Second half and full year 2010 results

1 March 2011

Frederic Rose, CEO
Stéphane Rougeot, CFO

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Safe Harbor Statement

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Business Update

Frederic Rose, CEO

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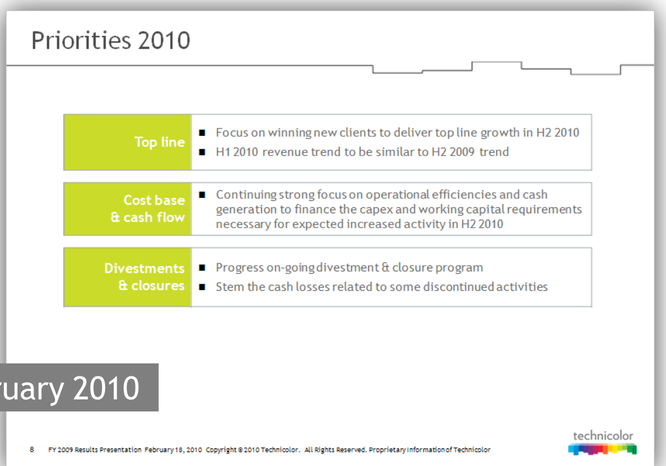
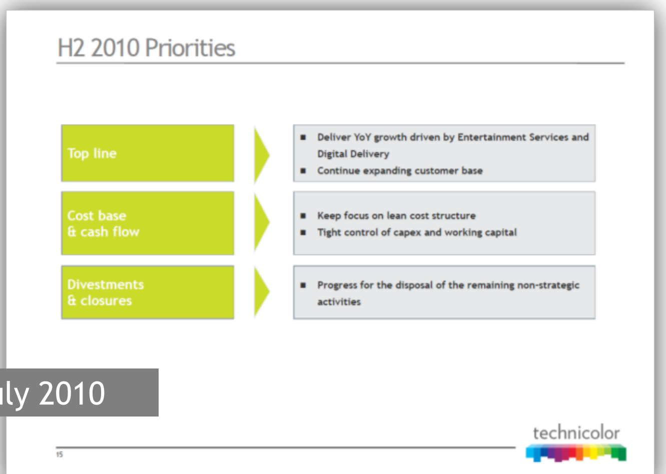
FY & H2 2010 priorities achieved



February 2010



July 2010

- Organic key customer wins
- +10.6%* YoY growth in H2 2010
- Adj EBITDA margin up 1.2 points YoY in H2 2010
- Positive Group Free Cash Flow in H2 2010
- Disposal program closed

* Change at constant rates

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Trends in Technicolor markets in 2010

Resilient content production market and consumer spending in home entertainment

Acceleration of conversion of theatres to digital cinema

Recovery in advertizing markets

Strengthening in global Consumer Electronics volumes

Innovation in the Digital Home and content consumption

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Business Achievements 2010

Renewals/Extensions

DIRECTV.
upc
O2
TiVo
TeliaSonera
Disney
TATA Sky SATELLITE TELEVISION
Embratel
comcast
itv
bezeq
Telefonica
CANAL+
GRUPO HEVI
TELMEX
Telstra

New clients

WB
verizon
euskaltel

Bell
SAMSUNG
BOW•TIE CINEMAS
RELATIVITY

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Technicolor innovations - 2010

Digital Home

New solutions for the consumer addressing key NSP challenges

- Keep customers within the Operator ecosystem
- Deploy services flexibly across devices
- Unify the user experience across devices and make devices interoperable

Digital Home Software Suite

MediaEncore

Media consumption

Simplify and enhance the media consumption experience

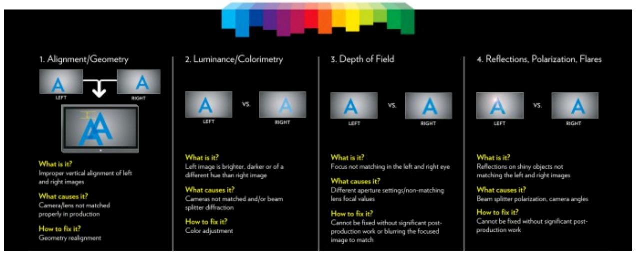
- Integrate content from multiple sources including the Operator, OTT and the local network
- MediaNavi UI & backend offer is compatible with any Tablet and any IP connected STB
- MediaNavi comes on top of existing Operators solutions

MediaNavi

3D Certification

Ensure quality 3D viewing experience to drive 3D content consumption

- Address 15 criteria affecting 3D viewing comfort
- Analyze and fix issues with software-based service package
- Endorsed by BSkyB



Technicolor Certifi3D Program
The 15-point 3D Issues Checklist (extract)

Digital Asset Management

Maximize content asset value, securely

- Digital asset management platform based on a “Software as a Service” model
- Preserve & manage Content
- Optimize distribution to multiple platforms & geographies
- Deal with format proliferation and track content, reduce piracy risk

MediAffinity Market

Studios & Broadcasters
Content wholesalers
Network operators
Digital Service Providers
Corporations, Universities

