A global leader in the provision of technology solutions for the PayTV and broadband industries.

Pace plc
Annual Report and Accounts
for the year ended 31 December 2014

Read our Chief Executive Officer's Review on **page 7**

Read about our strategy on **page 8**

Read our Financial Review on **page 20**

Read more **www.pace.com/IR**

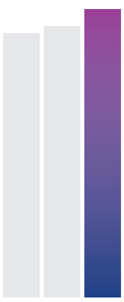
Transform. Maintain. Widen out.

The Board is confident that, through Aurora, potential additional acquisitions and the ongoing delivery of our Strategic Plan, Pace will continue to strengthen its position as a market-leading technology solutions provider for the PayTV and broadband industries and deliver further value to its shareholders.

Revenue ($m)

2,620.0

+6.1%



2014: 2,620.0

2013: 2,469.2

2012: 2,403.4

Adjusted EBITA[1] ($m)

241.1

+24.5%

2014: 241.1

2013: 193.6

2012: 158.1

Operating margin[2] (%)

9.2%

+1.4ppt

2014: 9.2%

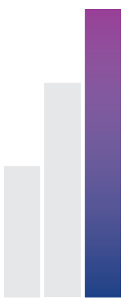
2013: 7.8%

2012: 6.6%

Profit before tax ($m)

175.7

+34.3%



2014: 175.7

2013: 130.8

2012: 80.1

Pace's solutions empower Cable, Telco and Satellite operators to simply and cost-effectively innovate at the speed they want, in the way they want for their subscribers. Pace has built up its experience and expertise over 30 years and this is recognised by a customer base of over 200 operators around the globe.

Financial highlights

- Increased operating profit through top-line growth due to Aurora acquisition, improved revenue mix, supply chain efficiency and increased operational efficiency.
- Third year of strong cash flow generation; $204.0m free cash flow (84.6% of adjusted EBITA) and sustainable cash flow model in place.

Financial review **pages 20 to 22**

Operational highlights

- Good first year for Aurora Networks – strong trading performance and integration complete with expected synergies delivered ahead of plan.
- Continued strong progress against Strategic Plan:
  - 9% operating margin target achieved one year ahead of plan.
  - Significant progress has been made in improving the efficiency and effectiveness of the business.
  - Reconfirmed as the market leader in PayTV hardware; global number one in Set-top boxes, Media Servers and Advanced Telco Gateways.
  - Built on the momentum of 2013 with a number of key wins across all areas of our software and services offerings and a strong focus on product and customer project delivery for major launches with key customers.

Business performance **pages 12 to 15**

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Profit after tax ($m)

148.0

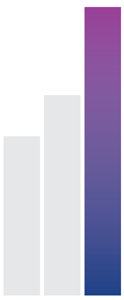
+53.1%

2014: 148.0
2013: 96.7
2012: 58.4

Adjusted basic EPS[3] (c)

63.6

+43.6%

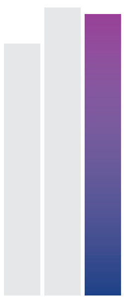


2014: 63.6
2013: 44.3
2012: 35.1

Free cash flow[4] ($m)

204.0

-2.4%



2014: 204.0
2013: 209.0
2012: 182.7

Full year proposed dividend per ordinary share (c)

7.00

+27.5%

2014: 7.00
2013: 5.49
2012: 4.50

1 Operating profit before exceptional costs and amortisation of other intangibles.
2 Adjusted EBITA as a percentage of revenue is expressed as operating margin.
3 Adjusted basic EPS is based on earnings before the post-tax value of exceptional costs and amortisation of other intangibles.
4 Free cash flow is calculated as cash flow before proceeds from issue of shares, dividends, acquisition cash flows and debt repayment/drawdown.

Empowering innovation and growth for the PayTV and broadband industries

Pace creates world-leading technologies, products and services for the PayTV and broadband industries. Leveraging our complete portfolio of Media Servers, Set-Top Boxes, Gateways, sophisticated software, Optical Transport and Access Network solutions and highly specialised services support, Pace's solutions empower customers to simply and cost-effectively deliver and evolve digital services at the speed they want and in the way they want, enabling them to build their success. Pace's 30 years of leadership, experience and expertise is recognised by a customer base, including over 200 of the world's leading PayTV and broadband operators, that spans the globe.

Pace is headquartered in Saltaire, UK with major offices in the US, France, Brazil, India, Australia and South Africa and smaller offices close to our customers in all markets we serve.

Total STBs deployed
>140m

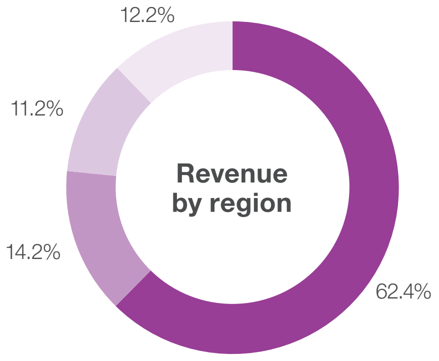
New products launched in 2014
>40

Devices managed
34m+

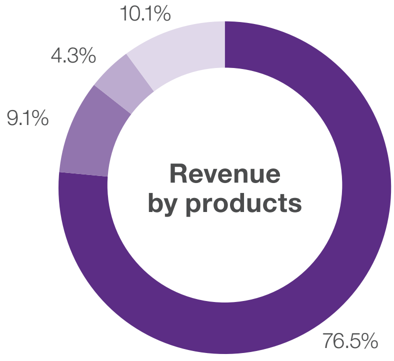
Total optical nodes deployed
>250k

Countries with offices
14

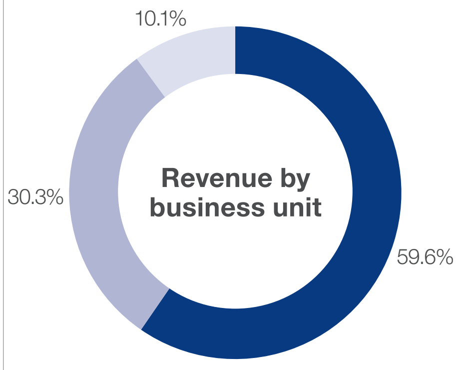
Number of employees
2,000+



North America	**$1,635.6m**	+6.2%
Latin America	**$373.2m**	+4.1%
Europe	**$291.2m**	-10.1%
Rest of World	**$320.0m**	+29.9%



Set-Top Boxes and Media Servers	**$2,003.5m**	+1.2%
Residential Gateways	**$239.7m**	-36.2%
Software and Services	**$112.2m**	-1.4%
Networks	**$264.6m**	n/a



Pace Americas	**$1,561.6m**	-7.1%
Pace International	**$793.8m**	+0.1%
Pace Networks	**$264.6m**	n/a

Our customers

Pace's global customer base includes over 200 of the world's leading operators in cable, satellite, telco, IPTV and terrestrial markets.

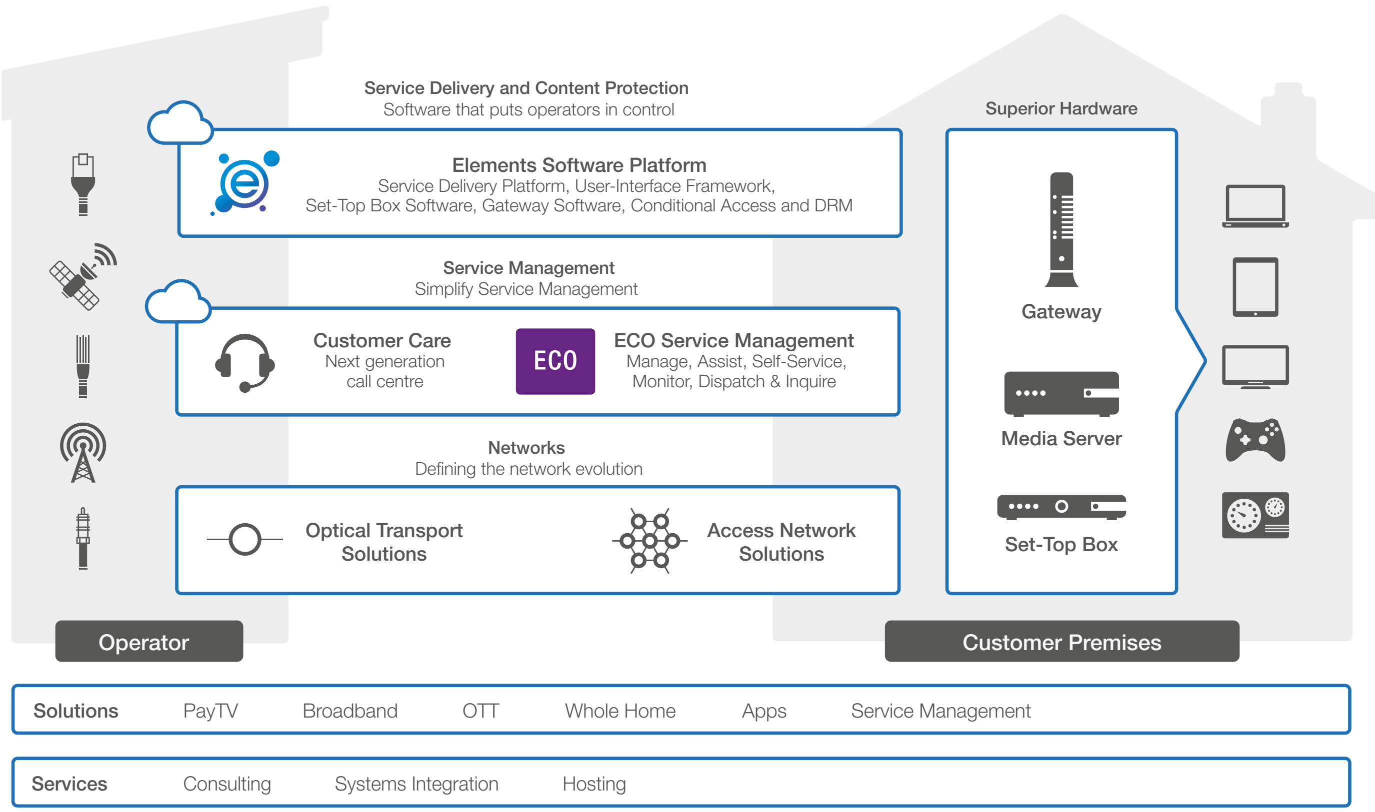
- Serving 8 of the world's top 10 PayTV operators
- Serving the #1 satellite, cable and telco operators in the USA
- Serving 8 of the top 10 PayTV operators in Latin America

Our customers include:

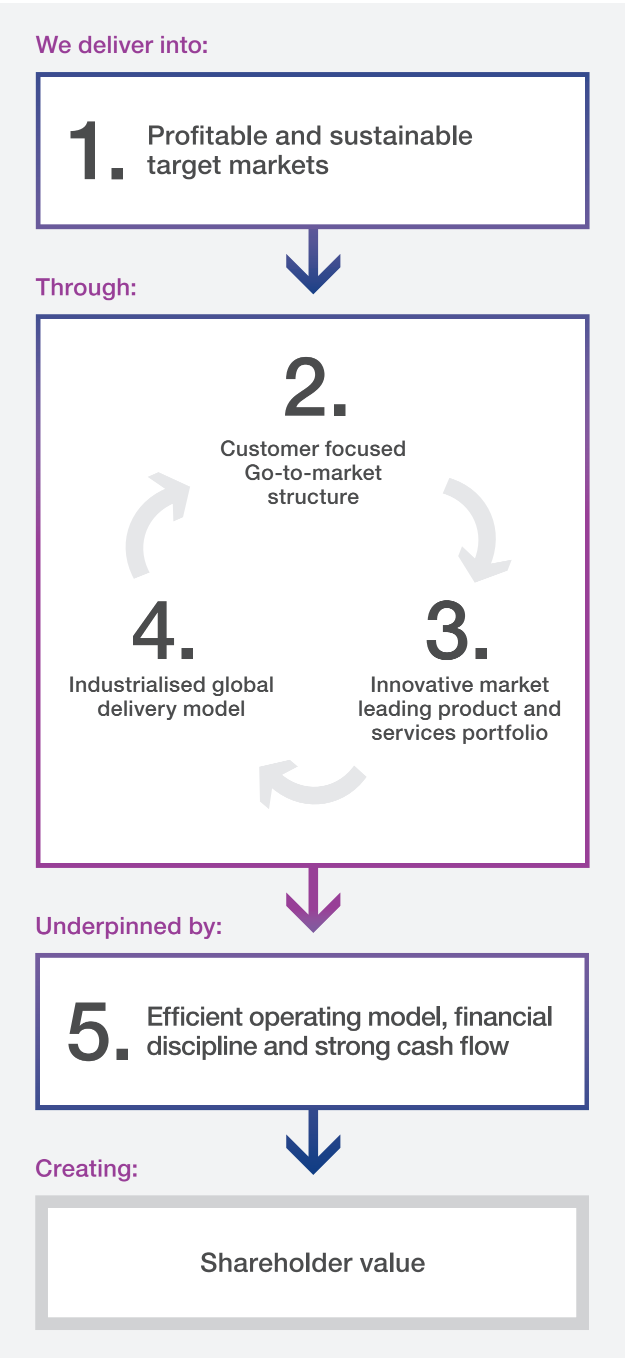
Our portfolio

Pace has an extensive portfolio of products and solutions that meet the diverse and demanding needs of PayTV and Broadband operators around the world.

- Our ECO Service Management and Elements Software Platforms and supporting services are used by major operators across the globe to deliver, secure and manage advanced services to millions of consumers.
- Through our acquisition of Aurora Networks, Pace is now a leading developer and manufacturer of advanced, next-generation Optical Transport and Access Network solutions for broadband networks enabling operators to cost-effectively support their consumers' constant demand for ever increasing bandwidth.
- Within Customer Premise Equipment, Pace is the global number one in Media Servers, Set-top boxes (STBs) and Advanced Telco Gateways.



Delivering value through a robust business model



Pace delivers value through a highly efficient, profitable and sustainable business model based upon our core strengths and supported by our long-term strategy.

What we do

Pace's principal activities are the development, design and distribution of technologies, products and services for managed subscription television, telephony and broadband services and the provision of engineering design and software applications to its customers. The Group also provides related support services including consulting, systems integration and customer care centres.

How we do it

The combination of our global scale, decentralised and customer-focused structure, broad product portfolio, technological innovation and efficient operating model differentiate Pace from its peer group.

1. Profitable and sustainable target markets

- Pace has an unmatched customer base of blue-chip PayTV and Broadband Service Providers.
- These Service Providers play a key role in creating, aggregating and managing complex services which are sold direct to consumers with whom they have strong, multi-year relationships. This is a proven, sustainable, highly profitable and cash-generative business model.
- Due to high levels of competition and evolving consumer demands, Service Providers are increasing investments to deliver the best user experiences to their consumers, over the best networks that can be effectively managed and supported.
- This in turn creates a large, sustainable and profitable target market for Pace to address.

2. Customer focused go-to-market structure

- Pace goes to market through Strategic Business Units (SBUs) – these are standalone units that contain product management, sales, engineering and operations teams.
- The Customer Account Teams (CATs) within the SBUs are located close to the customer and are focused on the delivery of products and services to a particular market segment or region.
- The SBUs are supported by a lean corporate structure which provides governance and shared services that are required by all SBUs.

3. Innovative market-leading product and services portfolio

- Comprehensive portfolio of technologies, products and services that have been designed to enable operators to evolve and lead in competitive and fast moving broadcast and broadband markets.
- Product roadmaps developed in partnerships with customers.
- Focused advanced development enables Pace to lead the market in step change technologies.
- Specialised engineering teams who are focused on research and development.
- Strong go-to-market and development relationships with key Silicon Technology, Conditional Access, Middleware and other Technology partners.
- Proven track record of acquiring and integrating new products and technologies to increase the breadth and relevance of our product and services portfolio.

4. Industrialised global delivery model

- Global workforce and scale – c.900 employees engaged in R&D and Operations located across 6 continents with significant presence in UK, USA, France, Brazil, India, Australia and South Africa.
- Highly experienced workforce specialising in PayTV and broadband technologies.
- Engineering close to customer with core engineering centres with scale and expertise.
- Consistent and replicable delivery model with continuous improvement embedded to reduce time-to-market, improve efficiency and enable fast and effective integration of acquisitions.
- Robust, efficient and scalable global supply chain.
- Outsourced manufacturing overseen by rigorous Pace governance and quality control.

5. Efficient operating model, financial discipline and strong cash flow

- Effective decentralised go-to-market model leveraging Group scale, best practices and shared services enables best-in-sector cost to serve (Overheads as a percentage of revenue).
- Low capital intensity model with robust discipline on capital investment.
- Focused cash management and optimal working capital model tightly aligned to the profile of trading enable sustainable strong cash flow generation of 70-80% of adjusted EBITA.
- Conservatively geared balance sheet with a track record of rapid deleveraging.

Good progress has been made in the last 3 years; however, this is only the start of the journey and there is **significant opportunity** for further improvement in the business

Summary

- 2014 has been a year of execution and expansion; Pace has delivered strong financial results and created a platform for further growth.
- The acquisition of Aurora Networks Inc represented an important evolution in the Strategic Plan.
- Pace has been, and will continue to be, strongly positioned to capitalise on operators' increased investments over the next 3 to 5 years.
- Pace will not only strengthen its position as a market-leading technology solutions provider for the PayTV and broadband industries, but also become a "great technology company".

Allan Leighton
Chairman

Dear Shareholder

2014 has been a year of execution and expansion; the business has made good progress on its Strategic Plan, delivered strong financial results, and through both organic developments and the acquisition and integration of Aurora Networks, has created a platform for further growth.

In the year, the Group achieved a 24.5% increase in adjusted EBITA due to top-line growth through the Aurora Networks acquisition, improved revenue mix, supply chain efficiency and increased operational efficiency. The Group delivered a third consecutive year of strong free cash flow, and has delivered nearly $600m cumulative free cash flow in that time. This sustainable strong free cash flow model gives the Company the confidence and flexibility to identify and invest in both organic and acquisitive opportunities which will deliver long-term value to our customers and our shareholders.

In November 2011, the Company laid out a clear Strategic Plan that aimed to develop a distinctive, scalable and profitable technology solutions provider to PayTV and broadband industries by growing a broader platform across hardware, software and services. In the last three years, we have continued to evolve and deliver against this plan.

The acquisition of Aurora Networks represented an important evolution in the Strategic Plan, enabling Pace to widen out into network infrastructure and build deeper, more embedded relationships with our customers. The now fully integrated Networks business unit has had a great first year and we are confident that it will make further progress in 2015 and beyond.

The target of the Strategic Plan was to achieve a 9% Operating Margin within a 4 to 5 year horizon. With a 9.2% Operating Margin in 2014, I am delighted to announce that Pace has achieved this target a year ahead of plan. However, this is only the start of the journey and there is significant opportunity for further improvement in the business.

During this time the PayTV and Broadband markets have also evolved significantly; our customers continue to respond to both the demands of their consumers and the various disruptive threats by creating increasingly innovative and engaging new services, building better and faster networks whilst delivering an always-on, always-supported managed service. Pace has been, and will continue to be, strongly positioned to capitalise on these increased investments over the next 3 to 5 years.

By continuing to execute against our Strategic Plan and capitalising on the significant market opportunity, Pace will not only strengthen its position as a market-leading technology solutions provider for the PayTV and broadband industries, but also become a "great technology company".

The strong performance in 2014 and the trajectory of the business give the Board confidence to continue building on the progressive dividend policy that was introduced in 2009. Therefore the Board is recommending a final dividend of 4.75 cents per share, giving a full year dividend of 7.00 cents per share, a 27.5% increase on 2013. The dividend reflects the robust ongoing cash generation of the business.

Board changes

Mike Inglis was reappointed as a Non-executive Director on 13 March 2014. Roddy Murray resigned from his role as Chief Financial Officer and Executive Director on 27 July 2014. Mark Shuttleworth was appointed as Chief Financial Officer and joined the Board on 12 January 2015.

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 Allan.Leighton@pace.com.

Yours sincerely

Allan Leighton
Chairman
3 March 2015

2014: a year of **execution** and **expansion**

Summary

- **Increased revenue**

$2.62bn

6.1% growth due to Aurora and strong demand for STBs and Media Servers

- **Increased profitability**

9.2%

Mid-term operating margin achieved a year ahead of plan

- **Strong cash flow generation**

$204m

Free cash flow (84.6% of adjusted EBITA) and sustainable cash flow model in place

Mike Pulli
Chief Executive Officer

2014 has been a year of execution and expansion for Pace. We have delivered a strong set of financial results, made good progress on our Strategic Plan and created a platform for further improvement in 2015 and beyond.

Key highlights of the year

Pace is continuing to become a more profitable, cash-generative business with a broader spread of products and customers and a better mix of revenue. Revenue in 2014 increased by 6.1% ($2,620.0m vs $2,469.2m in 2013). Operating margin in the period increased from 7.8% to 9.2% reflecting strong contribution from the Aurora Networks acquisition (Networks), better revenue mix, improving supply chain effectiveness and lower underlying operating costs. On an underlying basis (excluding Networks), profitability increased (operating margin 8.2% vs 7.8% in 2013) despite lower revenue ($2,355.4m vs $2,469.2m in 2013). The cash flow performance of Pace remains strong with $204.0m of free cash flow generated in the period, 84.6% of adjusted EBITA.

Strategic plan

The Strategic Review undertaken in 2011 highlighted that Pace operates in sustainable and profitable markets where we have differentiated capabilities; however, the Group must continue to execute on its three primary objectives to take advantage of the opportunities for improving both the level and quality of its earnings. We remain focused on these objectives and have made good progress both in delivering strong results in 2014 and creating a platform for further improvement in 2015 and beyond.

In addition to the various organic developments Pace has undertaken over the past two years, the acquisition of Networks is a key step in the evolution of Pace and enhances our strategy to grow a broader platform across Hardware, Software and Services.

Strategy **pages 8 to 9**

- **Transform**
- **Maintain**
- **Widen out**

Our **strategy**

In November 2011, the Company laid out a clear Strategic Plan that aimed to develop a distinctive, scalable and profitable technology solutions provider to PayTV and Broadband industries by growing a broader platform across hardware, software and services. We have continued to evolve and deliver against this Plan, within which there are three key objectives:

Continue to **transform** core economics

- **Transform**
- Maintain
- Widen out

Significant progress has been made in improving the efficiency and effectiveness of the business. As the major initiatives which commenced in 2012 continue to deliver tangible benefits, a cost-focused discipline and high level of accountability is now ingrained across Pace and has been implemented in the newly acquired Networks business.

- Underlying operating costs[5], excluding the Networks SBU and the capitalisation and amortisation of development expenditure, reduced by $19.3m (7.4%) in 2014 due to further efficiency programmes across the business. Whilst reducing underlying operating expenses, Pace has continued to invest further in Software and Services and other growth opportunities.
- Application of Pace efficiency and effectiveness principles to the Networks business enabled targeted cost and working capital synergies to be achieved ahead of plan.

Maintain PayTV hardware leadership

- Transform
- **Maintain**
- Widen out

Pace was reconfirmed as the market leader in PayTV hardware; global number one in Set-top boxes[6], Media Servers[7] and Advanced Telco Gateways[8].

- Record PayTV Consumer Premise Equipment (CPE) revenue in H2 2014 only partially offset a weaker H1 2014 resulting in a 4.8% revenue decline to $2,243.2m (2013: 2.6% growth).
- STB and Media Server revenues were up 1.2% to $2,003.5m in 2014 (2013: $1,979.6m), driven largely by high demand in H2 2014 following a number of major launches across all regions.
- The move to Media Servers and whole home solutions is continuing at speed across the globe with over 27% of Pace's shipments in the STB and Media Server.

Widening out

- Transform
- Maintain
- **Widen out**

Pace has built on the momentum of 2013 with wins across all areas of our software and services offerings and good progress on product and customer project launches.

- Pace achieved a 231.1% increase (2013: 5.4% increase) in non-CPE revenue to $376.8m (2013: $113.8m) due to the acquisition of Networks.
- Revenues in the Networks Strategic Business Unit (SBU) have been strong, reflecting cable operators' need for increased bandwidth and Pace Networks' product set being an efficient way to upgrade network infrastructure. Networks delivered a strong performance in 2014 and further progress is expected in 2015.

