technicolor

FIRST HALF 2012 FINANCIAL REPORT
ENDED JUNE 30, 2012

This financial report contains the information related to the half-year ended June 30, 2012 in application of Articles L 451-1-2 III of the French Monetary and Financial Code and of Article 224-4 of the General Regulations of the Autorité des Marchés Financiers (AMF).

technicolor

SUMMARY

I. DECLARATION BY THE PERSON RESPONSIBLE FOR THE HALF-YEARLY FINANCIAL REPORT

I - 1 Person responsible for the half-yearly financial report

Mr. Frédéric Rose, Chief Executive Officer, Technicolor.

I - 2 Attestation

« I certify that, to the best of my knowledge, the financial statements presented in the half-yearly financial report, have been prepared in accordance with the applicable set of accounting standards, and give a true and fair view of the assets and liabilities, financial position and results of the Company and of its consolidated subsidiaries, and that the half-yearly report on the activity, fairly presents an accurate picture of the important events which occurred during the first six months of the fiscal year, their effects on the financial statements and describe the main risks and uncertainties for the remaining six months».

Issy-les-Moulineaux, July 25, 2012

Frédéric Rose
Chief Executive Officer, Technicolor

II. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

II - 1 Overview of the first half 2012 financial results published on July 25, 2012

Through a press release published on July 25, 2012, the Group announced its results for the first half 2012. The Group publishes a profit from continuing operations before tax and net finance income (expense) (EBIT) of €115 million, compared with €12 million for the same period last year. First half 2012 revenues amount to €1,646 million compared with €1,559 million for the first half 2011. Net finance expense totals €116 million (€92 million for the same period last year). Income tax expense amounts to €21 million for the first half 2012, compared with €13 million for the first half 2011. Taking into account all the elements disclosed above, the Group net loss amount to €26 million, compared to a loss of €112 million for the first half of 2011.

Technicolor's continuing revenues and operating results are split into three operating segments, namely Technology, Entertainment Services and Digital Delivery, and the corporate functions and other activities (the "Other" segment).

Following the disposal of the Broadcast Services activity to Ericsson, the Group decided during the first semester of 2012 to reorganize its Digital Delivery operating segment and transferred the Media Services activity, formerly reported as part of Digital Delivery segment, to the Creation Services business within the Entertainment Services segment. In line with IFRS, the 2011 comparative figures have been accordingly restated to allow comparisons over comparable perimeter.

H1 2012 highlights

- Group revenues up 5.6% at current currency compared to H1 2011, and up 0.6% at constant currency. Growth in Technology revenues driven by a strong Q2 2012 and the confirmed recovery of Connected Home fully offset the decline in Entertainment Services revenues;
- Adjusted EBITDA[1] up 18.5% at €198 million, or 12% of revenues, an increase of 1.3 point compared with H1 2011 resulting from a strong performance in Technology, a broadly stable contribution of Entertainment Services and the ongoing turnaround of Connected Home;
- Significant reduction in Group net loss at €(26) million compared to a loss of €(112) million in H1 2011**;**
- Positive Group Free Cash Flow[2] at €2 million, reflecting the control on working capital despite the strong recovery of Connected Home. Net debt at nominal value (non IFRS) amounting to €1,161 million at June 30, 2012.

In € million	Second Quarter			First Half		
	2011	2012	*Change, reported*	2011	2012	*Change, reported*
Group revenues from continuing operations *Change at constant currency (%)*	747	846	*13.3%* *5.9%*	1,559	1,646	*5.6%* *0.6%*
Adjusted EBITDA from continuing operations *As a % of revenues*				167 *10.7%*	198 *12.0%*	*18.5%*
Group's net Income				(112)	(26)	
Group free cash flow				32	2	
Cash position Net debt IFRS Net debt non IFRS				370[3] 957[3] 1,130[3]	305 1,020 1,161	

[1] EBIT from continuing operations excluding other income (expense), and Depreciation & Amortization (including impact of provisions for risks, litigations and warranties).
[2] Free Cash Flow from both continuing operations and discontinued operations
[3] At December 31, 2011

Q2 2012 revenues highlights

Group revenues from continuing operations amounted to €846 million in Q2 2012, up 13.3% at current currency and up 5.9% at constant currency compared to Q2 2011.

- **Technology:** Licensing revenues recorded strong growth of 20.7% at constant currency, reflecting continuing strength of MPEG LA revenues and good performances across its programs, in particular in Digital TV and Set Top Boxes;
- **Entertainment Services:** Revenues were down 13.1% at constant currency and down only 6.1% excluding photochemical film activities which are at end of life. DVD Services reported an improvement compared with the first quarter of 2012 with volume growth in North America and softer volume decrease in Europe. Creation Services recorded another quarter of revenue growth;
- **Digital Delivery:** Confirmed recovery of Connected Home, with revenues up 34.7% at constant currency, reflecting a strong recovery in volumes and product mix. This recovery was also confirmed by additional customer wins for new solutions and services across Americas, EMEA and APAC.

A strengthened financial structure

- The financial structure will be strengthened in the second half of 2012 with the completion of the Broadcast Services disposal on July 2 and the ongoing capital increases that will lead to Vector Capital ("Vector"), through its private equity funds and the Luxembourg company Petalite Investment S.à r.l. ("Petalite"), becoming a significant shareholder of Technicolor.
- The €17.5 million of net proceeds resulting from the disposal of Broadcast Services will be fully applied to debt reduction, as well as 80% of total net proceeds of the two capital increases in accordance with the credit agreements.
- These capital increases, of an amount comprised between €167 million and €191 million, will allow Technicolor to strengthen its balance sheet and enhance its capabilities to implement its "Amplify 2015" strategic roadmap.
- A supplemental note to the *note d'opération* (the "Supplemental Note"), which principally includes the first half 2012 financial statements, is being filed with the *Autorité des Marchés Financiers* ("AMF") with a visa expected on July 26, 2012. In accordance with the law, a withdrawal period for investors who have exercised their rights and subscribed to new shares prior the publication of the Supplemental Note will open from July 27 to July 30, 2012. The Rights issue is open until August 2, 2012 post market opening hours.
- As a result of the settlement and delivery on July 16 of the reserved capital increase to Petalite, Technicolor has already received gross proceeds of €95 million. The Rights Issue that is ongoing will be closed on August 2 with a settlement on August 14 and will generate between €72million and €96million of gross proceeds.
- On a proforma basis, calculated in relation to the debt level at June 30, 2012, net debt at nominal value (non IFRS) would have been comprised between €960 million and €984 million at June 30, 2012 upon completion of the two transactions. Net debt as per consolidated financial statements would have been comprised between €821 million and €844 million at June 30, 2012.

technicolor

Amplify 2015 recent developments

As part of its Amplify 2015 roadmap announced in February 2012, several initiatives have already been identified, with offers being designed for a potential market launch over the next 12 to 18 months. They include:

- M-Go, the innovative platform aiming at helping consumer discover, access and share effortless its media, which entered at the beginning of the summer 2012 in closed beta launch and is planned to be rolled-out mainstream before year-end;
- Innovative services to content creators such as on-set digital capture services successfully launched in the second quarter of 2012 with major project wins with Fox and other studios, digital production workflow management services and value-added content distribution services;
- Roll-out of the Technology licensing model to proactively disseminate content-based innovations around Color and Sound to the consumer electronic industry and digital platforms;
- A new venture set-up with digital advertising entrepreneurs to accelerate the development of advertising and content enrichment services based on Technicolor innovations for “second-screen”.

Confirmation of 2012 objectives

Based on H1 2012 achievements, Technicolor confirms its 2012 objectives:

- Adjusted EBITDA in the range of €475-500 million.
- Positive free cash flow generation despite higher restructuring expenses and investments in growth businesses.
- Operate within the financial covenants of credit agreements.

First half 2012 financial highlights

Summary of consolidated first half 2012 results (unaudited)

Technicolor is presenting, in addition to published results and with the aim of providing a more comparable view of the evolution of its operating performance compared to the first half of 2011, a set of adjusted indicators which exclude the following items as per the statement of operations of our consolidated financial statements:

- Restructuring charges;
- Net impairment charges;
- Other income and expenses (other non-current items).

These adjustments, the reconciliation of which is detailed on page 18, amounted to an impact on Group EBIT from continuing operations of €22 million in the first half of 2012 (€(25) million in the first half of 2011).

In € million	**First Half (ending June 30)**		
	2011	**2012**	*Change, reported*
Group revenues from continuing operations	1,559	1,646	*5.6%*
Change at constant currency (%)		*0.6%*	
Adjusted EBITDA from continuing operations	167	198	*18.5%*
As a % of revenues	10.7%	*12.0%*	*1.3 pt*
Adjusted EBIT from continuing operations	37	93	*151.4%*
As a % of revenues	2.4%	*5.7%*	*+3.3pt*
EBIT from continuing operations	12	115	*103*
Financial result	(92)	(116)	*(24)*
Share of profit/(loss) from associates	(1)	(4)	*(3)*
Income tax	(13)	(21)	*(8)*
Profit/(loss) from continuing operations	(94)	(26)	*68*
Loss from discontinued operations	(18)	0	*18*
Net income	(112)	(26)	*86*
Operating cash flow from continuing operations[4]	62	101	*39*
Group free cash flow	32	2	*(30)*
	Dec. 2011	**June 2012**	*Change, reported*
Net financial debt as per consolidated financial statements	957	1,020	*63*
Net financial debt at nominal value (non IFRS)	1,130	1,161	*31*

[4] Operating cash flow from continuing operations is defined as Adjusted EBITDA minus net capex and restructuring cash out.

Stable revenues and increased operating profitability in H1 2012

- In the first half of 2012, revenues from continuing operations amounted to €1,646 million compared with €1,559 million in the first half of 2011, an increase of 0.6% at constant currency.
- In the first half of 2012, gross margin amounted to €354 million, up 18.3%, and represented 21.5% of revenues, an improvement of 2.3 points year-on-year.
- Adjusted EBITDA from continuing operations amounted to €198 million compared with €167 million in the first half of 2011, a 18.5% increase year-on-year or 1.3 points margin growth.
- These increases resulted from the good level of activity across the three segments and tight cost containment due in particular to the Operational Excellence program that Technicolor implemented in December 2011 to improve its overall competitiveness through increased operational efficiency and a reduction of the cost structure.

Net loss reduced by €86 million in H1 2012

- In the first half of 2012, adjusted EBIT from continuing operations amounted to €93 million compared to €37 million in the first half of 2011, an increase in margin of 3.3 points reflecting the increase in Adjusted EBITDA margin and lower depreciation & amortization expenses.
- EBIT from continuing operations amounted to €115 million in the first half of 2012 compared with €12 million in the first half of 2011. Other impacts amounted to €22 million compared with €(25) million in the first half of 2011, reflecting a €4 million loss related to the deconsolidation of Angers, lower restructuring and impairment charges and a positive curtailment gain of €41 million. This gain resulted from Technicolor's decision to align its retirees life insurance benefits in the US with the practice of other US companies. As a result, future cash out related to the retirement benefit obligations in the US will be reduced.
- In the first half of 2012, the Group's financial result amounted to €(116) million, including net interest charges of €76 million, of which €18 million non-cash charges related to IFRS effective interest rate impact (in accordance with IAS 39-43 the reinstated debt was initially valued at its fair value, resulting in a gain of €229 million as of May 26, 2010 and is subsequently measured at amortized cost using the effective interest rate method).
- Net result amounted to a loss of €26 million in the first half of 2012 compared with a loss of €112 million in the first half of 2011.

Sustained Operating Cash Flow from continuing operations in H1 2012

- Operating cash flow from continuing operations amounted to €101 million in the first half of 2012, an increase of €39 million compared with the first half of 2011, and represented 6.1% of revenues, a year-on-year increase of 2.1 points. In the first half of 2012, cash outflow for net capital expenditures amounted to €74 million, a €10 million year-on-year decrease resulting from a decrease in capacity expansion in Blu-ray™, and with the bulk of the investment in the US sound facility already done. Cash outflow related to restructuring amounted to €23 million, broadly stable year-on-year.

Positive Group Free Cash Flow in H1 2012

- The Group generated positive Free Cash Flow of €2 million in H1 2012 compared with €32 million in H1 2011 which benefited from a strong contribution from working capital due in particular to the drop in the Connected Home business. The Group generated positive Free Cash Flow for the third consecutive semester.
- Main impacts on Group Free Cash Flow are as follows:
  - Free Cash Flow from continuing operations amounted to €5 million, resulting from an improved Adjusted EBITDA, tight control of working capital despite the significant growth reported by Connected Home and a sustained level of restructuring costs;
  - Working capital improved by €13 million in H1 2012;
  - Cash financial charges amounted to €72 million in H1 2012.
  - Other cash charges, mainly related to tax, pensions and discontinued activities, amounted to €40 million in H1 2012.

Cash position and financial debt

- Gross debt at nominal value amounted to €1,466 million on 30 June 2012, a decrease of €34 million compared with 31 December 2011, reflecting:
  - Debt reimbursement for €56 million resulting in particular from a normal scheduled repayment of €22 million and an excess cash flow mandatory prepayment of €25 million;
  - An increase in the debt level due to a negative forex impact of €22 million on the Group's debt denominated in US dollar.
- The Group's cash position amounted to €305 million on 30 June 2012, compared with €370 million at 31 December 2011. The change in cash position resulted from:
  - Positive Group Free Cash Flow of €2 million;
  - Debt reimbursement for €(56) million;
  - Other for €(11) million, including in particular the impact of a joint-venture with Indoor Direct and the acquisition of French assets in Postproduction.
- Net debt at nominal value (non IFRS) amounted to €1,161 million on June 30, 2012, compared to €1,130 million at December 31, 2011;
- Net debt as per consolidated financial statements amounted to €1,020 million on June 30, 2012, compared to €957 million at December 31, 2011.

Financial covenants

On 30 June 2012, the Group met its financial covenants.

Covenant*		**Actual on 30 June 2012**
Interest cover	EBITDA/Financial Interests above 3.35x	4.28x
Leverage	Net debt/EBITDA below 2.70x	1.94x
Capital expenditure		N/A (tested only at year end)

* For the calculation of covenants, the definition of EBITDA as per the credit agreements is the same as the definition of Adjusted EBITDA detailed on page 18, except for some perimeter differences.

