Pace

A world leader in digital and broadband technologies

Annual Report & Accounts **2010**

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Pace is creating innovative platforms for managed subscription TV and broadband services

Pace's customers, which today include over 160 of the world's leading payTV and broadband operators, are shaping the in-home entertainment and communications experience with their digital, HD, hybrid, 3D, home networking and broadband services.

Pace has a unique vantage point on how markets are evolving – from emerging to advanced. Pace has continued to build its capability to ensure it has the product and technology answers a customer requires whatever its stage or rate of development.

North America Revenues

£541m (+26%)

Europe Revenues

£367m (-14%)

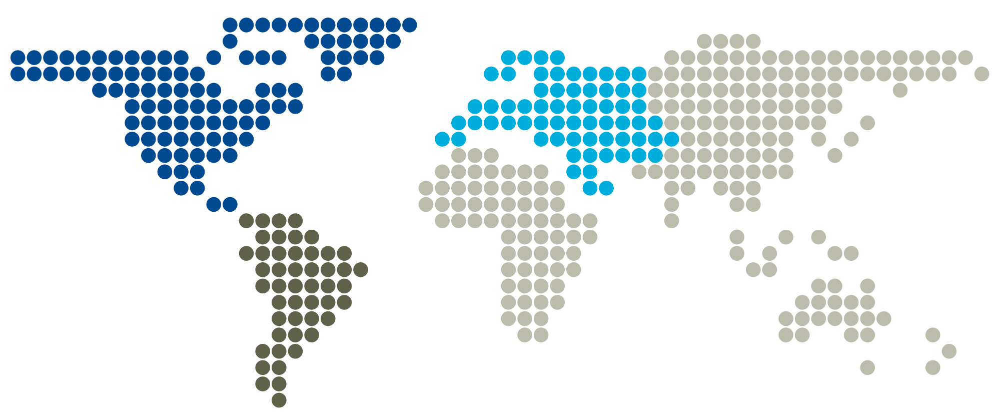
Rest of the World Revenues

£181m (+17%)

South America Revenues

£242m (+100%)

Global Revenues



Financial Highlights

Revenues £1,330.9m (2009: £1,133.5m)	+17.4%	Operating profit pre-exceptionals £91.9m (2009: £69.7m)	+31.9%
Underlying earnings[1] £103.6m (2009: £76.4m)	+35.6%	Profit before tax £71.1m (2009: £69.9m)	+1.7%
Return on sales[2] 7.8% (2009: 6.7%)	+1.1%	Adjusted[3] basic EPS 23.9p (2009: 19.3p)	+23.8%

[1] Underlying earnings are operating profit before exceptional costs and amortisation of other intangibles and are also expressed as adjusted EBITA

[2] Adjusted EBITA as a per cent of sales is expressed as return on sales

[3] Adjusted EPS is based on earnings before the post tax value of exceptional costs and amortisation of other intangibles

2Wire

A leading US provider of advanced residential gateways and associated software and services for the broadband service provider market.

Bewan Systems

An Internet Protocol and cable gateways specialist.

Latens Systems

A software specialist for the payTV market.

In 2010 Pace made three acquisitions that enhanced the Group's earnings and market position.

A year of strong revenue and earnings growth and three key acquisitions

"Pace has delivered a strong year with a 35.6% increase in underlying earnings and we successfully completed three acquisitions that are already earnings enhancing and delivering significant synergies.

During 2010 we have continued to strengthen our position as a leading provider of technologies to the global market for managed subscription TV and broadband services. At the same time we opened up new opportunities in home networking and advanced gateways by adding significant new capabilities in software, services and support.

Conditions across our global markets continue to be positive. Operators are utilising Pace's widening range of products, technologies and services to enhance their consumer offering; from launching digital in emerging markets to providing solutions and services that enable home convergence in advanced markets."

Neil Gaydon
Chief Executive Officer

Chairman's Letter

Dear Shareholder

I am pleased to be reporting back to you at the conclusion of a significant year for Pace; the business has evolved to address new opportunities while continuing to create shareholder value with a 35.6% increase in underlying earnings.

Many important elements of the Group's long-term growth strategy came together in 2010, to create a more diverse business. Pace's strategy is enabling it to build leadership positions from emerging markets such as South America and India through to the most advanced markets in North America where Pace products are enabling networked voice, video and data in people's homes.

In 2010 Pace was named the world's number one in digital set-top box technology, by diversifying its product range across cable, satellite and IP platforms and across geographies – over 95% of Group revenues are generated overseas. Geographic diversification will continue as the Group addresses more emerging markets. The acquisition of 2Wire, Latens and Bewan during the year, in addition to organic business developments, is enabling the Group to grow its business with telecoms operators and diversify its capabilities even further with gateways, software and professional services. Already with the 2Wire acquisition Pace has become one of the leading players in the global market for advanced telecom gateways.

The Group's ability to grow has been facilitated by a decentralised business model that enables close customer relationships at the point of delivery. This is important as while Pace's markets have a number of broad evolving trends, each individual market and customer is evolving at different rates and can have vastly differing technology requirements. The bespoke nature of Pace's business will continue as customers in advanced markets embrace new home networking and whole home capabilities and our technology increasingly places us at the heart of convergence for the digital home of the future.

It is highly satisfying for me and the rest of the Board to see how the management team and our people around the world have done such an excellent job in building Pace's global leadership. In this year their achievements have ranged from delivering over 20 million products to a global customer base of over 160 operators – an heroic effort bearing in mind supply chain challenges – to impressive work in laying important foundations for the Group's future growth in 2011 and beyond. I would also like to welcome all of the new employees that became part of the Pace Group in 2010.

In recognition of our growth and long-term earnings potential, the Board continues to build on the progressive dividend policy that was introduced in 2009. I am pleased that the Board is recommending a final dividend of 1.45p per share, giving a full year dividend of 2.175p per share, a 45% increase on 2009.

If you have any comments on my letter or any part of the Annual Report, I would be delighted to hear from you either by writing to me at Pace or by email at mike.mctighe@pace.com.

Yours sincerely

Mike McTighe

Chairman

8 March 2011

Chief Executive
Officer's Review

2010 was an important year for Pace; we built out our strategy and strengthened our core business while opening up new market and technology opportunities that will enable sustainable future growth. We delivered strong earnings and revenue growth and made a series of strategic acquisitions that are already enhancing our earnings and market position.

Key Highlights of the Year

Pace has made excellent progress this year as we continued to deliver on our core leadership position by becoming the biggest global supplier of digital set-top box technology, a very significant achievement and testament to the focus and hard work of our global teams. But this year has also seen us create new opportunities for Pace, as we welcomed three new companies into the Group that have already made a significant contribution to our business and market leadership.

Through the acquisition of 2Wire and Bewan we now have a highly competitive product capability and deep knowledge of the telecoms space, and with Latens we have expanded our software capabilities. All three of these acquisitions bring us access to new customers, markets and technologies that will provide additional growth opportunities for Pace in the years to come.

During the year we grew underlying earnings by 35.6%, and increased our overall revenues by 17.4%. Our revenues, before taking into account our acquisitions, were up 9.7%, ahead of expectations, and we increased our overall return on sales to 7.8%. This is clearly a strong result, particularly in the light of industry-wide supply chain challenges, and reflects the operating leverage and scale of our business model.

We have achieved these results through careful focus on our markets and their development; moving into 2011 and beyond we will focus on key areas to ensure that we deliver on sustained growth in the future.

Positioning for Growth

Our business is focused on serving the evolving needs of payTV and telecoms operators that deliver managed subscription services into consumer homes. Today we have over 160 customers that span emerging through advanced markets. Operators shape the consumer's in-home entertainment and communications experience with digital, HD, hybrid, 3D, home networking and broadband technologies.

With our global reach and expertise we have built a unique vantage point on how these markets are evolving and the opportunities they present. Our markets are changing and there is no one absolute trend. They are also highly competitive as operators work to attract and retain consumer subscriptions. There is always competition, but I believe we have the necessary scale and capabilities to develop on our success with the leading global operators.

A good example is the pressure operators are under to provide competitive responses to the threat from 'over-the-top' (internet) TV services. Some believe consumers may switch from payTV subscriptions to 'over-the-top' TV. We believe 'over-the-top' will co-exist with payTV and in some cases become part of the new integrated services that our operator customers are creating. With our additional offerings in software, support and services, we are already working with operators as they provide new and innovative responses to this competitive threat and are well positioned as they evolve their businesses in this environment.

Widening Out

In our established markets the set-top box and our new gateway products are at the centre of the home entertainment and communications universe and will continue on a growth trajectory. Our platforms enable an operator's service in the home and are critical to their success. In 2010, through acquisition and organic innovation, Pace added a range of important assets; from residential gateways to software, to support services that manage the complexity and cost involved in delivering payTV and broadband. Further development of these

We believe OTT will co-exist with payTV and become part of new integrated services that our operator customers are creating for their subscribers.

assets is enabling Pace to create innovative platforms for operators in its established, emerging and advanced markets. In doing this, Pace is evolving a proposition that embraces in-home devices that enable content (OTT and linear) and next generation operator services while reducing cost of deployment and significantly improving customer support and the user experience.

In this context our opportunity is widening out in two important areas. In our more advanced markets home networking and digital home convergence have been hot topics for some time. In the last year these developments have become a reality for a number of our US customers with the launch of our first 'whole home' product. In other markets, in particular Western Europe, an increasing number of operators are launching hybrid services. The Canal+ Le Cube is a leader in this space, offering subscribers a compelling and easy to access combination of broadcast and on-demand broadband content.

But this is just the beginning of in-home service convergence. We are now working with operators who want to deliver a cohesive set of managed digital services, from video and broadband to voice over IP and new applications such as telemedicine and home security, into a home network of multiple interconnected devices. Our technology will also enable mobile and portable devices to become part of the service provider's in-home network. In addition to creating platforms that can manage the complexity of these services within the home, we now have infrastructure and software assets to help manage the operators' subscriber support needs. For example the customer care centres and consulting services acquired with the 2Wire business improve customer support and have reduced some operators' in-house call centre costs by millions of dollars per year.

In many of our emerging markets profound change is also taking place as operators move from analogue to digital or launch their first high definition (HD) services. In South America, a very successful market for Pace over the last year, operators are not yet thinking about home networking, but are just launching HD and HD PVR. We continue to evaluate opportunities across emerging markets such as India where we recently commenced shipments to Tata Sky. Again, utilising our expanded assets, we are looking at how we can create complete packaged solutions, including the Latens software-based conditional access, to enable new service launches in emerging markets with tier two and tier three operators.

North American Market

The North American market is a powerful example of how we are evolving the Pace proposition. We have strong relationships with the three leading operators in this market; Comcast (cable), DIRECTV (satellite) and AT&T (telecoms) and we are the only company supplying all three. We provide a wide range of products for these customers, from basic adaptors to set-top boxes and gateways to software, support and customer care centres that deliver and manage multiple services into the home. This is only just part of our Americas picture as we work with over 90 cable operators and have continued to grow our business across Latin America.

The 2Wire acquisition has accelerated our capability in telecoms markets, in particular the US. With the addition of AT&T as a key customer we now have significant home networking knowledge through our work on their U-Verse service. U-Verse is a subscription service that allows consumers to access high quality content through both wired and wireless technologies, not just via their television and phone, but also their PCs, laptops, mobiles and tablets.

We also manage customer care centres for a range of telecoms customers in North America, including Bell Canada. Our customer care centres support consumers as they install and manage the increasingly complex set of connected devices that now exist in their homes. Intelligent software in our gateway devices can provide a complete view of the subscriber's digital home and use real-time diagnostics to identify and solve issues. This is enabling operators to resolve problems by phone that previously would have entailed an expensive home visit and is just part of an increasingly sophisticated set of support services we now have available and a capability we will offer beyond the telecoms sector. The North American market will set the trend for advanced developments elsewhere in the world.

Market Responsiveness

Our business structure and model is an important strength as we help make all of this happen for our customers. We have a decentralised operating structure, so we can develop close customer relationships across multiple and highly distinctive geographic markets. This approach, balanced with the benefits of our global supply chain scale enables us to manage individual customer needs and

We have a decentralised operating structure, so we can develop close customer relationships across multiple and highly distinctive geographic markets.

market complexities. We have built teams across the world specialising in the specific needs of their local markets; from teams in the US with skills in software and services to our team in India that has built a capability in complete end-to end product development.

Pace's customer commitment encompasses our industry leading work to minimise the environmental footprint of our products and operations. This year we took important steps forwards to reduce the carbon intensity of our activities, and, for example, we reduced average annual electrical energy consumption across new set-top box products by 12.9%. We also reduced our CO_2 emissions per set-top box to 56.02 kg CO_2, down from 64.31 kg in 2009, thanks to our Design for Environment (DFE) initiative.

We have continued to evolve our structure in 2010 as we integrated our acquisitions while ensuring we stay true to our organisational philosophy of the customer at the heart of the business. In 2010 this led us to create a new business unit known as 'Enterprise' in which the team addresses new technologies, business and market opportunities. Our ability to respond and develop with our market will enable us to deliver future growth.

In Summary

In 2010 our market continued to grow and Pace won greater market share. We are a fully diversified business, in terms of our geographic reach and technology and service capability. Our organic revenues grew 10%, we added profitable acquisitions and put the Company into a stronger position for the next phase of market evolution as operators contemplate the technology innovations they need to remain competitive. I would like to thank the entire Group workforce for these outstanding achievements in 2010.

Looking ahead into 2011 Pace has a rich group of customers and technologies that will enable the business to grow, with over 20 per cent of revenues coming from our new gateway, software and services businesses. I look forward to another strong year of growth for our business.

Neil Gaydon

Chief Executive Officer

8 March 2011

Chief Financial
Officer's Review

In 2010 the Pace business experienced strong revenue and earnings growth alongside three strategically important acquisitions. The acquisitions enhanced the Group's earnings and market position while also broadening our customer base and technology capabilities.

Our 2010 acquisitions, Bewan Systems SA, 2Wire Inc and Latens Systems Ltd, were all cash transactions funded through cash and debt. We made significant progress in the operational and cultural integration of the new businesses into the Group, benefiting from our now well-established operating model. The model, through its scalable systems, and best practice financial and key performance indicators, enables early issue identification and rapid decision making and allows us to manage growth effectively.

To integrate our acquisitions and take full advantage of the new opportunities they have created, we have evolved our Group structure. The cost of delivering these changes along with the acquisition costs gave rise to a one-off exceptional charge of £19m. The charge included £5.9m of acquisition transaction costs, £10.3m of post-acquisition restructuring and integration costs and £2.8m for the planned closure of our free-to-air European retail operations. The investment in restructuring and integration costs will deliver cost-efficiencies across the Group, including $30m in annual synergies expected from the 2Wire acquisition.

Trading and Results

Pace's organic business before acquisitions increased its net revenues by 9.7% and adjusted EBITA by 23.4%, with total Group revenues growing by 17.4% to £1,330.9m (2009: £1,133.5m) and adjusted EBITA increasing 35.6% to £103.6m (2009: £76.4m).

Our gross margin, despite challenges across the global supply chain, rose from 17.6% to 18.5% in the organic business, generating an additional £30.6m of profit. By contrast, overheads for the organic business increased by only £12.2m, demonstrating our ability to drive operational leverage and flow the increase in gross margin to the bottom line, increasing organic return on sales to 7.6% (2009: 6.7%). The acquisitions were revenue and earnings enhancing, increasing revenue by £87.3m and adjusted EBITA by £9.3m, leading to an increase in return on sales of the Group to 7.8%.

Amortisation of other intangibles increased to £11.7m (2009: £6.7m), following the recognition of £172.4m of intangibles from the acquisitions. Net finance expenses, primarily related to the acquisition funding, were £1.8m (2009: income £0.2m). Tax was £21.2m (2009: £18.5m) with an effective tax rate of 29.7% reflecting the mix of taxable profits by geography. Adjusted basic earnings per share was 23.9p up 23.8% (2009: 19.3p) and basic earnings per share 17.0p (2009: 17.7p).

Balance Sheet and Cash Flow

The shape of the balance sheet reflects our three 2010 acquisitions, which, in addition to the cash consideration, also included £12.3m of deferred payments. The purchase price allocation exercise is substantially complete and at the year end we recognised £172.4m of other intangibles and £150.7m of goodwill. The other intangibles will be amortised over one to ten years with the annual amortisation charge expected to be £36m in 2011. The majority of the assets will be amortised by 2015.

We invested £290m of cash in the acquisitions, raised through $450m (£290m) of debt. The debt was raised through a term loan of $300m and a $150m revolving credit facility available until March 2014. The loan will be repaid through six $37.5m instalments payable every six months from June 2011 and a final $75m payment. We finished the year with net debt of £200.7m (2009: cash of £73.5m).

Working capital was £74.2m and is now representative of our on-going working capital requirement. We generated free cash flow[5] of £36.4m. This was 35% of adjusted EBITA and lower than our target of 50% as we invested in our facilities and engineering equipment to support growth.

Dividend

In line with the progressive dividend policy introduced in 2009 and due to the positive operating cashflow and strong business performance, the Board has recommended a final dividend of 1.45p per share (2009: 1.0p). The full year dividend increased 45% to 2.175p per share (2009: 1.5p).

Currency

A significant proportion of Pace's revenues and earnings continue to be in US dollars and Euros. Exchange rates between the pound sterling and the US dollar and Euro remained relatively stable in 2010 at $1.55 and €1.16 (2009: $1.57 and €1.12) respectively. This, together with our hedging policy, minimised the impact of foreign currency fluctuations in 2010. Following the full integration of 2Wire into the Group, the majority of the Group's revenues and earnings going forward will be in US dollars. Accordingly, the Board has decided to change the Group's presentation currency to US dollars with effect from 1 January 2011.

At the same time, the functional currency of the parent company will change from sterling to US dollars. The change will allow the financial statements to be presented in the currency that more closely represents the Group's operations.

