

As filed with the Securities and Exchange Commission on December 22, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A
Amendment No. 1

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2004
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from _____ to _____

Commission File Number: 001-14974

THOMSON

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's
name into English)

Republic of France
(Jurisdiction of incorporation
or organization)

**46, quai Alphonse Le Gallo
92100 Boulogne-Billancourt
FRANCE**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, nominal value €3.75 per share, and American Depository Shares, each representing one share of Common Stock	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12 (g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital
or common stock as of the close of the period covered by the annual report:

Common Stock, nominal value €3.75 per share: 273,308,032

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by
Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the Registrant was required to file such reports) and (2) has been subject
to such filing requirements for the past 90 days: Yes No

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 Item 18

EXPLANATORY NOTE

This Amendment on Form 20-F/A (“Amendment”) to Thomson’s Annual Report on Form 20-F for the year ended December 31, 2004, which was originally filed with the U.S. Securities and Exchange Commission on June 3, 2005 (the “Original Filing”), amends certain information included in the reconciliation of Thomson’s consolidated net income and shareholders’ equity under generally accepted accounting principles in France (“French GAAP”) to generally accepted accounting principles in the United States (“U.S. GAAP”) included in Notes 31 and 32 to our consolidated financial statements pursuant to Item 18 of the Original Filing, as discussed below.

The Amendment does not affect our primary financial statements prepared in accordance with French GAAP included in the Original Filing. It also does not affect Thomson’s consolidated net sales, earnings before interest, goodwill amortization and tax, or our cash and cash equivalents balance and our net cash flows in cash and cash equivalents under either French GAAP or U.S. GAAP, as included in the Original Filing.

During the process of preparation of our consolidated financial statements under IFRS for the year ending December 31, 2005, we reviewed the first application for fiscal year 2004 of the Financial Accounting Standards Board published and revised Interpretation No. 46R, *Consolidation of Variable Interest Entities* (“FIN 46R”). Under French GAAP and as we previously reported under U.S. GAAP, the consolidation of certain Special Purpose Entities (“SPEs”) was recorded as of January 1, 2004 retroactively through shareholders’ equity. Under FIN 46R transition provisions, however, the consolidation of these SPEs should rather have been recorded as a cumulative change in accounting principle in the 2004 consolidated statement of operations, which we have reflected in this Amendment. This restatement has no impact on consolidated shareholders’ equity under U.S. GAAP.

In September 2005, the International Accounting Standards Board (“IASB”) published a decision paper updating its interpretation of the treatment of foreign currency-denominated convertible bonds. This decision clarified that the treatment under IFRS converges with the analogous treatment under U.S. GAAP. This interpretation by the IASB was different from the interpretation of U.S. GAAP we applied in our U.S. GAAP reconciliation note for 2004. We have therefore reconsidered the application of Statement of Financial Accounting Standards No.133, *Accounting for Derivative Instruments and Hedging Activities* (“FAS 133”), to our dollar-denominated convertible bonds issued on September 16, 2004, and have accordingly revised our interpretation and U.S. GAAP reconciliation note.

As a result, we restate hereby our previously issued U.S. GAAP financial information for the year ended December 31, 2004 to reflect (1) an additional charge for the first-time consolidation of two SPEs of €43 million pursuant to FIN 46R, representing the cumulative effect of the change in accounting principle that would have been shown in the consolidated income statement between “extraordinary items” and “net income” and (2) an additional non-cash financial expense of €85 million for derivative instruments embedded in our dollar-denominated convertible bonds issued on September 16, 2004 pursuant to FAS 133. Our consolidated net income under U.S. GAAP for the year ended December 31, 2004 has been restated accordingly to a net loss of €695 million from the previously published net loss of €567 million. Our consolidated shareholders’ equity under U.S. GAAP at December 31, 2004 has been restated to €2,492 million from the previously published amount of €2,577 million. Amended Item 18 included herein amends Notes 31 and 32 to our consolidated financial statements included in the Original Filing to reflect the foregoing.

To reflect the restatement described above, this Amendment also amends the Selected Financial Data in Item 3.A (“Key Information”) and the description of the summary of principal differences between French GAAP and U.S. GAAP and the narrative disclosure included in “Results of Operations for 2004 and 2003—Net Income under U.S. GAAP” under Item 5 (“Operating and Financial Review and

Prospects”), each of which is amended by replacing Item 3.A and Item 5 in their entirety. In addition, this Amendment amends the exhibit list under Item 19 (“Exhibits”) to reflect new certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Other than as expressly set forth above, no changes have been made to these or any other Items of the Original Filing. This Amendment and the Original Filing continue to speak as of June 3, 2005, the date on which the Original Filing was made and, except as described above, this Amendment does not, and does not purport to, amend, update or restate the information in any other Item of the Original Filing, or reflect any events that have occurred after the date on which the Original Filing was made.