- Cash generation was strong throughout the year; free cash flow was $204.0m (2013: $209.0m) due to further realignment of working capital and focused cash management. Since the completion of the acquisition of Networks for a headline consideration of $310m on 6 January 2014 (pro forma debt of $279.2m), net debt has been reduced by $186.1m (66.7%) to achieve a net debt of $93.1m at 31 December 2014 (net cash at 31 December 2013: $33.0m).

The various components of the transform core economics stream of the Strategic Plan are now well embedded across the Company and are delivering significant financial and operational benefits. However, the Company believes significant opportunities remain for further improvement and will pursue areas of inefficiency and will relentlessly strive to continually improve operating effectiveness across all areas of the business.

5 See note 31 for a reconciliation of underlying operating costs.

category being Media Servers and related client devices. In the year, Pace announced Media Server wins and deployments with a number of customers including BeIn Sports, Comcast, Foxtel and Liberty Global. We have a strong Media Server pipeline and anticipate increased demand across the globe in 2015 and beyond.

- Demand for traditional STBs remains strong; in the year, Pace achieved next generation hardware wins at a number of longstanding tier one customers, including AT&T, Net Brazil, Oi, Sky Italia, Tata Sky and Zon Optimus.
- Gateway revenues were down 36.2% to $239.7m in 2014 (2013: $375.8m) due to reduced demand for legacy products in H1 2014. However, the launch of a number of new products enabled a 110.9% increase in revenue in H2 2014 compared to H1 2014. Wins were achieved with customers including AT&T, GVT and a number of Independent Operating Companies (IOCs) in North America. In addition, Pace launched a range of DOCSIS 3.0 Cable Gateways in the North American market, our first development in this growing market. The Company believes the overall market demand remains strong for high performance Residential Gateways from Service Providers to effectively deliver high quality double and triple-play services.

6 By volume (2013) – IHS Set-Top Box Market Monitor Q1/Q2 2014.

7 By volume (2013) – IHS Set-Top Box Market Monitor Q1/Q2 2014.

8 By value (2013) – Infonetics-4Q13-BB-CPE-Subs-Mkt-Fcst.

- Software and Services revenues were down 1.4% to $112.2m (2013: $113.8m) as an increase in revenue from Elements and ECO software products and the Customer Care business were offset by declines in legacy software contracts.
- The Pace Elements software platform continues to gain traction as part of an advanced integrated solution with a number of wins for deployment in 2015 and the launch of the whole home iQ3 solution at Foxtel, Pace's first integrated solution with a tier one service provider.

The Elements software platform (including Titanium Conditional Access) is currently being used by over 9.3m subscribers (2013: 6.9m), a 34.8% increase in the last twelve months. In addition to shipping over 5m Reference Design Kit (RDK) compliant devices, Pace's role at the forefront of the RDK initiative was reaffirmed with the announcement that the Elements Software Platform now has full RDK compatibility.

- The ECO Service Management Platform is now managing over 34.0m devices (2013: 29.8m), a 14.1% increase in the last twelve months. New wins include Foxtel, Frontier Communications and Logic Communications. These wins build on a strong global customer footprint that includes AT&T, BSkyB, Telmex and Telstra.

Market **dynamics**

Global digital PayTV market revenue (CAGR from 2014 to 2018)

>6%

Global digital PayTV market subscriber growth (CAGR from 2014 to 2018)

>7%

Operator consolidation –an opportunity for Pace

10%

subscriber growth in emerging markets

>14m

Media Servers and thin client devices shipped by Pace around the world in the past 3 years across more than 15 service providers

The markets which Pace serve continue to remain strong; global digital PayTV revenue and subscribers are at record levels and a Compound Annual Growth Rate (CAGR) of 6% for revenue and 7%[9] for subscribers is expected between 2014 and 2018. Underlying the strength of the PayTV market are a number of key dynamics, both from an operator and consumer perspective:

- **Operator consolidation:** The rate of PayTV and telecoms operator consolidation over the past 12 months, both rumoured and realised, is unprecedented. These significant investments into the PayTV space reflect the strength of and confidence in the PayTV model, and are likely to continue to reshape the industry landscape for many years to come. Each of the transactions have specific strategic rationale but a number of general strategic aims have been publicly stated. These include: greater scale, benefiting programming costs and service and technology innovation; provision of a broader offer of services; and enabling the larger combined entities to compete more effectively in an increasingly crowded and competitive marketplace. These enlarged service providers will aim to offer better, more innovative and engaging services to their customers supported by the very best technology, with higher expectations and demands on their technology vendors that only the largest, most innovative and diversified companies such as Pace can provide.
- **Subscriber growth beyond mature markets:** In emerging markets, digital PayTV subscriber growth is still strong with over 10% subscriber CAGR predicted from 2014 to 2018[9]. This growth is driven by a number of factors such as demographic transition, introduction of PayTV into greenfield markets, analogue to digital transition, changing market regulation and increasing consumer demand for high-quality video entertainment. With our deep in-market coverage and capability, a global scale and broad portfolio of products and services including integrated solutions (Pace hardware, software and conditional access) designed for emerging market service providers, Pace is well placed to support service providers in these markets during this growth period.
- **Whole home and Media Servers becoming the norm:** The technology refresh cycle to Media Servers continues at pace across the industry with over 5m devices shipped globally in 2013 and the total size of the market predicted to grow 23.4% from 2014 to 2018 (CAGR) to over $4.6bn[9]. A Media Server combines the functionality of the STB and the Gateway, augmenting traditional broadcast with IP-enabled services and enabling video content to be distributed around the home; a key component of the move to "TV Everywhere". The Media Server product segment is evolving to become the main hub of the home, enabling any data connectivity (video, voice, broadband, home automation, etc.) around the home with both operator-provided and consumer-purchased devices. Pace has been widely acknowledged as a clear market leader in the Media Server segment, having shipped over 7 million Media Servers and over 7 million thin client devices over the last three years, with wins and deployments for more than 15 service providers around the world.

9 IHS Television Intelligence Service 2015.

Demand for high-speed data growing at a significant rate

180%

growth to 14GB per capita from 2013 to 2018

>34m

devices managed by Pace

6m

calls handled per annum by Pace on behalf of our customers

- **Rapidly evolving advanced user experiences:** As communications and entertainment services converge and we move to an always-connected world, increasingly technology-aware consumers are demanding ever more advanced and rapidly evolving user experiences from their Service Providers. TV Everywhere, Ultra High Definition (UHD) and great in-home wireless connectivity are three examples of advanced user experiences that are resulting in technology change and faster refresh cycles. With TV Everywhere, service providers are marrying the best of the Over the Top (OTT) experiences with the great content and support model of the traditional broadcast offering, enabling consumers to watch what they want to watch, whenever and wherever they want to watch it. The expected emergence of UHD video, over 60 million UHD televisions predicted to be shipped in 2018 (24% of total shipments)[9], brings not only a far greater picture resolution, but a wider range of colours and faster refresh of picture resulting in a far more immersive experience than High Definition. Consumers now expect to be able to access all their services at any time on their in-home wireless network. To enable this, service providers are rolling out advanced residential gateways with next generation wireless network technologies (such as Wi-Fi 802.11ac) that give greater coverage and increased bandwidth to the consumer. With a strong track record as a technology innovator for the PayTV industry, Pace is at the forefront of supporting service providers to develop and deliver these rapidly evolving user experiences to their consumers.
- **Bandwidth, bandwidth and more bandwidth:** With increasing numbers of connectable devices, growing usage of "video everywhere" and other data intensive applications such as wi-fi offload, consumer demand for high-speed data is increasing at a significant rate; global Internet traffic is predicted to reach 14 gigabytes (GB) per capita by 2018, up from 5 GB per capita in 2013[10]. To respond to this demand and compete in highly competitive markets, service providers need to upgrade their network capacity in a quick, effective and cost efficient manner. Aurora, one of the largest suppliers of Optical Transport and Access Network solutions, enables service providers to cost-efficiently increase network capacity whilst minimising disruption to customers, saving on power, space and operating expenses and leveraging existing network investments.
- **Supporting the increasingly complex connected home**: As service providers deliver more services to consumers and the number of connected devices in the home proliferates, the connected home continues to become increasingly more complex. With the emergence of the "Internet of Things" it is estimated that in 2020, the average broadband-connected home will have over 50 connected devices[11]. As this complexity increases, the need for the service providers to be able to effectively and cost-efficiently support the consumer becomes greater. Through our ECO Service Management Platform and next generation customer care centres, Pace manages over 34 million devices and handles 6 million calls per annum on behalf of over 20 service providers across the world.

These dynamics are driving increased investment by service providers to deliver the best networks, the best user experiences and the best service experience they can to their end users. As one of the leading providers of technology solutions to the PayTV industry with a blue-chip customer base, strong global footprint, broad portfolio of products and services, the Board believes that Pace is strongly positioned to capitalise on these major industry dynamics over the next 3-5 years.

10 Cisco® Visual Networking Index (VNI), 2014
11 OECD 2013

Business **performance**

STB and Media Servers ($m)

2,003.5

+1.2%

2014: 2,003.5

2013: 1,979.6

2012: 1,826.0

Gateways ($m)

239.7

-36.2%

2014: 239.7

2013: 375.8

2012: 469.4

Product Performance

Pace provides a broad portfolio of products and solutions to customers across the markets that we serve. This portfolio is divided into 4 product categories: STB and Media Servers, Gateways, Software and Services and Networks, with the revenue split as follows:

Product revenue split

	2014 $m	2013 $m
STB and Media Servers	**2,003.5**	1,979.6
Gateways	**239.7**	375.8
Software and Services	**112.2**	113.8
Networks	**264.6**	—
Total	**2,620.0**	2,469.2

Regional Performance

Pace has a broad global footprint within which individual markets are at varying stages of development. Overall, these markets have remained strong during the year, with PayTV continuing to show varying levels of subscriber and Average Revenue Per User (ARPU) growth despite perceived disruptive threats from new Over-the-Top (OTT) market entrants and economic uncertainty in emerging markets. On a global basis, digital PayTV subscribers are expected to grow at 7% Compound Annual Growth Rate (CAGR) between 2014 and 2018[12].

Regional revenue split

	2014 $m	2013 $m
North America	**1,635.6**	1,540.5
Latin America	**373.2**	358.4
Europe	**291.2**	323.9
Rest of World	**320.0**	246.4
Total	**2,620.0**	2,469.2

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Software and Services ($m)

112.2

-1.4%

2014: 112.2
2013: 113.8
2012: 108.0

Networks ($m)

264.6

2014 was the first year of Pace ownership

Aurora Networks – 12 months in

The acquisition of Aurora Networks, Inc was announced on 23 October 2013 and completed on 6 January 2014.

Aurora Networks is a leading developer and manufacturer of advanced, next-generation Optical Transport and Access Network solutions for broadband networks that support the convergence of video, data and voice applications. A leading presence in these solutions that are increasingly important for cable operators as they continue to fulfil consumers' constant demand for ever increasing bandwidth, ensures the acquisition has further strengthened Pace's relationships with its customers.

Aurora Networks has strengthened our offering and footprint:

- Positions Pace to enable operators to cost-effectively support their consumers' constant demand for ever increasing bandwidth.
- Highly profitable and growing business with blue-chip customer base and market-leading positions, serving over 200 customers in 50 countries, including all of the top 10 cable operators in the US.
- Strong, highly experienced management team.
- Creates deeper and more embedded relationships with key customers.
- Cross-sell opportunity across customer footprints.
- Further widens Pace out beyond PayTV Customer Premise Equipment (CPE).

Aurora Networks has progressed beyond expectations in the first 12 months:

- **Integration** – The integration of Aurora into Pace was completed ahead of plan by the end of H1 2014, following which, significant progress has been made in ramping up the supply chain to meet the growing customer demand. Aurora is now a fully integrated SBU within Pace, "Pace Networks", with its own focused sales and engineering teams whilst leveraging the scale and expertise of the wider Group's shared services. The targeted end-state run-rate synergies of $8m per annum were achieved in 2014, a year ahead of plan whilst further investing in supporting customers and new product development.
- **Trading** – Networks has had a very strong first year as part of Pace. Trading has been above expectations with revenue of $264.6m due to strong underlying customer demand which is expected to continue into 2015. Networks delivered an adjusted EBITA contribution of $47.4m, an operating margin of 17.9%.
- **Innovation** – Networks has a track record of innovation and this has continued in 2014 with a number of new product and technology launches:
  - DOCSIS 3.1 compatibility across the Networks product range – supporting the next generation of Hybrid Fibre Coaxial (HFC) access technologies.
  - Fifth generation Universal Digital Return solution – the industry's only upgradeable digital return solution and a key component to supporting the transition to DOCSIS 3.1.
  - UniPHY Converged Services Platform – high performance aggregation solution for advanced services across high speed fibre and Coaxial networks.
  - Distributed Broadband Access Architecture (DBAA) – Pace's distributed, iterative and modular approach to enabling greater network capacity that leverages operators existing infrastructure investments.

Serving diverse **markets** around the world

North American revenue ($m)

1,635.6

+6.2%

2014: 1,635.6

2013: 1,540.5

2012: 1,317.6

Latin American revenue ($m)

373.2

+4.1%

2014: 373.2

2013: 358.4

2012: 374.4

European revenue ($m)

291.2

-10.1%

2014: 291.2

2013: 323.9

2012: 402.4

Rest of World revenue ($m)

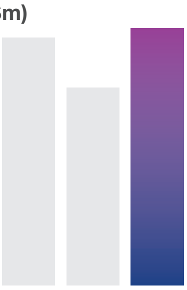
320.0

+29.9%

2014: 320.0

2013: 246.4

2012: 309.0



North America

North America is the largest, most advanced and most profitable market for digital PayTV and broadband technology in the world, with over 112 million PayTV subscribers and close to 104 million fixed broadband connections[13]. Given the already high penetration levels, we believe the digital PayTV market in North America will remain flat in terms of the number of subscribers for the foreseeable future, with gross subscriber acquisition being offset by customer churn between the various PayTV offerings. However, Average Revenue Per User (ARPU) will continue to grow on an annual basis as service providers deliver an increased range of revenue-generating services to their customers.

Pace is the only vendor to all of the largest operators in each of the Cable, Satellite and Telco markets; serving Comcast, DirecTV and AT&T respectively. In each case Pace supplies their most advanced in-home technology. In addition, Pace also serves a large number of other Cable and Telco operators in both the USA and Canada.

Total revenues in North America increased by 6.2% to $1,635.6m in 2014 (2013: $1,540.5m), driven largely by new launches with major customers in H2 2014 and strong demand for Aurora products. This confirmed Pace's continued position of technological leadership in our sector and we remain confident about the long-term strength of the market for our products in North America.

Latin America (Latam)

The Latam market is a large, diverse and fast-growing market, within which Pace serves Satellite, Cable, IPTV and hybrid operators across the region, with Brazil and Mexico the key markets.

The overall market has expanded significantly over the last few years and continues to display strong digital subscriber growth with 6% growth predicted from 2014 to 2018[14]. This growth is led by a number of factors including greenfield markets, deregulation in Brazil, the 2016 Olympics in Brazil and a number of growing PayTV operators in the region. Demand for PayTV is strong at all levels of technology: Standard Definition (SD) continues to support analogue to digital transition, High Definition (HD) and high-end Personal Video Recorders (PVRs) to meet growing consumer expectations and Pace deployed media servers with operators in the region during 2014.

Revenue in Latam increased by 4.1% to $373.2m (2013: $358.4m). Pace continues to have a diverse business in Latam; providing products to eight of the ten largest PayTV providers in the region and has made good progress in widening out the solutions delivered to this market. The Company is strategically well positioned with key customers in the region and remains confident that strong revenues and profitability will continue.

13 and 14 IHS Television Intelligence Service 2014.

Pace has a broad global footprint within which individual markets are at varying stages of development. Through its regional focus and structure, Pace can sell, deliver and support the solutions its customers need in all regions of the world.

Europe

Europe remains a fragmented and highly customer specific territory for Pace. Revenues in Europe were down by 10.1% to $291.2m (2013: $323.9m), primarily due to a reduced win rate of new products in prior years, which adversely affected revenue up to H1 2014. Sales performance has improved and key wins in new and existing customers delivered a 48.7% growth in H2 2014 compared to H1 2014.

Single-digit digital subscriber growth is predicted in the underlying European PayTV market[15]; we expect significant growth in the Media Server segment of the market as operators in Europe follow the innovation of North American operators, and in 2014 Pace shipped Media Servers to two European operators: Liberty Global and Get.

In addition, the Group is seeing increasing demand from operators for integrated solutions, incorporating Pace hardware and software assets, that can be quickly deployed and that enable the operator to innovate and differentiate in highly competitive markets. Pace is focused on developing opportunities in this area of the market, and has a number of projects underway.

Rest of World

Rest of World covers a diverse range of markets which are developing at different rates: the highly developed markets in Australia, New Zealand and South East Asia, the "fast-following" markets in the Middle East and Africa, and the fast-growing Indian market. Revenues in Rest of World are up 29.9% to $320.0m (2013: $246.4m). This increase was due to strong demand for recently launched products in H2 2013 and 2014.

The Company remains confident that these markets will provide significant growth opportunities both at the high end of the market with HD, PVR and Media Server products, and also as the uptake of PayTV and digitisation continues in emerging greenfield markets allowing Pace to increase its footprint with new customers through Software and Integrated Solutions.

Mike Pulli
Chief Executive Officer
3 March 2015

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The Board of Directors track a number of KPIs to measure, assess and improve the **progress** the business is making against the Strategic Plan objectives

We have defined our Key Performance Indicators (KPIs) to align our performance and accountability to our strategy. These KPIs will be the key measures of success and cover our strategic priorities:

Operating margin (%)

9.2%

2014: 9.2%
2013: 7.8%
2012: 6.6%

Definition
Adjusted EBITA as a percentage of revenue.

Performance
Increase driven by top-line growth due to Aurora Networks acquisition, improved revenue mix, supply chain efficiency and increased operational efficiency. Mid-term target of 9% achieved a year ahead of plan.

Strategic strand
Overall

EPS growth (%)

43.6%

2014: 43.6%
2013: 26.2%
2012: 18.2%

Definition
Adjusted basic EPS is based on earnings before the post-tax value of exceptional costs and amortisation of other intangibles.

Performance
Strong performance driven by 34% increase in Profit Before Tax and reduced Group tax rate.

Strategic strand
Overall

Cost to serve (%)

11.1%

2014: 11.1%
2013: 10.3%
2012: 11.4%

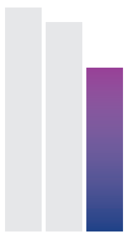
Definition
Underlying operating costs including Networks SBU as a percentage of revenue.

Performance
Increase due to inclusion of Aurora Networks overheads. Underlying cost to serve (excluding Aurora Networks) reduced to 9.7%.

Strategic strand
Continue to transform core economics

Cash conversion (%)

84.6%



2014: 84.6%
2013: 108.0%
2012: 115.6%

Definition
Free cash flow as a percentage of adjusted EBITA.

Performance
Reduction due to lower level of cash inflows from working capital as cash conversion transitions to a more normalised rate of 70–80% of adjusted EBITA.

Strategic strand
Continue to transform core economics

Strategy on **pages 8 to 9**

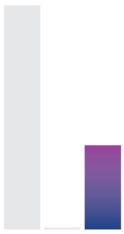
Continue to **transform** core economics

Maintain and build on our position as world leader in PayTV hardware

Widen out into software, networks, services and integrated solutions

Net debt to EBITDA (x)

0.34x



2014: 0.34x

2013: 0.0x

2012: 0.9x

Definition

Net debt as a ratio of Group EBITDA.

Performance

Increase due to the acquisition of Aurora Networks on 6 January 2014 (net debt to EBITDA ratio as at 30 June 2013 of 0.73x).

Strategic strand

Continue to transform core economics

CPE hardware revenue growth (%)

(4.8)%

2014: (4.8)%

2013: 2.6%

2012: 3.9%

Definition

Revenue growth across consumer premise equipment hardware categories (inc. STB, Media Servers, Gateways).

Performance

Record revenue in H2 2014 only partially offset a weaker H1 2014.

Strategic strand

Maintain and build on our position as world leader in PayTV hardware

Non-CPE revenue growth (%)

231.1%

2014: 231.1%

2013: 5.4%

2012: 7.6%

Definition

Revenue growth of all non-consumer premise equipment categories (inc. Software and Services and Networks).

Performance

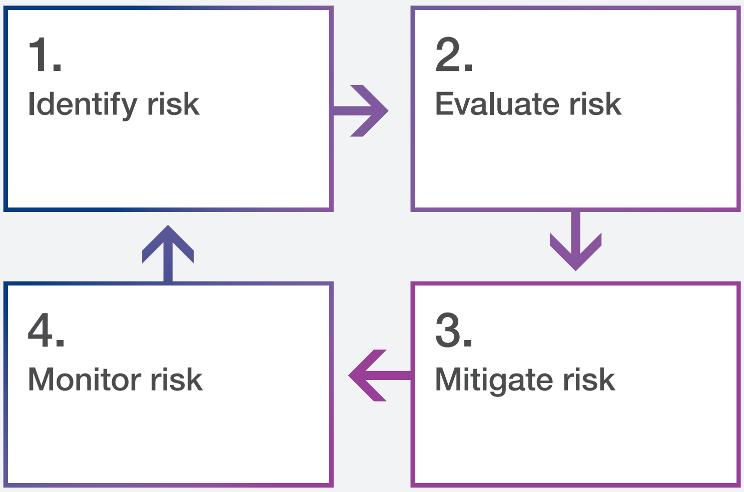
Increase due to the Aurora Networks acquisition.

Strategic strand

Widen out into software, networks, services and integrated solutions

Robust risk management processes

The Group operates a system of internal control and risk management in order to provide assurance that it is managing risk whilst achieving its business objectives.



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 provide only reasonable, not absolute, assurance against material misstatement or loss.

No system can fully eliminate risk and therefore the understanding of operational risk is central to the management process within Pace. The long-term success of the Group depends on the continual review, assessment and control of the key business risks it faces. To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below.

	Risk	Potential impact	Mitigations	Change since prior year
Strategic risks	**Customers and markets**			
	Revenue concentration from a small number of large customers. Customer orders are typically short to mid-term commitments with no long-term guarantee.	Volatile revenue trends.	Procedures are in place to monitor the financial and operating strength of customers.	→
	Suppliers			
	The Group works on long lead times for component supply and manufacture. Concentration on a small number of manufacturing partners.	Lack of flexibility. Loss of product availability.	Procedures are in place to monitor the financial and operating strength of suppliers. The Group uses dual or multi-source suppliers where possible to mitigate the risk.	→

→ Audit & Risk Committee on **pages 31 to 33**

	Risk	Potential impact	Mitigations	Change since prior year
Financial risks	**Royalty claims**			
	The Group's products incorporate third-party technology. Inadvertent actions may expose the Group to the risk of infringing third-party intellectual property rights.	Cash outflow. Reputational damage.	The Audit & Risk Committee and Board receive a semi-annual report from the General Counsel regarding royalty claims under negotiation. All material claims are monitored by outside legal counsel.	→
	Currency risks			
	The Group operates globally and is exposed to foreign exchange risks on both revenue and costs.	Adverse impact on the income statement.	The Group's treasury policy is to progressively hedge cash flows when they are sufficiently certain and to seek price variations through contractual mechanisms.	→
Other risks	**Innovation**			
	The product development process can take over twelve months. Research and development effort may not be appropriately targeted on the correct areas. Risk has increased in current year due to acquisition of Aurora Networks.	Loss of technology and/or market advantage.	Engineering teams split into specialist areas. SBU teams closely aligned to customer requirements and product roadmaps.	↑
	Product liability claims			
	The Group is exposed to the risk of product liability claims made by customers or affected third parties.	Cash outflow. Reputational damage.	The Group has in place quality control and other operational procedures to mitigate this risk.	→
	Natural disasters			
	Appropriateness of business continuity plans.	Loss of ability to service customer demand.	Business continuity management programmes exist internally and at manufacturing partners.	↓
	IT environment			
	Major system failure, information security breach and inadequate information systems.	Loss of ability to service customer demand. Cash outflow.	IT general and application controls. Annual internal audit testing. External penetration testing.	→

In addition, the Audit & Risk Committee considers other strategic and financial risks which are relevant to the Group. These are shown on page 33.

The financial position of Pace **improved significantly** in 2014

Summary

- Pace has become a more profitable Company with its operating margin increasing from 7.8% to 9.2%.
- Free cash flow generation has been strong in 2014 at $204.0m (84.6% of adjusted EBITA).
- The full year proposed dividend increased 27.5% to 7.00 cents per share (2013: 5.49 cents per share) – reflecting the Board's confidence in the outlook for the Company and its improving financial position.

