net finance expenses		332	5,449	1,593
Movement in inventories		9,807	4,212	8,024
Movement in trade and other receivables		(18,968)	24,164	25,372
Movement in trade and other payables		67,212	1,798	(69,644)
Movement in provisions		36,141	(13,563)	(8,947)
Cash generated from/(utilised in) operations:		**58,955**	**68,742**	**(18,650)**
Interest paid		(1,880)	(4,130)	(4,048)
Tax paid		(248)	(285)	(1,321)
Net cash generated/(utilised in) from operating activities		**56,827**	**64,327**	**(24,019)**
Cash flows from investing activities:				
Acquisition of subsidiary (net of cash acquired)		(965)	—	—
Purchase of property, plant and equipment		(10,601)	(10,682)	(7,750)
Purchase of intellectual property		(2,164)	—	—
Proceeds from disposal of property, plant and equipment		—	33	230
Development expenditure		(2,964)	(3,761)	(3,077)
Interest received		1,852	2,538	545
Net cash used in investing activities		**(14,842)**	**(11,872)**	**(10,052)**
Cash flows from financing activities:				
New borrowings		3,083	1,125	—
Repayment of borrowings	18	(26,505)	(3,083)	(1,125)
Capital contribution from Homerun consortium		2,172	—	—
Exercise of share options		155	51	45
Cash settlement of share option cancellation		—	(100)	—
Repurchase of shares		—	—	(367)
Net cash used in financing activities		**(21,095)**	**(2,007)**	**(1,447)**
Net change in cash and cash equivalents	18	20,890	50,448	(35,518)
Cash and cash equivalents at start of year		42,945	63,851	114,072
Effect of exchange rate fluctuations on cash held		16	(227)	—
Cash and cash equivalents at end of year		**63,851**	**114,072**	**78,554**

NOTES

1 BASIS OF PREPARATION AND BUSINESS ENVIRONMENT

General information

The 2Wire Group develops and markets integrated products that enable the delivery of broadband content and services to and throughout the home. 2Wire integrated broadband solutions are engineered for the customer and optimised for the subscriber, providing intuitive, reliable user experiences throughout the connected home. The 2Wire Group's portfolio of broadband solutions includes residential gateways, multi-service media platforms, remote management systems, value-added services, and call centre customer support.

2Wire was incorporated under the laws of the state of Delaware on 24 July 1998 and is domiciled in the United States of America. The 2Wire Group's headquarters are located at 1704 Automation Parkway, San Jose, California 95131.

The principal accounting policies applied in the preparation of this consolidated financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 ACCOUNTING POLICIES

Basis of preparation

The 2Wire Group's financial information has been prepared for the purposes of the Circular in accordance with the requirements of the Listing Rules and in accordance with this basis of preparation. This basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU") as applied by Pace. This financial information has been prepared under the historical cost convention, with the exception of share based payments which are recognised at fair value.

This is the first financial information prepared under IFRS as adopted by the EU. Note 27 gives further details of the impact of the transition and application of IFRS 1 'First-time adoption of IFRS' ("IFRS 1").

The preparation of financial information in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Pace's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed within this note under the heading significant judgements, key assumptions and estimates.

Basis of consolidation

The 2Wire Group financial information consolidates that of 2Wire and of its subsidiary undertakings drawn up to 31 December 2007, 2008 and 2009. The results of subsidiaries acquired in the period are included in the income statement from the date that control is transferred to the 2Wire Group. On acquisition, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Subsidiaries are entities controlled by 2Wire. Control exists when 2Wire has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated on the 2Wire Group consolidation. Subsidiaries are deconsolidated from the date that the 2Wire Group ceases to have control.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified and liabilities and contingent liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of exchange. Any contingent consideration is only included in the cost of the combination at the acquisition date if it is probable and can be measured reliably.

Other intangibles

Other intangible assets that are acquired by the 2Wire Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. The useful economic life is estimated based upon a determination of ongoing financial benefits with reference, as appropriate, to contractual terms and assessed life of customer relationships or trademarks.

Intangible assets are amortised on a straight-line basis over their estimated lives which are as follows:

Existing technologies	6 years
Non-competition agreements	2 years
Licenses	4 years
Computer software	3 years

Research and development expenditure

Research and development expenditure relates to costs associated with the development of the hardware and software within the core gateway product.

All on-going research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, production and sales are intended, a market exists, and sufficient resources are available to complete the project, development costs are capitalised and subsequently amortised on a straight-line basis over the estimated useful life of the product concerned from commercial launch. The expenditure capitalised includes the cost of materials and direct labour. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The estimated useful life of development expenditure is 18 months.

The amortisation of capitalised development expenditure is charged to the income statement in research and development expenditure within the other administrative expenses category.

Impairment charges

The 2Wire Group considers at each reporting date whether there is any indication that non-financial assets are impaired. Goodwill is tested for impairment annually. If there is such an indication, the 2Wire Group carries out an impairment test by measuring an asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business). If the recoverable amount is less than the carrying amount, an impairment loss is recognised and the asset is written down to its recoverable amount. Impairment losses in respect of goodwill are not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Revenue recognition

The 2Wire Group derives its revenues from the sale of gateways, multi-service media platforms, remote management systems, value-added services, and call centre customer support. The vast majority of the 2Wire Group's products include support services and many also include professional services and other elements.

Revenue comprises the value of sales of goods and services to third party customers occurring in the period, stated exclusive of value added tax and net of trade discounts and rebates.

Revenue on the sale of goods is recognised when substantially all of the risks and rewards in the product have passed to the customer, and substantially all of the 2Wire Group's work is completed which is usually upon delivery to the customer, or his agent.

Revenue in respect of services rendered, including remote management systems and value-added services, is recognised over the period over which they are performed, in relation to the level of work undertaken, project milestones achieved and any future obligations remaining, using a percentage completion method.

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognised as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and call deposits. The 2Wire Group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the 2Wire Group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method. Trade receivables are assessed individually for impairment, or collectively where the receivables are not individually significant. Where necessary, provisions for doubtful debts are recorded in the income statement.

Payments received from suppliers in respect of purchase agreements are amortized over the period to which they relate.

Trade and other payables

Trade and other payables are recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method.

Payments received from suppliers in respect of purchase agreements are amortised over the period to which they relate.

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis and includes appropriate transport and handling costs. Where necessary, provision is made for obsolete, slow-moving and defective inventory.

Property, plant and equipment

The cost of items of property, plant and equipment is its purchase cost, together with any directly attributable incidental costs of acquisition. Depreciation is calculated so as to write off, on a straight-line basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less any estimated residual values, which are adjusted, where appropriate, at each balance sheet date. The principal economic lives used for this purpose are:

Long leasehold properties	Period of lease
Short leasehold properties	Period of lease
Plant, machinery & computer hardware	1-3 years

Property, plant and equipment is written down to recoverable amount where an impairment in value is deemed to have occurred.

Leased assets

All leases are regarded as operating leases and the payments made are charged to the income statement on a straight-line basis over the lease term. Lease deposits are held as non-current assets on the balance sheet and released at the end of the lease term.

Currency translation

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Exchange differences of a trading nature are dealt with in the income statement. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate approximate to the foreign exchange rate ruling at the date of the transactions.

Exchange differences from the above are taken directly to the translation reserve. They are released to the income statement on disposal of the foreign operation.

Taxes

Current tax, including US federal and state tax, is provided at amounts expected to be paid (or recovered) using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing, where relevant, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability settled.

A deferred tax asset is recognised only when it is probable that sufficient taxable profits will be available in the foreseeable future from which the reversal of the temporary differences can be deducted.

Share based payments

The 2Wire Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured by the 2Wire Group at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the 2Wire Group's estimate of the number of shares that will eventually vest.

The value of the charge is adjusted in the income statement of the 2Wire Group over the remainder of the vesting period to reflect expected and actual levels of option vesting, with the corresponding adjustment made in equity.

The 2Wire Group has applied the exemption available under IFRS 2 (as defined below) to apply its provisions only to those options granted after 7 November 2002 and which were outstanding at 1 January 2007.

Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The 2Wire Group has no defined benefit arrangements in place.

Finance income

Finance income relates to interest income, which is accrued by reference to the principal outstanding and at the effective interest rate applicable.

Equity instruments

Equity instruments issued by the 2Wire Group are recorded at the proceeds received, net of direct issue costs.

Provisions

A provision is recognised in the balance sheet when the 2Wire Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

A provision for onerous contracts is recognised when the expected benefits to be derived by the 2Wire Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Provisions are reviewed at each reporting date, where a change in circumstances leads to benefits to return above costs then the provision would be released to the income statement.

Determination and presentation of operating segments

The 2Wire Group determines and presents operating segments based on the information that internally is provided to the chief executive officer, who is the 2Wire Group's Chief Operating Decision Maker ("CODM").

An operating segment is a component of the 2Wire 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 2Wire Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The 2Wire Group has determined that it only has one operating and reportable segment. This position will be monitored as the 2Wire Group develops. Further details are provided in note 3.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

Judgements and assumptions have been required by management in applying the 2Wire Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions. Key areas of estimates and critical accounting judgements are as follows:

Revenue recognition

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognised as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole. This requires a degree of management judgement, and the fair value allocations are, by their nature, best estimates. The timing and amount of revenue recognition can vary depending on what assessments have been made. Where there is no separate selling price of an element management determine fair value based on equivalent available products.

The 2Wire Group does not recognise revenue before delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. The determination of whether the amount of revenue can be measured reliably or whether the fees are collectible is inherently judgmental.

Impairment

The 2Wire Group tests annually whether goodwill has suffered any impairment and tests tangible and other intangible assets where indication of impairment exists. The recoverable amounts of cash generating units are then determined on a value-in-use basis; determining this value requires the use of estimates. The main estimates are around the cash-flow projections based on actual operating results, budgets and three year forecasts, reflecting known purchase orders, sales contracts and the net result from planned product launches. Therefore the key assumptions are a growth rate on sales, working capital investment and the discount rate.

Warranties

The 2Wire Group's standard product warranty period is typically 24 months from the date of shipment and a provision for warranties is recognised when the underlying products are sold. The 2Wire Group estimates expenses for the cost to repair or replace products that may be returned under warranty and accrues a liability in cost of sales for this amount in the period in which the related revenue is recognised. The determination of the 2Wire Group's warranty requirements is based on actual historical experience with the product, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The 2Wire Group estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors. Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of product shipment before field deployment data is available, these estimates improve during the lifetime of the product in the field.

Operating segments

The 2Wire Group has determined, based on its internal reporting framework and management structure, that it has only one reportable segment. Such determination is necessarily judgmental in its nature and has been determined by management in preparing the financial statements. The level of disclosure of segmental and other information is determined by such assessment.

Intangible assets

The 2Wire Group's business includes a significant element of research and development activity. Under accounting standards, principally IAS 38 'Intangible Assets' ("IAS 38"), 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.

Going concern

Note 17 of this consolidated financial information includes the 2Wire Group's objectives, policies and processes for managing capital and its exposure to credit and liquidity risk.

The directors have a reasonable expectation that 2Wire and 2Wire Group have adequate resources to continue in operation for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing this consolidated financial information.

New standards and interpretation not yet adopted

(a) New and amended standards adopted by the 2Wire Group

This is the first financial information prepared under IFRS as adopted by the EU. Note 27 gives further details of the impact of the transition and application of IFRS 1.

These consolidated financial statements have been prepared for the purposes of the Circular in accordance with the requirements of the Listing Rules, and in accordance with the basis of preparation set out earlier. Accordingly, all accounting standards applicable as at 31 December 2009 have been applied to all years presented.

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2009 and the 2Wire Group has not early adopted them:

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009) ("IFRIC 17"). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 (as defined below) has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The 2Wire Group and 2Wire will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the 2Wire Group's financial information.

IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009) ("IAS 27"). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement. The 2Wire Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009) ("IFRS 3"). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquired either at fair value or at the non-controlling interest's proportionate share of the acquired's net assets. All acquisition-related costs should be expensed. The 2Wire Group will apply IFRS 3 prospectively to all business combinations from 1 January 2010.

IAS 38 (amendment), 'Intangible Assets' ("IAS 38"). The amendment is part of the IASB's annual improvements project published in April 2009 and the 2Wire Group will apply IAS 38 from the date IFRS 3 is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment is not expected to have a material impact on the 2Wire Group's financial information.

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations' ("IFRS 5"). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 (as defined below) still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The 2Wire Group will apply IFRS 5 from 1 January 2010. It is not expected to have a material impact on the 2Wire Group's financial information.

IAS 1 (amendment), 'Presentation of financial statements' ("IAS 1"). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The 2Wire Group will apply IAS 1 from 1 January 2010. It is not expected to have a material impact on the 2Wire Group's financial information.

IFRS 2 (amendments), 'Group cash-settled share-based payment transaction' (effective from 1 January 2010) ("IFRS 2"). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11:– 'IFRS 2 – Group and treasury share transactions' ("IFRIC 11"), the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the 2Wire Group's financial information.

IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

Revised IAS 24, 'Related party disclosures', issued in November 2009 ("IAS 24"). It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued *pro rata* to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

Amendments to IFRIC 14 'Prepayments of a minimum funding requirement', issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. As the 2Wire Group does not have a defined benefit fund the adoption of this standard will not impact the 2Wire Group's financial information.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective from January 2010. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

3 SEGMENTAL ANALYSIS

The 2Wire Group develops and markets integrated products that enable the delivery of broadband content and services to and throughout the home.

IFRS 8 requires the 2Wire Group to determine and present its operating segments based on information which is provided internally to the CODM.

Operating segments have then been identified based on the internal reporting information and management structures within the 2Wire Group. From such information it has been determined that there is one reporting segment.

Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the CODM. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the business relative to other entities that operate within this industry. This information is provided on the face of the income statement and details of other material items can be found in the notes to the financial information.

Major customers

A limited number of customers have accounted for the substantial proportion of the 2Wire Group's revenues, as the worldwide market for telecommunication products is dominated by a small number of large providers. The following table summarises customers whose revenues represented more than 10% of total revenues for each of the financial years.

Revenue

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Related Parties			
Company A	194,016	310,478	299,835
Company B	98,161	173,709	23,110

Geographical analysis

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment non-current assets are based on the geographical location of the assets.

Revenue by destination

	31 December 2007 $'000	31 December 2008 $'000	31 December 2009 $'000
United States	263,270	371,662	364,132
Asia	10,742	11,339	14,606
Central America	98,161	173,709	23,110
Other	80,044	98,371	63,904
Total	**452,217**	**655,081**	**465,752**

Split of non-current assets

	31 December 2007 $'000	31 December 2008 $'000	31 December 2009 $'000
United States	25,422	22,858	18,631
Asia	3,217	3,865	4,583
Total	**28,639**	**26,723**	**23,214**

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

Intangible assets are all located in North America.

4 OPERATING (LOSS)/PROFIT

	Note	31 December 2007 $'000	31 December 2008 $'000	31 December 2009 $'000
Operating (loss)/profit is stated after charging/ (crediting):				
Amortisation of intangible assets including computer software and development expenditure	9	4,177	5,306	6,256
Impairment of intangible assets	9	—	3,500	—
Depreciation of owned property, plant and machinery	9	6,528	7,266	8,126
Operating lease rentals		2,432	3,904	4,037
(Profit)/loss on disposal of property, plant and equipment		(221)	(264)	22
Restructuring costs		—	—	2,397

In 2009, the 2Wire Group initiated various reductions in work force and charged $2,397,000 to restructuring expenses. These charges are comprised primarily of employee termination costs related to headcount reductions. The 2Wire Group's restructuring charges include accruals for employee severance of $257,000, which were paid in the first quarter of 2010.

5 FINANCE INCOME/(EXPENSES)

	31 December 2007 $'000	31 December 2008 $'000	31 December 2009 $'000
Finance income – interest on bank deposits	1,852	2,538	545
Total finance income	**1,852**	**2,538**	**545**
Finance expenses – interest on bank loans	(1,780)	(217)	(25)
Finance expenses – interest on trade payables	(404)	(7,770)	(2,113)
Total finance expenses	**(2,184)**	**(7,987)**	**(2,138)**

During the year ended 31 December 2008, the 2Wire Group's contract manufacturer provided trade credit terms of net 60 days plus financing between 60 and 120 days at an annualised interest rate of

12%. During December 2008, the 2Wire Group and its contract manufacturer agreed to the termination of this agreement.