ITEM 3 – KEY INFORMATION

A — Selected Financial Data

We have derived the following selected consolidated financial data from our consolidated financial statements for the five-year period ended December 31, 2004. You should read the following selected consolidated financial data together with Item 5: “Operating and Financial Review and Prospects” and our consolidated financial statements.

Beginning January 1, 2003, Thomson formed the following divisions: Content and Networks, Components, Consumer Products and Licensing. The operations of the former New Media Services division were absorbed in 2003 by Consumer Products activities (principally guide-related activities) and Content and Networks activities (principally the screen-advertising activity).

From 2003, the Broadband Access Products activity, which was previously included in Consumer Products, was managed within the Content and Networks segment. Previous years have been restated accordingly.

In November 2004, Thomson announced its intention to reorganize its activities effective January 1, 2005. This new structure organizes the Group’s businesses around three principal divisions: Services, Systems & Equipments and Technology. Two additional divisions regroup our remaining activities: Displays & Consumer Electronics Partnerships and Corporate. This new organization replaces the intermediate segmentation announced on February 11, 2004, which was not fully implemented in 2004 from an internal management and reporting perspective. As a result, the Group’s main developments during 2004 discussed herein and our consolidated financial statements are presented according to the organization under which we reported for 2003, namely the divisions Content and Networks, Consumer Products, Components and Licensing.

Our television activity was deconsolidated effective August 1, 2004 following the creation of TTE Corporation (“TTE”) in partnership with TCL International and TCL Corporation (“TCL”). Accordingly, our consolidated statements for 2004 reflect seven months of Thomson as operator of its television business and the remaining five months as a service provider to TTE pursuant to certain contractual arrangements. As a result of our relationship with TTE, the Components division recorded external sales of €192 million for the last five months of 2004 for components sold to TTE, sales which prior to TTE’s creation would have been considered intra-group sales and eliminated at the Group level. Consumer products include television sales for first seven months of 2004 of €845 million, and manufacturing and sales and marketing agency services provided to TTE during remaining five months of 2004 representing €152 million.

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in France (“French GAAP”), which differ in certain significant aspects from accounting principles generally accepted in the United States (“U.S. GAAP”). Notes 31 and 32 to our consolidated financial statements describe the principal differences between French GAAP and U.S. GAAP as they relate to us and include a reconciliation of our net income and shareholders’ equity. We also summarize these differences in Item 5: “Operating and Financial Review and Prospects.”

Effective January 1, 2005, Thomson will prepare its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). For a discussion of the anticipated impact of IFRS on our consolidated financial statements and critical accounting policies, see Item 5: “Operating and Financial Review and Prospects—Transition to IFRS.”

	2000	2001	2002	2003	2004	2004
	€	€	€	€	€	(U.S.\$)
(in millions except share and per-share data)						
Income Statement Data (amounts in accordance with French GAAP):						
Net sales	8,995	10,391	10,187	8,459	7,994	10,047
Content and Networks	1,581	3,460 ⁽¹⁾	3,924	3,714	4,073	5,119
Components	1,686	1,642	1,560	1,072	1,167	1,467
Consumer Products	5,339	4,884	4,264	3,198	2,325	2,922
Licensing	378	395	429	462	404	508
Corporate ⁽²⁾	11	10	10	13	25	31
Cost of sales	(6,915)	(8,116)	(7,761)	(6,536)	(6,284)	(7,898)
Gross margin	2,080	2,275	2,426	1,923	1,710	2,149
Selling, general and administrative expense	(1,183)	(1,271)	(1,334)	(1,120)	(999)	(1,256)
Research and development expense	(351)	(368)	(374)	(295)	(277)	(348)
Operating income	546	636	718	508	434	545
Content and Networks	271	458	420	436	407	511
Components	262	111	84	(101)	(105)	(132)
Consumer Products	(179)	(160)	(52)	(124)	(64)	(80)
Licensing	319	338	387	411	325	408
Corporate ⁽²⁾	(127)	(111)	(121)	(114)	(129)	(162)
Interest income (expense), net	(10)	(29)	9	(9)	(24)	(30)
Other financial expense, net ⁽³⁾	(67)	(160)	(137)	(70)	(55)	(69)
Other income (expense), net ⁽⁴⁾	(81)	8	(96)	(249)	(769)	(966)
Income tax	1	(139)	(56)	(63)	(88)	(111)
Net income before minority interests	376	264	360	34	(635)	(798)
Minority interests	18	22	13	(8)	(1)	(1)
Net income	394	286	373	26	(636)	(799)
Basic net income per share ⁽⁵⁾	1.56	1.04	1.35	0.09	(2.32)	(2.92)
Diluted net income per share ⁽⁵⁾	1.56	1.04	1.29	0.09	(2.32)	(2.92)
Weighted average number of shares						
basic outstanding	252,039,992	274,181,607	277,240,438	276,796,602	273,646,869	273,646,869
Dividend paid ⁽⁶⁾	N/A	N/A	N/A	(62)	(71)	(89)
Approximate amounts in accordance with U.S. GAAP⁽⁷⁾						
Operating income	284	204	465	32	(180)	(226)
Net income (loss)	136	191	351	(46)	(695)	(873)
Basic income (loss) per share ⁽⁵⁾	0.54	0.72	1.26	(0.17)	(2.62)	(3.29)
Diluted income (loss) per share ⁽⁵⁾	0.54	0.69	1.21	(0.17)	(2.62)	(3.29)