Mark Shuttleworth
Chief Financial Officer

The financial position of Pace improved significantly in 2014. This improvement is reflected in the 6.1% increase in revenue (to $2,620.0m), a 24.5% increase in adjusted EBITA (to $241.1m) and a 66.7% reduction in net debt since the acquisition of Aurora.

Pace has become a more profitable Company with its operating margin increasing from 7.8% to 9.2%. In addition, free cash flow has remained strong at $204.0m (84.6% of adjusted EBITA), due to the continued benefits of robust cash management and working capital in-flows. As a result of the strong cash flow, the net debt has been reduced by $186.1m (66.7%) since the completion of the acquisition of Aurora Networks on 6 January 2014.

Group Revenue of $2,620.0m (2013: $2,469.2m) increased by 6.1% driven by the Networks business and strong demand for STBs and Media Servers partly offset by lower revenue from Gateways and flat revenue from Software and Services. Underlying revenue (excluding Networks) decreased by 4.6% to $2,355.4m (2013: $2,469.2m). In the year, 47% of revenue was generated by the top 3 customers (2013: 57%).

Gross profit of $532.5m (2013: $448.2m) is up 18.8%. Gross margin percentage in 2014 was 20.3%, an increase of 2.1ppt on 2013, reflecting the higher margin contribution from Networks.

Operating costs pre-exceptional charges and amortisation of other intangibles increased by $36.8m (14.5%) to $291.4m (2013: $254.6m) reflecting the inclusion of the Networks cost base. Further progress has been made in improving operating efficiency across the Company during the year, both in the core Pace business and Pace Networks.

The IAS 38 net credit (capitalisation minus amortisation of development costs) was $20.8m, reflecting an intense period of development activity ahead of product launches throughout the year and the first year of capitalisation of Networks product development in-line with IAS 38 standards.

Group trading results

	2014 $m	2013 $m
Revenue	**2,620.0**	2,469.2
Gross profit	**532.5**	448.2
Gross margin %	**20.3%**	18.2%
Adjusted operating costs*	**(291.4)**	(254.6)
Adjusted EBITDA[16]*	**270.1**	218.6
Adjusted EBITA*	**241.1**	193.6
Operating margin	**9.2%**	7.8%
Exceptional costs	**(7.3)**	(12.2)
Amortisation of other intangibles	**(52.9)**	(42.6)
Net finance expense	**(5.2)**	(8.0)
Profit before tax	**175.7**	130.8
Tax charge	**(27.7)**	(34.1)
Profit after tax	**148.0**	96.7

* Pre-exceptional costs and amortisation of other intangibles.

16 Operating profit before exceptional costs, amortisation of other intangibles and depreciation.

Audit Committee on **pages 31 to 33**

Financial statements on **pages 47 to 88**

Adjusted EBITA was $241.1m (2013: $193.6m), an operating margin of 9.2% against 7.8% in 2013. Organic adjusted EBITA was $193.7m with operating margin increasing 0.4ppt to 8.2%.

Exceptional costs of $7.3m (2013: $12.2m) relate to Aurora Networks Inc. acquisition costs ($5.8m) and restructuring costs across the business ($1.5m).

Amortisation of other intangibles, primarily reflecting the charge for intangible assets related to acquisitions made in 2010 and 2014, was $52.9m (2013: $42.6m). The increase was due to the Aurora Networks acquisition.

Segmental analysis

The Group operates through SBUs. Pace Americas, Pace International and Pace Networks are deemed by the Board to represent operating segments under IFRS 8, with revenues and EBITA shown in the table below.

Movements in revenue are described below. Although not wholly consistent, revenues from STB and Media Servers, Gateways and Software and Services in North America belong primarily to the Americas SBU, in Europe and Rest of World belong largely to the International SBU, and in Latin America belong to both the Americas and International SBUs. All revenue from Network products belong to the Networks SBU, which is the new operating segment for the Aurora Networks acquisition.

Pace Americas' revenue decreased by $118.6m (7.1%) in 2014 with a strong H2 2014 only partially offsetting a weaker H1 2014. Operating margin increased to 9.6% (2013: 9.1%). The performance of Pace International improved as revenue increased 0.6% and operating margin increased to 11.1% (2013: 10.5%).

Pace Networks had a strong first year with revenue of $264.6m and an operating margin of 17.9%.

Other amounts include unallocated central costs that are not classified as reportable segments under IFRS 8. The loss in Other, primarily corporate costs, increased by 6.9% to $44.8m (2013: loss of $41.9m).

Finance costs

Net financing costs of $5.2m (2013: $8.0m) reflect the improved terms of the new borrowing facilities despite an increase in average net debt during the period. Finance costs include $1.6m (2013: $2.1m) for amortisation of facility arrangement and associated fees.

Profit before tax

Profit before tax was $175.7m (2013: $130.8m); an increase of $44.9m (34.3%) on 2013.

Taxation

The tax charge of $27.7m (2013: charge $34.1m) results from the full year effective tax rate of 15.8% (2013: 26.1%). The rate reduction reflects a mix of expected recurring items, including lower corporate tax rates in the UK and the impact of the Aurora acquisition and non-recurring items. Based on the current expected regional mix of trading, the effective rate for 2015 is expected to be in the range of 19% to 21%. The cash cost of corporate tax was $11.5m (2013: $23.8m).

Segmental analysis

	2014 $m	2013 $m (restated[17])
Revenue		
Pace Americas	**1,561.6**	1,680.2
Pace International	**793.8**	789.0
Pace Networks	**264.6**	—
Other	**—**	—
Total Revenue	**2,620.0**	2,469.2
Adjusted EBITA		
Pace Americas	**150.2**	152.7
Pace International	**88.3**	82.8
Pace Networks	**47.4**	—
Other	**(44.8)**	(41.9)
Total Adjusted EBITA	**241.1**	193.6

17 The restatement reflects the restructuring of certain activities in the period. As such some items previously classified as “Other” are now split between the Americas and International SBU.

Profit after tax

Profit after tax was $148.0m (2013: $96.7m), an increase of $51.3m (53.1%) on 2013.

Earnings per share

Basic earnings per share (EPS) was 47.4 cents (2013: 31.2 cents), an increase of 51.9%. Adjusted basic EPS, which removes the tax affected impact of the exceptional costs and amortisation of other intangibles to reflect underlying performance, was 63.6 cents (2013: 44.3 cents), an increase of 43.6%.

Balance sheet

Intangible development expenditure assets increased by $20.6m (2013: $8.1m increase) due to an increased number of development projects and the first year of capitalisation of Networks product development in line with IAS 38 standards.

Tangible fixed assets increased in the period primarily due to the inclusion of Aurora ($6.9m). Capital expenditure of $26.0m (2013: $21.6m) was offset by the depreciation charge of $29.0m (2013: $25.0m). The $26.0m capital expenditure reflected an increase of $4.4m from 2013 due to the inclusion of Networks and is in line with the expected ongoing level for the Company.

Working capital

In the period following the acquisition of Aurora Networks, the pro forma working capital increased by $16.5m (13.1%) to $142.5m, as the increase in core Pace, due to the phasing of revenue in the year, offset the reduction in Aurora.

Inventory increased by $11.2m (7.1%) to $168.0m during the period reflecting the inclusion of Aurora inventory. Average stock turn in the period was 8.2 times against 8.4 times in 2013.

Debtor days increased by 6 days to 66 days at December 2014 reflecting a change in sales mix.

Creditor days at 31 December 2014 remained at 90 days, consistent with at 31 December 2013.

Debt

In the period following the acquisition of Aurora, the pro forma net debt reduced by $186.1m (66.7%) from $279.2m to $93.1m. During the year, two scheduled facility repayment instalments were paid of $15.5m each in June and December 2014.

A key target for the Group is to reduce the balance sheet leverage (calculated as net debt divided by adjusted EBITDA[18] over the preceding 12 months). At 31 December 2014 the net debt/Last Twelve Months (LTM) adjusted EBITDA ratio was 0.34x, well within the 2x net debt to EBITDA ratio target set as an appropriate and efficient capital structure for Pace.

Liquidity and cash flows

A key performance measure for the Group is free cash flow, which was $204.0m (2013: $209.0m) and represented 84.6% of adjusted EBITA (2013: 108.0%). Cash outflows from interest payable net of interest received were $3.6m (2013: $5.9m). Cash spent on exceptional costs was $8.0m (2013: $10.4m).

The Board is confident that the Group will continue to be strongly cash flow positive in 2015 and that the Group's committed bank facilities are more than sufficient to meet its short to medium-term funding needs.

Foreign currency

In the period, approximately 81.7% of the Group's revenues were denominated in US Dollar (2013: 81.2%), 10.9% in Brazilian Real (2013: 10.7%), 4.3% in Euro (2013: 7.7%), 2.5% South African Rand (2013: 0%), 0.4% in Sterling (2013: 0.4%) and 0.2% in Australian Dollar (2013: 0%).

The impact of non-USD revenues, costs and overheads continues to be addressed through Pace's foreign exchange hedging strategy.

Critical accounting policies

The Directors consider that the Group has the following critical accounting policies, as they require the use of estimates and are subjective in their nature:

- Impairment
- Royalty and warranty provisions
- Intangible assets – capitalised development costs
- Acquisition accounting

Dividend

The Board has recommended a final dividend of 4.75 cents per share (2013: 3.66 cents per share). The full year proposed dividend increases 27.5% to 7.00 cents per share (2013: 5.49 cents per share). The increase reflects the Board's confidence in the outlook for the Company, its improving financial position and is in line with the progressive dividend policy introduced in 2009.

Dividends will be paid in Sterling, equivalent to 3.093 pence per share. This is based on an exchange rate of £ = $1.5358, being the closing rate applicable on 2 March 2015, the date on which the Board resolved to recommend the final dividend. The proposed dividend will be payable on 3 July 2015 to shareholders on the register on 5 June 2015.

Mark Shuttleworth
Chief Financial Officer
3 March 2015

18 Operating profit before exceptional costs, amortisation of other intangibles and depreciation.

As we continue to extend our portfolio of products and services, we are also keeping our **environmental and social impacts** firmly to a minimum

Performance Highlights

- We have reduced average power consumption by more than 50% from 180.5 kWh/yr (2007) to 88.57 kWh/yr (2014), achieving our long-term objective
- Average CO_2 emissions per STB have reduced to 47.47 kg CO_2 (2014) from 47.99 kg CO_2 (2013)
- The average weight of materials within a Pace STB has reduced for the fifth successive year to 1.436 kg/STB (2014) from 1.499 kg/STB (2013)
- Again for the fifth successive year, the average weight of packaging (cardboard and polythene) used per STB has also been reduced to 0.405kg (2014) from 0.409kg (2013).
- In 2014, we can report a 3.9% reduction in total product energy consumption and corresponding CO_2 emissions down to 923 (2013: 960.87)
- Pace DOCSIS® 3.0 Cable Gateway Achieves World's First ENERGY STAR® 1.0 Certification
- Pace has further improved its overall score in the Carbon Disclosure Project (CDP) by 3% to 94% (2013: 91%)
- We have established a provisional baseline for energy consumption and CO_2 emissions associated with our Home Gateway (HG) products, something we hope to learn and build upon so that we continually improve our environmental performance, just as we have with our STB product range over the years
- Water consumption across the Group has reduced by 4.66% to 34,009m³ (2013: 35,669m³)

Methodology

The Company prepares the Annual Responsible Business Report and in 2014 independent review and assurance with regards to the content of the report was provided by Rhead Group in accordance with the principles set out in AA1000 Accountability principles standard 2008. The report covers the following areas: environment, products, facilities, supply chain, community, and people.

Responsible Business Report **www.pace.com**

Greenhouse gases mandatory reporting

The Company has used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014.

The Company has reported on the Scope 1 and Scope 2 emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement.

Results

The table below reports the total greenhouse gas emissions by emission type.

	Global GHG Emissions	
Emissions from:	Tonnes of CO_2e: Period 1 January 2014 – 31 December 2014	Tonnes of CO_2e: period 1 January 2013 – 31 December 2013
Scope 1: Combustion of fuel and operation of facilities	654	683
Scope 2: Electricity, heat, steam and cooling purchased for own use	7,417*	6,669
Company's chosen intensity measurement:		
1. Emissions reported above normalised to per tonne of product	0.339 tonnes CO_2/tonne product	0.216 tonnes CO_2/tonne product
2. Emissions reported above normalised to annual turnover	3.08 tonnes CO_2/annual turnover	2.978 tonnes CO_2/annual turnover
3. Emissions reported above normalised to product (set-top box)	0.418 kg CO_2/product (set-top box)	0.368 kg CO_2/product (set-top box)

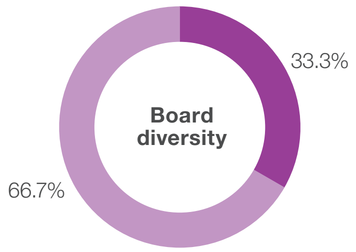
* Scope 2 emissions increase as a result of the Aurora Networks acquisition.

The Pace Responsible Business Report is available online at:
www.pace.com/universal/responsible-business

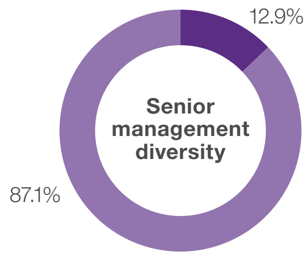
Objectives and targets

During the year, the Company set its own responsible business targets and achieved the following outcomes against its chosen measures:

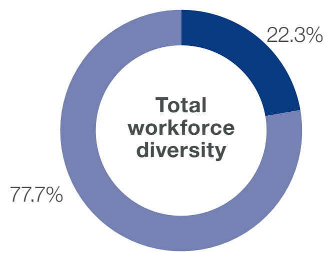
Focus area	Target	Status
Environment: product performance	**Drive product energy efficiency improvement.**	
	➤ All applicable products designed in 2014 to exceed a score of 80% during Pace's Design For Environment (DFE) programme. Seek to reduce product emissions by 2%.	**Achieved 1% Reduction**
	➤ Gateways (Networked) Products	
	➤ Develop DFE scorecard for Gateway (Networked) products and include in Pace's DFE.	**Achieved**
	➤ Establish a baseline power figure for Gateway standby.	**Achieved**
	➤ All applicable Pace products to adhere to Network standby regulation.	**Achieved**
Environment: site operations	**Drive CO_2 performance improvement.**	
	➤ Rebase line overall CO_2 performance in light of recent acquisitions.	**Achieved**
	➤ Achieve a 2% reduction in CO_2 (Scope 1 and 2) compared to 2013 by December 2015.	**Ongoing**
Environment: management system footprint	**Increase Pace's EMS footprint to include key operations.**	
	➤ Integrate recent acquisition of Aurora into Pace's environmental management system.	**Ongoing**
	➤ Increase Pace's environmental management system footprint to include Pace Brazil and Pace Americas San Jose operations. Target ISO 14001 certification in 2014.	**Not achieved**
	➤ Maintain ISO 14001 in current certified Pace sites – ensuring no major non-conformances.	**Achieved**
Supply chain: performance assessment	**Assess and prioritise our supply base sustainability performance.**	
	➤ Develop a strategy that targets improvement in key risk supply vendors (based on the output of the supply-based assessment conducted by Ecovadis).	**Achieved**
Employees: employee involvement	➤ Focus on understanding our data and metrics in order to make informed decisions.	**Ongoing**
	➤ Collect and report on key metrics e.g. internal promotions vs. external hires, looking at our diversity data in relation to the communities we operate in with a focus on gender.	
	➤ Develop an action plan to promote the career development of women in the workplace and engineering.	**Achieved**
	➤ Continue to take actions as a result of our engagement survey feedback and our focus on internal communications.	**Achieved**
Community: community engagement	➤ Continue community programmes focused on education.	**Achieved**
	➤ Develop a more robust framework for community activities including accurate reporting, volunteering and leadership accountability.	**Ongoing**



Female Directors	2
Male Directors	4



Female senior managers	12
Male senior managers	81



Female employees	441
Male employees	1,538

Environment

The Company has maintained certification to the international management standard ISO 14001 at its Saltaire, Boca Raton, Bangalore, Paris, Tempe and San Antonio sites and 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 STBs and MEPS (Minimum Energy Performance Standard). Pace is committed to ensuring that all products are designed to minimise energy consumption through its "Design for Environment" programme.

Supply chain

The Company has continued its work with its suppliers in 2014 through the Electronic Industry Citizenship Coalition (EICC) and also implemented a programme to ensure full-scale adoption of the EICC Code of Practice throughout its supply chain.

The Company has continued its work with EcoVadis to ensure complete evaluation transparency and drive continuous improvement of its supply chain's CSR performance, culminating in a new set of supply chain objectives and targets.

Charitable and community support

The Group has an established Charitable Donations Committee comprising employees based at the Group's premises in the UK and the USA. The Committee considers all requests for charitable and community project assistance from employees 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 the UK, France, India and the USA as well as the charitable and community initiatives of Group employees.

During the year, requests for assistance satisfying the above criteria received financial support amounting to $117,766 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.

Pace has continued as sponsor of the Ahead Partnership's education strand of business engagement in the UK's West Yorkshire region. This three-year commitment has enabled the Ahead Partnership to develop and roll out their "Make the Grade" business education partnership model in West Yorkshire.

In addition, Pace has partnered with Teach First to support the science, technology, engineering and maths (STEM) teachers in Yorkshire and the Humber. Pace will fund the provision of personal development coaches to Teach First participants in their second year of teaching. Teach First recruits, trains and supports teachers working in schools in low income communities to raise the achievement, aspirations and access to opportunity of children from low socio-economic backgrounds.

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 regular written news briefings are distributed electronically.

Diversity and inclusion

The Group welcomes applications for employment from all sectors of the community and promotes equality of opportunity in employment regardless of age, gender, 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.

We believe that diversity is an essential part of how we do business and we meet the needs of our global customer base. We operate in 18 countries, employing c.2,100 people and working with customers and suppliers from a broad range of backgrounds and cultures.

The charts above show the gender split at different levels within the Group, as at 31 December 2014.

Health and safety

Each SBU 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, Pace West* and Pace East*, France, Brazil and India have adopted similar policies. Each division incorporates, where appropriate, their ergonomic risk assessments.

Pace West undertakes earthquake training and Pace 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.

Human rights

The Group does not have a specific human rights policy at present, but does apply human rights considerations to the way it does business, for example, through our practices in relation to equal pay, the right to form and join trade unions, and our health and safety, supplier and anti-corruption policies. The Group will continue to review whether a specific human rights policy is needed in the future over and above our existing policies.

* Pace West is represented by the 2Wire businesses, and Pace East is predominantly our office in Boca Raton, Florida.

An **expert** team with **strong leadership**

1


2


3


2014 has been a year of execution and expansion.

4


5


6


7


■ Chairman
■ Member

A Audit & Risk Committee
R Remuneration Committee
N Nomination Committee

1. Allan Leighton R N

Chairman

Allan was appointed a Non-executive Director in May 2011 and became Chairman on 21 June 2011. He is currently Non-executive Chair of The Co-operative Group, Non-executive Director and Chairman of Entertainment One Limited, Chairman of Office Retail Group Limited and Matalan, and a Non-executive Director of Bighams Limited.

Previously he has held a wide range of public and private company roles including President and CEO of Pandora A/S, CEO at ASDA, Chairman of Royal Mail and Lastminute.com, and Non-executive Director of British Sky Broadcasting plc, Dyson Limited and Scottish Power plc.

He is patron of Breast Cancer Care and has an honorary degree from Cranfield University and an Honorary Fellowship at the University of Lancaster

2. Mike Pulli

Chief Executive Officer

Mike was appointed Chief Executive Officer on 14 December 2011, after nearly eight years as President of Pace Americas. In his role as CEO, Mike is responsible for leading Pace's global strategy. As President of Pace Americas, Mike was responsible for the Company's businesses in the USA, Canada and Latin America (LatAm).

Mike was previously a Non-executive Director of Itron (NASDAQ:ITRI), having been appointed in January 2014 and resigning 31 December 2014.

Prior to joining Pace in 2004, Mike was CEO of broadcasting company Digital Latin America (DLA). Previously Mike spent eight years at Motorola in various senior management positions, including Vice President of International Operations, and served in a variety of financial positions at Allied-Signal, Inc. Mike holds a bachelor's degree in accounting from Rider University and an MBA from Farleigh Dickinson University.

3. Mark Shuttleworth

Chief Financial Officer

Mark Shuttleworth was appointed as Chief Financial Officer and joined the Board on 12 January 2015.

Most recently, Mark served as the CFO of Emirates Integrated Telecommunication Company PJSC, known as "du" (DU:UH). He joined du in 2005 and was responsible for managing the financial and business investment strategy of the start-up operator; leading the $660m IPO of the business on the Dubai Financial Markets and building the business to a market capitalisation of $8bn and revenues of $3bn.

Prior to du, Mark was CFO of Qatar Telecom "QTel" (now "Ooredoo", ORDS:YH) from 2003 to 2005. Mark has also served as Group Finance Director of European Telecom PLC, Group Finance Director at ORA Telecom Ltd and held a number of senior finance roles at Sensormatic Electronics Corporation Inc.

Mark qualified as a Chartered Accountant with Lubbock Fine and later worked at Price Waterhouse as a Senior Manager in Corporate Restructuring.

4. Patricia Chapman-Pincher

A R N

Non-executive Director

Pat was appointed a Non-executive Director in February 2005 and was Senior Independent Director between May 2006 and November 2014.

She has over 36 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 Chairman of Penzias Ltd, a Board Adviser to the British Standards Institute and a CEO Mentor with Merryck and Co. Pat is also a trustee of Finding Rhythms, a charity that works with music in prisons.

5. John Grant

A R N

Non-executive Director

John was appointed a Non-executive Director in August 2008 and became Senior Independent Director on 1 November 2014. 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 a Non-executive Director of Melrose plc, MHP S.A. and Touch Bionics Ltd. He is also Chairman of the British Racing Drivers' Club Ltd.

6. Amanda Mesler

A R N

Non-executive Director

Amanda was appointed a Non-executive Director in September 2012. She is a US citizen and is also a Non-executive Director of Ensygnia, a technology start-up.

Previously she was the CEO of Business Consulting and an Executive Committee member of Logica plc. Prior to joining Logica, Amanda was a corporate officer and VP of Strategy and Organisation Design for Fortune 100, SYSCO.

Prior to this Amanda was a senior partner at Bearing Point Consulting (formerly KPMG Consulting) working out of Houston where she led a client portfolio including many leading oil companies and spent time as the Global Leader for Energy for EDS. Her early career was with GE as the Asia Pacific Market Manager.

7. Mike Inglis

A R N

Non-Executive Director

Mike was re-appointed a Non-executive Director in March 2014. Mike was a non-executive director of Pace plc from July 2008 until the Annual General Meeting in 2013, when he stepped down from the Board in order to participate in the Clipper Round the World yacht race.

Currently a Non-executive Director of Advanced Micro Devices, Inc, Mike was formerly Chief Commercial Officer of ARM Holdings until the end of March 2013, having previously been EVP Processor Division and EVP Sales and Marketing. Before joining ARM, he worked in management consultancy with AT Kearney and held a number of senior operational and marketing positions at Motorola. He previously worked in semi-conductor 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.

The Pace plc Board is accountable to the Company's shareholders for standards of governance across the Group's businesses

The Board

The Pace plc Board is accountable to the Company's shareholders for standards of governance across the Group's businesses. Certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board. Whilst day-to-day operational decisions are managed by the Chief Executive Officer the principal matters reserved for the Board are set out below:

- setting the overall strategic direction and oversight of the management of the Company;
- recommending or declaring dividends;
- approval of the Company consolidated financial statements;
- approval of major corporate transactions and commitments;
- succession planning and appointments to the Board and senior management remuneration;
- review of the Group's overall corporate governance arrangements including systems of internal controls and risk management; and
- approval of the delegation of authority to the Chief Executive Officer and the terms of reference of all Committees of the Board.

Where appropriate, matters are delegated to a Committee which will consider them in accordance with its terms of reference.

Details of each Committee's terms of reference are available on the Pace website at **www.pace.com**

The Board of directors currently comprises two executive and five 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 pages 26 and 27. The Chairman, Allan Leighton, 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, Mike Pulli, are to 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 deemed independent on his appointment, as required by the UK Corporate Governance Code. In addition, the Board has designated John Grant as the Senior Independent Director. All directors have access to the advice and services of the General Counsel and Company Secretary and are able to take independent professional advice at the Company's expense in the furtherance of their duties, if necessary. The code can be accessed at https://www.frc.org.uk/corporate/ukcgcode.cfm.