6 STAFF NUMBERS AND COSTS

The average number of persons (including directors) employed by the 2Wire Group in each period, analysed by category, were as follows:

	31 December 2007 Number	*31 December 2008 Number*	*31 December 2009 Number*
Research and development	202	279	256
Administration	75	111	137
Sales and marketing	74	88	71
Manufacturing and operations	370	501	601
	721	**979**	**1,065**

The aggregate payroll costs of these persons were as follows:

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Wages and salaries, including restructuring costs	59,856	80,622	78,394
Social security costs and other payroll taxes	4,331	5,570	5,381
Pension costs (note 22)	441	1,712	1,723
Share based payments (note 21)	11,997	10,846	6,681
	76,625	**98,750**	**92,179**

Key management

Key management have been determined as the executive directors. The compensation paid or payable to key management for employee services is shown below:

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Wages and salaries, including restructuring costs	632	1,040	839
Social security costs and other payroll taxes	22	28	25
Pension costs	—	13	10
Share based payments (note 21)	2	1,181	752
	656	**2,262**	**1,626**

7 CURRENT AND DEFERRED INCOME TAX

The tax charge is based on the (loss)/profit for the year and comprises:

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Current tax			
US tax charge	109	858	339
Overseas tax charge	146	207	48
Total tax charge	**255**	**1,065**	**387**

Reconciliation of effective tax rate:

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
(Loss)/profit before tax	(58,380)	20,518	3,686
Tax using domestic rate of 38.7% (2008: 38.3%, 2007: 37.4%)	(21,834)	7,858	1,426
Effects of:			
Expenses not deductible for tax purposes	120	117	70
Overseas tax at variable rates	(84)	(242)	(325)
Impact of unrecognised deferred tax assets	22,053	(6,668)	(784)
	255	**1,065**	**387**

8 EARNINGS PER 2WIRE ORDINARY SHARE

	31 December 2007 cents	*31 December 2008 cents*	*31 December 2009 cents*
Basic (loss)/earnings per ordinary share	(95.4)	31.3	5.3
Diluted (loss)/earnings per ordinary share	(95.4)	29.5	5.1

The calculation of basic earnings per share is based on a profit after tax of $3,299,000 (2008: $19,453,000, 2007: loss of $58,635,000) divided by the weighted average number of 2Wire ordinary shares in issue of 62,141,903 (2008: 62,134,446, 2007: 61,480,360).

Diluted earnings per ordinary share varies from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. It is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	31 December 2007 Number in thousands	*31 December 2008 Number in thousands*	*31 December 2009 Number in thousands*
Weighted average number of 2Wire ordinary shares in issue during the year	61,480	62,134	62,142
Dilutive effect of options outstanding	n/a	3,914	2,374
Diluted weighted average number of 2Wire ordinary shares in issue during the year	61,480	66,048	64,516

9 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Purchased Goodwill $'000	*Computer Software $'000*	*Development Expenditure $'000*	*Other Intangibles £'000*	*Short Leasehold Buildings £'000*	*Plant & Machinery $'000*	*Total Property, Plant & Equipment $'000*
Cost							
At 1 January 2007	**—**	**3,046**	**3,528**	**—**	**3,103**	**14,722**	**17,825**
Additions	—	715	2,964	2,164	1,667	10,920	12,587
Acquisitions	3,783	—	—	5,180	—	62	62
Disposals	—	—	—	—	(290)	(2,950)	(3,240)
Retirement of assets	—	—	(2,178)	—	—	—	—
At 31 December 2007	**3,783**	**3,761**	**4,314**	**7,344**	**4,480**	**22,754**	**27,234**
Additions	—	3,329	3,761	—	763	11,057	11,820
Disposals	—	—	—	—	(62)	(5,371)	(5,433)
Impairment	—	—	—	(3,500)	—	—	—
Retirement of assets	—	—	(2,832)	—	—	—	—
At 31 December 2008	**3,783**	**7,090**	**5,243**	**3,844**	**5,181**	**28,440**	**33,621**
Additions	—	2,717	3,077	—	253	7,196	7,449
Disposals	—	(395)	—	—	(55)	(5,054)	(5,109)
Retirement of assets	—	—	(3,363)	—	—	—	—
At 31 December 2009	**3,783**	**9,412**	**4,957**	**3,844**	**5,379**	**30,582**	**35,961**
Amortisation/Depreciation							
At 1 January 2007	**—**	**(1,929)**	**(1,590)**	**—**	**(1,247)**	**(5,545)**	**(6,792)**
Provided	—	(905)	(2,701)	(571)	(649)	(5,879)	(6,528)
Disposals	—	—	—	—	191	332	523
Retirement of assets	—	—	2,178	—	—	—	—
At 31 December 2007	**—**	**(2,834)**	**(2,113)**	**(571)**	**(1,705)**	**(11,092)**	**(12,797)**
Provided	—	(1,191)	(3,208)	(907)	(917)	(6,349)	(7,266)
Disposals	—	—	—	—	—	567	567
Retirement of assets	—	—	2,832	—	—	—	—
At 31 December 2008	**—**	**(4,025)**	**(2,489)**	**(1,478)**	**(2,622)**	**(16,874)**	**(19,496)**
Provided	—	(1,860)	(3,489)	(907)	(1,078)	(7,048)	(8,126)
Disposals	—	379	—	—	55	2,426	2,481
Retirement of assets	—	—	3,363	—	—	—	—
At 31 December 2009	**—**	**(5,506)**	**(2,615)**	**(2,385)**	**(3,645)**	**(21,496)**	**(25,141)**
Net Book Value							
1 January 2007	—	1,117	1,938	—	1,856	9,177	11,033
31 December 2007	3,783	927	2,201	6,773	2,775	11,662	14,437
31 December 2008	3,783	3,065	2,754	2,366	2,559	11,566	14,125
31 December 2009	**3,783**	**3,906**	**2,342**	**1,459**	**1,734**	**9,086**	**10,820**

Goodwill

Goodwill arose on the acquisition of Kenati Technologies, Inc. (''Kenati'') on 10 October 2007 (note 11). This operation has been integrated within the 2Wire Group business and cannot be separately identified as a cash generating unit. Accordingly, management assess the carrying value of goodwill against the recoverable amount of the 2Wire Group.

The recoverable amount of the 2Wire Group is based upon a value in use calculation and is higher than the carrying value of the goodwill allocated to Kenati acquisition. The calculations use cash-flow projections based on actual operating results, budgets and three year forecasts, reflecting known purchase orders, sales contracts and the net result from planned product launches. Therefore the key assumptions are a growth rate of 12.2% (2008: 11%, 2007: 12.2%) on sales and working capital investment of 15% (2008: 14%, 2007: 10%). A post tax discount rate of 15% (2008: 15%, 2007: 16%) has been used.

The directors believe there are no reasonably possible changes to a key assumption which would give rise to an impairment charge.

Other intangibles

Other intangibles relate to purchased technology and non-competition agreements recognised as part of the Kenati acquisition (note 11) and licenses for core technology products purchased in 2007.

In 2008 $3,500,000 of the purchased technology was impaired, following a reassessment by management of the projected future cashflows from this technology.

10 2WIRE GROUP COMPANIES

At 31 December 2009 the 2Wire Group subsidiary undertakings were:

	Nature of operations	*Percentage holding*	*Country of incorporation*	*Class of share capital held*
2Wire International Holding Corporation	Trading	100%	USA	Ordinary
Kenati Technologies, Inc	Dormant	100%	USA	Ordinary
2Wire International Limited	Trading	100%	UK	Ordinary
2Wire Asia Pacific Limited	Trading	100%	Hong Kong	Ordinary
2Wire Singapore Pte Ltd.	Trading	100%	Singapore	Ordinary
2Wire EURL	Trading	100%	France	Ordinary
2Wire Australia Pty Limited	Trading	100%	Australia	Ordinary
2Wire (B.C.) Limited	Trading	100%	Canada	Ordinary
2Wire Development Centre (India) Private Limited	Trading	100%	India	Ordinary

Each of the subsidiary undertakings listed above has been consolidated in the 2Wire Group's financial information.

Kenati was acquired on 10 October 2007 as described in note 11.

11 ACQUISITION

On 28 September 2007, the 2Wire Group entered into an agreement and plan of merger and reorganisation (the "Kenati Agreement") with Kenati, a Delaware corporation, by which the 2Wire Group agreed to acquire Kenati, and whereby Kenati would become a wholly owned subsidiary of 2Wire. On 10 October 2007, the 2Wire Group acquired 100% of the share capital of Kenati in a cash and share transaction.

Under the terms of the Kenati Agreement, each of Kenati's preference shares was converted into 0.058 2Wire ordinary shares. The preferred shareholders were also paid an aggregate of $500,000 cash consideration. In addition, each of Kenati's ordinary shares was converted into 0.044 2Wire ordinary shares. 2Wire issued 1,041,977 ordinary shares in exchange for the Kenati preferred and ordinary shares.

Pursuant to the terms of the Kenati Agreement, each Kenati stock option outstanding and unexercised as of 20 August 2007 was converted into an option to purchase 0.044 2Wire ordinary shares. In total, 2Wire exchanged and converted Kenati options into options to purchase 59,901 2Wire ordinary shares with a weighted average exercise price of $1.64 per share. The fair value of options issued was approximately $94,000.

The consideration payable is made up of:

	$'000
Fair value of 2Wire ordinary shares	7,107
Fair value of options assumed	94
Cash paid to preferred shareholder	500
Acquisition fees*	1,378
Acquisition consideration payable	**9,079**

* Acquisition fees include $661,000 of 2Wire ordinary shares issued to a financial advisor.

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 were as follows:

	Book value prior to acquisition $'000	*Fair value Adjustments $'000*	*Fair value of net assets/ (liabilities) acquired $'000*
Cash and short-term investments	253	—	253
Accounts receivable	106	(30)	76
Other current assets	47	—	47
Fixed assets	90	(28)	62
Other non-current assets	55	—	55
Accounts payable and accrued liabilities	(365)	(12)	(377)
Total net assets acquired	**186**	**(70)**	**116**
Intangible assets recognised			5,180
Goodwill recognised			3,783
Total investment cost			**9,079**

The fair value adjustments have been made to reflect the recoverable amount of accounts receivable and fixed assets at the date of acquisition, as well an additional liability for tax exposures.

The other intangible assets acquired consist of balances relating to in-process research and development, purchased technology and a non-competition agreement.

The in-process research and development of $3,500,000 relates to two technology projects in production for a home media server (Media NAS) and an application server (MyHome). In process research and development was valued using forecast future discounted cash flows at a discount rate of 48%. The fair value of the in-process research and development is amortised on a straight line basis over the estimated useful life of six years once commercial production of the technology commences. Until that date the asset is tested for impairment at each balance sheet date.

Purchased technology of $1,500,000 relates to Kenati's products across all of their product lines that have reached technological feasibility as well as a combination of Kenati's processes, patents, and trade secrets developed through years of experience in design and development of their products. Existing technology was valued using forecast future discounted cash flows, using a discount rate of 40%. The fair value of the existing technology is amortised to cost of sales on a straight line basis over the estimated useful life of six years.

The fair value of the non-competition agreements of $180,000 was comprised of Kenati's employees who signed non-competition agreements preventing them from competing against Kenati for periods averaging two years. The fair value attributed to non-competition agreements was determined using forecast future discounted cash flows, using a discount rate of 47%. The fair value of the non-competition agreements is amortised to operating expenses on a straight line basis over the estimated useful life of two years.

Discount rates used in the valuation of purchased technology and non-competition agreements reflect the risk surrounding technological feasibility of products in progress and the stage of development of the Kenati business.

Goodwill recognised on acquisition is attributable to the skills and talent of the acquired business workforce, and the synergies expected to be achieved from integrating the business into the existing business. Acquired goodwill is subject to annual impairment review (note 9).

The trading results for the period from 1 January 2007, had the acquisition taken place at that date, are not material to the 2Wire Group's result.

12 DEFERRED TAX ASSETS

The 2Wire Group believes that there is insufficient certainty of future taxable profits at each of the balance sheet dates to fully recognise deferred tax asset relating to trading losses, research and development credits and other short term timing differences. Accordingly, the 2Wire Group has recognised such assets only to the extent that they can be offset against deferred tax liabilities:

	Property, plant & equipment $'000	*Trading losses & R&D credits $'000*	*Intangibles $'000*	*Other Short term timing differences $'000*	*Total $'000*
Recognised asset/(liability)					
At 1 January 2007	—	740	(740)	—	—
Credited/(charged) to the income statement	—	57	(57)	—	—
Acquisitions	—	1,939	(1,939)	—	—
At 31 December 2007	—	2,736	(2,736)	—	—
Credited/(charged) to the income statement	—	(1,201)	1,201	—	—
At 31 December 2008	—	1,535	(1,535)	—	—
Credited/(charged) to the income statement	—	(265)	265	—	—
At 31 December 2009	—	1,270	(1,270)	—	—

The unrecognised deferred tax assets and liabilities during the year are shown below:

	Property, plant & equipment $'000	*Trading losses & R&D credits $'000*	*Intangibles $'000*	*Other Short term timing difference $'000*	*Total $'000*
Unrecognised asset					
At 1 January 2007	2,209	52,727	—	12,353	67,289
At 31 December 2007	3,203	56,520	—	28,609	88,332
At 31 December 2008	4,284	57,598	—	19,781	81,663
At 31 December 2009	5,407	48,505	—	21,555	75,467

The 2Wire Group has not recognised deferred tax liabilities on unremitted earnings from foreign subsidiaries where the company controls the repatriation of earnings as the 2Wire Group does not intend to repatriate those earnings.

13 INVENTORIES

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Raw materials and consumables	12,644	8,803	—	—
Finished goods	40,615	34,763	39,492	31,193
	53,259	**43,566**	**39,492**	**31,193**

14 TRADE AND OTHER RECEIVABLES

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Trade receivables	32,674	33,016	27,566	20,089
Amounts owed by related parties (note 25)	40,280	63,433	48,437	28,687
Deferred cost of goods sold	3,818	—	—	1,388
Prepayments and accrued income	8,212	7,296	3,458	3,651
	84,984	**103,745**	**79,461**	**53,815**

The aging of trade receivables is included in note 17.

15 TRADE AND OTHER PAYABLES

Current

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Trade payables	78,448	137,697	138,689	60,010
Amounts owed to related parties (note 25)	—	985	1,347	51
Deferred revenue	13,628	13,902	15,919	24,892
Social security and other taxes	2,869	7,183	9,464	4,986
Accruals	4,402	5,826	5,004	5,878
	99,347	**165,593**	**170,423**	**95,817**

Non-current

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Deferred revenues	6,426	8,035	8,115	6,144
Deferred rent	1,448	1,644	974	1,160
Other long term liabilities	98	45	29	5,017
	7,972	**9,724**	**9,118**	**12,321**

16 BANK BORROWINGS

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Within one year	26,505	3,083	1,125	—
	26,505	**3,083**	**1,125**	**—**

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

This note provides information about the contractual terms of the 2Wire Group's interest bearing loans and borrowings:

(a) Interest rate risk profile of cash/bank overdrafts

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Securitised borrowings at:				
1 January 2007: 8.25%	25,380	—	—	—
$3m term loan facility at 7.5%	1,125	—	—	—
$2m term loan facility at 8.5%	—	1,083	83	—
$2m term loan facility at 8.5%	—	2,000	1,042	—
	26,505	**3,083**	**1,125**	**—**

The 2Wire Group has a line of credit agreement with a bank which allows it to borrow the lesser of (i) 80% of eligible accounts receivable plus $5,000,000 or (ii) $55,000,000. This line of credit is collateralised by substantially all of the 2Wire Group's assets, including intellectual property. Under the terms of the credit agreement, amounts the 2Wire Group borrows from the lending group are repaid to the lending group directly by the 2Wire Group's accounts receivable debtors. This line of credit agreement bears interest at the bank's prime rate (4.00% at 31 December 2009 and 31 December 2008 and 7.25% at 31 December 2007). In November 2009, the expiration date of the line of credit was extended to 15 January 2010. At 1 January 2007 $25,380,000 was outstanding under this facility; no borrowings were outstanding under the line of credit at 31 December 2009, 31 December 2008 and 31 December 2007.