(1) Increase reflects primarily the acquisition in 2001 of Technicolor and certain other companies in the Content and Networks division.

(2) "Corporate" amounts consist principally of research carried out centrally by us and other corporate costs not allocated to our operating segments.

(3) Other financial expense, net, includes principally valuation allowances on investments carried at the lower of cost or market value, interest on pension plans and on other non-financial payables. For further details, please refer to Note 5 to our consolidated financial statements.

(4) Other income (expense), net, is discussed further under Item 5: "Operating and Financial Review and Prospects" and in Note 6 to our consolidated financial statements. In 2004, includes non-cash impairment charge of €530 million related to the Group's decision to actively seek a partnership in the display (tubes) business and corresponding reassessment of the carrying value of the fixed asset of this business. For more information on our restructuring expenses, see Note 18 to our consolidated financial statements.

(5) Net income (loss) per share for each year shown equals net income (loss) for that year divided by average number of shares outstanding for such year. As the number of shares outstanding has varied from year over year since 2000, the net income (loss) per share figure is not comparable on a year-to-year basis. The average number of shares from 2001 includes 15.5 million shares underlying the redeemable bonds subscribed by Carlton Communications Plc., which were redeemed for 15.5 million of our shares on March 16, 2002. See Note 31 ad ii) to our consolidated financial statements.

(6) A dividend of €0.285 per share was proposed by the Board of Directors on March 1, 2005 for the year ended December 31, 2004 and was approved at the shareholders' meeting on May 10, 2005.

(7) Please refer to Item 5: "Operating and Financial Review and Prospects—Overview—Principal Differences between French GAAP and U.S. GAAP" and Notes 31 and 32 to our consolidated financial statements for further details.

	2000	2001	2002	2003	2004	2004
	€	€	€	€	€	(U.S.\$)
	(in millions)					
Balance Sheet Data (amounts in accordance with French GAAP):						
Intangible assets, net ⁽¹⁾	196	1,696	2,183	1,935	2,206	2,772
Property, plant and equipment, net	1,122	1,536	1,622	1,474	1,054 ⁽²⁾	1,325
Total investments and other non-current assets	314	417	218	185	280	352
Total fixed assets	1,632	3,649	4,023	3,594	3,540	4,449
Inventories	1,477	1,120	962	744	569	715
Other current assets	2,420	3,489	3,266	2,559	2,510	3,155
Cash and cash equivalents ⁽³⁾	1,772	1,532	1,463	2,383	1,906	2,395
Total assets	7,301	9,790	9,714	9,280	8,525	10,714
Reserves for retirement benefits	633	709	705	653	589	740
Restructuring reserves	179	183	127	118	104	131
Other reserves	277	246	216	206	176	221
Financial debt (short-term and long-term) ⁽³⁾⁽⁴⁾	1,143	1,131	1,694	2,128	2,501	3,143
Total current liabilities ⁽⁵⁾	2,155	3,492	2,987	2,583	2,465	3,098
Minority interests	54	71	38	9	20	25
Shareholders' equity ⁽⁶⁾	2,860	3,958	3,947	3,583	2,670	3,356
Total liabilities, shareholders' equity and minority interests	7,301	9,790	9,714	9,280	8,525	10,714
Approximate amounts in accordance with U.S. GAAP						
Shareholders' equity	3,411	3,399	3,859	3,433	2,492	3,132

(1) Since 2001, reflects the Technicolor acquisition and the professional broadcast business acquired from Philips by successive parts. Please refer to Note 8 to our consolidated financial statements for more details on intangibles assets.

