First Half 2010 Results

July 29, 2010

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Safe Harbor Statement

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Content

H1 2010 Group Highlights

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Priorities 2010 – Half Year Update

Priorities for 2010 As announced on 10 February 2010 (FY 2009 results)		Achievements H1 2010 highlights
Top line	▪ Focus on winning new clients to deliver top line growth in H2 2010 ▪ H1 2010 revenue trend to be similar to H2 2009 trend	▪ **Significant contract wins** ▪ **H1 2010 revenues in-line with expectations**
Cost base & cash flow	▪ Continuing strong focus on operational efficiencies & cash generation to finance capex & working capital necessary for increased activity in H2 2010	▪ **Positive FCF from continuing activities excluding one-time outflows related to the restructuring and currency hedging** ▪ **Investments in growth programs**
Divestments & closures	▪ Progress on-going divestment & closure program ▪ Stem the cash losses related to some discontinued activities	▪ **Binding offer for Grass Valley Broadcast** ▪ **Cash consumption from discontinued operations reduced by €55m**

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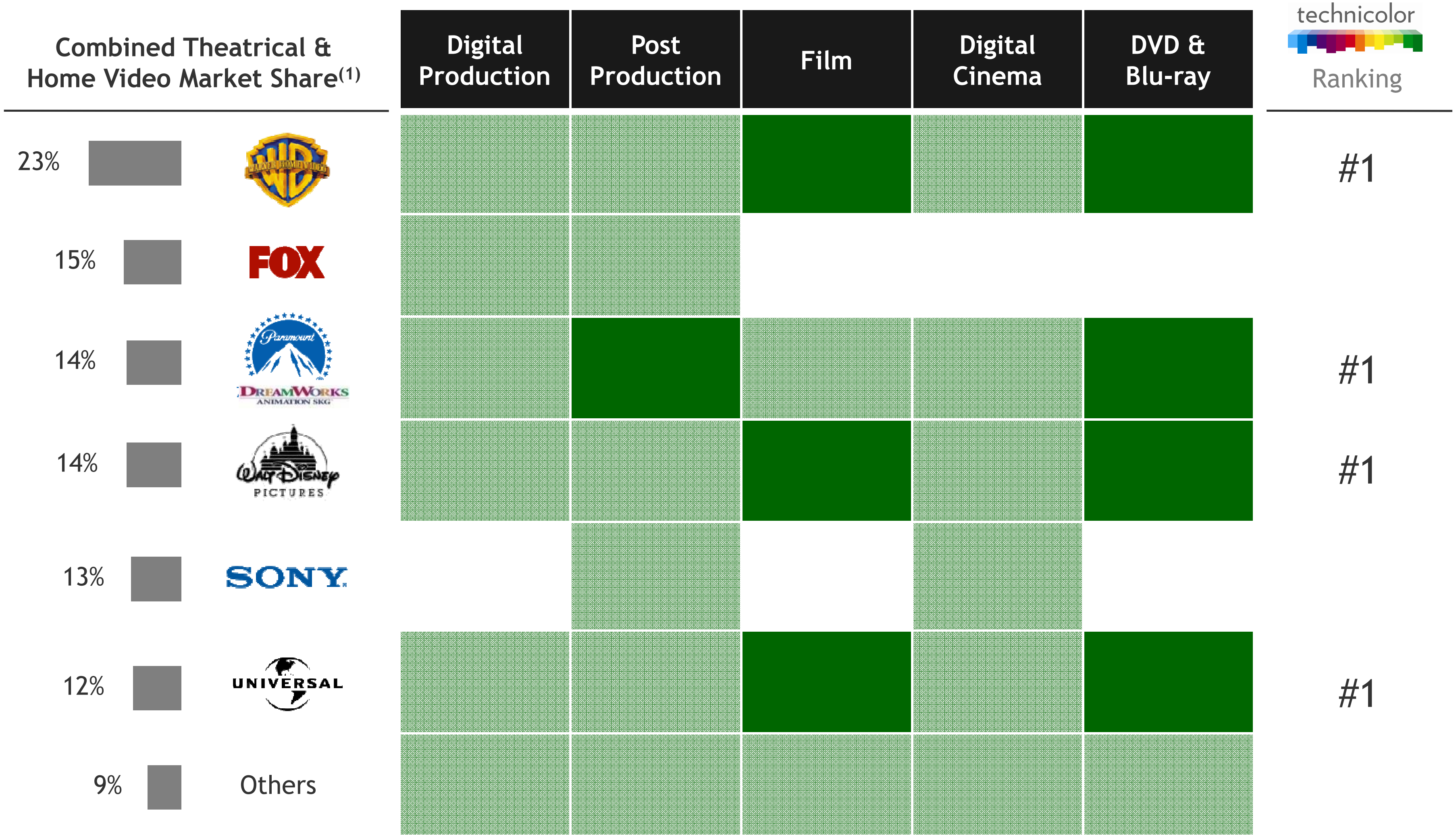
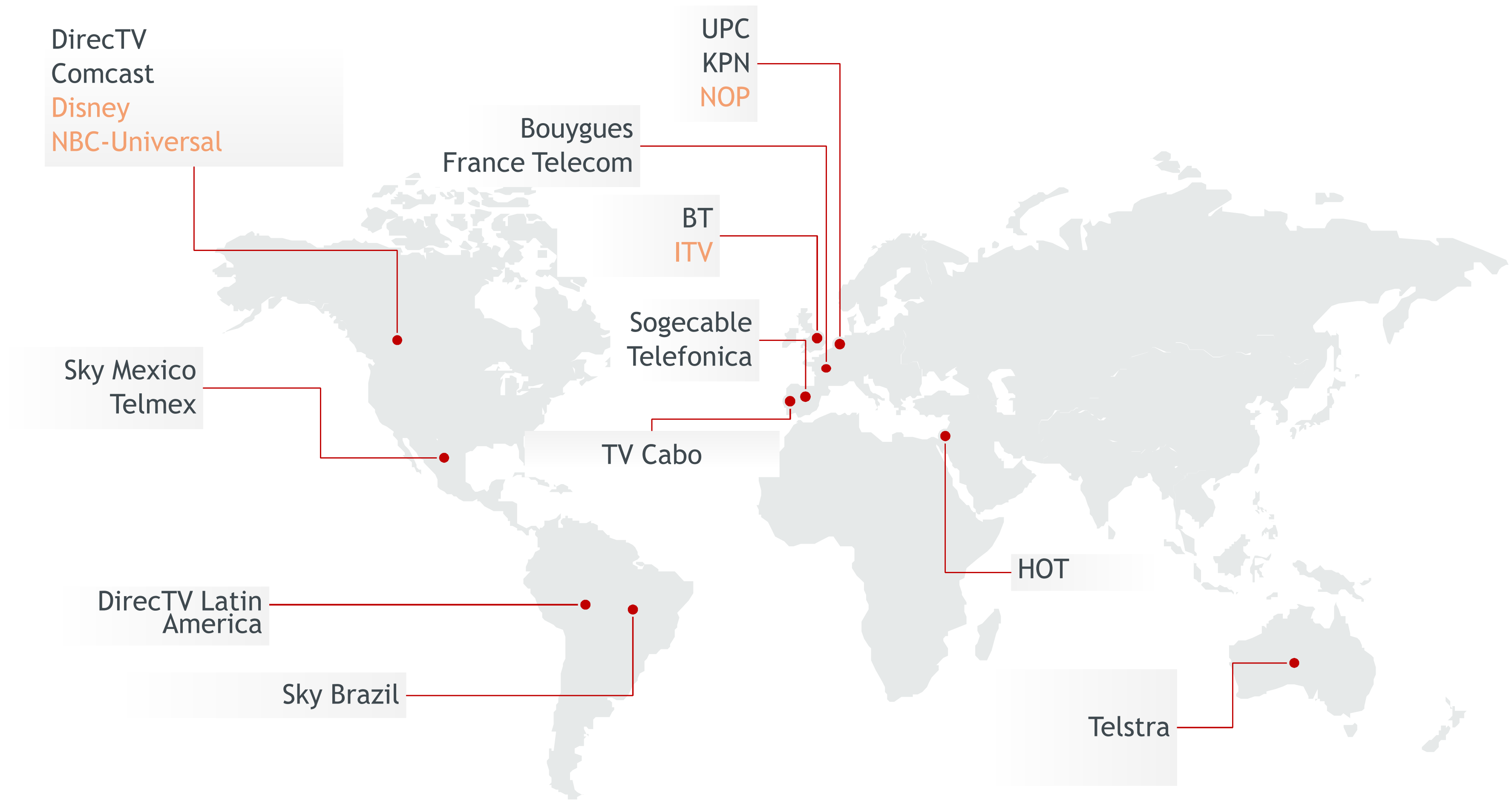
Entertainment Services Market Position