Each of the directors submit themselves for re-election on an annual basis. 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 normally meets at least eight times each year. It reviews the strategic direction of the Group and meets with other senior executives and employees within the Group as required during the year. The Chairman holds meetings with the non-executive directors without the executive directors being present on a regular basis. 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 considers appointing an independent facilitator for the evaluation process at least once every three years and resolved to do so in 2014; however this process was deferred to 2015 to allow the appointment of a new CFO to take effect ahead of the evaluation process. In addition the members meet with senior employees below Executive level on a regular basis in the UK and overseas to receive feedback over lunch, dinner or in informal meetings.

Board and committee meetings attendance

	Board	Audit & Risk Committee	Remuneration Committee	Nomination Committee
Total meetings	8	4	3	1
Allan Leighton	7	–	3	1
Mike Pulli	8	–	–	–
Roddy Murray*	4	–	–	–
John Grant	8	4	3	1
Mike Inglis**	6	3	1	1
Pat Chapman-Pincher	8	4	3	1
Amanda Mesler	8	4	3	1

* resigned 27 July 2014

** appointed 13 March 2014 and has attended all meetings since appointment

Executive Committee

The Executive Committee comprises the two executive directors together with the following two senior executives (who are deemed to be Persons Discharging Managerial Responsibility under the UK Listing Rules).

- Mike Pulli — Chief Executive Officer
- Mark Shuttleworth — Chief Financial Officer
- Tim O'Loughlin — President, Pace Americas
- Anthony Dixon — General Counsel and Company Secretary

In addition the following senior executives attend meetings of the Executive Committee on a regular basis:

- Phil Baldock — Senior Vice President, Operations
- Jon Cobb — President, Software & Services
- Bruce Gurek — Chief Strategy Officer
- Jim Henderson — President, Pace International
- Jane Johnston — Group Human Resources Director
- Roberto Salermo — Senior Vice President, Latin America Sales
- Guy Sucharczuk — President, Networks

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.

The **Audit & Risk Committee** is comprised of independent designated non-executive directors Pat Chapman-Pincher, Mike Inglis, Amanda Mesler and John Grant, who is the Chairman of the Committee. John Grant was previously Group Finance Director of a listed business and is considered by the Board to have the necessary recent and relevant financial experience for his role as Chairman.

Details of the role and of the primary responsibilities of the Audit & Risk Committee are explained on **pages 31 to 33**

The **Executive Committee** is chaired by Mike Pulli 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 two executive directors together with the senior executives shown in the table above.

The **Remuneration Committee** is comprised of Allan Leighton and independent designated non-executive directors John Grant, Amanda Mesler, Pat Chapman-Pincher and Mike Inglis, 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 and wider Executive Team, 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.

Where directors do hold other external positions, these are not considered to have any impact on their duties for the Group.

The **Nomination Committee** is comprised of non-executive directors Pat Chapman-Pincher, John Grant, Mike Inglis and Amanda Mesler and is chaired by Allan Leighton. Its principal purpose is to consider and make recommendations to the Board regarding the appointment of new directors. The Nomination Committee meets at least once a year or as required.

Directors' remuneration

The Remuneration Committee reviews the performance of the executive directors, other members of the Executive Committee and wider Executive Team as a prelude to recommending their annual remuneration, bonus awards and long-term share incentive awards 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 2014 Remuneration Report of the directors to shareholders is set out on pages 35 to 43.

Code compliance

As referred to on page 43 the Company granted an appointment share award to Allan Leighton on his appointment as Non-executive Chairman in 2011 and this partially vested during 2014 and will fully vest in 2015. As noted earlier the evaluation of the Board by an external third party did not take place and was postponed to 2015. Save in respect of these matters, the directors believe that the Company has complied throughout the year with the UK Corporate Governance Code, 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 controls and that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

Relations with shareholders

The Company has a well-developed investor relations programme led by the Chief Executive Officer and Chief Financial Officer and managed by the Senior Vice President of Investor Relations and Strategy. Through this programme the Company maintains regular contact with major shareholders to communicate clearly the Group's objectives and monitors movements in significant shareholdings.

Investor roadshows are now held each year in the USA as well as in the UK and formal investor presentations are made twice a year to groups of investment fund managers. The opportunity for shareholders to meet the Chairman or Senior Independent Director, separately from the executive directors, is available on request.

All financial and trading announcements are published immediately on the Company's website, including copies of the presentations made to analysts and investors.

All shareholders are welcome to participate at the Company's Annual General Meeting when all the directors will normally be available to answer questions. The results of the Annual General Meeting resolutions, including details of votes cast/withheld, are published on the Company's website.

Annual General Meeting

The Annual General Meeting of the Company will be held on 23 April 2015 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.

Audit & Risk Committee Report

John Grant
Chairman of the Audit & Risk Committee

Dear Shareholder

I am pleased to introduce this report of Pace's Audit & Risk Committee for the year ended 31 December 2014. This reflects the provisions of the 2012 UK Corporate Governance Code (the Code) now in effect regarding narrative reporting.

The Committee's duties are described later in this report and reflect the Code's recommendations. More broadly, the Committee sees its role as being to ensure the integrity of the Group's financial reporting and the robustness of its internal controls and risk management processes.

In relation to the integrity of financial reporting, we adopt prudent accounting policies and practices, with areas of judgement being subject to specific review by the Committee. We work closely with the Company's external auditors to agree areas of risk of potential misstatement and to make sure these are addressed as part of the audit process.

While the ultimate responsibility for reviewing and approving the Annual Report and Accounts remains with the Board, the Board requires that the Committee report to the Board on whether it considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Risk management at Pace is a Board responsibility, but the Audit & Risk Committee is tasked by the Board with ensuring the risk management process is fit for purpose. Our systems of internal control are designed to focus resource on the principal risks to the business which are summarised within the Strategic Report. We have a well-developed budget process, with regular forecast updates and Board reviews of performance.

During the year the Committee was assisted by the previous Chief Financial Officer and from 28 July 2014 the Acting Chief Financial Officer, Belinda Ellis, the Vice President of Group Finance and in particular the internal auditors, (BDO LLP). I have also met separately with the Company's auditors during which meetings I have discussed their views on the strength and depth of financial reporting and internal control processes operating within the Group.

Set out in the following pages is the Committee's report on its activities during the year, including a description of how the Committee dealt with those areas of financial reporting that require particularly careful review and judgement. None of these areas has proved critical in preparing the Group's financial statements this year.

With respect to the financial statements, the Financial Reporting Council (FRC) reviewed our 2013 Annual Report & Accounts under their duty to review periodically those of all UK listed companies. The Audit & Risk Committee is currently finalising the review with the FRC and the 2014 Annual Report & Accounts has been updated where necessary.

I hope you will find this report helpful in understanding the work of the Committee.

Yours sincerely

John Grant
Chairman of the Audit & Risk Committee

Role and key responsibilities

The terms of reference of the Committee are reviewed annually and are available on the Company's website (www.pace.com).

The Committee's main responsibilities involve:

- monitoring the integrity of the Financial Statements of the Company and formal announcements relating to the Company's financial performance and reviewing any significant financial reporting judgements contained therein;
- reviewing the Company's internal financial and operational control and risk management systems;
- monitoring the effectiveness of the Company's internal audit function and reviewing its material findings;
- reviewing accounting policies, accounting treatments and disclosures in the Strategic Report and Financial Statements ensuring that shareholders may understand strategic aims and risks of the business of the Group and that the Annual Report and Accounts taken as a whole is fair, balanced and understandable;
- overseeing the Company's relationship with its external auditors, including making recommendations as to frequency of tendering for audit services, the appointment or re-appointment of the external auditors, reviewing their terms of engagement and monitoring their independence and ensuring that policy surrounding their engagement to provide non-audit services is appropriately applied;
- monitoring fraud reports and reviewing the effectiveness of the Company's whistleblowing procedures; and
- reporting to the Board on how it has discharged its responsibilities.

Internal audit

The Company's Vice President of Group Finance, who has direct access to the Audit & Risk Committee primarily through the Chairman of the Committee, oversees an internal audit function including a Risk Assurance Manager and incorporating external qualified auditing professionals.

The Audit & Risk Committee reviews annually the arrangements for internal audit and during the year the Committee re-appointed BDO LLP (BDO) to act as internal auditors, performing an agreed programme of internal audits in collaboration with the Company's Vice President of Group Finance and senior management. BDO attended and presented their reports to each of the Audit & Risk Committee meetings during the year.

The Committee has, amongst other things, considered the quality of reporting to the Committee and impartiality of the internal auditors and has concluded that the effectiveness of Internal Audit during the year was satisfactory.

External audit

Our auditors, KPMG Audit Plc instigated an orderly wind down of their business during the year. The Board decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment is being put to the forthcoming AGM of the company.

The Audit & Risk Committee has satisfied itself that the external auditors, KPMG LLP (KPMG), acted independently of the Group. Previous appointments of KPMG and the extent of other work undertaken by it were considered inter alia in this regard.

It is the Committee's opinion confirmed in discussions with KPMG that there were no limitations imposed by management on KPMG whilst performing their duties during the review period.

The Committee, in consultation with the Group's executive management, agreed to the terms of the KPMG engagement letter, audit plan and budgeted audit fees for the 2014 financial year.

A formal framework governs the process through which the Group's auditors are considered to render non-audit services. The Committee has approved a policy in relation to the provision of non-audit services by the external auditors and the nature and extent of non-audit services that the external auditors could provide within the scope of the policy during the year.

Details of the external auditors' total fees paid to KPMG during the year are set out in Note 4 to the Financial Statements. Non-audit fees of $133,000 (2013: $100,000) were paid to KPMG in respect of the year ended 31 December 2014.

External audit appointment

The Committee reviews and makes recommendations with regard to the re-appointment of the external auditors. In making these recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's re-appointment.

The external auditors are required to rotate the audit partner every five years. The most recent change occurred in the year ended 31 December 2012 and therefore partner rotation is due in the year ending 31 December 2017.

The current external auditors, KPMG LLP (formerly KPMG Audit plc), were first appointed in 1996 and the external audit has not been formally tendered since then.

Having completed the activities outlined, the Committee remains confident that the effectiveness and independence of the external auditors is not impaired in any way. There are no contractual restrictions on the choice of external auditor.

The comply-or-explain provision relating to audit tendering in the UK Corporate Governance Code has effectively now been superseded by the UK Competition Commission's final report and recent developments in Europe. Pace has been advised that new European legislation is likely to require mandatory rotation of audit firms every ten years, extendable in certain circumstances to twenty years. KPMG has been Pace's auditor since listing in 1996 and the transitional rules that the EU has proposed are expected to require an initial change of audit firms no later than 2023. Until this uncertainty is resolved, the Committee will continue to consider annually whether to conduct an audit tender for audit quality or independence reasons.

Activities of the Committee

The main activities of the Committee during the year are set out below.

Financial reporting

The Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the interim and annual financial statements:

- the appropriateness of accounting policies used;
- compliance with external and internal financial reporting standards and policies;
- significant judgements made;
- disclosures and presentations; and
- whether the Annual Report and Accounts are fair, balanced and understandable.

In carrying this out, the Committee considered the work and recommendations of the Group Finance Team. In addition, the Committee received reports from the external auditors setting out their view on the accounting treatments and judgements included in the financial statements. The external auditors' reports are based on a full audit of the annual financial statements and a high-level review of the interim financial statements.

With the support of the external auditor, the Committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and whether the disclosures were fair and balanced.

The significant judgements considered by the Committee in areas where there was potential risk of material misstatement, were:

- Royalty provisions. These are considered a significant area of judgement due to the complexity of the claims made against the Group, and the range of possible outcomes of each claim. The Committee and the Board receive a semi-annual report from the General Counsel regarding royalties under negotiation as referred to in Note 20 to the Financial Statements.
- Capitalised development costs. Project development costs are capitalised and subsequently amortised over their useful economic life. The Committee considered the basis for selecting such costs as relevant development costs and the process for identifying the useful life. The Committee also reviews a summary of the larger projects, by carrying value, to understand how the costs capitalised are covered by future forecast margin. The Committee has concluded that the processes for capitalising development costs are robust and that the balance is recoverable.
- Acquisition accounting. As part of the accounting for the acquisition of Aurora Networks, Inc, the Committee considered the purchase price allocation exercise and the basis for fair value adjustments. The Committee considered that the balances were fairly stated.
- Other areas of judgement reviewed by the Committee, but where it was concluded that there was not a risk of material misstatement, included: revenue recognition, warranty provisions; classification of items as exceptional; potential impairments of goodwill, intangible and other fixed assets; and treatment of tax assets and liabilities.

Internal controls and risk management

The Committee reviews the framework of internal controls and the processes by which the Group's control environment is evaluated.

In this regard, the Committee received reports from internal audit on the operation of, and issue arising from, the Group's internal controls and procedures. External audit has also provided input and observations on the internal control environment and on any specific control issues that occurred during the year.

The Committee also reviewed compliance activities in relation to internal audit reports submitted to the Committee in prior years and received a report on the status of recommendations and actions outstanding.

The Committee reviews the Group's risk management framework in order to ensure it is appropriate and operating effectively. In doing so, the Committee received reports from the Vice President of Group Finance covering:

- the effectiveness of the risk management processes and their adoption across the Group; and
- a summary of the top risks to the Group, controls identified to mitigate these risks and actions planned to reduce risks where considered necessary.

As part of its agenda, the Committee allowed time for in-depth reviews of particular risk areas. During the year, the risk areas considered included business continuity management, IT Strategy, governance and supply chain management.

Nomination Committee Report

Committee responsibilities

The Committee is responsible for a number of matters relating to the composition of the Board and its committees. In particular it is responsible for:

- reviewing the structure of the Board;
- evaluating the balance of skills, knowledge, experience and diversity of the Board;
- advising the Board on any areas where further recruitment may be appropriate; and
- succession planning for key executives at Board level and below.

Where necessary and appropriate, recruitment consultants are used to assist the Committee in delivering its objectives and responsibilities. The Committee leads the process for the identification and selection of new directors and makes recommendations to the Board in respect of such appointments. The Committee also makes recommendations to the Board on membership of its committees. The Committee terms of reference, can be found on the Pace website (www.pace.com).

Committee meetings

The Committee meet at least once per year usually in conjunction with Board meetings.

Activities of the Committee

During the year, the Nomination Committee dealt with a number of matters, including the recruitment of new CFO, Mark Shuttleworth to the Board and succession planning of key executive and non-executive director roles.

Pace and the Committee value the aims and objectives of The Davies Report on Women on Boards and support and apply the Group diversity policy set out on page 25. There is currently 29% female representation at Board level. No formal measurable objective has been set for female representation at Board level.

The Committee is sensitive to the need for the non-executive directors to remain independent from management in order to exercise independent oversight and effectively challenge management as necessary. The Committee continually assesses the independence of the non-executive directors and has determined that all the non-executive directors are independent. None of them serve as directors of any companies or affiliates in which any other director is a director. However, more importantly, each of the non-executive directors is prepared to question and challenge management, to request more information and to ask the difficult question. They insist on robust responses both within the boardroom and sometimes between Board meetings.

We value the input we receive from our longer serving directors given their deep understanding of the Group. We are however focused on planning for the future to build a balanced Board with the skills and experience fit to face the challenges that lie ahead. The Committee recognises that, in due course, longer serving directors will step down and therefore it will continue to search for other suitable non-executive directors, whose experience will align with the Company's strategic objectives.

CFO Recruitment Process

The Committee appointed the Zygos Partnership, a London based global executive international search firm and a signatory to the Voluntary Code of Conduct for Executive Search Firms in Board Appointments. Zygos has no other connection to the Company.

The Group HR Director also assisted the Committee in the process. With their help the Committee developed a company, job and person profile and approved a long list followed by a short list of candidates. This was followed by an interview process by both Zygos and Pace directors and executives alongside rigorous reference checking.

The Board announced the appointment of Mark Shuttleworth as CFO on the recommendation of the Committee on 18 November 2014 and the appointment took effect on 12 January 2015.

I am pleased to present to you our **2014 Directors' Remuneration Report**

Mike Inglis
Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present to you our 2014 Remuneration Report, my first report as Chairman of the Remuneration Committee following my appointment on 1 November 2014 and the first report since shareholders adopted the Directors' Remuneration Policy (Policy) at the 2014 AGM.

Full details of the Policy are available on the Company's website at www.pace.com and the Policy Table summarising the key aspects of the Policy are incorporated in pages 41 to 43 of this Annual Report. There follows the 2014 Annual Report on Remuneration on pages 36 to 40 giving details of remuneration earned in the 2014 financial year. This report will be subject to an advisory vote by shareholders at the forthcoming AGM.

In the rest of this statement, I summarise the Committee's main activities during the year. More details can be found in the Annual Report on pages 36 to 40.

During 2014 the Committee has considered the remuneration packages of the executive directors and confirmed that, in its opinion, these remain appropriate, aligning with our strategy and shareholders' interests. In performing this review the Committee considered the three key elements of the Strategic Plan; namely to transform core economics, maintain PayTV hardware leadership and widen out in software, networks, services and integrated solutions. In order to align the incentive performance measures with this strategy and the key performance indicators most relevant to Pace's business, we determined that the most appropriate measures remained adjusted EBITA, EPS and cash management metrics. This is supported by individual objectives to drive the correct balance of behaviours and focus on the current business priorities.

No increases in directors' salaries were awarded in the year, the third successive year of 0% increase in directors' salaries. Our Remuneration Policy recognises that Pace is an international business with a major portion of its customers and employees, including the Chief Executive Officer, based in the USA, which is also a factor considered by the Committee.

The rules of the Company's Performance Share Plan (PSP) and Deferred Share Bonus Plan (DSB) for the 2014 award cycle provided for performance outcomes to be adjusted in circumstances of financial misstatement, misconduct or inaccuracies in underlying information or assumptions (Clawback). For PSP awards granted in 2014 the Committee chose cumulative adjusted EPS as the sole performance target and the baseline target was adjusted to take account of the Aurora Networks acquisition. The Committee reviewed the vesting of the PSP and Option awards granted in 2011 and concluded that no PSP or Option awards would vest in 2014.

The other main work of the Committee centred around the resignation of Roddy Murray in July 2014 and the remuneration package to be offered to a new CFO. The remuneration package offered in order to attract and recruit the new CFO was consistent with the Policy and the market for FTSE 250 Finance Executives and subject to individual negotiation upon selection. As announced in November 2014 the new CFO, Mark Shuttleworth, joined Pace on 12 January 2015. His remuneration is broadly similar to the previous CFO save that the salary has been set at £340,000 per annum. The Committee expects to award Mark Shuttleworth share awards under the Company's share plans in 2015 up to 2 times salary.

Looking ahead to 2015 and beyond, the Committee intends to continue to measure achievement of incentive performance targets by reference to adjusted EBITA, EPS and cash management metrics, supported by relevant individual objectives. We also intend to make PSP awards utilising the increased level approved at last year's AGM, albeit on a selective basis as the Committee deems appropriate.

We believe that our remuneration framework and the Policy continue to result in a fair reward for performance and the chosen measures of performance provide a tangible incentive to deliver our core business strategy.

Mike Inglis
Chairman of the Remuneration Committee

The Committee

The Committee determines the Company's policy on the remuneration of executive directors, the members of the Executive Committee and the wider Executive Team. The Committee determines their individual remuneration packages.

The members of the Committee in 2014 were Mike Inglis (appointed 13 March 2014, Chairman from 1 November 2014) Pat Chapman-Pincher (Chairman to 1 November 2014), Allan Leighton, John Grant, and Amanda Mesler. The composition of the Committee is in accordance with the UK Corporate Governance Code. The Committee's terms of reference are on the Company's website.

During the year Mike Pulli and the Group Director of HR, Jane Johnston, were invited to attend meetings of the Committee to provide advice to enable it to take informed decisions. No director was present when their own remuneration was being discussed. Kepler Associates retained by the Committee, assisted in relation to remuneration matters. They provided no other services to the Company. Pinsent Masons LLP, legal adviser to the Company, has provided advice on compliance with the legislation and regulations.

Annual Report on Remuneration

This report gives details of remuneration earned by directors in 2014.

Single total figure of remuneration for each director – audited

		Salary/fees $000	Benefits $000	Pension $000	Termination Payments $000	Bonus (performance measured for 2014 (even if deferred)) $000	Long-term incentives receivable in year $000	Total $000
Mike Pulli	**2014**	**750**	**18**	**139**	**—**	**1,124**	**9,377**	**11,408**
	2013	750	18	10	—	1,677	16	2,471
Roddy Murray*	**2014**	**337**	**15**	**46**	**—**	**—**	**—**	**398**
	2013	508	25	76	—	880	—	1,489
Allan Leighton	**2014**	**267**	**—**	**—**	**—**	**—**	**2,037**	**2,304**
	2013	253	—	—	—	—	—	253
Pat Chapman-Pincher	**2014**	**82**	**—**	**—**	**—**	**—**	**—**	**82**
	2013	78	—	—	—	—	—	78
John Grant	**2014**	**85**	**—**	**—**	**—**	**—**	**—**	**85**
	2013	78	—	—	—	—	—	78
Mike Inglis**	**2014**	**59**	**—**	**—**	**—**	**—**	**—**	**59**
	2013	16	—	—	—	—	—	16
Amanda Mesler	**2014**	**71**	**—**	**—**	**—**	**—**	**—**	**71**
	2013	65	—	—	—	—	—	65
Total	**2014**	**1,651**	**33**	**185**	**—**	**1,124**	**11,414**	**14,407**
	2013	1,748	43	86	—	2,557	16	4,450

* Remuneration referable only to the period of the financial year up to resignation from the Board.
** Remuneration referable in the financial period from appointment to the Board.

Notes to the single total figure table – audited

- Taxable benefits comprised of car allowance (plus medical insurance for Roddy Murray).
- Mike Pulli is entitled to pension contribution/cash allowance of 18.5% of salary. Pension in 2013 was suspended to adjust contributions to reflect an overpayment of contributions in 2012.
- Bonus for Mike Pulli was 150% of base salary and comprised a normal bonus award of $518,000 of which one third will be deferred into Pace shares for a period of two years; in addition he received an enhanced bonus award of $607,020 which is deferred into Pace shares for a period of three years subject to continued employment conditions.
- Bonus for Mike Pulli was calculated by reference to Group adjusted EBITA generated above the minimum target threshold of $232 million and the Committee's assessment of the executive director's achievement of personal objectives including the following: integration of the Aurora Networks business and achievement of synergies; cash and debt management; and launch of five new key customer products.
- Long-term incentives receivable in year
  - Mike Pulli – had the following long-term incentives receivable in the year which will vest in March 2015: 1,395,275 share options granted under the 2005 Unapproved Share Option Plan on 14 December 2011 at an option price of 69.75p and 523,519 Performance Share Plan nil-cost share awards made 14 March 2012 with a share price applicable on grant of 90.00p. The amounts receivable are included in the single figure of remuneration for 2014 since the performance period for these share awards concluded in 2014. A US Sharesave option granted in 2013 vested during the year with a share option price of 153p. Share options granted in April 2011 under the 2005 Unapproved Share Option Plan and PSP awards made under the Performance Share Plan due to vest in the year did not meet the minimum required performance targets and lapsed in the year.
  - Allan Leighton – the Chairman's Appointment Share Award matching share awards made 31 May 2011 vested on 31 May 2014. Sufficient shares of 162,134 were sold to pay the related tax liabilities on 4 June 2014 at a share price of 361.05. The remaining 176,676 shares are subject to share retention conditions until at least the fifth anniversary of appointment date (31 May 2011).
- Non-executive directors' fees were reviewed during the year with base fees increasing from £42,000 to £44,000 and the increment for chairing the Remuneration Committee and Audit & Risk Committee was increased from £8,000 to £10,000, with effect from 1 August 2014. There was no change in fees for the Chairman.
- GBP to US dollar exchange rate used to calculate remuneration paid in GBP, 2014: 0.6068 (2013: 0.6397).

Statement of implementation of Remuneration Policy in 2015

2015: the directors' remuneration will be in line with the Policy.

2015 bonus: the bonus targets for executive directors have been set by reference to a range of Group adjusted EBITA and personal performance outcomes above 2015 expectations at the start of the year. Targets for executive directors to earn a potential enhanced bonus share award have been set by reference to exceptional performance in all our metrics of cash management, Adjusted EBITA and personal performance target outcomes above current 2015 expectations at the start of the year.