MediAffinity Clients

RELATIVITY
LOVEFiLM.com
The Weinstein Company

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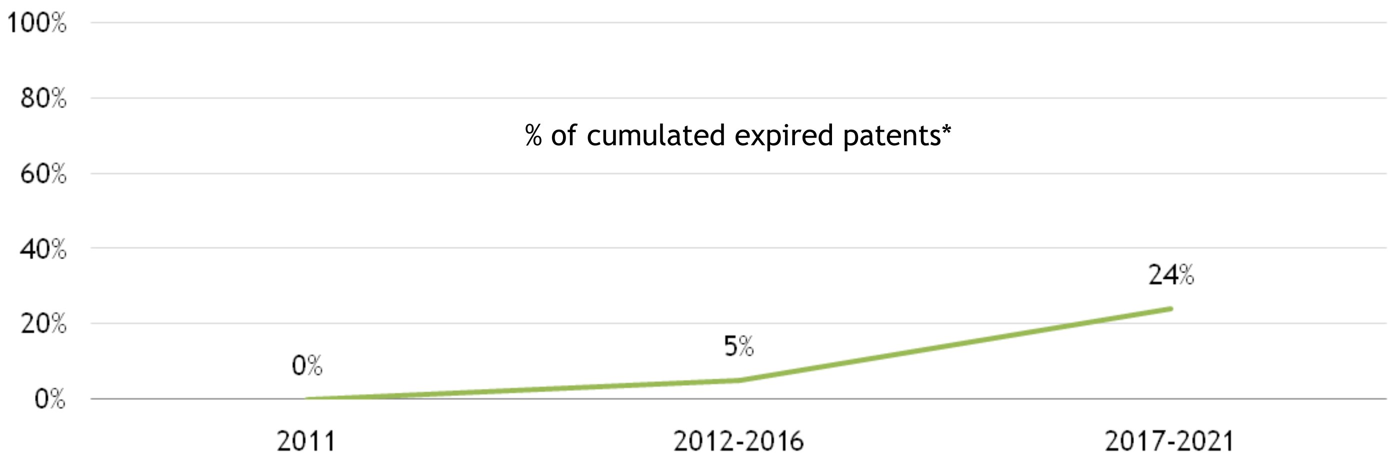
Research & Innovation

100+ publications in 2010, 170+ research students hosted in 2010

New research lab in Palo Alto, California

Key technology transfers to the business including 3D technology and VFX algorithms

Over 70% of Patents have a lifetime greater than 10 years



*On the basis of the Group's portfolio of patents as of 28 February 2011

Active player in innovation

Standard setting

Active member of over 70 standard setting organizations / industry associations

Founding member of Blu-ray Disc Association, High-Definition Multimedia Interface (HDMI), 3D@Home Consortium, DVB, DVB Forum, HD Forum…

Open innovation with key consortium partners

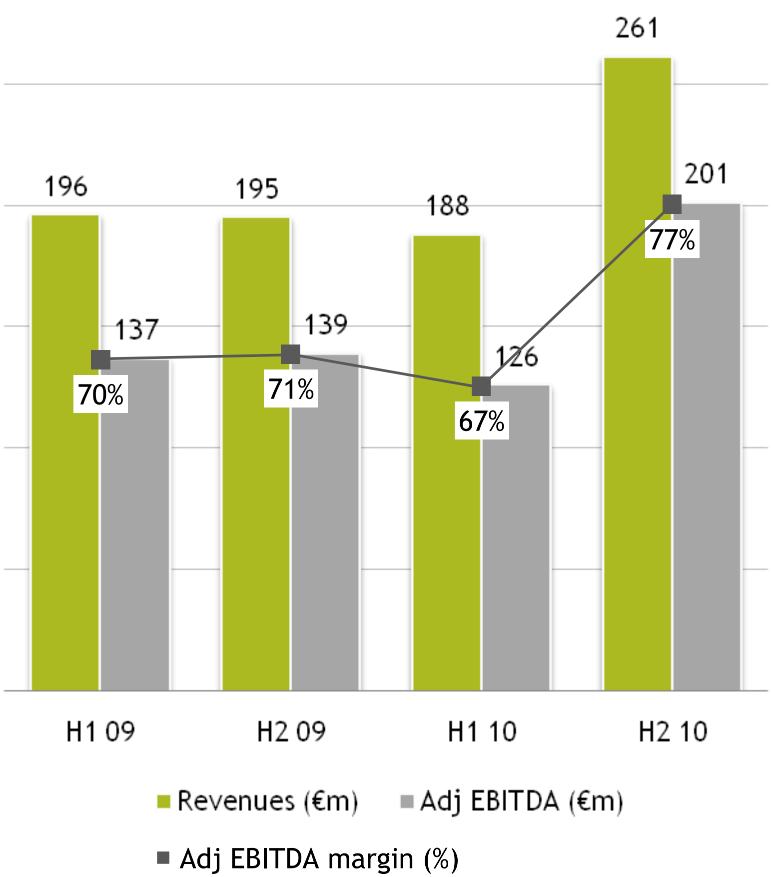
Content Creation | Orange (3DLive, RevTV), Fraunhofer (Muscade, 2020 3D media), Barco (Jedi), BBC (Fascinate), Disney Research (Muscade)