Sources:
(1) *Future Source - Home Video Forecast Update: Majors, March 2010*
(2) *The Numbers - US Movie Market Summary for 2009*

2010 First Half Top 20 Digital Delivery* Customers



** Digital Delivery Includes:* *- Digital Home Products (STBs & Gateways)*
- Media Management Services
- Broadcast Services

Digital Home Competitive Position

WW Rank (shipments)	Residential Gateways (1)	Set-top-Box (2)
1	technicolor	Pace
2	2WIRE*	MOTOROLA
3	D-Link	technicolor

Sources:
(1) Q1 2010 Broadband CPE Market- Infonetics
(2) 2009 WW STB Market - IMS Research Report
** Pace announced the acquisition of 2WIRE on July 27th, 2010*

Strategic Choices

1 Maximize Value from Physical Media
- Film
- DVD / Blu-ray™

2 Grow by Capturing Digital Shift Opportunities
- Digital Production
- Digital Studio
- Digital Distribution
- Digital Home

3 Maximise Patent Portfolio
- IP & Licensing

4 Expand Customer Base

5 Refocus Technology Portfolio

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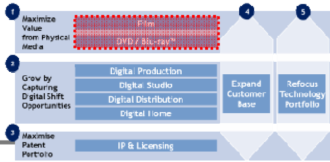
H1 Highlights



1 Maximize Value from Physical Media

Film

Technology Leadership

Successful launch of Technicolor 3D film solution

Maintained leadership in 70mm IMAX film processing

Optimize Cost Structure

Consolidated film operations in Vancouver and Canadian cinema distribution

DVD

Technology Leadership

Warner Bros. Agreement signed

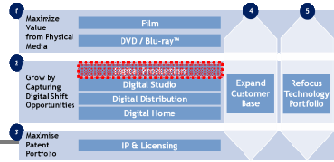
Blu-ray Leadership

- 2nd largest installed Blu-ray capacity
- Replicated first ever 3D Blu-ray title
- Developed hybrid Blu-ray/DVD disc (BD-59) technology (Bourne Trilogy)