Second quarter and first half 2012 segment review

Summary of Group financial indicators by segment (unaudited)

In € million	Q2 2011	Q2 2012	H1 2011	H1 2012
Group revenues*	**747**	**846**	**1,559**	**1,646**
Change as reported (%)		*13.3%*		*5.6%*
Change at constant currency (%)		*5.9%*		*0.6%*
o/w Technology	89	115	219	236
Change as reported (%)		*28.5%*		*7.9%*
Change at constant currency (%)		*19.7%*		*2.9%*
o/w Entertainment Services	379	362	784	757
Change as reported (%)		*(4.6)%*		*(3.4)%*
Change at constant currency (%)		*(13.1)%*		*(9.2)%*
o/w Digital Delivery	277	370	554	653
Change as reported (%)		*33.5%*		*18.0%*
Change at constant currency (%)		*28.0%*		*14.2%*
Adjusted EBITDA*			**167**	**198**
Change as reported (%)				*18.5%*
As % of revenues			*10.7%*	*12.0%*
o/w Technology			163	178
Change as reported (%)				*9.0%*
As % of revenues			*74.6%*	*75.4%*
o/w Entertainment Services			67	67
Change as reported (%)				*0.1%*
As % of revenues			*8.5%*	*8.8%*
o/w Digital Delivery			(18)	(0)
Change as reported (%)				*nm*
As % of revenues			*(3.2)%*	*(0.0)%*
Adjusted EBIT*			**37**	**93**
As % of revenues			*2.4%*	*5.7%*
o/w Technology			156	176
As % of revenues			*71.4%*	*74.4%*
o/w Entertainment Services			(21)	(12)
As % of revenues			*(2.7)%*	*(1.6)%*
o/w Digital Delivery			(50)	(20)
As % of revenues			*(9.0)%*	*(3.1)%*

** Continuing operations.*

Technology

Technology financial indicators

In € million	Q2 2011	Q2 2012	H1 2011	H1 2012
Revenues	89	115	219	236
Change as reported (%)		*28.5%*		*7.9%*
Change at constant currency (%)		*19.7%*		*2.9%*
o/w Licensing revenues	88	114	217	235
Change as reported (%)		*29.6%*		*8.4%*
Change at constant currency (%)		*20.7%*		*3.3%*
Adjusted EBITDA			163	178
Change as reported (%)				*9.0%*
As % of revenues			*74.6%*	*75.4%*
Adjusted EBIT			156	176
As % of revenues			*71.4%*	*74.4%*
EBIT			157	178
As % of revenues			*71.8%*	*75.5%*

In the first half of 2012, Technology revenues totaled €236 million, up 7.9% at current currency and up 2.9% at constant currency compared to the first half of 2011, with Licensing revenues up 8.4% at current currency and 3.3% at constant currency. Adjusted EBITDA margin for the Technology segment increased by 0.8 point year-on-year to 75.4% of revenues, driven by the growth in Licensing business, as well as stable operating costs.

Licensing revenue trends and Research & Innovation ("R&I") milestones in Q2 2012

In the second quarter of 2012, Technology revenues amounted to €115 million, up 28.5% at current currency and up 19.7% at constant currency compared to the second quarter of 2011.

- Licensing revenues increased strongly by 20.7% at constant currency in the second quarter of 2012, reflecting good performances across the different programs, including renewals in Digital TV and Digital SetTop Boxes. MPEG LA revenues were strong in the second quarter of 2012, with Technicolor remaining a key contributor to the pool.
- In the second quarter of 2012, Research & Innovation ("R&I") transferred several innovations to the Group's other businesses. For example, a new postproduction tool was transferred to Technicolor India. Using this tool, artists can pre-visualize in real time lighting and texturing of complex animated sequences that would otherwise require hours of rendering on a dedicated, expensive render farm. Technicolor's technology produces near to final rendering quality at standard playback speed, where competing pre-visualization solutions provide lower rendering quality in order to reach interactivity. Content creators can thus focus on crucial tasks and unleash their creativity, one of the key objectives of Technicolor's 2012-2015 research orientation. This solution has been tested by Technicolor Digital Production's animation studio in India during the authoring of its most recent direct-to-video title.

Other innovations for content creators as well as content distributors were also displayed during the Science and Technology week that took place on June 25- 27 at Technicolor's Headquarter in Issy-les-Moulineaux. 26 technologies were showcased during the Open Days, some of which being in active transfer to the Group's other businesses. Other advanced technologies slated for transfer later in 2012 and early 2013 were demonstrated as well as 'on the horizon' exploratory topics which will drive technology in Technicolor in the years to come. This included Color Sciences, 3D, Restoration and Archiving, Visual Effects (VFX), Synchronization technologies, Content Interactivity, Recommendation and Targeted Profiling, and Smart Home. This event created an opportunity for innovation at Technicolor to openly connect with the Group's customers and partners.

Entertainment Services

Entertainment Services financial indicators

In € million	Q2 2011	Q2 2012	H1 2011	H1 2012
Revenues	379	362	784	757
Change as reported (%)		*(4.6)%*		*(3.4)%*
Change at constant currency (%)		*(13.1)%*		*(9.2)%*
Adjusted EBITDA			67	67
Change as reported (%)				*0.1%*
As % of revenues			*8.5%*	*8.8%*
Adjusted EBIT			(21)	(12)
As % of revenues			*(2.7)%*	*(1.6)%*
EBIT			(39)	(17)
As % of revenues			*(4.9)%*	*(2.3)%*

In the first half of 2012, Entertainment Services revenues totaled €757 million, down 3.4% at current currency and down 9.2% at constant currency compared with the first half of 2011, resulting from the continuing rapid decline of Photochemical Film activities and some weakness in Europe for DVD Services, partially offset by the DVD volume improvement in North America, some growth in Digital Production and strong revenue growth in Postproduction and Media Services. In the first half of 2012, digital services represented 67% of Creation Services and Theatrical Services revenues compared with 53% in 2011.

Entertainment Services Adjusted EBITDA was stable year-on-year and margin improved by 0.3 point compared with the first half of 2011. The improved mix resulting from the increased weight of digital services and further cost savings initiatives in particular in DVD Services compensated the contraction in revenues and the continuing ramp up costs related to the additional postproduction facilities in the US and in France.

- Creation Services posted a year-on-year decrease in margin, due to the delayed release of two movies, which impacted the level of activity of Digital Production, and to the continuing ramp up in the second quarter of 2012 of the Group's new postproduction facilities in the US and in France, which will reach full capacity by the end of the year;
- Theatrical Services margin was up compared with the first half of 2011, reflecting further improvement in the mix between Photochemical Film and Digital Cinema Distribution activities.
- DVD Services margin remained stable, driven by multiple factors, notably the positive impact of ongoing cost savings initiatives and efficiency improvement programs and the sustained volume performance in North America.

Entertainment Services revenue trends in Q2 2012

In the second quarter of 2012, Entertainment Services revenues amounted to €362 million, down 4.6% at current currency and down 13.1% at constant currency compared with the second quarter of 2011, and only down 6.1% at constant currency excluding Photochemical Film activities.

- **Creation Services**

  Creation Services posted strong revenue growth in the second quarter of 2012 compared with the second quarter of 2011, with growing digital revenues in Postproduction and Media Services.

  - Digital Production experienced slight revenue growth in the second quarter of 2012 compared to the second quarter of 2011. Visual Effects ("VFX") for commercials remained strong, without fully offsetting a weaker quarter for feature films. The feature film VFX activity was affected by the delay in two sizeable projects, *World War Z* and *47 Ronin*, with the bulk of the workload being pushed back toward the end of the year. In the second quarter of 2012, VFX teams completed work on *Prometheus* while continuing work on *Superman* and *Life of Pi* and starting to work on *The Lone Ranger*.
  - Postproduction revenues increased significantly in the second quarter of 2012 compared to the second quarter of 2011, as the Group continued to benefit from its investments in both talents and technologies. This activity reported strong growth in the US and in Europe with a positive contribution of the new sound facilities in the US and in France. During the second quarter, the Group successfully launched its on-set digital capture services with major project wins with Fox (The Internship) and other studios. An agreement was also signed with Colorworks (Sony) to deploy the F65 new Sony Camera workflow.
  - Media Services revenues were up in the second quarter of 2012, as Digital Distribution Services benefited from strong growth of the Group's digital solutions for Over-the-Top and Video-on-Demand players, especially in the UK.

- **Theatrical Services**

  Revenues from Theatrical Services decreased in the second quarter of 2012 compared with the second quarter of 2011 mainly due to the drop of 53% in photochemical film footage and to the slowdown in Digital Cinema Distribution. Digital Cinema Distribution reported a decrease in the second quarter of 2012 reflecting the weaker slate of titles released by the Group's Studio clients and increased pricing pressure particularly in Europe, but also in North America. At the end of June 2012, digital screen penetration reached 73% in North America and 62% in Europe. At this level of penetration, the strong growth in revenues generated over the past years by the rapid conversion of the screens is going to slowdown.

DVD Services

In the second quarter of 2012, combined SD-DVD and Blu-ray™ volumes decreased by 2% compared to the second quarter of 2011. This marked improvement over the 9% decrease experienced in the previous quarter resulted in a limited volume decline of 6% in the first half of 2012, notwithstanding an unusually weak release slate from the Group's Studio clients over the period. In the quarter, Technicolor also commenced operations on a new multi-year distribution services agreement with Universal Pictures Home Entertainment for the Canadian territory.

Standard Definition DVD volumes continued to show resiliency, with the European market declining less than in the previous quarter and the North American market experiencing a slight year-on-year increase. Blu-ray™ volumes rebounded from an unusually soft first quarter, with a 17% increase in the second quarter of 2012. Games volumes deteriorated somewhat due to a weaker slate of new release titles compared to the second quarter of 2011.

The second quarter is traditionally the lightest period of the year for major studio and games new releases, and the ongoing stability of volumes in the quarter demonstrates continued consumer appetite for packaged media products.

DVD volumes

In million units	Q2 2011	Q2 2012	H1 2011	H1 2012
Total DVD volumes	**267**	**262**	**593**	**559**
Change (%)		*(2)%*		*(6)%*
o/w SD-DVD (Standard Definition DVD)	223	*221*	498	*470*
Change (%)		*(1)%*		*(6)%*
o/w BD (Blu-ray™)	23	27	51	*54*
Change (%)		*+17%*		*+6%*
o/w Games	13	9	27	*25*
Change (%)		*(27)%*		*(6)%*
o/w Software and Kiosk	8	*5*	17	*10*
Change (%)		*(29)%*		*(41)%*

PRN

PRN experienced a slight year-on-year decline in revenues in the second quarter of 2012, due to lower advertising revenues compared to the second quarter of 2011.

Digital Delivery (Connected Home)

Digital Delivery financial indicators

In € million	Q2 2011	Q2 2012	H1 2011	H1 2012
Revenues	277	370	554	653
Change, as reported (%)		*33.5%*		*18.0%*
Change at constant currency (%)		*28.0%*		*14.2%*
o/w Connected Home revenues	234	330	473	572
Change, as reported (%)		*40.9%*		*21.0%*
Change at constant currency (%)		*34.7%*		*16.8%*
Adjusted EBITDA			(18)	(0)
As % of revenues			*(3.2%)*	*(0.0%)*
Adjusted EBIT			(50)	(20)
As % of revenues			*(9.0)%*	*(3.1)%*
EBIT			(59)	(29)
As % of revenues			*(10.7)%*	*(4.4)%*

In the first half of 2012, revenues were up 18% at current currency and 14.2% at constant currency, driven by strong growth of Connected Home in the second quarter following the stabilization reported in the first quarter. In the first half of 2012, Adjusted EBITDA for the Digital Delivery segment was at breakeven. Connected Home Adjusted EBITDA amounted to €(12) million compared with €(26) million in the first half of 2011. The turnaround plan of Connected Home launched in December 2011 is on track and Connected Home is well positioned to achieve Adjusted EBITDA breakeven in 2012 and to generate a positive Adjusted EBITDA in the second half of 2012.

Connected Home performed extremely well in the first half of 2012 with a top line growth of 16.8% year-on-year at constant currency. In addition, Connected Home had new customer wins for new solutions and services in all regions. Gross margin in the first half of 2012 was up 1.4 point at 11.2%. The impact of the cost saving initiatives was slightly behind expectations (by €4.6 million), due to delays in the restructuring in Europe, which will only be completed in the third quarter of 2012.

Connected Home revenue trends in Q2 2012

In the second quarter of 2012, Digital Delivery revenues amounted to €370 million, up 33.5% at current currency and up 28% at constant currency compared to the second quarter of 2011. This increase was due to the strong recovery reported by Connected Home.

In the second quarter of 2012, Connected Home recorded revenue growth of 34.7% at constant currency with revenues growing in all regions compared with the second quarter of 2011. Volumes were up 31% in the second quarter and 20% in the first half of 2012, reflecting an overall improvement in the product mix since the beginning of the year. With 14.5 million units of Connected Home products delivered in the first half of 2012, volumes have returned to their 2009 level.

The Group reported a strong performance in Latin America and Asia-Pacific as well as a significant improvement of the Europe, Middle-East and Africa region:

- In **North America (NAM),** Connected Home product volumes were down year-on-year, as volumes in the second quarter of 2011 were driven by particularly strong shipments of digital-to-analog adaptors (DTAs). This decline in volumes was more than offset however by an improved product mix. The Group remains confident in its ability to deliver stable revenue year-on-year in North America on a full year basis.
- In **Europe, Middle-East and Africa (EMEA)**, Connected Home was strongly up in the second quarter of 2012, with increased deliveries of Gateways and Modems & Routers. This sharp increase in volumes and larger deliveries of HD PVRs in Cable have been partially offset by the phase-out of some Set Top Box contracts. The Group expects its European operations to continue improving throughout 2012 despite adverse market conditions.
- In **Latin America (LATAM),** volumes reported another quarter of strong growth compared with an already strong second quarter of 2011, with shipments of Set Top Boxes more than doubling year-on-year. This region is set to be Technicolor's largest market over the next few years, backed by strong demand and the move upmarket by the Group's customers. Technicolor expects continuous strong revenue growth over the course of the year.
- In **Asia-Pacific (APAC)**, more than 1 million Connected Home products were delivered over the second quarter of 2012 mainly due to a strong increase in Set Top Boxes. The Asia-Pacific market is now significant, with dynamic growth in the Group's revenues in particular in India. Technicolor expects that revenues will keep on growing strongly in Asia-Pacific in the second half of 2012.

Connected Home product volumes by region

In million units	**Q2 2011**	**Q2 2012**	**H1 2011**	**H1 2012**
Total Connected Home product volumes*	**6.2**	**8.2**	**12.1**	**14.5**
Change (%)		*+31%*		*+20%*
o/w NAM	2.4	*2.0*	4.2	*4.0*
Change (%)		*(17)%*		*(6)%*
o/w EMEA	1.2	1.7	2.8	*3.0*
Change (%)		*+37%*		*+4%*
o/w LATAM	2.1	3.5	3.9	*6.0*
Change (%)		*+70%*		*+56%*
o/w APAC	0.5	*1.0*	1.1	*1.5*
Change (%)		*+83%*		*+34%*

** Including tablets and other connected devices*

Other continuing operations

Adjusted EBITDA for the "Other" segment amounted to €(47) million in the first half of 2012 compared with €(45) million in the first half of 2011.

Thomson Angers SAS

At the end of May 2012, Thomson Angers SAS filed for insolvency ("cessation de paiement") with the Nanterre Commercial Court (France) and has petitioned the Court to open rehabilitation proceedings ("redressement judiciaire") for Thomson Angers SAS, which was approved by the Court on June 1, 2012 for a duration of 6 months. An independent Legal Administrator was named on June 1, 2012. The production workload of Thomson Angers SAS is secured until mid September with Set Top Boxes orders committed by Technicolor expiring at this date. The Group has no further orders in the European region that it could entrust to Thomson Angers SAS. The ongoing rehabilitation proceedings are still ongoing.

Reconciliation of adjusted indicators

Technicolor is presenting, in addition to published results and with the aim to provide a more comparable view of the evolution of its operating performance compared with the first half of 2011, a set of adjusted indicators which exclude the following items as per the statement of operations of our consolidated financial statements:

- Restructuring charges;
- Net impairment charges;
- Other income and expenses (other non-current items).

These adjustments, the reconciliation of which is detailed in the following table, amounted to an impact on the Group EBIT from continuing operations of €22 million in the first half of 2012 (€(25) million in the first half of 2011).