Media Management | Orange and Exalead (Quaero), Fraunhofer (Theseus), INRIA and Telefonica (Metaverse)

Media Delivery & Consumption | Telefonica (NaDa), INIRIA and LIP6 (C'MON), Orange (Omega, FI-Ware), Deutsche Telekom (FI-Ware), Fraunhofer (GUIDE)

Technology - Highlights

Revenues and Adjusted EBITDA



Licensing revenues positively impacted by growth in worldwide Consumer Electronics shipments in H2 2010

Strong increase in revenues from MPEG LA

Sustained performance of the other licensing programs

Set-up of Technology Licensing practice end 2010

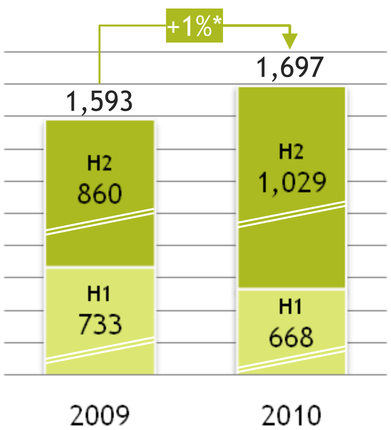
Launch of mp3HD

Launch of MediaNavi at CES 2011

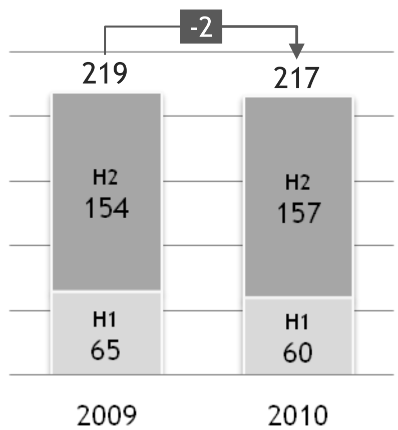
MediaNavi trial with UK broadband NSP TalkTalk

Entertainment Services - Highlights

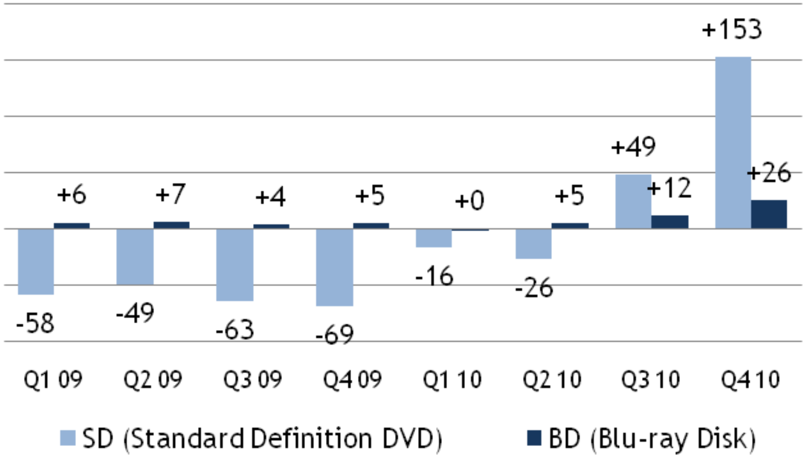
Revenues, €m



Adj EBITDA, €m



YoY volume change for SD and BD, million units



H2 2010 sales +11.8%* YoY

Adj EBITDA at 15.3%, down 2.7 points**

Further market share gains in Creation Services, increase in sales and profitability

Acceleration in theatre conversion to digital affecting Film but benefitting Digital Cinema distribution

Higher than expected orders in DVD led to higher subcontracting and distribution costs

Non-recurring transition and on-boarding costs related to Warner Bros. agreement implementation

Acceleration of migration to digital in H2 2010

Capacity expansion in Digital Production

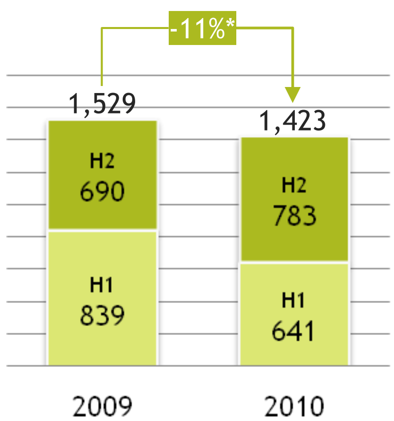
N°1 position in Digital Cinema distribution

Downsizing of photochemical film

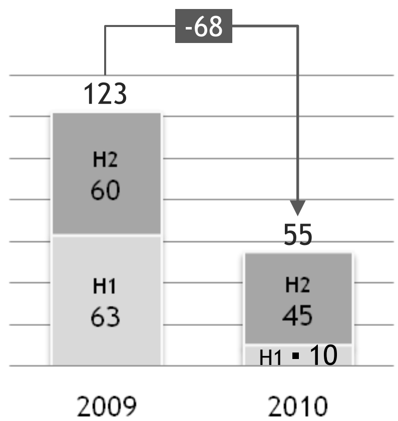
* Change at constant rates
** Year-over-Year