Summary Financials

	2010 Organic[4] £m	**2010 Total £m**	2009 Total £m
Revenue	1,243.6	**1,330.9**	1,133.5
Gross Margin	230.1	**254.9**	199.5
Gross Margin %	18.5%	**19.2%**	17.6%
Administrative expenses before exceptionals and amortisation	(135.8)	**(151.3)**	(123.6)
Other operating income	-	-	0.5
Adjusted EBITA[1]	94.3	**103.6**	76.4
Return on Sales	7.6%	**7.8%**	6.7%
Exceptional costs		**(19.0)**	-
Amortisation of other intangibles		**(11.7)**	(6.7)
Net finance (expense)/income		**(1.8)**	0.2
Tax charge		**(21.2)**	(18.5)
Profit after tax		**49.9**	51.4
Adjusted basic earnings per share		**23.9p**	19.3p
Net debt[2]		**(200.7)**	73.5
Working capital[3]		**74.2**	36.2
Free cashflow[5]		**36.4**	37.4

Basis of Preparation

The principal risks and uncertainties facing the Group, including those referred to in note 1 to the financial statements, have not changed from those set out in the 2009 Annual Report and Accounts, except for inclusion of the impact of new accounting standards applicable in the period.

Outlook

The growing complexity and inter-dependency of payTV and broadband services, coupled with ongoing demand in current and emerging markets, will drive sustained demand for the Group's products and services. Our position as a leading set-top box technology provider, in addition to our new gateways, services and software businesses, will enable us to pursue profitable opportunities across our markets in 2011 and beyond.

Stuart Hall

Chief Financial Officer

8 March 2011

[1] Adjusted EBITA is operating profit before exceptional costs and amortisation of other intangibles

[2] Net debt is borrowings net of cash and cash equivalents

[3] Working capital is inventories,trade and other receivables net of trade and other payables

[4] Organic business is the Group excluding acquisitions

[5] Free cash flow is set out in note 30 to the financial statements

Report of the Directors

The directors present their report to shareholders on pages 11 to 20 together with the audited financial statements for the year ended 31 December 2010 (“year”) (prior financial period, year ended 31 December 2009).

Principal Activities

The Group’s principal activities are the development, design and distribution of technologies and products for managed subscription television, telephony and broadband services and the provision of engineering design, and software applications to its set-top box and gateway customers. The Group also provides related support services including customer care centres.

Business and Financial Results

The information that fulfils the requirements of the Business Review and Management Report, including a review of the Group’s activities, developments and the financial results for the year, and the key financial performance indicators relevant to the business of the Company (principally revenue, gross margin %, EBITA, profit before tax, return on sales and net debt), can be found in the Chief Executive Officer’s Review and the Chief Financial Officer’s Review on pages 5 to10. The aforementioned information is incorporated in this report by reference. There is no information which falls to be disclosed pursuant to s. 417 (5) of the Companies Act 2006, other than as noted in the risks and uncertainties section below.

Risks and Uncertainties

The following are the key risks and uncertainties relevant to the business of the Group:

Customers and Markets

Orders placed by the Group’s payTV and telecoms customers are typically large one-off orders for delivery over a number of months with supplemental orders for additional volumes. As the eventual deployment of the set-top boxes or gateways can be unpredictable, revenues can be volatile. The difficulty in predicting the Group’s business flow and its risks can be exacerbated by a number of other factors including, for example, the development process for an advanced set-top box, which can take over 12 months. The Group works on long lead times (e.g. 4 months or more) for component supply and manufacture, typical of the industry. In the US market, in particular, customers’ firm order lead times may be less than the component lead times. There are third party delivery risks, for example, difficulties in the delivery of components or software code, and the final order for manufacture and firm contractual commitment is usually dependent on product approvals and acceptance both from the operator and sometimes from third parties. The Group is also exposed to the industry wide inherent risk of supply chain failure. The Group has put in place procedures to monitor the financial and operating strength of key suppliers. In addition, it utilises dual or multi source suppliers where appropriate to mitigate this risk.

Product Liability Claims

In common with many companies in the industry, the Group is exposed to the risk of product liability claims made by customers or affected third parties, should the Group’s products not fulfil the terms of the contracts under which they are sold. The Group has in place quality control and other operational procedures to mitigate this risk.

Credit Risk

The central finance function of the Group obtains reports from third party sources in respect of the credit worthiness of key customers and suppliers and sets individual credit limits as appropriate. A credit insurance policy is maintained, which provides cover over certain debtors, subject to excesses, and the exposure to credit risk is monitored on an ongoing basis. Deposit investments are generally undertaken only in liquid securities and with counterparties that have appropriate credit ratings.

Royalties

The Group's products incorporate third party technology, usually under licence. Inadvertent actions may expose the Group to the risk of infringing third party intellectual property rights. Potential claims can be submitted many years after a product has been deployed.

Regulatory

The Group is subject to a broad range of laws, regulations and standards and remains exposed to changes in the regulatory environment, including potential modifications to import duty regimes, and legislation relevant to the Group's products. It is Pace's policy to require that all its subsidiaries comply with applicable laws, regulations and standards.

Currency Risks

The standard 'industry currency' is the US dollar, with the majority of components and manufacturing capacity purchased in this currency. However, due to part of the Group's revenues being in Sterling and Euros, the Group is exposed to the risk of foreign currency movements. To manage this risk, the Group's treasury policy is progressively to cover cash flows when these are sufficiently certain and to seek price variations through contractual mechanisms where significant currency movements occur.

Financial Results

The consolidated income statement for the year is set out on page 33. The profit before tax was £71.1m (2009: £69.9m) and the profit before tax, interest, exceptional items and amortisation of other intangibles was £103.6 million (2009: £76.4 million).

Dividend

The directors recommend the payment of a final dividend of 1.45p per ordinary share (year ended 31 December 2009: 1.0p) to be paid on 6 July 2011 to shareholders on the register at the close of business on 10 June 2011. An interim dividend of 0.725p per ordinary share was paid during the year (year ended 31 December 2009: 0.5p).

Share Capital

Details of the Company's share capital including changes for the year and the rights attaching to the ordinary shares are contained in Note 20, and are incorporated in this report by reference.

Significant Shareholdings

The Company has been notified of the following significant shareholdings as at 7 March 2011.

	Number of shares	**% of issued share capital**
Prudential plc Group of Companies	20,807,071	6.85
David Hood and related family trusts	16,117,539	5.29
M&G Investment Fund	15,217,153	5.00
BlackRock Inc	15,142,824	4.97
Gartmore Investment Management	14,931,083	4.90
Pace plc Employee Benefits Trust	11,263,524	3.70
Multiflight Ltd	10,000,000	3.28
Legal & General Group plc	9,960,795	3.27

Directors

The names of the current directors of the Company are shown below. All those listed held office throughout the year.

Mike McTighe

Mike was appointed a Non-executive Director in June 2001 and became Chairman on 1 May 2006. His principal other activities are Chairman of Volex Group plc, WYG Group plc, and JJB Sports plc, Senior Independent Director at Betfair plc, and a member of the board of Ofcom/Postcomm. Previously he was Chairman & CEO of Carrier1 International SA, and before that Executive Director & Chief Executive, Global Operations of Cable & Wireless plc. Prior to these roles, Mike spent 5 years with Philips, 5 years with Motorola, and 10 years with GE.

Neil Gaydon

Neil was appointed Chief Executive Officer in April 2006. He was appointed to the Board in June 2002 as Worldwide Sales and Marketing Director. He has been with the Company since 1995 and as President, Pace Americas spearheaded the development of the Company's US business between 1999 and December 2003. Prior to this he was Regional Sales Director EMEA and head of New Business Development and Product Marketing for the Company.

Pat Chapman-Pincher

Pat was appointed a Non-executive Director in February 2005 and became Senior Independent Director in May 2006. She has over 30 years' experience in the communications industry from senior roles in multinational Internet and telecoms companies to participating in technology company start-ups. A founding partner and Chairman of the Cavell Group, which specialises in operational consultancy IP and wireless technologies, she is also a non-executive director of Friends of the Earth, and Groundwork East London. Pat is also a member of the Advisory Board of Bradford School of Management.

John Grant

John was appointed a Non-executive Director on 1 August 2008. John spent his executive career in a variety of senior international roles within the automotive industry and other engineering businesses. He was Chief Executive of Ascot plc between 1997 and 2000. Prior to that, he was Group Finance Director of Lucas Industries plc (subsequently Lucas Varity plc) between 1992 and 1996. He previously held a number of senior positions within Ford Motor Company in Europe and the USA. John is Non-Executive Chairman of Torotrak plc, and Gas Turbine Efficiency plc, and Non-Executive Director of Melrose plc, and MHP S.A.

Stuart Hall

Stuart was appointed Chief Financial Officer and joined the Board in April 2007. Before joining the Company he was Group Finance Director of IQE plc and prior to that Finance Director of Energis Squared Limited and Director of Performance Management for Energis Group plc. He has also been Finance Director at WBF Ltd, part of the Adare Printing Group plc, Carnography plc and Race Electronics. He qualified as a Chartered Accountant with BDO Binder Hamlyn.

Mike Inglis

Mike was appointed a Non-executive Director in July 2008. He is currently Executive Vice President and General Manager of the Processor Division of ARM Holdings having previously been EVP, Sales and Marketing. Before joining ARM, he worked in management consultancy with A.T. Kearney and held a number of senior operational and marketing positions at Motorola. He previously worked in semiconductor sales, marketing, design and consultancy with Texas Instruments, Fairchild and BIS Macintosh and gained his initial industrial experience with GEC Telecommunications. He is a chartered engineer and a Member of the Chartered Institute of Marketing.

David McKinney

David was appointed Chief Operating Officer in April 2006 and joined the Board on 24 October 2006. He has been with the Company since November 2005, having joined as Director of Engineering and Operations with responsibility for operations, engineering, test and quality strategy. Previously David spent ten years in the semiconductor industry including NEC Semiconductors and Digital Equipment Corporation, before moving to and spending over ten years in the telecommunications sector including Motorola and Royal Philips Electronics, where he held senior executive and operational management roles. David is a Graduate of the Royal Society of Chemistry and holds an MBA.

Mike McTighe and John Grant will retire by rotation at the Annual General Meeting of the Company and offer themselves for re-election. The Board has determined that, following performance evaluation, both these non-executive directors continue to make a very effective contribution to the Board and demonstrate a high level of commitment. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are disclosed in the Remuneration Report on page 23.

Payment to Suppliers

It is the policy of the Group to agree terms and conditions for its business transactions with suppliers, which are varied from time to time. Payment is made in accordance with those terms, subject to the other terms and conditions being met by the supplier. The Group does not follow any code or standard on payment practice. Creditor days at the end of the period for the Group were 69 days (31 December 2009: 64 days).

Research and Development

The directors regard it as fundamental to the future success of the Group to engage in a substantial ongoing programme of research and development of new products, spending £80.5 million in the year (2009: £71.7m) and charging £77.4 million (2009: £68.8m) to the income statement during the year following the treatment under IAS38.

Donations

During the period the Group donated £54,352 (2009: £45,000) to charitable causes. No political donations were made. Further details of the charitable and community-related activities of the Group are given on page 18.

Corporate Governance

The directors believe that the Company has complied throughout the period with the Combined Code on Corporate Governance, as revised and adopted by the Financial Reporting Council. The Board confirms that it has established the necessary procedures designed to maintain a sound system of internal control and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

Board of Directors

The Group is controlled through the Board of Directors, which comprises three executive and four non-executive directors who bring a wide range of skills and experience to the Board. Biographical details of all directors are to be found on page 13. The Chairman, Mike McTighe, is mainly responsible for the running of the Board ensuring, together with the Company Secretary, that it receives timely and clear information appropriate to enable it to discharge its duties. The responsibilities of the Chief Executive Officer, Neil Gaydon, focus on running the Group's business and implementing Group strategy. The Chief Executive Officer is assisted in managing the business on a day-to-day basis by the Executive Committee as further described below. All the non-executive directors (other than the Chairman) are deemed by the Board to be independent and the Chairman was independent on his appointment, as required by the Combined Code. In addition, the Board has designated Pat Chapman-Pincher as the Senior Independent Director. All directors have access to the advice and services of the Company Secretary and are able to take independent professional advice at the Company's expense in the furtherance of their duties, if necessary. All directors, in accordance with the Combined Code, submit themselves for re-election at least once every three years. New directors receive a programme of tailored induction on joining the Board and all directors are offered the opportunity to continually update their skills and knowledge by attending external training events. The Company has in place procedures to deal with directors' conflicts of interest and the Board is satisfied that these procedures operate effectively.

The Board has a formal schedule of matters specifically reserved to it and normally meets at least eight times each year. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of the Group and conducts formal strategy reviews together with other senior executives within the Group at least once a year. The Chairman holds meetings with the non-executive directors without the executive directors being present at least twice during the year. It is the policy of the Board to undertake a formal review and evaluation of its performance including the performance of its committees, the Chairman and individual directors on an annual basis. This is generally concluded by written feedback in standardised form from each director to the Chairman or the Senior Independent Director in the case of appraisal of the Chairman. The Board intends to instruct an independent facilitator for the evaluation process at least once every three years and last did so in 2009.

Board Committees

The Board has established the following committees, each of which has written terms of reference specifying its authority and duties and copies of which are publicly available on the Company's website: www.pace.com.

The Audit Committee is comprised of independent designated non-executive directors, Pat Chapman-Pincher, Mike Inglis and John Grant, who is the Chairman of the Committee. The Committee has primary responsibility for making recommendations on the appointment, reappointment or removal of the auditors and reviewing their independence. It receives and reviews reports from management and from the auditors (including internal auditors) relating to the interim and annual accounts and the control systems in use throughout the Group. Meetings are held by the Committee with the auditors without executive management being present at least once a year and the Committee reviews arrangements by which staff may, in confidence, raise concerns about possible improprieties, including review of the Group whistleblowing policy.

The Executive Committee is chaired by Neil Gaydon as Chief Executive Officer. The Committee generally meets once a month and ensures that the strategy, plans and policies previously agreed or delegated by the Board are implemented.

The Executive Committee comprises the three executive directors together with the following senior executives:

Anthony Dixon	General Counsel
Jill Ezard	Director of Human Resources
Mathias Hautefort	President, Pace Europe
Helen Kettleborough	Director of Communications
Michael Pulli	President, Pace Americas
Scott Sheldon	Chief Strategy Officer
Mark Loughran	President, Pace Enterprise

The Remuneration Committee is comprised of Mike McTighe and independent designated non-executive directors John Grant and Pat Chapman-Pincher, who is the Chairman of the Committee. The Committee is responsible for setting the remuneration of the executive directors and other members of the Executive Committee including making recommendations regarding the grant of share incentive awards. The members of the Committee have no personal interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the business.

The Nominations Committee is comprised of non-executive directors Pat Chapman-Pincher, John Grant, Mike Inglis and is chaired by Mike McTighe. Its principal purpose is to consider and make recommendations to the Board regarding the appointment of new directors.

Board and Committee Meetings attendance

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Total Meetings	9	3	3	1
Pat Chapman-Pincher	9	3	3	1
Neil Gaydon	9	–	–	–
John Grant	8	3	3	1
Stuart Hall	9	–	–	–
Mike Inglis	9	2	–	–
David McKinney	8	–	–	–
Mike McTighe	9	–	3	1

Directors' Remuneration

The Remuneration Committee reviews the performance of the executive directors and other members of the Executive Committee as a prelude to recommending their annual remuneration, bonus awards and award of share options to the Board. The final determinations are made by the Board as a whole but no director plays a part in any discussions concerning their own remuneration. There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs as a result of a takeover bid.

The Remuneration Report of the Directors to shareholders is set out on pages 21 to 28 and includes the remuneration policy of the Company and details of directors' incentive payments and the related performance criteria.

Authority to Purchase Own Shares

At the Annual General Meeting in 2010 the Company was authorised by shareholders to purchase up to 45,673,000 of its own ordinary shares, representing 15 per cent of its issued share capital as at March 2010. The Company did not utilise this authority during the year. The authority for the Company to purchase its own shares expires at the conclusion of the Annual General Meeting in 2011 and a resolution to renew it will be proposed at that meeting.

Accountability and Audit

A detailed review of the performance of the Group's business is contained in the Chief Executive Officer's Review and the Chief Financial Officer's Review. These statements, together with the Letter from the Chairman and the Report of the Directors, are intended to present a balanced assessment of the Group's position and prospects. The directors' responsibility for the financial statements is described on page 29 and the responsibilities of the auditors are described on page 30.

Internal Controls

Overall responsibility for the Group's system of internal control rests with the Board. The Board has delegated certain of its powers to the Audit Committee to review the effectiveness of the systems of control and to receive reports from the auditors (internal and external) and from the management relating to the interim and annual accounts and the control systems in use throughout the Group.

During the year and up to the date of this report, the Board carried out reviews of the effectiveness of the Group's internal controls. The reviews were undertaken in accordance with the Financial Reporting Council's guidance under the following headings and were aimed at clearly identifying the systems already in place and the action plans necessary to improve areas of control weakness.

The Control Environment

Subject to those powers and limits of authority reserved by the Board, and to the Group policies and guidelines they have established, the conduct of the business of the Group is delegated within a clearly defined organizational structure and approved level of authority. The Board has also adopted a Code of Business Ethics, which has been incorporated into the Employee Handbook issued to all employees.

Risk Assessment

The directors and senior managers are responsible for identifying and monitoring sources of potential business risk and financial risk, and for taking such preventative and protective actions as they consider necessary to manage such risks effectively. During the year a risk assessment review of the Group's business has been conducted by the Head of Risk Assurance and BDO Stoy Hayward acting as internal auditors in conjunction with members of the Executive Committee. The Board has received and considered this review as part of an annual risk and control assessment.

The Group's systems are designed to identify and manage, rather than eliminate, significant business risks, including the risk of failure to achieve business objectives but can only provide reasonable not absolute assurance against material misstatement or loss. Business risks are identified, evaluated and managed through functional line management reporting to divisional meetings, Executive Committee meetings and Board meetings as appropriate. Each member of the Executive Committee is required to highlight and report on any significant business risks identified within their sphere of responsibility.

The key business risks associated with the timely completion of long-term development projects and ongoing business risks, including alleged infringement of third party intellectual property rights, are managed by cross-functional teams of senior employees. Business continuity plans addressing physical risks to the Group's development sites are maintained. The Group has adopted Customer Account Teams grouped within Strategic Business Units (SBUs) so as to focus the business on customer needs. The senior managers within the Customer Account Teams also monitor the financial and business risks, including competitor risks, associated with the delivery of agreed plans, reviewing such matters at Business Review Meetings held on a regular basis and attended by members of the Executive Committee.