In € million	**H1 2011**	**H1 2012**	***Change***
EBIT from continuing operations	**12**	**115**	***103***
Restructuring charges, net	(10)	(8)	*+2*
Net impairment losses on non-current operating assets	(14)	(8)	*+6*
Other income / (expense)	(1)	38	*+38*
Adjusted EBIT from continuing operations	**37**	**93**	***56***
As a % of revenues	*2.4%*	*5.7%*	*+3.3pts*
Depreciation and amortization (D&A)*	130	105	*(25)*
Adjusted EBITDA from continuing operations	**167**	**198**	***31***
As a % of revenues	*10.7%*	*12.0%*	*+1.3pt*

**Including impact of provisions for risks, litigations and warranties.*

Financial situation, balance sheet variations and indebtness

Total assets of the Group is down by €103 million over the first half compared to December 31, 2011 and is mainly explained by :

- The decrease of trade receivables, inventories and other operating current receivables amounts to €64 million due to the 2012 first half operations and to the seasonality of the Group's operations,
- The decrease in cash and cash collateral amounts to €67 million, explained mainly by a positive operating cash flow of €76 million over the half-year, investing cash flow of €85 million (including €74 million of net capital expenditure) and the reimbursement of financial debt for €56 million,
- The positive impact of foreign currency exchange rates (mainly US dollar and Pound sterling) that generates an increase in total assets of €42 million.

Total liabilities of the Group decreased by €47 million over the first half, mainly explained by the decrease in trade payables and other current operating payables for €27 million (at current rates) due to the 2012 first half operations and to the seasonality of the Group's operations.

The Group's gross financial debt decreased by €2 million compared to December 31, 2011 and amounts to €1,325 million as of June 30, 2012. This decrease is mainly due to:

- The reimbursement of the debt for €56 million (including €47 million linked to the Reinstated Debt),
- An increase in the debt level due to a negative forex impact of €22 million, on the Group's debt denominated in US dollar,
- The IFRS impact of the use of the effective interest rate method for €32 million.

As of June 30, 2012 and December 31, 2011, Broadcast Services is the only business classified as held for sale and presented separately from other assets in the Group consolidated balance sheets. The total amount of assets classified as "Assets classified as held for sale" is equal to €66 million as of June 30, 2012 (corresponding mainly to fixed assets and goodwill for €40 million). The total amount of liabilities classified as "Liabilities directly associated with assets classified as held for sale" is equal to €49 million (mainly operating liabilities for €44 million). Information related to this business are provided in Note 10 in the notes to the interim condensed consolidated financial statements disclosed in part III of this report.

Significant events after June 30, 2012

Information related to significant events after June 30, 2012 are disclosed in Note 27 in the notes to the interim condensed consolidated financial statements disclosed in part III of this report.

II.2. Main risks and uncertainties for 2012 second half

The main risks that could affect the Group over 2012 second half are detailed in :

- The « Risk factors » chapter of the Annual Report 2011 filed with the *Autorité des Marchés Financiers* (AMF) on March 27, 2012 as well as in the Annual Report Updates submitted on June 11, 2012 and July 11, 2012 and available on the company's website www.technicolor.com ;
- And in the Notes 3 and 25 of the notes to the interim condensed consolidated financial statements disclosed in part III of this report.

II.3. Transactions with related parties

The changes related to the identification of the Group's related parties are detailed in Note 26 in the notes to the interim condensed consolidated financial statements disclosed in part III of this report.

Meanwhile, the transactions of the Group with related parties didn't have a significant impact on the financial situation and on the Group's results during the first-half 2012.

III. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2012

Notes to the unaudited interim condensed consolidated financial statements

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(€ in millions)	Note	Six months ended June 30, 2012 Unaudited	Six months ended June 30, 2011 Unaudited
Continuing operations			
Revenues		1,646	1,559
Cost of sales		(1,292)	(1,260)
Gross margin		**354**	**299**
Selling and administrative expenses	*(6)*	(199)	(197)
Research and development expenses	*(7)*	(61)	(65)
Other income (expense)	*(6)*	21	(25)
Profit from continuing operations before tax and net finance income (expense)		**115**	**12**
Interest income	*(8)*	2	4
Interest expense	*(8)*	(78)	(78)
Other financial income (expense)	*(8)*	(40)	(18)
Net finance income (expense)		**(116)**	**(92)**
Share of loss from associates	*(12)*	(4)	(1)
Income tax	*(9)*	(21)	(13)
Profit (loss) from continuing operations		**(26)**	**(94)**
Discontinued operations			
Net loss from discontinued operations	*(10)*	-	(18)
Net income (loss)		**(26)**	**(112)**
Attributable to:			
- Equity Holders		(25)	(112)
- Non-controlling interests		(1)	-

(in euro, except number of shares)	Note	Six months ended June 30, 2012 Unaudited	Six months ended June 30, 2011 Unaudited
Weighted average number of shares outstanding (basic net of treasury stock)		224,773,855	206,807,162
Earnings (loss) per share from continuing operations	*(22)*		
- basic		(0.11)	(0.45)
- diluted		(0.11)	(0.42)
Earnings (loss) per share from discontinued operations			
- basic		-	(0.09)
- diluted		-	(0.08)
Total earnings (loss) per share			
- basic		(0.11)	(0.54)
- diluted		(0.11)	(0.50)

The accompanying notes on pages 27 to 61 are an integral part of these unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(€ in millions)	Note	Six months ended June 30, 2012 Unaudited	Six months ended June 30, 2011 Unaudited
Net income (loss) for the period		(26)	(112)
Actuarial gains and (losses) (1)	(0)	(40)	9
Fair value gains (losses), gross of tax on available-for-sale financial assets :			
- fair value adjustments of the period		1	-
- reclassification adjustments to income on disposal of available-for-sale financial assets		-	-
Fair value losses, gross of tax on cash flow hedges :			
- on cash flow hedges before the hedged transactions affect profit or loss		(1)	(1)
- reclassification adjustments when the hedged forecast transactions affect profit or loss		-	-
Currency translation adjustments of the period			
- currency translation adjustments of the year		8	(38)
- reclassification adjustments on disposal or liquidation of a foreign operation (2)		(4)	-
Total other comprehensive loss (3)		(36)	(30)
Total comprehensive income (loss) for the period (4)		**(62)**	**(142)**
Attributable to:			
- Equity holders of the parent		*(61)*	*(142)*
- Non-controlling interests		*(1)*	*-*

(1) Impact related to held for sale businesses is nil as of June 30, 2012 and June 30, 2011.

(2) Impact related to held for sale businesses is nil as of June 30, 2012 and June 30, 2011.

(3) Tax effect of the other comprehensive gains and losses is nil as of June 30, 2012 and June 30, 2011.

(4) Within the other comprehensive income, only the actuarial gains and losses will never be reclassified to income, except upon disposal. All other elements may, depending on future events, be reclassified to income.

The accompanying notes on pages 27 to 61 are an integral part of these unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(€ in millions)	*Note*	**June 30, 2012 Unaudited**	**December 31, 2011 Audited**
ASSETS			
Non-current assets:			
Property, plant and equipment		386	401
Goodwill	*(11)*	495	481
Other intangible assets	*(11)*	464	459
Investments in associates	*(12)*	20	14
Investments and available-for-sale financial assets		7	7
Derivative financial instruments	*(18)*	-	1
Contract advances and up-front prepaid discount		43	49
Deferred tax assets		399	394
Income tax receivable		19	20
Other non-current assets		68	67
Cash collateral and security deposits	*(13)*	16	14
Total non-current assets		**1,917**	**1,907**
Current assets:			
Inventories		130	118
Trade accounts and notes receivable		491	585
Income tax receivable		33	13
Other current assets		343	325
Cash collateral and security deposits	*(13)*	31	35
Cash and cash equivalents	*(13)*	305	370
Assets classified as held for sale	*(10)*	66	66
Total current assets		**1,399**	**1,512**
Total assets		**3,316**	**3,419**

The accompanying notes on pages 27 to 61 are an integral part of these unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(€ in millions)	*Note*	**June 30, 2012 Unaudited**	**December 31, 2011 Audited**
EQUITY AND LIABILITIES			
Shareholders' equity:	*(14)*		
Common stock *(223,759,083 shares at June 30, 2012 with nominal value of €1 per share)*		224	224
Treasury shares		(156)	(156)
Additional paid-in capital		857	857
Subordinated perpetual notes		500	500
Notes redeemable in shares		13	13
Other reserves		24	60
Retained earnings (accumulated deficit)		(1,147)	(1,122)
Cumulative translation adjustment		(221)	(225)
Shareholders' equity		**94**	**151**
Non-controlling interests		5	4
Total equity		**99**	**155**
Non-current liabilities:			
Borrowings	*(17)*	1,093	1,242
Retirement benefits obligations	*(0)*	340	349
Restructuring provisions	*(0)*	-	2
Other provisions	*(0)*	83	83
Deferred tax liabilities		174	167
Other non-current liabilities		88	97
Total non-current liabilities		**1,778**	**1,940**
Current liabilities :			
Borrowings	*(17)*	232	85
Derivative financial instruments	*(16)*	1	1
Retirement benefits obligations	*(0)*	34	37
Restructuring provisions	*(0)*	63	79
Other provisions	*(0)*	63	58
Trade accounts and notes payable		467	499
Accrued employee expenses		133	138
Income tax payable		26	14
Other current liabilities		371	361
Liabilities classified as held for sale	*(10)*	49	52
Total current liabilities		**1,439**	**1,324**
Total liabilities		**3,217**	**3,264**
Total equity and liabilities		**3,316**	**3,419**

The accompanying notes on pages 27 to 61 are an integral part of these unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(€ in millions)	Note	Six months ended June 30, 2012 Unaudited	Six months ended June 30, 2011 Unaudited
Net income (loss)		**(26)**	**(112)**
Loss from discontinued operations		**-**	**(18)**
Profit (loss) from continuing operations		**(26)**	**(94)**
Summary adjustments to reconcile profit (loss) from continuing operations to cash generated from continuing operations			
Depreciation and amortization		104	121
Impairment of assets (net)		8	14
Net changes in provisions		(66)	(20)
(Profit) / loss on asset disposals		3	(2)
Interest (income) and expense		76	74
Other non cash items (including tax)		39	24
Changes in working capital and other assets and liabilities		22	65
Cash generated from continuing operations		**160**	**182**
Interest paid		(61)	(62)
Interest received		1	3
Income tax (paid) / received		(21)	4
Net operating cash generated from continuing activities		**79**	**127**
Net operating cash used in discontinued operations	*(10)*	(3)	(12)
Net cash from operating activities (I)		**76**	**115**
Acquisition of subsidiaries, associates and investments, net of cash acquired	*(23)*	(9)	(5)
Net cash impact from sale of investments		(2)	(2)
Purchases of property, plant and equipment (PPE)		(39)	(59)
Proceeds from sale of PPE and intangible assets		1	4
Purchases of intangible assets including capitalization of development costs		(36)	(29)
Cash collateral and security deposits granted to third parties		(4)	(12)
Cash collateral and security deposits reimbursed by third parties		8	20
Loans (granted to) / reimbursed by third parties		-	(2)
Net investing cash used in continuing activities		**(81)**	**(85)**
Net investing cash used in discontinued operations	*(10)*	(4)	(1)
Net cash used in investing activities (II)		**(85)**	**(86)**
Proceeds from borrowings		1	1
Repayments of borrowings	*(17)*	(56)	(11)
Fees paid linked to the debt and capital restructuring	*(23)*	(1)	(2)
Net financing cash used in continuing activities		**(56)**	**(12)**
Net financing cash used in discontinued operations	*(10)*	-	(1)
Net cash used in financing activities (III)		**(56)**	**(13)**
Net (decrease) / increase in cash and cash equivalents (I+II+III)		**(65)**	**16**
Cash and cash equivalents at beginning of period		**370**	**332**
Exchange losses on cash and cash equivalents		-	(22)
Cash and cash equivalents at end of period		**305**	**326** (*)

(*) Including €12 million of cash classified within "assets held for sale".

The accompanying notes on pages 27 to 61 are an integral part of these unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Group									Non-controlling interest	Total equity (deficit)
(€ in millions)	Share capital	Treasury shares	Additional paid-in capital	NRS	Perpetual Notes	Other reserves	Retained earnings	Cumulative translation adjustment	**Total Group equity (deficit)**		
Balance at December 31, 2010	**175**	**(156)**	**641**	**278**	**500**	**87**	**(791)**	**(231)**	**503**	**2**	**505**
Variation for the period ended June 30, 2011											
Total other comprehensive income (*)	-	-	-	-	-	*8*	-	*(38)*	*(30)*	-	*(30)*
Net income (loss) for the period	-	-	-	-	-	-	*(112)*	-	*(112)*	-	*(112)*
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	***8***	***(112)***	***(38)***	***(142)***	**-**	***(142)***
Tax impacts on equity	-	-	-	3	-	-	-	-	3	-	3
Share-based payment to employees	-	-	-	-	-	1	-	-	1	-	1
Balance at June 30, 2011	**175**	**(156)**	**641**	**281**	**500**	**96**	**(903)**	**(269)**	**365**	**2**	**367**
Variation for the semester ended December 31, 2011											
Total other comprehensive gain (*)	-	-	-	-	-	*(36)*	-	*44*	*8*	-	*8*
Net income (loss)for the period	-	-	-	-	-	-	*(211)*	-	*(211)*	*(1)*	*(212)*
Total comprehensive income for the period	-	-	-	-	**-**	***(36)***	***(211)***	***44***	***(203)***	***(1)***	***(204)***
NRS converted into equity	*49*	-	*210*	*(259)*	-	-	-	-	-	-	-
Tax impacts on debt restructuring	-	-	*6*	*(6)*	-	-	-	-	-	-	-
Other tax impacts on equity	-	-	-	*(3)*	-	-	*(8)*	-	*(11)*	-	*(11)*
Capital increase of non-controlling interests	-	-	-	-	-	-	-	-	-	*3*	*3*
Balance at December 31, 2011	**224**	**(156)**	**857**	**13**	**500**	**60**	**(1,122)**	**(225)**	**151**	**4**	**155**
Variation for the period ended June 30, 2012											
Total other comprehensive income (*)	-	-	-	-	-	*(40)*	-	*4*	*(36)*	-	*(36)*
Net income (loss) for the period	-	-	-	-	-	-	*(25)*	-	*(25)*	*(1)*	*(26)*
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	***(40)***	***(25)***	***4***	***(61)***	***(1)***	***(62)***
Share-based payment to employees	-	-	-	-	-	*4*	-	-	*4*	-	*4*
Capital increase of non-controlling interests	-	-	-	-	-	-	-	-	-	*2*	*2*
Balance at June 30, 2012	**224**	**(156)**	**857**	**13**	**500**	**24**	**(1,147)**	**(221)**	**94**	**5**	**99**

(*) Refer to details in the “interim consolidated statements of comprehensive income”.

The accompanying notes on pages 27 to 61 are an integral part of these unaudited interim condensed consolidated financial statements.

1 General information

1.1 General information

Technicolor provides a wide range of video technologies, systems, finished products and services to the Media & Entertainment ("M&E") industry. Since the second quarter of 2010, Technicolor's activities are organized into three operating segments, namely Technology, Entertainment Services and Digital Delivery. All other activities and corporate functions (unallocated) are presented within the "Other" segment.

In these interim condensed consolidated financial statements, the terms "Technicolor group", "the Group" and "Technicolor" mean Technicolor SA together with its consolidated subsidiaries. Technicolor SA or the "Company" refers to the Technicolor group parent company.

Technicolor's revenues and EBITDA have historically tended to be higher in the second half of the year than in the first half, with customers' activity being greater in the second half, especially for Entertainment Services.

The interim condensed consolidated financial statements were approved by the Board of Directors of Technicolor SA and authorized for issuance on July 24, 2012.

1.2 Main events of the period

- **Investment from Vector in Technicolor capital**

On June 20, 2012, Technicolor's shareholders approved by a large majority the resolutions relating to the transaction proposed by Vector Capital Corporation ("Vector") in its offer dated May 25 and amended on June 13. The transaction, agreed by the General Shareholders' Meeting of shareholders, will take place in July and August 2012. These future capital increases have not been taken into account in the Group's interim consolidated financial statements, except for the impact of the change in the expected contractual cash flows of our debt (due to the effective interest rate method) that generate a non-cash financial charge of €13 million (totalling €15 million with the impact resulting from the disposal of Broadcast business - see note 8). The transaction is detailed in note 27 related to subsequent events.