Digital Delivery - Highlights

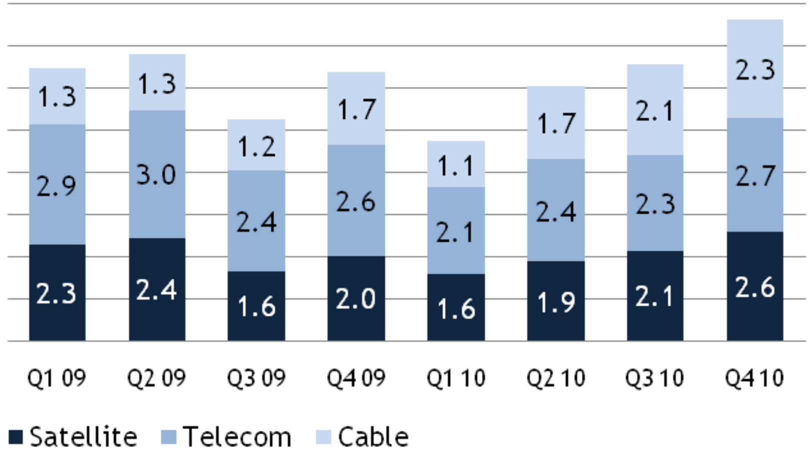
Revenues, €m



Adj EBITDA, €m



Connect volumes, million units



H2 2010 sales +6.9% YoY*

Adj EBITDA at 5.7%, down 3.1 points**

Strong growth in Cable and Satellite shipments

Improved market conditions and market share gains in Media Services

Profitability partly recovered compared with H1, but remained below last year due to less favorable mix overall (except in Satellite)

Acceleration of investments in Digital Delivery

Strengthened sales force and marketing effort

Increased R&D investments in Digital Home key customer programs and new software platform

* Change at constant rates
** Year-over-Year

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Second half and full year 2010 results

Stéphane Rougeot, CFO

FY 2010 Results Highlights

(€ million)	FY 2009	FY 2010	
Revenues from continuing operations	€3,619m	**€3,574m**	Group revenues for FY 2010 YoY down (1.2)% at current rates, with a strong improvement in Q4 2010 (+21.4% YoY) across all activities
Adjusted* EBITDA from continuing operations	€499m 13.8% sales	**€505m 14.1% sales**	FY 10 Adjusted EBITDA margin up 0.3 point YoY H2 2010 Adjusted EBITDA margin up 1.2 points, as per July guidance
EBIT from continuing operations	€99m 2.7% sales	**€38m 1.1% sales**	EBIT negatively impacted by assets impairment and restructuring charges in H2 2010
Net income from continuing operations	€(4)m	**€156m**	Impact of the debt restructuring and impairment charges
Consolidated net result	€(342)m	**€(69)m**	Net result including a €225m loss in discontinued operations
Operating Cash Flow from continuing operations	€281m	**€304m**	Increase in Operating Cash Flow from continuing operations despite higher capex
Group Free Cash Flow	€(63)m	**€(100)m**	Impact from cash out for discontinued operations and debt restructuring
Net debt (as per IFRS)	€2,174m	**€993m**	Reduction in net debt of €1,181m Cash position at 31 December 2010 of €332m

* Excluding net impairment charges, restructuring and other income/(loss)
** Adjusted EBITDA minus restructuring and capex cash-out

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2010 Revenues by Division

(€ million)	Q4 2009	Q4 2010	Δ % Constant Currency	H2 2009	H2 2010	Δ % Constant Currency	FY 2009	FY 2010	Δ % Constant Currency
Technology	97	136	+38.5%	195	261	+35.0%	391	**450**	**+17.3%**
Entertainment Services	464	596	+20.6%	860	1029	+11.8%	1,593	**1,697**	**+0.8%**
Digital Delivery	376	423	+5.9%	690	783	+6.9%	1,529	**1,423**	**(11.3)%**
Other	15	1	(96.8)%	31	2	(93.6)%	106	4	(96.0)%
Total from continuing operations	**951**	**1,155**	**+14.8%**	**1,776**	**2,075**	**+10.6%**	**3,619**	**3,574**	**(5.4)%**
Total excl. retail telephony*	**936**	**1,155**	**+16.7%**	**1,747**	**2,074**	**+12.4%**	**3,520**	**3,572**	**(2.8)%**

* At constant currency and excluding the retail telephony business, from which the Group completed its exit at the end of 2009

Key points - Q4 2010

- Licensing activities benefited from the continuing growth in worldwide consumer electronic products shipments
- Stronger market positions and improved market conditions in Creation Services, DVD Services and Digital Cinema distribution
- Solid growth in Digital Home Products volumes and Media Services activities