(2) On August 1, 2004, Thomson transferred €128 million of fixed assets to TTE pursuant to the Combination Agreement. As of December 31, 2004, 2003 and 2002, the accumulated depreciation includes €595 million, €56 million and €38 million, respectively, of write-downs that have been recognized in the context of the related restructuring plans.

(3) In October 2000, we received net proceeds of €844 million from a global equity offering. In addition, we issued 11,175,385 convertible/exchangeable bonds (2000 OCEANE) due 2006 for an aggregate amount of €812 million. In March 2002, we issued 14,814,815 convertible/exchangeable bonds (2002 OCEANE) due 2008 for an aggregate amount of €600 million. In 2003, we received proceeds of €369 million (\$406 million and GBP 34 million) from private placements of senior notes. On September 16, 2004, Thomson issued 23,084 convertible/exchangeable subordinated bonds to Silver Lake Partners LLC, with a nominal value of U.S.\$ 21,660 each, for an aggregate amount of U.S.\$ 499,999,440. The bonds bear interest at 3% per annum in arrears on January 1 and June 30 of each year, except the first interest payment which was due and paid December 31, 2004.

(4) As of December 31, 2003 and 2004, accrued interest of €61 million and €60 million, respectively, has been classified as part of the financial debt caption. Please refer to Note 20 to our consolidated financial statements for further information on our financial debt.

(5) Includes in 2001 U.S.\$600 million of promissory notes due to Carlton for the acquisition of Technicolor (€681 million at the December 31, 2001 closing rate), excluding accrued interest. At December 31, 2004, the amount of promissory notes due to Carlton is U.S.\$103 million (€75 million at December 31, 2003), excluding accrued interest. For more information, please refer to Note 22 to our consolidated financial statements.

(6) The decrease of €913 million in shareholders' equity is primarily attributable to the €636 million loss in net income recorded in 2004.

	2000	2001	2002	2003	2004	2004
	€	€	€	€	€	(U.S.\$)
			(in millions)			
Cash Flow Data (amounts in accordance with French GAAP):						
Net cash provided by operating activities	410	1,005	1,104	1,183	401 ⁽¹⁾	504
Net cash used in investing activities	(398)	(1,173)	(1,716)	(792)	(902)	(1,134)
Net cash provided by (used in) financing activities	1,413	(34)	540	511	5	6
Net increase (decrease) in cash and cash equivalents	1,370	(240)	(69)	920	(477)	(599)

(1) The decrease from 2003 is primarily due to the negative cash impact of €30 million from an increase in working capital in 2004, compared to the reduction in working capital of €640 million in 2003.

ITEM 5 - OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read these comments on our operating and financial results in conjunction with our audited consolidated financial statements and the related notes and other financial information included elsewhere herein. Our audited consolidated financial statements have been prepared in accordance with French GAAP, which differ in certain material respects from U.S. GAAP. Notes 31 and 32 to our consolidated financial statements describe the principal differences between French GAAP and U.S. GAAP as they relate to us and reconcile our net income and shareholders' equity. We also summarize these differences below in "—Overview—Principal Differences between French GAAP and U.S. GAAP." For a discussion of our adoption of International Financial Reporting Standards (IFRS) and the anticipated effects thereof on the presentation of our operating and financial results, please refer below to "—Transition to IFRS".

Overview

Thomson's core business is to provide the M&E industries with the services, systems and equipment, and technologies they need to achieve their commercial objectives and to optimize their performance in a changing technology environment for video and imaging. We have developed leading positions at the intersection of entertainment, media and technology and offer complete solutions to content providers, network operators, manufacturers and distributors. With the implementation of our five strategic priorities and our Two-Year Plan, we seek to build upon these positions to become the preferred partner of the M&E industries. For a more detailed description of our strategy and objectives of our Two-Year Plan, please refer Item 4: "Information on the Company—Our Strategy—Preferred Partner of the Media & Entertainment Industries."