- **Disposal of Broadcast business**

On March 13, 2012, Technicolor announced that it had received a binding offer from Ericsson, the world leader in communication technologies and services, for the acquisition of its Broadcast Services activity. The offer includes a purchase price of €19 million and a potential earn-out based on 2015 revenues of the Broadcast Services activity of up to €9 million. The transaction has been closed on July 2, 2012.

The assets and liabilities related to the Broadcast Services activity had been classified as held for sale as of December 31, 2011 in the balance sheet of Technicolor, in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" and are still presented in this category as of June 30, 2012.

Following the disposal of the Broadcast Services activity, the Group decided during the first semester of 2012 to reorganize its Digital Delivery operating segment and transferred the Media Services activity, formerly reported as part of Digital Delivery segment, to the Creation Services business within the Entertainment Services segment.

- **Thomson Angers « règlement judiciaire » and deconsolidation**

At the end of May 2012, Thomson Angers SAS filed for insolvency ("cessation de paiement") with the Nanterre Commercial Court (France) and has petitioned the Court to open rehabilitation proceedings ("redressement judiciaire") for Thomson Angers SAS, which was approved by the Court on June 1, 2012 for a duration of 6 months.

An independent Legal Administrator was named on June 1, 2012. As a consequence, Technicolor lost the control of Thomson Angers at this date and stopped the consolidation of this entity from June 1, 2012. In June 2012 Technicolor paid to Thomson Angers €2 million in order to finance the activity during the observation period, which may take up to 6 months, and undertook some other commitments for €1 million. These amounts were recognized in "Other income (expense)" caption of our consolidated statements of operations.

2 Summary of significant accounting policies

2.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared on the basis of the Group continuing to operate as a going concern (see Note 3.1 for more detailed information) and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) as of July 24, 2012, which include IAS 34 "Interim Financial Reporting".

The standards approved by the EU are available on the following web site: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

These interim condensed consolidated financial statements should be read in conjunction with the 2011 annual IFRS consolidated financial statements.

The accounting policies applied by the Group are consistent with those followed in the preparation of the Group's annual IFRS Consolidated Financial Statements for the year ended December 31, 2011 and described in Note 2 to the 2011 annual consolidated financial statements, which are an integral part of the 2011 Group's Annual Report, except for the following standards, amendments and interpretations which have been applied for the first time and for the change in accounting method for joint ventures detailed below.

2.2 Standards, amendments and interpretations effective as of January 1, 2012 and applied as of January 1, 2012

New standard or interpretation	Main provisions	Main impacts on the 2012 interim condensed consolidated financial statements
IFRS 1, Severe Hyperinflation and removal of Fixed Dates for first time adoption (amendment)	This amendment provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.	The application of this amendment since January 1, 2012 had no material impact on the Group interim condensed consolidated financial statements.
IFRS 7, Disclosure – transfers of Financial Assets (amendments)	These amendments allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain within the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.	The application of this revised standard since January 1, 2012 leads the Group to add some disclosure about transfer of financial assets in the Group interim condensed consolidated financial statements.
IAS 12, Deferred tax - Recovery of Underlying Assets (amendment)	This amendment applies when an asset is measured using the fair value model in IAS 40 Investment Property.	The application of this revised standard since January 1, 2012 had no impact on the Group interim condensed consolidated financial statements

2.3 Change in the accounting method for joint ventures starting January 1, 2012

IAS 31 "Interest in Joint Ventures" allows to account joint ventures either through the proportional method or through the equity method. Until 2011, Technicolor applied the proportional method for its joint ventures.

In view of the future IFRS 11 "Joint Arrangements" applicable on endorsement of the European Union that will remove this option and require to account for joint ventures under the equity method, Technicolor has decided to apply starting January 1, 2012 the equity method for the Group's joint ventures instead of the proportional method applied until 2011. The impact of this change in accounting method is not material on Technicolor's consolidated financial statements and accordingly the comparative information for the period ended June 30, 2011 and the year ended 2011 presented has not been restated. See note 12 for detailed information on joint-ventures.

2.4 Standards, amendments and interpretations that are not yet effective and have not been early adopted by Technicolor

New standard and interpretation	Effective Date (*)	Main provisions
IFRS 10, Consolidated Financial Statements	Annual periods beginning on or after January 1, 2013.	IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, Consolidation - Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements.
IFRS 11, Joint Arrangements	Annual periods beginning on or after January 1, 2013.	IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Following the change in accounting method for joint ventures detailed in note 2.3 above, the Group does not anticipate a significant impact of the application of this new standard based on its existing joint venture portfolio as of June 30, 2012.
IFRS 12, Disclosure of Interests in Other Entities	Annual periods beginning on or after January 1, 2013.	IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.
IFRS 13, Fair value measurement	Annual periods beginning on or after January 1, 2013	IFRS 13 sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements.
IAS 1, Presentation of Financial Statements (amendments)	Annual periods beginning on or after July 1, 2012.	The amendments to IAS 1 only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be 'recycled' (e.g. cash-flow hedging, foreign currency translation), and those elements that will not.
IAS 19, Employee Benefits (amendments)	Annual periods beginning on or after January 1, 2013	These amendments include the main following items: • Require recognition of changes in the net defined benefit liability (asset) in other comprehensive income (end of the corridor approach). This method, which was an option under IAS 19, is already applied by the Group; • Require alignment of the discount rate used for defined benefit obligation and the rate used for expected return on plan assets; • Introduce enhanced disclosures about defined benefit plans; • Modify accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
IAS 28, Investments in Associates and Joint Ventures (amendments)	Annual periods beginning on or after January 1, 2013	This Standard supersedes IAS 28 Investments in Associates. It prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	Annual periods beginning on or after 1 January 2013	IFRIC 20 considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.
IFRS 9, Financial Instruments – Classification and Measurement	Annual periods beginning on or after January 1, 2015	IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.
Improvements to IFRS (May 2012)	Annual periods beginning on or after 1 January 2013	The IASB issued a collection of amendments to five International Financial Reporting Standards as part of its program of annual improvements to its standards.

(*) The effective dates mentioned in the table above are the dates as defined by the IASB. They may be modified when the standards and interpretations are adopted by the European Union.

The impacts of the above standards, amendments and interpretations and of current IFRS and IFRIC projects are not anticipated in these financial statements and cannot be reasonably estimated at this time.

2.5 Functional and presentation currency

These interim condensed consolidated financial statements are presented in euro. All financial information presented in euro has been rounded to the nearest million, unless otherwise stated.

2.6 Basis of measurement

These interim condensed consolidated financial statements have been prepared using the historical cost convention with some exceptions regarding various assets and liabilities, for which specific provisions recommended by the IFRS have been applied, such as available-for-sale financial assets at fair value, derivative financial instruments and financial assets at fair value through profit and loss, and initial recognition of financial assets or liabilities at fair value.

2.7 Use of estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period of the interim condensed consolidated financial statements.

Management regularly reviews its valuations and estimates based on its past experience and various other factors considered reasonable and relevant for the determination of the fair estimates of the assets and liabilities' carrying value and of the revenues and expenses. The actual results could significantly differ from these estimates depending on different conditions and assumptions. The critical accounting assumptions and estimates made by the Group are detailed in note 3.

2.8 Translation of foreign currency transactions

The main exchange rates used for translation (one unit of each foreign currency converted to euros) are summarized in the following table:

	Closing rate		Average Rate	
	June 2012	December 2011	June 2012	June 2011
US dollar (USD)	0.79390	0.77259	0.76780	0.70374
Pound sterling (GBP)	1.23900	1.19303	1.21350	1.14120
Canadian dollar (CAD)	0.77357	0.75763	0.76289	0.72263

The average rate is determined by taking the average of the month-end closing rates for the year, unless such method results in a material distortion.

2.9 Consolidation method for joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Investments in joint ventures are consolidated under the equity method since January 1, 2012 (cf note 2.3 above).

3 Critical accounting estimates and judgments

Certain of Technicolor's accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from these estimates, while different assumptions or conditions may yield different results. Technicolor's management believes the following to be the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements under IFRS.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key assumptions retained were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011 except for the main following estimates that have been reassessed as of June 30, 2012.

3.1 Going concern

The interim condensed consolidated financial statements as of June 30, 2012 were approved by the Board of Directors on July 24, 2012 on a going concern basis.

The Board of Directors considered the Group's cash flow projections as of June 30, 2012 which support the operating performance and sensitivities and believes that the Group can meet its expected cash requirements and address potential financial consequences of ongoing litigation, until at least June 30, 2013.

Having considered the above, the Board of Directors determined that it was appropriate for these interim condensed consolidated financial statements to be prepared on a going concern basis.

3.2 Tangible and intangible assets with finite useful lives

The Group records intangible assets with finite useful lives (mainly customer relationships, software, development projects and certain rights on intellectual property acquired) under "Other intangible assets" and tangible assets under "Property, plant and equipment" ("PPE"). Significant estimates and assumptions are required to determine (i) the expected useful lives of these assets for purposes of their depreciation and (ii) whether there is an impairment of their value requiring a write-down of their carrying amount. Estimates that are used to determine the expected useful lives of PPE and intangible assets are defined in the Group's accounting policies manual and are consistently applied throughout the Group.

For the period ended June 30, 2012, the Group recognized depreciation expense amounting to €50 million related to PPE and amortization expense of €36 million for intangible assets with finite useful lives. As of June 30, 2012, the net carrying amount of PPE and intangible assets with finite useful lives amounted to €386 million and €246 million, respectively (excluding PPE and intangible assets classified as held for sale).

In order to ensure that its assets are carried at no more than their recoverable amount, Technicolor evaluates at each reporting date certain indicators that would result, if applicable, in the calculation of an impairment test in accordance with the accounting policy stated in Note 2 of the 2011 consolidated financial statements. The recoverable amount of an asset or group of assets may require the Group to use estimates, to assess the future cash flows expected to arise from the asset or group of assets and a suitable discount rate in order to calculate present value. Any negative change in relation to the operating performance or the expected future cash flows of individual assets or group of assets will change the expected recoverable amount of these assets or groups of assets and therefore may require a write-down of their carrying amount.

As of June 30, 2012, the Group reviewed its triggering indicators and determined that some amortizable assets and cash generating units may have lost value.

Consequently, the Group recognized an impairment of €2 million related to intangible assets (see Notes 6 and 11). These amounts do not include impairment related to assets classified as held for sale.

3.3 Impairment tests of goodwill and intangible assets with indefinite useful lives

The Group reviews annually goodwill and other indefinite-lived intangible assets for impairment in accordance with the accounting policy stated in Note 2 of the 2011 consolidated financial statements. Such review requires management to make material judgments and estimates when performing impairment tests.

Technicolor's management believes its policies relating to such impairment testing are critical accounting policies involving critical accounting estimates because determining the recoverable amount of cash-generating units requires (1) determining the appropriate discount rate to be used to discount future expected cash flow of the cash-generating unit and (2) estimating the value of the operating cash flows including their terminal value, the growth rate of the revenues generated by the assets tested for impairment, the operating margin rates of underlying assets for related future periods and the royalty rates for trademarks. These assumptions used by the Group for the determination of the recoverable amount are described in Note 13 of the 2011 consolidated financial statements.

In addition to the annual review for impairment, Technicolor evaluates at each reporting date certain indicators that would result, if applicable, in the calculation of an additional impairment test in accordance with the accounting policy stated in Note 2 of the 2011 consolidated financial statements.

As of June 30, 2012, the net book value of goodwill and other intangibles amounts to €495 million (excluding goodwill classified as held for sale) and €218 million, respectively.

3.4 Deferred tax

Management judgment is required to determine the Group's deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized in accordance with the accounting policy stated in Note 2 of the 2011 consolidated financial statements. When a specific subsidiary has a history of recent losses, future positive taxable income is assumed improbable, unless the asset recognition can be supported for reasons such as (1) the losses having resulted from exceptional circumstances which are not expected to re-occur in the near future, and/or (2) the expectation of exceptional gains or (3) future income to be derived from long-term revenue. The Group considered tax-planning in assessing whether deferred tax assets should be recognized.

As of June 30, 2012, the Group‘s deferred tax liabilities and deferred tax assets amount to respectively, €174 million and €399 million reflecting management's estimates of their recoverable amount.

3.5 Provisions and litigation

Technicolor's management is required to make judgments about provisions and contingencies, including the probability of pending and potential future litigation outcomes that, by their nature, are dependent on future events that are inherently uncertain. In making its determinations of likely outcomes of litigation and tax matters, management considers the opinion of inside and outside counsel knowledgeable about each matter, as well as developments in case law. See Note 25 for a description of the Group's significant legal proceedings and contingencies.

4 Significant changes in the scope of consolidation since December 31, 2011

(a) Main business acquisitions

Following the January 20, 2012 and February 3, 2012 rulings by the Tribunal de Commerce in Nanterre, France, Technicolor acquired postproduction activities, certain operating assets and took over 54 employees from the Quinta Industries group, especially from ADJ (Les Auditoriums de Joinville), SIS (Société Industrielle de Sonorisation), Scanlab and Duboi.

The impacts of these transactions are detailed below:

(€ in millions)	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
Net assets acquired			
Property, plant and equipment	2	-	2
Retirement obligation and other liabilities	-	1	1
Total net assets acquired	**2**	**1**	**1**
Total purchase consideration paid			**2**
Goodwill (provisional amount as of June 30, 2012)			**1**

The goodwill is mainly attributable to the anticipated future synergies and to the skills of the people transferred within the Group.

The contribution to revenues and operating profit of the Group of the acquired business for the period from its acquisition date to June 30, 2012 is not significant.

(b) Other main changes in the scope of consolidation

At the end of May 2012, Thomson Angers SAS filed for insolvency ("cessation de paiement") with the Nanterre Commercial Court (France) and has petitioned the Court to open rehabilitation proceedings ("redressement judiciaire") for Thomson Angers SAS, which was approved by the Court on June 1, 2012 for a duration of 6 months.

An independent Legal Administrator was named on June 1, 2012. As a consequence, Technicolor lost the control of Thomson Angers at this date and stopped the consolidation of this entity from June 1, 2012. The consolidated value of Thomson Angers at May 31, 2012 is €(14) million. The current account with Technicolor SA is equal to €(15.4) millions and will not be reimbursed to the Group in case of liquidation or disposal. The P&L impact of this deconsolidation is a €(1.4) million loss recognized in "Other income (expense)" caption.

On top of the loss mentioned above, in June, 2012 Technicolor paid to Thomson Angers €2 million in order to finance the activity during the period of observation , which may take up to 6 months, and undertook some other commitments for €1 million. These amounts were booked in "Other income (expense)" caption of the interim condensed consolidated statements of operations.

5 Information by segments

The Group's Executive Committee (considered as the Chief Operating Decision Maker in the meaning of the standard) makes its operating decisions and assesses performances on the basis of three types of activities. These are therefore the reportable operating segments under IFRS 8: Technology, Entertainment Services and Digital Delivery. All the remaining activities (including unallocated Corporate functions) are grouped in a segment "Other" as a reconciling item.

- **Technology:**

  Technology segment is organized around the following businesses:
  - Research & Innovation;
  - Licensing;
  - MediaNavi.