Key points - FY 2010

- Technology revenues recorded sustained growth in 2010 compared with 2009, reflecting the strong performance of the Licensing business during the year
- Entertainment Services revenue drop in H1 2010 was more than offset in H2 2010, driven by solid performance of Creation Services and increase in DVD volumes
- In Digital Delivery, revenue growth in H2 2010 partly offset the impact of the drop in Connect volumes and in Media Services activity in H1 2010

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Adjusted Indicators

(€ million)	H2 2009	H2 2010	Change	FY 2009	FY 2010	Change
EBIT from continuing operations	**94**	**15**	**(79)**	**99**	**38**	**(61)**
Restructuring charges, net	(38)	(27)	+11	(41)	(41)	0
Impairement losses on non-current operating assets, net	(49)	(183)	(134)	(128)	(183)	(55)
Other income/(expense)	16	25	+9	12	28	+16
Total adjustements on EBIT	**(71)**	**(185)**	**(114)**	**(158)**	**(196)**	**(38)**
Adjusted EBIT from continuing operations	**165**	**200**	**+35**	**256**	**234**	**(22)**
As a % of revenues	*9.3%*	*9.6%*	*+0.3pt*	*7.1%*	*6.5%*	*(0.6)pt*
Depreciation and amortization (D&A)*	**124**	**163**	**+39**	**243**	**271**	**+28**
Adjusted EBITDA from continuing operations	**289**	**363**	**+74**	**499**	**505**	**+6**
As a % of revenues	*16.3%*	*17.5%*	*+1.2pts*	*13.8%*	*14.1%*	*+0.3pt*

* Including impact of provision for risks, litigations and warranties

Key points - H2 2010 EBIT

- Restructuring charges largely related to the downsizing of the photochemical film activities
- Impairment charges of €183m resulting from:
  - €161m Goodwill impairment charges,
    - €58m on Entertainment Services mainly following decision taken on the photochemical film activities
    - €103m on Digital Delivery, reflecting the Group's difficulties in relation with the financial restructuring period
  - €22m net write-off on assets (excluding Goodwill) largely related to photochemical film activities

Divisional Split for Adjusted EBITDA in H2 & FY 2010

(€ million)	H2 2009	H2 2010	Change	FY 2009	FY 2010	Change
Technology *% Sales*	139 *71.5%*	201 *77.0%*	+62 *+5.5pts*	276 *70.7%*	327 *72.7%*	+51 *+2.0pts*
Entertainment Services *% Sales*	154 *18.0%*	157 *15.3%*	+3 *(2.7)pts*	219 *13.8%*	217 *12.8%*	(2) *(1.0)pt*
Digital Delivery *% Sales*	60 *8.8%*	45 *5.7%*	(15) *(3.1)pts*	123 *8.1%*	55 *3.9%*	(68) *(4.2)pts*
Other	(64)	(40)	+24	(120)	(94)	+26
Total from continuing operations *% Sales*	**289** *16.3%*	**363** ***17.5%***	**+74** *+1.2pts*	**499** *13.8%*	**505** ***14.1%***	**+6** *+0.3pt*

Technology - H2 2010

- Technology Adjusted EBITDA margin raised by 5.5 points to 77.0% of sales, driven by higher revenues and ongoing cost optimization

Entertainment Services - H2 2010

- Decrease in DVD Services profitability
  - higher orders from customers led to higher level of replication volume subcontracted to third parties and higher distribution costs
  - non-recurring transition and on-boarding costs for the Warner Bros. agreement
- Creation Services margins continued to improve
- Theatrical Services profitability was stable despite the revenue drop

Digital Delivery - H2 2010

- Decrease in Adjusted EBITDA margin
  - less favorable overall mix year-over-year within Connect,
  - ramp up development costs for new contracts
  - significant investments in major new growth initiatives

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H2 & FY 2010 Net Result

(€ million)	H2 2009	H2 2010	Change	FY 2009	FY 2010	Change
EBIT from continuing operations	**94**	**15**	**(79)**	**99**	**38**	**(61)**
Financial costs, net	(58)	(96)	(38)	(68)	116	+184
Share of profit / (loss) from associates	0	0	0	0	0	0
Income tax	2	16	+14	(35)	2	+37
Profit / (loss) from continuing operations	**38**	**(65)**	**(103)**	**(4)**	**156**	**+160**
Loss from discontinued operations	(55)	(100)	(45)	(338)	(225)	+113
Net result, Group share	**(17)**	**(165)**	**(148)**	**(342)**	**(69)**	**+273**

Net result - H2 2010

- EBIT impacted by impairment charges of €(183)m
- Loss from discontinued operations of €(100)m, resulting mainly from an EBIT loss of €79m for the former Grass Valley perimeter

Net result - FY 2010

- Impairments charges of €(183)m
- Net gain of €246m mainly related to the debt restructuring in H1 2010
- Foreign exchange loss of €(55)m resulting from revaluation of debt denominated in US dollar in H1 2010
- Deferred tax income of €32m
- Loss from discontinued operations including operational loss and disposal impact