Financial Control and Information Systems

The Group's strategic direction is reviewed regularly by the Board and plans, budgets and performance targets are reviewed and approved at least annually. Directors receive monthly summaries of financial results which compare actual performance with targets, together with detailed management reports that identify the reasons for variances and the progress achieved. Business planning documents are revised on a regular basis in line with actual and expected performance. A review of the consolidated financial statements is completed by the centralised Group Finance Function to ensure that the financial position and results of the Group are appropriately reflected in the consolidated accounts.

Control Procedures

Financial control procedures have been developed for all of the main business functions and in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated accounts, and have been documented in a procedures manual. Authorisation limits for purchases and capital expenditure are specified and procedures are in place for minimising exposure to potential weaknesses in the receipt, handling and despatch of goods. The Group's main premises have received accreditation for BSI ISO 9001: 2000.

Monitoring Systems

Monitoring of the internal control systems is carried out by the centralised Group Finance Function.

The Audit Committee considers annually whether there is a need to appoint a dedicated internal auditor and during the year the Committee re-appointed BDO Stoy Hayward to act as internal auditors, performing an agreed programme of internal audits in collaboration with the Company's Head of Risk Assurance and management. BDO Stoy Hayward attended and presented their reports to each of the Audit Committee meetings during the year.

The Audit Committee also reviews external auditor objectivity and independence and has adopted a formal policy regarding the basis on which the auditors may be appointed to perform non-audit services.

Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurance that transactions are authorised and completely and accurately recorded, that assets are safeguarded and that material errors, irregularities and actions contrary to Group policies and directions are either prevented or promptly discovered.

Going Concern

The Group has borrowing facilities, to a maximum of $450m, in place until March 2014. These are in the form of a $300m term loan, repayable via 6 instalments of $37.5m each due every six months, plus a final bullet payment of $75m, and a $150m revolver credit facility. These facilities are subject to financial performance covenants which the Group currently complies with.

The Board's assessment of the Group and Company's ability to continue as a going concern has taken into account the effect of the current economic climate, current market position and the new borrowings in the year. The principal risks that the Group is challenged with have been set out in the Risks and Uncertainties section of this report along with how the Directors intend to mitigate those risks.

The Board has prepared a financial and working capital forecast upon trading assumptions and other medium term plans and has concluded that the Group will continue to meet its financial performance covenants and will have adequate working capital available to continue in operational existence for the foreseeable future.

Corporate Social Responsibility

Employment Policies

The directors recognise the importance of the Group's employees to its success and future development and are committed to providing an environment that will attract, motivate and reward high quality employees. The Group continues to invest in a range of internal and external initiatives to promote employee development.

Employees are kept informed of matters affecting them as employees and factors affecting the performance of the Group through regular employee meetings/briefings and a Company newsletter, "Pacesetter". In the UK, meetings of the Employee Partnership, an elected forum for the discussion of work related issues, are held with members of the Executive Committee at least four times per year.

The Group welcomes applications for employment from all sectors of the community and promotes equality of opportunity in employment regardless of age, sex, sexual orientation, disability or ethnic origin. It is the Group's policy that training, career development and promotion opportunities should be available to all employees. In the event that an employee becomes disabled, the Group makes reasonable adjustments where any aspect of premises or working practices puts such a disabled employee at a substantial disadvantage compared with a non-disabled employee.

Health and Safety

Each strategic business unit in the Group has an established Health and Safety Committee made up of health and safety representatives, the designated health and safety officer and other persons with expert knowledge who review health and safety issues relevant to the Group's business. Other safety-related committees also conduct periodic reviews of specific work practices. These actions complement the UK Government's "Health, Work, Wellbeing" (HWW) initiative which has been adopted and implemented by the Company.

Part of the HWW incorporates return to work programmes and the Group's operations in Saltaire and Americas West and Americas East have adopted similar policies. Each division incorporates, where appropriate, their ergonomic risk assessments. The Group's businesses in India, the UK, Americas West and Americas East provide training for First Aid, Fire Evacuation and Fire Wardens. Americas West undertakes earthquake training and Americas East undertakes hurricane training. All of these initiatives are backed up by appropriate risk assessments. "Tool-box talks", short presentations on specific aspects of health and safety, are also published on the Group's intranet and shared between different parts of the Group.

The number of workplace accidents during the year for Saltaire was 14. Outside the UK, there were 3 accidents in each of the Americas West and Americas East operations and 2 in India. None of these accidents was regarded by the relevant local health and Safety Committee as serious. A report concerning health and safety aspects of the Group's business and copies of specific Group safety policy documents can be obtained from the Company Secretary.

Charitable and Community Support

The Group has an established Charitable Donations Committee comprising employees based at the Group's premises in the UK, the USA and France. The committee, which meets once a month, considers all requests for charitable and community project assistance within a financial budget and criteria approved by the Board on an annual basis.

The Group's support through the committee is focused on the local geographical area of Pace's premises in Saltaire, Paris, Bangalore and Boca Raton in Florida, as well as the charitable and community initiatives of Group employees. The corporate charity policy focus is to support local charities of benefit to the local area and people living close to each Group site.

During the year, a number of requests for support were considered by the committee, of which 99 satisfied the criteria and received financial support amounting to £48,352 in total. The participation of employees of the Group in community and charitable activities outside work hours has been encouraged by the provision of funds to match individual sponsorship raised. Donations amounting to £6,000 were made to charities local to Saltaire under the CEO's discretion.

In addition, during the year the Board approved a proposal for Pace to become lead sponsor of the Leeds Ahead education strand of business engagement in the UK's West Yorkshire region over a two year period. As part of this sponsorship the Company has contributed an interactive profile in the technology section of the "u-explore" national schools careers/learning process.

Environmental Management

During the year the Company set environmental targets and achieved the following outcomes in respect of its chosen measures of environmental impact:

Activity/Impact	Objective	Target	Status	Comment
Product	Continue to drive the environmental performance of our STBs ensuring all exceed minimum standards	All new products to exceed current best practice standards by achieving a minimum score of 80% using the Pace 'Design for Environment' scorecard	Target achieved	
Product	Drive innovation on the reduction of the environmental impact of Pace products	Define and develop the Pace internal Policy for minimum STB total energy consumption (TEC) which goes beyond current external best practice	Work in progress	
Product	Drive the reduction of the waste generated during the lifecycle of STBs	All materials used in the packaging of Pace products will be 100% recyclable and 60% of all materials used in packaging to be sourced from recycled materials	Target achieved	
Site Operations	Continue to drive reduction of CO_2 emissions across all sites (Scope 1 and 2 Elec, Gas and Oil)	Where no refurbishments are being done seek to reduce the CO_2 emissions by 10%. Otherwise do not exceed 2009 emissions.	Not achieved	Overall reduction in scope 1 and 2 carbon intensity of 9.38%
Site Operations	Reduce scope 3 (indirect) emissions	Reduce SBU scope 3 emissions by reducing flight emissions by 10%	Target achieved	Overall reduction in scope 3 carbon intensity of 15%
Supply Chain	Drive a reduction of the environmental impact of Pace's supply chain	Develop a supply chain environmental improvement strategy focusing on reducing the environmental impact of our supply chain	Target achieved	
Supply Chain	Develop supplier awareness of Pace's environmental activities	Develop a supplier engagement strategy focusing on building supplier awareness of our environmental activities	Target achieved	
Supply Chain	Engage our suppliers on our environmental activities ultimately delivering a measured STB carbon footprint	Measure the carbon footprint of a Pace STB	Target achieved	

The Company has maintained certification to the international management standard ISO 14001 at its Saltaire, Florida and Bangalore sites and for the first time achieved certification at the Paris site. The Group Environmental Policy has been applied to all Pace sites worldwide.

The Company is a signatory to the European Code of Conduct on Energy Efficiency of Digital TV Service Systems (EU Code of Conduct), ENERGY STAR Program Requirements for Set-top Boxes and MEPS (Minimum Energy Performance Standard). Pace is committed to ensure that all products are designed to minimise energy consumption through its 'Design for Environment' programme.

The Company continues to monitor the environmental impacts of all its activities, details of which are available from the Company Secretary or the Company's website.

Auditors

KPMG Audit Plc held office as auditors during the year. A resolution for the re-appointment of KPMG Audit Plc will be proposed at the forthcoming Annual General Meeting.

The Audit Committee reviews the independence and objectivity of the auditors, considering whether, taken as a whole, the various relationships (if any) between the Group and the auditors impair, or appear to impair, the auditors' judgement or independence. The Committee was satisfied throughout the year that the objectivity and independence of KPMG Audit Plc was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of the non-audit fees charged or any other fact or circumstances. Having considered the results of the Committee's work, the Board is recommending the re-appointment of KPMG Audit Plc as auditors.

Each of the directors who held office at the date of approval of this Report of the Directors confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and the directors have each taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Relations with Shareholders

The Board has continued to establish and maintain relationships with institutional shareholders and communicates with investors through the Group's web site (www.pace.com). A programme of meetings with institutional shareholders is in place (at which institutional shareholders are offered the opportunity to meet with non-executive directors) and analyst presentations are made following announcement of the interim and annual results. Shareholders are welcome to participate at the Annual General Meeting at which the Board will be available for questions.

Annual General Meeting

The Annual General Meeting of the Company will be held on 12 May 2011 at the offices of the Company at Salts Mill, Victoria Road, Saltaire, West Yorkshire, BD18 3LF. Full details of the business to be transacted at the meeting will be set out in the Notice of Annual General Meeting.

Responsibility Statement of the Directors

A statement of the responsibilities of the directors is contained on page 29. The directors whose names appear on pages 13 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

By order of the Board

Anthony J Dixon

Company Secretary

8 March 2011

Directors'
Remuneration Report

The directors present their report to shareholders on pages 21 to 28 regarding remuneration matters in respect of the year ended 31 December 2010.

Remuneration Committee

The Remuneration Committee (the Committee) is responsible for setting the individual remuneration of the executive directors and other members of the Executive Committee within the framework of the remuneration policy described below, which is set by the Board.

The Directors who were members of the Committee during the year were Pat Chapman-Pincher (Chairman of the Committee), Mike McTighe and John Grant. For guidance, the Committee makes use of surveys of executive pay and knowledge of market rates. The CEO and Director of HR also attended Remuneration Committee meetings during the year by invitation and provided advice to the Committee to enable it to reach informed decisions. No director was present when their remuneration was being discussed. The Committee was assisted in its consideration of remuneration matters by Kepler Associates who were appointed by the Committee. Kepler Associates provided no other services to the Group in the year. Pinsent Masons, legal advisers to the Company, also advised the Committee regarding certain equity incentive related issues.

Remuneration Policy

The Board believes that it is necessary to ensure that the remuneration packages of the executive directors remain competitive in order to attract, retain and motivate executive directors and senior managers of a high calibre and to reward them for performance. The policy is for a significant proportion of executive directors' total remuneration to be capable of being earned from variable, performance-based incentives, through annual bonuses and share based incentives. The objective of this policy is to provide rewards and incentives that reflect corporate and individual performance and align management's objectives directly with those of the Shareholders. More than half of an executive director's remuneration is variable and is linked to corporate performance.

The Board's policy in relation to non-executive directors continues to be to pay fees that are competitive with the fees paid by comparable quoted companies. Non-executive directors' fees are determined by the Board as a whole within the limits set out in the Company's Articles of Association. Non-executive directors are not eligible for performance bonuses or pension contributions and do not participate in the equity incentive plans. Non-executive remuneration is generally reviewed annually.

Salary

Basic salary for each executive director is determined by the Committee, taking into account the performance of the individual and information from independent sources on external market salary levels for comparable jobs with a view to salaries being set around the median to upper quartile level for comparable companies. In setting senior executives' salaries, the Committee also takes into account pay and employment conditions in the Group as a whole. Salary is generally reviewed at the commencement of each financial year. The Committee sought advice from remuneration consultants with regard to the salary review which took place in January 2011 and took into account the significantly increased turnover and international scale of the Group. As a result of this review the annual salaries of the executive directors for 2011 were revised as follows: Neil Gaydon £500,000; Stuart Hall £325,000; David McKinney £315,000.

Performance Bonus

The Company established a non-pensionable performance-related bonus plan for the executive directors and other key members of management for the year, which was based on the successful achievement of corporate and individual objectives. The corporate objectives were linked to the key drivers of value creation for shareholders and the key measure therefore was the profitability of the Group for the full financial year. Achievement of the 2010 bonus was dependent on the Group's pre-tax profits (before certain exceptional items) exceeding £80 million with the capacity to earn additional bonus increments upon achievement of higher profit targets up to a ceiling of £90 million. In addition, a number of individual personal objectives were set for each director and manager, which were aligned with the objectives of the Group for the year. The maximum bonus achievable by the executive directors in the event that all corporate and individual targets were met was 150% of basic annual salary with one third of any bonus outcome achieved being deferred into shares in the Company for a period of two years under the Group Deferred Share Bonus Plan. The Committee retained a discretion to reduce the bonus otherwise payable by up to 20% based on their assessment of the management of the Company's cash position during the year. The Committee, having regard to the performance during the period, determined to award maximum bonus to each of the executive directors under the 2010 annual performance bonus.

In addition, since 2009 the Committee has offered members of the Executive Committee (including executive directors) the opportunity to earn an "exceptional" bonus of up to 100% of annual salary, at the discretion of the

Committee, payable in deferred shares and only in the event of exceptional Group and individual performance. The Committee intended that such bonus would be earned only for performance significantly in excess of that already rewarded through the annual bonus. The Committee determined not to award any such exceptional bonus to members of the Executive Committee in respect of 2010.

In respect of the 2011 financial year, the Committee has reviewed the executive bonus structure with its remuneration advisers. The outcome of this review is a revised bonus structure with the following key features:-

- the core of the current structure is to be maintained. Targets will continue to be based primarily on the achievement of Group pre-tax profits targets with additional individual objectives aligned to Group strategy. The Committee will retain a power to reduce bonus outcomes by 20% based on management of the Company's cash position;
- however, to improve transparency in respect of the current discretionary "exceptional" bonus opportunity, this feature will be replaced by specific additional performance objectives that, if achieved, can deliver additional bonus outcomes. Achievement of the additional objectives can boost normal bonus outcomes achieved under the Group pre-tax profit targets and individual objectives described above by up to two-thirds (0.66), but only if a positive bonus outcome is first achieved under the normal Group pre-tax profits targets and individual objectives;
- potential maximum bonus outcomes will be capped at 225% of base salary (reduced from 150% of base salary plus 100% exceptional bonus potential);
- the present pattern for deferral of bonuses will be maintained, with one-third of all bonus outcomes achieved up to 150% of base salary deferred into shares for two years, with deferral also applying on these terms to any bonus outcomes achieved between 150% and 225% of base salary.

Benefits in Kind

Each executive director is entitled to benefits such as the provision of a fully expensed company car plus fuel (or cash alternative), private medical insurance, permanent health insurance, life insurance and where applicable relocation assistance.

Pension Contributions

In the year ending 31 December 2010, contributions were paid into the executive directors' pension schemes at rates determined by the Board. Contributions have continued to be paid during the current year at the rate of 15% of each director's basic salary. The Group does not operate any defined benefit schemes.

Performance Share Plans

Following the approval of shareholders at the 2009 AGM, a new Performance Share Plan ("PSP") was introduced, with all Group employees (including executive directors) eligible to participate. Under the PSP, employees receive a conditional right to receive shares for no cost, which will normally vest after 3 years subject to continued employment and the achievement of stretching performance conditions.

PSP awards will vest subject to the achievement of 3-year targets based on cumulative profit before tax ("PBT") for the Group. During the year awards made to all employees across the Group including executive directors were based on 3-year Group PBT. The cumulative Group PBT targets that apply to the awards made in 2010 are set out in Note 4 to the directors' share options table on page 27.

The Company's policy is that PSP awards will generally be satisfied using shares purchased in the market via the Pace Employee benefits share trust. During the year the executive directors received PSP awards over shares worth 100% of their basic salary.

Cumulative PBT targets are proposed for 2011 also, with a range of £335 million (25% vesting) up to £440 million (full vesting). For these purposes Group PBT will be adjusted to exclude the amortisation of other intangibles, exceptional items and other items that the Committee determines to be appropriate to ensure it reflects underlying long-term performance. These PBT target figures will be re-stated in the 2011 Report and Accounts to reflect the switch to US dollar reporting. The continued use of PBT targets for 2011 PSP awards is considered to be appropriate as it aligns the focus of Pace senior executives on a key measure of financial performance which is highly visible internally and externally and which is regularly monitored and reported.

Following the General Meeting of the Company held on 18 October 2010 shareholders approved the adoption of a new performance share plan, the International Performance Share Plan ("IPSP"). The IPSP follows closely the terms of the PSP; however executive directors may not participate.

Share Option Plans

At present, the executive directors may participate in two share option plans:

- a standard HMRC approved all-employee sharesave plan;
- the Company's 2005 discretionary share option plans (HMRC Approved and Unapproved plans).

In 2010, executive directors were granted sharesave options and also received option grants under the 2005 discretionary share option plans. Details of the performance conditions applying to all outstanding share options held by the executive directors, including options granted in 2010, are set out in the footnotes to the directors' share options table on page 27.

The maximum award of options to any employee pursuant to the HMRC Approved plan is £30,000. The maximum award of options under the Unapproved plan to any employee in each year is 200% of salary or, in exceptional circumstances, as determined by the Committee, 400% of salary. Option awards are targeted at the Company's most senior executives and are based on a fixed number of options related to an individual's performance contribution (subject always to the discretion of the Committee to utilise other award criteria in exceptional circumstances). Option awards vest subject to real EPS growth (as noted on page 27). The Committee believes EPS targets to be appropriate to enhance alignment of the senior executives with shareholder interests whilst still maintaining focus on profitability.

Minimum Shareholding

Following the review of the Group's remuneration policies completed in February 2009 the Committee introduced individual shareholding target requirements for members of the Executive Committee (including executive directors) with a requirement (subject to a discretion of the Committee) for such executives to retain a portion of any net awards (ie after tax and exercise cost) of newly vested share-based incentives until the target shareholding level is reached.

Service Contracts

Company policy is that in normal circumstances executive directors' notice periods should not exceed 1 year. Each of the executive directors has a service contract with the Company. Each of these agreements is terminable by the Company on 12 months' prior written notice or by the relevant director on not less than 6 months' prior written notice. At the option of the Company, each agreement may be terminated forthwith subject to the Company paying a sum equivalent to 12 months' salary, benefits and pension contributions. The Remuneration Committee considers that compensation payments on termination of employment should depend on individual circumstances.