In 2004, as in 2003, our activities were organized and reported on according to four operating divisions: Content & Networks, Components, Consumer Products and Licensing. Effective January 1, 2005, we reorganized our businesses in three divisions, Services, Systems & Equipment, and Technology, with a fourth activity, Displays & Consumer Electronics Partnerships. For a more detailed description of the reorganization of our businesses, see Item 4: "Information on the Company—Our Organization—Transformation to Implement Our Strategy," and for a description of the products and services provided by each of our 2004 segments, see Item 4: "Information on the Company—Business Overview," respectively.

Key economic drivers

Our strategic priorities and our Two-Year Plan objectives described under Item 4: "Information on the Company—Our Organization—Transformation to Implement Our Strategy" are based on our vision of how the M&E industries may develop by 2010. We believe the most significant long-term trends include the following:

- Some consolidation will occur in the European M&E industries, while significant M&E groups and markets will emerge in Asia, particularly China;
- Our M&E clients will have outsourced many of their activities;
- China and India will have become mainstream M&E markets;
- The transition to High Definition (HD) will be complete;
- Mobile video will be pervasive;
- Intellectual property will remain a key differentiator and significant source of direct and indirect revenues;
- Security technologies and services to combat piracy will have been implemented;

- China will have become a technology standards-setter;
- Electronic delivery of content into the home will have emerged. Consumers will continue to buy pre-recorded content at retail, but will also be purchasing or renting content (events, etc.) directly from home;
- In addition to film print, digital delivery of movies to cinemas will have developed;
- Network operators will have largely switched to IP technologies;
- All networks will have “triple play” offerings;
- “Connected products” will be ubiquitous inside and outside the home; and
- Home networking will have been implemented.

These long-term trends represent the Group’s vision of how the M&E industries may develop by 2010 and they influence how the Group is allocating and plans to allocate its resources. They also influenced the determination of the eight growth “boosters” and two main “engines” for revenue growth that the Group has identified in the framework of its Two-Year Plan, as described in Item 4: “Information on the Company—Our Strategy—Preferred Partner of the Media & Entertainment Industries”. The Two-Year Plan focuses the Group on the development and delivery of innovative products, services and technologies that are, and become, widely adopted in response to these anticipated long-term trends in the M&E industries.

It should be noted that the discussion and analysis below reflects the Group’s financial results and operating performance both prior to and subsequent to the strategic decisions made over the course of 2004, described in Item 4: “Information on the Company—Our Strategy—Preferred Partner of the Media & Entertainment Industries”.

Seasonality

Our net sales historically tend to be higher in the second half of the year than in the first half, reflecting the increased business conducted by all our customers during the autumn selling season and year-end holidays.

The net sales of our Content and Networks businesses in the second half of 2004 totaled approximately €2.3 billion, representing 57% of the division’s 2004 net sales, compared to approximately €2.0 billion in the second half of 2003, representing 55% of the division’s 2003 net sales.

The net sales of our other divisions in the second half of the year decreased to €1.8 billion, or 45%, of these divisions’ 2004 net sales, compared to 56% of the divisions’ net sales in 2003. However, this substantial decrease was mainly due to the exit of substantially all of Thomson’s television business from our perimeter of consolidation with the start-up of operations of TTE as of August 1, 2004, rather than to seasonal trends. Our television sales in the second half of 2004 (primarily July) amounted to €53 million, compared to €941 million and €1,113 million in the second half of 2003 and 2002, respectively.

The impact of seasonality has historically tended to be higher at the operating income level, driven by the fact that fixed costs are spread relatively evenly over the year. Our consolidated operating income totaled €288 million in the second half of 2004, or 66.3% of our 2004 consolidated operating income, compared with 73% in the last six months of 2003. Presented separately, the operating income of the Content and Networks division in the second half of 2004 represented 68% of total year operating income for this division, compared to 69% in 2003 over the same period.

Geographic breakdown of 2004 net sales

Based on net sales by destination (classified by the location of the customer), our most important markets are the United States and Europe, accounting for 45% and 34%, respectively, of net sales in 2004, compared to 45% and 35%, respectively, in 2003, and 51% and 31%, respectively, in 2002. Asia accounted for 14% of our net sales by destination in 2004 compared to 12% in 2003 and 10% in 2002.

Effect of exchange rate fluctuations

We estimate that the impact of translating revenues of operating entities that are denominated in currencies other than euro into euro had a negative impact of €399 million on our net sales as expressed in euro in 2004, compared to a negative impact of €1,062 million in 2003 and €445 million in 2002. We estimate that the impact of translating revenues of operating entities that are denominated in currencies other than euro into euro had a negative impact of €5 million in 2004 (€44 million in 2003) on our operating income as expressed in euro in 2004, or 1.2% of the Group 2004 operating income, in spite of a 7% decrease in the euro/dollar exchange rate during 2004.