Cost Structure

Labor cost reduction through management systems & automation initiatives

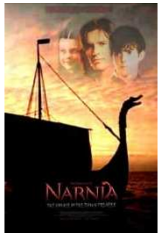
H1 Highlights

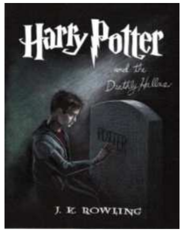


2 Grow by Capturing Digital Shift - Production

Digital Production Projects

Feature Film Visual Effects





Commercials Visual Effects

at&t

STELLA ARTOIS

Coca-Cola

Animation

Expand in Low-Cost / Tax Incentive Locations

Vancouver

Added 50 VFX artists

Bangalore

Added 75 VFX artists

New York

Announced plans to launch commercials VFX facility

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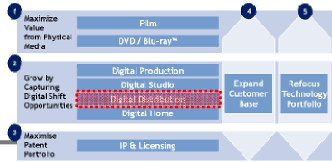


H1 Highlights

2 Grow by Capturing Digital Shift - Distribution

Digital Cinema

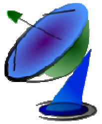
Doubled satellite distribution network to a market leading 600+ sites

Launched industry wide digital movie trailer service resulting in over 50% market share position

Digital Broadcast

Renewed multi-year contract with European broadcaster

Expanded HD channel mix



First service provider to broadcast in 3D Canal+ World Cup Matches

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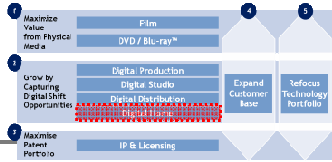

H1 Highlights

2 Grow by Capturing Digital Shift - Home

New wins

DIRECTV
verizon
Telefonica
euskaltel
ONO
StarHub
comcast
ACS Arvig Communication Systems
Bell
ATLANTIC broadband
bezeq
HOT
sky
Embratel
Midcontinent Communications
O2
EWE TEL
Claro CODETEL
GRUPO HEVI
TELMEX
NET

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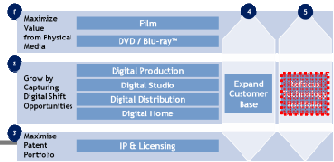
H1 Highlights

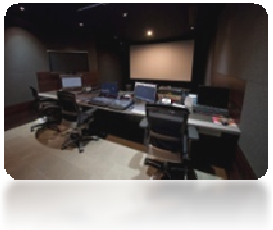


5 Technology Innovation Leadership – 3D

Production

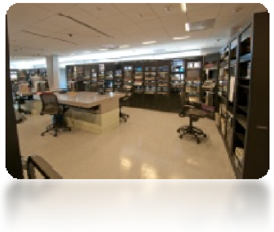
Developing
2D to 3D
conversion

Post-Production



Developed automated
3D subtitling tool

Media Services



First to develop & deploy
compression & authoring
tools for Blu-ray 3D

Developed & deployed
3D encoding VOD
(DirecTV)

Distribution

Developed high quality / low cost
film-based 3D solution

First company to replicate
3D Blu-ray movie title

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H2 2010 Priorities

Top line	■ Deliver YoY growth driven by Entertainment Services and Digital Delivery ■ Continue expanding customer base
Cost base & cash flow	■ Keep focus on lean cost structure ■ Tight control of capex and working capital
Divestments & closures	■ Progress for the disposal of the remaining non-strategic activities

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H1 2010 Financial Review

H1 2010 results highlights

	H1 2009	H1 2010	
Revenues from continuing operations	€1,801m	€1,468m	■ Group revenues for H1 2010 excluding retail telephony down (15.3)% YoY at current rates and down (17.6)% at constant rates, primarily as a result of lower revenues from Digital Delivery, despite the trend improvement in Q2 2010
Adjusted* EBITDA from continuing operations	€205m 11.4% sales	€135m 9.2% sales	■ Adjusted EBITDA margin down 2.2 points YoY as a direct consequence of lower DVD and Digital Home Products volumes
Net income from continuing operations	€4m	€213m	■ Net income from continuing operations positively impacted by accounting treatment of the Group's new debt and issued equity
Consolidated net result	€(325)m	€96m	■ Positive result despite €(117)m of losses from discontinued operations
Free Cash Flow** from continuing operations	€(172)m	€(105)m	■ FCF from continuing operations of €(105)m in H1 2010 including €(140) million cash out related to the closing of the restructuring and currency hedge instruments
Net debt	€2,311m	€1,016m excl. DPN of €260m	■ Reduction in gross debt of €986 million resulting from the issuance of new shares, NRS and DPN ■ Cash position at 30 June 2010: €416m

* Excluding impairment charges, restructuring and other income/(loss)
** Operating cash flow from continuing activities less change in working capital and other assets and liabilities, tax, financial and non current cash out

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H1 2010 Revenues by division

	Q2 2009	Q2 2010	Δ % Current currency	Δ % Constant currency	H1 2009	H1 2010	Δ % Current currency	Δ % Constant currency
Entertainment Services	335	323	(3.6)%	(11.2)%	690	636	(7.8)%	(11.4)%
Digital Delivery	417	358	(14.3)%	(18.5)%	840	641	(23.7)%	(26.3)%
Technology	102	95	(7.1)%	1.2%	195	188	(3.2)%	(0.2)%
Other	31	1	(96.8)%	(97.0)%	75	2	(97.0)%	(97.0)%
Total from continuing operations	**886**	**776**	*(12.4)%*	*(16.3)%*	**1,801**	**1,468**	*(18.5)%*	*(20.7)%*
Total excl. retail telephony	**857**	**775**	*(9.5)%*	*(13.6)%*	**1,730**	**1,466**	*(15.3)%*	*(17.6)%*

- **Key points - Q2 2010**
  - Increased levels of activity in Digital Production
  - Pressure on SD-DVD volumes continued to ease in Q2 vs. LY, in line with the overall market
  - Signs of improvement across all activities within Digital Delivery
  - Stable contribution from the MPEG-LA pool and other licensing programs, slightly offset by currency hedging effects at current currency