It is the Company's policy to honour its obligations with regard to directors' service agreements and where the employment of a director is terminated in accordance with the aforementioned contractual process the Company will pay the sum specified in the relevant service agreement as payable or otherwise pay fair and reasonable compensation.

The service agreement of Neil Gaydon was entered into on 4 May 2006 and was most recently amended on 26 January 2011. The service agreement of David McKinney was entered into on 14 November 2005 and was most recently amended on 26 January 2011. The service agreement of Stuart Hall became effective on 2 April 2007 and was most recently amended on 26 January 2011. Save for the notice periods referred to in the above paragraph, these contracts have no unexpired term.

Each of the non-executive directors is appointed under a letter of appointment which is terminable at any time by the Company without contractual notice. Each of the directors (and certain officers of subsidiaries of the Company) has a letter of indemnity issued by the Company which provides an indemnity in respect of liabilities incurred in the course of their office to the extent permitted by the Company's Articles of Association and the provisions of the Companies Act.

Copies of the service contracts of the executive directors and the letters of appointment of the non-executive directors, together with the letters of indemnity referred to above, are available for inspection during normal business hours (Saturdays, Sundays and Bank Holidays excepted) at the registered office of the Company.

The Company maintains directors' and officers' liability insurance in respect of senior employees and officers of the Group including the directors. The consent of the Board is required in the event that an executive director wishes to accept an external appointment. It has been the practice of the Company to permit a director to retain non-executive fees arising from any such appointment but during the year none of the current executive directors held such external appointments.

The auditors are required to report on the information disclosed below and on pages 25 to 26.

Directors' Remuneration

Total directors' remuneration in respect of qualifying services for the year ended 31 December 2010 was as follows:

	2010	2009
	£000	£000
Fees	**301**	234
Salaries, benefits in kind and termination payments	**1,098**	943
Performance-related bonuses	**1,050**	890
Pension contributions	**191**	188
	2,640	2,255

The remuneration of individual directors in respect of qualifying services for the year ended 31 December 2010 is set out in the table below:

	Salaries and fees	**Performance bonus***	**Benefits in kind**	**Total remuneration**		**Pension contributions**	
				2010	2009	**2010**	2009
Executive Directors	**£000**	**£000**	**£000**	**£000**	£000	**£000**	£000
Neil Gaydon	478	460	–	938	818	110	114
David McKinney	305	290	–	595	495	43	36
Stuart Hall	315	300	–	615	520	38	38
	1,098	1,050	–	2,148	1,833	191	188
Non-executive Directors							
Mike McTighe	159	–	–	159	125	–	–
Pat Chapman-Pincher	50	–	–	50	38	–	–
John Grant	50	–	–	50	38	–	–
Mike Inglis	42	–	–	42	33	–	–
	1,399	**1,050**	**–**	**2,449**	2,067	**191**	188

* Figures relate to the cash element of annual performance related bonus. The following additional amounts were awarded to executive directors under the terms of the annual performance related bonus plan but will be deferred into shares in the Company for a period of two years under the terms of the Group Deferred Share Bonus Plan and normally be subject to forfeiture if the director leaves the Company during this period. Neil Gaydon: £230,000; David McKinney: £145,000; and Stuart Hall: £150,000.

Directors' Interests in Shares and Share Options

The interests of directors holding office at the year-end, and those of their immediate families, in the ordinary share capital of the Company at 31 December 2010 and at the beginning of the period are set out below:

	31 December 2010 Shares			1 January 2010 Shares		
	Beneficial	**Non Beneficial**	**Under option**	Beneficial	Non Beneficial	Under option
Pat Chapman-Pincher	**15,551**	**–**	**–**	15,000	–	–
John Grant	**25,000**	**–**	**–**	–	–	–
Mike Inglis	**20,000**	**–**	**–**	20,000	–	–
Neil Gaydon	**52,483**	**–**	**2,955,007**	51,466	–	1,323,551
Stuart Hall	**12,739**	**–**	**2,242,388**	12,739	–	1,511,016
David McKinney	**38,159**	**–**	**1,640,523**	38,159	–	922,069
Mike McTighe	**50,000**	**–**	**–**	50,000	–	–

There were no changes in the directors' interests in the ordinary share capital of the Company between 31 December 2010 and 7 March 2011.

Directors' Share Options

Details of the options and/or contingent awards over the ordinary shares of 5p each in the Company held by the directors who held office during the year were as follows:

	Notes	At 31 Dec 2009	Number of options Granted	Exercised	Lapsed	At 31 Dec 2010	Exercise Price	Vesting Period From	To
Neil Gaydon									
2000 Unapproved Scheme	1	20,000	–	–	–	20,000	51.0p	17.08.05	16.08.14
2005 Approved Plan		–	16,977	–	–	16,977	176.7p	08.03.13	07.03.20
2005 Unapproved Plan	3	467,836	–	–	–	467,836	85.5p	24.06.11	23.06.18
2005 Unapproved Plan	3	350,000	–	–	–	350,000	75.0p	11.03.12	10.03.19
2005 Unapproved Plan	3	–	333,023	–	–	333,023	176.7p	08.03.13	07.03.20
2005 Unapproved Plan	3	–	684,342	–	–	684,342	178.5p	11.03.13	10.03.20
Deferred Share Bonus		243,407	–	–	–	243,407	0.0p	27.02.11	26.08.11
Deferred Share Bonus		–	325,320	–	–	325,320	0.0p	26.02.11	25.02.20
Performance Share Plan	4	235,294	–	–	–	235,294	0.0p	05.05.12	05.05.12
Performance Share Plan	4	–	268,848	–	–	268,848	0.0p	08.03.12	07.03.20
Sharesave Plan		7,014	–	–	–	7,014	67.0p	01.10.11	30.03.12
Sharesave Plan		–	2,946	–	–	2,946	154.0p	01.10.13	31.03.14
David McKinney									
2005 Approved Plan		–	16,977	–	–	16,977	176.7p	08.03.13	07.03.20
2005 Unapproved Plan	3	280,701	–	–	–	280,701	85.5p	24.06.11	23.06.18
2005 Unapproved Plan	3	350,000	–	–	–	350,000	75.0p	11.03.12	10.03.19
2005 Unapproved Plan	3	–	333,023	–	–	333,023	176.7p	08.03.13	07.03.20
Deferred Share Bonus		146,044	–	–	–	146,044	0.0p	27.02.11	26.08.11
Deferred Share Bonus		–	195,192	–	–	195,192	0.0p	26.02.12	25.02.20
Performance Share Plan	4	141,176	–	–	–	141,176	0.0p	05.05.12	05.05.12
Performance Share Plan	4	–	169,491	–	–	169,491	0.0p	08.03.13	07.03.20
Sharesave Plan		4,148	–	–	–	4,148	82.0p	01.10.10	31.03.11
Sharesave Plan		–	3,771	–	–	3,771	154.0p	01.10.13	31.03.14
Stuart Hall									
2005 Approved Plan	2	40,955	–	–	–	40,955	73.25p	03.04.10	02.04.17
2005 Unapproved Plan	2	505,120	–	–	–	505,120	73.25p	03.04.10	02.04.17
2005 Unapproved Plan	3	298,245	–	–	–	298,245	85.5p	24.06.11	23.06.18
2005 Unapproved Plan	3	350,000	–	–	–	350,000	75.0p	11.03.12	10.03.19
2005 Unapproved Plan	3	–	350,000	–	–	350,000	176.7p	08.03.13	07.03.20
Deferred Share Bonus		155,172	–	–	–	155,172	0.0p	27.02.11	26.08.11
Deferred Share Bonus		–	206,036	–	–	206,036	0.0p	26.02.12	25.02.20
Performance Share Plan	4	150,000	–	–	–	150,000	0.0p	05.05.12	05.05.12
Performance Share Plan	4	–	175,336	–	–	175,336	0.0p	08.03.13	07.03.20
Sharesave Plan		11,524	–	–	–	11,524	82.0p	01.10.10	31.03.11

Notes: Performance Conditions

1 Under the 2000 Unapproved Scheme performance conditions of 6% per annum compound above RPI were applied to the grant of options.

2 Options subject to performance conditions based on growth in the pre-tax profits of the Group ("PBT") over a period of three financial years with 25% of options vesting at £6.9 million PBT in the third financial year and 100% of options vesting at £17.2 million PBT in the third financial year, with vesting on a sliding scale between these two target thresholds.

3 Options granted in FY 2008 are subject to performance conditions based on cumulative growth in EPS requiring a minimum growth in EPS of 4% per annum above inflation over a three-year period at which level there is 25% vesting. Cumulative growth of 8% per annum above inflation is required for 100% vesting. Options granted in FY 2009 and FY 2010 are subject to performance conditions based on similar cumulative EPS growth but with increased EPS growth required for maximum vesting from RPI + 8% to RPI + 15% per annum. In order to assess whether the performance conditions have been met, the Committee will utilize the earnings figures derived from the audited financial statements of the Group adjusted to exclude exceptional or other items that the Committee determines appropriate to ensure they reflect underlying long term performance.

4 PSP awards will vest subject to the achievement of 3-year targets based on cumulative PBT for the Group.

Cumulative PBT over 3 years		% of total award shares vesting
2009 awards	2010 awards	
£145 million	£285 million	100%
Between £85 million and £145 million	Between £255 million and £285 million	Between 25% and 100% pro rata
£85 million	£255 million	25%
Less than £85 million	Less than £255 million	Nil

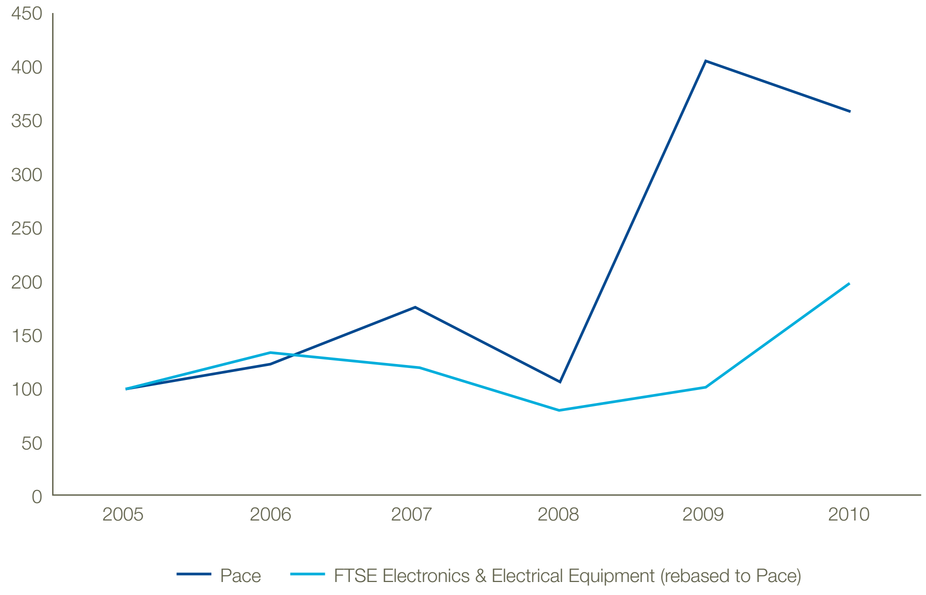
The mid-market price of shares in the Company on 31 December 2010 was 182.7p. The lowest and highest closing mid-market prices of shares in the Company during the year were 148.6p and 215.5p respectively.

Employee Benefits Trusts

The Company has established the Pace plc Employee Benefits Trust, which is capable of acquiring shares in the Company in the market and using them for the purposes of satisfying new awards granted under the Company's Share Option Plans, the Deferred Share Bonus Plan and the Performance Share Plans. During the year the Trust acquired 1.6 million shares in the Company at a cost of £3.4 million.

Performance Graph

Set out below is a performance graph showing the total shareholder return of the Company for the 5 financial years ended 31 December 2010 compared to the total shareholder return of the FTSE Electronics and Electrical Equipment sector index which is considered by the Board to be an appropriate benchmark index against which to compare the Company's performance having regard to the principal activities of the Group.



By order of the Board

Anthony J Dixon

Company Secretary

8 March 2011

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgments and estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

Independent Auditors' Report

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the members of Pace plc

We have audited the financial statements of Pace plc for the year ended 31 December 2010 set out on pages 33 to 73. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 17, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on Directors' remuneration.

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

8 March 2011

Financial Statements
Contents

Consolidated Income Statement

For the year ended 31 December 2010

	Note	**2010 £m**	2009 £m
Revenue	3	**1,330.9**	1,133.5
Cost of sales		**(1,076.0)**	(934.0)
Gross profit		**254.9**	199.5
Administrative expenses:			
Research and Development expenditure		**(77.4)**	(68.8)
Other administrative expenses:			
Before exceptional costs		**(73.9)**	(54.8)
Exceptional costs	5	**(19.0)**	-
Amortisation of other intangibles	11	**(11.7)**	(6.7)
Total Administrative expenses		**(182.0)**	(130.3)
Other operating income		**-**	0.5
Operating profit		**72.9**	69.7
Financial income – interest receivable	6	**0.8**	0.3
Financial expenses – interest payable	6	**(2.6)**	(0.1)
Profit before tax		**71.1**	69.9
Tax charge	8	**(21.2)**	(18.5)
Profit after tax		**49.9**	51.4
Attributable to:			
Equity holders of the Company		**49.9**	51.4
Earnings per ordinary share:			
Basic	9	**17.0p**	17.7p
Diluted earnings	9	**16.1p**	17.2p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 £m	2009 £m
Profit for the period	**49.9**	**51.4**
Other comprehensive income:		
Exchange differences on translating foreign operations	2.1	(9.5)
Net change in fair value of cash flow hedges transferred to profit or loss gross of tax	(12.5)	(12.5)
Deferred tax adjustment on above	4.0	3.7
Effective portion of changes in fair value of cash flow hedges gross of tax	9.1	19.6
Deferred tax adjustment on above	(3.0)	(5.3)
Other comprehensive income for the period, net of tax	**(0.3)**	**(4.0)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**49.6**	**47.4**
Total comprehensive income attributable to:		
Equity holders of the Company	**49.6**	**47.4**

Consolidated Balance Sheet

At 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Non-Current Assets			
Property, plant and equipment	11	**34.0**	19.6
Intangible assets – goodwill	11	**218.3**	70.4
Intangible assets – other intangibles	11	**176.6**	14.0
Intangible assets – development expenditure	11	**28.8**	28.7
Deferred tax assets	13	**45.1**	6.4
Total Non-Current Assets		**502.8**	139.1
Current Assets			
Inventories	14	**143.7**	87.1
Trade and other receivables	15	**279.9**	211.7
Cash and cash equivalents		**84.8**	73.5
Current tax assets		**1.2**	2.6
Total Current Assets		**509.6**	374.9
Total Assets		**1,012.4**	514.0
Equity			
Issued capital	20	**15.2**	15.2
Share premium	21	**40.1**	39.4
Merger reserve	22	**55.5**	55.5
Hedging reserve		**(0.7)**	1.7
Translation reserve		**5.6**	3.5
Retained earnings	23	**126.9**	81.0
Total Equity		**242.6**	196.3
Liabilities			
Non-Current Liabilities			
Other payables		**4.0**	2.3
Deferred tax liabilities	13	**70.0**	14.7
Provisions	19	**28.3**	19.3
Borrowings	17	**141.8**	-
Total Non-Current Liabilities		**244.1**	36.3
Current Liabilities			
Trade and other payables	16	**349.4**	262.6
Current tax liabilities		**4.9**	4.3
Provisions	19	**27.7**	14.5
Borrowings	17	**143.7**	-
Total Current Liabilities		**525.7**	281.4
Total Liabilities		**769.8**	317.7
Total Equity and Liabilities		**1,012.4**	514.0

These financial statements were approved by the Board of Directors on 8 March 2011 and were signed on its behalf by:

Neil Gaydon Chief Executive Officer
Stuart Hall Chief Financial Officer

Company Balance Sheet

At 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Non-Current Assets			
Property, plant and equipment	11	**15.9**	12.3
Intangible assets – development expenditure	11	**18.8**	16.6
Investments in group and other companies	12	**228.7**	70.9
Deferred tax assets	13	**2.7**	3.2
Loans to Group companies	12	**127.2**	3.4
Total Non-Current Assets		**393.3**	106.4
Current Assets			
Inventories	14	**21.2**	21.5
Trade and other receivables	15	**253.1**	200.0
Cash and cash equivalents		**50.2**	26.4
Current tax assets		**-**	2.6
Total Current Assets		**324.5**	250.5
Total Assets		**717.8**	356.9
Equity			
Issued capital	20	**15.2**	15.2
Share premium	21	**40.1**	39.4
Merger reserve	22	**55.5**	55.5
Hedging reserve		**(2.7)**	0.1
Retained earnings	23	**78.2**	53.5
Total Equity		**186.3**	163.7
Liabilities			
Non-Current Liabilities			
Provisions	19	**24.5**	14.0
Other payables		**-**	2.2
Deferred tax liabilities	13	**4.0**	3.5
Borrowings	17	**141.8**	-
Total Non-Current Liabilities		**170.3**	19.7
Current Liabilities			
Trade and other payables	16	**202.8**	166.7
Current tax liabilities		**4.6**	-
Provisions	19	**10.1**	6.8
Borrowings	17	**143.7**	-
Total Current Liabilities		**361.2**	173.5
Total Liabilities		**531.5**	193.2
Total Equity and Liabilities		**717.8**	356.9

These financial statements were approved by the Board of Directors on 8 March 2011 and were signed on its behalf by:

Neil Gaydon Chief Executive Officer
Stuart Hall Chief Financial Officer

Consolidated Statement of Changes in Shareholders' Equity

Group	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
Balance at 31 December 2008	14.9	37.0	55.5	(3.8)	13.0	27.3	143.9
Total comprehensive income for the period	-	-	-	5.5	(9.5)	51.4	47.4
Deferred Tax on share options	-	-	-	-	-	1.8	1.8
Income Tax on share options	-	-	-	-	-	2.9	2.9
Dividends to equity shareholders	-	-	-	-	-	(3.2)	(3.2)
Employee share incentive charges	-	-	-	-	-	2.5	2.5
Movement in employee share trusts	-	-	-	-	-	(1.7)	(1.7)
Issue of shares	0.3	2.4	-	-	-	-	2.7
Balance at 31 December 2009	**15.2**	**39.4**	**55.5**	**1.7**	**3.5**	**81.0**	**196.3**
Total comprehensive income for the period	-	-	-	(2.4)	2.1	49.9	49.6
Deferred Tax on share options	-	-	-	-	-	(1.5)	(1.5)
Dividends to equity shareholders	-	-	-	-	-	(5.2)	(5.2)
Employee share incentive charges	-	-	-	-	-	6.1	6.1
Movement in employee share trusts	-	-	-	-	-	(3.4)	(3.4)
Issue of shares	-	0.7	-	-	-	-	0.7
Balance at 31 December 2010	**15.2**	**40.1**	**55.5**	**(0.7)**	**5.6**	**126.9**	**242.6**
Company							
Balance at 31 December 2008	14.9	37.0	55.5	(4.1)	-	20.9	124.2
Total comprehensive income for the period	-	-	-	4.2	-	30.3	34.5
Deferred Tax on share options	-	-	-	-	-	1.8	1.8
Income Tax on Share options	-	-	-	-	-	2.9	2.9
Dividends to equity shareholders	-	-	-	-	-	(3.2)	(3.2)
Employee share incentive charges	-	-	-	-	-	2.5	2.5
Movement in employee share trusts	-	-	-	-	-	(1.7)	(1.7)
Issue of shares	0.3	2.4	-	-	-	-	2.7
Balance at 31 December 2009	**15.2**	**39.4**	**55.5**	**0.1**	**-**	**53.5**	**163.7**
Total comprehensive income for the period	-	-	-	(2.8)	-	28.7	25.9
Deferred Tax on share options	-	-	-	-	-	(1.5)	(1.5)
Dividends to equity shareholders	-	-	-	-	-	(5.2)	(5.2)
Employee share incentive charges	-	-	-	-	-	6.1	6.1
Movement in employee share trusts	-	-	-	-	-	(3.4)	(3.4)
Issue of shares	-	0.7	-	-	-	-	0.7
Balance at 31 December 2010	**15.2**	**40.1**	**55.5**	**(2.7)**	**-**	**78.2**	**186.3**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	£m	£m
Cash flows from operating activities		
Profit before tax	**71.1**	69.9
Adjustments for:		
Share based payments charge	**6.1**	2.5
Depreciation of property, plant and equipment	**10.5**	7.6
Amortisation and impairment of development expenditure	**33.6**	39.5
Amortisation of other intangibles	**11.7**	6.7
Loss/(profit) on sale of property, plant and equipment	**0.3**	(0.6)
Net financial expense/ (income)	**1.8**	(0.2)
Movement in trade and other receivables	**(12.0)**	21.3
Movement in trade and other payables	**(14.9)**	(13.0)
Movement in inventories	**(20.8)**	(28.8)
Movement in provisions	**(0.2)**	(1.3)
Cash generated from operations	**87.2**	103.6
Interest paid	**(1.8)**	(0.1)
Tax paid	**(25.2)**	(12.4)
Net cash generated from operating activities	**60.2**	91.1
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**(270.8)**	-
Purchase of property, plant and equipment	**(19.8)**	(12.4)
Proceeds from disposal of property, plant & equipment	**-**	0.9
Development expenditure	**(36.7)**	(42.3)
Interest received	**0.8**	0.3
Net cash used in investing activities	**(326.5)**	(53.5)
Cash flows from financing activities		
Proceeds from external borrowings	**285.5**	-
Proceeds from issue of share capital	**0.7**	2.7
Dividends paid	**(5.2)**	(3.2)
Proceeds from exercise of employee share options	**-**	2.3
Purchase of own shares by employee benefit trust	**(3.4)**	(4.0)
Net cash used in financing activities	**277.6**	(2.2)
Net change in cash and cash equivalents	**11.3**	35.4
Cash and cash equivalents at start of period	**73.5**	37.7
Effect of exchange rate fluctuations on cash held	**-**	0.4
Cash and cash equivalents at end of period	**84.8**	73.5

Company Statement of Cash Flows

For the year ended 31 December 2010

	2010 £m	2009 £m
Cash flows from operating activities		
Profit before tax	**41.0**	37.3
Adjustments for:		
Share based payments charge	**6.1**	2.5
Depreciation of property, plant and equipment	**5.1**	4.1
Amortisation of development expenditure	**21.2**	25.1
Net financial expense/(income)	**0.5**	(1.2)
Movement in trade and other receivables	**(129.2)**	(8.2)
Movement in trade and other payables	**(17.1)**	(1.5)
Movement in inventories	**0.3**	(13.3)
Movement in provisions	**13.6**	5.3
Cash generated from operations	**(58.5)**	50.1
Interest paid	**(0.9)**	(0.5)
Tax paid	**(5.7)**	(3.6)
Net cash generated from operating activities	**(65.1)**	46.0
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**(157.0)**	-
Purchase of property, plant and equipment	**(8.7)**	(8.2)
Development expenditure	**(23.4)**	(26.7)
Interest received	**0.4**	1.7
Net cash used in investing activities	**(188.7)**	(33.2)
Cash flows from financing activities		
Proceeds from external borrowings	**285.5**	-
Proceeds from issue of share capital	**0.7**	2.7
Dividends paid	**(5.2)**	(3.2)
Proceeds from exercise of employee share options	**-**	2.3
Purchase of own shares by employee benefit trust	**(3.4)**	(4.0)
Net cash used in financing activities	**277.6**	(2.2)
Net change in cash and cash equivalents	**23.8**	10.6
Cash and cash equivalents at start of period	**26.4**	15.8
Cash and cash equivalents at end of period	**50.2**	26.4

Notes

1 Basis of Preparation and Business Environment

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

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of derivative instruments. The functional and presentational currency of Pace plc is £ (UK Sterling) and the accounts are presented in £ millions. The 2009 accounts were presented in £ thousands and therefore certain immaterial differences between these accounts and the comparatives shown herein may have arisen due to roundings.

International Financial Reporting Standards

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company's financial statements have been prepared on the same basis and as permitted by section 408 of the Companies Act 2006, no income statement is presented for the Company.

Financial Year End

The current year's financial statements are for the year ended 31 December 2010 and the previous year's financial statements are for the year ended 31 December 2009.

Basis of Consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (note 12) drawn up to 31 December 2010. The results of subsidiaries acquired in the period are included in the income statement from the date they are acquired. 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 the Company. Control exists when the Company 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 Group consolidation. Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Company.

Significant Judgements, Key Assumptions and Estimation Uncertainty

The Group's main accounting policies affecting its results of operations and financial condition are set out on pages 40 to 46. Judgements and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions. Key areas of estimation uncertainty and critical accounting judgements are as follows:

Warranties

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

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

Royalties

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

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

Operating Segments

Following the introduction of IFRS 8 Operating Segments, effective for accounting periods beginning on or after 1 January 2009, the Group has determined that, based on its internal reporting framework and management structure, it has two reportable segments. Such determination is necessarily judgemental 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. Further detail is provided in notes 3 and 29.

Intangible Assets
The Group business includes a significant element of research and development activity. Under accounting standards, principally IAS38 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.

Acquisition Accounting
As part of the accounting for business combinations it is necessary to perform a purchase price allocation exercise to identify appropriate categories of intangible assets that have been purchased. Such exercise involves judgement with regard to the types of assets identified, the value of those assets and the useful economic lives applied with regard to amortisation rates. The amounts recognised are calculated by reference to management forecasts and assumed discount rates, obsolescence curves and attrition rates.

For significant acquisitions, whilst the Directors use appropriately qualified independent valuation advisors to assist in the purchase price allocation work, the exercise inherently requires significant judgement and estimation to be taken.

Contingent Liabilities
In the previous year the Group disclosed contingent liabilities with regard to EU Import duty classification and a Writ issued against the Company.

Following developments during the year, namely a successful appeal against the retrospective assessment of import duty, together with advanced negotiations with the issuer of the Writ, the Directors have removed the contingent liabilities disclosures from the 2010 financial statements.

Going Concern
The Group has borrowing facilities, to a maximum of $450m, in place until March 2014. These are in the form of a $300m term loan, repayable via 6 instalments of $37.5m each, due every six months plus a final payment of $75m, and a $150m revolver credit facility. These facilities are subject to financial performance covenants which the Group currently complies with.

The Board's assessment of the Group and Company's ability to continue as a going concern has taken into account the effect of the current economic climate, current market position and the new borrowings in the year. The principal risks that the Group is challenged with have been set out in the Risks and Uncertainties section of this report along with how the Directors intend to mitigate those risks.

The Board has prepared a financial and working capital forecast based upon trading assumptions and other medium term plans and has concluded that the Group will continue to meet its financial performance covenants and will have adequate working capital available to continue in operational existence for the foreseeable future.

2 Accounting Policies
Business Combinations
Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Goodwill
Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Initial measurement
The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

As permitted by IFRS 1, goodwill arising on acquisitions before 29 May 2004 (date of transition to Adopted IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment annually. The Group performs its annual impairment review at the cash-generating unit level.

Other Intangibles
Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation of other intangibles is done on a straight line basis over the estimated useful economic lives of the particular asset categories as follows:

Customer contracts and relationships	3-10 years
Technology and patents	1-10 years
Other	3 years

Research and Development Expenditure
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, direct labour and an appropriate proportion of overheads. 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 lives for development expenditure are estimated to be in a range of between 6 and 18 months.

Capitalised development expenditure is not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions required to be treated as an asset in accordance with IAS 38.

The amortisation of capitalised development expenditure is charged to the Income Statement in research and development expenditure within the Administrative expenses category.

Impairment Charges
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the esimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonaable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. Impairment losses are recognised in profit or loss. Any impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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 amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Exceptional Items
Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional operating items. Such items, which include for instance the costs of opening or closing premises, costs of significant restructurings and profits and losses made on the disposal of properties are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements. Exceptional operating items are excluded from the profit measures used by the Board to monitor underlying performance.

Revenue Recognition
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 Group's work is completed which is usually upon delivery to the customer, or his agent.

Revenue in respect of services rendered, including engineering consultancy and support and software 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.

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 standalone 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 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 judgemental.

Finance income and finance costs
Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Government Grants
Grants in respect of specific research and development projects are credited to research and development costs within the income statement or against the capitalised development expenditure as appropriate to match to the project's related expenditure.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash balances and call deposits. The Company 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 Group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Allowance for Doubtful Debts
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.

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 but excludes royalties due only on ultimate sale. 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 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, if 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 and machinery — One to ten years
- Motor vehicles — Four years

Provision is made against the carrying value of items of property, plant and equipment where an impairment in value is deemed to have occurred.

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency (£Sterling) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are taken directly to the translation reserve. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve is reclassified to the income statement as part of the gain or loss on disposal.

Borrowings

Borrowings are initially measured at cost, which is equal to fair value at inception, and are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised over the term of the borrowings using the effective interest rate method.

Derivative Financial Instruments

The Group uses derivative financial instruments, usually forward foreign exchange contracts, to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Following enhancements in the Group's hedging policy and changes in the Group's currency profiles following the acquisition of Pace France in 2008, the directors have determined that the instruments qualify for cash flow hedge accounting.

Derivative financial instruments are classified as cash-flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

Derivatives are reviewed quarterly for effectiveness. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or highly probable forecast transaction, the effective part of any gain or loss on the movement in fair value of the derivative financial instrument is recognised directly in equity.

The gain or loss on any ineffective part of the hedge is immediately recognised in the income statement within finance income/costs. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gains or losses that were recognised directly in equity are reclassified into the income statement when the transaction occurs.

The Group has not designated the US loan as a hedge against the differences between the functional currency of the foreign operation and the parent company's functional currency.

Taxes
Current tax, including UK corporation tax and foreign 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 net 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 grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

Employee Share Ownership Plans
The material assets, liabilities, income and costs of the Pace plc Employee Benefits Trust are treated as being those of the Company. Until such time as the Company's own shares vest unconditionally with employees, the consideration paid for the shares is deducted in arriving at equity

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

Equity Instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Dividends Payable
Distributions to equity holders are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a final dividend when the dividend is declared by the Company's shareholders, and, for an interim dividend, when the dividend is paid.

Provisions
A provision is recognised in the balance sheet when the 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) Royalties
A provision for royalties is recognised where the owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. The provision is based on the latest information available.

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

(c) Restructuring
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Provisions are not recognised for future operating losses.

(d) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(e) Contingent consideration
A provision is recognised for deferred contingent consideration relating to acquisitions, based on the expected fair value of the outflow.

New accounting policies
(a) Adopted by the Group

The following accounting standards and interpretations, issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Group:

IFRS 3 (Revised) – Business combinations.
The Group has adopted IFRS 3 (Revised) for acquisitions completed after 1 January 2010. The revised standard has resulted in a number of changes, notably that directly attributable acquisition costs are to be expensed rather than included as part of the purchase price, contingent consideration is to be accounted for at fair value at the acquisition date with subsequent changes in the fair value being recognised in the income statement. In addition, where a group gains control of a subsidiary undertaking through a step acquisition, the standard requires the existing interest owed to be remeasured at fair value with the difference between fair value and book value being recognised in the income statement. During the year ended 31 December 2010, Pace incurred directly attributable transaction costs of £5.9million which have been included in administrative expenses.

Where appropriate, comparatives in the consolidated financial statements have been restated in accordance with changes in accounting policies. The following accounting standards and interpretations, issued by the IASB or IFRIC, have been adopted by the Group with no significant impact on its consolidated results or financial position:

IFRIC 13 – Customer loyalty programmes
IFRIC 15 – Agreements for the construction of real estate
IFRIC 16 – Hedges of a net investment in a foreign operation
IFRIC 17 – Distribution of non-cash assets to owners
IFRIC 18 – Transfers of assets from customers
Amendment to IAS 7 – Classification of expenditures on unrecognised assets
Amendment to IAS 17 – Classification of leases of land and buildings
Amendment to IAS 23 – Borrowing costs
Amendment to IAS 24 – Related Party Disclosure
Amendment to IAS 27 – Consolidated and separate financial statements
Amendment to IAS 32 – Financial instruments
Amendment to IAS 38 – Intangible assets, fair value of intangible assets acquired in a business combination
Amendment to IAS 39 – Financial instruments: recognition and measurement – Eligible hedged items
Amendment to IFRS 2 – Share based payment: vesting conditions and cancellations
Amendment to IFRS 5 – Non-current assets held for sale and discontinued operations
Amendment to IFRIC 9 – Reassessment of embedded derivatives

(b) Not adopted by the Group

The following standards and amendments, issued by the IASB or IFRIC and endorsed by the EU, unless otherwise stated, have not yet been adopted by the Group. The Group does not currently believe the adoption of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group.

IFRIC 14 – Limit on a Defined Benefit Asset (effective for annual periods beginning on or after 1 January 2011)
Amendment to IFRS 7 – Improving disclosures about financial instruments.
IFRS 9 – Financial instruments
Amendment to IAS 12 – Recovery of underlying assets

3 Segmental Analysis
The Group's principal activities are the development, design and distribution of digital television technologies for the global PayTV and telecommunications industries. Following the acquisitions of Bewan Systems SA ("Bewan), 2Wire, Inc ("2Wire") and Latens Systems Ltd ('Latens") in 2010, the Group has added to its activities the development, design and distribution of advanced residential gateways, associated software and services for the broadband service provider market and software services for the payTV market. The Group also provides engineering design, software applications and support services to multiple sevices operators, broadcasters, telecommunications companies and retail markets worldwide.

The Group operates through a number of operating segments, being groupings of "Customer Account Teams" underpinned by the technology used for each customer. Each Customer Account Team is involved in the design and distribution of, and services relating to set top boxes and residential gateways to major PayTV operators, telecommunications operators and retailers. The exceptions to these in the year were:

- The Networks Customer Account Team, which was established in 2009 and is not material to the Group;
- The Bewan Customer Account Team which was established in 2010 following the acquisition of that business and is not material to the Group
- The 2Wire and Latens businesses which were not fully integrated into Customer Account Teams in 2010.

Consideration of IFRS 8 Operating Segments

Following the introduction of IFRS 8, effective for accounting periods beginning on or after 1 January 2009, the Group has made the following considerations to arrive at the disclosure made in these financial statements. IFRS 8 requires the segment information presented in the financial statements to be that which is used internally by the Chief Operating Decision Maker ("CODM") to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board of Directors as its chief operating decision maker. The Board of Directors review internal monthly management reports, budget and forecast information to evaluate the performance of the business and make decisions.

Operating segments have then been identified based on the internal reporting information, and management structures within the Group. From such information Customer Account Teams are determined to represent operating segments.

Following the identification of operating segments, the Group has then assessed the similarity of the economic characteristics of the various operating segments. Given the similarity of the products and services and markets operated in within each Customer Account Team of the existing business, ie before acquisitions, it has been concluded that these operating segments have fundamentally the same economic characteristics. Given this, the Group has considered the overriding core principles of IFRS 8 and has determined that it is appropriate to aggregate these operating segments into one reportable segment for the purposes of disclosure in the financial statements.

Acquisitions in the year were not fully integrated into Customer Account Teams in 2010. The CODM received aggregated information to monitor them separately from the existing business. Therefore it is considered appropriate to disclose them as a separate reportable segment in the current year.

As the new acquisitions are fully integrated into the Group in 2011, further consideration will be given to reportable segments.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

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 Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. There are no material Inter-segment transactions. Revenues disclosed below materially represent revenues to external customers. Where appropriate pricing is determined on an arm's length basis.

	2010	2009
	£m	£m
Revenues		
Revenue for existing business	**1,242.0**	1,142.1
Revenue for acquisitions business	**87.3**	-
Other revenue	**-**	8.8
Unallocated FX	**1.6**	(17.4)
Consolidated revenue	**1,330.9**	1,133.5
Profit or loss		
Total profit or loss for existing business	**101.8**	94.7
Profit or loss for acquisitions business	**9.3**	-
Other profit or loss	**(1.4)**	2.8
Unallocated amounts:		
Other corporate expenses	**(6.1)**	(21.1)
Exceptional items	**(19.0)**	-
Amortisation of intangibles	**(11.7)**	(6.7)
Interest	**(1.8)**	0.2
Consolidated profit before tax	**71.1**	69.9
Assets		
Total assets for existing business	**364.8**	325.1
Total assets for acquisitions business	**144.7**	-
Unallocated amounts:		

Fixed assets	**29.0**	19.6
Cash balances	**64.5**	73.5
Tax balances	**9.3**	9.0
Prepayments and accrued income	**5.2**	2.4
Goodwill and other intangibles	**394.9**	84.4
Consolidated total assets	**1,012.4**	514.0
Liabilities		
Total liabilities for existing business	**297.4**	262.3
Total liabilities for acquisitions business	**86.7**	-
Unallocated amounts:		
Tax balances	**74.9**	19.0
Royalty provisions	**9.7**	10.9
Borrowings	**285.5**	-
Other liabilities	**15.6**	25.5
Consolidated total liabilities	**769.8**	317.7

Reconciling items above mainly relate to amounts managed centrally by the head office function, rather than directly managed in each operating segment, and include treasury, foreign exchange and corporate matters, taxation and other central assets.