Summary of Results

Operating income in 2004 was €434 million (5.4% of net sales in 2004), while we recorded a net loss of €636 million due to restructuring charges recognized in 2004, including a charge of €742 million related primarily to our Components business. In 2003, we recorded operating income of €508 million (6% of net sales), while we recorded a net income of €26 million in 2003 and a €217 million restructuring charge.

Thomson's net loss per share was €2.32 in 2004, compared to net income per share of €0.09 in 2003.

Thomson's Board of Directors proposed on March 1, 2005 that Thomson pay a dividend of €0.285 per share in respect of 2004, a 10% increase on the dividend approved at shareholders' meeting of May 7, 2004 in respect of 2003 of €0.26 per share. This proposed dividend was approved at the shareholders' meeting on May 10, 2005. The payment of the dividend will occur after May 27, 2005. For a description of the payment of dividends under French company law, please refer to "Additional Information—Memorandum and Articles of Association—Dividends."

On April 21, 2005, Thomson announced its revenue for the first quarter of 2005. For more information about our first quarter 2005 results and the full text of that announcement, refer to our report on Form 6-K filed with the U.S. Securities and Exchange Commission on April 21, 2005, certain parts of which are incorporated herein by reference and included as Exhibit 99.1 to this report.

In the sections entitled "—Results of Operations for 2004 and 2003" and "—Results of Operations for 2003 and 2002," certain net sales figures at the Group and segment levels are presented where indicated on a comparable basis at constant exchange rates and a constant scope of consolidation. To this end, the actual figures of the earlier financial year in the respective year-on-year comparison are restated to take into account certain perimeter changes, while the figures for the more recent year are adjusted to reflect perimeter changes and also to eliminate exchange rate effects by applying for the more recent year the average exchange rate used for the income statement for the earlier financial year. Regarding perimeter adjustments for acquisitions, in the 2003 and 2004 year-on-year comparison we have excluded sales resulting (a) from significant acquisitions occurring in 2003 from the 2003 and 2004 sales figures and (b) from significant acquisitions occurring in 2004 from the 2004 sales figures. We applied this same methodology for the 2003 and 2002 year-on-year comparison in respect of acquisitions. The only significant disposal in the periods covered by the comparisons was the transfer of Thomson's television assets to TTE on July 31, 2004: we have included in the 2004

sales figures the sales generated from these assets prior to their disposal, while adjusting the 2003 sales figures to include only those sales generated in the period of 2003 corresponding to the period of ownership in 2004 (i.e., net external television sales for the last five months of 2003 have been excluded). We believe this presentation of changes in net sales, adjusted to reflect perimeter changes and exchange rate fluctuations, for these year-on-year comparisons are helpful for analyzing the performance of the Group, during a period of repositioning for the Group and of significant exchange rate fluctuations, particularly concerning the US Dollar, which affected the Group's reported numbers.

Events Subsequent to December 31, 2004

1. *Signature of a development agreement with Funai Electric.*

On January 20, 2005, Thomson announced the closing of a partnership in the digital TV field with the Japanese group Funai Electric, a TV and electronic products manufacturer. This partnership encompasses joint developments and an exclusive license to Funai for some patents in digital television technology. In connection with a separate supply agreement, Thomson's Displays operation will also supply cathode ray tubes to Funai.

2. *Recent Developments Relating to Our Partnership Strategy for the Displays Activity.*

Since December 31, 2004, Thomson has continued to advance its partnership project for its Displays business. At the end of February, the first phase of the project was completed, with multiple indications of interest from potential strategic and from financial partners. In addition, on February 28, 2005, Thomson's Videocolor subsidiary comprising its Anagni tube production site was formally sold to the Indian company, Videocon, for €10. Prior to disposal, Thomson recapitalized the business with €103 million of cash. Estimated cash and non-cash costs related to these subsequent events could reach up to €365 million of which €195 million has been recorded in Thomson's 2004 accounts (see Notes 18 and 29 to our consolidated financial statements) and the rest taken into 2005.