- **Digital Delivery**:

  Digital Delivery develops and supplies hardware and software technologies to the Telecom and Media & Entertainment industries. Its areas of expertise include access and delivery platforms, as well as content preparation and management services, enabling its customers to deliver an improved end-user entertainment experience.
  Following the disposal of the Broadcast Services activity to Ericsson completed on July 2, 2012, the Group decided in H1, 2012 to reorganize its Digital Delivery operating segments and transferred the Media Services activity, formerly reported as part of Digital Delivery segment, to the Creation Services business within the Entertainment Services segment.
  The Digital Delivery segment now includes:
  - Connected Home business and,
  - Broadcast Services activity, which will be deconsolidated upon completion of the transaction on July 2, 2012 (see note 27 on subsequent events). This activity has been classified as held for sale as of December 31, 2011 and as of June 30, 2012 in the balance sheet of Technicolor and its results are still presented within the Digital Delivery segment in the below tables.

- **Entertainment Services:**

  Entertainment Services develops and offers video-related technologies and services for the Media & Entertainment (M&E) industry. This segment offers services related to content production, preparation, creation and content distribution through both physical media and digital media.

  As mentioned above, Media Services activity is now integrated into the Creation Services business to offer integrated digital workflow and stronger project management between postproduction and content delivery. Consequently, Entertainment Services is organized around the following businesses:
  - Creation Services: Post Production Services, Media and Theatrical Services;
  - DVD Services;
  - Digital Production;
  - PRN (Premier Retail Networks).

The following comments are applicable to the three tables below:

- The Technology segment generates substantially all of its revenue from royalties. Entertainment Services and Digital Delivery generate their revenue from the sale of goods and services;
- The caption “EBITDA adjusted” corresponds to the profit (loss) from continuing operations before tax and net finance income (expense), net of other income/(expense), depreciation and amortization (including impact of provision for risks, litigation and warranties);
- The caption "Profit (loss) from continuing operations before tax and net finance income (expense)" does not include intercompany items;
- The captions "Amortization of customer relationships" and "Other depreciation and amortization" only relate to continuing operations and include amortization of customer advances and upfront prepaid discount (in “other depreciation and amortization”);
- The caption "Other non-cash income (expenses)" includes mainly the net variation of provisions without cash impact;
- The caption "Other segment assets" includes advances to suppliers and to customers and excludes cash and cash equivalents;
- The caption "Total segment assets" includes all operating assets used by a segment and consists principally of receivables, inventories, property, plant and equipment, intangible assets and goodwill, net of depreciation and provisions. Segment assets do not include income tax assets and cash;
- The caption "Unallocated assets" includes mainly financial assets, current accounts with associates and joint ventures, income tax assets, cash and cash equivalents and assets classified as held for sale;
- The caption "Unallocated liabilities" includes mainly financial and income tax liabilities and liabilities classified as held for sale;
- The caption "Capital expenditures" excludes the net change in payables to suppliers of both PPE and intangible assets (amounting to €(6) million and €9 million as of June 30, 2012 and 2011, respectively).
- The caption "Capital employed" is defined as being the aggregate of net both tangible and intangible assets (excluding goodwill), operating working capital and other current assets and liabilities (with the exception of provisions including those related to employee benefits, income tax, payables on acquisition of companies and payables to suppliers of PPE and intangible assets);
- All the statement of operations and balance sheet items disclosed in the tables below have been measured in accordance with IFRS;
- As of June 30, 2012, one external customer within the Entertainment Services segment and one external customer within the Digital Delivery segment represent more than 10% of the Group’s revenue (respectively €196 and €218 million).

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(€ in millions)	Technology	Digital Delivery (*)	Entertainment Services (*)	Other	Consolidation Adjustments	Total
	Six months ended June 30, 2012					
Statement of operations items						
Revenues with external customers	236	653	757	-	-	1,646
Intersegment sales	1	2	1	-	(4)	-
EBITDA adjusted	**178**	**-**	**67**	**(47)**	**-**	**198**
Profit (loss) from continuing operations before tax and net finance income (expense)	**178**	**(29)**	**(17)**	**(17)**	**-**	**115**
Out of which the main non-cash items below:						
Amortization of customer relationships	-	(5)	(7)	-	-	(12)
Other depreciation and amortization	(4)	(12)	(72)	(2)	-	(90)
Other non-cash income (expenses)	(1)	(4)	(9)	33	-	19
Balance sheet items						
Assets						
Operating segment assets	90	419	948	14	-	1,471
Goodwill	-	50	445	-	-	495
Other segment assets	186	97	112	18	-	413
Total segment assets	**276**	**566**	**1,505**	**32**	**-**	**2,379**
Investments in associates	4	2	6	8	-	20
Unallocated assets						917
Total consolidated assets						**3,316**
Liabilities						
Segment liabilities	160	510	509	465	-	1,644
Unallocated liabilities						1,573
Total consolidated liabilities (without equity)						**3,217**
Other information						
Capital expenditures	(8)	(26)	(34)	(1)	-	(69)
Capital employed	137	90	666	(35)	-	858

(*) Following the disposal of the Broadcast Services activity to Ericsson completed on July 2, 2012, the Group decided to reorganize its Digital Delivery operating segments and transferred the Media Services activity, formerly reported as part of Digital Delivery segment, to the Creation Services business within the Entertainment Services segment. Accordingly the information above has been restated and Media Services is now presented within the Entertainment Services segment. As of June 30, 2012, Media Services external revenue and EBITDA amount to respectively €29 million and €(3) million.

(€ in millions)	Technology	Digital Delivery (*)	Entertainment Services (*)	Other	Consolidation Adjustments	Total
	Six months ended June 30, 2011					
Statement of operations items						
Revenues with external customers	219	554	784	2	-	1,559
Intersegment sales	2	5	-	1	(8)	-
EBITDA adjusted	**163**	**(18)**	**67**	**(45)**	**-**	**167**
Profit (loss) from continuing operations before tax and net finance income (expense)	**157**	**(59)**	**(39)**	**(47)**	**-**	**12**
Out of which the main non-cash items below:						
Amortization of customer relationships	-	(8)	(6)	-	-	(14)
Other depreciation and amortization	(4)	(22)	(82)	(2)	-	(110)
Other non-cash income (expenses)	(3)	(13)	(7)	(1)	-	(24)
Balance sheet items						
Assets						
Operating segment assets	72	413	944	18	-	1,447
Goodwill	-	225	375	-	-	600
Other segment assets (1)	145	76	130	17	-	368
Total segment assets	**217**	**714**	**1,449**	**35**	**-**	**2,415**
Investments in associates	2	-	-	8	-	10
Unallocated assets (1)						992
Total consolidated assets						**3,417**
Liabilities						
Segment liabilities	169	434	499	456	-	1,558
Unallocated liabilities						1,492
Total consolidated liabilities (without equity)						**3,050**
Other information						
Capital expenditures	(4)	(26)	(66)	(1)	-	(97)
Capital employed	84	150	651	(41)	-	844

(*) Following the disposal of the Broadcast Services activity to Ericsson completed on July 2, 2012, the Group decided to reorganize its Digital Delivery operating segments and transferred the Media Services activity, formerly reported as part of Digital Delivery segment, to the Creation Services business within the Entertainment Services segment. Accordingly the information above has been restated and Media Services is now presented within the Entertainment Services segment. As of June 30, 2011, Media Services external revenue and EBITDA amounted to respectively €25 million and €(7) million.

(1) Compared to June 2011 interim condensed consolidated financial statements cash has been reclassified from “other segment assets” to “unallocated assets”.

6 Selling and administrative expenses and other income (expense)

(€ in millions)	Six months ended June 30, 2012	Six months ended June 30, 2011
Selling and marketing expenses	(59)	(67)
General and administrative expenses	(140)	(130)
Selling and administrative expenses	**(199)**	**(197)**
Other income (expense) (1)	**21**	**(25)**

(1) The line "Other income (expense)" includes the main following elements:

(a) For 2012:
- Restructuring costs for €8 million (see note 0).
- A curtailment gain linked to the elimination of the US life insurance benefits for retirees (included in the US post-retirement medical plan) for €41 million (see note 0).
- A loss of €4 million related to the deconsolidation of Angers as of May 31, 2012 (see note 4).
- An impairment charge of €2 million linked to development projects capitalized.
- An impairment charge of €6 million related to Broadcast business (see note 10).

(b) For 2011:
- A settlement loss of €6 million with a third party together with €3 million one-off exit costs in the context of the reorganization of our European logistic business within our Entertainment Services segment.
- An impairment charge of €4 million linked to the end of the photochemical film printing operations in Mirabel (Canada)
- An impairment charge of €7 million linked to development projects capitalized.
- Restructuring costs for €10 million (see note 0).

7 Research and development expenses

(€ in millions)	Six months ended June 30, 2012	Six months ended June 30, 2011
Research and development expenses, gross	(92)	(86)
Capitalized development projects	28	19
Amortization of research and development intangible assets	(7)	(9)
Subsidies (1)	10	11
Research and development expenses, net	**(61)**	**(65)**

(1) Include mainly research tax credit granted by the French State.

8 Net finance income (expense)

(€ in millions)	Six months ended June 30, 2012	Six months ended June 30, 2011
Interest income	2	4
Interest expense	(78)	(78)
Interest expense, net (1)	**(76)**	**(74)**
Financial component of pension plan expense	(7)	(7)
Exchange gain (loss)	(8)	2
Acceleration of amortization of the effective interest rate on the debt (2)	(18)	-
Change in fair value on financial instrument (loss) (3)	(1)	(3)
Other (4)	(6)	(10)
Other financial (expense) income, net	**(40)**	**(18)**
Total Net finance income (expense)	**(116)**	**(92)**

(1) In 2012, interest expense includes €17 million (€15 million in 2011) due to the difference between the effective interest rate and the nominal rate of the debt.

(2) The proceeds from the capital increases to occur in July and August 2012 and the disposal of the Broadcast business, completed on July 2, 2012, must be largely used to repay debt (in accordance with the terms of the credit agreements to which the Group is a party – see note 25.3 (g) of the 2011 consolidated financial statements). This early debt repayment will trigger a partial reversal of the IFRS gain resulting from the debt restructuring on May 26, 2010. In accordance with IAS 39 (AG8), the estimates of the future repayments of the debt have been adjusted to the initial effective interest rate and consequently “Other financial expense” includes a €15 million charge due to this change in the repayment schedule. Likewise, the Group prepaid debt in March 2012, based on its 2011 excess cash flow (as defined per the credit agreements), resulting in a loss of €3 million.

(3) In 2011 and 2012 related mainly to a loss from revaluation of interest rate caps.

(4) In 2012 related mainly to bank fees partially offset by the positive foreign exchange impact on the IFRS gain resulting from the debt restructuring on May 26, 2010 (€3 million compared to € (7) million in 2011).

9 Income tax

The income tax expense for the six months ended June 30, 2012 is determined using the year-end 2012 forecasted effective tax rate. This rate is computed on a country-by-country basis.

The income tax charge for the six months ended June 30, 2012 amounted to €21 million (€13 million in the first half of 2011) and is summarized below :

(€ in millions)	Six months ended June 30, 2012	Six months ended June 30, 2011
France	(10)	(8)
Foreign	(11)	(5)
Total Income tax	**(21)**	**(13)**

10 Discontinued operations and assets held for sale

10.1 Results of discontinued operations

For the year 2012, there has been no change in discontinued operations perimeter compared to June 2011. Net discontinued result for the six months ended June 30, 2012 is zero.

(€ in millions)	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**
	Total	**Total**
Revenues	-	32
Cost of sales	-	(23)
Gross Margin	**-**	**9**
Operating expenses and other expenses other than impairment of assets	-	(20)
Loss from operations before tax and finance cost and before impairment	**-**	**(11)**
Net interest expense	-	-
Other financial expense	-	(2)
Income tax	-	-
Loss for the period from discontinued operations before impairment [(1)]	**-**	**(13)**
Loss on impairment of businesses held for sale [(2)]	-	(5)
Loss for the period from discontinued operations	**-**	**(18)**

(1) In 2011, the loss was mainly linked to Grass Valley businesses

(2) In 2011, correspond to an impairment loss to adjust the held for sale businesses at their fair value less costs to sell.

10.2 Net cash used in discontinued operations

(€ in millions)	Six months ended June 30,	
	2012	**2011**
Loss from discontinued operations	**-**	**(18)**
Summary adjustments to reconcile loss from discontinued operations to cash used in discontinued operations		
Depreciation and Amortization	-	1
Impairment of assets	-	5
Net changes in provisions	3	(17)
(Profit) / loss on asset sales	(4)	7
Other non cash items (including tax)	-	1
Changes in working capital and other assets and liabilities	(2)	8
Cash used in discontinued operations	**(3)**	**(13)**
Interest received	-	1
Net operating cash used in discontinued operations (I)	**(3)**	**(12)**
Net cash impact from sale of investments	(4)	(12)
Cash collateral and security deposits granted to third parties	-	(1)
Cash collateral and security deposits reimbursed by third parties	-	12
Net investing cash generated used in discontinued operations (II)	**(4)**	**(1)**
Repayments of borrowings	-	(1)
Net financing cash used in discontinued operations (III)	**-**	**(1)**
Net decrease in cash and cash equivalents (I+II+III)	**(7)**	**(14)**

10.3 Assets and liabilities held for sale

The assets and liabilities attributable to the operations not yet sold as of June 30, 2012 and December 31, 2011 have been classified as held for sale in the Group consolidated balance sheets and presented separately from other assets.

On March 13, 2012, Technicolor announced that it had received a binding offer from Ericsson, the world leader in communication technologies and services, for the acquisition of its Broadcast Services activity. The offer includes a purchase price of €19 million and a potential earn-out based on 2015 revenues of the Broadcast Services activity of up to €6 million, net of price adjustments. The transaction was completed on July 2, 2012 (see note 27 on subsequent events). Accordingly, the Broadcast Services activity was classified as held for sale in the Group consolidated balance sheet as of June 30, 2012.

IFRS 5.15 requires that a disposal group classified as held for sale be measured at the lower of its carrying amount and fair value less costs to sell. Based on the latest information available to the Group regarding the selling price of Broadcast Services and on the non-current assets carrying values of such business as of June 30, 2012, the Group recognized an impairment loss of €6 million.

As of June 30, 2012 and December 31, 2011, Broadcast Services is the only business classified as held for sale.

The major classes of assets and liabilities comprising the businesses classified as held for sale are as follows:

(€ in millions)	June 30, 2012	December 31, 2011
Goodwill and intangible assets	20	20
Intangible assets	2	3
Property, plant and equipment	18	21
Other assets	8	7
Accounts receivable and other receivables	18	15
Total - Assets classified as held for sale	**66**	**66**
Provisions	3	4
Retirement benefit obligations	2	1
Other liabilities	32	34
Trade accounts payable	12	13
Total - Liabilities directly associated with assets classified as held for sale	**49**	**52**

11 Goodwill and other intangible assets

(€ in millions)	Patents and trademarks	Customer relationships	Other intangibles (1)	Total intangible assets	Goodwill
At December 31, 2011					
Cost	608	485	279	1,372	
Accumulated amortization and impairment	(315)	(386)	(212)	(913)	
Net amount	**293**	**99**	**67**	**459**	**481**
2012					
Opening net amount	293	99	67	459	481
Exchange differences	6	2	2	10	12
Additions	-	-	29	29	1
Acquisition of subsidiary	-	-	1	1	1
Amortization charge	(12)	(12)	(12)	(36)	-
Impairment reversal (loss)	3	-	(2)	1	-
Closing net amount	**290**	**89**	**85**	**464**	**495**
At June 30, 2012					
Cost	620	498	313	1,431	
Accumulated amortization and impairment	(330)	(409)	(228)	(967)	
Net amount	**290**	**89**	**85**	**464**	**495**

(1) Includes capitalized development projects, acquired or internally developed software and acquired technologies on a standalone basis or as part of a business combination.