Other material items 2010	**Reportable Segment totals £m**	**Adjustments £m**	**Consolidated totals £m**
Capital expenditure	**-**	**20.3**	**20.3**
Depreciation	**10.5**	**-**	**10.5**

Other material items 2009	Reportable Segment totals £m	Adjustments £m	Consolidated totals £m
Capital expenditure	-	12.9	12.9
Depreciation	7.6	-	7.6
Impairment of intangible assets	6.8	0.3	7.1

Major customers

Transactions with the Group's largest customer represents 17% of the Group's total revenues.

Geographical analysis

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

Revenue by destination	**2010 £m**	2009 £m
United Kingdom	**33.8**	84.4
Europe	**332.8**	343.8
North America	**541.2**	429.1
Latin America	**242.3**	121.5
Rest of the World	**180.8**	154.7
	1,330.9	1,133.5

The split of non-current assets by location is as follows:

Non-current assets	2010 £m	2009 £m
UK	**66.9**	81.5
France	**96.0**	32.8
US	**289.3**	16.3
Rest of the World	**5.5**	2.1
	457.7	132.7

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

Category of revenue
In the current year the bulk of the Group's revenue is categorised as arising from the provision of set-top box hardware. Following the acquisitions in the period (note 29) and the future expansion of the Group into non-product services, disclosure of revenues by category will be considered in the 2011 accounts.

Acquisitions in the period
To illustrate the impact of the acquisitions made in the period, the following shows the split of the Group income statement (to profit before tax) between acquisitions and the existing business of the Group.

	Group Excluding Acquisitions 2010 £m	Acquisitions 2010 £m	Total Group 2010 £m	Total Group 2009 £m
Revenue	**1,243.6**	**87.3**	**1,330.9**	1,133.5
Cost of sales	**(1,013.5)**	**(62.5)**	**(1,076.0)**	(934.0)
Gross profit	**230.1**	**24.8**	**254.9**	199.5
Administrative expenses before exceptional items and amortisation of other intangibles	**(135.8)**	**(15.5)**	**(151.3)**	(123.6)
Other operating income	**-**	**-**	**-**	0.5
Earnings before interest, tax, amortisation and exceptionals	**94.3**	**9.3**	**103.6**	76.4
Exceptional costs			**(19.0)**	-
Amortisation of other intangibles			**(11.7)**	(6.7)
Operating profit			**72.9**	69.7
Net finance income/ (expense)			**(1.8)**	0.2
Profit before tax			**71.1**	69.9

4 Expenses and Auditors' Remuneration

	2010 £000	2009 £000
Fees payable to the Company's auditors for the audit of:		
Company's annual accounts	**250**	190

	£000	£000
Fees payable to the Company's auditors and its associates for other services to the Group:		
Audit of the Company's subsidiaries' financial statements pursuant to legislation	**258**	96
Other services relating to taxation	**83**	121
Services relating to corporate finance	**752**	-
Other services pursuant to interim reporting legislation	**40**	30
Other services	**9**	3
	£m	£m
Depreciation of plant, property and equipment		
owned	**10.5**	7.7
Other operating lease rentals		
land and buildings	**6.2**	5.9
Loss/(Profit) on disposal of plant, property and equipment	**0.3**	(0.6)
Foreign exchange losses net of hedging recognised within operating profit in cost of sales	**0.1**	0.6
Research and development expenditure recognised as an expense	**77.4**	68.8

5 Exceptional Items

	2010 £m	2009 £m
Restructuring and reorganisation costs	**10.3**	-
Acquisition transaction costs	**5.9**	-
Retail business exit costs	**2.8**	-
	19.0	-

The restructuring and integration costs relate to the integration of acquisitions into the Group and employee costs in relation to the new Group structure that has been implemented to manage the enlarged Group. The acquisition transaction costs relate to all three acquisitions in the year and have been accounted for in accordance with IFRS 3 (Revised) Business Combinations. The Retail business exit costs include employee and other closure costs with respect to the planned closure of Pace's European free-to-air retail operations.

6 Finance Income/(expense)

	2010 £m	2009 £m
Finance income – interest on bank deposits	**0.8**	0.3
Finance costs – costs of external borrowings	**(2.6)**	(0.1)

7 Staff Numbers and Costs

The average number of persons (including directors) employed by the Group during the year, analysed by category were as follows:

	Group	
	2010	2009
Research and development	**816**	700
Administration	**169**	168
Sales and marketing	**26**	23
Manufacturing and operations	**101**	167
	1,112	1,058

The aggregate payroll costs of these persons were as follows:

	Group 2010 £m	2009 £m
Wages and salaries	**46.0**	43.7
Social security costs	**10.0**	10.9
Other pension costs	**2.1**	1.4
Share based payments (see note 26)	**6.1**	2.5
Redundancy costs	**0.2**	0.6
	64.4	59.1

Remuneration of Directors

The remuneration, share options and pension entitlements of the directors are disclosed in the Directors' Remuneration Report on pages 21 to 28.

8 Taxation

	2010 £m	2009 £m
Current tax charge/ (credit):		
Charge for the year	**28.2**	15.1
Adjustments in respect of prior years	**(0.5)**	2.4
Total current tax charge	**27.7**	17.5
Deferred tax charge/ (credit):		
Origination and reversal of timing differences in the current year (note 13)	**(6.5)**	2.7
Adjustment in respect of prior years	**-**	(1.7)
Total deferred tax charge/ (credit)	**(6.5)**	1.0
Total tax charge	**21.2**	18.5

Reconciliation of effective tax rate to UK statutory rate of 28% (2009: 28%):

	2010 £m	2009 £m
Profit before tax	**71.1**	69.9
Tax using UK statutory tax rate at 28% (2009: 28%)	**19.9**	19.6
Effects of:		
Expenses not deductible for tax purposes	**2.2**	0.2
Research and development tax credit	**(2.4)**	(2.2)
Overseas tax not at 28%	**2.0**	(0.1)
Losses arising in the period not recognised for deferred tax	**-**	0.3
Adjustments to tax charge in respect of previous periods	**(0.5)**	0.7
Total tax charge	**21.2**	18.5

9 Earnings Per Ordinary Share

Basic earnings per ordinary share	**17.0p**	17.7p
Diluted earnings per ordinary share	**16.1p**	17.2p
Adjusted basic earnings per ordinary share	**23.9p**	19.3p
Adjusted diluted earnings per ordinary share	**22.7p**	18.7p

The calculation of basic earnings per share is based on a profit after tax of £49.9m (2009: £51.4m) divided by the weighted average number of ordinary shares in issue of 293,700,084 (2009: 289,925,353), excluding shares held by the Employee Benefits Trust.

Number of shares	**2010** **m**	2009 m
Weighted average number of ordinary shares in issue during the year	**293.7**	289.9
Dilutive effect of options outstanding	**15.5**	9.5
Diluted weighted average number of ordinary shares in issue during the year	**309.2**	299.4

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

To better reflect underlying performance, adjusted earnings per share is also calculated (adjusting profit after tax to remove amortisation of other intangibles and exceptional items, post tax). The earnings amount is calculated as follows:

	2010 **£m**	2009 £m
Profit after tax	**49.9**	51.4
Amortisation charge	**11.7**	6.7
Tax effect of above	**(3.9)**	(2.2)
Exceptional items	**19.0**	-
Tax effect of above	**(6.4)**	-
Adjusted profit after tax	**70.3**	55.9

10 Dividends Per Ordinary Share

	2010		2009	
	Per share	**£m**	Per share	£m
2009 Final: paid 2 July 2010	**1.0p**	**3.0**	0.6p	1.7
2010 Interim: paid 10 December 2010	**0.725p**	**2.2**	0.5p	1.5
	1.725p	**5.2**	1.1p	3.2

In addition, the Directors are proposing a final dividend for 2010 of 1.45p per share. This will be payable on 6 July 2011 to shareholders on the register at 10 June 2011, subject to approval by shareholders at the forthcoming Annual General Meeting, and has not been included as a liability in these financial statements.

11 Intangible Assets and Property, Plant and Equipment

Group	Goodwill £m	Development Expenditure £m	Long Leasehold Buildings £m	Short Leasehold land and Buildings £m	Plant, machinery and motor vehicles £m	Total property, plant and equipment £m
Cost						
At 31 December 2008	76.4	59.8	0.5	8.8	44.8	54.1
Exchange adjustments	(6.0)	-	-	(0.1)	(0.2)	(0.3)
Additions	-	42.4	-	2.7	10.3	13.0
Retirement of Assets	-	(19.7)	-	-	-	-
Disposals	-	-	(0.5)	-	(2.5)	(3.0)
At 31 December 2009	**70.4**	**82.5**	**-**	**11.4**	**52.4**	**63.8**
Exchange adjustments	(2.8)	-	-	-	(0.6)	(0.6)
Additions	150.7	36.7	-	5.8	14.5	20.3
Acquisitions	-	0.1	0.6	-	4.3	4.9
Retirement of Assets	-	(13.6)	-	-	-	-
Disposals	-	-	(0.2)	(0.4)	(2.7)	(3.3)
At 31 December 2010	**218.3**	**105.7**	**0.4**	**16.8**	**67.9**	**85.1**
Amortisation/depreciation						
At 31 December 2008	-	33.4	0.2	4.8	34.5	39.5
Exchange adjustments	-	0.7	-	-	(0.2)	(0.2)
Provided in the year	-	32.6	-	0.9	6.7	7.6
Retirement of Assets	-	(19.7)	-	-	-	-
Impairment	-	6.8	-	-	-	-
Disposals	-	-	(0.2)	-	(2.5)	(2.7)
At 31 December 2009	**-**	**53.8**	**-**	**5.7**	**38.5**	**44.2**
Exchange adjustments	-	0.5	-	-	(0.6)	(0.6)
Provided in the year	-	36.2	0.1	2.0	8.4	10.5
Retirement of Assets	-	(13.6)	-	-	-	-
Disposals	-	-	-	(0.3)	(2.7)	(3.0)
At 31 December 2010	**-**	**76.9**	**0.1**	**7.4**	**43.6**	**51.1**
Net book amount at 31 December 2008	76.4	26.4	0.3	4.0	10.3	14.6
Net book amount at 31 December 2009	70.4	28.7	-	5.7	13.9	19.6
Net book amount at 31 December 2010	**218.3**	**28.8**	**0.3**	**9.4**	**24.3**	**34.0**

Goodwill
All goodwill has arisen from business combinations and relates to the know-how acquired with the purchase of XCom Multimedia Communications SA (now Pace Europe SAS) in February 2001 and the expected synergies, future revenue stream and know-how acquired with the purchase of Pace France in April 2008. Further goodwill has arisen in the period relating to the three acquisitions referred to in note 29.

The carrying amount of goodwill is allocated across Cash Generating Units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations using cash flow projections based on a combination of individual financial three year forecasts and appropriate long term growth rates of between 1 and 2% (2009: 1 and 2%). To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rates used to calculate the value in use range from 10% to 14% (2009: 12%). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for any impairment.

Other Intangible Assets

Group	Customer Contracts & relationships £m	Technology & patents £m	Other £m	Other Intangibles £m
Cost				
At 31 December 2008	15.2	11.3	-	26.5
Exchange adjustments	(1.4)	(1.0)	-	(2.4)
At 31 December 2009	**13.8**	**10.3**	**-**	**24.1**
Exchange adjustments	(0.3)	(0.2)	-	(0.5)
Acquisitions	92.6	74.9	7.0	174.5
At 31 December 2010	**106.1**	**85.0**	**7.0**	**198.1**
Amortisation				
At 31 December 2008	2.1	1.6	-	3.7
Exchange adjustments	(0.2)	(0.1)	-	(0.3)
Provided in the year	3.8	2.9	-	6.7
At 31 December 2009	**5.7**	**4.4**	**-**	**10.1**
Exchange adjustments	(0.2)	(0.1)	-	(0.3)
Provided in the year	6.3	5.0	0.4	11.7
At 31 December 2010	**11.8**	**9.3**	**0.4**	**21.5**
Net book amount at 31 December 2008	13.1	9.7	-	22.8
Net book amount at 31 December 2009	8.1	5.9	-	14.0
Net book amount at 31 December 2010	**94.3**	**75.7**	**6.6**	**176.6**

Company	Intangible assets: Development Expenditure £m	Property, plant and equipment: Short leasehold and buildings £m	Plant, machinery and motor vehicles £m	Total property, plant and equipment £m
Cost				
At 31 December 2008	48.4	7.0	21.3	28.3
Additions	26.7	2.4	5.8	8.2
Disposals	(10.7)	-	(1.2)	(1.2)
At 31 December 2009	**64.4**	**9.4**	**25.9**	**35.3**
Additions	23.4	3.1	6.2	9.3
Disposals	(8.6)	-	(0.1)	(0.1)
At 31 December 2010	**79.2**	**12.5**	**32.0**	**44.5**
Amortisation/depreciation				
At 31 December 2008	33.4	4.4	15.6	20.0
Provided in the year	19.5	0.7	3.5	4.2
Retirement of Assets	(10.7)	-	-	-
Impairment	5.6	-	-	-
Disposals	-	-	(1.2)	(1.2)
At 31 December 2009	**47.8**	**5.1**	**17.9**	**23.0**
Provided in the year	21.2	1.4	4.3	5.7
Retirement of Assets	(8.6)	-	-	-
Disposals	-	-	(0.1)	(0.1)
At 31 December 2010	**60.4**	**6.5**	**22.1**	**28.6**
Net book amount at 31 December 2008	15.0	2.6	5.7	8.3
Net book amount at 31 December 2009	16.6	4.3	8.0	12.3
Net book amount at 31 December 2010	**18.8**	**6.0**	**9.9**	**15.9**

12 Investments in and Loans to Group and Other Companies

Company	Intra-group loans £m	Shares in group undertakings £m
Cost at 31 December 2008 and 31 December 2009	66.9	70.9
Additions in the year	123.8	157.8
Cost at 31 December 2010	190.7	228.7
Provision at 31 December 2008	(63.2)	-
Provision at 31 December 2009	(63.5)	-
Provision at 31 December 2010	(63.5)	-
Net book value at 31 December 2008	3.7	70.9
Net book value at 31 December 2009	3.4	70.9
Net book value at 31 December 2010	**127.2**	**228.7**

At 31 December 2010 the Company had a beneficial interest in the equity of the following subsidiary undertakings:

	Nature of operations	Directly owned by (note a)	Percentage holding	Country of incorporation
Pace Advanced Consumer Electronics Limited	Dormant	1	100%	UK
Pace Asia Pacific Limited	Support	4	100%	Hong Kong
Pace Distribution GmbH	Dormant	1	100%	Germany
Pace Distribution (Overseas) Limited	Holding Company	1	100%	UK
Pace Micro Technology Limited	Dormant	1	100%	UK
Pace (HK) Limited	Holding Company	1	100%	Hong Kong
Pace Australia Pty Limited	Support	1	100%	Australia
Pace Americas Limited	Support	4	100%	UK
Pace Americas, Inc	Trading	5	100%	USA
Pace Europe SAS	Support	4	100%	France
Pace Micro Technology GmbH	Support	1	100%	Germany
Pace Micro Technology (India) Private Ltd	Support	1	100%	India
Pace Overseas Distribution Limited	Trading	4	100%	UK
Pace France SAS	Trading	1	100%	France
Pace USA Inc	Trading	10	100%	USA
Pace Belgium NV	Trading	3	100%	Belgium
Pace Asia Home Networks Sdn BHD	Trading	3	100%	Malaysia
Pace Networks Limited	Trading	3	100%	UK
Pace Brasil – Industria Electronica e Comercio Ltda	Trading	14	100%	Brazil
Pace Iberia SL	Trading	3	100%	Spain
STB Anchor Mexicana SA DE CV	Trading	13	100%	Mexico
Pace China Operations	Support	2	100%	China
Pace Operations South Africa (Propriety) Limited	Holding company	6	100%	South Africa
Pace Americas Holdings Inc.	Holding	1	100%	USA
Pace Americas Investments LLC	Holding	9	100%	USA
Bewan Systems SA	Trading	3	100%	France
Latens Systems Ltd	Trading	1	100%	UK
Latens Systems (Canada) Ltd	Support	8	100%	Canada
Latens Services Ltd	Trading	8	100%	Northern Ireland
Latens Systems LLC	Support	8	100%	USA
Latens Systems (India) Private Ltd	Support	8	100%	India
2Wire Inc	Trading	11	100%	USA
2Wire Australia Pty, Ltd	Support	7	100%	Australia
2Wire Asia Pacific Limited	Support	7	100%	Hong Kong
2Wire (B.C.) Limited	Support	7	100%	Canada
2Wire International Ltd	Support	7	100%	UK
Kenati Technologies Inc	Support	7	100%	USA
2Wire International Holding Corporation	Holding	7	100%	USA
2Wire EURL	Support	7	100%	France
2Wire Singapore Pte Ltd	Support	7	100%	Singapore
2Wire Development Center Private Ltd	Support	12	100%	India

NOTE a

Immediate ownership

1 Pace plc
2 Pace Asia Pacific Limited
3 Pace France SAS
4 Pace Distribution (Overseas) Limited
5 Pace Americas Limited
6 Pace Overseas Distribution Limited
7 2Wire Inc
8 Latens Systems Ltd
9 Pace Americas Holdings Inc.
10 Pace Americas, Inc
11 Pace Americas Investments LLC
12 Kenati Technologies Inc
13 Pace USA Inc (98%), Pace France SAS (2%)
14 Pace France SAS (99.99998%), Pace Distribution (Overseas) Limited (0.00002%)

Each of the subsidiary undertakings listed above has been consolidated in the Group's financial statements.
Each of the subsidiary undertakings listed above has a financial year end of 31 December with the exception of Pace Micro Technology (India) Private Ltd (31 March) and Latens Systems Ltd (30 June).
The class of share capital held is Ordinary with the exception of Pace Distribution (Overseas) Limited where there is Preference share capital in addition to Ordinary share capital.