2015 PSP: the performance targets for the PSP awards to be made to the executive directors will be set by reference to adjusted cumulative EPS growth over a three year period with minimum 25% vesting at 6% per annum cumulative growth and 100% vesting above 12% per annum cumulative growth. Awards on this basis are expected to be made to executive directors in 2015 and will not exceed two times salary.

Clawback and performance adjustment: the annual bonus has for some years been subject to adjustment if cash management targets are not met. For 2014 and subsequent bonus, deferred bonus and PSP awards, Pace has now introduced additional Clawback and performance adjustment in circumstances of misconduct, restatement of accounts or a mistake in calculating the payout.

Statement of voting at the 2014 Annual General Meeting

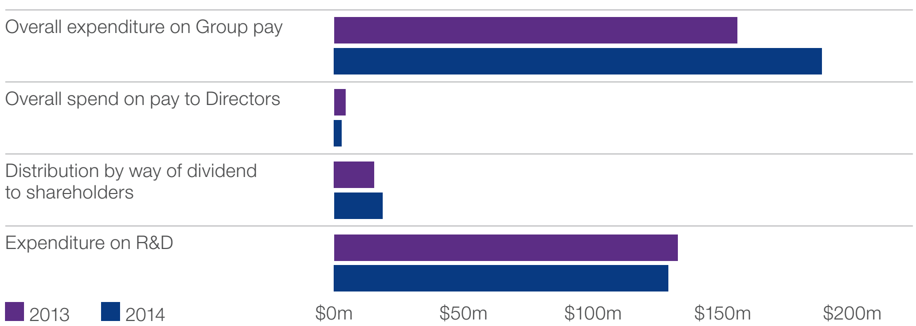
The voting on the directors' remuneration report at the 2014 AGM was as follows:

		Shares
For/discretionary:	87.31%	156,163,148
Against:	12.69%	22,706,447
Withheld:		51,284,027

Relative importance of spend on pay

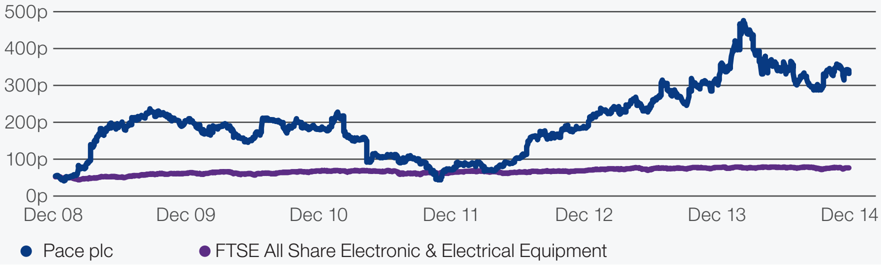
The following table shows the relative importance of spend on pay by reference to distribution by way of dividend and expenditure on research and development (which is considered appropriate for a technology company). The values have been extracted from the information in the financial statements for each year.

Relative spend on pay



Annual Report on Remuneration continued

TSR performance graph



The FTSE All-Share Electronic & Electrical Equipment Index was selected as the most appropriate benchmark index against which to compare the Company's performance, having regard to the principal activities of the Group.

Six year CEO total emoluments

Financial year	CEO	Single total figure of remuneration	Annual variable element (% of maximum, including deferred element)	PSP/share options vesting outcome (% of maximum)
2014	Mike Pulli	$11,408,035	66.67%	100%
2013	Mike Pulli	$2,470,632	99.38%	0%
2012	Mike Pulli	$3,040,179	100.00%	0%
2011*	Mike Pulli	$79,116	46.19%	100%
2011	Neil Gaydon	$1,043,130	0.00%	100%
2010	Neil Gaydon	$1,980,900	60.00%	100%
2009	Neil Gaydon	$5,495,034	100.00%	100%

* Pro-rata from date of appointment 14 December 2011.

It is inherent in the methodology for calculating the single figure of remuneration that for a particular year it includes amounts that the executive did not actually receive in that year, due to deferral or due to retaining options after the date they first became exercisable. In December 2011, Mike Pulli replaced Neil Gaydon as CEO. It would be misleading to show the full year's total remuneration for each, so time pro-rating has been applied.

Percentage change in the remuneration of the Chief Executive compared with the remuneration of employees

	Salary (2013)	**Salary (2014)**	Salary % change	Bonus (2013)	**Bonus (2014)**	Bonus % change	Taxable benefits (2013)	**Taxable benefits (2014)**	% change in benefits
CEO	$750,000	**$750,000**	0.00%	$1,673,000	**$1,124,020**	(32.81%)	$18,000	**$18,000**	0%
Group	$62,690	**$71,035**	13.31%	$7,491	**$5,158**	(31.14%)	$3,669	**$5,588**	52.30%

The CEO's salary, bonus and taxable benefits are compared against the average across the Group.

Statement of directors' shareholdings and share interests – audited

The Committee operates individual shareholding target requirements for executive directors with a requirement (subject to a discretion of the Committee) for such executives to retain a portion of any net awards (i.e. after tax and exercise cost) of newly vested share-based incentives made after 2009 until the target shareholding level is reached. The target shareholding is 100% of the executive's annual salary. Up to 50% of shares earned but held under the Company's Deferred Share Bonus Plan are deemed to count towards the ownership target. Each executive is required to achieve target ownership level within a period of five years. Mike Pulli has achieved the required minimum shareholding.

Non-executive directors are encouraged to build up a meaningful shareholding. Allan Leighton purchased a significant individual shareholding on appointment. Details of the appointment share awards made to him in 2011 as a one-off exception to policy have been disclosed in these accounts and in the 2011, 2012 and 2013 accounts.

Executive directors’ share ownership guidelines – audited

	Shareholding requirement (% of salary/value)	Shares owned[1]	Performance shares[2]	Deferred bonus shares[3]	Total interest in shares	Value[4]	% of salary held under shareholding requirement
Mike Pulli	100%/$750,000	611,317	1,822,889	228,164	2,662,370	$14,676,380	1,957%
Mark Shuttleworth	100%/$560,000	—	—	—	—	—	—

1 Shares owned outright and by connected persons.
2 Share options where performance conditions had been met at 1 January 2015.
3 Share awards representing deferred bonus outcome for 2011, 2012 and 2013 subject to continued employment conditions but not additional performance conditions. 50% of DSB award shares only.
4 The valuation was calculated by multiplying the total interest in shares by the average share price over the three months prior to 1 January 2015.

Directors interests’ in Pace plc shares – audited

	Shares owned[1]	Performance shares[2]	Vested performance shares[3]	Deferred bonus[4]	Unvested share options/awards[5]	Vested but unexercised share options[6]	Share options vested during 2014[7]
Mike Pulli	611,317	329,625	523,519	456,328	1,893	1,822,889	183,822
Mark Shuttleworth	—	—	—	—	—	—	—
Allan Leighton	346,081	—	—	—	600,000	—	338,810
Pat Chapman-Pincher	15,551	—	—	—	—	—	—
John Grant	65,000	—	—	—	—	—	—
Amanda Mesler	—	—	—	—	—	—	—
Mike Inglis	25,344	—	—	—	—	—	—

1 Shares owned outright and by connected persons.

2 Share awards where performance conditions had not been met as at 31 December 2014.

- Shares awarded to Mike Pulli under the Performance Share Plan:
  - 218,439 share awards vest on 21 March 2016, subject to minimum performance conditions being met; and
  - 110,826 share awards vest on 14 April 2017, subject to minimum performance conditions being met.
- Share awards are subject to performance conditions based on cumulative three year adjusted PBT targets for the Group for awards made in 2011; share awards made in 2012 and 2013 are subject to three year targets based on cumulative adjusted EBITA for the Group; and share awards made in 2014 are subject to cumulative adjusted EPS growth over three years.

3 Share awards where performance conditions had been met as at 31 December 2014.

- Shares awarded to Mike Pulli under the Performance Share Plan:
  - 523,519 share awards vest on 14 March 2015, subject to minimum performance conditions being met.

4 Share awards representing 100% of deferred bonus outcome for 2011, 2012, 2013 and 2014 and subject to continued employment conditions but no additional performance conditions.

5 Share options/awards where performance conditions had not been met as at 31 December 2014.

- Shares granted to Mike Pulli under the US sharesave Plan:
  - 1,893 share options vest on 8 June 2015

Allan Leighton appointment share award made 31 May 2011 as referred to in the Remuneration Policy – Non-executive Directors.

Share options granted under the 2005 Approved and Unapproved Share Option Plans are subject to performance conditions based on cumulative adjusted EPS growth of 4% above inflation per annum for 25% to vest. Cumulative growth of 15% above inflation is required for 100% to vest.

6 Share options where performance conditions had been met at 1 January 2015.

- Options granted to Mike Pulli under the 2005 Unapproved Share Option Plan:
  - 177,614 share options vested on 24 June 2011 with an expiry date of 24 June 2018 and an exercise price of 85.5p; and
  - 250,000 share options vested on 11 March 2012 with an expiry date of 11 March 2019 and an exercise price of 75.0p.
- Shares granted to Mike Pulli under the 2005 Unapproved Share Option Plan:
  - 1,395,275 share options granted 15 December 2011 vest on publication of the results on 3 March 2015 with an expiry date of 15 December 2021 and an exercise price of 69.75p.

7 182,098 deferred share bonus share awards made in 2012 vested on 28 February 2014 and were released on 4 March 2014.
1,724 US sharesave share options vested on 2 June 2014 and were exercised on 2 June 2014.
338,810 Allan Leighton appointment award shares vested on 31 May 2014.

Annual Report on Remuneration continued

Awards during 2014 – audited

The tables below show details of the awards to each director during the year.

Performance shares

	Date of grant	Number of shares over which awards granted	Market price at date of grant	Face value	% of face value that would vest at threshold performance	Vesting date
Mike Pulli	14/04/2014	110,826	404.70p	£448,512.82	25%	14/04/2017
Roddy Murray	14/04/2014	79,240	404.70p	£320,684,28	25%	14/04/2017

Mike Pulli received Performance Share Plan share awards on 14 April 2014 in the form of a nil-cost contingent share award. The award was based on 100% of base salary.

Roddy Murray received Performance Share Plan share awards on 14 April 2014 in the form of a nil-cost share option. The award was based on 100% of base salary. The award lapsed on date of resignation from the Board.

Under normal circumstances the options will not become exercisable until the performance conditions are determined after the end of the three year performance period.

The level of vesting is dependent on the achievement of the following performance conditions by reference to an adjusted base year EPS of 47.20p, which was further adjusted for the anticipated earnings of Aurora Networks, Inc. which was acquired on 6 January 2014.

The awards are also subject to clawback.

Cumulative adjusted EPS growth over three years	% of total award shares vesting
12% per annum or more	100%
6% per annum	25%
Less than 6% per annum	Nil

Deferred share awards – audited

	Date of grant	Number of shares over which awards granted	Market price at date of grant	Face value	Vesting date
Mike Pulli	14/04/2014	39,216	455.90p	£178,785.74	31/03/2016
	14/04/2014	105,290	455.90p	£480,017.11	31/03/2017
		144,506		£658,802.85	
Roddy Murray	14/04/2014	24,372	455.90p	£111,111.95	31/03/2016
	14/04/2014	43,870	455.90p	£200,003.33	31/03/2017
		68,242		£311,115.28	

Mike Pulli received Deferred Share Bonus Plan awards on 14 April 2014 in the form of a nil-cost contingent share awards.

Roddy Murray received Deferred Share Bonus Plan awards on 14 April 2014 in the form of a nil-cost share option. The awards lapsed on date of his resignation from the Board.

The awards were based on the average three day mid-market price of an ordinary share in the Company at close of business from 5 March 2014 to 7 March 2014, being the three trading dates following the Company results announcement. The awards in each case are subject to continuing employment conditions, and Clawback, but no attached performance conditions.

Under normal circumstances the awards will not become exercisable until the end of the two year vesting period. In respect of 2013 the Committee awarded an enhanced bonus to Mike Pulli, taking his overall annual bonus up to just below the maximum level of 224% of salary and enhanced bonus to Roddy Murray, taking his overall annual bonus up to 173% of salary (which award lapsed on his resignation from the Board). The enhanced bonus award is deferred into shares for a longer deferred period of three years.

Savings-related share options – audited

	Date of grant	Number of shares over which option granted	Market price at date of grant	Face value	Exercise period
Mike Pulli	24/04/2014	1,893	338.30p	£6,404.02	08/06/2015 to 04/09/2015

The following Remuneration Policy table was approved by shareholders at the Annual General Meeting held on 24 April 2014 and will remain in place for three years until 25 April 2017.

Future policy table – executive directors

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures and period
Base salary	Set to reflect expected contribution to delivering the Company's strategy. Salaries are set in the context of overall pay. It is the intention of the Remuneration Committee to set base salaries at a competitive level after considering those paid by comparable companies, recognising the market value of the executive's role, skill, responsibilities, performance and experience.	Reviewed annually with any change effective from 1 January. When setting salary, the Committee takes into account the level of increase for employees more generally, market data, business performance, external economic factors, the complexity of the business and the role, cost and the directors' experience and performance.	The Committee's policy in relation to salary is: ➤ up to median salary on appointment depending on the experience and background of the new executive director; ➤ on promotion, up to the median salary for the new role; and ➤ otherwise pay increases are set by reference to inflation and other pay rises generally for employees. The policy maximum is for the percentage increase in executive directors' salaries not to exceed 10% in any year, but this is subject to an overriding discretion in exceptional circumstances. Salary levels and increases will be determined with reference to market practices and rates in the relevant location.	There are no performance conditions, although individual performance is considered when reviewing salaries.
Benefits	To provide reasonable market competitive benefits.	The Committee provides a range of benefits to executives in line with the Pace policy. These comprise a fully expensed car plus fuel (or an equivalent cash allowance), private medical insurance, permanent health insurance and life insurance, and may include relocation assistance and other benefits customarily provided in the relevant location where applicable.	No more generous than the equivalent benefits to those provided in 2014 but recognising the cash cost/value of providing such benefits can vary significantly according to the age, health and location of the individual.	None.
Pension	Market-competitive retirement provision, recruitment and retention of high calibre executives and also supports succession planning.	A cash allowance is paid in lieu of pension contributions. With the Committee's approval, an executive director may, at their discretion, redirect all or part of this allowance into any defined contribution pension arrangement in their home country (including 401k plans in the USA).	Up to 25% of annual basic salary.	N/A

Future policy table – executive directors continued

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures and period
Relocation	To facilitate the recruitment and relocation of executive directors.	Where it is in Pace's interests to request that executives work in a different country or region, then it may pay relocation and provide benefits and allowances to compensate the individual for the additional costs involved.	The Committee has no prescribed maximum level for the value of relocation payments as these can vary significantly based on the countries and individual circumstances involved. The Committee will agree relocation payments on a case by case basis.	N/A
Annual bonus	To incentivise and reward performance against annual financial, strategic and operational goals, which are consistent with the medium to long-term strategic needs of Pace.	The award of annual bonus under the plan is determined following the year end by the Committee based on performance against the targets set at the beginning of the year and the Committee's assessment of achievement of personal objectives. A minimum of one-third of any bonus outcome is payable in Pace shares and all of any enhanced bonus award is payable in Pace shares and automatically deferred for a minimum period of two years under the Group Deferred Share Bonus Plan. The Committee retains the power to reduce the bonus otherwise payable by up to 50% based on its assessment of the management of Pace's cash position during the year. The Committee has reserved the power to seek clawback of the deferred element of bonuses in certain circumstances.	Normal maximum: 150% of salary. Exceptional maximum: 225% of salary. In line with expectations: 75% of salary. Threshold: 25% of salary.	The policy is for corporate objectives to be linked to key drivers of value creation, which may include EBITA, EPS, adjusted EPS or other operational measures. In addition the scale of annual bonus will depend on achievement of individual personal objectives aligned to the objectives of the Group that year.
Long-term incentives	To incentivise long-term value creation, aligning the interests of executives and shareholders through the delivery of awards in shares. The selected performance targets support the long-term strategy of Pace and aid retention of executive directors.	The Committee can make annual share-based awards to executive directors under the Pace Performance Share Plan. These can take the form of nil-cost options or conditional awards. Clawback provisions are included in the Plan Rules and provide the Committee with the power to adjust unvested and/or unexercised awards in certain circumstances. Awards can be settled through market-purchased shares, treasury shares or new issue shares.	Normal maximum: 100% of salary. Exceptional maximum (subject to shareholder approval): 200% of salary. As a percentage of maximum opportunity, the following amounts are payable for the corresponding levels of performance as a percentage of the award: Minimum: 25% Maximum: 100% Other points on the vesting schedule may be determined at the Committee's discretion when the performance targets are set.	The policy is for corporate financial targets to be set, measured over a minimum of three financial years and linked to the key drivers of value creation, which may include EBITA, adjusted EPS or other operational measures.

Future policy table – executive directors continued

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures and period
Sharesave and US Sharesave	To encourage wider share ownership amongst the employees and align the interests of Pace employees with those of shareholders. In addition, to provide a tax efficient investment vehicle for employees.	A Savings-Related Share Option Plan which is open to the majority of the Group's UK employees, including the UK-based executive directors. Under the plan, grants of share options can be made to all participants at a discount of 20% below the market price. In the USA, a contributory plan is offered with broadly comparable awards qualifying for US tax benefits.	Participation limits are by reference to those set by the relevant tax authorities from time to time.	None.
Historic commitments	To avoid reneging on previous agreements.	Where commitments have been given prior to the 2015 AGM, as a matter of policy Pace will honour those commitments in accordance with their terms.	Dependent on circumstances.	Dependent on circumstances.

Future policy table – Non-executive directors

Element	Purpose and link to strategy	Operation	Annual opportunity
Base fees	To attract and retain high calibre individuals by offering market competitive fees, reflecting the time commitment and experience that is required.	Fees are reviewed annually and considered against companies of a similar size and complexity. When setting fees, factors considered include market data, business performance, external economic factors, the skills required, time requirements and cost. Additional fees are paid to Committee Chairmen.	Fee levels from 1 January 2014 are: Chairman: £162,000; and Non-executive directors: £42,000. Additional fees for acting as Committee Chairman: £8,000. Subject to review in July 2014.
Historic commitments	Chairman's Appointment Share Award, made in 2011, was a one-off exception to the policy that non-executive directors do not participate in Pace's incentive plans. It is the Company's policy to honour pre-existing commitments in accordance with their terms.	Personal investment of £200,000 matched by a two-for-one share award vesting on 31 May 2014 (338,810 shares). Share price linked award vesting at latest on 31 May 2015 (600,000 shares) (25% vesting at a share price of 145 pence, with full vesting at 190 pence) and retention conditions until earliest 31 May 2016, as disclosed more fully in the Annual Reports for 2011 to 2013.	One-off, historic award on appointment of Chairman.

Directors' Report

The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2014.

Principal activities

The Group's principal activities are the development, design and distribution of technologies, products and services for managed subscription television, telephone and broadband services and the provision of engineering design and software applications to its customers. The Group also provides related support services including systems integration and customer care centres.

Strategic report

The Companies Act 2006 requires us to present a fair review of the business during the year to 31 December 2014 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced.

The Strategic Report can be found on **pages 1 to 25**

Corporate governance statement

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' Report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance Report on pages 28 to 30 and is incorporated into this Directors' Report by reference.

Disclaimer

The purpose of this Annual Report and Accounts is to provide information to the members of the Company. The Annual Report and Accounts have been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors and employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report and Accounts contain certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Financial results

The consolidated income statement for the year is set out on page 50 and the results are summarised in the Financial Review on pages 20 to 22. The profit before tax was $175.7 million (2013: $130.8 million) and the profit before tax, interest, exceptional items and amortisation of other intangibles was $241.1 million (2013: $193.6 million).

Dividend

The directors recommend the payment of a final dividend of 4.75 cents per ordinary share (2013: 3.66 cents) to be paid on 3 July 2015 to shareholders on the register at the close of business on 5 June 2015. An interim dividend of 2.25 cents per ordinary share was paid during the year (2013: 1.83 cents).

Dividends will be paid in Sterling equivalent to 3.093 pence per ordinary share. This is based on an exchange rate of £=$1.5358, being the rate applicable on 2 March 2015.

Going concern

The following statement has been included in accordance with the Listing Rules: based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources (including committed finance facilities) to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

Share capital

Details of the Company's share capital including changes for the year, the rights attaching to the ordinary shares and restrictions on their transfer are contained in Note 21 and are incorporated in this report by reference.

Political donations

No political donations were made in the year.

Governance

Significant shareholdings

The Company has been notified in accordance with the Disclosure and Transparency Rules of the following interests of 3% or more in its ordinary share capital as at 31 December 2014:

	Number of shares	% of issued share capital
Prudential plc group of companies	31,033,554	9.85
Old Mutual	18,877,494	5.99
David Hood and related family trusts	16,117,559	5.12
BlackRock Inc	15,776,866	5.01
Schroders plc	14,276,376	4.53
Norges Bank	12,450,919	3.95

Save for the above, the Company has not been notified, as at 31 December 2014, of any material interest of 3% or more or any non-material interest exceeding 10% of the issued share capital of the Company.

Directors

The names of the current directors of the Company are shown on pages 26 to 27. All those listed held office throughout the year except for Mike Inglis who was appointed 13 March 2014 and Mark Shuttleworth who joined the Company on 12 January 2015. During the year Roddy Murray (resigned 27 July 2014) also held office as a director.

All the directors will retire at the forthcoming Annual General Meeting of the Company and offer themselves for re-election. The Board has determined that all of the 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 Policy. No director had a significant contract, other than a service contract or contract for services with any member of the Group at any time during the year. Further details relating to the appointment, removal and powers of directors are contained in Note 21 and are incorporated in this report by reference.

As at the date of this report, indemnities (which are qualifying third party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the directors of the Company and the former directors of the Company who held office during the year, to the extent permitted by law and by the Company's Articles of Association, in respect of all liabilities incurred in connection with the performance of their duties as a director of the Company or its subsidiaries. Copies of these indemnities are available for review at the Company's registered office.

Information provided by the Company pursuant to the Disclosure and Transparency Rules is publicly available via the regulatory information services and on our website (www.pace.com).

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. Mike Pulli received fees of $167,374 in cash and equity in the year as a non-executive director of Itron, Inc.

Authority to purchase own shares

At the Annual General Meeting in 2014 the Company was authorised by shareholders to purchase up to 47,107,953 of its own ordinary shares, representing 15% of it issued share capital as at March 2014. 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 2015 and a resolution to renew it will be proposed at that meeting.

Greenhouse gas emissions

All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained in the Corporate Responsibility Report forming part of the Strategic Report on pages 23 to 25.

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.

Statement of Directors' Responsibilities continued

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 judgements 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 the 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 Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our 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 strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the persons who is a director as at the date of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The director has taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By Order of the Board

Anthony Dixon
Company Secretary
3 March 2015

Independent auditor's report

To the members of Pace plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Pace Plc for the year ended 31 December 2014 set out on pages 50 to 88. 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 2014 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Revenue recognition ($2,620.0m)

Refer to page 33 (Audit Committee Report), page 60 (accounting policy) and pages 64 to 65 (financial disclosures).

- The risk – On occasion, the Group contracts to sell hardware, software and services within a single arrangement. Accounting for these arrangements can be complex as the total contract value is allocated to each identified component on a relative fair value basis and recognised as revenue as the related goods or services are delivered. The identification of components and the allocation and recognition of revenue relating to components is a key area of judgement for our audit.
- Our response – Our audit procedures included, testing authorisation controls relating to the identification and approval of significant contracts, the identification of components within those contracts, the allocation of revenue to components and the recognition of revenue for those components. We read significant new contracts entered into during the year to understand the contractual terms and to make our own assessment of the components identified by the Group. We assessed allocation of revenue for significant new contracts, on a relative fair value basis, to identified components of contracts through corroboration of contractual milestones, agreement, on a sample basis, of costs incurred to date and analysis of revenue and margins. As part of our assessment of amounts recognised as revenue in the period we recalculated the deferred revenue balance at the balance sheet date.

Royalty under negotiation provisions ($49.9m)

Refer to page 33 (Audit Committee Report), page 62 (accounting policy) and page 80 (financial disclosures).