In August 2005, the 2Wire Group obtained a term loan agreement with a bank allowing the 2Wire Group to borrow up to $3,000,000. This term loan was collateralised by a security interest by the bank in substantially all of the 2Wire Group's assets, including intellectual property. This term loan bore interest at 7.5% and expired on 25 August 2007. Borrowings outstanding under this term loan as at 31 December 2007 were $nil (1 January 2007: $1,125,000).

In December 2006, the 2Wire Group obtained a term loan agreement with a bank allowing the 2Wire Group to borrow up to $2,000,000. This term loan is collateralised by a security interest by the bank in substantially all of the 2Wire Group's assets, including intellectual property. This term loan bears interest at 8.5% and expired on 1 January 2009. As of 31 December 2009, outstanding borrowings under this term loan were $nil (31 December 2008: $83,000, 31 December 2007: $1,083,000, 1 January 2007: $nil).

In August 2007, the 2Wire Group obtained a term loan agreement with a bank which allows the 2Wire Group to borrow up to $2,000,000. This term loan is collateralised by a security interest by the bank in substantially all of the 2Wire Group's assets, including intellectual property. This term loan bears interest at 8.5% and expired on 1 December 2009. Borrowings outstanding under this term loan as of 31 December 2009 were $nil (31 December 2008: $1,042,000, 31 December 2007: $2,000,000).

These line of credit and term loan agreements contain certain financial and other covenants. The 2Wire Group was in compliance with these covenants at 31 December 2008. The 2Wire Group was not in compliance with these covenants at 31 December 2007, and accordingly the debt is shown as due in less than one year.

In January 2010, the 2Wire Group amended its line of credit agreement with a bank to extend the expiration of the credit facility to 14 January 2013. The amended credit facility allows the 2Wire Group to borrow the lower of (i) 80% of eligible accounts receivable plus $5,000,000 or (ii) $55,000,000. This line of credit is collateralised by substantially all of the 2Wire Group's assets, including intellectual property. Under the terms of the credit agreement, amounts the 2Wire Group borrows from the lending company are repaid to the lending company directly by the 2Wire Group's accounts receivable debtors. The agreement includes a provision for monthly unused line of credit fees and anniversary fees and bears interest at the bank's prime rate (currently 4%).

These lines of credit had covenants based on net worth. At 31 December 2007 the 2Wire Group was not in compliance with this debt covenant. In 2008 an amendment was obtained to replace net worth with a minimum liquidity covenant. The 2Wire Group was in compliance with this covenant at 31 December 2009 and 31 December 2008.

All of the 2Wire Group's borrowings are denominated in US dollars and are fixed rate.

(b) Credit risk

The 2Wire Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The 2Wire Group does not require collateral in respect of financial assets. There were no significant impairments in the periods under review.

The credit risk on liquid funds is limited because counterparties are banks with high credit ratings. At each balance sheet date there was no significant concentration of credit risk, other than as disclosed below.

	1 January 2007 $'000	*31 December 2007 $'000*	*31 December 2008 $'000*	*31 December 2009 $'000*
Trade receivables	32,674	33,016	27,566	20,089
Cash and cash equivalents	42,945	63,851	114,072	78,554
	75,619	**96,867**	**141,638**	**98,643**

Of the trade receivables at 31 December 2009 95% was within terms (2008: 93%, 2007: 97%). The balance at all year ends was less than 30 days past due.

A limited number of customers have accounted for a substantial portion of the 2Wire Group's revenues as the worldwide market for telecommunication products is dominated by a small number of large providers. The 2Wire Group's accounts receivable are derived from revenue earned from customers primarily located in the United States of America. Revenues from international customers were approximately 22%, 43% and 42% of the total consolidated revenues for the years ended 31 December 2009, 2008 and 2007 respectively. The 2Wire Group performs ongoing credit evaluations of its customers' financial condition and establishes an allowance for doubtful accounts based upon the expected collectability of accounts receivable.

All of the 2Wire Group's receivables are denominated in US dollars.

There were no customers, other than related parties whose accounts receivable balances represented more than 10% of total trade accounts receivable for any of the respective fiscal years. Accounts receivable from related parties are disclosed in note 25.

There were no material bad debt provisions deemed necessary against such balances, in the current or preceding years.

(c) Liquidity risk

Cash resources are largely and normally generated through operations.

Short term flexibility is achieved by the banking facilities in place.

Cash settled financial liabilities are generally short term in nature and are not discounted. At 31 December 2009 the 2Wire Group has no borrowings greater than one year at any of the balance sheet dates.

(d) Capital management

In line with the disclosure requirements of IAS 1, 'Presentation of Financial Statements,' the 2Wire Group regards its capital as being the issued share capital together with its additional paid in capital and its banking facilities, used to manage short term working capital requirements.

Note 20 to the financial information provides details regarding the 2Wire Group's share capital and movements in the year. There were no breaches of any requirements with regard to any relevant conditions imposed by 2Wire's articles of association during the years under review.

The 2Wire Group is not subject to any externally imposed capital requirements.

(e) Fair values

The directors have considered the fair values of financial assets and liabilities and have determined that these are not materially different from the carrying amounts shown in the 2Wire Group balance sheet.

(f) Exchange rates

The majority of the 2Wire Group's cashflows are denominated in US dollars. The 2Wire Group is subject to exchange rate risk relating to the retranslation of the results of its overseas operations. This risk is not considered to be significant.

(g) Sensitivity analysis

In managing interest rate and currency risks the 2Wire Group aims to reduce the impact of short term fluctuations on the 2Wire Group's earnings. Over the long term, permanent changes in foreign exchange and interest rates may have an impact on consolidated earnings.

The directors consider that a change of 100 basis points in interest rates at any year end would not have a material impact on cash flows or profitability.

The directors consider that a change of 10% in foreign currency rates at any year end would not have a material impact on cash flows or profitability.

18 NET DEBT

Reconciliation of net cash inflow to movement in net debt

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Increase/(decrease) in cash in the year	20,890	50,448	(35,518)
Repayment of borrowings	23,422	1,958	1,125
Change in net debt resulting from cash flows	**44,312**	**52,406**	**(34,393)**
Exchange gains/(loss)	16	(227)	—
Opening net funds	16,440	60,768	112,947
Closing net funds	**60,768**	**112,947**	**78,554**
Analysed as:			
Cash	63,851	114,072	78,554
Less: borrowings	(3,083)	(1,125)	—
	60,768	**112,947**	**78,554**

19 PROVISIONS

	Onerous contracts *$'000*	*Warranties* *$'000*	*Total* *$'000*
At 1 January 2007	**1,627**	**2,385**	**4,012**
Additions for the year	9,083	37,196	46,279
Utilised	(5,841)	(4,297)	(10,138)
At 31 December 2007	**4,869**	**35,284**	**40,153**
Additions for the year	12,264	5,498	17,762
Utilised	(12,471)	(18,854)	(31,325)
At 31 December 2008	**4,662**	**21,928**	**26,590**
Additions for the year	6,055	12,457	18,512
Utilised	(9,054)	(15,833)	(24,887)
Change in estimates	—	(2,572)	(2,572)
At 31 December 2009	**1,663**	**15,980**	**17,643**

Warranties

The 2Wire Group's standard product warranty period is typically 24 months from the date of shipment and a provision for warranties is recognised when the underlying products are sold. The 2Wire Group estimates expenses for the cost to repair or replace products that may be returned under warranty and accrues a liability in cost of product revenue for this amount in the period in which the related revenue is recognised. The determination of the 2Wire Group's warranty requirements is based on actual historical experience with the product, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The 2Wire Group estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors.

Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of product shipment before field deployment data is available, these estimates improve during the lifetime of the product in the field.

It is expected that the expenditure with regard to warranties will be incurred within three years of the balance sheet date.

Onerous contracts

The 2Wire Group accrues provisions for losses on adverse purchase commitments. These amounts at each balance sheet date are shown above. It is expected that the expenditure with regard to onerous contracts will be incurred within one year of the balance sheet date.

20 SHARE CAPITAL

	1 January 2007		31 December 2007	
	Number	*$'000*	*Number*	*$'000*
Authorised				
Ordinary shares of $0.0001 cents each	75,000,000	8	77,373,186	8
Allotted, called up and fully paid				
Ordinary shares of $0.0001 cents each	60,833,901	6	62,126,818	6

	31 December 2008		31 December 2009	
	Number	*$'000*	*Number*	*$'000*
Authorised				
Ordinary shares of $0.0001 cents each	78,639,742	8	79,670,606	8
Allotted, called up and fully paid				
Ordinary shares of $0.0001 cents each	62,143,073	6	62,141,732	6

On 8 July 2009, the 2Wire Group filed an amendment to its amended and restated certificate of incorporation affecting a reverse 1-for-1,000 share split of 2Wire's ordinary shares (the ''Reverse Split''). With respect to holders of fewer than 1,000 shares of ordinary shares prior to the Reverse Split, whose shares would have otherwise been converted into less than one share (a ''fractional share'') in the Reverse Split, such holders' shares converted into the right to receive a cash payment from the 2Wire Group equal to $6.49 multiplied by the number of shares held immediately prior to the Reverse Split. The Reverse Split was immediately followed by a forward 1,000-for-1 share split of the ordinary shares (the ''Forward Split,'' and together with the Reverse Split, including the cash payments to holders of fewer than 1,000 shares of ordinary shares prior to the Reverse Split, the ''Recapitalisation''). Shareholders holding 1,000 or more shares of ordinary shares immediately prior to the Reverse Split continued to hold the same number of shares immediately following the Forward Split and did not receive any cash payments. As a result of the Recapitalisation, 2Wire cancelled 56,518 outstanding ordinary shares.

2Wire's authorised shares of $0.0001 par value ordinary shares at each year end are shown above. At the year end there were 1,000 shares of par value $0.0001 ordinary shares. None of these shares are allotted.

Each 2Wire shareholder is entitled to one vote for each 2Wire share held at all meetings of 2Wire shareholders and will be entitled to any dividends declare by the 2Wire directors.

Potential issues of 2Wire ordinary shares

Certain employees hold options to subscribe for shares in 2Wire under the 2000 and 2003 plans.

Further information on the share based option plans are disclosed in note 21.

Additional paid in capital

Where 2Wire issues shares above par value the difference between par and consideration received is recoverable in the additional paid in capital reserve. In 2006 and 2007 the 2Wire Group received contributions of $20.5 million and $2.1 million from the Homerun Consortium in respect of costs incurred as a result of the acquisition which were recorded in this reserve.

21 EMPLOYEE BENEFITS

Share based payments

The 2Wire Group has two share option plans: the 2000 plan and the 2003 plan. The 2000 plan provides for the direct award of shares and the granting of options to employees (including directors) and consultants of the 2Wire Group. The 2003 international plan provides for the direct award of shares and the granting of options to employees and consultants who reside outside the United States. Under both schemes options may be granted for periods of up to ten years at prices determined by the 2Wire board of directors, except that options granted under the 2000 plan must have an exercise price that equals or exceeds 100% of the fair market value of 2Wire common stock on the date of grant.

The number and weighted average exercise price of share options is as follows:

	2007	
	Average exercise price	*Weighted number of options*
	$	*Number*
Outstanding at the beginning of the period	3.39	9,586,469
Granted during the year	5.41	7,679,189
Cancelled during the year	4.01	(2,475,733)
Exercised during the year	0.97	(160,132)
Expired during the year	—	—
Outstanding at the end of the year	**4.37**	**14,629,793**
Exercisable at the end of the year	**4.31**	**13,439,659**

	2008		*2009*	
	Average exercise price	*Weighted number of options*	*Average exercise price*	*Weighted number of options*
	$	*Number*	*$*	*Number*
Outstanding at the beginning of the period	4.37	14,629,793	4.34	13,097,082
Granted during the year	6.67	156,524	4.86	2,239,055
Cancelled during the year	4.82	(1,670,775)	4.55	(2,805,522)
Exercised during the year	3.12	(16,255)	1.10	(59,085)
Expired during the year	1.00	(2,205)	—	—
Outstanding at the end of the year	**4.34**	**13,097,082**	**4.39**	**12,471,530**
Exercisable at the end of the year	**4.29**	**12,383,830**	**4.36**	**11,940,502**

The weighted average exercise price of options granted in the year was $4.86 (2008: $6.67, 2007: $2.66).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. The following table gives the assumptions applied to the options granted in the respective years shown. Expectations of early exercise are incorporated into the model, where appropriate.

	31 December 2007	*31 December 2008*	*31 December 2009*
Average share price (cents)	5.31	6.52	5.51
Weighted average share price (cents)	4.31	4.34	4.39
Expected volatility (%)	49% – 58%	48%	54% – 60%
Option life (years)	5	5	5
Risk free rate (%)	3.16% – 4.44%	2.57%	1.54% – 1.93%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The charge for share based payments in the year is $6,681,000 (2008: $10,846,000, 2007: $11,997,000) which is comprised entirely of equity settled transactions.

Modifications to the terms of options were made during May 2008, June 2008 and November 2008. These modifications resulted in additional charges to the income statement of $615,000, $93,000, $350,000 and $148,000 respectively. In addition the 2Wire Group paid $100,000 in respect of a cancellation of options, in June 2008.

On 22 July 2010 all options in existence were agreed to be terminated, contingent upon the successful completion of the acquisition of the 2Wire Group by Pace (note 26).

22 PENSIONS

The 2Wire Group sponsors a 401(k) defined contribution plan covering all eligible employees. Contributions made by the 2Wire Group are discretionary and determined annually by the compensation committee of the board of directors. The total expense relating to these plans in the current year was $1,723,000 (2008: $1,712,000, 2007: $441,000). At 31 December 2009 contributions of $Nil (2008: $Nil, 2007: $Nil) were outstanding.

23 LEASING COMMITMENTS

Total amounts payable under non-cancellable operating lease rentals are as follows:

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Land and buildings:			
Within one year	3,941	4,495	4,320
Between two and five years	8,799	5,210	12,182
In five years or more	192	—	1,170
	12,932	**9,705**	**17,672**

24 CONTINGENCIES AND PURCHASE COMMITMENTS

Purchase commitments

At 31 December 2009, the 2Wire Group had total purchase commitments arising from non-cancellable and unconditional commitments for inventories comprising $14,599,000 (2008: $21,831,000, 2007: $50,477,000).

Indemnifications

As permitted under Delaware law, the 2Wire Group has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the 2Wire Group's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime and the heirs of indemnified officers and directors are also beneficiaries of the indemnification agreements. The maximum potential amount of future payments the 2Wire Group could be required to make under these indemnification agreements is unlimited; however, the 2Wire Group has a director and officer insurance policy that may enable the 2Wire Group to recover a portion of any future amounts paid. There have been no claims for indemnification and, accordingly, no amounts have been accrued in connection with indemnification provisions as at 31 December 2009 (2008: nil, 2007: nil).

The 2Wire Group enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the 2Wire Group indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the 2Wire Group's business partners or customers, including any U.S. patent or any copyright or other intellectual property infringement claim by any third party with respect to the 2Wire Group's products. The term of these indemnification agreements is generally perpetual following execution of the agreement. The maximum potential amount of future payments the 2Wire Group could be required to make under these indemnification agreements is often unlimited; however, the 2Wire

Group has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements and accordingly, no amounts have been accrued in connection with the indemnification provisions as at 31 December 2009 (2008: nil, 2007: nil).

Legal matters

On 31 October 2007, Wi-LAN filed a lawsuit captioned Wi-LAN, Inc. v. Westell Technologies, et al., Civil Action No. 2:07-CV-474 (TJW), in the U.S. District Court for the Eastern District of Texas. 2Wire is named as a defendant in the action. Wi-LAN filed a second amended complaint in the same action on 16 April 2010. The second amended complaint alleges that 2Wire infringes three US patents by making, using, offering for sale, importing, and/or selling wireless products compliant with the IEEE 801.11 and/or 802.16 standards and ADSL products compliant with the ITU G.992 and/or G.993 standards. A pre-trial order in which the court construes the meaning of key words in patent claims has been issued for the two wireless patents and a hearing for the ADSL patent was held on 1 September 2010. The trial is currently scheduled for January 2011. 2Wire has retained counsel and intends to defend the action vigorously. The ultimate outcome of this matter cannot currently be predicted and the claim is unquantifiable.