- **Key points - H1 2010**
  - **Entertainment Services:** Revenue decline resulting from pressure on SD-DVD revenues, partly offset by sustained revenue growth in all digital activities
  - **Digital Delivery:** Pressure on volumes in Digital Home Products eased in Q2 2010. Stable activity levels in Broadcast
  - **Technology:** stable contribution from MPEG-LA and other core programs

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Adjusted operating profitability

In € million	H1 2009	H1 2010
EBIT from continuing operations	51	15
Restructuring charges, net	(3)	(15)
Impairment losses on non-current operating assets	(30)	(0)
Other income/(expense)	(6)	3
Total adjustments on EBIT	(39)	(11)
Adjusted EBIT from continuing operationss	90	26
As a % of revenues	*5.0%*	*1.8%*
Depreciation and amortization (D&A) *	115	109
Adjusted EBITDA fom continuing operations	205	135
As a % of revenues	*11.4%*	*9.2%*

* Including impact of provision for risks, litigations and warranties

- Stable Depreciation & Amortization level YoY
- Adjusted EBITDA decline YoY mainly resulting from lower DVD and Digital Home Products volumes

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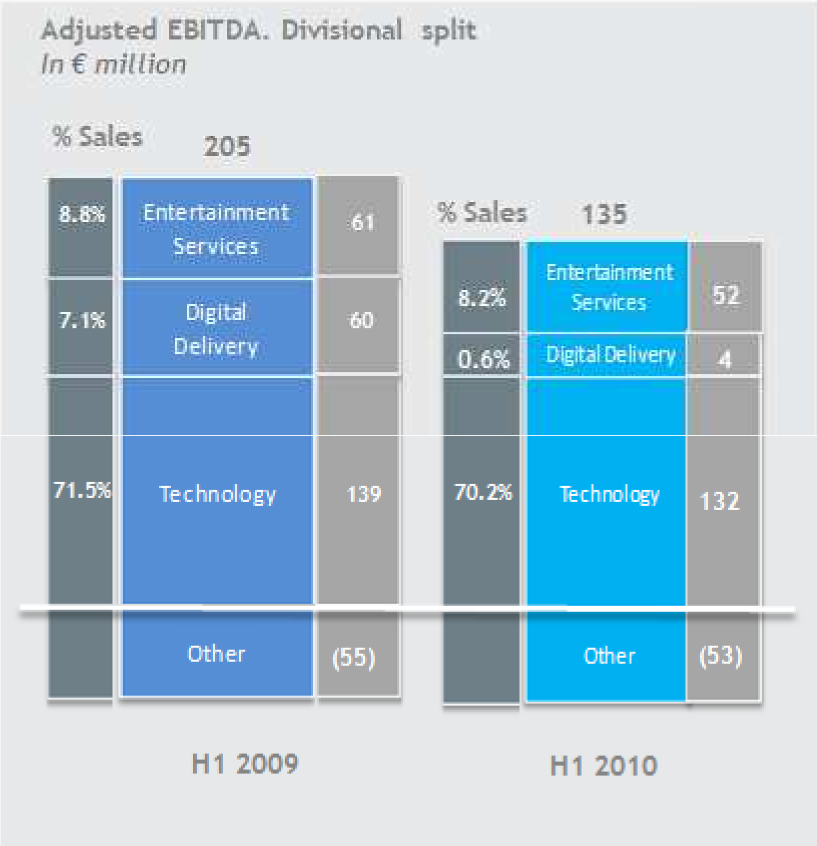
Divisional split for adjusted EBITDA in H1 2010



- **Entertainment Services: (0.6) point vs. LY**
  - Improved profitability in Creation Services, driven by strong revenue growth in Digital Production
  - Ongoing focus on operating efficiencies and cost reductions in Theatrical Services
  - Impact of lower volumes in DVD Services, partially offset by ongoing cost reduction efforts
- **Digital Delivery: (6.6) points vs. LY**
  - Stable margin before SG&A and R&D for Connect, despite a significant decline in revenues
  - Maintained investments in R&D and sales to drive growth for H2 2010
  - Weak activity level in Media Management Services
- **Technology: (1.3) points vs. LY**
  - Stable EBITDA as a % of revenues in Licensing
  - Increased expenses in Corporate Research, mainly related to investment in advanced design capabilities.

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H1 2010 net result

In € million	First half 2009	First half 2010	Change
EBIT from continuing activities	**51**	**15**	**(36)**
Financial costs, net	(10)	212	+222
Share of profit/(loss) from associates	(1)	(0)	+1
Income tax	(36)	(14)	+22
Profit/(loss) from continuing operations	**4**	**213**	**+209**
Loss from discontinued operations	(329)	(117)	+212
Net result, Group share	**(325)**	**96**	**+421**

H1 2010 financial result of € 212m included:

- €(41)m net interest charges, and
- €253m other financial income, mainly related to a €379 gain due to the recognition at fair value of the equity issued in Q2 2010 and of the Group's new debt

H1 2010 losses from discontinued operations of €(117)m included:

- Restructuring charges for €(54)m
- Impairment loss of €(40)m

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Operating Cash Flow

Operating Cash Flow H1 - (in €m)

	1H 2009	1H 2010
Adjusted EBITDA from continuing activities	**205**	**135**
Net Capital Expenditure	(97)	(76)
Net Restructuring	(29)	(18)
Operating Cash Flow from continuing activities	**78**	**40**