H2 & FY 2010 Operating Cash Flow

(€ million)	H2 2009	H2 2010	Change	FY 2009	FY 2010	Change
Adjusted EBITDA from continuing operations	**289**	**363**	**+74**	**499**	**505**	**+6**
Net capital expenditure	(51)	(89)	(38)	(149)	(165)	(16)
Net restructuring	(38)	(18)	+20	(68)	(36)	+32
Operating cash flow from continuing operations	**201**	**256**	**+55**	**281**	**304**	**+23**

H2 2010 operating cash flow from continuing operations increased YoY as a result of:

- Increase in adjusted EBITDA from continuing operations
- Higher capital expenditure due to investments in Blu-ray™ replication lines in relation with the Warner Bros. agreement and expansion of VFX/Animation infrastructures
- Lower restructuring expenses

FY 2010 operating cash flow from continuing operations increased YoY as a result of:

- Increased adjusted EBITDA from continuing operations
- Higher capital expenditures, mainly driven by a higher level of investments in DVD Services activities
- Lower restructuring expenses

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H2 & FY 2010 Free Cash Flow

(€ million)	H2 2009	H2 2010	Change	FY 2009	FY 2010	Change
OCF from continuing operations	**201**	**256**	**+55**	**281**	**304**	**+23**
Change in working capital and other assets and liabilities	96	(99)	(195)	(83)	(89)	(6)
Financial	(53)	(80)	(27)	(83)	(209)	(126)
Tax, non-current and other items	(32)	(26)	+6	(70)	(50)	+20
FCF from continuing operations	**212**	**51**	**(161)**	**46**	**(45)**	**(91)**
FCF from discontinued operations	(35)	(35)	0	(109)	(55)	+53
Group FCF	**177**	**16**	**(161)**	**(63)**	**(100)**	**(37)**

Positive Group FCF of €16m in H2 2010

- FCF from continuing operations of €51m
  - €(99)m change in working capital requirements related to growth in Entertainment Services and Digital Delivery
  - higher cash financial charges
- FCF used by discontinued operations of €(35)m, as a result of operating losses and cash restructuring charges in Grass Valley activities

FY 2010 Group FCF decrease

- Negative impact of €(140)m in H1 2010 related to the closing of the restructuring and currency hedging instruments
- Lower cash out on discontinued operations

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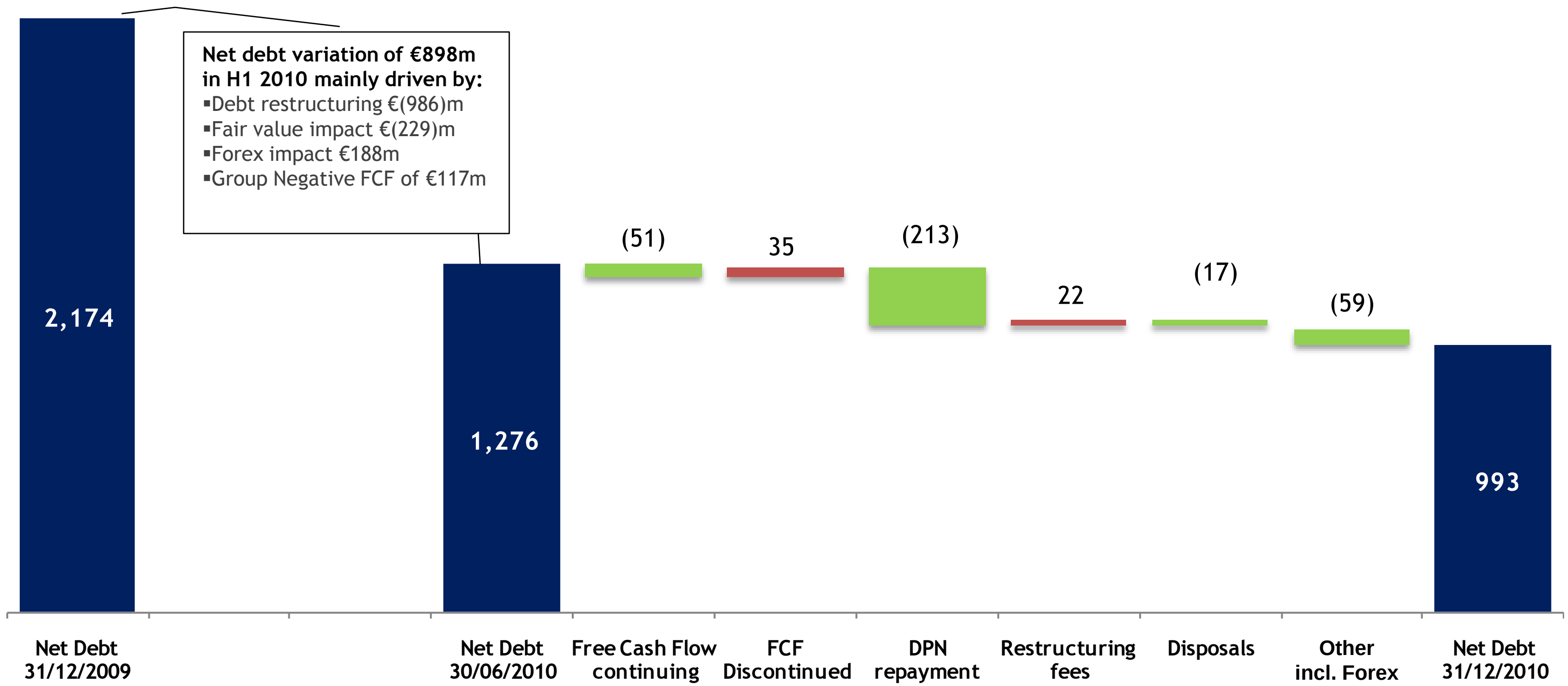
Net debt and liquidity