The 2Wire Group is a party to various other legal proceedings and claims arising from the normal course of business activities. At 31 December 2007, 2008 and 2009, the 2Wire Group did not expect that the ultimate outcome of these unresolved matters, individually or in the aggregate, would have a material adverse effect on the 2Wire Group's results of operations, cash flows, or financial position.

25 RELATED PARTIES

Certain members of 2Wire's board of directors serve as directors or principals of entities that are investors in and customers of the 2Wire Group. The 2Wire Group believes that the terms of its transactions with those companies are no less favourable to the 2Wire Group than the terms that would have been obtained absent those relationships.

One member of 2Wire's board of directors is a principal at one of the 2Wire Group's investors. As of 31 December 2009, 31 December 2008 and 31 December 2007, the investor owned approximately 10% of 2Wire's ordinary shares on a fully-diluted basis.

Certain members of the 2Wire Group's board of directors are officers or part of senior management of three of the 2Wire Group's investors, which are also customers of the 2Wire Group. Transactions with these customers were as follows:

	31 December 2007 $'000	*31 December 2008 $'000*	*31 December 2009 $'000*
Related Parties			
Company A			
Revenues	194,016	310,478	299,835
Accounts receivable	23,159	33,542	28,593
Accounts payable	16	63	51
Company B			
Revenues	98,161	173,709	23,110
Accounts receivable	38,760	14,248	24
Accounts payable	—	—	—
Company C			
Revenues	4,629	984	57
Accounts receivable	1,514	647	70
Accounts payable	969	1,284	—

In the year ended 31 December 2009, the 2Wire Group and Related Party Company C agreed to terminate a commission agreement. In 2008, $1,602,000 was recorded as commission expense for Related Party Company C. In the year ended 31 December 2009, Related Party Company A made an advance payment of $19,834,000 which is recorded in accrued liabilities as of 31 December 2009.

26 POST BALANCE SHEET EVENTS

In January 2010, the 2Wire Group amended its line of credit agreement with a bank to extend the expiration of the credit facility to 14 January 2013. The details of the new facility are set out in note 17.

On 26 July 2010 Pace plc, a group listed on the London Stock Exchange, announced the proposed acquisition of the 2Wire Group, for cash consideration of $475 million. The terms and conditions are yet to be approved by the shareholders of Pace plc at a General Meeting to be held on 18 October 2010.

27 TRANSITION TO IFRS

IFRS 1 Exemption

For the purposes of this IFRS Financial Information Table, the 2Wire Group's date of transition to IFRS is 1 January 2007 and all comparative information in this financial information has been restated to reflect 2Wire's adoption of IFRS, except where otherwise required or permitted by IFRS 1.

IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. As a general principle, IFRS 1 requires the standards effective at the reporting date to be applied retrospectively; however, retrospective application is prohibited in some areas. In addition, there are a number of optional exemptions from full retrospective application of IFRS within IFRS.

The 2Wire Group's policy on optional IFRS 1 exemptions is as follows:

- Not to apply IFRS 3 before transition date to past business combinations; and
- Not to apply the requirements of IFRS 2 to options granted prior to 7 November 2002 or to options granted between 7 November 2002 and 1 January 2007 that vested prior to 1 January 2007

Reconciliations between IFRS and US GAAP

(a) Reconciliation of cash flows

The adoption of IFRS did not have a material effect on 2Wire's cash flow statements, so no reconciliation of cash flows has been included.

The tables below show the impact of IFRS on the income statement for the year ended 31 December 2007 as well as the impact on net assets at 1 January 2007 and 31 December 2007.

(b) Balance sheet as at 31 December 2007

(c) Opening balance sheet reconciliation as at 1 January 2007

(d) Income statement reconciliation for the year ended 31 December 2007

(e) The main areas impacted by the transition, as presented above, are discussed below

i. Revenue recognition

Under US GAAP, at the date of transition, revenue was only recognised where all the contract specification had been completed, although substantially all the risks and rewards had passed at an earlier date. Under IAS 18 'Revenue' ("IAS 18"), revenue is recognised on the transfer of risks and rewards.

Under IAS 18 where a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognised as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole. For any element where there are still ongoing performance obligations revenue is deferred in the balance sheet and released over the relevant period.

ii. Business combinations

During 2006 the 2Wire Group was purchased by a consortium and as a result of this transaction certain adjustments were recorded by the 2Wire Group. Under US GAAP 'push down' accounting is allowable, resulting in fair value adjustments on acquisition being recorded in the books of the 2Wire Group. This included goodwill arising from the acquisition as well as the recording of a number of intangible assets. IFRS does not allow for the capitalisation of own goodwill or certain other intangible assets. On transition to IFRS these amounts, and the associated amortisation in future years, have been backed out.

iii. Share based payments

The 2Wire Group issues equity-settled share-based payments to certain employees. In accordance with IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant, in respect of options granted after 7 November 2002 and which were outstanding at 1 January 2007. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the 2Wire Group's estimate of the shares that will eventually vest. Under US GAAP, the charge was recorded over a straight lines basis, although the option vesting period was graded. The other elements of measurement used under US GAAP are similar to IFRS 2.

iv. Research and development costs

Under US GAAP all expenditure on research and development was expensed as incurred. Under IAS 38 research expenditure is recognised as an expense as incurred but costs incurred on product development are capitalised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, resources are available to complete the development and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Capitalised product development expenditure is amortised over the expected useful life.

v. Computer software

In accordance with IAS 38 software previously held by the 2Wire Group as a tangible asset has been reclassified as an intangible asset.

vi. First time adoption

As permitted by IFRS 1, the translation reserve has been re-set to zero as at 1 January 2007. This has had no effect on net equity. The share based payments reserve has also been adjusted and the charge as set out in (c) above recorded.

Balance sheet at 1 January 2007

($'000)	US GAAP	Revenue recognition i	Business Combinations ii	Research and Development iv	Computer Software v	First time adoption vi	IFRS
Non Current Assets							
Property, plant and equipment	12,533	—	(383)	—	(1,117)	—	11,033
Intangible assets – goodwill	93,495	—	(93,495)	—	—	—	—
Intangible assets – other intangibles	73,749	—	(73,749)	—	—	—	—
Intangible assets – software	—	—	—	—	1,117	—	1,117
Intangible assets – development expenditure	—	—	—	1,938	—	—	1,938
Available for sale financial assets	—	—	—	—	—	—	—
Other non current assets	83,083	(82,949)	—	—	—	—	134
Total Non Current Assets	**262,860**	**(82,949)**	**(167,627)**	**1,938**	**—**	**—**	**14,222**
Current Assets							
Inventories	53,259	—	—	—	—	—	53,259
Trade and other receivables	237,565	(152,581)	—	—	—	—	84,984
Cash and cash equivalents	42,945	—	—	—	—	—	42,945
Total Current Assets	**333,769**	**(152,581)**	**—**	**—**	**—**	**—**	**181,188**
Total Assets	**596,629**	**(235,530)**	**(167,627)**	**1,938**	**—**	**—**	**195,410**
Equity							
Share capital	6	—	—	—	—	—	6
Additional paid-in capital	444,635	—	(196,253)	—	—	(5,130)	243,252
Translation reserve	70	—	—	—	—	(70)	—
Retained deficit	(312,153)	90,556	28,626	1,938	—	5,200	(185,833)
Total Equity	**132,558**	**90,556**	**(167,627)**	**1,938**	**—**	**—**	**57,425**
Liabilities							
Non Current Liabilities							
Provisions	1,193	—	—	—	—	—	1,193
Other payables	120,009	(112,037)	—	—	—	—	7,972
Total Non Current Liabilities	**121,202**	**(112,037)**	**—**	**—**	**—**	**—**	**9,165**
Current Liabilities							
Trade and other payables	313,396	(214,049)	—	—	—	—	99,347
Current tax liabilities	149	—	—	—	—	—	149
Provisions	2,819	—	—	—	—	—	2,819
Bank borrowings	26,505	—	—	—	—	—	26,505
Total Current Liabilities	**342,869**	**(214,049)**	**—**	**—**	**—**	**—**	**128,820**
Total Liabilities	**464,071**	**(326,086)**	**—**	**—**	**—**	**—**	**137,985**
Total Equity and Liabilities	**596,629**	**(235,530)**	**(167,627)**	**1,938**	**—**	**—**	**195,410**

Balance sheet at 31 December 2007

($'000)	*US GAAP*	*Revenue recognition* *i*	*Business Combina-tions* *ii*	*Share based payments* *iii*	*Research and Develop-ment* *iv*	*Computer software* *v*	*First time adoption* *vi*	*Presenta-tion and disclosure*	*IFRS*
Non Current Assets									
Property, plant and equipment	15,556	—	(192)	—	—	(927)	—	—	14,437
Intangible assets – goodwill	120,740	—	(116,957)	—	—	—	—	—	3,783
Intangible assets – other intangibles	60,771	—	(53,998)	—	—	—	—	—	6,773
Intangible assets – software	—	—	—	—	—	927	—	—	927
Intangible assets – development expenditure	—	—	—	—	2,201	—	—	—	2,201
Deferred cost of revenue, non current	201,016	(201,016)	—	—	—	—	—	—	—
Other non current assets	518	—	—	—	—	—	—	—	518
Total Non Current Assets	**398,601**	**(201,016)**	**(171,147)**	**—**	**2,201**	**—**	**—**	**—**	**28,639**
Current Assets									
Inventories	43,514	—	—	52	—	—	—	—	43,566
Trade and other receivables	352,980	(249,235)	—	—	—	—	—	—	103,745
Cash and cash equivalents	63,851	—	—	—	—	—	—	—	63,851
Total Current Assets	**460,345**	**(249,235)**	**—**	**52**	**—**	**—**	**—**	**—**	**211,162**
Total Assets	**858,946**	**(450,251)**	**(171,147)**	**52**	**2,201**	**—**	**—**	**—**	**239,801**
Equity									
Share capital	6	—	—	—	—	—	—	—	6
Additional paid-in capital	484,819	—	(219,715)	5,464	—	—	(5,130)	—	265,438
Translation reserve	86	—	—	—	—	—	(70)	—	16
Retained deficit	(419,779)	124,754	48,568	(5,412)	2,201	—	5,200	—	(244,468)
Total Equity	**65,132**	**124,754**	**(171,147)**	**52**	**2,201**	**—**	**—**	**—**	**20,992**
Liabilities									
Non Current Liabilities									
Other payables	262,466	(252,742)	—	—	—	—	—	—	9,724
Provisions	16,430	—	—	—	—	—	—	—	16,430
Bank borrowings	1,083	—	—	—	—	—	—	(1,083)	—
Total Non Current Liabilities	**279,979**	**(252,742)**	**—**	**—**	**—**	**—**	**—**	**(1,083)**	**26,154**
Current Liabilities									
Trade and other payables	487,856	(322,263)	—	—	—	—	—	—	165,593
Current tax liabilities	256	—	—	—	—	—	—	—	256
Provisions	23,723	—	—	—	—	—	—	—	23,723
Bank borrowings	2,000	—	—	—	—	—	—	1,083	3,083
Total Current Liabilities	**513,835**	**(322,263)**	**—**	**—**	**—**	**—**	**—**	**1,083**	**192,655**
Total Liabilities	**793,814**	**(575,005)**	**—**	**—**	**—**	**—**	**—**	**—**	**218,809**
Total Equity and Liabilities	**858,946**	**(450,251)**	**(171,147)**	**52**	**2,201**	**—**	**—**	**—**	**239,801**

Income statement year ended 31 December 2007

($'000)	*US GAAP*	*Revenue recognition* *i*	*Business Combinations* *ii*	*Share based payments* *iii*	*Research and Development* *iv*	*IFRS*
Revenue	203,298	248,919	—	—	—	452,217
Cost of sales	206,644	214,721	(2,951)	1,143	—	419,557
Gross profit	**(3,346)**	**34,198**	**2,951**	**(1,143)**	**—**	**32,660**
Administrative expenses						
Research and development expenditure	49,024	—	—	1,897	(2,964)	47,957
Other administrative expenses	40,796	—	(3,691)	2,374	2,701	42,180
Amortisation of other intangibles	13,871	—	(13,300)	—	—	571
Total Administrative expenses	**103,691**	**—**	**(16,991)**	**4,271**	**(263)**	**90,708**
Operating (loss)/profit	**(107,037)**	**34,198**	**19,942**	**(5,414)**	**263**	**(58,048)**
Financial income – interest receivable	1,852	—	—	—	—	1,852
Financial expenses – interest payable	(2,184)	—	—	—	—	(2,184)
(Loss)/profit before tax	**(107,369)**	**34,198**	**19,942**	**(5,414)**	**263**	**(58,380)**
Tax charge	255	—	—	—	—	255
(Loss)/profit after tax	**(107,624)**	**34,198**	**19,942**	**(5,414)**	**263**	**(58,635)**

Balance sheet at 31 December 2008

($'000)	*US GAAP*	*Revenue recognition* *i*	*Business Combinations* *ii*	*Share based payments* *iii*	*Research and Development* *iv*	*Computer software* *v*	*First time adoption* *vi*	*Inventory* *vii*	*Other* *viii*	*IFRS*
Non Current Assets										
Property, plant and equipment	17,190	—	—	—	—	(3,065)	—	—	—	14,125
Intangible assets – goodwill	111,285	—	(107,502)	—	—	—	—	—	—	3,783
Intangible assets – other intangibles	43,683	—	(41,317)	—	—	—	—	—	—	2,366
Intangible assets – software	—	—	—	—	—	3,065	—	—	—	3,065
Intangible assets – development expenditure	—	—	—	—	2,754	—	—	—	—	2,754
Deferred cost of revenue, non current	127,833	(127,833)	—	—	—	—	—	—	—	—
Other non current assets	630	—	—	—	—	—	—	—	—	630
Total Non Current Assets	**300,621**	**(127,833)**	**(148,819)**	**—**	**2,754**	**—**	**—**	**—**	**—**	**26,723**
Current Assets										
Inventories	36,608	—	—	190	—	—	—	2,694	—	39,492
Trade and other receivables	620,701	(541,240)	—	—	—	—	—	—	—	79,461
Cash and cash equivalents	114,072	—	—	—	—	—	—	—	—	114,072
Total Current Assets	**771,381**	**(541,240)**	**—**	**190**	**—**	**—**	**—**	**2,694**	**—**	**233,025**
Total Assets	**1,072,002**	**(669,073)**	**(148,819)**	**190**	**2,754**	**—**	**—**	**2,694**	**—**	**259,748**
Equity										
Share capital	6	—	—	—	—	—	—	—	—	6
Additional paid-in capital	493,690	—	(219,715)	7,390	—	—	(5,130)	—	—	276,235
Translation reserve	(120)	—	—	—	—	—	(70)	—	408	218
Retained deficit	(503,988)	202,366	70,896	(7,200)	2,754	—	5,200	5,365	(408)	(225,015)
Total Equity	**(10,412)**	**202,366**	**(148,819)**	**190**	**2,754**	**—**	**—**	**5,365**	**—**	**51,444**
Liabilities										
Non Current Liabilities										
Provisions	8,766	—	—	—	—	—	—	(2,671)	—	6,095
Other payables	187,336	(178,218)	—	—	—	—	—	—	—	9,118
Total Non Current Liabilities	**196,102**	**(178,218)**	**—**	**—**	**—**	**—**	**—**	**(2,671)**	**—**	**15,213**
Current Liabilities										
Trade and other payables	863,644	(693,221)	—	—	—	—	—	—	—	170,423
Current tax liabilities	1,048	—	—	—	—	—	—	—	—	1,048
Provisions	20,495	—	—	—	—	—	—	—	—	20,495
Bank borrowings	1,125	—	—	—	—	—	—	—	—	1,125
Total Current Liabilities	**886,312**	**(693,221)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**193,091**
Total Liabilities	**1,082,414**	**(871,439)**	**—**	**—**	**—**	**—**	**—**	**(2,671)**	**—**	**208,304**
Total Equity and Liabilities	**1,072,002**	**(669,073)**	**(148,819)**	**190**	**2,754**	**—**	**—**	**2,694**	**—**	**259,748**