- The risk – The Group's products incorporate third party technology. Due to the complexity of intellectual property rights arrangements the Group is exposed to the risk of infringement of third party rights. Potential claims can be submitted many years after a product has been deployed and extensive negotiation is commonplace. Determining whether to recognise a provision, and the amount of the provision to be recognised, requires the Group to make judgements and estimates that are inherently subjective.
- Our response – Having discussed the significant claims with the Group's in-house patent expert and legal team, our audit procedures included considering the extent to which the Directors' estimates take into account a balanced assessment of the latest available information on the ongoing claims at the balance sheet date, and the accuracy and reliability of the sources of that information. For the most significant claims, we also make enquiries of the Group's external legal advisors. We read correspondence between the Group and individual claimants. We read information published by claimants, such as press releases, highlighting their successes against other parties, as part of our assessment of the strength of the claimant's case. We considered the Group's historical experience in assessing the level of provision required by comparing actual outcomes from previous claims to provisions made. We have also considered the adequacy of the Group's disclosures in respect of royalty provisions.

Capitalised development costs ($85.0m)

Refer to page 33 (Audit Committee Report), page 59 (accounting policy) and pages 69 and 70 (financial disclosures).

- The risk – The Group conducts a significant level of development activity. The Group has to apply judgement in identifying projects meeting the criteria for capitalisation under the requirements of accounting standards and to capture accurate time and costs information for those projects. There is a risk that capitalisation occurs on projects that do not meet the criteria, that incorrect amounts are allocated to projects or that projects are not as successful as initially anticipated leading to overcapitalisation and the need for impairment.
- Our response – Our audit procedures included testing controls over the authorisation of new development projects and the monthly monitoring of ongoing development projects. We agreed costs assigned to a sample of larger value projects to time recorded or to invoices and considered the reasonableness of labour rates used. As part of our assessment of the benefits expected to be generated for the Group from these projects, which is a key factor in determining whether capitalisation is appropriate, we considered the Group's project margin forecasts. We assessed the appropriateness of key inputs, such as the value and timing of sales by reference to our knowledge of the Group's business, our experience of the industry, and consideration of publicly available information, such as press releases. We have also considered the adequacy of the Group's disclosures in respect of development costs.

Independent auditor's report

To the members of Pace plc only continued

Opinions and conclusions arising from our audit continued

2 Our assessment of risks of material misstatement continued

Business combinations (goodwill additions of $141.7m, other intangible additions of $138.0m)

Refer to page 33 (Audit Committee Report), page 58 (accounting policy) and page 88 (financial disclosures).

- The risk – The Group acquired Aurora Networks during the current financial year. The acquired intangible assets of technology and customer relationships are valued using discounted cash flows methods. In applying the methodologies, the Group makes a number of key assumptions and estimates relating to each class of intangible asset, including; growth and attrition rates, discount rates and product life cycles. The identification and valuation of acquired intangibles requires judgement and is sensitive to the assumptions used.

  Amounts not allocated to acquired assets, including acquired intangible assets, are allocated to goodwill. Goodwill is not amortised and affects the income statement only on a future impairment. We considered the estimation of the fair value of Aurora Networks' inventories to be a significant audit risk, due to the inherent judgement involved in estimating the fair value, their materiality and ageing.

- Our response – Our audit procedures included, but were not limited to, an assessment of the competency of the external experts used by the Group to value significant acquired intangibles. We used our own valuation specialists to challenge and corroborate using our experience, market data and information from similar transactions, the process for identifying intangible assets and to consider the methodology and assumptions used to determine the present value of cash-flow projections.

  With respect to the valuation of inventories, we critically assessed the methodology used by the Group to calculate the fair value adjustment. Our testing included: physical stock-take attendances, recalculation of ageing reports and sample testing of inventories to post acquisition date sales invoices.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at $10.5m, determined with reference to a benchmark of Group profit before taxation of $175.7m, of which it represents 6%.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.5m in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 26 reporting components, we subjected 6 to audits for group reporting purposes. The components within the scope of our work accounted for the following percentages of the Group's results:

	Number of components	Group revenue (%)	Group profit before tax (%)	Group total assets (%)
Audits for group reporting purposes	6	94	96	97
Remaining components	20	6	4	3
Total	26	100	100	100

The remaining components, none of which individually represented more than 2% of Group revenue, Group profit before tax or total Group assets, were subject to analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from $4.0m to $10.0m having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 6 was performed by component auditors, and the rest by the Group audit team. The Group audit team visited 2 component locations in the UK and the USA, including to assess the audit risk and strategy. Physical meetings, video conferences or conference calls were also held with all component auditors that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 28 to 30 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately address matters communicated by us to the audit committee.

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; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 44, in relation to going concern; and
- the part of the Corporate Governance Statement on page 30 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 45 and 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
3 March 2015

Consolidated income statement

For the year ended 31 December 2014

	Notes	**2014 $m**	2013 $m
Revenue	3	**2,620.0**	2,469.2
Cost of sales		**(2,087.5)**	(2,021.0)
Gross profit		**532.5**	448.2
Administrative expenses:			
Research and development expenditure	4	**(83.7)**	(87.0)
Amortisation of development expenditure	11	**(45.4)**	(45.6)
Other administrative expenses:			
Before exceptional costs	4	**(162.3)**	(122.0)
Exceptional costs	5	**(7.3)**	(12.2)
Amortisation of other intangibles	11	**(52.9)**	(42.6)
Total administrative expenses		**(351.6)**	(309.4)
Operating profit		**180.9**	138.8
Finance income – interest receivable	6	**2.5**	1.8
Finance expenses – interest payable	6	**(7.7)**	(9.8)
Profit before tax		**175.7**	130.8
Tax charge	8	**(27.7)**	(34.1)
Profit for the year		**148.0**	96.7
Profit attributable to:			
Equity holders of the Company		**148.0**	96.7
Earnings per ordinary share			
Basic earnings per ordinary share (cents)	9	**47.4**	31.2
Diluted earnings per ordinary share (cents)	9	**45.6**	29.8

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 $m	2013 $m
Profit for the year	**148.0**	96.7
Other comprehensive income:		
Items that are or may be subsequently reclassified to profit and loss:		
Exchange differences on translation of foreign operations	**(19.7)**	(4.8)
Net change in fair value of cash flow hedges transferred to profit or loss, gross of tax	**2.3**	(2.7)
Deferred tax adjustment on above	**(0.4)**	0.7
Effective portion of changes in fair value of cash flow hedges, gross of tax	**2.7**	4.7
Deferred tax adjustment on above	**(0.4)**	(1.2)
Other comprehensive income for the year, net of tax	**(15.5)**	(3.3)
Total comprehensive income for the year	**132.5**	93.4
Attributable to:		
Equity holders of the Company	**132.5**	93.4

Consolidated balance sheet

At 31 December 2014

	Notes	2014 $m	2013 $m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**63.2**	60.0
Intangible assets – goodwill	11	**471.1**	342.6
Intangible assets – other intangibles	11	**208.2**	123.1
Intangible assets – development expenditure	11	**85.0**	64.4
Deferred tax assets	14	**31.2**	21.2
Total non-current assets		**858.7**	611.3
Current assets			
Inventories	15	**168.0**	156.8
Trade and other receivables	16	**909.1**	468.7
Cash and cash equivalents	18	**182.1**	33.0
Current tax assets		**4.3**	1.3
Total current assets		**1,263.5**	659.8
Total assets		**2,122.2**	1,271.1
EQUITY			
Issued capital	21	**29.1**	29.0
Share premium	22	**85.1**	83.7
Merger reserve	23	**109.9**	109.9
Hedging reserve		**4.0**	(0.2)
Translation reserve	23	**(79.3)**	(59.6)
Retained earnings	24	**518.3**	384.2
Total equity		**667.1**	547.0
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	14	**89.7**	56.3
Provisions	20	**100.6**	60.3
Borrowings	18	**237.8**	—
Total non-current liabilities		**428.1**	116.6
Current liabilities			
Trade and other payables	17	**934.6**	567.1
Current tax liabilities		**23.5**	8.5
Provisions	20	**31.5**	31.9
Borrowings	18	**37.4**	—
Total current liabilities		**1,027.0**	607.5
Total liabilities		**1,455.1**	724.1
Total equity and liabilities		**2,122.2**	1,271.1

These Financial Statements were approved by the Board of directors on 3 March 2015 and were signed on its behalf by:

Michael Pulli
Chief Executive Officer

Mark Shuttleworth
Chief Financial Officer

Company balance sheet

At 31 December 2014

	Notes	2014 $m	2013 $m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**32.2**	34.8
Intangible assets – other intangibles	11	**8.7**	10.9
Intangible assets – development expenditure	11	**71.6**	57.8
Investments in Group and other companies	13	**758.7**	448.6
Loans to Group companies	13	**325.6**	311.5
Deferred tax assets	14	**2.9**	3.8
Total non-current assets		**1,199.7**	867.4
Current assets			
Inventories	15	**32.5**	20.9
Trade and other receivables	16	**612.6**	349.6
Cash and cash equivalents		**131.5**	11.0
Total current assets		**776.6**	381.5
Total assets		**1,976.3**	1,248.9
EQUITY			
Issued capital	21	**29.1**	29.0
Share premium	22	**85.1**	83.7
Merger reserve	23	**109.9**	109.9
Hedging reserve		**2.7**	0.7
Translation reserve	23	**(52.5)**	(52.5)
Retained earnings	24	**303.5**	294.9
Total equity		**477.8**	465.7
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	14	**11.9**	9.6
Provisions	20	**63.7**	39.3
Borrowings	18	**237.8**	—
Total non-current liabilities		**313.4**	48.9
Current liabilities			
Trade and other payables	17	**1,123.6**	704.7
Current tax liabilities		**9.9**	6.4
Provisions	20	**14.2**	23.2
Borrowings	18	**37.4**	—
Total current liabilities		**1,185.1**	734.3
Total liabilities		**1,498.5**	783.2
Total equity and liabilities		**1,976.3**	1,248.9

These Financial Statements were approved by the Board of directors on 3 March 2015 and were signed on its behalf by:

Michael Pulli
Chief Executive Officer

Mark Shuttleworth
Chief Financial Officer

Pace plc

Registered number: 01672847

Financial statements

Statements of changes in shareholders' equity

For the year ended 31 December 2014

Group	Share capital $m	Share premium $m	Merger reserve $m	Hedging reserve $m	Translation reserve $m	Retained earnings $m	Total equity $m
Balance at January 2013	**28.7**	**79.0**	**109.9**	**(1.7)**	**(54.8)**	**299.0**	**460.1**
Profit for the year	—	—	—	—	—	96.7	96.7
Other comprehensive income	—	—	—	1.5	(4.8)	—	(3.3)
Total comprehensive income for the year	**—**	**—**	**—**	**1.5**	**(4.8)**	**96.7**	**93.4**
Transactions with owners:							
Dividends to equity shareholders	—	—	—	—	—	(15.6)	(15.6)
Employee share incentive charges	—	—	—	—	—	4.1	4.1
Issue of shares	0.3	4.7	—	—	—	—	5.0
Balance at December 2013	**29.0**	**83.7**	**109.9**	**(0.2)**	**(59.6)**	**384.2**	**547.0**
Profit for the year	—	—	—	—	—	148.0	148.0
Other comprehensive income	—	—	—	4.2	(19.7)	—	(15.5)
Total comprehensive income for the year	**—**	**—**	**—**	**4.2**	**(19.7)**	**148.0**	**132.5**
Transactions with owners:							
Dividends to equity shareholders	—	—	—	—	—	(18.7)	(18.7)
Employee share incentive charges	—	—	—	—	—	6.5	6.5
Issue of shares	0.1	1.4	—	—	—	—	1.5
Purchase of own shares by employee benefit trust	—	—	—	—	—	(1.7)	(1.7)
Balance at December 2014	**29.1**	**85.1**	**109.9**	**4.0**	**(79.3)**	**518.3**	**667.1**

Company	Share capital $m	Share premium $m	Merger reserve $m	Hedging reserve $m	Translation reserve $m	Retained earnings $m	Total equity $m
Balance at January 2013	**28.7**	**79.0**	**109.9**	**(0.7)**	**(52.5)**	**245.6**	**410.0**
Profit for the year	—	—	—	—	—	60.8	60.8
Other comprehensive income	—	—	—	1.4	—	—	1.4
Total comprehensive income for the year	**—**	**—**	**—**	**1.4**	**—**	**60.8**	**62.2**
Transactions with owners:							
Dividends to equity shareholders	—	—	—	—	—	(15.6)	(15.6)
Employee share incentive charges	—	—	—	—	—	4.1	4.1
Issue of shares	0.3	4.7	—	—	—	—	5.0
Balance at December 2013	**29.0**	**83.7**	**109.9**	**0.7**	**(52.5)**	**294.9**	**465.7**
Profit for the year	—	—	—	—	—	22.5	22.5
Other comprehensive income	—	—	—	2.0		—	2.0
Total comprehensive income for the year	**—**	**—**	**—**	**2.0**	**—**	**22.5**	**24.5**
Transactions with owners:							
Dividends to equity shareholders	—	—	—	—	—	(18.7)	(18.7)
Employee share incentive charges	—	—	—	—	—	6.5	6.5
Issue of shares	0.1	1.4	—	—	—	—	1.5
Purchase of own shares by employee benefit trust	—	—	—	—	—	(1.7)	(1.7)
Balance at December 2014	**29.1**	**85.1**	**109.9**	**2.7**	**(52.5)**	**303.5**	**477.8**

Consolidated statement of cash flows

For the year ended 31 December 2014

	2014 $m	2013 $m
Cash flows from operating activities		
Profit before tax	175.7	130.8
Adjustments for:		
Share-based payments charge	6.5	4.1
Depreciation of property, plant and equipment	29.0	25.0
Amortisation of development expenditure	45.4	45.6
Amortisation of other intangible assets	52.9	42.6
Loss on sale of property, plant and equipment	0.1	0.2
Net finance expense	5.2	8.0
Movement in trade and other receivables	(383.4)	85.5
Movement in trade and other payables	329.2	(67.2)
Movement in inventories	31.7	24.2
Movement in provisions	(0.7)	14.4
Cash generated from operations	291.6	313.2
Interest paid	(6.1)	(7.7)
Tax paid	(11.5)	(23.8)
Net cash generated from operating activities	274.0	281.7
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(295.3)	—
Purchase of property, plant and equipment	(26.0)	(21.6)
Development expenditure	(66.2)	(52.9)
Interest received	2.5	1.8
Net cash used in investing activities	(385.0)	(72.7)
Cash flows from financing activities		
Proceeds from external borrowings	310.0	—
Repayment of external borrowings	(31.0)	(240.1)
Proceeds from issue of share capital	1.5	5.0
Dividend paid	(18.7)	(15.6)
Purchase of own shares by employee benefit trust	(1.7)	—
Net cash generated from/(used in) financing activities	260.1	(250.7)
Net change in cash and cash equivalents	149.1	(41.7)
Cash and cash equivalents at the start of the year	33.0	74.7
Cash and cash equivalents at the end of the year	182.1	33.0

Company statement of cash flows

For the year ended 31 December 2014

	2014 $m	2013 $m
Cash flows from operating activities		
Profit before tax	**34.2**	76.4
Adjustments for:		
Share-based payments charge	**6.5**	4.1
Depreciation of property, plant and equipment	**15.5**	14.1
Amortisation of development expenditure	**44.9**	38.5
Amortisation of other intangible assets	**2.2**	—
Net finance (income)/expense	**(0.6)**	1.9
Movement in trade and other receivables	**(278.0)**	245.6
Movement in trade and other payables	**416.1**	(124.9)
Movement in inventories	**(11.6)**	14.6
Movement in provisions	**15.4**	18.9
Cash generated from operations	**244.6**	289.2
Interest paid	**(5.9)**	(6.6)
Tax paid	**(4.7)**	(1.8)
Net cash generated from operating activities	**234.0**	280.8
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**(310.1)**	—
Purchase of property, plant and equipment	**(12.9)**	(15.3)
Purchase of intangible non-current assets	**—**	(10.9)
Development expenditure	**(58.7)**	(44.4)
Interest received	**8.1**	6.8
Net cash used in investing activities	**(373.6)**	(63.8)
Cash flows from financing activities		
Proceeds from external borrowings	**310.0**	—
Repayment of external borrowings	**(31.0)**	(240.1)
Proceeds from issue of share capital	**1.5**	5.0
Dividend paid	**(18.7)**	(15.6)
Purchase of own shares by employee benefit trust	**(1.7)**	—
Net cash generated from/(used in) financing activities	**260.1**	(250.7)
Net change in cash and cash equivalents	**120.5**	(33.7)
Cash and cash equivalents at the start of the year	**11.0**	44.7
Cash and cash equivalents at the end of the year	**131.5**	11.0

Notes

1 Basis of preparation and business environment

The following accounting policies have been applied consistently in dealing with items that 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.

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. The result of the Company for the year is shown in Note 25.

Financial year end

The current year's Financial Statements are for the year ended 31 December 2014 and the previous year's Financial Statements are for the year ended 31 December 2013.

Going concern

The Group has borrowing facilities in place until January 2019. At 31 December 2014 these are in the form of a $310 million term loan, which is subject to repayment through instalments every six months plus a final payment, and a $150 million revolving credit facility. These facilities are subject to financial performance covenants which the Group currently complies with.

The Group has prepared a financial and working capital forecast based upon trading assumptions and other short-term and medium-term plans. The Group has sensitised these plans for a number of potential scenarios, including working capital management and revenue reduction, 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.

Basis of consolidation

The Group Financial Statements consolidate those of the Company and of its subsidiary undertakings (Note 13) drawn up to 31 December 2014. Subsidiaries are entities that the Company has power over, exposure or rights to variable returns and an ability to use its power to affect those returns. 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.

Functional and presentational currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated Financial Statements are presented in US Dollars which is the Company's functional and presentational currency.

The US Dollar/Pound Sterling exchange rate at 31 December 2014 was 1.56 (2013: 1.64).

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 57 to 63. 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:

Warranty provisions

Pace provides product 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 are adjusted accordingly in the light of actual performance.

Notes
Continued

1 Basis of preparation and business environment continued

Significant judgements, key assumptions and estimation uncertainty continued

Royalty provisions

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.

Provisions for royalty claims are recognised when it is considered more likely than not that an outflow of economic resources will be required to settle a claim that has resulted from the sale of a product allegedly using technology of a patent owner, and the amount of the outflow can be reliably measured. The directors have made provision for the potential royalty payable based on the latest information available, which represents the best estimate of the expenditure required to settle the present obligation. 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.

Impairment reviews

As is required by International Accounting Standards, the Group carries out impairment reviews of its non-financial assets on an annual basis, or when indicators of impairment exist. Such reviews involve assessing the value in use of an asset or cash-generating unit (CGU) by reference to its estimated future cash flows, discounted to their present value. The judgements in relation to impairment reviews relate to the assumptions applied in calculating the value in use, and the future performance expectations.

Intangible assets – Capitalised Development Costs

The Group business includes a significant element of research and development activity. Under accounting standards, principally IAS 38 'Intangible Assets', there is a requirement to capitalise and amortise development spend to match costs to expected benefits from projects deemed to be commercially viable. The application of this policy involves the ongoing consideration by management of the forecasted economic benefit from such projects compared to the level of capitalised costs, together with the selection of amortisation periods appropriate to the life of the associated revenues from the product.

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 an 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 appropriate qualified independent valuation advisors to assist in the purchase price allocation work, the exercise inherently requires significant judgement and estimation to be taken.

2 Accounting policies

Business combinations

Subsidiaries are entities that the Company has power over, exposure or rights to variable returns and an ability to use its power to affect those returns. 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.

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.

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.

2 Accounting policies continued

Goodwill continued

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 'First-time Adoption of IFRS', 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	three to ten years
Technology and patents	one to ten years
Other	three years

Research and development expenditure

All ongoing 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 six and thirty 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 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 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 estimated 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 reasonable 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.

Notes
Continued

2 Accounting policies continued

Exceptional items

Items that are significant by virtue of their size or nature and that 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 restructuring and profits and losses made on the disposal of properties, are included within the appropriate consolidated income statement category, albeit analysed as a separate line within that category, and 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/her agent. 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 receivables are collectible is inherently judgemental.

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 and any future obligations remaining.

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.

2 Accounting policies continued

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 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.

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. 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.

Notes
Continued

2 Accounting policies continued

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 re-measured 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.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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 approved 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) Royalty provision

Provisions for royalty claims are recognised when it is considered more likely than not that an outflow of economic resources will be required to settle a claim that has resulted from the sale of a product allegedly using technology of a patent owner, and the amount of the outflow can be reliably measured. The directors have made provision for the potential royalty payable based on the latest information available, which represents the best estimate of the expenditure required to settle the present obligation.

2 Accounting policies continued

Provisions continued

(b) Warranty provision

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 are 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.

Contingent Liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new standards and amendments for the first time. Unless otherwise stated, they have not had a material impact on the financial statements.

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Annual improvement cycles 2010-2012 and 2011-2013 (mandatory for year ending 31 December 2015).
- IFRS 14 Regulatory Deferral Accounts (mandatory for year ending 31 December 2016).
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (mandatory for year ending 31 December 2016).
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation (mandatory for year ending 31 December 2016).
- Amendments to IAS 16 and IAS 41: Bearer plants (mandatory for year ending 31 December 2016)
- Amendments to IAS 27: Equity method in separate financial statements (mandatory for year ending 31 December 2016).
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets (mandatory for year ending 31 December 2016).
- Annual improvement cycles 2012-2014 (mandatory for year ending 31 December 2016).
- IFRS 15 Revenue from contracts with customers (mandatory for year ending 31 December 2017). This standard may affect the accounting for certain contracts and will impose greater disclosure requirements on all companies. The Group is currently considering the impact of this standard.
- IFRS 9 Financial Instruments (mandatory for year ending 31 December 2018). This standard will determine a new framework for the measurement of financial instruments. The Group is currently considering the impact of this standard.

Notes
Continued

3 Segmental analysis

In accordance with IFRS 8 'Operating Segments', the chief operating decision-maker (CODM) has been identified as the Board of Directors which reviews internal monthly management reports, budget and forecast information to evaluate the performance of the business and make decisions.

The Group determines operating segments on the basis of SBU areas, being the basis on which the Group manages its worldwide interests.

During the period the Group created a new SBU named Pace Networks, which contains the Aurora Networks Inc business acquired in 2014. In addition, certain other activities were restructured and split out across the Pace International and Pace Americas SBUs.

The Group has the following operating segments which are also reportable segments for the purpose of IFRS 8:

- Pace Americas;
- Pace International; and
- Pace Networks.

Other amounts include unallocated central costs that are not classified as reportable segments under IFRS 8.

Performance is measured based on segmental adjusted EBITA, as included in the internal management information which is reviewed by the CODM. Adjusted EBITA 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.

Revenues disclosed below materially represent revenues to external customers and pricing is determined on an arm's length basis. There are no material inter-segment transactions.

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

Year ended 31 December 2014	**Pace Americas $m**	**Pace International $m**	**Pace Networks $m**	**Other $m**	**Total $m**
Segmental income statement					
Revenue	**1,561.6**	**793.8**	**264.6**	**—**	**2,620.0**
Adjusted EBITA	**150.2**	**88.3**	**47.4**	**(44.8)**	**241.1**
Exceptional costs					**(7.3)**
Amortisation of other intangibles					**(52.9)**
Net interest payable					**(5.2)**
Tax charge					**(27.7)**
Profit for the year					**148.0**

Year ended 31 December 2013 (restated)	Pace Americas $m	Pace International $m	Pace Networks $m	Other $m	Total $m
Segmental income statement					
Revenue	1,680.2	789.0	—	—	2,469.2
Adjusted EBITA	152.7	82.8	—	(41.9)	193.6
Exceptional costs					(12.2)
Amortisation of other intangibles					(42.6)
Net interest payable					(8.0)
Tax charge					(34.1)
Profit for the year					96.7

3 Segmental analysis continued

Major customers

In 2014 the Group has three customers which individually account for more than 10% of the Group's total revenue, being 24%, 13% and 10%. In the prior year the Group also had three customers which accounted for 24%, 17% and 16% of the Group's total revenue. All of the revenue from these customers is within the Pace Americas and Pace Networks reporting segments in 2014, and within the Pace Americas reporting segment in 2013.