Net debt variation in FY 2010

In € million



Net debt position of €993 million at 31 December 2010

- Net debt at nominal value (non IFRS) amounted to €1,191 million at 31 December 2010 compared with €1,506 million at 30 June 2010

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Balance Sheet at 31 December 2010

(€ million)	31 Dec. 2009	31 Dec. 2010
Total non-current assets	**2,238**	**2,299**
Incl. goodwill	746	644
Incl. other intangible assets	456	512
Incl. property, plants and equipment	431	430
Total current assets	**2,082**	**1,635**
Incl. inventories	97	153
Incl. trade receivables	555	666
Incl. cash and equivalents	569	332
Incl. assets held for sale	436	90
Total assets	**4,320**	**3,934**

(€ million)	31 Dec. 2009	31 Dec. 2010
Total equity	**(453)**	**505**
Total non-current liabilities	**692**	**2,038**
Incl. long term debt	16	1,278
Incl. retirement benefits obligations	310	332
Total current liabilities	**4,081**	**1,391**
Incl. short term debt	2,727	47
Incl. Trade payables	435	528
Incl. retirement benefits obligations	60	46
Incl. liabilities held for sale	257	103
Total equity & liabilities	**4,320**	**3,934**

- **Decrease in current assets in FY 2010**
  - Strong increase in inventory and A/R reflecting higher level of activity
  - Decrease in assets held for sale following disposal completion

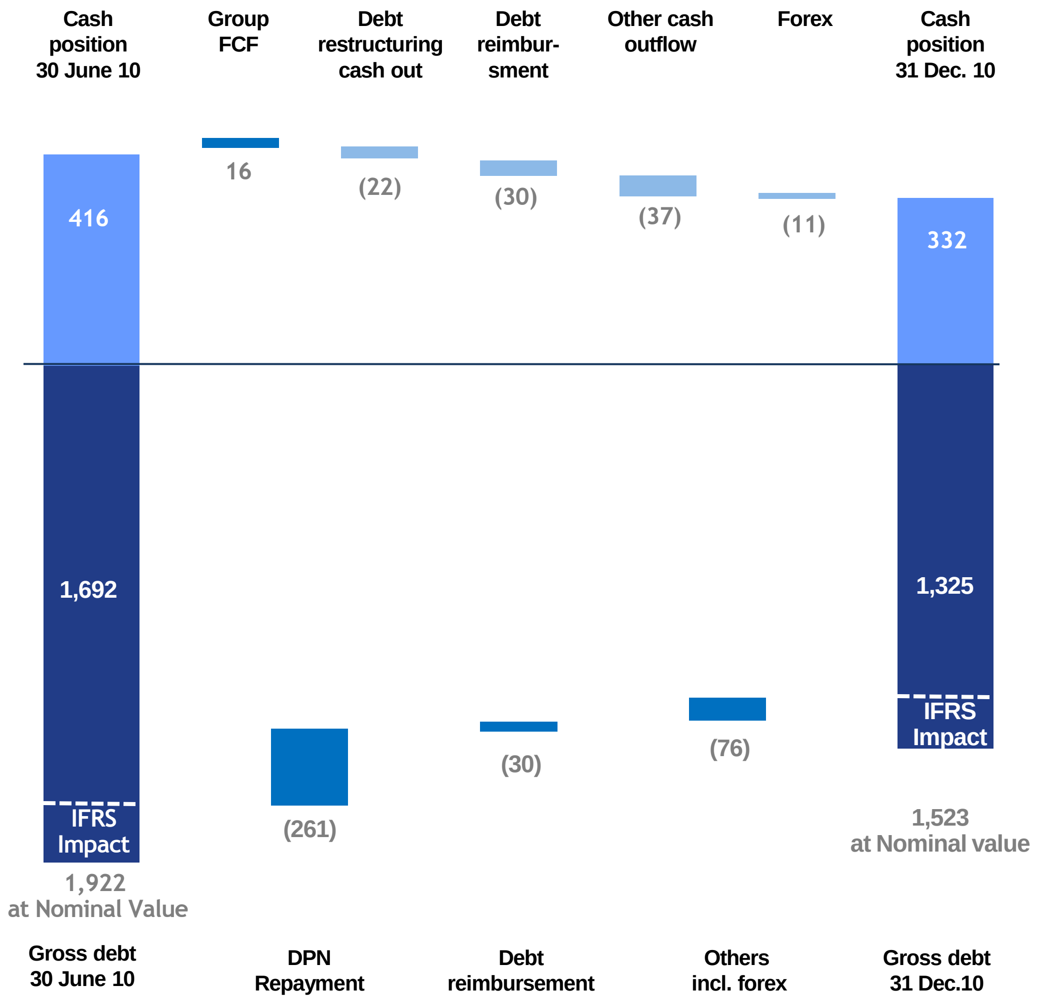
- **FY 2010 Equity and Gross debt level reflecting:**
  - Completion of the financial restructuring