3. *Microsoft-Time Warner-Thomson Complete Acquisition Of ContentGuard.*

On March 15, 2005, Microsoft, Time Warner and Thomson announced completion of their three-way acquisition of ContentGuard. ContentGuard is a developer of digital rights management ("DRM") technologies. Thomson, Microsoft and Time Warner will each hold a 33.3% voting position in ContentGuard and will each appoint two directors on the ContentGuard board. Working together with ContentGuard, the company's three strategic investors aim to help promote the development of inter-operable DRM systems, accelerate the deployment of consumer devices that support Digital Rights Management, and encourage content owners to launch new distribution channels. The partners plan to continue development of ContentGuard's intellectual property and to promote innovation in electronic content distribution using DRM technologies.

4. *Thomson and Screenvision launch digital distribution network in the United States.*

On March 15, 2005, Thomson and Screenvision, a world leader in cinema advertising and a joint venture of Thomson and ITV plc, announced the launch of the world's largest digital cinema distribution network for cinema advertising in the United States. Technicolor Digital Cinema, part of Thomson's Services division, will provide technology, network operations and digital content management systems on an exclusive basis to Screenvision and its theatre advertising customers. Screenvision provides advertisement services to nearly 15,000 screens in the United States, of which approximately 5,000 will be digitized during the initial deployment. Screenvision, which will invest over U.S.\$50 million to deploy the network, will leverage the expertise of Thomson's post-production, media asset management, digital cinema, network operations and its new digital advertising management system, SkyArc™. Through SkyArc, Thomson and its Technicolor Digital Cinema business will operate a national network operations center providing content preparation and distribution, playlist management, network operations and field services. The network will be capable of distributing effectively and securely via satellite, broadband or physical digital media.

5. *Acquisition of Inventel, a leader in Telecom access devices and wireless technologies.*

On March 29, 2005 Thomson acquired Inventel, a leading provider of innovative voice and data solutions to telecommunications operators and ISPs. Combining Inventel's expertise with Thomson's world leading positions in DSL and video technologies and solutions will enable the Group to expand its customer base, market reach and ranges of multiple-play gateways. The acquisition price was partly paid with treasury shares of Thomson.

6. *Acquisition of MediaSec, leader in Content Security Technologies.*

On March 31, 2005, Thomson acquired MediaSec Technologies GmbH, a pioneer in digital watermarking and copy detection technologies. Digital watermarking involves secure and imperceptible marking of digital media such as video, images, audio and any type of digitally processed document. MediaSec, based in Essen, Germany, with a presence in the United States, has a strong portfolio of patents and software products, which Thomson expects to build upon to meet the Media & Entertainment industries' growing need for content security and tracking solutions.

7. *Strategic Alliance with SingTel to Form Asian Digital Distribution Network.*

On April 18, 2005, Thomson and SingTel, the leading telecommunications provider in Asia, announced a strategic alliance to provide an Asian digital distribution network for Media & Entertainment clients. Thomson will manage content preparation, packaging, scheduling and logistics, as well as security-related issues on behalf of content owners. SingTel will manage the network infrastructure and transmission services. The strategic alliance leverages SingTel's extensive fiber and satellite network and Thomson's global position as a leading content service provider in the Media & Entertainment industries to offer a robust digital content delivery service. Service offerings which will be enabled by the strategic alliance include point-to-point electronic file transmissions of content such as digital cinema masters for distributors, broadcast content for channel operators and distributors, and production/working files for regionalization or preparation between Hollywood (Los Angeles) and Asia. Within Asia, the service offerings will include point-to-point and point-to-multipoint distribution of content that includes digital cinema distribution services to theaters, TV channel playout and uplink services, broadcast disaster recovery services and other out-of-home video networks and content delivery services.

8. *Acquisition of Cirpack, European Leader in Softswitch Solutions.*

On April 21, 2005, Thomson acquired Cirpack, the leading European provider of softswitch platforms. Following the acquisition of Inventel on March 29, 2005, Cirpack's softswitch technology expertise complements Thomson's existing offering to telecoms operators in IP telephony and triple play (voice, video, data). Cirpack addresses the voice management market which is poised to expand at a very high growth rate in the coming years. With a wide European customer base of over 45 telecom operators and ISPs, the company has secured a large share of the European softswitch market. A softswitch is the software platform responsible for controlling call processes in the network, as well as managing remotely access devices and service applications. It is key to helping telecom operators drive voice, data and video convergence in IP networks, in order to allow effective delivery of innovative communication and entertainment services. The acquisition price will be partly paid in treasury shares of Thomson.