Geographical analysis

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

Revenue by destination	2014 $m	2013 $m
Europe	**291.2**	323.9
North America	**1,635.6**	1,540.5
– of which USA	***1,536.6***	*1,524.4*
Latin America	**373.2**	358.4
– of which Brazil	***287.8***	*277.8*
Rest of World	**320.0**	246.4
	2,620.0	2,469.2

Segment assets are based on the geographical location of the assets. The split of non-current assets by location is as follows:

Non-current assets	2014 $m	2013 $m
UK	**124.9**	136.5
Europe – *all France*	**117.1**	127.5
Latin America	**5.3**	2.7
North America – *all USA*	**558.3**	321.8
Rest of World	**21.9**	1.6
	827.5	590.1

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

The Group has four main revenue streams, being Set-top boxes (STB) and Media Servers, Gateways, Software and Services, and Networks. These revenue streams arise in each operating segment and are not defined by geographical locations.

The following table provides an analysis of the Group's revenue streams according to those classifications:

	2014 $m	2013 $m
Set-top boxes and Media Servers	**2,003.5**	1,979.6
Gateways	**239.7**	375.8
Software and Services	**112.2**	113.8
Networks	**264.6**	—
	2,620.0	2,469.2

Notes
Continued

4 Expenses and auditors' remuneration

	2014 $m	2013 $m
Auditors' remuneration		
Audit of these financial statements	**0.4**	0.4
Amounts receivable by the Company's auditors and its associates in respect of:		
Audit of Financial Statements of subsidiaries of the Company	**0.3**	0.2
Taxation compliance services	**0.1**	—
Other assurance services	**0.1**	0.1
Depreciation of plant, property and equipment		
Owned	**29.0**	25.0
Other operating lease rentals		
Land and buildings	**8.7**	8.2
Loss on disposal of plant, property and equipment	**0.1**	0.2
Net foreign exchange losses recognised within operating profit	**6.2**	4.2
Research and development expenditure recognised as an expense	**83.7**	87.0

5 Exceptional costs

	2014 $m	2013 $m
Acquisition and integration costs	**5.8**	6.9
Restructuring and reorganisation costs	**1.5**	4.2
Aborted acquisition costs	**—**	1.1
Directors' loss of office	**—**	—
	7.3	12.2

Acquisition costs in 2014 and 2013 relate to integration costs and professional service fees in respect of the acquisition of Aurora Networks, Inc on 6 January 2014. Restructuring and reorganisation costs in 2014 and 2013 relate to different restructuring programmes within the Group and represent the costs of redundancy and restructuring. Aborted acquisition costs in 2013 relate to professional service fees in respect of aborted acquisitions.

6 Finance income/(costs)

	2014 $m	2013 $m
Finance income – interest on bank deposits	**2.5**	1.8
Finance costs		
Bank borrowings	**(7.3)**	(8.9)
Other finance costs	**(0.4)**	(0.9)
	(7.7)	(9.8)

7 Staff numbers and costs

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

Group	2014	2013
Research and development	**907**	896
Administration	**148**	221
Sales and marketing	**67**	42
Manufacturing and operations	**892**	892
	2,014	2,051

The total number of persons (including directors) employed by the Group at 31 December 2014 was 2,078 (2013: 1,947).

The aggregate payroll costs of these persons were as follows:

Group	2014 $m	2013 $m
Wages and salaries	**143.8**	116.0
Social security costs	**17.5**	17.6
Other pension costs	**5.8**	4.6
Share-based payments (Note 27)	**6.5**	4.1
	173.6	142.3

Remuneration of directors

The remuneration, share options and pension entitlements of the directors are disclosed in the Remuneration Report on pages 35 to 43.

8 Taxation

	2014 $m	2013 $m
Current tax charge		
Charge for the year	**31.9**	29.7
Adjustment in respect of prior years	**(4.1)**	2.7
Total current tax charge	**27.8**	32.4
Deferred tax charge/(credit)		
Origination and reversal of timing differences in the current year (Note 14)	**(1.9)**	2.7
Impact of change in tax rate	**—**	(1.0)
Adjustment in respect of prior years	**1.8**	—
Total deferred tax charge/(credit)	**(0.1)**	1.7
Total tax charge	**27.7**	34.1

Notes

Continued

8 Taxation continued

Reconciliation of effective tax rate to UK statutory rate of 21.5% (2013: 23.25%):

	2014 $m	2013 $m
Profit before tax	**175.7**	130.8
Tax using UK statutory tax rate at 21.5% (2013: 23.25%)	**37.8**	30.4
Effects of:		
Permanent adjustments	**(0.1)**	–
Expenses not deductible for tax purposes	**–**	5.3
Controlled foreign companies UK tax charge	**0.8**	–
Adjustment to timing differences	**(15.0)**	–
Research and development tax credit	**(3.9)**	(1.9)
Overseas current year tax not at 21.5% (2013: 23.25%)	**6.8**	(7.0)
Losses not recognised for current or deferred tax	**3.6**	5.6
Impact of change in tax rate	**–**	(1.0)
Adjustments to tax charge in respect of previous years	**(2.3)**	2.7
Total tax charge	**27.7**	34.1

9 Earnings per ordinary share

	2014	2013
Basic earnings per ordinary share	**47.4c**	31.2c
Diluted earnings per ordinary share	**45.6c**	29.8c
Adjusted basic earnings per ordinary share	**63.6c**	44.3c
Adjusted diluted earnings per ordinary share	**61.2c**	42.2c

The calculation of basic earnings per share is based on a profit after tax of $148.0 million (2013: $96.7 million) divided by the weighted average number of ordinary shares in issue of 312,334,970 (2013: 309,740,316), excluding shares held by the Employee Benefit Trust.

	2014	2013
Number of shares		
Weighted average number of ordinary shares in issue during the year	**312,334,970**	309,740,316
Dilutive effect of options outstanding	**12,139,887**	15,296,522
Diluted weighted average number of ordinary shares in issue during the year	**324,474,857**	325,036,838

Diluted earnings per ordinary share varies from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted weighted average number of ordinary shares in issue during the year is calculated using the treasury stock method which accounts for the fact that not all options are wholly dilutive. Further details of the outstanding share options held at the end of the year can be found in Note 27.

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:

	2014 $m	2013 $m
Profit after tax	**148.0**	96.7
Amortisation of other intangibles	**52.9**	42.6
Tax effect of above	**(8.4)**	(11.1)
Exceptional costs	**7.3**	12.2
Tax effect of above	**(1.2)**	(3.2)
Adjusted profit after tax	**198.6**	137.2

The Group's effective tax rate of 15.8% (2013: 26.1%) has been used to calculate the tax effect of adjusted items.

10 Dividend per ordinary share

	2014		2013	
	Per share	**$m**	Per share	$m
2013 Final: paid 4 July 2014	**3.66c**	**11.7**	3.06c	9.5
2014 Interim: paid 6 December 2014	**2.25c**	**7.0**	1.83c	6.1
	5.91c	**18.7**	4.89c	15.6

In addition, the directors are proposing a final dividend for 2014 of 4.75 cents per ordinary share, which amounts to $14.9 million (2013: $11.4 million) based on the ordinary shares as at the year-end. This will be payable on 3 July 2015 to shareholders on the register at 5 June 2015, 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

Group	Goodwill $m	Development expenditure $m	Customer contracts and relationships $m	Technology and patents $m	Other $m	Other intangibles $m
Cost						
At 31 December 2012	337.9	266.9	164.3	131.8	10.9	307.0
Exchange adjustments	4.7	0.5	—	—	—	—
Additions	—	52.9	—	—	—	—
At 31 December 2013	**342.6**	**320.3**	**164.3**	**131.8**	**10.9**	**307.0**
Exchange adjustments	(13.2)	0.2	—	—	—	—
Acquisitions	141.7	—	30.0	108.0	—	138.0
Additions	—	66.2	—	—	—	—
Disposals	—	(218.9)	—	—	—	—
At 31 December 2014	**471.1**	**167.8**	**194.3**	**239.8**	**10.9**	**445.0**
Amortisation						
At 31 December 2012	—	210.6	60.9	73.3	6.6	140.8
Exchange adjustments	—	(0.3)	0.2	0.3	—	0.5
Provided in the year	—	45.6	19.8	21.7	1.1	42.6
At 31 December 2013	**—**	**255.9**	**80.9**	**95.3**	**7.7**	**183.9**
Exchange adjustments	—	0.4	—	—	—	—
Provided in the year	—	45.4	14.9	37.9	0.1	52.9
Disposals	—	(218.9)	—	—	—	—
At 31 December 2014	**—**	**82.8**	**95.8**	**133.2**	**7.8**	**236.8**
Net book value at 31 December 2013	342.6	64.4	83.4	36.5	3.2	123.1
Net book value at 31 December 2014	**471.1**	**85.0**	**98.5**	**106.6**	**3.1**	**208.2**

Goodwill

All goodwill has arisen from business combinations and relates to the following acquisitions:

- XCom Multimedia Communications SA (now Pace Europe SAS) in February 2001;
- the STB and connectivity solutions business of Royal Philips Electronics (Pace France) in April 2008;
- Bewan Systems SA (Bewan) in April 2010;
- 2Wire, Inc. (2Wire) in October 2010;
- Latens Systems Limited (Latens) in November 2010; and
- Aurora Networks, Inc. in January 2014.

Notes
Continued

11 Intangible assets continued

Goodwill continued

The carrying amount of goodwill is allocated across Strategic Business Units, which are groups of cash-generating units (CGUs) as follows:

- $138.7 million within Pace International (2013: $153.1 million);
- $190.7 million within Pace Americas (2013: $189.5 million); and
- $141.7 million within Pace Networks (2013: n/a).

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 amount of CGUs is determined from value in use calculations. These calculations use cash flow projections based on the following year's budget and the Group's three year plan. These forecasts have been approved by the Board, and have an appropriate long-term growth rate of 1% (2013: 1%) applied to them.

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 rate used to calculate the value in use was 10.4% (2013: 13.4%).

The key assumptions in the value in use calculations are those regarding discount rates, sales growth rates and expected changes to selling prices and direct costs. Sales growth, selling prices and direct costs are built up within the budget and three year plan on a product by product basis utilising the knowledge and expertise of operational staff. The anticipated launch dates for new products, the achievable prices and direct costs to be incurred are therefore highly judgemental. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group.

The directors have reviewed the recoverable amounts of the CGUs and have also considered the following reasonable changes in the assumptions:

- movements in the pre-tax discount rate of up to an additional 10%; and
- reductions in cash flows of up to $10 million per annum.

The directors consider that there is sufficient headroom within the value in use calculations at 31 December 2014.

Other intangibles

Other intangibles relate to trademarks and licence agreements, customer contracts and relationships recognised as part of the acquisition of Pace France, 2Wire, Bewan, Latens and Aurora Networks, Inc.

Company	Development expenditure $m	Other intangibles – technology $m
Cost		
At 31 December 2012	206.4	—
Additions	44.4	10.9
At 31 December 2013	**250.8**	**10.9**
Additions	58.7	—
Disposals	(168.5)	—
At 31 December 2014	**141.0**	**10.9**
Amortisation		
At 31 December 2012	154.5	—
Provided in the year	38.5	—
At 31 December 2013	**193.0**	**—**
Provided in the year	44.9	(2.2)
Disposals	(168.5)	—
At 31 December 2014	**69.4**	**(2.2)**
Net book value at 31 December 2013	57.8	10.9
Net book value at 31 December 2014	**71.6**	**8.7**

12 Property, plant and equipment

Group	Short leasehold land and buildings $m	Plant, machinery and motor vehicles $m	Total $m
Cost			
At 31 December 2012	38.4	140.0	178.4
Exchange adjustments	0.2	(0.1)	0.1
Additions	1.4	20.2	21.6
Disposals	(0.4)	(1.9)	(2.3)
At 31 December 2013	**39.6**	**158.2**	**197.8**
Exchange adjustments	(0.2)	(2.6)	(2.8)
Acquisitions	2.4	22.5	24.9
Additions	1.1	24.9	26.0
Disposals	(0.2)	(0.1)	(0.3)
At 31 December 2014	**42.7**	**202.9**	**245.6**
Depreciation			
At 31 December 2012	20.3	95.3	115.6
Exchange adjustments	(0.2)	(0.5)	(0.7)
Provided in the year	5.4	19.6	25.0
Disposals	(0.4)	(1.7)	(2.1)
At 31 December 2013	**25.1**	**112.7**	**137.8**
Exchange adjustments	—	(2.2)	(2.2)
Acquisitions	1.7	16.3	18.0
Provided in the year	5.4	23.6	29.0
Disposals	(0.1)	(0.1)	(0.2)
At 31 December 2014	**32.1**	**150.3**	**182.4**
Net book value at 31 December 2013	14.5	45.5	60.0
Net book value at 31 December 2014	**10.6**	**52.6**	**63.2**

Notes
Continued

12 Property, plant and equipment continued

Company	Short leasehold land and buildings $m	Plant, machinery and motor vehicles $m	Total $m
Cost			
At 31 December 2012	25.3	74.7	100.0
Additions	1.1	14.2	15.3
Disposals	—	(0.7)	(0.7)
At 31 December 2013	**26.4**	**88.2**	**114.6**
Additions	—	12.9	12.9
Disposals	—	—	—
At 31 December 2014	**26.4**	**101.1**	**127.5**
Depreciation			
At 31 December 2012	16.4	49.9	66.3
Provided in the year	3.4	10.7	14.1
Disposals	—	(0.6)	(0.6)
At 31 December 2013	**19.8**	**60.0**	**79.8**
Provided in the year	3.0	12.5	15.5
Disposals	—	—	—
At 31 December 2014	**22.8**	**72.5**	**95.3**
Net book value at 31 December 2013	6.6	28.2	34.8
Net book value at 31 December 2014	**3.6**	**28.6**	**32.2**

13 Investments in and loans to Group and other companies

Company	Intra-group loans $m	Shares in Group undertakings $m
Cost		
At 31 December 2012	183.4	448.6
Additions	150.0	—
Transfer to current assets	(12.8)	—
At 31 December 2013	**320.6**	**448.6**
Additions	14.1	310.1
At 31 December 2014	**334.7**	**758.7**
Impairment		
At 31 December 2012, 31 December 2013 and 31 December 2014	**9.1**	**—**
Net book value at 31 December 2013	311.5	448.6
Net book value at 31 December 2014	**325.6**	**758.7**

During the year the Company made a $245.0 million investment in Pace International Luxembourg SARL and a $65.1 million investment in Pace Americas Holdings, Inc.

During the prior year the Company issued a $150.0 million loan to Pace Americas Holdings, Inc. to contribute to their investment in Pace Americas, Inc.

13 Investments in and loans to Group and other companies continued

At 31 December 2014 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	Trading	1	100%	Hong Kong
Pace Distribution GmbH	Dormant	1	100%	Germany
Pace Distribution (Overseas) Limited	Holding company	1	100%	UK
Pace Micro Technology Limited	Trading	1	100%	UK
Pace Australia Pty Limited	Support	1	100%	Australia
Pace Americas Limited	Support	4	100%	UK
Pace Americas Holdings, Inc.	Holding	1	100%	USA
Pace Americas Investments, LLC	Holding	9	100%	USA
Pace Americas, LLC	Trading	11	100%	USA
Pace USA, LLC	Support	10	100%	USA
Pace Europe SAS	Support	4	100%	France
Pace Micro Technology GmbH	Support	1	100%	Germany
Pace Micro Technology (India) Private Limited	Support	1	100%	India
Pace Overseas Distribution Limited	Trading	4	100%	UK
Pace France SAS	Trading	1	100%	France
Pace Belgium NV	Dormant	3	100%	Belgium
Pace Asia Home Networks Sdn BHD	Support	3	100%	Malaysia
Pace Software & Services Limited	Dormant	1	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	Trading	6	100%	South Africa
Latens Systems Limited	Trading	1	100%	UK
Latens Services Limited	Trading	8	100%	UK
Latens Systems, LLC	Trading	8	100%	USA
Latens Systems (India) Private Limited	Support	8	100%	India
Latens Systems Israel Limited	Support	8	100%	Israel
2Wire, Inc.	Trading	11	100%	USA
2Wire Asia Pacific Limited	Dormant	7	100%	Hong Kong
2Wire (B.C.) Limited	Support	7	100%	Canada
2Wire International Limited	Dormant	7	100%	UK
Kenati Technologies, Inc.	Holding	7	100%	USA
2Wire Singapore Pte Limited	Support	7	100%	Singapore
2Wire Development Center Private Limited	Support	12	100%	India
Pace Netherlands NV	Dormant	1	100%	Holland
Pace East Trading Limited	Support	1	100%	UK
Pace International Finance Limited	Trading	3	100%	UK
Pace International Luxembourg SARL	Holding company	1	100%	Luxembourg
Aurora Networks, Inc	Trading	9	100%	USA
Aurora Networks International LLC	Trading	5	100%	USA
Aurora Networks Holdings (Cayman)	Dormant	5	100%	Cayman Islands
Aurora Networks Canada, Inc	Trading	5	100%	Canada
Design TECs, Inc	Support	5	100%	USA

Notes
Continued

13 Investments in and loans to Group and other companies continued

Note a

Directly owned by:

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

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 Limited, Latens Systems (India) Private Limited and 2Wire Development Center Private Limited (31 March).

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.

14 Deferred tax assets/(liabilities)

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

Group	Property, plant and equipment $m	Trading losses $m	Intangibles $m	Short-term timing differences $m	Total $m
Recognised assets/(liabilities)					
At 31 December 2012	1.2	29.9	(68.8)	4.8	(32.9)
Credited/(charged) to income statement	(1.9)	(15.7)	13.9	2.0	(1.7)
Credited/(charged) to statement of comprehensive income	—	—	—	(0.5)	(0.5)
At 31 December 2013	**(0.7)**	**14.2**	**(54.9)**	**6.3**	**(35.1)**
Credited/(charged) to income statement	(2.3)	(4.7)	18.0	(10.9)	0.1
Acquisition	—	—	(48.3)	25.6	(22.7)
Credited/(charged) to statement of comprehensive income	—	—	—	(0.8)	(0.8)
At 31 December 2014	**(3.0)**	**9.5**	**(85.2)**	**20.2**	**(58.5)**
Shown as deferred tax assets	—	9.5	—	21.7	31.2
Shown as deferred tax liabilities	(3.0)	—	(85.2)	(1.5)	(89.7)

Company	Property, plant and equipment $m	Trading losses $m	Intangibles $m	Short-term timing differences $m	Total $m
Recognised assets/(liabilities)					
At 31 December 2012	2.7	—	(10.6)	2.3	(5.6)
Credited/(charged) to income statement	(2.1)	—	1.0	1.4	0.3
Credited/(charged) to statement of comprehensive income	—	—	—	(0.5)	(0.5)
At 31 December 2013	**0.6**	**—**	**(9.6)**	**3.2**	**(5.8)**
Credited/(charged) to income statement	(2.2)	—	(0.7)	0.3	(2.6)
Credited/(charged) to statement of comprehensive income	—	—	—	(0.6)	(0.6)
At 31 December 2014	**(1.6)**	**—**	**(10.3)**	**2.9**	**(9.0)**
Shown as deferred tax assets	—	—	—	2.9	2.9
Shown as deferred tax liabilities	(1.6)	—	(10.3)	—	(11.9)

No deferred tax asset has been recognised on unused tax losses, outside the UK, of $8.7 million (2013: $8.6 million) as it is not considered probable that sufficient taxable profit will be available against which the tax losses can be utilised.

The UK Finance Bill 2013, which includes the reduction in the UK corporation tax rate to 21% with effect from 1 April 2014 and to 20% from 1 April 2015, was substantively enacted on 2 July 2013. As a result, UK deferred tax has been calculated on the rates substantively enacted at the balance sheet date.

15 Inventories

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Raw materials and consumable stores	**38.3**	17.9	**10.6**	5.7
Finished goods	**129.7**	138.9	**21.9**	15.2
	168.0	156.8	**32.5**	20.9

The total amount of inventory written down which was recognised as an expense in the period was $5.3 million (2013: $2.3 million).

16 Trade and other receivables

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Trade receivables	**843.2**	422.7	**194.8**	113.2
Amounts owed by subsidiary undertakings	**—**	—	**381.7**	213.2
Other receivables	**57.0**	36.9	**33.0**	19.4
Prepayments and accrued income	**8.9**	9.1	**3.1**	3.8
	909.1	468.7	**612.6**	349.6

17 Trade and other payables

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Trade payables	**825.4**	473.4	**658.4**	406.8
Amounts payable to subsidiary undertakings	**—**	—	**412.3**	245.9
Social security and other taxes	**3.2**	2.9	**1.5**	1.0
Other payables	**19.1**	15.0	**10.1**	7.4
Accruals and deferred revenue	**86.9**	75.8	**41.3**	43.6
	934.6	567.1	**1,123.6**	704.7

18 Interest-bearing loans and borrowings

The Group's interest-bearing loans and borrowings are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 19.

The Company has a facility underwritten by HSBC, RBS and JP Morgan incorporating Lloyds, Santander, Wells Fargo, Silicon Valley Bank and CIC & Fifth Third in a syndicated deal.

The main facilities at 31 December 2014, which are all denominated in US Dollars, consist of a $310 million term loan facility together with a $150 million revolving credit facility.

The facilities have a termination date of 6 January 2019. Amortisation of the original $310 million term loan commenced on 6 January 2014 and two $15.5 million repayments were made during the year. Further repayments are to be made every six months until 6 January 2019, when a final bullet repayment of $77.5 million is due to be made.

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 $5.4 million were 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 for $7.7 million (2013: $9.0 million).

Notes
Continued

18 Interest-bearing loans and borrowings continued

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

Group and Company	2014 $m	2013 $m
Non-current liabilities		
Bank term loans	**237.8**	—
Current liabilities		
Bank term loans	**37.4**	—
Bank revolving credit facility	**—**	—
	37.4	—

The face value of the borrowings was $237.8 million (2013: $Nil) in respect of the bank term loans within non-current liabilities, $37.4 million (2013: $Nil) in respect of the bank term loans within current liabilities and $Nil (2013: $Nil) in respect of the bank revolving credit facility.

The difference between the face value amounts and the amounts in the previous table is $2.4 million (2013: $Nil) in non-current liabilities and $1.4 million (2013: $Nil) in current liabilities which represented facility arrangement fees and accrued interest costs.

Reconciliation of net cash flow to movement in net debt

	2014 $m	2013 $m
Cash and cash equivalents at end of year	**182.1**	33.0
Current borrowings	**(37.4)**	—
Non-current borrowings	**(237.8)**	—
Closing net debt	**(93.1)**	33.0

19 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.

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

Currency	Floating rate $m	Interest free $m	Total $m
At 31 December 2014:			
Sterling	**7.9**	**(1.0)**	**6.9**
US Dollar	**(152.7)**	**18.1**	**(134.6)**
Euro	**2.4**	**1.0**	**3.4**
Other	**11.3**	**19.9**	**31.2**
Total	**(131.1)**	**38.0**	**(93.1)**
At 31 December 2013:			
Sterling	7.5	(0.2)	7.3
US Dollar	(26.0)	31.0	5.0
Euro	1.7	2.8	4.5
Other	11.1	5.1	16.2
Total	(5.7)	38.7	33.0

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

19 Derivatives and other financial instruments continued

(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)				
	Sterling $m	US Dollar $m	Euro $m	Other $m	Total $m
Functional currency of Group operation					
At 31 December 2014:					
Sterling	**—**	**1.9**	**1.7**	**—**	**3.6**
US Dollar	**8.0**	**—**	**28.3**	**20.0**	**56.3**
Euro	**—**	**1.4**	**—**	**(0.1)**	**1.3**
Other	**0.1**	**1.7**	**—**	**—**	**1.8**
Total	**8.1**	**5.0**	**30.0**	**19.9**	**63.0**
At 31 December 2013:					
Sterling	—	2.5	1.1	—	3.6
US Dollar	3.5	—	15.8	15.1	34.4
Euro	—	(3.4)	—	—	(3.4)
Other	0.4	(2.1)	—	—	(1.7)
Total	3.9	(3.0)	16.9	15.1	32.9

(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. 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 twelve months.

Outstanding currency derivatives

	Sell currency	Buy currency	Principal amount	Average rate	Maturity
At 31 December 2014	**US Dollar**	**GBP**	**$32.1m**	**0.62**	**Jan-15 – Dec-15**
	Euro	**US Dollar**	**$60.1m**	**1.32**	**Jan-15 – Jun-15**
	US Dollar	**SA Rand**	**$6.6m**	**0.09**	**Jan-15**
At 31 December 2013	US Dollar	GBP	$28.6m	0.64	Jan 14 – Mar 14
	Euro	US Dollar	$98.3m	1.35	Jan 14 – Oct 14
	US Dollar	Euro	$13.8m	0.72	Jan 14
	SA Rand	US Dollar	$3.8m	0.10	Jan 14 – Feb 14

The Group's derivatives contracts qualify for hedge accounting and have a fair value at the balance sheet date of $4.4 million (2013: $0.5 million).