- Operating cash flow from continuing activities decreased year-on-year in H1 2010 as a result of:
  - A decline in adjusted EBITDA of €(70)m, primarily reflecting weaker margin for Digital Delivery
  - Lower capex requirement in DVD Services, notwithstanding ramp-up attributable to Warner Bros. agreement
  - Lower restructuring expenses of €(18)m compared to €(29)m for the same period of last year

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H1 2010 Free Cash Flow

In € million

	H1 2009	H1 2010
OCF from continuing operations	78	40
Change in working capital and other assets and liabilities	(183)	8
Financial	(30)	(129)
Tax, non-current and other items	(38)	(24)
FCF from continuing operations	(172)	(105)
FCF from discontinued operations	(67)	(12)
Group FCF	(239)	(117)

- Free cash flow from continuing operations of €(105)m in H1 2010 including:
  - €(86)m one-time impact related to the closing of the balance sheet restructuring
  - €(54)m cash outflows for margin calls related to currency hedge instruments

- Free cash flow used by discontinued operations reduced by €55 million in H1 2010
  - Improvement mainly driven by working capital variations in Grass Valley activities

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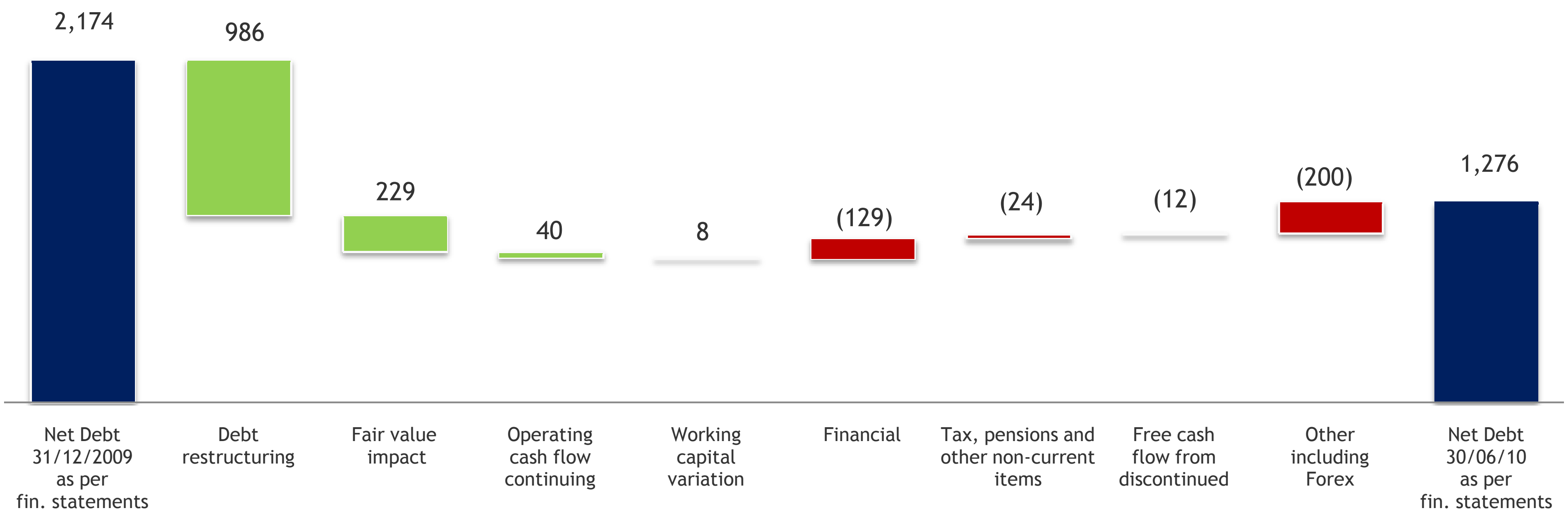
Net debt and liquidity

Net debt variation in H1 2010
In € million



- **Net financial debt of €1,276 million at 30 June 2010, including:**
  - Disposal Proceed Notes of €260 million maturing December 2010
  - A gain of €229 million related to the initial recognition of our new debt at its fair value (IAS 39)
  - Financial charges of €129 million, mainly as result of €70 million related to the closing of the balance sheet restructuring
- **Cash position of €416 million at 30 June 2010**
- **Gross debt as per financial statements of €1,692 million at June 2010**

Balance sheet at 30 June 2010

In € million	31 Dec. 2009	30 June 2010
Total non-current assets	2,238	2,556
incl. Goodwill	*746*	*832*
incl. Other Intangible Assets	*456*	*542*
incl. Property, Plant & Equipment	*431*	*487*
Total current assets	2,082	1,881
incl. Cash and equivalents	*569*	*416*
incl. Assets held for sale	*436*	*385*
Total Assets	4,320	4,437

In € million	31 Dec. 2009	30 June 2010
Total equity	(453)	412
Non-current liabilities	692	2,158
incl. Long term debt	*16*	*1,366*
Total current liabilities	4,081	1,867
Incl. Short Term debt	*2,727*	*326*
Incl.Assets held for sale	*257*	*310*
Total Liabilities	4 ,320	4,437

- Increase in Goodwill, Other intangible assets and PP&E in H1 2010 mainly driven by forex impact of €196 million
- Decrease in current assets mainly driven by a reduction in working capital

- Equity impacted by:
  - Issuance of new shares for €348 million
  - Issuance of NRS for €638 million
  - Net result of €96 million
  - Others of €(217) million
- Reduction in gross debt of €986 million