Income statement for year ended 31 December 2008

($'000)	*US GAAP*	*Revenue recognition i*	*Business Combina-tions ii*	*Share based payments iii*	*Research and Develop-ment iv*	*Inventory vii*	*Other Viii*	*IFRS*
Revenue	358,647	296,434	—	—	—	—	—	655,081
Cost of sales	296,604	218,822	(2,898)	201	—	(5,365)	—	507,364
Gross profit	**62,043**	**77,612**	**2,898**	**(201)**	**—**	**5,365**	**—**	**147,717**
Administrative expenses:								
Research and development expenditure	61,923	—	—	544	(3,761)	—	—	58,706
Other administrative expenses:	54,579	—	(191)	1,041	3,208	—	—	58,637
Amortisation of other intangibles	14,190	—	(9,783)	—	—	—	—	4,407
Total Administrative expenses	**130,692**	**—**	**(9,974)**	**1,585**	**(553)**	**—**	**—**	**121,750**
Operating (loss)/profit	**(68,649)**	**77,612**	**12,872**	**(1,786)**	**553**	**5,365**	**—**	**25,967**
Financial income – interest receivable	2,946	—	—	—	—	—	(408)	2,538
Financial expenses – interest payable	(7,987)	—	—	—	—	—	—	(7,987)
(Loss)/profit before tax	**(73,690)**	**77,612**	**12,872**	**(1,786)**	**553**	**5,365**	**(408)**	**20,518**
Tax charge	10,520	—	(9,455)	—	—	—	—	1,065
(Loss)/profit after tax	**(84,210)**	**77,612**	**22,327**	**(1,786)**	**553**	**5,365**	**(408)**	**19,453**

Balance sheet as at 31 December 2009

($'000)	*US GAAP*	*Revenue recogni-tion* *i*	*Business Combina-tions* *ii*	*Share based payments* *iii*	*Research and Develop-ment* *iv*	*First time adoption* *vi*	*Computer software* *vii*	*Inventory* *viii*	*Other*	*IFRS*
Non Current Assets										
Property, plant and equipment	14,726	—	—	—	—	—	(3,906)	—	—	10,820
Intangible assets – goodwill	111,285	—	(107,502)	—	—	—	—	—	—	3,783
Intangible assets – other intangibles	29,290	—	(27,831)	—	—	—	—	—	—	1,459
Intangible assets – software	—	—	—	—	—	—	3,906	—	—	3,906
Intangible assets – development expenditure	—	—	—	—	2,342	—	—	—	—	2,342
Deferred cost of revenue, non current	145,829	(145,829)	—	—	—	—	—	—	—	—
Other non current assets	904	—	—	—	—	—	—	—	—	904
Total Non Current Assets	**302,034**	**(145,829)**	**(135,333)**	**—**	**2,342**	**—**	**—**	**—**	**—**	**23,214**
Current Assets										
Inventories	29,714	—	—	(85)	—	—	—	1,564	—	31,193
Trade and other receivables	413,182	(359,367)	—	—	—	—	—	—	—	53,815
Cash and cash equivalents	78,554	—	—	—	—	—	—	—	—	78,554
Total Current Assets	**521,450**	**(359,367)**	**—**	**(85)**	**—**	**—**	**—**	**1,564**	**—**	**163,562**
Total Assets	**823,484**	**(505,196)**	**(135,333)**	**(85)**	**2,342**	**—**	**—**	**1,564**	**—**	**186,776**
Equity										
Share capital	6	—	—	—	—	—	—	—	—	6
Additional paid-in capital	500,981	—	(219,715)	6,458	—	(5,130)	—	—	—	282,594
Translation reserve	(86)	—	—	—	—	(70)	—	—	147	(9)
Retained deficit	(475,489)	164,568	84,382	(6,543)	2,342	5,200	—	3,971	(147)	(221,716)
Total Equity	**25,412**	**164,568**	**(135,333)**	**(85)**	**2,342**	**—**	**—**	**3,971**	**—**	**60,875**
Liabilities										
Non Current Liabilities										
Provisions	6,886	—	—	—	—	—	—	(2,407)	—	4,479
Other payables	198,091	(185,770)	—	—	—	—	—	—	—	12,321
Total Non Current Liabilities	**204,977**	**(185,770)**	**—**	**—**	**—**	**—**	**—**	**(2,407)**	**—**	**16,800**
Current Liabilities										
Trade and other payables	579,811	(483,994)	—	—	—	—	—	—	—	95,817
Current tax liabilities	120	—	—	—	—	—	—	—	—	120
Provisions	13,164	—	—	—	—	—	—	—	—	13,164
Total Current Liabilities	**593,095**	**(483,994)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**109,101**
Total Liabilities	**798,072**	**(669,764)**	**—**	**—**	**—**	**—**	**—**	**(2,407)**	**—**	**125,901**
Total Equity and Liabilities	**823,484**	**(505,196)**	**(135,333)**	**(85)**	**2,342**	**—**	**—**	**1,564**	**—**	**186,776**

Income statement for the year ended 31 December 2009

($'000)	*US GAAP*	*Revenue recognition* *i*	*Business Combina-tions* *ii*	*Share based payments* *iii*	*Research and Develop-ment* *iv*	*Inventory* *vii*	*Other*	*IFRS*
Revenue	667,427	(201,675)	—	—	—	—	—	465,752
Cost of sales	525,654	(163,877)	(233)	102	—	1,394	—	363,040
Gross profit	**141,773**	**(37,798)**	**233**	**(102)**	**—**	**(1,394)**	**—**	**102,712**
Administrative expenses								
Research and development expenditure	50,644	—	—	(244)	(3,077)	—	—	47,323
Other administrative expenses	46,229	—	—	(515)	3,489	—	—	49,203
Amortisation of other intangibles	14,160	—	(13,253)	—	—	—	—	907
Total Administrative expenses	**111,033**	**—**	**(13,253)**	**(759)**	**412**	**—**	**—**	**97,433**
Operating profit	**30,740**	**(37,798)**	**13,486**	**657**	**(412)**	**(1,394)**	**—**	**5,279**
Financial income – interest receivable	284	—	—	—	—	—	261	545
Financial expenses – interest payable	(2,138)	—	—	—	—	—	—	(2,138)
Profit before tax	**28,886**	**(37,798)**	**13,486**	**657**	**(412)**	**(1,394)**	**261**	**3,686**
Tax charge	387	—	—	—	—	—	—	387
Profit after tax	**28,499**	**(37,798)**	**13,486**	**657**	**(412)**	**(1,394)**	**261**	**3,299**

SECTION C

The 2Wire Group Unaudited Interim Results

This condensed combined interim financial information for the six months ended 30 June 2010 and 30 June 2009 should be read in conjunction with the combined financial information for the years ended 31 December 2007, 2008 and 2009, which are included in Section B.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS

For the six months ended 30 June 2010 and 30 June 2009

	Note	*6 months to 30 June 2010 $'000 (unaudited)*	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
Revenue	3	236,982	239,195	465,752
Cost of sales		(186,780)	(187,585)	(363,040)
Gross profit		**50,202**	**51,610**	**102,712**
Administrative expenses:				
Research and development expenditure		(20,811)	(24,809)	(47,323)
Other administrative expenses		(22,231)	(26,563)	(49,203)
Amortisation of other intangibles		(125)	(170)	(907)
		(43,167)	**(51,542)**	**(97,433)**
Operating profit		**7,035**	**68**	**5,279**
Finance income – interest receivable		351	421	545
Finance expenses – interest payable		—	(2,129)	(2,138)
Profit/(loss) before tax		**7,386**	**(1,640)**	**3,686**
Tax charge	5	(454)	(232)	(387)
Profit/(loss) after tax		**6,932**	**(1,872)**	**3,299**
Attributable to:				
Equity holders of 2Wire		6,932	(1,872)	3,299
Earnings/(loss) per 2Wire ordinary share (cents)				
Basic	4	11.2	(3.0)	5.3
Diluted	4	11.1	(3.0)	5.1

The results are not necessarily indicative of the results for future periods since the historical funding structure does not reflect the future funding structure.

Earnings/(loss) per 2Wire ordinary share has been calculated using the weighted average number of 2Wire ordinary shares. This is not representative of the calculation going forward when will be presented for the Enlarged Group and calculated using the weighted average number of ordinary shares of Pace plc.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

For the six months ended 30 June 2010 and 30 June 2009

	6 months to 30 June 2010 $'000 (unaudited)	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
Profit/(loss) for the period	**6,932**	**(1,872)**	**3,299**
Other comprehensive income and expense:			
Exchange differences on translating foreign operations	(82)	(125)	(227)
Total comprehensive income and expense for the year	**6,850**	**(1,997)**	**3,072**
Attributable to:			
Equity holders of 2Wire	6,850	(1,997)	3,072

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

At 30 June 2010 and 30 June 2009

	Note	*30 June 2010 $'000 (unaudited)*	*30 June 2009 $'000 (unaudited)*	*31 December 2009 $'000 (audited)*
Non Current Assets				
Property, plant and equipment		9,549	14,555	10,820
Intangible assets – purchased goodwill		3,783	3,783	3,783
Intangible assets – computer software		3,372	3,023	3,906
Intangible assets – other intangibles		782	2,196	1,459
Intangible assets – development expenditure		2,077	2,591	2,342
Other non-current assets		971	617	904
Total Non Current Assets		**20,534**	**26,765**	**23,214**
Current Assets				
Inventories		38,498	40,384	31,193
Trade and other receivables		67,993	53,879	53,815
Cash and cash equivalents		65,042	49,477	78,554
Total Current Assets		**171,533**	**143,740**	**163,562**
Total Assets		**192,067**	**170,505**	**186,776**
Equity				
Share capital		6	6	6
Additional paid in capital		284,394	280,135	282,594
Translation reserve		(91)	93	(9)
Retained deficit		(214,784)	(226,887)	(221,716)
Total Equity		**69,525**	**53,347**	**60,875**
Non Current Liabilities				
Provisions	6	2,972	5,660	4,479
Other non-current liabilities		10,881	8,666	12,321
Total Non Current Liabilities		**13,853**	**14,326**	**16,800**
Current Liabilities				
Trade and other payables		102,390	86,092	95,817
Current tax liabilities		393	188	120
Provisions	6	5,906	16,020	13,164
Bank borrowings		—	532	—
Total Current Liabilities		**108,689**	**102,832**	**109,101**
Total Liabilities		**122,542**	**117,158**	**125,901**
Total Equity and Liabilities		**192,067**	**170,505**	**186,776**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2010 and 30 June 2009

	Share capital *$'000* *(unaudited)*	*Additional paid in capital* *$'000* *(unaudited)*	*Translation reserve* *$'000* *(unaudited)*	*Retained deficit* *$'000* *(unaudited)*	*Total equity* *$'000* *(unaudited)*
At 1 January 2009	**6**	**276,235**	**218**	**(225,015)**	**51,444**
Total comprehensive income for the year	—	—	(125)	(1,872)	(1,997)
Transactions with owners:					
Employee share incentive charges	—	3,886	—	—	3,886
Issues of shares upon exercise of share options	—	14	—	—	14
Total transactions with owners	**—**	**3,900**	**—**	**—**	**3,900**
At 30 June 2009	**6**	**280,135**	**93**	**(226,887)**	**53,347**
Total comprehensive income for the year	—	—	(102)	5,171	5,069
Transactions with owners:					
Employee share incentive charges	—	2,795	—	—	2,795
Issues of shares upon exercise of share options	—	31	—	—	31
Settlement of share options	—	(367)	—	—	(367)
Total transactions with owners	**—**	**2,459**	**—**	**—**	**2,459**
At 31 December 2009	**6**	**282,594**	**(9)**	**(221,716)**	**60,875**
Total comprehensive income for the year	—	—	(82)	6,932	6,850
Transactions with owners:					
Employee share incentive charges	—	1,749	—	—	1,749
Issues of shares upon exercise of share options	—	71	—	—	71
Surrender of shares	—	(20)	—	—	(20)
Total transactions with owners	**—**	**1,800**	**—**	**—**	**1,800**
At 30 June 2010	**6**	**284,394**	**(91)**	**(214,784)**	**69,525**

CONDENSED CONSOLDIATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010 and 30 June 2009

	6 months to 30 June 2010 $'000 (unaudited)	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
Cash flows from operating activities			
Profit/(loss) before tax	7,386	(1,640)	3,686
Adjustments for:			
Share based payments charge	1,627	4,028	6,906
Depreciation of property, plant and equipment	4,222	3,976	8,126
Amortisation of development expenditure and computer software	1,553	1,768	3,489
Amortisation of other intangibles	1,290	938	2,767
Loss on sale of property, plant and equipment	—	—	(22)
Net finance expenses	(351)	1,708	1,593
Movement in inventories	(7,391)	(1,035)	8,024
Movement in trade and other receivables	(14,129)	25,597	25,372
Movement in trade and other payables	5,868	(82,936)	(69,644)
Movement in provisions	(8,765)	(4,902)	(8,947)
Cash utilised in operations:	**(8,690)**	**(52,498)**	**(18,650)**
Interest paid	—	(4,038)	(4,048)
Tax paid	(539)	(1,153)	(1,321)
Net cash utilised in operating activities	**(9,229)**	**(57,689)**	**(24,019)**
Cash flows from investing activities:			
Purchase of property, plant and equipment	(3,196)	(5,210)	(7,750)
Proceeds from disposal of property, plant and equipment	49	77	230
Development expenditure	(1,288)	(1,605)	(3,077)
Interest received	100	421	545
Net cash used in investing activities	**(4,335)**	**(6,317)**	**(10,052)**
Cash flows from financing activities:			
Repayment of borrowings	—	(593)	(1,125)
Exercise of share options	52	14	45
Repurchase of shares	—	—	(367)
Net cash generated from/(used in) financing activities	**52**	**(579)**	**(1,447)**
Net change in cash and cash equivalents	(13,512)	(64,585)	(35,518)
Cash and cash equivalents at start of year	78,554	114,072	114,072
Effect of exchange rate fluctuations on cash held	—	(10)	—
Cash and cash equivalents at end of year	**65,042**	**49,477**	**78,554**

NOTES

1 BASIS OF PREPARATION AND BUSINESS ENVIRONMENT

General information

2Wire and the 2Wire Group develop and market integrated products that enable the delivery of broadband content and services to and throughout the home. 2Wire integrated broadband solutions are engineered for the customer and optimised for the subscriber, providing intuitive, reliable user experiences throughout the connected home. 2Wire Group's portfolio of broadband solutions includes residential gateways, multi-service media platforms, remote management systems, value-added services, and call centre customer support.

2Wire was incorporated under the laws of the state of Delaware on 24 July 1998 and is domiciled in the United States of America.

The registered office of the 2Wire Group is 1704 Automation Parkway, San Jose, California 95131.

This unaudited interim financial information has been produced for inclusion in the Circular using the principal accounting policies which are materially consistent with those of Pace as applied in Pace's consolidated financial statements for the year ended 31 December 2009, except as noted below.

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

This unaudited interim financial information is for the six month periods ended 30 June 2010 and 30 June 2009 and is prepared in accordance with IAS 34.

The annual financial statements of the 2Wire Group are prepared in accordance with IFRS, as adopted by the European Union. These accounting policies are materially consistent with those of Pace as applied in Pace's consolidated financial statements for the year ended 31 December 2009.

2 SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

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:

Revenue recognition

When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognised as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole. This requires a degree of management judgement, and the fair value allocations are, by their nature, best estimates. The timing and amount of revenue recognition can vary depending on what assessments have been made.

The 2Wire Group does not recognise revenue before delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. The determination of whether the amount of revenue can be measured reliably or whether the fees are collectible is inherently judgmental.

Impairment

The 2Wire Group tests annually whether goodwill has suffered any impairment and tests tangible and other intangible assets where an indication of impairment exists. The recoverable amounts of cash generating units are then determined on a value-in-use basis; determining this value requires the use of estimates. The main estimates are around the cash-flow projections based on actual operating results, budgets and three year forecasts, reflecting known purchase orders, sales contracts and the net result from planned product launches. Therefore the key assumptions are a growth rate on sales, working capital investment and the discount rate.

Warranties

The 2Wire Group's standard product warranty period is typically 24 months from the date of shipment and a provision for warranties is recognised when the underlying products are sold. The 2Wire Group estimates expenses for the cost to repair or replace products that may be returned under warranty and accrues a liability in cost of product revenue for this amount in the period in which the related revenue is recognised. The determination of the 2Wire Group's warranty requirements is based on actual historical experience with the product, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The 2Wire Group estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors. Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of product shipment before field deployment data is available, these estimates improve during the lifetime of the product in the field.