(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.

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	**2014 $m**	2013 $m
Trade receivables	**843.2**	422.7
Cash and cash equivalents	**182.1**	33.0
Forward exchange contracts used for hedging		
Assets	**5.3**	2.2
	1,030.6	457.9

Notes
Continued

19 Derivatives and other financial instruments continued

(d) Credit risk continued

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

Carrying amount	2014 $m	2013 $m
Domestic	**195.3**	121.9
Euro-zone countries	**15.8**	9.7
United States	**530.2**	227.7
Other regions	**101.9**	63.4
	843.2	422.7

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 trade receivables at 31 December 2014, 91% were within terms (2013: 92%). Of the balance 5% were less than 30 days past due, with the remaining amounts over 30 days due (2013: 5% less than 30 days past due). There were no material bad debt 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.

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	4–5 years $m
At 31 December 2014:								
Non-derivative financial liabilities								
Trade and other payables within one year	**934.6**	**(934.6)**	**(934.6)**	**—**	**—**	**—**	**—**	**—**
External borrowings	**275.2**	**(279.0)**	**(19.4)**	**(19.4)**	**(46.5)**	**(54.2)**	**(62.0)**	**(77.5)**
Derivative financial liabilities								
Forward exchange contracts used for hedging								
Outflow	**—**	**(98.4)**	**(90.5)**	**(7.9)**	**—**	**—**	**—**	**—**
Inflow	**4.4**	**102.8**	**95.0**	**7.8**	**—**	**—**	**—**	**—**
Total	**1,214.2**	**(1,209.2)**	**(949.5)**	**(19.5)**	**(46.5)**	**(54.2)**	**(62.0)**	**(77.5)**
At 31 December 2013:								
Non-derivative financial liabilities								
Trade and other payables within one year	567.1	(567.1)	(567.1)	—	—	—	—	—
External borrowings	—	—	—	—	—	—	—	—
Derivative financial liabilities								
Forward exchange contracts used for hedging								
Outflow	—	(145.1)	(95.2)	(49.9)	—	—	—	—
Inflow	0.5	145.4	96.0	49.4	—	—	—	—
Total	567.6	(566.8)	(566.3)	(0.5)	—	—	—	—

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 $2.6 million impact on cash flows (2013: $Nil).

The Group's key foreign exchange exposures are in respect of the Euro and Sterling. A 1% strengthening in the US Dollar against these would have an adverse impact of $Nil (2013: $1.0 million) on the profit reported in the year ended 31 December 2014 and an adverse impact of $0.6m (2013: $5.8 million) on equity.

19 Derivatives and other financial instruments continued

(g) Capital management

Capital risk management

The Group and Company manage their capital, being the net assets base, 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 21, 22 and 24 and cash and cash equivalents and borrowings as disclosed in Note 18.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders (through the progressive dividend policy introduced in 2009), issue of new shares and buy-back of existing shares and issuing new borrowings or repaying existing borrowings.

Note 21 to the Financial Statements provide 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 facilities are given in Note 18. The facilities have been 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 following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

	Carrying amount				Fair value		
	Fair value – hedging instrument $m	Loans and receivables $m	Other financial liabilities $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m
At 31 December 2014:							
Financial assets measured at fair value							
Forward exchange contracts used for hedging	**5.3**	**—**	**—**	**5.3**	**—**	**5.3**	**—**
Financial assets not measured at fair value							
Trade receivables	**—**	**843.2**	**—**	**843.2**	**—**	**—**	**—**
Cash and cash equivalents	**—**	**182.1**	**—**	**182.1**	**—**	**—**	**—**
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging	**(0.9)**	**—**	**—**	**(0.9)**	**—**	**(0.9)**	**—**
Financial liabilities not measured at fair value							
Borrowings	**—**	**(275.2)**	**—**	**(275.2)**	**—**	**—**	**—**
Trade payables	**—**	**—**	**(825.4)**	**(825.4)**	**—**	**—**	**—**
	4.4	**750.1**	**(825.4)**	**(70.9)**	**—**	**4.4**	**—**
At 31 December 2013:							
Financial assets measured at fair value							
Forward exchange contracts used for hedging	0.5	—	—	0.5	—	0.5	—
Financial assets not measured at fair value							
Trade receivables	—	422.7	—	422.7	—	—	—
Cash and cash equivalents	—	33.0	—	33.0	—	—	—
Financial liabilities not measured at fair value							
Borrowings	—	—	—	—	—	—	—
Trade payables	—	—	(473.4)	(473.4)	—	—	—
	0.5	455.7	(473.4)	(17.2)	—	0.5	—

Notes

Continued

19 Derivatives and other financial instruments continued

(h) Fair value continued

Fair value hierarchy

The Group's financial instruments, namely forward exchange contracts, have been determined to represent Level 2 instruments (characterised by the existence of quoted prices (unadjusted) in active markets for identical assets or liabilities). Fair values are calculated by reference to valuations provided by financial institutions.

(i) Exchange rates

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2014	2013	**2014**	2013
Euro	**1.33**	1.33	**1.23**	1.37
Sterling	**1.65**	1.56	**1.56**	1.64

20 Provisions

Group	Royalties under negotiation $m	Warranties $m	Other $m	Total $m
At 31 December 2012	27.5	40.0	9.7	77.2
Charge for the year	9.8	24.7	14.4	48.9
Utilised	(1.4)	(24.9)	(10.5)	(36.8)
Transfer	—	0.1	—	0.1
Exchange adjustments	1.0	0.2	1.6	2.8
At 31 December 2013	**36.9**	**40.1**	**15.2**	**92.2**
Acquisitions	—	4.7	35.9	40.6
Charge for the year	15.7	34.5	6.4	56.6
Utilised	(7.1)	(15.2)	(33.8)	(56.1)
Transfer	4.7	(3.5)	—	1.2
Unused amounts reversed	—	—	(0.7)	(0.7)
Exchange adjustments	(0.3)	(1.1)	(0.3)	(1.7)
At 31 December 2014	**49.9**	**59.5**	**22.7**	**132.1**
Due within one year	**—**	**21.7**	**9.8**	**31.5**
Due after one year	**49.9**	**37.8**	**12.9**	**100.6**

Company	Royalties under negotiation $m	Warranties $m	Other $m	Total $m
At 31 December 2012	**17.9**	**21.9**	**4.0**	**43.8**
Charge for the year	7.8	15.1	10.4	33.3
Utilised	(1.2)	(9.0)	(4.3)	(14.5)
Exchange adjustments	0.6	(0.7)	—	(0.1)
At 31 December 2013	**25.1**	**27.3**	**10.1**	**62.5**
Charge for the year	10.2	26.5	1.1	37.8
Utilised	(7.0)	(13.1)	(6.8)	(26.9)
Transfer	4.7	(0.2)	—	4.5
At 31 December 2014	**33.0**	**40.5**	**4.4**	**77.9**
Due within one year	**—**	**14.2**	**—**	**14.2**
Due after one year	**33.0**	**26.3**	**4.4**	**63.7**

20 Provisions continued

Royalties under negotiation

Provisions for royalty claims are recognised when it is considered more likely than not that an outflow of economic resources will be required to settle a claim that has resulted from the sale of a product allegedly using technology of a patent owner, and the amount of the outflow can be reliably measured. The directors have made provision for the potential royalty payable based on the latest information available, which represents the best estimate of the expenditure required to settle the present obligation. 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.

Other provisions

Other provisions mainly relate to retirement and exceptional restructuring provisions within the Group, along with professional fees to be incurred in relation to the Aurora acquisition and certain other provisions.

Warranty provisions

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 are 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 five years of the balance sheet date.

21 Share capital

	2014		2013	
	Number	**$m**	Number	$m
Allocated, called up and fully paid				
Ordinary shares of 5 pence each	**315,067,925**	**29.1**	313,942,223	29.0

The ordinary share capital of Pace plc is designated in Sterling.

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

	Number	Nominal value $000	Consideration $000
Employee share option plan (62.0 pence)	12,902	1	13
Employee share option plan (128.0 pence)	204,827	17	432
Employee share option plan (192.0 pence)	468	—	1
Employee share option plan (197.0 pence)	203,934	17	662
Employee share option plan (85.5 pence)	127,261	10	179
Employee share option plan (51.0 pence)	80,000	7	67
Employee share option plan (58.75 pence)	75,000	6	73
Employee share option plan (75.0 pence)	62,500	5	77
Employee share option plan (97.75 pence)	20,000	2	32
Employee performance option plan (5.0 pence)	338,810	28	—
	1,125,702	**93**	**1,536**

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.

Notes
Continued

21 Share capital continued

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 the 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 the 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 23 April 2015, 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 controls following a takeover bid other than in relation to: (i) employee share plans; 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 to 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 Benefit Trust (the 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 in the beneficiaries' interests. The Trustees have waived their right to vote in respect of any such shares held above 5%.

Own shares held

At 31 December 2014, the Pace plc Employee Benefit Trust held 2,229,868 (2013: 2,692,189) shares in the Company which cost $8.9 million (2013: $10.3 million). These shares are held to satisfy options granted to employees.

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

Details of the share options, long-term incentive plans (LTIPs) and share awards agreed to be satisfied by the Pace plc Employee Benefit Trust are shown in Note 27.

22 Share premium account

Group and Company	$m
At 31 December 2013	83.7
Premium on allotments	1.4
At 31 December 2014	**85.1**

The shares allotted during the year are listed in Note 21.

23 Merger and translation reserve

Merger reserve

Group and Company	$m
At 31 December 2013 and **31 December 2014**	**109.9**

The merger reserve was created upon the acquisition of the STB and connectivity solutions business of Royal Philips Electronics.

Translation reserve

	Group $m	Company $m
At 31 December 2013	59.6	52.5
Exchange differences on translating foreign operations	19.7	—
At 31 December 2014	**79.3**	**52.5**

The translation reserve represents the accumulated exchange differences arising from the impact of translation of subsidiaries with a functional currency other than US Dollars.

24 Retained earnings

Group	$m
At 31 December 2013	384.2
Profit for the year	148.0
Dividends to equity shareholders	(18.7)
Employee share incentive charges	6.5
Movement in employee share trusts	(1.7)
At 31 December 2014	**518.3**

Company	$m
At 31 December 2013	294.9
Profit for the year	22.5
Dividends to equity shareholders	(18.7)
Employee share incentive charges	6.5
Movement in employee share trusts	(1.7)
At 31 December 2014	**303.5**

25 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 $22.5 million (2013: profit after tax of $60.8 million).

26 Capital commitments

	2014 $m	2013 $m
Contracted but not provided for	**1.8**	0.7

27 Employee benefits

Pension plans

The Group contributes to several defined contribution Group Personal Pension Plans, which all UK executive directors and employees are entitled to join. The total expense relating to these plans in the current year was $5.8 million (2013: $4.6 million). At 31 December 2014 contributions of $Nil (2013: $Nil) were outstanding.

Share based payments

The Group operates various equity-settled share option schemes for certain employees, which can be separated into two distinct categories:

(i) Share option plans

(ii) Long-term incentive plans (LTIPs) and share awards

Share option plans relate to sharesave schemes which have various exercise prices and are open to all employees.

LTIPs and share awards have been issued as part of the annual bonus scheme for senior managers and key employees and have different terms and conditions, most notably a $nil exercise price.

The equity-settled share option schemes outstanding can be summarised as follows:

	Number of ordinary shares subject to option		**Options agreed to be satisfied by the Pace Employee Benefit Trust**	
	2014	2013	**2014**	2013
Share option plans	**4,682,008**	6,754,903	**1,750,829**	3,567,404
LTIPs and share awards	**9,622,154**	10,971,458	**9,622,154**	10,971,458
Total dilutive share awards	**14,304,162**	17,726,361	**11,372,983**	14,538,862
Contingent share awards	**600,000**	938,810	**—**	—
Total share awards	**14,904,162**	18,665,171	**11,372,983**	14,538,862

Notes
Continued

27 Employee benefits continued

Share based payments continued

Total dilutive share awards differs from the dilutive weighted average number of shares in issue because although all of the performance share awards are dilutive, only a proportion of the share options are dilutive based on their respective exercise price and the average share price for the period.

The following tables reconcile the number of share awards outstanding and the weighted average exercise price (WAEP) for all share plans.

	Share option plans		LTIPs and share awards		Total
2014	**Number**	**WAEP**	**Number**	**WAEP**	**Number**
Outstanding at 1 January 2014	6,754,903	156.4c	10,971,458	—	**17,726,361**
Granted during the year	761,548	570.3c	3,766,760	—	**4,528,308**
Exercised during the year	(786,892)	195.4c	(814,916)	—	**(1,601,808)**
Forfeited during the year	(2,047,551)	199.4c	(4,301,148)	—	**(6,348,699)**
Outstanding at 31 December 2014	4,682,008	200.1c	9,622,154	—	**14,304,162**
Exercisable at 31 December 2014	629,276	119.9c	27,070	—	**656,346**

	Share option plans		LTIPs and share awards		Total
2013	Number	WAEP	Number	WAEP	Number
Outstanding at 1 January 2013	12,725,189	171.1c	12,939,859	—	25,665,048
Granted during the year	481,326	310.8c	3,533,720	—	4,015,046
Exercised during the year	(4,205,363)	147.2c	(1,605,107)	—	(5,810,470)
Forfeited during the year	(2,246,249)	300.2c	(3,897,014)	—	(6,143,263)
Outstanding at 31 December 2013	6,754,903	156.4c	10,971,458	—	17,726,361
Exercisable at 31 December 2013	1,018,297	122.6c	394,437	—	1,412,734

Of the share options exercised during the year none were issued by the Pace plc Employee Benefit Trust (2013: 118,000).

Share option plans – Company

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

Number of ordinary shares subject to option	Exercise period	Price per share (pence)
1,116,474	1 June 2015 to 30 November 2015	62.0
199,354	1 June 2016 to 30 November 2016	192.0
75,000	2 October 2009 to 1 October 2016	58.75
216,776	24 June 2011 to 23 June 2018	85.5
337,500	11 March 2013 to 10 March 2019	75.0
324,043	1 June 2017 to 30 November 2017	356.0
419,813	8 June 2015 to 4 September 2015	338.0
50,000	19 June 2016 to 18 June 2022	91.75
24,999	19 June 2015 to 18 June 2022	91.75
100,000	26 July 2015 to 25 July 2022	135.5
55,554	11 October 2015 to 10 October 2022	160.0
11,666	11 March 2016 to 10 March 2023	229.4
2,931,179		
600,000	31 May 2014 – contingent share award	5.0
3,531,179		

27 Employee benefits continued

Share option plans – Employee Benefits Trust

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

Number or ordinary shares subject to option	Exercise period	Price per share (pence)
1,650,829	3 March 2015 to 15 December 2021	69.8
100,000	14 March 2015 to 13 March 2022	91.0
1,750,829		

Outstanding share options were as follows:

Range of exercise prices (pence)	Number at 31 December 2014	Weighted average remaining contractual life months	Weighted average exercise price
58.75 pence – 75 pence	**3,179,803**	78.64	111c
85.5 pence – 91.75 pence	**391,775**	62.29	145c
135.5 pence – 197 pence	**366,574**	96.97	281c
338 pence – 356 pence	**743,856**	113.0	570c
	4,682,008	84.17	200c

The weighted average exercise price of options granted in the period was 570.3 cents (2013: 310.8 cents).

The weighted average fair value at the measurement date of options granted in the year was 77.6 cents (2013: 42.0 cents).

The weighted average exercise price at the date of exercise for options exercised in the year was 195.4 cents (2013: 147.2 cents).

The weighted average share price during the year was 592.8 cents (2013: 431.3 cents).

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 table below shows the assumptions used within the Black-Scholes model for share options that have been granted in the current and prior periods. Expectations of early exercise are incorporated into the model, where appropriate.

	2014	2013
Average share price (cents)	**561.0c**	432.0c
Weighted average exercise price (cents)	**570.3c**	310.8c
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 $6.5 million (2013: $4.1 million) which is comprised entirely of equity settled transactions.

Notes
Continued

27 Employee benefits continued

LTIPs and share awards

The Pace plc Employee Benefit Trust has agreed to satisfy LTIPs and share awards made to employees under the International Performance Share Plan, Performance Share Plan and Deferred Share Bonus and Share Award Plans as follows:

Number or ordinary shares subject to option	Exercise period
16,400	26 February 2012 to 25 February 2020
7,157	28 February 2013 to 27 February 2021
3,513	29 February 2014 to 28 February 2022
3,302,266	14 March 2015 to 14 March 2022
22,745	26 July 2015 to 25 July 2022
544,710	21 March 2016 to 20 March 2023
1,238,602	21 March 2016 to 21 March 2023
338,292	29 March 2015 to 21 March 2023
571,989	29 March 2016 to 21 March 2023
9,229	1 May 2015 to 21 March 2023
75,000	1 May 2016 to 21 March 2023
189,635	31 March 2016 to 14 April 2024
395,530	31 March 2017 to 14 April 2024
1,495,000	14 April 2017 to 13 April 2024
366,915	14 April 2017 to 13 April 2024
1,023,171	23 June 2017 to 22 June 2024
2,000	26 June 2017 to 25 June 2017
20,000	11 August 2017 to 10 August 2024
9,622,154	

The fair value of the PSPs and deferred bonus schemes is calculated by reference to the market price at the date of award. The weighted average market share price for those awards made during the year was $6.93 (2013: $3.50).

28 Leasing commitments

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

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Land and buildings				
Within one year	**8.7**	9.2	**1.0**	1.1
Between two and five years	**18.4**	19.9	**0.1**	1.1
In five years or more	**5.3**	3.4	**—**	—
	32.4	32.5	**1.1**	2.2

29 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 consists of payments by the Company for distribution, engineering and administrative support services provided by Pace Americas, Inc., Pace France, 2Wire, Inc. and Pace Micro Technology (India) Private Limited. Total transactions of $1,370.9 million were made in the year (2013: $1,396.3 million).

The amounts due to and from these subsidiaries are shown within Notes 16 and 17.

Transactions with key management personnel

Key management of the Group is through the directors of the Company. The main transactions with these individuals are disclosed in the Directors' Remuneration Report on pages 35 to 43.

Of the share-based payments charge of $6.5 million (2013: $4.1 million) made in the period, 17.6% (2013: 29.8%) relates to options granted to the directors.

30 Free cash flow and cash investment in acquisitions

	2014 $m	2013 $m
Free cash flow		
Cash generated from operations	**291.6**	313.2
Tax paid	**(11.5)**	(23.8)
Purchase of property, plant and equipment	**(26.0)**	(21.6)
Development expenditure	**(66.2)**	(52.9)
Net interest paid	**(3.6)**	(5.9)
Other acquisition related cash flows	**19.7**	—
Free cash flow	**204.0**	209.0

The acquisition related cash flows relate to non-recurring and non-operating cash flows associated with the Aurora acquisition.

	2014 $m	2013 $m
Cash investment in acquisitions in the year		
Acquisition of subsidiaries, net of cash acquired	**(295.3)**	—
Cash investment in acquisitions in the year	**(295.3)**	—

31 Reconciliation of underlying operating costs

	2014 $m	2013 $m
Total administrative expenses	**(351.6)**	(309.4)
Add back:		
Exceptional costs	**7.3**	12.2
Amortisation of other intangibles	**52.9**	42.6
IAS 38 credit / charge:		
Capitalisation	**(66.2)**	(52.9)
Amortisation	**45.4**	45.6
Aurora Networks	**69.6**	—
Underlying operating costs, excluding Aurora	**(242.6)**	(261.9)

Notes
Continued

32 Business Combinations

On 6 January 2014 the Group acquired 100% of the share capital of Aurora Networks Inc, a group of companies leading the development and manufacture of advanced, next-generation Optical Transport and Access Network solutions for broadband networks that support the convergence of video, data and voice applications, for a cash consideration of $323.5 million. Prior to the acquisition the Group had no interest in the acquiree, and an explanation of the rationale for the acquisition is set out in the 2013 Annual Report and Accounts.

In the period from the acquisition date to 31 December 2014, Aurora Networks Inc contributed revenue of $264.6 million and adjusted EBITA of $47.4 million. If the acquisition had occurred on 1 January 2014, the consolidated results would not be materially different.

Details of the net assets acquired and goodwill are as follows:

	$m
Purchase consideration:	
Headline consideration	310.0
Cash paid for tax benefits	13.0
Working capital adjustment and other consideration	0.5
Total Cash Consideration	323.5
Fair value of assets acquired (see below)	(181.8)
Goodwill	**141.7**
Other intangible assets:	
Current and Next Generation Technology	108.0
Customer Relationships	30.0
	138.0

There was no contingent consideration as part of the acquisition.

Goodwill relates to the assembled workforce and expected synergies with the wider Pace Group.

The assets and liabilities arising from the acquisition are as follows:

	Book Value $m	Fair Value Adjustment $m	Fair Value $m
Property, plant and equipment	6.9	—	6.9
Other intangible assets	—	138.0	138.0
Deferred tax assets	19.7	7.5	27.2
Inventories	62.9	(20.0)	42.9
Trade and other receivables	55.7	—	55.7
Cash and cash equivalents	32.6	—	32.6
Deferred tax liabilities	(1.6)	(48.3)	(49.9)
Trade and other payables	(31.0)	—	(31.0)
Provisions	(40.6)	—	(40.6)
Net assets acquired	**104.6**	**77.2**	**181.8**

Inventories of $62.9 million at 6 January 2014 have been reduced by $20.0 million as a fair value adjustment was made within the measurement period, to write down inventories to their recoverable amount.

33 Contingencies

Currently there are claims against the Group in which it is asserted that certain of the Group's products infringe third party patents. Claims for which a probable cash outflow has been determined have been provided based on the Directors' best estimate (note 20). Within the claims portfolio, there are claims for which it is believed that the probability of a cash outflow is remote. The Directors believe that a cash outflow in relation to the remaining claims is more than remote but not probable. This element of the portfolio includes claims where the counter-party has not submitted a monetary claim for damages, claims that have only recently been received and claims that have not provided the Group with sufficient information to determine if Pace products are involved. As a result, it is not yet possible to reliably estimate the financial impact on the Group. Any claim received by the Group is subject to thorough scrutiny. The Group will vigorously negotiate and defend any claims involving Pace products and, based on its experience, the amounts at which such claims are ultimately settled is unlikely to be material.

34 Post balance sheet events

There are no significant or disclosable post balance sheet events.

Shareholder information

Five year record

	Year ended 31 December 2014 $m	Year ended 31 December 2013 $m	Year ended 31 December 2012 $m	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Revenue	**2,620.0**	2,469.2	2,403.4	2,309.3	2,062.9
Profit before tax	**175.7**	130.8	80.1	54.7	110.2
Adjusted EBITA	**241.1**	193.6	158.1	141.4	160.6
Profit after tax	**148.0**	96.7	58.4	38.8	77.3
Basic EPS	**47.4c**	31.2c	19.4c	13.2c	26.4c
Basic adjusted EPS	**63.6c**	44.3c	35.1c	29.7c	37.1c
Total equity	**667.1**	547.0	460.1	407.1	375.9

Directors

All of Victoria Road, Saltaire BD18 3LF, England

Allan Leighton	Non-executive Chairman
Mike Pulli	Chief Executive Officer
Mark Shuttleworth	Chief Financial Officer
Patricia Chapman-Pincher	Non-executive Director
John Grant	Non-executive Director
Amanda Mesler	Non-executive Director
Mike Inglis	Non-executive Director

Company secretary

Anthony Dixon

Registered and head office

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England

Registered Number

01672847

Auditors

KPMG LLP

1 The Embankment
Neville Street
Leeds LS1 4DW

Registrars

Capita Asset Services

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Beckenham
Kent BR3 4TU

Stockbrokers

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Vintners Place
68 Upper Thames Street
London EC4V 3BJ

JP Morgan Cazenove

25 Bank Street
Canary Wharf
London E14 5JP

Shareholder information

Annual General Meeting

The Company's Annual General Meeting will be held on 23 April 2015 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 Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or by telephone on 0871 664 0300. They also provide a range of online shareholder information services at www.paceshares.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 could mean 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. If you would like any multiple accounts combined into one account, please contact Capita Asset Services.

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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