13 Deferred Tax Assets

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

Group	Property, plant & equipment £m	Trading losses £m	Intangibles £m	Short term timing differences £m	Total £m
Recognised asset/ (liabilities)					
At 31 December 2008	1.3	3.3	(15.7)	2.5	(8.6)
Credited/ (charged) to income statement	(0.3)	(3.3)	(0.2)	2.8	(1.0)
Credited/ (charged) to equity reserves	-	-	-	0.3	0.3
Exchange differences	-	-	1.2	(0.1)	1.1
At 31 December 2009	**1.0**	**-**	**(14.7)**	**5.5**	**(8.2)**
At 31 December 2009	1.0	-	(14.7)	5.5	(8.2)
Credited/ (charged) to income statement	(0.9)	0.7	4.0	2.6	6.4
Credited/ (charged) to Other comprehensive income	-	-	-	(2.1)	(2.1)
Arising on acquisitions	-	24.3	(59.3)	14.0	(21.0)
At 31 December 2010	**0.1**	**25.0**	**(70.0)**	**20.0**	**(24.9)**
Shown as deferred tax assets	0.1	25.0	-	20.0	45.1
Shown as deferred tax liabilities	-	-	(70.0)	-	(70.0)

Company	Property, plant & equipment £m	Trading losses £m	Intangibles £m	Short term timing differences £m	Total £m
Recognised asset/ (liabilities)					
At 31 December 2008	1.3	3.3	(2.2)	1.6	4.0
Credited/(charged) to income statement	(0.3)	(3.3)	(1.3)	0.3	(4.6)
Credited/(charged) to equity reserves	-	-	-	0.3	0.3
At 31 December 2009	**1.0**	**-**	**(3.5)**	**2.2**	**(0.3)**
At 31 December 2009	1.0	-	(3.5)	2.2	(0.3)
Credited/(charged) to income statement	(0.9)	-	-	2.0	1.1
Credited/(charged) to Other comprehensive income	-	-	-	(2.1)	(2.1)
At 31 December 2010	**0.1**	**-**	**(3.5)**	**2.1**	**(1.3)**
Shown as deferred tax assets	0.1	-	-	2.6	2.7
Shown as deferred tax liabilities	-	-	(3.5)	(0.5)	(4.0)

No deferred tax asset has been recognised on unused tax losses, outside the UK, of £1.3m as it is not considered probable that sufficient taxable profit will be available against which the tax losses can be utilised.

14 Inventories

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Raw materials and consumable stores	**24.4**	15.0	**14.9**	11.6
Finished goods	**119.3**	72.1	**6.3**	9.9
	143.7	87.1	**21.2**	21.5

15 Trade and Other Receivables

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Trade receivables	**258.2**	205.2	**61.2**	195.6
Amount owed by subsidiary undertakings	**-**	-	**187.6**	1.2
Other receivables	**16.5**	4.1	**2.8**	1.7
Prepayments and accrued income	**5.2**	2.4	**1.5**	1.5
	279.9	211.7	**253.1**	200.0

16 Trade and Other Payables

	Group		Company	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Trade payables	**294.0**	216.7	**141.3**	141.5
Amounts payable to subsidiary undertakings	**-**	-	**49.3**	-
Social security and other taxes	**2.2**	2.6	**0.8**	0.8
Other payables	**9.4**	8.1	**0.4**	6.6
Accruals	**43.8**	35.2	**11.0**	17.8
	349.4	262.6	**202.8**	166.7

17 Interest Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 18.

On 31 August 2010 the Company cancelled its £35m revolving credit facility with RBS and replaced it with a $450m facility underwritten by RBS and HSBC incorporating Lloyds TSB, Barclays, Santander and Yorkshire Bank in a syndicated deal.

The main facilities, which are all denominated in US Dollars and unsecured, consist of a $300m term loan facility together with a $150m revolving credit facility.

The loans were drawn down in October 2010 to partially fund the acquisition of 2Wire, Inc. (see note 29).

The facilities have a termination date of 31 March 2014. Amortisation of the term loan commences on 20 June 2011 with repayments of $37.5m made every six months until 20 December 2013. A final bullet repayment of $75m is due to be made on 31 March 2014.

Interest is payable on the facilities at LIBOR plus a specified margin. The margin is subject to a ratchet linked to overall leverage conditions of the Group.

Facility arrangement and associated fees of $9m have been capitalised and are being amortised over the life of the facilities and included within the overall interest costs.

There are certain financial covenants with regard to the facilities. These are principally linked to interest cover and net leverage.

In addition to the main facilities a Bi-lateral Bonding Facility with RBS was also entered into and covers bank guarantees, principally in respect of Duty and Deferment requirements (£100,000).

The carrying values of the year end borrowings position is as follows.

	2010 £m	2009 £m
Non-current liabilities		
Bank term loans	141.8	-
Total	**141.8**	-

	2010 £m	2009 £m
Current liabilities		
Bank term loans	46.9	-
Bank revolving credit facility	96.8	-
Total	**143.7**	-

The face value of the borrowings was $225m (£145.2m) in respect of the bank term loans within non-current liabilities, $75m (£48.4m) in respect of the bank term loans within current liabilities and $150m (£96.8m) in respect of the bank revolving credit facility.

The difference between the face value amounts and the amounts in the above table is £3.4m in non-current liabilities and £1.5m in current liabilities which represents facility arrangement fees and interest costs.

Reconciliation of net cash flow to movement in net debt

Year ended 31 December	**2010 £m**
Cash and cash equivalents at end of year	84.8
Current borrowings	(143.7)
Non-current borrowings	(141.8)
Closing net debt	**(200.7)**

18 Derivatives and Other Financial Instruments

Short term debtors and creditors that meet the definition of a financial asset or liability respectively have been excluded from all the following analysis, other than the currency risk exposures.

This note provides information about the contractual terms of the Group and Company's interest bearing loans and borrowings (note 17). For more information about the Group and Company's exposure to interest rate, credit risk and foreign currency risk, see pages 11 and 12 of the Report of the Directors.

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

Currency	**Floating rate £m**	**Interest free £m**	**Total £m**
At 31 December 2010:			
Sterling	**(0.1)**	**0.7**	**0.6**
US Dollar	**(241.0)**	**4.5**	**(236.5)**
Euro	**19.3**	**1.4**	**20.7**
Other	**2.2**	**12.3**	**14.5**
Total	**(219.6)**	**18.9**	**(200.7)**
At 31 December 2009:			
Sterling	25.9	-	25.9
US Dollar	0.3	28.4	28.7
Euro	0.3	0.7	1.0
Brazil	-	17.3	17.3
Other	-	0.6	0.6
Total	26.5	47.0	73.5

The interest rates on Sterling, US Dollar, Euro and other floating rate financial assets are linked to the relevant bank base rates.

(b) Currency exposures
The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group which are not denominated in the operating or functional currency of the operating unit involved.

	Net foreign currency monetary assets/(liabilities)				
Functional currency of group operation	**£STL £m**	**US Dollar £m**	**Euro £m**	**Other £m**	**Total £m**
At 31 December 2010:					
Sterling	**-**	**(334.1)**	**40.9**	**2.5**	**(290.7)**
Euro	**0.4**	**(41.2)**	**-**	**(0.3)**	**(41.1)**
Other	**-**	**5.5**	**-**	**-**	**5.5**
Total	**0.4**	**(369.8)**	**40.9**	**2.2**	**(326.3)**
At 31 December 2009:					
Sterling	-	(97.0)	36.8	(0.2)	(60.4)
Euro	-	(11.7)	-	(0.1)	(11.8)
Other	-	(0.3)	-	-	(0.3)
Total	-	(109.0)	36.8	(0.3)	(72.5)

(c) Gains and losses on currency derivatives
The majority of the Group's production costs are denominated in US Dollars. The Group endeavours to obtain as much of its income as possible in US Dollars but a proportion of income is currently received in Sterling or Euros. The Group's policy is to hedge forward progressively against movements in the value of foreign currencies, in respect of cash receipts and payments expected from transactions over the next 12 months.

The Group typically enters into between 4 and 6 forward currency contracts each month covering the next 12 months.

Outstanding currency derivatives:

	Sell Currency	Buy Currency	Principal Amount	Average Rate	Maturity
At 31 December 2010:	**Euro**	**US Dollar**	**$239.5m**	**1.35**	**Jan11-Mar12**
At 31 December 2009:	Euro	US Dollar	$383.5m	1.41	Jan 10-Jun 11
	HUF	Euro	€1.5m	278.9	Mar 10
	BRL	US Dollar	$15.1m	1.79	Mar 10-Apr 10

The Group's derivatives contracts qualify for hedge accounting and have a fair value at the balance sheet date of £1.5m (2009: £3.8m).

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

Credit risk
Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2010	2009
	£m	£m
Trade receivables	**258.2**	205.2
Cash and cash equivalents	**84.8**	73.5
Forward exchange contracts used for hedging		
Assets	**3.8**	0.2
	346.8	278.9

The maximum exposure to credit risk for receivables at the reporting date by geographic region was:

	Carrying amount	
	2010	2009
	£m	£m
Domestic	**13.8**	14.1
Euro-zone countries	**62.1**	79.7
United States	**123.0**	111.4
Other regions	**59.3**	-
	258.2	205.2

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 those customers with revenues in excess of 10% of the Group's total revenues, as explained in note 3 of the financial statements.

Of the trade receivables at 31 December 2010, 91% was within terms (2009: 95%). The balance was less than 30 days past due (2009: 100%). There were no material bad debts provisions deemed necessary against such balances, in the current or preceding years.

(e) Liquidity risk
The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk
The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

	Carrying Amount £m	**Contractual cash flows £m**	**6 months or less £m**	**6-12 months £m**	**1-2 years £m**	**2-3 years £m**	**3-4 years £m**
At 31 December 2010:							
Non-derivative financial liabilities							
Trade and other payables within one year	349.4	(349.4)	(349.4)	-	-	-	-
External borrowings	285.5	(308.4)	(26.6)	(26.3)	(51.7)	(50.5)	(153.3)
Deferred and contingent consideration	12.3	(12.3)	-	-	(12.3)	-	-
Derivative financial liabilities							
Forward exchange contracts used for hedging							
Outflow	-	(437.0)	(375.3)	(59.0)	(2.7)	-	-
Inflow	1.5	438.5	376.6	59.3	2.6	-	-
Total	**648.7**	**(668.6)**	**(374.7)**	**(26.0)**	**(64.1)**	**(50.5)**	**(153.3)**

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6-12 months £m	1-2 years £m
At 31 December 2009:					
Non-derivative financial liabilities					
Trade and other payables within one year	258.9	(258.9)	(258.9)	-	-
Other payables within one year	2.2	(2.2)	-	-	(2.2)
Derivative financial liabilities					
Forward exchange contracts used for hedging					
Outflow	3.7	(252.9)	(121.0)	(96.9)	(35.0)
Inflow	-	249.2	115.1	98.1	36.0
Total	264.8	(264.8)	(264.8)	1.2	(1.2)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The directors have considered the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur, together with the timing of impact on profit or loss, and have determined that the timings are as disclosed in the above table.

(f) Sensitivity analysis
In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. The Directors consider that a change of 100 basis points in interest rates during a twelve month period would have a £1.8m impact on cash flows.

The Group's key foreign exchange exposures are in respect of the Euro and US Dollar. A 1% strengthening in Sterling against these would have an adverse impact of £0.3m (2009: £0.7m) on the profit reported in the year ended 31 December 2010 and an adverse impact of £3.3m (2009: £1.5m) on equity.

(g) Capital management
Capital risk management
The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Pace plc, consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 20, 21 and 23 and cash and cash equivalents and borrowings as disclosed in Note 17.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and buy-back of existing shares and issuing new borrowings or repaying existing borrowings.

The Group's and Company's overall capital risk management strategy remains unchanged from 2009.

Note 20 to the Financial Statements provides details regarding the Company's share capital and movements in the period. There were no breaches of any requirements with regard to any relevant conditions imposed by either the UKLA or the Company's Articles of Association during the periods under review.

Details of the Company's working capital facilities are given in Note 17. Such facilities are subject to certain financial performance covenants. There have been no breaches of these covenants in the period under review.

(h) Fair value
Fair value versus carrying amounts
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 Group balance sheet,

Fair value hierarchy
The Group's financial instruments, namely forward exchange contracts, have been determined to represent Level 1 instruments (characterised by the existence of quoted prices (unadjusted) in active markets for identical assets or liabilities).

(i) Exchange rates
The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2010	2009	**2010**	2009
Euro	1.16	1.12	1.18	1.12
US Dollar	1.55	1.57	1.55	1.61

19 Provisions

	Royalties under negotiation £m	**Warranties £m**	**Other £m**	**Total £m**
Group				
At 31 December 2008	8.8	21.4	5.3	35.5
Net charge for the year	2.7	15.8	-	18.5
Utilised	(0.6)	(17.3)	(1.9)	(19.8)
Exchange adjustments	-	(0.4)	-	(0.4)
At 31 December 2009	**10.9**	**19.5**	**3.4**	**33.8**
Acquisitions	-	3.6	-	3.6
Net charge for the year	4.4	20.0	15.0	39.4
Utilised	(5.6)	(13.6)	(1.0)	(20.2)
Exchange adjustments	-	(0.4)	(0.2)	(0.6)
At 31 December 2010	**9.7**	**29.1**	**17.2**	**56.0**
Due within one year	-	20.5	7.2	27.7
Due after one year	9.7	8.6	10.0	28.3

	Royalties under negotiation £m	**Warranties £m**	**Other £m**	**Total £m**
Company				
At 31 December 2008	8.8	6.9	-	15.7
Net charge for the year	2.7	11.0	-	13.7
Utilised	(0.6)	(8.0)	-	(8.6)
At 31 December 2009	**10.9**	**9.9**	**-**	**20.8**
Net charge for the year	3.2	13.1	10.0	26.3
Utilised	(5.5)	(7.0)	-	(12.5)
At 31 December 2010	**8.6**	**16.0**	**10.0**	**34.6**
Due within one year	-	10.1	-	10.1
Due after one year	8.6	5.9	10.0	24.5

Royalties under negotiation
The owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. Negotiations over these liabilities continue for long periods of time. The directors have made provision for the potential royalties payable based on the latest information available. Having taken legal advice, the Board considers that there are defences available that should mitigate the amounts being sought. The Group will vigorously negotiate or defend all claims but, in the absence of agreement, the amounts provided may prove to be different from the amounts at which the potential liabilities are finally settled.
Given the nature of the claims it is not possible to be more specific with regard to the timing of outflows.

The directors consider that to disclose the amounts unused following the negotiation of royalty claims during the year would be seriously prejudicial to other royalty claims under negotiation, in litigation or dispute. Accordingly the directors have aggregated amounts released unused with additional provisions made in order to arrive at the net charge for the year shown above.

Other provisions

Other provisions relate to retirement and restructuring provisions in relation to the Pace France business and deferred contingent consideration in relation to the Bewan and Latens acquisitions.

Warranties

Pace provides warranties for its products from the point of sale and a provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data, principally historical failure rates and related cost of repair information, and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

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.

20 Share Capital

	2010		2009	
	Number	**£m**	Number	£m
Ordinary shares of 5p each	500,000,000	25.0	500,000,000	25.0
Allotted, called up and fully paid				
Ordinary shares of 5p each	304,452,503	15.2	303,573,631	15.2

During the year, the Company allotted ordinary shares as follows:

	Number	Nominal value £000	Consideration £000
Employee share option scheme (49.0 pence)	2,204	-	1
Employee share option scheme (46.0 pence)	124,816	6	57
Employee share option scheme (67.0 pence)	3,480	-	5
Employee share option scheme (74.0 pence)	1,080	-	1
Employee share option scheme (82.0 pence)	323,703	16	265
Employee share option scheme (51.0 pence)	6,000	-	27
Employee share option scheme (58.75 pence)	249,064	13	146
Employee share option scheme (66.5 pence)	75,000	4	50
Employee share option scheme (150.0 pence)	93,525	5	140
	878,872	**44**	**692**

There are no special rights or obligations attaching to the ordinary shares, and there are no shares in the Company with special rights with regard to control of the Company. The articles of association of the Company may be amended by special resolution of the Company's shareholders.

The Company's articles of association provide that the Company may refuse to transfer shares in the following customary circumstances: where the share is not a fully paid share; where the Company has a lien; where the share transfer has not been duly stamped with correct amount of stamp duty; where the transfer is in favour of more than four joint transferees; where the share is a certified share and is not accompanied by the relevant share certificate(s) and such other evidence as Board of Directors may reasonably require to prove the title of the transferor; or where the instrument of transfer is in respect of more than one class of share. These restrictions are in addition to any which are applicable to all UK listed companies imposed by law or regulation.

The notice of the Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the Annual General Meeting. All proxy votes are counted and numbers for, against or withheld in relation to each resolution are announced at the Annual General Meeting and published on the Company's website after the meeting.

At the Annual General Meeting to be held on 12 May 2011, shareholders will be asked to renew the Directors' power to allot shares and buy back shares in the Company and to renew the disapplication of pre-emption rights.

The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or on voting rights.

There are no significant agreements to which the Company is a party that may take effect, alter or terminate upon a change of control following a takeover bid other than in relation to (i) employee share schemes and (ii) the Company's borrowings, which would become repayable on a takeover being completed.

The Company's articles of association provide that (i) all Directors must stand for election at the first annual general meeting after having been appointed and by the Board and (ii) at each annual general meeting, one third of the directors who are subject to retirement by rotation must retire from office and may seek re-election. The articles set out the procedure for determining the identity of the Directors to retire at a particular annual general meeting.

Shares in the Company are held in the Pace plc Employee Benefits ("Trust") for the purpose of satisfying awards made under the Company's employees' share plans. The Trustees of the Trust may exercise the voting rights attaching to shares held in the Trust in respect of which the beneficial interest has not vested in any beneficiary provided that they are satisfied that to do so is the beneficiaries' interests. The trustees have waived their right to vote in respect of any such shares held above 5%.