12 Investments in associates and joint ventures

(€ in millions)	As of June 30, 2012
As of December 31, 2011	**14**
Acquisition (1)	6
Share of (loss) / profit before impairment on associates and joint ventures	(4)
Disposal	-
Other equity movements (2)	4
As of June 30, 2012	**20**

(1) Acquisition is mainly linked to an investment in Indoor Direct, owned at 50%.

(2) Impact of the change in consolidation method of joint ventures (cf note 2.3).

Details of investments in associates and joint ventures are summarized below:

(€ in millions)	% Interest June 2012	Group's share of associates' and joint ventures net assets June 2012	Group's share of associates' and joint venture profit (loss) June 2012
SV Holdco, LLC	18.8%	8	(2)
Techfund Capital Europe *(France)*	20%	4	-
Indoor Direct	50%	5	(2)
CITIC	50%	2	-
Others	NA	1	-
Total		**20**	**(4)**

13 Cash, cash equivalents, cash collateral and security deposits

(€ in millions)	June 30, 2012	December 31, 2011
Cash	158	210
Cash equivalents	147	160
Total	**305**	**370**
Of which restricted cash (1)	*43*	*45*
Cash collateral and security deposits (2)	**47**	**49**

(1) Cash held in TCE Television Taiwan with restricted use except to pay local expenses.

(2) Cash to secure credit facilities and other obligations of the Group, out of which the current portion amounts to €31 million as of June 30, 2012. Some cash collaterals for entities in the United States are classified as current because of their short maturity but are renewed automatically for periods of 12 months.

14 Shareholders' equity

14.1 Common stock, additional paid-in capital and notes redeemable in shares (NRS)

The shares and the share capital are unchanged since January 1, 2012.
Following the adoption by the extraordinary shareholders' meeting held on June 20, 2012 of Vector's proposals, the Group will issue new shares in July and August 2012 (see note 27 for details on these transactions).

14.2 Net Equity Hedging Reserve

Gains and losses on hedging instruments accounted for as cash-flow hedges are recognized in other comprehensive income (OCI). At December 31, 2011, a gain of €0.2 million on hedging instruments was recognized in OCI. During the first half of 2012 €6 million in loss was recognized in profit (loss) from continuing operations as the underlying hedged amounts were realized. At June 30, 2012, a loss of €0.4 million on hedging instruments was recognized in OCI.

14.3 Breach of minimum statutory share capital threshold

Due to the accumulated losses, Technicolor SA's statutory shareholders' equity is negative since December 31, 2008. According to article L225-248 of the French Commercial Code, shareholders were consulted at the annual ordinary and extraordinary shareholders' meeting held on June 16, 2009 and voted against the early dissolution of Technicolor.

Technicolor SA is under a *Sauvegarde* Plan and Article L225-248 of the French Commercial Code (rules for Limited Liability company in case of loss in excess half of the share capital) is not applicable to Technicolor SA until the end of the *Sauvegarde* Plan which will end on February 17, 2017 (article L. 225-248 al.5 of the French Commercial Code).

15 Financial risk management

The Group's financial risk management, and in particular its liquidity risk, has been impacted by the debt restructuring. The deterioration of the Group's financial condition and the subsequent debt negotiations and *Sauvegarde* proceeding considerably increased the liquidity risk of the Group but the closing of the debt restructuring in May 2010 as well as the putting in place of two committed receivables backed credit facilities has, to a certain extent, reduced this risk (see note 25 to the 2011 consolidated financial statements for more detailed information on the Group's borrowing situation and liquidity risk).

The *Sauvegarde* proceeding did not have a direct impact on the Group's outstanding derivatives, however the events described above including the *Sauvegarde* Plan have impacted the Group's management of financial risks because the Group has more limited access to the over-the-counter derivatives markets and is currently only able to execute operations on a short-term, cash collateralized basis.

16 Derivative financial instruments

The fair value of all derivative financial instruments is shown in the table below. The fair value of forward exchange contracts and currency swaps is computed by discounting the difference between the forward contract rate and the market forward rate and multiplying it by the nominal amount. The fair value of caps is determined by independent financial institutions and verified using standard option pricing methods.

The Group's financial derivatives are governed by standard ISDA (International Swaps and Derivatives Association, Inc.) Master Agreements or similar master agreements customary in the French market, which, in each case, contain cross default provisions.

(€ in millions)	**June 30, 2012**		**December 31, 2011**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate caps [(1)]	-	-	1	-
Total non-current	**-**	**-**	**1**	**-**
Forward foreign exchange contracts- cash flow and fair value hedges	-	1	-	1
Total current	-	1	**-**	**1**
Total	**-**	**1**	**1**	**1**

(1) For further information, refer to details in note 18.1

Credit risk on these financial derivative assets arises from the possibility that counterparties may not be able to meet their financial obligations to Technicolor. The mark to market of financial derivative assets being close to zero, the risk is nil.

17 Borrowings

The tables below present information concerning Technicolor's debt at June 30, 2012 compared to December 31, 2011.

17.1 Analysis by nature

(€ in millions)	**June 30, 2012**	**December 31, 2011**
Debt due to financial institutions	1,318	1,319
Bank overdrafts	-	-
Other financial debt	6	7
Accrued interest	1	1
Total	**1,325 [(1)]**	**1,327 [(1)]**
Total non-current	*1,093*	*1,242*
Total current	*232*	*85*

(1) The nominal value is €1,466 million at June 30, 2012 and €1,500 million at December 31, 2011 (see note 25.3 to the 2011 annual consolidated financial statements)

17.2 *Summary of the debt*

Debt as of June 30, 2012 consisted principally of the restructured debt put in place in May 2010 negotiations (the "Reinstated Debt") which includes €778 million of term loans and €524 million of notes as follows:

Currency	Amount *(in € millions)*	Type of rate	Average Nominal rate (1)	Average Effective rate (1)
U.S.$	388	Fixed	9.35%	12.32%
U.S.$	303	Floating (2)	7.71%	12.01%
GBP	19	Fixed	9.55%	12.95%
EUR	117	Fixed	9.00%	11.54%
EUR	475	Floating (2)	7.71%	11.73%
Reinstated debt	**1,302**		**8.31%**	**11.98%**
Others	23	Various	3.90%	3.90%
Total	**1,325**		**8.26%**	**11.84%**

(1) Rates as of June 30, 2012
(2) 3 month Euribor/Libor with a 2% floor and an average margin of 5.71%

17.3 Main features of the Group's borrowings

(a) Maturity

The table below gives the contractual maturity schedule of the Group's debt. The amounts are the nominal amounts and thus differ from the amounts in the balance sheet which for the new Reinstated Debt were initially recognized at fair value then subsequently revalued at amortised cost.

(€ in millions)	**June 30, 2012**	**December 31, 2011**
Less than 1 month	38	10
Between 1 and 3 months	147	22
Between 3 months and less than 1 year	47	53
Total current debt	**232**	**85**
Between 1 and 2 years	98	102
Between 2 and 3 years	105	110
Between 3 and 4 years	112	119
Between 4 and 5 years	918	61
Over 5 years	1	1,023 (1)
Total non-current debt	**1,234**	**1,415**
Total debt	**1,466**	**1,500**
IFRS Adjustment (2)	**(141)**	**(173)**
Balance sheet debt under IFRS	**1,325**	**1,327**

(1) Entire amount due May 26, 2017.
(2) In Technicolor's balance sheet the Reinstated Debt was initially recognized at fair value and then subsequently is measured at amortized cost.

In the third quarter 2012, 80% of the net proceeds from the two capital increases to occur in July and August 2012, as well as the entire net proceeds from the July disposal of the Group's Broadcast activity will be used to reimburse the Groups borrowings in accordance with the agreements governing the Reinstated Debt. See note 27 for more information regarding these capital increases and the Broadcast disposal.

(b) Interest rate characteristics

The table below shows the periods for which the interest rate on the Group's debt is fixed. The amounts shown are the contractual nominal amounts and therefore do not correspond to the amounts in the balance sheet which were initially at fair value then subsequently revalued at amortised cost.

(€ in millions)	Amounts at June 30, 2012 with interest rate fixed for the following periods			
	Floating rate debt (interest fixed for less than 1 year)	**1 year to 5 years**	**Greater than 5 years**	**Total**
Total nominal debt	981 (1)	484	1	**1,466**
IFRS Adjustment (2)				**(141)**
Balance sheet debt under IFRS				**1,325**

(1) Includes €876 million (nominal amount) of floating rate debt that has a 2% floor (before margin); this debt is partially hedged via interest rate caps with a cap rate of 3% (before margin). The combination of the floor and cap creates, for the hedged debt, debt that is at fixed rate when the reference EURIBOR or LIBOR rate is 2% or less, then is at variable rate when the reference rate is above 2% and less than 3% and then again is at fixed rate when the reference rate is 3% or above.
(2) In Technicolor's balance sheet the Reinstated Debt was initially recognized at fair value and then is subsequently measured at amortized cost.

(c) Analysis of borrowing by currency

(€ in millions)	**June 30, 2012**	**December 31, 2011**
Euro	605	611
US Dollar	699	688
Other currencies	21	28
Total debt	**1,325**	**1,327**

(d) Undrawn credit lines

(€ in millions)	**June 30, 2012**	**December 31, 2011**
Undrawn, committed lines	199	197

The Group has two receivables backed committed credit facilities, for a total amount of €199 million of which €100 million matures in 2013 and €99 million in 2016. Neither was drawn at June 30, 2012. The availability of these credit lines varies depending on the amount of receivables.

(e) Financial covenants and other limitations

Covenants

The Credit Agreement and the Note Purchase Agreement governing the reinstated debt contain certain affirmative and financial covenants including covenants that in particular require that (i) EBITDA(*) be not less than a certain multiple of net total interest on a trailing twelve month basis ("interest cover covenant") on June 30 and December 31 of each financial year, (ii) total net debt be not more than a certain multiple of EBITDA on a trailing twelve month basis ("leverage covenant") on June 30 and December 31 of each financial year, and (iii) capital expenditure be not more than a certain amount for each financial year. Each of the interest cover covenant and leverage covenant become stricter over time. The total net debt, the total net interest and the capital expenditures are all calculated on the basis of the entire Group perimeter.

(*) The definition of EBITDA is based on a contractual definition and includes a number of adjustments (cf. note 25.3 (g) to the 2011 consolidated financial statements).

For a comprehensive description of the financial covenants of the Group and other limitations, please refer to note 25.3 (g) to the 2011 consolidated financial statements.

At June 30, 2012, the calculation of these financial covenants was as follows:

Interest cover covenant

For the twelve months ended June 30, 2012, EBITDA must be no less than 3.35 times the net interest for the period.

EBITDA:	€505 million
Net Interest:	€118 million
Ratio EBITDA / Net Interest:	4.28 : 1.00

Since 4.28 is greater than the required minimum level of 3.35, the Group meets this financial covenant as of June 30, 2012.

Leverage covenant

Total net debt of the Group at June 30, 2012 must be no more than 2.70 times the EBITDA for the twelve months ended June 30, 2012. For the calculation of the net debt, the accrued interest is excluded; moreover the debt and cash of the Group in foreign currencies are valued at the average exchange rate over the twelve months ended June 30, 2012.

Net Debt:	€979 million
EBITDA:	€505 million
Ratio Net Debt / EBITDA:	1.94 : 1.00

Since 1.94 is less than the maximum allowed level of 2.70, the Group meets this financial covenant as of June 30, 2012.

Capital Expenditure covenant

Capital expenditure for the Group cannot exceed €220 million for the financial year ending December 31, 2012. No measurement is performed as of June 30, 2012.

Other covenant / limitations

In addition to certain information provision covenants, the Credit Agreement and Note Purchase Agreement include certain negative covenants that restrict the ability of the Company and certain of its subsidiaries, subject in each case to certain exceptions and limitations. For a comprehensive description of the financial covenants of the Group and other limitations, please refer to Note 25.3 (g) to the 2011 consolidated financial statements.

Summary of repayments

The table below summarizes the payments as described above on the Reinstated Debt by type of payment:

(€ in millions)	**As of June 30, 2012**	**As of December 31, 2011**
Start of period (cumulative)	**81**	**30**
Normal scheduled principal repayments	22	32
Payments following 2011 excess cashflow	25	-
Mandatory prepayments from disposals	-	19
End of period (cumulative)	**128**	**81**

As described in Note 27, two capital increases will occur in July and August 2012, for a total amount €167 to 191 million. In addition the Group completed on July 2, 2012 the disposal of its Broadcast activity for €19m.

In accordance with the terms of the Group's credit agreements, 80% of the net proceeds of these capital increases and 100% of the net disposal proceeds must be used to repay the Reinstated Debt. These repayments, without penalty, will take place during the 3rd quarter of 2012. The repayments will reduce debt by €129 to 147 million (€145 to 164 million on a nominal basis) and result in a financial charge of €15 to 17 million representing the partial cancellation of the gain recognized when the Reinstated Debt was determined initially at its fair value in 2010 (€15 million related to this impact have already been booked as of June 30, 2012 – see Note 8) . The savings in interest expense will be €16 to 18 million per year on a full year basis and about €5 million in 2012.

Assuming the minimum amount of the capital increase, on a pro-forma basis, IFRS net debt at June 30, 2012 would be reduced to €844 million (vs. €1,020 million).

(f) Fair value of the Reinstated Debt

In accordance with IAS 39 paragraph 43, the reinstated debt was determined initially at its fair value. The difference between the fair value of the debt and the nominal value was booked as a financial non cash gain of €229 million under the line "Gain on Technicolor's debt extinguishment on May 26, 2010" of the consolidated statement of operations.

Because Technicolor's debt is not listed the fair value was estimated by using data from trading levels of the Group's debt at or around the issue date of May 26, 2010 by certain banks to the extent available and by using trading levels and yields at that time of debt of companies having a similar rating (CCC).

As a result, the fair value of the debt was estimated at €1,364 million at the May 26, 2010 exchange rate. Accordingly, the weighted average effective rate of the new debt (excluding DPN) was determined to be 11.89% and is currently 11.98% following recalculation due to pre-payments and to the fees related to the amendments negotiated in October 2011.

18 Financial instruments and market related exposures

18.1 Interest rate risk

(a) Interest rate operations

In accordance with the Group's policies on financial risk management, the Group enters into interest rate hedging operations.
In April 2010, in anticipation of the finalization of the new reinstated debt, the Group purchased caps. These caps for nominal amounts of $480 million and €270 million protect the Group if 3 month Libor or 3-month EURIBOR respectively goes above 3%. If the reference rate goes above the cap rate the bank counterparty will pay the difference between the market rate and 3% to Technicolor. The caps mature in 2014. See note 16 above.

(b) Effective interest rates at period end

The effective interest rates on the Group's consolidated debt are as follows:

	June 30, 2012	December 31, 2011
Effective Interest rate on borrowings	11.84%	11.78%

18.2 Liquidity risk and management of financing and capital structure

Liquidity risk is the risk of being unable to raise funds in the financial markets necessary to meet upcoming obligations. In order to reduce this risk, the Group pursues policies with the objectives of having continued uninterrupted access to the financial markets at reasonable conditions. These policies are developed based on regular reviews and analysis of its capital structure, including the relative proportion of debt and net worth in the context of market conditions and the Group's financial projections. Among other things these reviews take into account the Group's debt maturity schedule, covenants, projected cash flows and financing needs. To implement these policies, the Group uses various long term and committed financings which may include net worth, debt, subordinated debt and committed credit lines. For further information about the details of the Group's net worth and debt please refer to Notes 14 and 17, respectively.

Technicolor's access to financial markets was significantly impacted by the deterioration of its financial situation, subsequent debt restructuring negotiations, and the *Sauvegarde* proceeding.
The debt restructuring allowed the Group to put in place in April 2010 two 3-year committed receivables backed credit facilities for a total amount of €199 million (converted at the June 30, 2012 exchange rates). In April 2012 one of these credit lines, for an amount of €99 million was extended to 2016.