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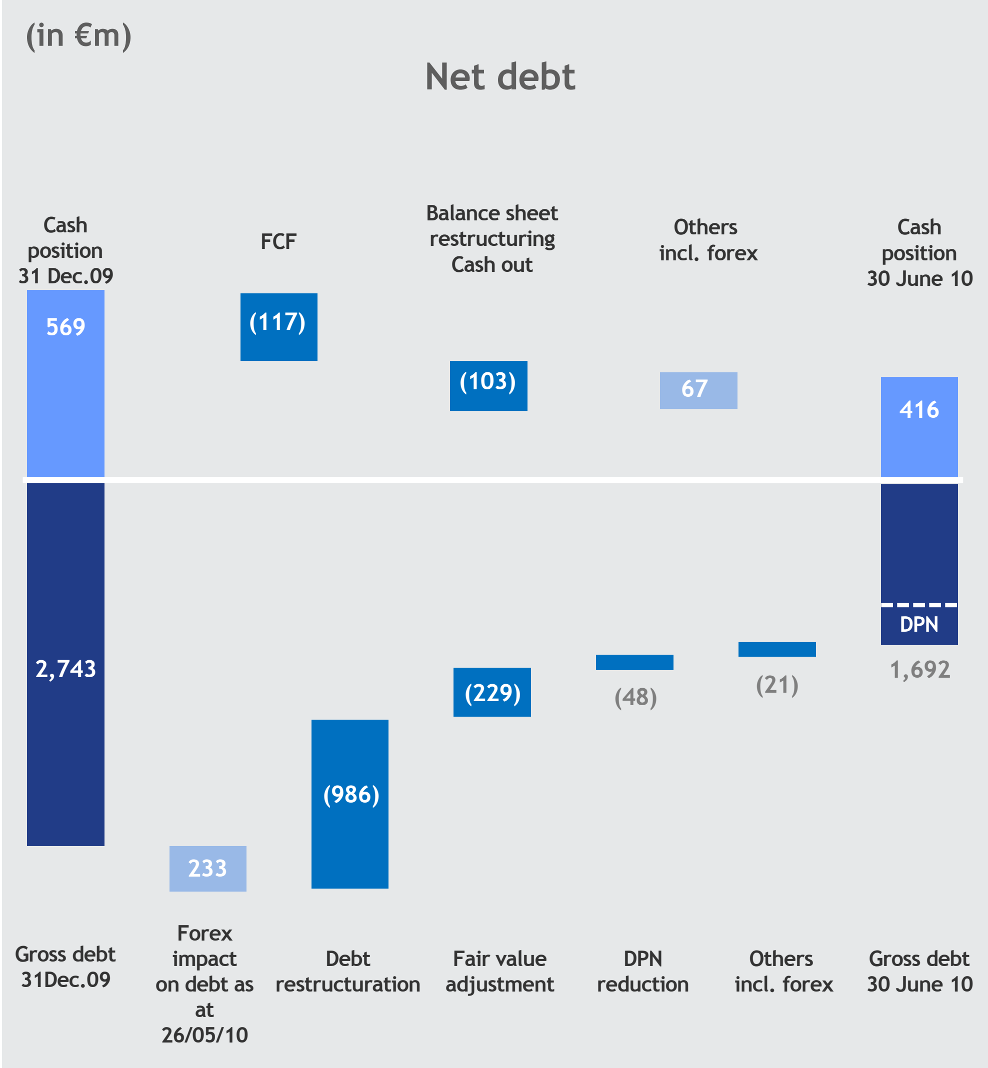
Impact of financial restructuring on Equity & Net debt

(In €m)

Equity

Equity 31 December 2009	**(453)**
New shares	348
NRS	638
Net result	96
Others*	(217)
Equity 30 June 2010	**412**

* include notably the impacts of IFRIC19 financial profit on the value adjustment of equity instruments issued (-€120 m) and the interest payment to TSS holders (-€25m)



H1 2010 Divisional Review

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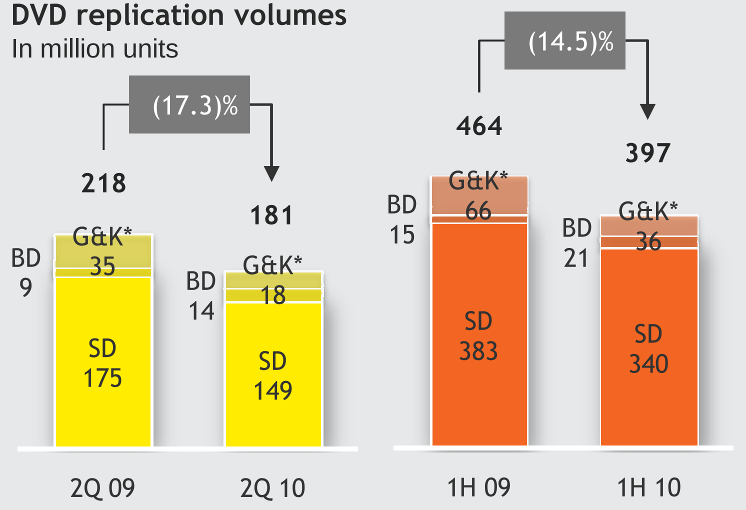
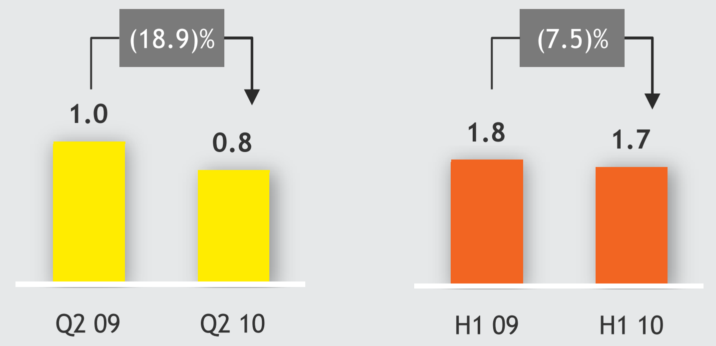
Entertainment Services| Business review