The Company has granted options which are subsisting (including directors' options) in respect of the following presently unissued ordinary shares of 5p each.

Number of ordinary shares subject to option	Exercise period	Exercise price per share pence
117,071	1 October 2010 to 31 March 2011	82.0
774,629	1 October 2011 to 31 March 2012	67.0
909,027	1 October 2012 to 31 March 2013	74.0
351,634	1 October 2013 to 31 March 2014	154.0
108,784	20 May 2011 to 5 September 2011	150.0
13,137	29 January 2004 to 28 January 2011	610.0
15,000	24 July 2005 to 23 July 2011	375.0
129,950	24 July 2004 to 23 July 2011	375.0
20,337	18 January 2005 to 17 January 2012	357.0
140,000	22 October 2003 to 21 October 2012	15.75
30,000	26 August 2004 to 25 August 2013	51.0
50,000	17 August 2005 to 16 August 2014	51.0
513,852	2 October 2009 to 1 October 2016	58.75
50,000	19 February 2010 to 18 February 2017	69.5
508,746	1 November 2012 to 31 October 2017	97.75
2,051,884	24 June 2011 to 23 June 2018	85.5
1,190,136	24 June 2011 to 23 June 2013	85.5
547,988	24 June 2012 to 23 June 2014	85.5
222,240	24 June 2012 to 23 June 2018	85.5
300,000	18 December 2012 to 17 December 2018	47.0
82,560	18 December 2011 to 17 December 2018	47.0
245,270	11 March 2013 to 10 March 2019	75.0
2,166,561	11 March 2012 to 10 March 2019	75.0
501,882	30 July 2012 to 29 July 2019	199.25
30,000	17 December 2012 to 16 December 2019	193.60
2,498,958	8 March 2013 to 7 March 2020	176.70
381,250	8 March 2014 to 7 March 2020	176.70
684,342	11 March 2013 to 10 March 2020	178.50
150,000	14 April 2013 to 13 April 2020	196.80
91,346	7 September 2013 to 6 September 2020	208.00
250,000	15 October 2013 to 14 October 2020	188.40
15,126,584		

The Pace plc Employee Benefits Trust has granted options over existing shares to satisfy certain options. Details of these additional options are shown in note 26.

21 Share Premium Account

Group and Company	£m
At 31 December 2009	39.4
Premium on allotments	0.7
At 31 December 2010	**40.1**

The shares allotted during the year are listed in note 20.

22 Merger Reserve

Group and Company	£m
At 31 December 2009 and 31 December 2010	**55.5**

The merger reserve was created upon the acquisition of the set-top box and connectivity solutions business of Royal Philips Electronics.

23 Retained Earnings

Group	£m
At 31 December 2009	81.0
Retained profit for the year	49.9
Dividends to equity shareholders	(5.2)
Deferred tax adjustments	(1.5)
Employee share incentive charges	6.1
Movement in employee share trusts	(3.4)
At 31 December 2010	**126.9**

Company	£m
At 31 December 2009	53.5
Retained profit for the year	28.7
Dividends to equity shareholders	(5.2)
Deferred tax adjustments	(1.5)
Employee share incentive charges	6.1
Movement in employee share trusts	(3.4)
At 31 December 2010	**78.2**

Own shares held

At 31 December 2010 the Pace plc Employee Benefits Trust held 11,263,524 (2009: 9,712,349) shares in the Company which cost £10,352,772 (2009: £7,263,503). These shares are held to satisfy options granted to employees.

The amounts arising on settlement of share options from the employee share trusts represents cash receipts from the exercise of relevant share options.

The Pace plc Employee Benefits Trust has granted options to employees (including directors' options) over ordinary shares of 5p each as follows:

Number of ordinary shares subject to option	Exercise period	Exercise price per share pence
81,939	29 January 2002 to 28 January 2011	610.0
272,538	26 August 2004 to 25 August 2013	51.0
175,000	17 August 2005 to 16 August 2014	51.0
38,829	2 October 2009 to 1 October 2016	58.75
546,075	3 April 2010 to 2 April 2017	73.25
1,114,381		

The Pace plc Employee Benefits Trust holds the following shares to satisfy Performance Share Plans and Deferred Share Bonus schemes operated by the company.

1,485,480	27 February 2011 to 27 August 2011
278,132	3 August 2012 to 1 August 2019
2,427,377	5 May 2012 to 4 May 2019
388,878	18 May 2012 to 17 May 2019
1,956,202	26 February 2012 to 26 February 2020
171,480	15 March 2012 to 15 March 2012
3,511,207	8 March 2013 to 7 March 2020
56,126	7 September 2013 to 6 September 2020
10,274,882	

24 Profit for the Year

The parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements. The Group profit includes a parent Company profit after tax of £28.7m (2009: profit after tax of £30.3m).

25 Capital Commitments

	Group and Company	
	2010 £m	2009 £m
Contracted but not provided for	**1.8**	3.8

26 Employee Benefits

Pension plans

The Group contributes to several defined contribution Group Personal Pension Plans, which all executive directors and employees are entitled to join. The total expenses relating to these plans in the current year was £2.3m (2009: £1.4m). At 31 December 2010 contributions of £Nil (2009: £Nil) were outstanding.

Share based payments

Details of the Company's share option plans are included in notes 20 and 23 and the Remuneration Report. The number and weighted average exercise price of share options is as follows:

	Average Exercise Price 2010	**Weighted Number of Options 2010**	Average Exercise Price 2009	Weighted Number of Options 2009
Outstanding at the beginning of the period	**102.9p**	**13,378,742**	87.6p	19,319,988
Granted during the period	**162p**	**4,770,273**	92p	4,163,647
Forfeited during the period	**296p**	**1,064,178**	123p	1,598,874
Exercised during the period	**76p**	**843,872**	59p	8,506,019
Outstanding at the end of the period	**113.7p**	**16,240,965**	102.9p	13,378,742
Exercisable at the end of the period	**101p**	**2,898,498**	172p	2,469,369

Outstanding options were as follows:

Range of exercise prices (pence)	Number at 31 Dec 2010	Weighted average remaining contractual life months	Weighted average exercise price
15.75p to 49p	522,560	75	39p
51p to 75p	5,771,781	65	70p
78p to 97.75p	4,638,065	89	87p
200p to 375p	5,213,483	100	185p
599.5p to 857.5p	95,076	1	610p
	16,240,965	**83**	

The weighted average exercise price of options granted in the period was 162p (2009: 92p).

The weighted average fair value at the measurement date of options granted in the year was 20p (2009: 15p).

The weighted average exercise price at the date of exercise for options exercised in the year was 76p (2009: 59p).

The weighted average share price during the year was 194p.

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 periods shown. Expectations of early exercise are incorporated into the model, where appropriate.

	2010	2009
Average share price (pence)	**186.27**	107.5
Weighted average exercise price (pence)	**113.7**	102.9
Expected volatility (%)	**50%**	50%
Option life (years)	**10**	10
Dividend yield (%)	**1.4**	1.4
Risk free interest rate (%)	**5.0%**	5.0%

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 is £6.1m (2009: £2.5m) which is comprised entirely of equity settled transactions.

27 Leasing Commitments

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

	Group		Company	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Land and buildings				
Within one year	**6.3**	3.1	**0.7**	0.7
Between two and five years	**16.8**	10.7	**3.1**	2.7
In five years or more	**7.5**	6.3	**0.8**	1.3
	30.6	20.1	**4.6**	4.7

28 Related Parties

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its 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 services provided by Pace Americas Inc., Pace France SAS and Pace Micro Technology (India) Private Ltd. Total transactions of £464.4m were made in the year (2009: £355.0m).

The amounts due to and from these subsidiaries are shown within notes 15 and 16.

Transactions with key management personnel

Key management of the Group is through the executive directors of the Company. The main transactions with these individuals are disclosed in the Remuneration Report on pages 21 to 28.
Of the share based payments charge of £6.1m made in the period, 39% relates to options granted to the executive directors.

29 Acquisitions In The Period

The Group has made the following three acquisitions during the year, all of which were 100% acquired:

Acquisition date	Subsidiary	Cash consideration £m	Deferred and contingent consideration £m	Fair value of net assets acquired (i)(v) £m	Goodwill arising on acquisition (ii)(iv) £m	Costs (iii) £m
8 April 2010	Bewan Systems SA	9.0	2.3	4.8	6.5	0.2
20 October 2010	2Wire Inc.	283.4	-	158.8	124.6	5.5
4 November 2010	Latens Systems Ltd	18.8	10.0	9.2	19.6	0.2
Total		**311.2**	**12.3**	**172.8**	**150.7**	**5.9**

(i) As at 31 December 2010 the fair values of acquired assets, liabilities and goodwill have been determined on a provisional basis, pending finalisation of the post-acquisition review of the fair value of the acquired net assets. There were no significant fair value adjustments arising on the acquisitions, other than the recognition of intangible assets and deferred tax noted below.

(ii) The goodwill arising on the acquisitions relates to the skills and talents of the acquired business workforces, the synergies expected to be achieved from integrating the business into the existing business and the benefits of future market expansion. These benefits are not recognised separately from goodwill as the future economic benefits arising cannot be reliably measured.

(iii) Costs directly attributable to each acquisition have been expensed within exceptional items (note 5).

(iv) None of the goodwill is expected to be deductible for income tax purposes.

(v) There were no material differences between the gross contractual amounts receivable and the fair value of receivables disclosed as “other current assets”.

Bewan Systems SA (“Bewan”), founded in 1996, and based in Paris, is a leading European supplier of secure network solutions and unified communications, for the home and office users as well as for Telecoms and Internet operators. The company offers a comprehensive range of easy-to-deploy hardware and software solutions designed to accelerate the digital convergence process and allow universal access to the mobile digital home. Bewan’s solutions are used daily by millions of users and around a dozen major telecoms operators in Europe, Africa and the Middle East.

2Wire, Inc. (“2Wire”), head quartered in San Jose, CA, is a leading provider of advanced residential gateways and associated software and services for the broadband service provider market. 2Wire has established customer relationships in the tier one telco market, in particular with service providers in North America. AT&T has been a customer of 2Wire for 10 years and 2Wire provides software and hardware solutions to enable AT&T’s U-verseSM suite of services that includes multiroom high definition TV, high-speed broadband and telephony.

Latens Systems Ltd (“Latens”) is a Belfast based software specialist for the payTV market. Formed in 2002, Latens has pioneered the development of dynamic, software-based Conditional Access for Pay-TV and IPTV operators. Latens’ key differentiator is that its solutions have been developed by broadcast and security experts specifically for pay-TV and content distribution to a variety of set top boxes, PCs and other consumer devices.

	Recognised amount of identifiable assets acquired and liabilities assumed			
	Bewan £m	2 Wire £m	Latens £m	Total £m
Net assets acquired:				
Intangible assets – customer contracts and relationships	-	86.5	6.1	92.6
Intangible assets – technology and patents	-	69.2	5.7	74.9
Intangible assets – other	0.6	5.6	0.8	7.0
Property, plant and equipment	0.2	4.5	0.2	4.9
Other current assets	3.4	84.2	1.7	89.3
Other current liabilities	(3.6)	(102.4)	(3.0)	(109.0)
Provisions/ non-current liabilities	(0.1)	(7.8)	(0.2)	(8.1)
Deferred tax	(0.2)	(19.4)	(1.8)	(21.4)
Cash and cash equivalents	4.5	38.4	0.1	43.0
Borrowings	-	-	(0.4)	(0.4)

Identifiable net assets	4.8	158.8	9.2	172.8
Goodwill	6.5	124.6	19.6	150.7
Total consideration	11.3	283.4	28.8	323.5
Satisfied by:				
Cash consideration	9.0	283.4	18.8	311.2
Deferred and contingent consideration	2.3	-	10.0	12.3
Total consideration transferred	11.3	283.4	28.8	323.5
Cash consideration	9.0	283.4	18.8	311.2
Cash and cash equivalent balances acquired	(4.5)	(38.4)	0.3	(42.6)
Net cash flow on acquisitions completed in 2010	4.5	245.0	19.1	268.6
Deferred consideration paid during 2010 in respect of acquisitions completed in earlier years				2.2
Net cash flow on acquisitions				270.8

Bewan

The acquisition of Bewan enhances Pace's capability in the development of converged solutions as advanced residential gateways become increasingly important both as standalone devices and in combination with set-top box products that drive whole home networks.

The contingent consideration relates to an earn-out agreement, for which the maximum payable amount of €2.5m has been recognised (the minimum earn out being nil). Based on current expectations the directors expect the maximum earn out to be achieved.

Intangibles relating to brands have been identified and are being amortised over a period of three years.

Bewan has earned revenues of £11.6m and made profits from operations (excluding exceptionals and amortisation) of £0.7m in the period since acquisition.

2Wire

This acquisition extends Pace's US market coverage with entry into the tier one telco market. 2Wire, with its expertise in the broadband residential gateway market, will help address a full range of US operator requirements to complement Pace's current position in the US with cable and satellite operators. 2Wire's software and gateway expertise will further drive development of Pace's home entertainment convergence strategy. The transaction introduces deep client relationships with important customers including AT&T and offers benefits from increased scale and operational synergies.

Given the above key intangibles identified as part of the purchase price allocation exercise concern customer contracts and relationships, technology, patents and maintenance agreements. Such intangible balances are being amortised over periods ranging from one year to eight years.

Since the acquisition 2Wire has earned revenues of £74.5m and made profits from operations (excluding exceptionals and amortisation) of £8.6m.

Latens

The acquisition of Latens helps further widen Pace's capabilities, particularly with regard to technology, skills and know-how concerning cardless conditional access security, downloadable security, browser based middleware and user interface deployments and back-end/head-end know how.

From the purchase price allocation exercise carried out intangible assets have been identified and relate to customer relationships, technology and trade name and are being amortised over periods of up to 10 years.

The deferred and contingent consideration relates to an earn-out agreement, for which the maximum payable amount of £5m has been recognised (the minimum earn out being nil). Based on current expectations the directors expect the maximum earn out to be achieved and paid in 2012. In addition £5m has been recognised as deferred consideration, linked partially to key employees remaining with the Group until at least 31 December 2011, and is payable no later than 1 May 2012. This payment has been reviewed in accordance with IFRS3 Application guidance and is considered to be consideration and not remuneration.

Since the acquisition Latens has earned revenues of £1.2m and made a loss from operations (excluding exceptionals and amortisation) of £0.1m.

The following summary presents the Group as if the businesses acquired had been acquired on 1 January 2010. The amounts include the results of the acquired businesses but do not include any exceptional items or any amortisation of separately identified intangibles, which are being amortised over various periods ranging from one to ten years. In addition the amounts do not include any possible synergies from the acquisitions. The results of the acquired companies for the period before acquisition have not been adjusted to reflect Pace accounting policies nor to reflect fair value adjustments made on acquisition. The information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined entities.

	Proforma Group £m
Revenue	1,608.3
Profit before tax, amortisation and exceptional items	108.1

30 Free cash flow and cash investment in acquisitions

	2010 £m	2009 £m
Free cash flow		
Cash generated from operations	**87.2**	103.6
Tax paid	**(25.2)**	(12.4)
Purchase of property, plant and equipment	**(19.8)**	(12.4)
Proceeds from disposal of property, plant and equipment	**-**	0.9
Development Expenditure	**(36.7)**	(42.3)
Exceptionals paid in the year	**10.9**	-
Acquisitions working capital increase from date of acquisition to year end	**20.0**	-
Free cash flow	**36.4**	37.4

	2010 £m	2009 £m
Cash investment in acquisitions in the year		
Acquisition of subsidiaries, net of cash acquired	**(270.8)**	-
Acquisitions working capital increase from date of acquisition to year end	**(20.0)**	-
Cash investment in acquisitions in the year	**(290.8)**	-

31 Post Balance Sheet Events

There are no significant or disclosable post balance sheet events.

Directors, Secretary and Advisers

Directors
all of Victoria Road Saltaire BD18 3LF England

Robert Michael McTighe	Non-executive Chairman
Neil Gaydon	Chief Executive Officer
Stuart Andrew Hall	Chief Financial Officer
David Alyn McKinney	Chief Operating Officer
Patricia Chapman-Pincher	Non-executive Director
John Grant	Non-executive Director
Michael Inglis	Non-executive Director

Company Secretary
Anthony John Dixon

Registered and Head Office
Victoria Road
Saltaire BD18 3LF
England
Registered Number 1672847

Financial Advisers
NM Rothschild & Sons Ltd
1 Park Row
Leeds
LS1 5NR

Auditors
KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

Registrars
Capita Registrars Ltd
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Stockbrokers
RBS Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA

JP Morgan Cazenove
20 Moorgate
London
EC2R 6DA

Five Year Record and Shareholder Information

	Year ended 31 Dec 2010 £m	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m	7 months ended 31 Dec 2007 £m	Year ended 2 June 2007 £m
Revenue	**1,330.9**	1,133.5	745.5	249.9	386.5
Profit/(loss) before tax	**71.1**	69.9	13.8	15.4	4.9
Profit/(loss) before interest, exceptional items, amortisation and tax	**103.6**	76.4	29.2	15.9	8.3
Profit/(loss) after tax	**49.9**	51.4	11.1	14.4	6.8
Basic EPS/(LPS)	**17.0p**	17.7p	4.0p	6.3p	3.0p
Basic EPS/(LPS) before exceptional items and goodwill amortisation	**23.9p**	19.3p	7.8p	6.3p	3.5p
Total equity	**242.6**	196.3	143.9	67.6	50.9

Shareholder Information

Annual General Meeting

The Company's Annual General Meeting will be held at 12 noon on 12 May 2011, at the Company's head office, Victoria Road, Saltaire, West Yorkshire BD18 3LF.

Capita Registrars

Enquiries regarding shareholdings, change of address or other particulars should be directed in the first instance to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by telephone on 0870 162 3131. They also provide a range of online shareholder information services at www.capitashareportal.com where shareholders can check their holdings and find practical help on transferring shares or updating their details.

Multiple Accounts on the Shareholder Register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register. This may be caused by either your name or address appearing on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your consent. If you would like any multiple accounts combined into one account, please write to Capita Registrars at the address given above.

Unsolicited Mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations, which may use it as a mailing list, resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS, or call +44 (0) 20 7291 3310 for an application form or visit www.mps-online.org.uk

Pace Website

Shareholders are encouraged to visit our website, www.pace.com, which has a wealth of information about the Company.

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www.pace.com

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