Operating segments

The directors of 2Wire have determined that, based on its internal reporting framework and management structure, the 2Wire Group has only one reportable segment. Such determination is necessarily judgmental in its nature and has been determined by management in preparing the financial statements. The level of disclosure of segmental and other information is determined by such assessment.

Intangible assets

The 2Wire Group's 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.

Going concern

The directors have a reasonable expectation that 2Wire and the 2Wire Group have adequate resources to continue in operation for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing this condensed consolidated financial information.

New standards and interpretation not yet adopted

(a) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the 2Wire Group

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This is not currently applicable to the 2Wire Group, as it has not made any acquisitions in the period ended 30 June 2010.

IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the 2Wire Group, as it has not made any non-cash distributions.

IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the 2Wire Group, as it has not received any assets from customers.

'Additional exemptions for first-time adopters' (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the 2Wire Group, as it is an existing IFRS preparer.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

Revised IAS 24, 'Related party disclosures' ("IAS 24"), issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued *pro rata* to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective 1 January 2010. Initial indications are that adoption of this standard will not impact the 2Wire Group's financial information.

3 SEGMENTAL ANALYSIS

The 2Wire Group develops and markets integrated products that enable delivery of broadband content and service to and throughout the home.

IFRS 8 requires the 2Wire Group to determine and present its operating segments based on information which is provided internally to the CODM.

Operating segments have then been identified based on the internal reporting information, and management structures within the 2Wire Group. From such information it has been determined that there is one reporting segment.

Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the chief executive officer. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the business relative to other entities that operate within this industry. This information is provided on the face of the income statement and details of other material items can be found in the notes to the financial information.

Major customers

A limited number of customers have accounted for the substantial proportion of the 2Wire Group's revenues, as the worldwide market for telecommunication products is dominated by a small number of large providers. The following table summarises customers whose revenues represented more than 10% of total revenues for each of the financial years.

Revenue

	6 months to 30 June 2010 $'000 (unaudited)	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
Related Parties			
Company A	163,854	152,671	299,835
Company B	8,903	21,428	23,110

Geographical analysis

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment non-current assets are based on the geographical location of the assets.

Revenue by destination

	6 months to 30 June 2010 $'000 (unaudited)	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
North America	194,747	177,727	364,132
Asia	5,204	9,020	14,606
Other	37,031	52,448	87,014
Total	**236,982**	**239,195**	**465,752**

Split of non-current assets

	6 months to 30 June 2010 $'000 (unaudited)	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
North America	17,627	23,089	18,631
Asia	2,907	3,676	4,583
Total	**20,534**	**26,765**	**23,214**

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

Intangible assets are all located in North America.

4 EARNINGS PER 2WIRE ORDINARY SHARE

	6 months to 30 June 2010 cents (unaudited)	*6 months to 30 June 2009 cents (unaudited)*	*12 months ended 31 December 2009 cents (audited)*
Basic earnings/(loss) per ordinary share	11.2	(3.0)	5.3
Diluted earnings/(loss) per ordinary share	11.1	(3.0)	5.1

The calculation of basic earnings per share is based on a profit after tax of $6,932,000 (30 June 2009: loss of $1,872,000, 31 December 2009: $3,299,000) divided by the weighted average number of 2Wire ordinary shares in issue of 62,163,541 (30 June 2009: 62,155,090 31 December 2009: 62,141,903).

Diluted earnings per ordinary share varies from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. It is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	6 months to 30 June 2010 Number in thousands (unaudited)	*6 months to 30 June 2009 Number in thousands (unaudited)*	*12 months ended 31 December 2009 Number in thousands (audited)*
Weighted average number of 2Wire ordinary shares in issue during the year	62,164	62,155	62,142
Dilutive effect of options outstanding	439	n/a	2,374
Diluted weighted average number of 2Wire ordinary shares in issue during the year	62,603	62,155	64,516

5 CURRENT AND DEFERRED INCOME TAX

At 30 June 2010, deferred tax assets in respect of tax losses, research and development credits and short term timing differences of $74,172,000 have not been recognised. These assets have not been recognised because management do not consider it more likely than not that there will be suitable taxable profits in the foreseeable future based on the evidence available, which includes the 2Wire Group's historical financial information.

6 PROVISIONS

	Onerous contracts *$'000* *(unaudited)*	*Warranties* *$'000* *(unaudited)*	*Total* *$'000* *(unaudited)*
At 1 January 2009	4,662	21,928	26,590
Additions for the year	4,843	969	5,812
Utilised	(4,987)	(5,735)	(10,722)
At 30 June 2009	**4,518**	**17,162**	**21,680**
Additions for the year	1,212	11,488	12,700
Utilised	(4,067)	(10,098)	(14,165)
Change in estimates	—	(2,572)	(2,572)
At 31 December 2009	**1,663**	**15,980**	**17,643**
Additions for the year	1,107	3,710	4,817
Utilised	(1,916)	(11,666)	(13,582)
At 30 June 2010	**854**	**8,024**	**8,878**

Warranties

The 2Wire Group's standard product warranty period is typically 24 months from the date of shipment and a provision for warranties is recognised when the underlying products are sold. The 2Wire Group estimates expenses for the cost to repair or replace products that may be returned under warranty and accrues a liability in cost of product revenue for this amount in the period in which the related revenue is recognised. The determination of the 2Wire Group's warranty requirements is based on actual historical experience with the product, estimates of repair and replacement costs and any product warranty problems that are identified after shipment. The 2Wire Group estimates and adjusts these accruals at each balance sheet date in accordance with changes in these factors.

Although it is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of product shipment before field deployment data is available, these estimates improve during the lifetime of the product in the field.

It is expected that the expenditure with regard to warranties will be incurred within three years of the balance sheet date.

Onerous contracts

The 2Wire Group accrues provisions for losses on adverse purchase commitments. These amounts at each balance sheet date are shown above. It is expected that the expenditure with regard to onerous contracts will be incurred within one year of the balance sheet date.

7 RELATED PARTIES

Certain members of 2Wire's board of directors serve as directors or principals of entities that are investors and customers in the 2Wire Group. The 2Wire Group believes that the terms of its transactions with those companies are no less favourable to the 2Wire Group than the terms that would have been obtained absent those relationships.

One member of 2Wire's board of directors is a principal at one of the 2Wire Group's investors. As of 30 June 2010 and 30 June 2009 the investor owned approximately 10% of 2Wire's ordinary shares on a fully-diluted basis.

Certain members of the 2Wire Group's board of directors are officers or part of senior management of three of the 2Wire Group's investors, which are also customers of the 2Wire Group. Transactions with these customers were as follows:

Related Parties

	6 months to 30 June 2010 $'000 (unaudited)	*6 months to 30 June 2009 $'000 (unaudited)*	*12 months ended 31 December 2009 $'000 (audited)*
Company A			
Revenues	163,854	152,671	299,835
Accounts receivable	38,600	28,925	28,593
Accounts payable	25	1	51
Company B			
Revenues	8,903	21,428	23,110
Accounts receivable	310	3,392	24
Accounts payable	—	—	—
Company C			
Revenues	19	29	57
Accounts receivable	147	71	70
Accounts payable	44	1,297	—

8 CONTINGENCIES

Legal matters

On 31 October 2007, Wi-LAN filed a lawsuit captioned Wi-LAN, Inc. v. Westell Technologies, et al., Civil Action No. 2:07-CV-474 (TJW), in the U.S. District Court for the Eastern District of Texas. 2Wire is named as a defendant in the action. Wi-LAN filed a second amended complaint in the same action on 16 April 2010. The second amended complaint alleges that 2Wire infringes three US patents by making, using, offering for sale, importing, and/or selling wireless products compliant with the IEEE 801.11 and/or 802.16 standards and ADSL products compliant with the ITU G.992 and/or G.993 standards. A pre-trial order in which the court construes the meaning of key words in patent claims has been issued for the two wireless patents and a hearing for the ADSL patent was held on 1 September 2010. The trial is currently scheduled for January 2011. 2Wire has retained counsel and intends to defend the action vigorously. The ultimate outcome of this matter cannot currently be predicted and the claim is unquantifiable.

The 2Wire Group is a party to various other legal proceedings and claims arising from the normal course of business activities. At 30 June 2010, 30 June 2009 and 31 December 2009, the 2Wire Group did not expect that the ultimate outcome of these unresolved matters, individually or in the aggregate, would have a material adverse effect on the 2Wire Group's results of operations, cash flows, or financial position.

9 POST BALANCE SHEET EVENTS

On 26 July 2010, Pace announced its proposed acquisition of the 2Wire Group, for cash consideration of $475 million. The terms and conditions of the Acquisition are yet to be approved by the shareholders of Pace at the General Meeting to be held on 18 October 2010.

PART V

PRO FORMA STATEMENT OF NET ASSETS

The following unaudited *pro forma* statement of net assets for the Enlarged Group has been prepared on the basis of the notes set out below to illustrate the effect of the Acquisition on the net assets of Pace as if it had been completed on 30 June 2010.

The *pro forma* statement of net assets has been prepared for illustrative purposes only and, because of its nature, the *pro forma* statement addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results following the Acquisition.

Pro forma statement of net assets

	Pace plc consolidated net assets 30 June 2010 £000	*2Wire consolidated net assets 30 June 2010 £000*	*Adjustments Payment of cash consideration and transaction costs £000*	*Consolidation £000*	*Pro forma consolidated net assets 30 June 2010 £000*
Property, plant and equipment	23,481	6,409	—	—	29,890
Investments	—	—	318,792	(318,792)	—
Intangible assets	110,791	6,721	—	272,131	389,643
Deferred tax assets	2,418	652	—	—	3,070
Total non current assets	**136,690**	**13,782**	**318,792**	**(46,661)**	**422,603**
Inventories	70,555	25,838	—	—	96,393
Trade and other receivables	279,294	45,633	—	—	324,927
Cash and cash equivalents	94,141	43,652	(16,779)	—	121,014
Current tax assets	2,209	—	—	—	2,209
Current assets	**446,199**	**115,123**	**(16,779)**	**—**	**544,543**
Total assets	**582,889**	**128,904**	**302,013**	**(46,661)**	**967,145**
Deferred tax liabilities	15,267	—	—	—	15,267
Provisions	22,308	1,995	—	—	24,303
Other non current liabilities	—	7,303	—	—	7,303
Bank borrowings	—	—	201,342	—	201,342
Total non current liabilities	**37,575**	**9,298**	**201,342**	**—**	**248,215**
Trade and other payables	282,315	68,718	12,752	—	363,785
Current tax liabilities	8,324	264	—	—	8,588
Provisions	17,436	3,964	—	—	21,400
Bank borrowings	—	—	100,671	—	100,671
Total current liabilities	**308,075**	**72,946**	**113,423**	**—**	**494,444**
Total liabilities	**345,650**	**82,243**	**314,765**	**—**	**742,658**
Net assets	**237,239**	**46,661**	**(12,752)**	**(46,661)**	**224,487**

Notes

(1) The consolidated net assets of Pace as at 30 June 2010 have been extracted without material adjustment from its unaudited interim results for the six months ended 30 June 2010.

(2) The consolidated net assets of 2Wire have been extracted without material adjustment from the unaudited interim financial information of 2Wire set out in Section C of Part IV of this document and converted at a rate of £1:$1.49 being the closing rate of exchange as at 30 June 2010.

(3) The other adjustments are as follows:

- Payment of cash consideration and transaction costs – consideration of $475 million (£318,792,000) is to be funded using $25 million (£16,779,000) from existing cash resources along with additional facilities comprising a term loan of $300 million (£201,342,000) and a revolving credit facility of $150 million (£100,671,000).
- Consolidation – for the purposes of the *pro forma* statement of net assets, the difference between consideration and net assets of 2Wire is shown as intangible assets amounting to £272 million and is calculated as follows:

	£'000
Consideration payable for 2Wire	**318,792**
Net assets of 2Wire	(46,661)
Intangible assets	**272,131**

- The £12,752,000 adjustment to 'Trade and other payables' represents amounts payable for estimated expenses in relation to the Acquisition, which are assumed to be charged through the income statement.
- No account has been taken of any fair value adjustments to the net assets of 2Wire upon its acquisition by Pace that will be required to be accounted for in the Enlarged Group's next published financial statements.

(4) No account has been taken of the trading of the Pace Group or the 2Wire Group since 30 June 2010.

(5) Total consideration comprises amounts payable to the 2Wire stockholders, optionholders and participants in 2Wire's Management Incentive Plan.

KPMG Audit Plc
Transaction Services
1 The Embankment
Neville Street
Leeds LS1 4DW
United Kingdom

The Directors
Pace plc
Victoria Road
Saltaire
West Yorkshire
BD18 3LF

1 October 2010

Dear Sirs

Pace plc

We report on the *pro forma* net asset statement (the "***pro forma* financial information**") set out in Part V of the Class 1 circular dated 1 October 2010, which has been prepared on the basis described, for illustrative purposes only, to provide information about how the acquisition might have affected the financial information presented on the basis of the accounting policies adopted by Pace plc in preparing the financial statements for the period ended 30 June 2010. This report is required by paragraph 13.3.3R of the Listing Rules of the Financial Services Authority and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of Pace plc to prepare the *pro forma* financial information in accordance with paragraph 13.3.3R of the Listing Rules of the Financial Services Authority.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the *pro forma* financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *pro forma* financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders of Pace plc as a result of the inclusion of this report in the Class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Class 1 circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *pro forma* financial information with the directors of Pace plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *pro forma* financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Pace plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the *pro forma* financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Pace plc.

Yours faithfully

KPMG Audit plc

PART VI

PRINCIPAL TERMS OF THE MERGER AGREEMENT

1. INTRODUCTION

On 25 July 2010, the Company agreed to acquire the 2Wire Group pursuant to an agreement and plan of merger and reorganisation between Pace, Merger Sub, 2Wire and Shareholder Representative Services LLC (the "**Original Agreement**"). The terms of the Original Agreement were amended on 30 September 2010 to add Pace Americas Holdings, Inc. ("**Holdings**") and Pace Americas Investments, LLC ("**LLC**"), both members of the Pace Group, as parties to the Merger Agreement as a result of Pace's assignment of certain of its rights and obligations under the Original Agreement and to reflect certain changes to the mechanics of the merger, including the payment of consideration by LLC and a guarantee of such obligation by Pace (the "**Amendment**"). The Amendment had been contemplated by the parties at the time the Original Agreement was entered into and further details are set out below. Under the Merger Agreement, the Acquisition will be implemented by way of a merger of Merger Sub (an indirect wholly owned subsidiary of the Company) with and into 2Wire, whereby 2Wire and its subsidiary undertakings will survive the Acquisition and become indirect wholly-owned subsidiaries of the Company. The Acquisition will become effective at the Effective Time.

2. AMENDMENT

Under Section 10.04 of the Original Agreement, Pace may assign any of its rights and delegate any of its obligations under the Original Agreement to any other member of the Pace Group without 2Wire's consent, provided that the Original Agreement is amended accordingly and that Pace guarantees the performance of any such delegated obligations.

On 30 September 2010, the Original Agreement was amended to, *inter alia*:

- add Holdings, a wholly-owned subsidiary of Pace, and LLC, an indirect wholly-owned subsidiary of Pace, as parties to the Merger Agreement;
- reflect the corresponding changes to the mechanics and structure of the merger, in particular the delegation by Pace to LLC of its obligation to pay the merger consideration; and
- include a guarantee by Pace of all such delegated obligations.

3. CONSIDERATION

The total consideration payable to the 2Wire stockholders, option holders and participants in 2Wire's Management Incentive Plan is $475 million (£301 million) in cash, which is inclusive of 2Wire's balance sheet cash at Completion, anticipated to be approximately $55 million (£35 million). 10% of the aggregate consideration payable to each 2Wire stockholder will be deposited into the Escrow Fund for a period of 12 months following Completion to satisfy potential indemnification claims by the Company. In addition, an aggregate of $250,000 of the consideration otherwise payable to 2Wire stockholders will be held in the Escrow Fund to reimburse the third party expenses that are incurred by the stockholders' representative in the performance of its duties pursuant to the Merger Agreement.