DVD replication volumes
In million units



* G&K: Games & Kiosk

Film Footage
In billion feets



Key Points

Creation services

- Stronger activity in VFX driven by increased activity in Film and increased market share in commercials
- Continued growth in our Indian operations, driving revenue growth in animation
- Slightly higher revenues and stable market share in Post Production in Q2 10

Theatrical services

- Continued growth in Digital Cinema business over H1 10
- Revenues slightly down in photochemical Film in H1 10, with stable market position

DVD services

- Lower rate of decline in SD DVD vs. LY, in-line with overall market trends in H1 10
- Strong growth in Blu-ray™ volumes

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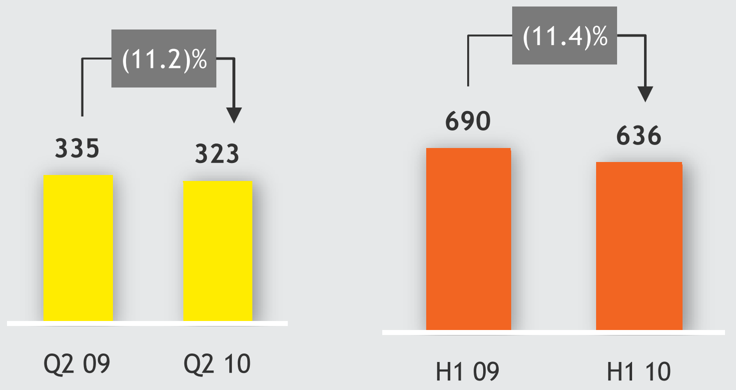
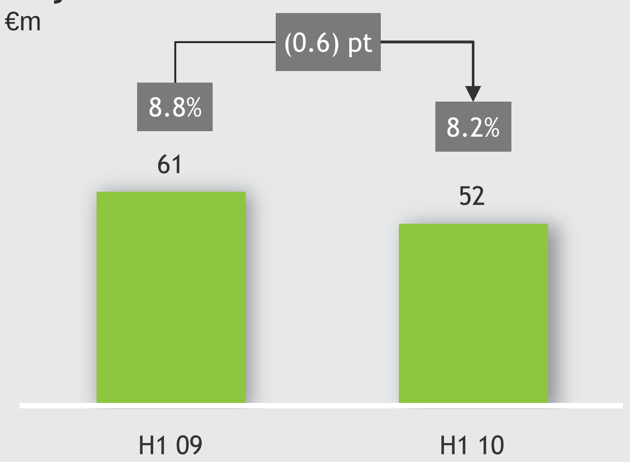
Entertainment Services| Financial indicators

Q2 and H1 revenues
In €m as reported. Change at constant currency



H1 adjusted EBITDA
In €m



Key Points

Revenues

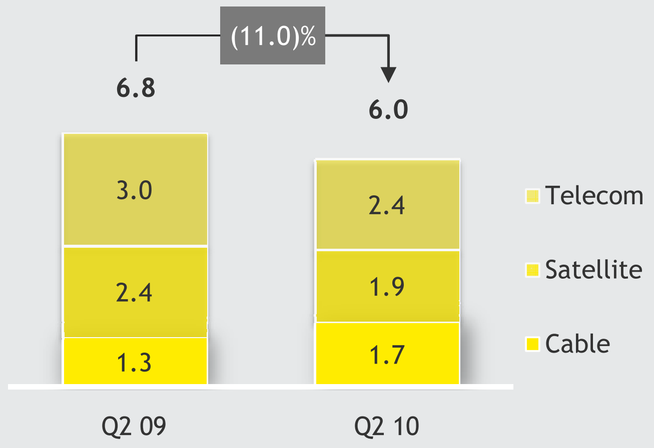
- Growth in all digital activities over H1 10, particularly in Digital Production and in Digital Cinema
- Decline in DVD revenues and slight decrease in photochemical Film as a result of lower volumes

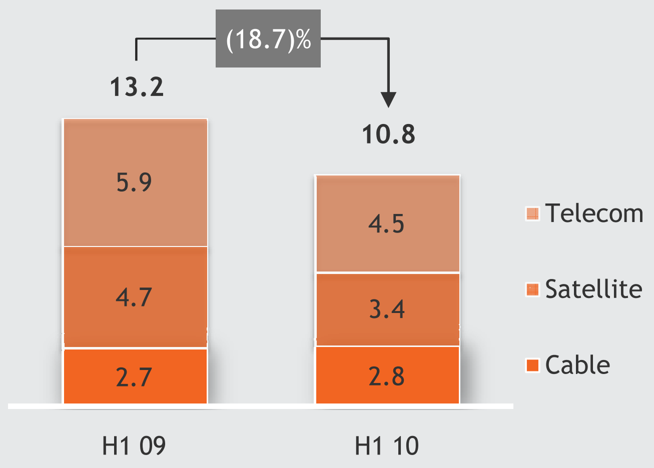
Adjusted EBITDA

- Slight decline in adjusted EBITDA in H1 10 resulting mainly from:
  - lower DVD volumes
  - Costs relating to the ramp up of the Warner Bros. DVD agreement, which will generate revenues as of H2 10

Digital Delivery | Business review

Digital Home Products volumes
In million units





Key Points

Connect

- In Telecom, we continued to reinforce or win back market share
- In Satellite, orders in North America still impacted by higher level of refurbished boxes
  This impact was partly offset by the introduction of a 3d product line for DirecTV
- In Cable, the growth in volumes in Q2 10 was driven by higher shipments of cable modems in South America and of DTAs to Comcast (2d generation)