Nevertheless, due to its overall level of remaining indebtedness and to the restrictions in the Group's new reinstated debt, the Group's access to financial market remains very limited. For more information about the restrictions in the Group's Reinstated Debt see Note 25.3 (g) to the 2011 consolidated financial statements.

19 Retirement benefit obligations

(€ in millions)	**Pension plan benefits**	**Medical post-retirement benefits**	**Total**
Opening provision at January 1, 2012 (1)	**340**	**46**	**386**
Net Periodic Pension Cost	9	1	10
Benefits paid and contributions	(18)	(1)	(19)
Curtailment gain (2)	-	(41)	(41)
Actuarial losses recognized in OCI (3)	37	3	40
Disposal of subsidiary	(4)	-	(4)
Currency translation adjustments and other	2	-	2
Closing provision at June 30, 2012 (4)	**366**	**8**	**374**

(1) Excluding pension reserve of held for sale perimeter (€2 million as of December 31, 2011).

(2) In June 2012 and consistent with many US companies, Technicolor has curtailed and eliminated retirees life insurance benefits in the United States of Americas. These benefits were included in the US post-retirement medical plan. The impact is a curtailment gain of USD 54 million (€41 million at June 30 average rate) booked in the line "Other income (expenses)" of the consolidated statement of operations.

(3) As of June 30, 2012, actuarial losses recognized in the consolidated Statement of Comprehensive Income amount to €40 million, explained by the decrease of the discount rates as of June 30, 2012 compared to December 31, 2011 generating actuarial losses mainly for US and German pension plans.

(4) Out of which current portion amounts to respectively €34 million and €37 million as of June 30, 2012 and December 31, 2011.

20 Provisions for restructuring and other charges

20.1 Restructuring provisions

(€ in millions)	**Restructuring provisions**
Opening provisions at January 1, 2012	**81**
Current period expense (1)	9
Reversal of provision (1)	(1)
Usage during the period (*)	(24)
Currency translation adjustment	1
Other movements (2)	(3)
Closing provisions at June 30, 2012	**63**
Of which current	*63*
Of which non-current	*-*

(*) Out of which €10 million related to the restructuring plans announced in December 2011.

(1) Restructuring expenses, net of reversal have been posted as follows in the interim condensed consolidated statement of operations

(€ in millions)	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**
Profit (loss) from continuing operations		
Termination costs	*(6)*	*(10)*
Impairment of assets (part of a restructuring plan) (2)	*(2)*	*-*
Continuing restructuring expenses	(8)	(10)
Profit (loss) from discontinued operations		
Related to activities discontinued and classified as held for sale (3)	*-*	*-*
Related to activities discontinued but not classified as held for sale	*-*	*2*
Discontinued restructuring expenses	-	2
Total restructuring expenses of the Group	**(8)**	**(8)**

(2) These restructuring costs are reclassified in the condensed consolidated statement of financial position against assets prior to disposals and appeared therefore in the line “other movements” within the restructuring provision variation.

(3) The amounts related to activities discontinued and classified as held for sale are not presented in the variation of restructuring provision above as they are presented within “Liabilities classified as held for sale” in the condensed consolidated statement of financial position.

20.2 Other provisions

(€ in millions)	**Warranty**	**Others (1)**	**Total (2)**
Opening provisions at January 1, 2012	**18**	**123**	**141**
Current period additional provision	3	14	17
Release of provision	(1)	(1)	(2)
Usage during the period	(1)	(9)	(10)
Currency translation adjustments and other	-	-	-
Closing provisions at June 30, 2012	**19**	**127**	**146**

(1) Others include mainly provisions for risk and litigation and for onerous contracts.
(2) Split of total provisions between non-current and current:
- as of June 30, 2012, €83 million classified as non-current and €63 million as current.
- as of December 31, 2011, €83 million classified as non-current and €58 million as current.

21 Share-based compensation plans

21.1 Plans granted by Technicolor

As of June 30, 2012, the number of stocks options and free shares is analyzed as follows:

(In millions of stock options)	Under IFRS 2	Out of IFRS 2 scope	Total
Number of stock options and free shares as of December 31, 2011	3.2	0.2	**3.4**
Forfeited during 2012 first semester	(0.3)	-	**(0.3)**
Total as of June 30, 2012	**2.9**	**0.2**	**3.1**

21.2 Plans granted by MediaNaviCo (cash-settled share–based transactions)

(In millions of options)	Profit interest Options	Value Options
Number of options granted as of December 31, 2011	4.5	3.6
Forfeited during 2012 first semester	-	(1.4)
Granted during 2012 first semester	-	4.1
Number of options granted as of June 30, 2012	**4.5**	**6.3**

21.3 Compensation expenses charged to income

The compensation expenses charged to income for the services received during the period amount to €3 million and €1 million for the six months ended June 30, 2012 and 2011, respectively.

22 Earnings (loss) per share

The calculation of the diluted earnings (loss) per share attributable to the ordinary equity holders of the parent presented is as follows:

	Six months ended June 30, 2012	Six months ended June 30, 2011
Numerator:		
Adjusted profit (loss) from continuing operations attributable to ordinary shareholders *(€ in millions)*	**(25)**	**(94)**
Denominator (*) (weighted shares in thousands)	225,853	225,852
Of which		
NRS IIC (1)	984	18,945
Stock options (2)	95	98

(*) Weighted average number of share for basic earnings is 224,774 thousands shares as of June 30, 2012 and 206,807 thousands shares as of June 30, 2011. For computation of the diluted earnings (loss) per share, weighted number of NRS IIC and stock options are added.

(1) Approximately 984,000 new shares could be issued at the maturity of NRS IIC on December 31, 2012 if not redeemed in cash.

(2) Mainly the stock option plan of 2010 (MIP) has a dilution impact. Due to Technicolor share price during 2011 and 2012 all other stock option plans except free share plans have no dilution impact. Some of these plans could have dilution impact in the future depending on the stock price evolution.

The number of shares was not adjusted retrospectively to take into account the increase in capital realized between June 30, 2012 and July 24, 2012 because the issuance of new shares during this period was not proposed to all existing shareholders but only to Vector (the "Reserved Capital Increase"). As the capital increase that can be subscribed by all shareholders (the "Rights Issue") had not yet occurred when the Board of Directors of Technicolor SA approved the interim consolidated financial statements, no retrospective adjustments to the number of shares was performed as of June 30, 2012 related to this "Rights Issue".

23 Specific operations impacting the interim consolidated statements of cash flows

(a) Cash impact of debt restructuring

(€ in millions)	*notes*	Six months ended June 30, 2012	Six months ended June 30, 2011
Fees paid for debt and capital restructuring (*)		(1)	(2)
Reimbursement of borrowings to bank holders	*17.3(e)*	(47)	(9)
Total cash impact of debt restructuring		**(48)**	**(11)**

(*) The fees paid directly linked to the debt and capital restructuring have been classified as financing cash flows as they relate to the debt and capital restructuring of the Group.

(b) Acquisition of subsidiaries, associates and investments

(€ in millions)	Six months ended June 30, 2012	Six months ended June 30, 2011
Business acquisition from Quinta	(2)	-
Acquisition of 50% interests in Indoor Direct	(6)	-
Other	(1)	(5)
Acquisition of investments	**(9)**	**(5)**
Less: cash position of companies acquired	-	-
Acquisition of investments, net	**(9)**	**(5)**

(c) Disposal of subsidiaries, activities

(€ in millions)	Six months ended June 30, 2012	Six months ended June 30, 2011
Continuing activities		
Deconsolidation of Thomson Angers	(2)	-
Other disposal and cash of companies disposed of	-	(2)
Net cash impact of continuing activities	**(2)**	**(2)**
Disposals of discontinued activities		
Grass Valley activities	(3)	(7)
Other disposal and cash of companies disposed of	(1)	(5)
Net cash impact of discontinued activities	**(4)**	**(12)**

(d) Changes in working capital and other assets and liabilities

Starting in 2011 the French tax authorities reimburse the Research tax credit (CIR) after a three-year period (instead a one year period for previous years' CIR). Technicolor, as it did last year, decided accordingly to sell to a financial institution its CIR for €17 million and €15 million in cash in the first half of 2012 and 2011, respectively.

This sale occurred at the end of June 2012 and led to the derecognition of the €22 million receivable with the following counterpart:

- A cash receipt of €17 million,
- A €3 million receivable towards the financial institution, corresponding to the residual cash to be received when the French tax authorities reimburse the CIR in 2015,
- A €2 million expense over the period.

The Group keeps a residual continuing involvement in the derecognized receivable due to the fiscal risk.

On top of this transaction, the Group enters into factoring agreements during the first half of 2012 for a total amount of €6 million, of which €6 million receivables as of June 30, 2012.

24 Contractual obligations and other commitments

The following table provides information regarding the aggregate maturities of contractual obligations and commercial commitments as of June 30, 2012 for which the Group is either obliged or conditionally obliged to make future cash payments (contractual obligation related to the debt restructuring agreement is detailed in note 25 to our 2011 annual consolidated financial statements). This table includes firm commitments that would result in unconditional or conditional future payments, but excludes all options since the latter are not considered as firm commitments or obligations. When an obligation leading to future payments can be cancelled through a penalty payment, the future payments included in the tables are those that management has determined most likely to occur.

The Group provides certain guarantees to third parties (financial institutions, customers, partners and government agencies) to ensure the fulfilment of contractual obligations by Technicolor and its consolidated subsidiaries in the ordinary course of their business. The guarantees are not shown in the table below as they do not increase the Group’s commitments in relation to the initial commitments undertaken by the entities concerned. Performance guarantees granted contractually, in particular for our Broadcast Services within Digital Delivery segment is not included in this table.

In the normal course of its activity, the Entertainment Services Division may provide guarantees to its customers on the products stored and then distributed against any risk or prejudice that may occur during manufacturing, storage or distribution. Such guarantees provided are covered by insurance and are therefore excluded from the table below. Guarantees provided by entities of the Group for securing debt, capital leases, operating leases or any other obligations or commitments of other entities of the Group are not included as the related obligations are already included in the table below.

Unconditional and conditional future payments		Amount of commitments by maturity			
(€ in millions)	**June 30, 2012**	***Less than 1 year***	***1 – 3 Years***	***3 – 5 years***	***More than 5 years***
Unconditional future payments					
On-balance sheet obligations:					
Financial debt excluding finance leases [(1)]	1,465	231	203	1,030	1
Finance leases [(2)]	1	1	-	-	-
Payables on acquisition and disposal of companies	3	1	2	-	-
Off-balance sheet obligations:					
Operating leases [(3)]	384	83	131	83	87
Purchase obligations [(4)]	175	174	1	-	-
Other unconditional future payments [(5)]	30	21	7	2	-
Total Unconditional future payments (*)	**2,058**	**511**	**344**	**1,115**	**88**
Conditional future payments					
Off-balance sheet obligations:					
Guarantees given [(6)]	92	23	11	-	58
Other conditional future payments [(7)]	7	2	3	2	-
Total Conditional future payments (*)	**99**	**25**	**14**	**2**	**58**

(*) "Total Unconditional future payments" and "Total Conditional future payments" as of December 31, 2011 amounted respectively to €2,022 million and €78 million on continuing operations.

(1) Financial debt is reported here at its nominal value for its principal amount and accrued interest (IFRS value reported in the interim consolidated statement of financial position is €1,325 million see note 17). Future interest expense and the impact of interest rate swaps are not reported in this table. Currency swaps, hedging operations and foreign exchange options are described below in a separate table.

(2) The main finance leases relate to the Digital Delivery segment (mainly in the Netherlands).

(3) Operating leases are described below in this note.

(4) These include in particular commitments to acquire minimum volumes from Asian suppliers for €157 million.

(5) Other unconditional future payments relate in particular to (i) licensing agreements within the Digital Delivery and Entertainment Services segments and (ii) other contractual advances.

(6) These guarantees comprise:

- Guarantees given to lessors for €33 million;
- Guarantees for customs duties and legal court proceedings for €11 million, comprising mainly duty deferment guarantees required by the customs administrations to benefit from customs duty deferments. Imported goods are normally taxed when they enter the territory. In the case of regular import flows, customs may grant an economic regime, under which a cumulated duty payment is made after a determined one-month credit period. The carrying value of this guarantee is to cover the duties to be paid during the credit period;
- Guarantees given to tax offices for €25 million related to ongoing tax litigations;
- Various operational guarantees granted to customs administrations in order to be exempt from duties goods transiting through customs warehouses for re-exportation, and transit guarantees in order that taxes are paid on goods only at their final destination in the import country. The maturity of these bank guarantees match the one-month renewable term of the agreements.

(7) Conditional obligations mainly include contingent earn out payments for €7 million related to past acquisitions.

Additional information:

- Guarantees and commitments received amount to €112 million as of June 30, 2012. This amount is mainly related to the royalties from licensees (patents, trademarks) within the Technology segment.
- The above table is only related to continuing operations including Broadcast activity. “Total Unconditional future payments” and “Total Conditional future payments” as of June 30, 2012 amount respectively to €27 million and zero million on this activity. Contractual obligations and commercial commitments taken by discontinued operations amount to €13 million as of June 30, 2012.

Operating leases

At June 30, 2012, commitments related to future minimum and non-cancellable lease payments are detailed below:

(€ in millions)	**June 30, 2012** (1)
Minimum future lease payments	**389**
Future lease payments commitments received (2)	(5)
Net value of future lease commitments	**384**

(1) Minimum operating lease payments shown are not discounted.
(2) Includes mainly operating lease payments from customers of our Broadcast Services activities within the Digital Delivery segment.

Commitments related to financial instruments

Commitments related to financial instruments held by the Group generate both future cash payments and receipts. Therefore they have not been disclosed in the table above. These commitments related to forward exchange contracts and swaps are disclosed in the following table for their related cash inflow and outflow amounts.

(€ in millions)	**June 30, 2012**
Currency swaps	66
Forward exchange contracts	68
Total commitments given	**134**
Currency swaps	66
Forward exchange contracts	68
Total commitments received	**134**

Guarantees granted by subsidiaries and security interests granted to secure the Reinstated Debt

For a comprehensive description of the guarantees granted by subsidiaries and security interests granted to secure the Reinstated Debt, please refer to Note 34 to the 2011 consolidated financial statements.

Since the end of 2011, no additional subsidiary has granted guarantees to secure the Reinstated Debt.

25 Contingencies

In the normal course of the business, the Group is involved in various legal proceedings and is subject to tax, customs and administrative regulation. The Group's general policy is to accrue a reserve when a risk represents a contingent liability towards a third-party and when the probability of a loss is probable and it can be reasonably estimated.

Only significant pending legal matters that have evolved during the first semester of 2012 are described below. All other litigations described in note 35 of the Group's 2011 consolidated financial statements are still ongoing but did not see any important change since the release of the 2011 Annual Report.

Banco Finantia case

In the course of the Sauvegarde proceeding, the Mandataires Judiciaires in charge of Technicolor's Sauvegarde contested the claim in an amount of €9.9 million of Banco Finantia, a Portuguese bank, due to a declaration outside of the legal time limit. Banco Finantia had acquired such claim from the French branch of Bank of America, which held the claim at the opening of the Sauvegarde proceeding, and which did not declare the claim prior to the transfer to Banco Finantia. Banco Finantia declared its claim on the last day of the 4-month deadline applicable to foreign creditors under Article R. 622-24 of the French Commercial Code. The Company and its Mandataires Judiciaires consider that, as this claim was held by a French creditor on the date the Sauvegarde proceeding was opened (the French branch of Bank of America), it should have been declared within the two-month deadline applicable to French creditors rather than the four-month deadline applicable to foreign creditors.