4. REPRESENTATIONS, WARRANTIES AND INDEMNITIES

The Merger Agreement contains various representations and warranties customary for a US acquisition of the size and nature of the Acquisition.

The representations and warranties from 2Wire to the Company relate to, amongst other matters: organisation and qualification; subsidiaries; capitalisation; authority; regulatory matters; compliance; financial statements; certain changes or events; litigation; employment matters; contracts; environmental matters; intellectual property; taxes; assets; absence of liens and encumbrances; customers and suppliers; and 2Wire products.

The representations and warranties from the Company and Merger Sub to 2Wire cover, amongst other matters: organisation and qualification; authority; regulatory matters; the possession of sufficient cash by the Company to finance the Acquisition; and the absence of prior business activities or operations by Merger Sub. Pursuant to the Amendment, the Merger Agreement also contains representations and warranties from Holdings and LLC relating to, *inter alia*, their constitution, authority and absence of conflicts.

Subject to certain customary qualifications and limitations, the 2Wire stockholders have agreed to indemnify the Company in respect of any losses incurred as a result of a breach of any representation, warranty or covenant under the Merger Agreement. 2Wire stockholders' liability is limited to sums held in the Escrow Fund other than in certain circumstances where, following the exhaustion of the Escrow Fund, the 2Wire stockholders are liable on a several basis.

5. CONDUCT OF BUSINESS

2Wire has agreed that, prior to Completion, it will carry on its business in the ordinary course and in substantially the same manner as previously conducted, and shall notify the Company of any material event or occurrence to the contrary.

2Wire has also agreed to certain restrictions in respect of its conduct during the period from the date of the Merger Agreement until the earlier of its termination and the Effective Time, which include agreeing not to alter its existing share capital or issue new shares, declare any dividends, acquire or dispose of material assets, enter into any material contracts outside the ordinary course of business, incur any indebtedness, authorise capital expenditure or make any material changes to 2Wire's accounting methods.

6. MANAGEMENT INCENTIVE PLAN

Pursuant to the Management Incentive Plan, certain key employees were provided with an incentive to consummate a sale of 2Wire and to retain employees through and following the possible sale of 2Wire. The maximum aggregate amount payable under the Management Incentive Plan is 2% of the consideration otherwise payable to 2Wire stockholders and option holders under the Merger Agreement. 45% of the bonus payable to a participant will be paid at Completion; 45% of such bonus will be paid on the 12-month anniversary of Completion, provided a participant remains employed by 2Wire, and; 10% of such bonus will be paid when and only to the extent that any amounts remaining in the Escrow Fund are released by Pace to the 2Wire stockholders, if ever.

7. CONDITIONS

7.1 *Conditions to each party's obligations*

Completion is subject to the satisfaction, at or prior to Completion, of various mutual conditions (which may, to the extent permitted by applicable law, be waived), including:

- Pace Shareholder and 2Wire stockholder approval of the Merger Agreement and the transactions contemplated by it. 2Wire stockholder approval was obtained on 26 July 2010;
- expiration of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. This condition was satisfied on 20 August 2010; and
- receipt of notice from the Committee on Foreign Investment in the United States or the President of the United States confirming that the Acquisition does not present any unresolved national security concerns. This condition was satisfied on 30 September 2010.

7.2 *Conditions to 2Wire's obligations*

The obligation of 2Wire to effect the Acquisition is subject to satisfaction (or waiver by 2Wire) of certain conditions which include there being no material breach of the representations and warranties given by the Company and Merger Sub in the Merger Agreement.

7.3 *Conditions to the Company's and Merger Sub's obligations*

The obligation of the Company and Merger Sub to effect the Acquisition is subject to satisfaction (or waiver by Pace) of certain conditions which include:

- there being no material breach of 2Wire's representations and warranties in the Merger Agreement;
- receipt of all necessary authorisations, consents, orders and approvals;
- at least four of the six executives of 2Wire, plus the chief executive officer of 2Wire, Pasquale Romano, continuing to be employed by 2Wire;
- receipt by 2Wire of written letters of resignation from each of the current members of the 2Wire board and each subsidiary of 2Wire;

- if requested by the Company, the termination by 2Wire of its 401(k) plan effective at least one day prior to Completion and all contributions payable to the 401(k) plan having been made;
- there having been no material adverse effect on 2Wire since the date of the Merger Agreement; and
- Pace having entered into the Facilities Agreement and all conditions precedent thereto having been satisfied or waived. The Facilities Agreement was entered into on 31 August 2010.

8. TERMINATION

The Merger Agreement contains certain termination provisions including the following:

- either party may terminate in the event that: (a) Completion has not occurred by the Termination Date; (b) approval of the other party's shareholders is not obtained; or (c) the other party breaches its representations, warranties or covenants giving rise to a material adverse effect on the relevant company and such breach is not cured within 30 days; and
- 2Wire may terminate in the event that: (a) the Company fails to obtain the approval of the Shareholders at the General Meeting by the Termination Date; or (b) the Company fails to obtain bank financing sufficient to consummate the Acquisition.

9. BREAK FEES

The Company has agreed to pay 2Wire a termination fee of $8.0 million (£5.1 million) if Completion does not occur due to the failure of the Company to obtain Shareholder approval by the Termination Date or the necessary bank financing is not available, in each case subject to certain exceptions.

10. GOVERNING LAW

The Merger Agreement is governed by and to be construed in accordance with the laws of the State of Delaware.

PART VII

ADDITIONAL INFORMATION

1. RESPONSIBILITY

1.1 The Directors (each of whose names appear in paragraph 3.1(a) of this Part VII) accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INFORMATION ON THE GROUP

2.1 *Incorporation and principal place of business*

The Company was incorporated and registered in England and Wales on 20 October 1982 under the Companies Acts 1948 to 1981 as a private company limited by shares with registered number 1672847 and with the name Eldercloud Limited. On 21 June 1983, it changed its name to Pace Software Supplies Limited and on 7 September 1987 to Pace Micro Technology Limited. On 22 May 1996 the Company was re-registered as a public limited company and changed its name to Pace Micro Technology plc. On 16 May 2008, the name of the Company was changed to Pace plc. The domicile of the Company is England and Wales.

2.2 *Registered office*

The registered office of the Company is Victoria Road, Saltaire, West Yorkshire BD18 3LF (telephone number +44 (0)1274 532 000).

2.3 *Regulation*

The principal laws and legislation under which the Company operates are the laws of England and Wales.

2.4 *Structure*

The Company is the ultimate parent company of the Group and will be the ultimate parent company of the Enlarged Group. All operating activities are conducted by companies which are members of the Group.

3. DIRECTORS AND SENIOR MANAGEMENT OF PACE

3.1 The Directors and Senior Managers and their respective functions are as follows:

Name	*Position*
(a) Directors	
Michael McTighe	Non-executive 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
Michael Inglis	Non-executive Director
(b) Senior Managers	
Anthony Dixon	General Counsel and Company Secretary
Jill Ezard	Director of Human Resources
Mathias Hautefort	President, Pace France
Helen Kettleborough	Director of Corporate Communications
Michael Pulli	President, Pace Americas
Scott Sheldon	Chief Strategy Officer

3.2 As at 30 September 2010 (the latest practicable date prior to the publication of this document), the interests (all of which are or will be beneficial unless otherwise stated) of the Directors and Senior Managers in the share capital of the Company are as follows:

(a) Directors' and Senior Managers' shareholdings

Name	*Number of Ordinary Shares*	*Percentage of Ordinary Shares beneficially held at present*[(1)]
Michael McTighe	50,000	0.016%
Neil Gaydon	51,414	0.017%
Stuart Hall	12,739	0.004%
David McKinney	38,159	0.013%
Patricia Chapman-Pincher	15,000	0.005%
John Grant	25,000	0.008%
Michael Inglis	20,000	0.007%
Anthony Dixon	102,057	0.034%
Jill Ezard	12,521	0.004%
Mathias Hautefort	—	—
Helen Kettleborough	15,150	0.005%
Michael Pulli	—	—
Scott Sheldon	—	—

(b) Directors' and Senior Managers' share awards

Name	*Number of Ordinary Shares under Share Plans*	*Total awards as percentage of total issued share capital as at the date of this document*[(1)]
Neil Gaydon	2,955,007	0.971%
David McKinney	1,640,523	0.539%
Stuart Hall	2,242,388	0.737%
Anthony Dixon	798,402	0.262%
Jill Ezard	792,312	0.260%
Mathias Hautefort	1,152,693	0.379%
Helen Kettleborough	488,565	0.161%
Michael Pulli	1,495,860	0.492%
Scott Sheldon	1,152,231	0.379%

3.3 Save as disclosed in paragraph 3.2 of this Part VII, none of the Directors or Senior Managers nor any person connected with them, has any interest, whether beneficial or non-beneficial, in the share capital of Pace or of any of its subsidiary or associated undertakings.

4. SUBSTANTIAL SHAREHOLDINGS

4.1 As at 30 September 2010 (the latest practicable date prior to the publication of this document), the Company had been notified of the following interests representing three per cent. or more of the Company's issued share capital:

Name	*Number of Ordinary Shares*	*Percentage of issued share capital*[(1)]
David Hood and related companies and family trusts	22,117,539	7.27%
Prudential plc Group of Companies	20,807,071	6.84%
M&G Investment Funds	15,217,153	5.00%
Black Rock Inc.	15,142,824	4.98%
Gartmore Investment Management	14,931,083	4.91%
Joanne Haigh	12,000,000	3.94%
Pace Employee Benefits Trust	11,263,514	3.70%
Legal & General Group plc	9,960,795	3.27%

(1) Based on 304,233,335 Ordinary Shares in issue as of 30 September 2010 (the latest practicable date prior to the date of this document).

4.2 Save as disclosed in paragraph 4.1 of this Part VII, the Directors are not aware of any person who as at 30 September 2010 (being the latest practicable date prior to the publication of this document), directly or indirectly, has an interest in Ordinary Shares which represents three per cent. or more of Pace issued share capital.

5. MATERIAL CONTRACTS

5.1 *Pace Group*

The following contracts are material contracts (not being contracts entered into in the ordinary course of business) which: (i) have been entered into within the two years prior to the date of this document by members of the Pace Group; or (ii) contain provisions under which any member of the Pace Group has an obligation or entitlement which is or may be material to the Pace Group as at the date of this document:

(a) *Merger Agreement*

A summary of the principal terms of the Merger Agreement is set out in Part VI of this document.

(b) *Facilities Agreement*

The Company (as the principal borrower) and Pace Americas, Inc., Pace USA, Inc., Holdings, LLC and Pace Americas Limited (together, the "**Guarantors**") entered into a facilities agreement (the "**Facilities Agreement**") with HSBC Bank plc and The Royal Bank of Scotland plc (together, the "**Banks**") dated 31 August 2010 under which the Banks made available (i) a $300 million term loan facility ("**Facility A**") and (ii) a $150 million multicurrency revolving credit facility (the "**Revolving Facility**") (Facility A and the Revolving Facility together, the "**Facilities**").

The Facilities Agreement states that funds drawn under Facility A are to be used by Pace to finance the Acquisition (and related costs and expenses), and funds drawn under the Revolving Facility are to be used by Pace and any other borrower for the general corporate and working capital purposes of the Group (including, without limitation, payments towards the Acquisition). The Facilities will be available for utilisation to finance the Acquisition until 30 April 2011, subject to customary conditions precedent (including the absence of an event of default and the satisfaction of the remaining conditions to completion under the Merger Agreement). Until 31 December 2010, drawdown is only subject to limited events of default (including insolvency of Pace) not having occurred, and from 1 January 2011 until 30 April 2011 drawdown is subject to there being no event of default. The final maturity date of both Facilities is 31 March 2014.

The Facilities Agreement contains customary provisions relating to voluntary and mandatory prepayment of the Facilities (including on a change of control of the Company).

The Facilities Agreement contains certain conditions to utilisation of the Facilities, and certain representations, warranties, undertakings and events of default which are usual for an agreement of this nature, including specific financial covenants.

There are a number of initial and ongoing fees owed to the Banks in relation to the operation of the Facilities under the Facilities Agreement.

The Facilities are guaranteed by the Guarantors (including in due course Pace France SAS and 2Wire) and the Facilities are underwritten by the Banks as joint underwriters who have syndicated their commitments pursuant to the syndication agreement summarised in paragraph 5.1(f) below.

(c) *Deed of Release*

The Pace Group has entered into a deed of release with The Royal Bank of Scotland plc dated 31 August 2010 pursuant to which the existing £35,000,000 revolving credit facility and related guarantees and security have been terminated.

(d) *The Natwest Agreement*

The Company has entered into a bank guarantees agreement dated 31 August 2010 with National Westminster Bank plc pursuant to which the Company may request the issues of guarantees (including bonds, standby letters of credit, indemnities and undertakings) for general business purposes up to a limit of £13,000,000.

(e) *Natwest Guarantee*

Pace and the Guarantors have entered into a guarantee with National Westminster Bank plc dated 31 August 2010 pursuant to which they jointly and severally guarantee the obligations under certain ancillary banking facilities with National Westminster Bank plc (including the Natwest Agreement). The other members of the Pace Group which are required to become guarantors under the Facilities Agreement from time to time are also required to become guarantors under this agreement at the same time.

(f) *Syndication Agreement*

On 15 September 2010, Pace entered into a syndication agreement with the Guarantors, the Banks, Barclays Bank plc, Clydesdale Bank plc, Lloyds TSB Bank plc and Santander UK plc pursuant to which Pace acknowledges the syndication of part of the Facilities by the Banks (as arrangers) to these lenders.

(g) *Share Purchase Agreement acquiring Bewan Systems*

Pace France (the "**Buyer**") entered into a share purchase agreement with a number of investors and individuals (the "**Sellers**") dated 1 March 2010 for the purchase of the entire issued share capital of French company Bewan Systems. Completion was conditional upon satisfaction or waiver by the Buyer of certain conditions which included, amongst others; representations and warranties given by the Sellers being true and accurate at the completion date; certain amendments to employment contracts for specific key individuals; and certain financial statements being given. Certain of the individual Sellers are also guarantors under the agreement.

The consideration for the acquisition comprised a base consideration of €10,000,000 payable as follows:

- €8,000,000 in cash on completion allocated between the Sellers; and
- €2,000,000 into an escrow account on completion to be allocated between the guarantors and released over a period of three years from completion subject to any warranty claims made.

Additional consideration of a maximum of €2,080,000, comprising of six tranches, is payable to three of the sellers as "**Additional Price Beneficiaries**" upon achievement of certain financial milestones relating to, amongst others: the gross margin of certain activities; the annual and half yearly trading results; turnover under specific customer contracts; quarterly accounts and resiliation under a lease.

There are a limited set of warranties and representations from the Sellers in relation to capacity, title, authority and solvency, with a more extensive set from the guarantors, including in relation to financial information, assets, intellectual property, property, compliance, litigation, employees, tax and conduct of business. In terms of limitations, each Seller and guarantor's liability is capped at the percentage of the purchase price received by such Seller/guarantor. There is a *de minimis* of €10,000 per claim and a threshold of €150,000. Tax related claims must be brought within three years of completion and all other claims within two years.

The Additional Price Beneficiaries (and their affiliates) are subject to non-compete and non-solicitation restrictions for a period of three years from completion. The non-compete is limited to France, Finland, Italy, Greece and Portugal.

The agreement is governed by French law.

5.2 *2Wire Group*

The following contracts are material contracts (not being contracts entered into in the ordinary course of business) which: (i) have been entered into within the two years prior to the date of this document by members of the 2Wire Group; or (ii) contain provisions under which any member of the 2Wire Group has an obligation or entitlement which is or may be material to the 2Wire Group as at the date of this document.

(a) *Asset Purchase Agreement with Broadcom Corporation*

2Wire entered into an asset purchase agreement with Broadcom Corporation and Broadcom International Limited (together the "**Purchaser**") dated 3 December 2009 pursuant to which the Purchaser acquired/licensed assets, intellectual property rights and certain liabilities from 2Wire.

The consideration for the acquisition was $9,500,000, payable in cash by way of an initial instalment on closing of $7,250,000 and a further instalment of $2,250,000 payable within 30 days of commencement of qualification testing, provided that if such testing had not occurred by 31 March 2010 no second instalment was payable. This payment was made on 1 April 2010.