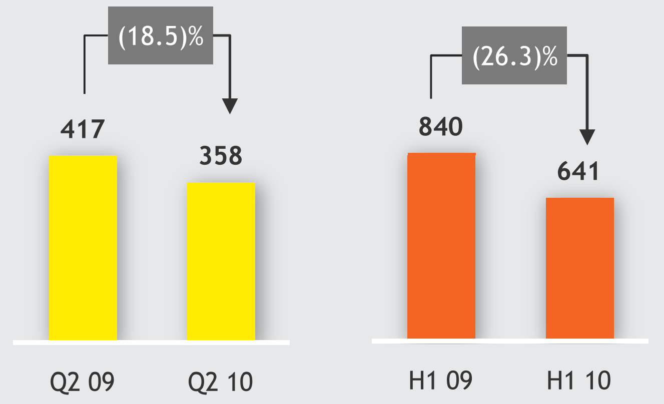
Digital content delivery services

- Media Management Services market positions were stable in H1 10 but market activity remained low
- Stable activity in Broadcast Services with continued migration of TV channels to HD and several key customer contract renewals

Digital Delivery | Financial indicators

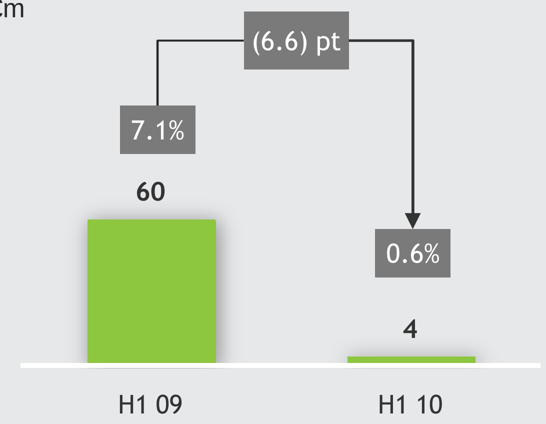
Q2 and H1 revenues

In €m as reported. Change at constant currency



H1 Adjusted EBITDA

In €m



Key Points

Revenues

- Trend in Digital Delivery revenues improved in the Q2 2010 vs. Q1 2010
- Pressure on volumes in Digital Home Products eased in the Q2 2010 while Broadcast Services maintained stable activity levels
- Media Management Services was affected by continuing weak conditions in the market

Adjusted EBITDA

- Decline in revenue led to a significant drop in adjusted EBITDA
- Digital Delivery was able to maintain its margin before SG&A and R&D
- Notwithstanding the drop in revenue, the Group decided to maintain its investments in R&D and sales to drive growth for H2 2010

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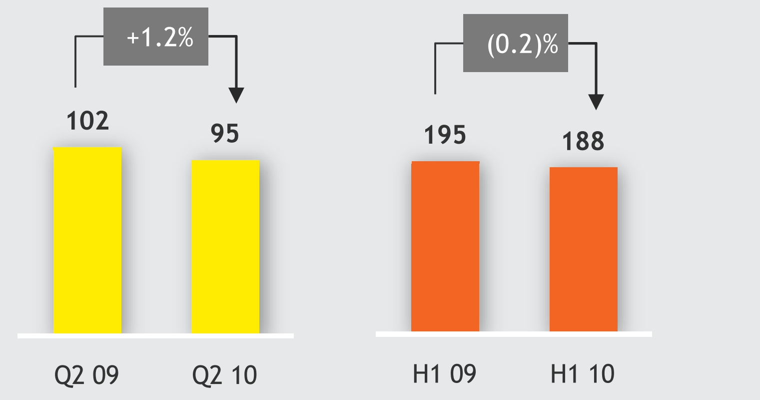
Technology

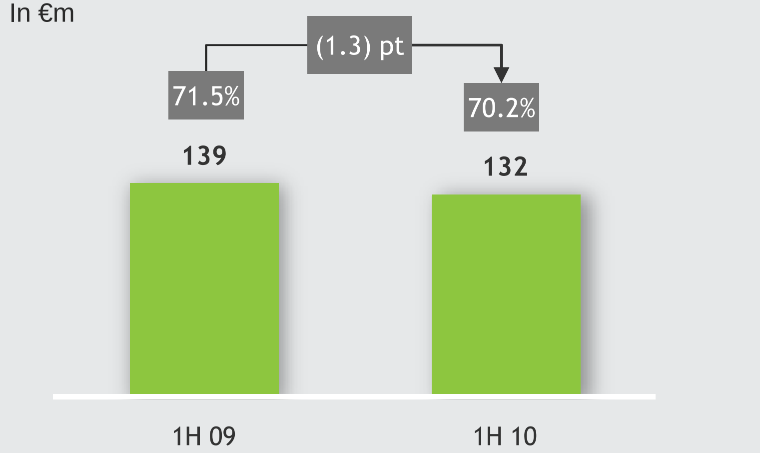
Q2 and H1 revenues

In €m as reported. Change at constant currency



H1 Adjusted EBITDA

In €m



Key Points

Corporate Research

- Key contributions on 3D subtitling, user adjustable 3D and intelligent video reframing
- Opening of a new research lab dedicated to personalization of digitally delivered content and services in Palo Alto, California

Licensing

- Stable revenue stream from the MPEG LA pool in H1 10 and sustained performance from the other Licensing programs
- Q2 2010 revenues from Licensing were slightly higher compared to Q2 2009 at constant currency, but lower at current currency due to currency hedging effects

Financials

- H1 10 adjusted EBITDA driven by:
  - stable EBITDA margin in Licensing
  - partly offset by higher expenses in Corporate research (investment in advanced design capabilities)