Capital Structure & Net Debt

Capital Structure

	Total number of shares
Total number of shares at 31 December 2009 (a)	**26,989,003**
Rights issue July 2010 (a)	52,660,878
Total number of shares at 30 June 2010	**79,649,881**
Repayment of DPN maturing 31 December 2010	50,000,000
Redemption of NRS I maturing 31 December 2010 (conversion ratio 0.144)	45,196,744
Total number of shares at 31 December 2010	**174,846,625**
NRS II and IIC maturing 31 December 2011 (conversion ratio 0.159), (b)	51,523,126
Number of shares including outstanding NRS redemption (b) (c)	**226,369,751**

(a) adjusted for 10:1 reverse split
(b) including 5,328,181 NRS I deferred to 31 December 2011
(c) assuming the Company does not exercise its option to repay part or all of NRS IIC in cash



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Priorities & Objectives for 2011

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Priorities for 2011 – Accelerate organic investments to drive growth

Technology Licensing

Research investments related to MediaNavi in relation with prospective customer and partner discussions.

Digital Home

Acceleration in software development investments to ensure ability to deliver material volumes in 2012.
First material order for next generation STB based on new software platform. Additional customers expected in 2011, including for the MediaEncore solution.

Digital Production

Increase capacity and software capabilities with the objective to more than double turnover by 2013. Additional physical expansions, principally in London, Vancouver, New York and Bangalore.

Digital Cinema

Expand satellite network with a view to reach over 1,500 sites by end 2012.

Operational performance and cost structure

Specific focus on photochemical film rationalization, operational performance and quality particularly in Connect and DVD services, continued efforts on cost improvements and cash generation.

Objectives for 2011 – Ensure a solid foundation for the coming years

Revenues

Entertainment Services and Digital Delivery to grow faster than the market

Small decline in Licensing revenue linked to consumer electronics volumes

► Achieve slight revenue growth at constant rates in 2011

Adjusted EBITDA

Favor organic growth and innovation to lay a solid foundation for the coming years

► Notwithstanding this focus, our objective is to be able to generate an Adjusted EBITDA in 2011 comparable or slightly up compared with the level achieved in 2010

Appendix

Restated 2009 and 2010

In € million	Q1 2009	Q2 2009	H1 2009	Q3 2009	Q4 2009	H2 2009	FY 2009	Q1 2010	Q2 2010	H1 2010	Q3 2010	Q4 2010	H2 2010	FY 2010
Group revenues from continuing Operations	**937**	**906**	**1,843**	**825**	**951**	**1,776**	**3,619**	**704**	**795**	**1,499**	**920**	**1,155**	**2,075**	**3,574**
of which: Technology	93	102	196	98	97	195	391	93	95	188	126	136	261	450
Entertainment Services	377	355	733	396	464	860	1,593	326	342	668	433	596	1,029	1,697
Digital Delivery	422	417	839	314	376	690	1,529	283	357	641	360	423	783	1,423
Adjusted EBITDA from continuing Operations			**209**			**289**	**499**			**142**			**363**	**505**
of which: Technology			137			139	276			126			201	327
Entertainment Services			65			154	219			60			157	217
Digital Delivery			63			60	123			10			45	55
Adjusted EBIT from continuing Operations			**91**			**165**	**256**			**34**			**200**	**234**
of which: Technology			129			129	258			120			195	315
Entertainment Services			5			69	74			(7)			42	35
Digital Delivery			10			26	36			(26)			5	(20)
EBIT from continuing Operations			**5**			**94**	**99**			**22**			**15**	**38**
of which: Technology			113			103	217			117			199	315
Entertainment Services			(55)			21	(34)			(13)			(49)	(62)
Digital Delivery			6			22	28			(27)			(91)	(118)
Financial result			**(10)**			**(58)**	**(68)**			**212**			**(96)**	**116**
Share of profit/(loss) from associates			(0)			(0)	(0)			(0)			(0)	(0)
Income tax			(37)			2	(35)			(14)			16	2
Profit/(loss) from continuing operations			**(42)**			**38**	**(4)**			**220**			**(65)**	**156**
Loss from discontinued operations			(283)			(55)	(338)			(125)			(100)	(225)
Net result, Group share			**(325)**			**(17)**	**(342)**			**96**			**(165)**	**(69)**
Operating cash flow from continuing operations			**80**			**201**	**281**			**48**			**256**	**304**
Free cash flow			**(240)**			**177**	**(63)**			**(116)**			**16**	**(100)**