On February 22, 2011, the Juge-Commissaire rendered a decision in favor of Banco Finantia, holding that Banco Finantia benefited from the four-month deadline for the purposes of filing a claim. The Company has appealed against this decision.

On May 10, 2012, the Versailles Court of Appeals rejected the Company's claims. The Company lodged an appeal with the French Supreme Court (*Cour de cassation*) on June 29, 2012.

Anti-dumping on televisions manufactured by Technicolor's Thailand unit

Customs authorities in eight European countries are assessing imports into the European Union by Technicolor subsidiaries of television manufactured by Technicolor in Thailand. These proceedings relate to different periods according to the different rules in each country, beginning at the earliest in 1997 and ending at the latest in August 2002. In accordance with the relevant procedures, Technicolor received in May 2004, January 2005 and February 2005 various re-assessment notices relating to antidumping duties, excluding interest and any penalties applicable, in the United Kingdom, Germany, France, Italy, Spain, Denmark, Greece and Sweden in an aggregate amount of around €22 million.

On March 24, 2005, the Provincial Tax Court of Milan (Italy) rendered a decision and maintained the assessment. The assessment was again maintained by the Court of Appeal in a judgment rendered in March 2008. Technicolor appealed at the Italian Supreme Court. The Supreme Court hearing took place on February 2, 2012. The Spanish Courts rejected Technicolor's position in July 2005 and in December 2007. The appeal to the Spanish Supreme Court was not accepted because the amount was considered as too small. Therefore Technicolor paid an amount of €0.4 million and waits for the outcome of the European Court of Justice proceeding before starting new legal proceedings in Spain.

The French Customs Authority accepted to submit in August 2005 to the European Commission Technicolor's duty refund claim based on Article 239 of the European Community's Customs Code. In May 2007, the European Commission notified a rejection of this claim, but accepted the good faith of Technicolor. In July 2007, Technicolor filed an appeal at the 1st Instance of the European Court of Justice, which rejected in September 2009 Technicolor's position. In November 2009, Technicolor lodged an appeal at the European Court of Justice which also rejected in June 2010 Technicolor's position. Technicolor continues the legal proceedings at the national courts in France, Germany and the UK. In June 2011, the French court followed Technicolor's request and decided to transfer the case to the European Communities Court of Justice, which answered in April 2012 and sent back the case to the French court.

Technicolor still firmly believes that it has correctly declared and paid duty on the imported televisions concerned, and, accordingly, strongly disputes the grounds of these re-assessments.

Pegasus Development Corporation/Personalized Media Communications, LLC v. Thomson Consumer Electronics, Inc.

In December 2000, Pegasus Development Corporation ("Pegasus") and Personalized Media Communications, L.L.C. ("PMC") filed suit in the US District Court for the District of Delaware against Technicolor USA, Inc. (formerly Thomson Inc.), DIRECTV, Inc., Hughes Electronics Corporation, and Philips Electronics North America Corporation alleging infringement with respect to seven patents relating to digital satellite signal processing.

In May 2003, the US District Court for the District of Delaware stayed the lawsuit pending the re-examination of the patents at issue by the US Patent and Trademark Office ("USPTO"). The USPTO has now confirmed as patentable four claims of three patents asserted against the Company in the Delaware District Court litigation.

At the end of 2011, the Court lifted the Stay and the action is proceeding. Pegasus claims damages in the form of royalties for some or all of the satellite integrated receivers/decoders ("IRD's") the Company has sold. Technicolor is vigorously defending Plaintiff's claims.

Taoyuan County Form RCA Employees' Solicitude Association (the "Association")

In April 2004, the Plaintiff, the Taoyuan County Former RCA Employees' Solicitude Association ("The Association"), which is a non-profit entity composed of former RCA employees (or heirs of former workers) who claim to have worked at the Company's former manufacturing facility in Taoyuan ("Facility") filed a purported class action under Article 44-1 of the Taiwan Code of Civil Procedure in the

Taipei District Court, Taiwan, Republic of China against the Company and General Electric International, Inc. (“GEI”) The Association is alleging they were exposed to various contaminants while living and working at the facility, which allegedly (1) caused them to suffer various diseases, including cancer, or (2) caused them emotional distress from fear that living and working at the facility increased their risk of contracting diseases. The Association claims damages of NTD 2.7 billion (€72 million at the June 30, 2012 closing rate) to compensate the members of the Association for the alleged injury suffered by the former plant employees who worked and lived at the Facility from its inception until its closure in 1992.

In March 2005, the Association’s complaint was dismissed by the Taipei District Court based on the Association’s failure to comply with certain procedural aspects of Taiwan’s class action statutes. Shortly thereafter, the Association appealed the dismissal, which was reversed by the Taiwan Supreme Court. In 2006, the case was remanded to the Taipei District Court for further proceedings as to procedural compliance by the Association. The parties have filed a number of briefs addressing procedural and substantive issues and the court has held several hearings. The Association has also attempted to add Thomson Consumer Electronics (Bermuda), Ltd., Technicolor USA, Inc. (formerly known as Thomson Inc.), Technicolor SA (formerly known as Thomson SA), and General Electric Company (“GE”) as defendants. The Company is vigorously defending the case, and it is unclear how the addition of defendants will impact the progress of the case. It is the Company’s position that GE has indemnity obligations to Technicolor SA and its subsidiaries with respect to certain liabilities resulting from activities that occurred prior to the 1987 agreement with General Electric. GE denies the existence of any such obligations to the Company.

Cathode Ray Tubes (“CRT”) Investigations

On November 28, 2007, Technicolor USA, Inc. (US) (formerly Thomson, Inc.) received a subpoena issued on behalf of the Antitrust Division of the U.S. Department of Justice (“DOJ”) investigating alleged anticompetitive conduct in the Cathode Ray Tubes (“CRT”) industry, including Color Picture Tubes (“CPT”) and Color Display Tubes (“CDT”) businesses.

In addition, class action law suits asserting private antitrust claims were filed in early 2008 in the United States that originally named Thomson and others as defendants, although Thomson/Technicolor was dropped as a named defendant when amended complaints were filed in the spring of 2009.

On January 9, 2008, Thomson/Technicolor received a request under art 18 (2) of Council Regulation n°1/2003 from the European Commission (the “EC”) also relating to the CRT industry. Thomson/Technicolor received three further requests for information from the EC on January 16, 2009, January 19, 2009, and September 15, 2009 respectively.

Thomson/Technicolor sold its CPT business in 2005 and never had activity in the CDT business. The Company has taken measures it considers appropriate to investigate the background to, and respond to, the subpoena and the EC requests.

On November 25, 2009, Thomson/Technicolor received a Statement of Objections (“SO”) from the European Commission. The SO is an intermediate step in the EC’s investigation and, therefore, is not in the nature of a final decision by the EC.

On March 3, 2010, Thomson/Technicolor filed its written response to the “SO”. On May 26 and 27, 2010, Thomson/Technicolor attended an Oral Hearing together with the other parties and the European Commission. Thomson/Technicolor stated that it played a minor role in the alleged anticompetitive conduct. Thomson/Technicolor also informed the European Commission about its financial situation and continues to cooperate closely with the European Commission. The EC should render its decision in 2012, but the Company considers that the timetable for the remainder of this proceeding cannot be accurately determined.

On April 29, 2010 Technicolor’s Brazilian affiliate received notice from the Brazilian Ministry of Justice indicating Brazilian authorities are initiating an investigation of possible cartel activity within the CRT industry in Brazil.

The Board of Directors has conducted a thorough examination of the risk associated with these proceedings and has determined that at this stage there are too many uncertainties to assess the extent of any liability that Technicolor may incur in consequence of these investigations. Given these conditions, the criteria for establishing a reserve are not satisfied.

Multimedia Patent Trust/IPVALUE

MPT first contacted the Company's Grass Valley and other business units in early 2007, asserting that MPT's patents apply to products and services of the Technicolor group. In essence, the assertion is that five US MPT patents (4,958,226; 5,227,878; 5,136,377; 5,500,678 and 5,563,593) have application to any product or service involving MPEG-2 (*), MPEG-4 and/or H.264 video compression. MPT seeks to commence a dialogue (through its licensing affiliate, IPVALUE) regarding a potential license to these video coding patents. The Company has exchanged some communications with MPT seeking further information, but there have been no substantive communications or negotiations.

MPT has asserted a number of its video patents in litigation with Microsoft, Dell and Gateway which has been ongoing since 2002, but which have now been settled. Of the patents listed above, only the '226 was the subject of that litigation. In addition, MPT has brought litigation against other entities, some of whom have settled. MPT has not at this time threatened litigation against the Company. The Company has now also received indemnity demands from DIRECTV, FOX, The Walt Disney Company, NBC Universal, Turner Broadcasting, CBS Interactive and Viacom in connection with claims MPT has brought against these entities in the Southern District of California based on these same patents. The indemnity demands are under consideration. MPT has now claimed that The Walt Disney Company, Fox, DirecTV, and Viacom has settled with it.

In the Company's view, the claims of MPT are too vague to be able to assess whether there is any potential liability.

Environmental matters

A certain number of Technicolor's current and previously-owned manufacturing sites have an extended history of industrial use. Soil and groundwater contamination, which occurred at some sites, may occur or be discovered at other sites in the future. Industrial emissions at sites that Technicolor has built or acquired expose the Group to remediation costs. The Group has identified certain sites at which chemical contamination has required or will require remedial measures.

Soil and groundwater contamination was detected at a former manufacturing facility in Taoyuan, Taiwan that was acquired in the 1987 transaction with GE, and the Company, as an affiliate of Technicolor SA, owned the facility from approximately 1988-1992 when it was sold to an entity outside the Technicolor Group. In 2002, the Taoyuan County Environmental Protection Bureau ("EPB") ordered remediation of the groundwater underneath the former facility. The groundwater remediation process is underway. It is the Company's position that GE has a contractual obligation to indemnify Technicolor SA and its subsidiaries with respect to certain liabilities resulting from activities that occurred prior to the 1987 agreement with General Electric.

In addition to soil and groundwater contamination, the Group sells or has sold in the past products which are subject to recycling requirements and is exposed to changes in environmental legislation affecting these requirements in various jurisdictions.

The Group believes that the amounts reserved and the contractual guaranties provided by its contracts for the acquisition of certain production assets will enable it to reasonably cover its safety, health and environmental obligations. However, potential problems cannot be predicted with certainty and it cannot be assumed that these reserve amounts will be precisely adequate. In addition, future developments such as changes in governments or in safety, health and environmental laws or the discovery of new risks could result in increased costs and liabilities that could have a material effect on the Group's financial condition or results of operations. Based on current information and the provisions established for the uncertainties described above, the Group does not believe it is exposed to any material adverse effects on its business, financial condition or result of operations arising from its environmental, health and safety obligations and related risks.

(*) Four of the five patents asserted have been deemed to be "MPEG-2 essential" and were therefore already licensed to the Technicolor group via the MPEG-2 patent pool. Only the '377 patent is still being asserted with respect to MPEG-2. The other four patents are being asserted only with respect to MPEG-4/H.264.

26 Related party transactions

Following the acquisition of 50% of Indoor Direct in 2012, Technicolor accounts for its investment in this joint venture using the equity method. Indoor Direct is therefore a new related party to Technicolor as of June 30, 2012. As of June 30, 2012 total revenue and expenses of the Group with Indoor Direct amount to €2 million and €1 million respectively.

27 Subsequent events

- **Investment from Vector in Technicolor capital**

On June 20, 2012, Technicolor's shareholders approved by a large majority the resolutions relating to the transaction proposed by Vector Capital Corporation ("Vector") in its offer dated May 25 and amended on June 13.

The transaction, agreed by the General Shareholders' Meeting of shareholders, will take place in July and August 2012 and will take place in two steps:

- Technicolor will issue 47 471 506 shares through a reserved capital increase to Petalite Investments S.à r.l., an investment vehicle controlled by Vector, at a price of €2.00 per share (the "Reserved Capital Increase") and representing a gross proceeds of 94,943,012 euros. The settlement of this capital increase occurred on July 16, 2012;
- Technicolor will issue a maximum of 61 643 316 shares in a capital increase with preferential subscription rights at a price of €1.56 per share (the "Rights Issue") and representing a maximum gross proceeds of €96,163,572. Vector has irrevocably committed to subscribe up to 75% of the amount of the Rights Issue to ensure its success. The subscription period for the Rights Issue will be open from July 18 to August 2, 2012 and the settlement of this capital increase should occur on August 14,2012.

Vector irrevocably committed to subscribe to the Rights Issue on a pro rata basis through the exercise of all of its preferential subscription rights, to 11,095,797 new shares representing a total amount, including issuance premium, of €17,309,443.32. In addition, Vector irrevocably committed to backstop the Rights Issue up to 75% of its amount, through the potential subscription following the end of the subscription period, upon decision of the Board of Directors, to a number of additional shares representing a maximum amount of €54,813,236.40. The level of participation of existing shareholders in the Rights Issue will determine Vector's final stake in Technicolor. Following the Rights Issue, Vector will hold between 18% and 29.94% of Technicolor's share capital.

- **Governance agreement**

Vector and Technicolor have entered into a governance agreement on July 10, 2012 that will last for a period of 48 months from the settlement of the Reserved Capital Increase. Under this agreement, Vector has expressed its support for the Company's strategy with a view to achieving the strategic goals outlined in Technicolor's Amplify 2015 strategic plan and maximizing shareholder value.

Following the implementation of the transaction, Technicolor's Board will be composed of nine members: two representatives from Vector, six independent directors and the Chief Executive Officer of Technicolor.

Technicolor will establish a strategic committee (the "Amplify 2015 Committee"), in addition to the audit committee and the remuneration, nominations and governance committee (the "Remuneration Committee"). The two Vector representatives, Alexander R. Slusky and David L. Fishman, will sit on Technicolor's Board immediately upon completion of the Reserved Capital Increase. They will both be appointed as members of the Amplify 2015 Committee and Mr. Slusky will be appointed as Chairman of the Remuneration Committee.

Subject to customary exceptions, Vector has agreed to retain its shares for 1 year commencing on the settlement of the Reserved Capital Increase.

- **Closing of the disposal of Broadcast Services**

Technicolor completes the disposal of its Broadcast Services activity to Ericsson on July 2, 2012 as contemplated in the offer received in March 2012. Net disposal proceeds of the transaction before potential earn-out will be applied to the prepayment of the Reinstated Debt.

IV. STATUTORY AUDITORS' REPORT ON THE INTERIM FINANCIAL STATEMENTS 2012

For the six-month period ended June 30, 2012

This is a free translation into English of the statutory auditors' report on the interim financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The report must be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying interim condensed consolidated financial statements of Technicolor S.A., for the six-month period ended June 30, 2012.
- the verification of the information contained in the interim management report.

These interim condensed consolidated financial statements are the responsibility of your Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently can only provide moderate assurance that the financial statements, taken as a whole, do not contain any material misstatements. This level of assurance is less than that obtained from an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – the standard of IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying the conclusion expressed above, we draw your attention to the matter set out in the Note 3.1 which discloses the reasons why the interim condensed consolidated financial statements have been prepared on a going concern basis

2. Specific verification

We have also verified the information provided in the interim management report commenting the interim condensed consolidated financial statements that were subject to our review. We have no matters to report as to its fair presentation consistency with the interim condensed consolidated financial statements.

Neuilly-sur-Seine and Courbevoie, July 25, 2012

The Statutory Auditors

French original signed by

Deloitte & Associés		Mazars	
Alain Pons *Partner*	Ariane Bucaille *Partner*	Jean-Louis Simon *Partner*	Simon Beillevaire *Partner*