The 2Wire Group provided a full set of representations and warranties to the Purchaser, including in relation to capacity, title, authority, conduct relating to assets, material contracts, compliance, financial information, intellectual property, employee and pension matters, litigation, tax, products and forecasts. These representations and warranties are subject to a limitation period of 18 months from closing (other than in respect of capacity, title, authority and tax which survive in accordance with statute).

There is also an indemnity from 2Wire against all losses incurred by the Purchaser and their affiliates from: (i) any breach of representation or warranty; (ii) any breach or non-performance by 2Wire of its covenants under the agreement; (iii) any excluded liability (as defined in the agreement); or (iv) any liability which arises from failure to comply with any bulk transfer law in connection with the agreement. The obligations of 2Wire are also subject to the statutory limitation period. For claims in respect of (i), there is a threshold of $100,000 and a maximum liability of $3,000,000.

2Wire and its affiliates are subject to a non-compete restriction for a period of 18 months and a non-solicit restriction for three years from the closing date. The geographic scope of these restrictions is worldwide.

The agreement is governed by the laws of the State of California.

6. LITIGATION

6.1 *Pace Group*

Neither Pace nor any member of the Pace Group is or has been engaged in any litigation or governmental, legal or arbitration proceedings (and Pace is not aware of any such proceedings which are pending or threatened involving Pace or any member of the Pace Group) during the 12 months prior to the date of this document which may have, or has had, a significant effect on Pace and/or the Pace Group's financial position or profitability.

6.2 *2Wire Group*

On 31 October 2007, Wi-LAN filed a lawsuit captioned Wi-LAN, Inc. v. Westell Technologies, et al., Civil Action No. 2:07-CV-474 (TJW), in the U.S. District Court for the Eastern District of Texas. 2Wire is named as a defendant in the action. Wi-LAN filed a second amended complaint in the same action on 16 April 2010. The second amended complaint alleges that 2Wire infringes three US patents by making, using, offering for sale, importing, and/or selling wireless products compliant with the IEEE 801.11 and/or 802.16 standards and ADSL products compliant with the ITU G.992 and/or G.993 standards. A pre-trial order in which the court construes the meaning of key words in patent claims has been issued for the two wireless patents and a hearing for the ADSL patent was held on 1 September 2010. The trial is currently scheduled for January 2011. 2Wire has retained counsel and intends to defend the action vigorously. The ultimate outcome of this matter cannot currently be predicted and the claim is unquantifiable.

Except as set out above, neither 2Wire nor any member of the 2Wire Group is or has been engaged in any litigation or governmental, legal or arbitration proceedings (and Pace is not aware of any such proceedings which are pending or threatened involving 2Wire or any member of the 2Wire Group) during the 12 months prior to the date of this document which may have, or has had, a significant effect on 2Wire's and/or the 2Wire Group's financial position or profitability.

7. WORKING CAPITAL

The Company is of the opinion that, taking into account the bank facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

8. SIGNIFICANT CHANGE

8.1 *Pace Group*

There has been no significant change in the financial or trading position of the Pace Group since 30 June 2010, the date to which the latest unaudited accounts of the Pace Group have been prepared.

8.2 *2Wire Group*

There has been no significant change in the financial or trading position of the 2Wire Group since 30 June 2010, the date to which the latest unaudited interim results of the 2Wire Group have been prepared.

9. RELATED PARTY TRANSACTIONS

9.1 Details of related party transactions to which the Company has been party for the three year period ended 31 December 2009 are contained in the financial statements, notes to accounts and remuneration reports in the audited annual report and accounts of the Group for each of the financial years ended 31 December 2009, 31 December 2008 and 2 June 2007 and the report and accounts of the Group for the seven months ended 31 December 2007.

9.2 Details of related party transactions to which the Company has been party for the period from 1 January 2010 to 30 September 2010 are as follows:

Identity of related parties

The Company has a related party relationship with its subsidiaries and with its executive directors.

Transactions with subsidiaries

The main transactions between the Company and its subsidiaries consist mainly of payments by the Company for distribution, engineering and administrative support provided by Pace Americas, Inc., Pace France SAS and Pace Micro Technology (India) Private Ltd. Total transactions of £252.9 million were made in the period from 1 January 2010 to 30 September 2010 (being the latest practicable date prior to the publication of this Circular).

The net amounts due to the Company from Pace Americas, Inc., Pace France SAS and Pace Micro Technology (India) Ltd as at 30 September 2010 amounted to £12.5 million, £6.1 million and £0.4 million respectively.

Transactions with key management personnel

Key management of the Group is through the executive directors of the Company.

Total executive directors' remuneration for the period from 1 January 2010 to 30 September 2010 was £0.8 million in respect of salaries and benefits in kind and £0.2 million in respect of pension contributions.

Of the share based payments charge of £4.2 million made in the period, 25% related to options granted to the executive directors.

10. CONSENTS

(a) KPMG has given and has not withdrawn its written consent to the inclusion in this document of its accountant's report on the *pro forma* financial information in Part V of this document in the form and context in which it is included.

(b) PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this document of its accountant's report on the historical financial information relating to the 2Wire Group in Section A of Part IV of this document in the form and context in which it is included.

(c) Evercore Partners has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.

11. SOURCES AND BASES FOR FINANCIAL INFORMATION

The financial information on the 2Wire Group contained in this document has been extracted without material adjustment from the financial information relating to 2Wire contained in Section B and Section C of Part IV, such information having been prepared on the basis of the accounting policies of Pace for the year ended 31 December 2009 as set out in the annual report and accounts.

12. DOCUMENTS ON DISPLAY

Copies of the documents listed below may be inspected free of charge at the offices of the Company at Victoria Road, Saltaire BD18 3LF and at the offices of Travers Smith, 10 Snow Hill, London EC1A 2AL during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including 18 October 2010 and will also be available for inspection at the General Meeting for at least fifteen minutes prior to and during the General Meeting:

(a) the Articles of Association;

(b) the audited annual report and accounts of the Group for the two financial years ended 31 December 2009 and 31 December 2008, for the seven month period ended 31 December 2007 and for the financial year ended 2 June 2007;

(c) the interim report of the Group for the six months ended 30 June 2010;

(d) the reports from PricewaterhouseCoopers LLP and KPMG contained in Parts IV and V of this document respectively;

(e) the written consents referred to in paragraph 10 of this Part VII;

(f) the draft rules of the International PSP; and

(g) the Merger Agreement.

1 October 2010

GLOSSARY AND DEFINITIONS

"2000 Unapproved Plan"	the Pace 2000 Unapproved Share Option Plan
"2006 Act"	the Companies Act 2006
"2Wire"	2Wire, Inc., a Delaware corporation
"2Wire Group"	2Wire and its subsidiary undertakings
"Acquisition"	the proposed acquisition by Pace of the 2Wire Group pursuant to the terms of the Merger Agreement
"ADSL"	asymmetric DSL
"Approved Plan"	the Pace Approved Discretionary Share Option Plan 2005
"Articles of Association"	the articles of association of the Company
"Banks"	HSBC Bank plc and The Royal Bank of Scotland plc
"Circular" or "this document"	this circular, prepared in accordance with the Listing Rules
"Company" or "Pace"	Pace plc
"Completion"	the completion of the Acquisition pursuant to the terms of the Merger Agreement
"CREST"	the relevant system (as defined in the Uncertified Securities Regulations 2000) in respect of which CRESTCo is the operator (as defined in the Uncertified Securities Regulations 2000)
"CRESTCo"	Euroclear UK & Ireland Limited, the operator of CREST
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
"Deferred Share Plan"	the Pace Deferred Share Plan
"Directors" or "Board"	the directors of the Company, whose names are set out in paragraph 3.1(a) of Part VII of this document
"Disclosure Rules and Transparency Rules"	the disclosure rules and the transparency rules made by the FSA pursuant to FSMA
"DSL"	a family of technologies known as digital subscriber line which provides high speed digital data transmission over the copper wires between a local telephone exchange and a subscriber's home
"Effective Time"	the effective time of the Acquisition, being the filing of the certificate of merger with the Secretary of State for the State of Delaware, US, upon Completion
"Enlarged Group"	the Group as enlarged by the Acquisition
"Escrow Fund"	the escrow fund created pursuant to the Merger Agreement
"Evercore"	Evercore Group L.L.C. and Evercore Partners, both ultimately owned by Evercore Partners, Inc.
"Evercore Partners"	Evercore Partners Limited
"Facilities"	Facility A and the Revolving Facility
"Facilities Agreement"	the facilities agreement entered into between the Company (as principal borrower) and the Guarantors with the Banks dated 31 August 2010 under which the Banks made available the Facilities
"Facility A"	a $300 million term loan facility made available pursuant to the Facilities Agreement
"Form of Proxy"	the form of proxy relating to the General Meeting being sent to Shareholders with this document
"FSA"	Financial Services Authority
"FSMA"	Financial Services and Markets Act 2000 (as amended)

"Gateway"	an integrated home networking device that enables the delivery of broadband content and services to and throughout the home
"General Meeting"	the General Meeting of the Company convened for 18 October 2010, notice of which is set out at the end of this document
"Guarantors"	Pace Americas, Inc, Pace USA, Inc, Holdings, LLC and Pace Americas Limited
"Holdings"	Pace Americas Holdings, Inc.
"IAS"	International Accounting Standards issued by the International Accounting Standards Committee that have been adopted by the International Accounting Standards Board
"IFRIC"	International Financial Reporting Interpretations Committee
"IFRS"	International Financial Reporting Standards maintained by the International Accounting Standards Board and which are in force from time to time, as adopted by the European Union
"International PSP"	The Pace International Performance Share Plan, further details of which are set out in Part III of this document
"KPMG"	KPMG Audit Plc
"Listing Rules"	the listing rules made by the UK Listing Authority for the purpose of Part VI of FSMA
"LLC"	Pace Americas Investments, LLC
"Management Incentive Plan"	the management incentive plan adopted by the board of directors of 2Wire on 21 December 2009, as amended
"Merger Agreement"	the agreement dated as of 25 July 2010 relating to the Acquisition as amended on 30 September 2010, a summary of the principal terms of which is set out in Part VI of this document
"Merger Sub"	Tangier Acquisition Sub, Inc., a Delaware corporation and indirect wholly-owned subsidiary of the Company
"NAS"	Network Attached Storage
"Ordinary Shares"	ordinary shares of 5 pence each in the capital of the Company
"Pace Group" or "Group"	Pace plc and its subsidiaries
"Performance Share Plan"	the Pace Performance Share Plan
"Prospectus Rules"	the Prospectus Rules made by the FSA under Part VI of FSMA
"Registrars" or "Capita Registrars"	Capita Registrars of 34 Beckenham Road, Beckenham, Kent BR3 4TU
"Resolutions"	the resolutions to be proposed at the General Meeting as set out in the notice of General Meeting at the end of this document
"Revolving Facility"	a $150 million multi-currency revolving credit facility made available pursuant to the Facilities Agreement
"Senior Managers"	the senior executives of Pace who are not Directors, being Anthony Dixon, Jill Ezard, Mathias Hautefort, Helen Kettleborough, Michael Pulli and Scott Sheldon
"Share Plans"	the Approved Plan, the Unapproved Plan, the Sharesave Plan, the 2000 Unapproved Plan, the US Sharesave Plan, the Deferred Share Plan and the Performance Share Plan
"Shareholders"	holders of Ordinary Shares
"Sharesave Plan"	the Pace Sharesave Plan 2005
"Sterling", "£", "p" or "pence"	relates to £ or pounds sterling and p or pence (sterling)

"subsidiary", "subsidiary undertaking", and "associated undertaking"	have the meanings given by the 2006 Act (but for this purpose ignoring paragraph 20(i)(b) of Schedule 4A of the 2006 Act)
"Termination Date"	31 January 2011 as such date may be extended by either 2Wire or the Company until 30 April 2011 if regulatory approvals remain the only conditions to Completion
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland, its territories and dependencies
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA
"Unapproved Plan"	the Pace Unapproved Discretionary Share Option Plan 2005
"uncertificated" or "in uncertificated form"	recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
"US GAAP"	the generally accepted accounting principles in the US which are in force from time to time
"US Sharesave Plan"	the Pace Americas US Sharesave Plan 2005
"US" or "United States"	the United States of America, its territories and dependencies the United States Securities Act of 1933, as amended
"$"	the lawful currency of the US
"VDSL"	very-high-bitrate DSL
"VDSL2"	very-high-bitrate DSL generation 2

PACE PLC

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Pace plc (the "**Company**") will be held at 9 a.m. on 18 October 2010 at Pace plc, Salts Mill, Victoria Road, Saltaire, West Yorkshire BD18 3LF for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as ORDINARY RESOLUTIONS:

ORDINARY RESOLUTIONS

1. THAT the proposed acquisition by the Company of the entire issued share capital of 2Wire, Inc. (the "**Acquisition**") substantially on the terms and subject to the conditions of the merger agreement between the Company, Tangier Acquisition Sub, Inc., Shareholder Representative Services LLC and 2Wire, Inc. dated 25 July 2010 as amended on 30 September 2010 (the "**Merger Agreement**") and all agreements and arrangements made or entered into, or which may in the future be made or entered into, by the Company or any of its subsidiaries in connection with, or which are ancillary to, the Acquisition or the Merger Agreement, be and are hereby approved and the directors of the Company (or any duly constituted committee thereof) be and are hereby authorised to take all such steps as they consider necessary, desirable or expedient to effect the Acquisition and to waive, amend, vary, revise or extend (to such extent as will not constitute a material waiver, amendment, variation, revision or extension in the context of the Acquisition as a whole) any such terms and conditions as they may consider appropriate and to do or procure to be done all such other things as they may consider necessary, desirable or expedient in connection with the Acquisition:

2. THAT the directors of the Company be and are hereby authorised to establish:

   (a) The Pace International Performance Share Plan (the "International PSP"), a copy of the draft rules of which has been produced to the General Meeting and a summary of the main provisions of which is set out in Part III of the circular issued by the Company on 1 October 2010, of which this notice forms part; and

   (b) schedules to or further share plans based on the International PSP but modified to take account of local tax, exchange control or securities laws in jurisdictions other than California or the UK provided that any shares made available under any such schedules or further plans are treated as counting against any limits on individual or overall participation in the International PSP.

Dated 1 October 2010

By order of the Board
Anthony Dixon
Company Secretary

Registered Number: 1672847
Registered office:
Victoria Road
Saltaire
BD18 3LF

Notes:

1. A member of the Company entitled to attend and vote at the General Meeting may appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. To appoint a proxy you may:
   (a) use the Form of Proxy enclosed with this Notice of General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be deposited by 9 a.m. on 16 October 2010 at the Company's registrars, Capita Registrars, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; or

   (b) submit your proxy electronically by accessing www.paceshares.com. Existing share portal users should enter their username and password. New users should click on the "Registration" link in the right hand menu and enter their surname, post code and unique investor code (shown on the Form of Proxy), complete the rest of the registration process and click on the "Register" button. To vote online, existing and new users should click on the "Online Voting" link under the "Other Services" menu. If you require any assistance please contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network extras) or if dialling from overseas call 0044 208 639 3399. Alternatively you can contact Capita Registrars by emailing your enquiry to ssd@capitaregistrars.com; or

   (c) if you are a CREST member, appoint a proxy or proxies through the CREST electronic proxy appointment service as detailed in notes 6 and 7 below.

Members who have lodged Forms of Proxy or appointed a proxy electronically are not thereby prevented from attending the General Meeting and voting in person if they so wish.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the register of members of the Company at 6 p.m. on Friday 15 October 2010 or, in the event that the General Meeting is adjourned, in the register of members at the time that is 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the General Meeting or any adjourned meeting in respect of the number of shares registered in their names at that time. Changes to the entries on the register of members after 6 p.m. on Friday 15 October 2010, or, in the event that the General Meeting is adjourned, in the register of members after the time that is 48 hours before the time of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. To appoint more than one proxy, you may photocopy the Form of Proxy. Please indicate the proxy holder's name and number of shares in relation to which they are authorised to act as your proxy (which, in aggregate should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned together in the same envelope.
5. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Capita Registrars. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior). If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
7. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent, Capita Registrars (ID RA10), by the latest time for receipt of proxy appointments specified in this Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
10. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in notes 1, 2, 4, 5, 6 and 7 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
12. A corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
13. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at www.pace.com.

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