9. *Al Jazeera International Awards Thomson Contract for First Full High-Definition News Channel Worldwide.*

On April 21, 2005, building on its position in providing high-definition (HD) solutions across the broadcast, film and network markets, Thomson announced that Grass Valley® (Broadcast & Networks) had been awarded a contract for the design and implementation of the first all-HD news channel worldwide. Grass Valley's Systems Group will support this turnkey project with engineering, design and implementation as well as professional services and on-site support.

10. *Intention to Transfer TV Marketing & Sales to TTE and Create a Dedicated Connectivity Sales Force.*

Thomson will put in place shortly a sales force dedicated to its Connectivity business and accordingly TCL and Thomson announced on April 21, 2005, that Thomson's TV Marketing & Sales activities will be transferred to TTE. Thomson employees with positions related to TV would transfer to TTE under the plan, and employees focused on Thomson's Connectivity Business activities will remain with Thomson. In addition, Thomson and TTE will simplify their current arrangements regarding Thomson's manufacturing facility at Angers, France.

Critical Accounting Policies

Thomson's principal accounting policies are described in Note 1 to our consolidated financial statements included herein. Certain of Thomson'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 under different assumptions or conditions. Thomson's management believes the following are the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements under French GAAP.

Thomson's management has discussed the development and the selection of its critical accounting policies with Thomson's Audit Committee.

Tangible and intangible assets with finite useful lives

The Group records intangible assets with finite useful lives (mainly software and certain rights on intellectual property acquired) and indefinite useful lives (customer relationship and trademarks) relating to operations and to production facilities under "Intangible assets, net" and tangible fixed assets under "Property, plant and equipments" ("PPE"). Significant estimates and assumptions are required to decide (i) the expected useful lives of these assets for purposes of their depreciation and (ii) whether there is any impairment of their value requiring a write-down of their carrying value. Estimates that are used to determine the expected useful lives of fixed assets are defined in the Group's accounting policies manual and are consistently applied throughout the Group. Such periods range from twenty to forty years for buildings, from one to twelve years for plants and equipment and from four to ten years for other tangible assets, excluding land that has an indefinite useful life. Software development costs are capitalized and amortized over their economic useful lives, which usually do not exceed three years. Goodwill is amortized over a period from five to twenty years.

For the year ended December 31, 2004, the Group recognized depreciation expense amounting to €278 million related to tangible fixed assets and amortization expense of €170 million for intangible assets with finite useful lives. As of December 31, 2004 the net book value of PPE, intangible assets with finite useful lives and intangible assets with indefinite useful lives amounted to €1,054 million, €1,555 million and €651 million, respectively.

In order to determine the carrying value of tangible and intangible assets having a finite useful life, the Group evaluates on a regular basis certain indicators that would result, if applicable, in the implementation of an impairment test for exceptional assets depreciation. These indicators take into consideration any change in market conditions, competition, technology and other similar factors affecting the businesses. When certain operational and/or financial factors indicate an impairment of value, management evaluates the underlying carrying value of property, plant and equipment and intangible assets with finite useful-life in relation to the operating performance and future cash flows of the underlying assets. Impairment losses, if any, are measured based on the difference between the estimated recoverable amount and the carrying amount of the asset. Management's estimates of recoverable amounts for the individual asset or, if not possible, the reporting unit, are based on prices

of similar assets, to the extent available in the circumstances, or the result of valuation techniques. These estimates take into account net present values of estimated future cash flows and valuations based on market transactions in similar circumstances. Any negative change in relation to the operating performance or the expected future cash flow of individual assets or of reporting units will change the expected recoverable amount of these assets or units and therefore may require a write-down of their carrying value.

On October 21, 2004, the Group announced its decision to seek partners for its Displays activity. The consequences of this decision on the Group's value of long lived assets for its Displays business are included in the Group's 2004 consolidated financial statements. See Note 18 to our consolidated financial statements.

Where the Group had a signed firm offer from a third party prior to the Board of Directors approval of the consolidated financial statements to acquire the assets, the Group used such agreement to value these long lived assets. For other long lived assets of the Displays activity the Group determines their value using either indicators of external value known to the Group or net value of discounted operational cash flows when the Group does not possess external indicators.

For the year ended December 31, 2004, the Group has recognized a €530 million impairment charge relating to assets in the Components division, which brings the carrying value of such assets to €218 million at year-end 2004.

As of December 31, 2004, the Group has not identified any other triggering events in its other divisions that would have required impairment tests on property, plant and equipment or intangible assets with finite useful-life, except for the above-mentioned Displays business.

Warranty reserve

The Group provides for the estimated cost of product warranties at the time revenue is recognized in respect of the relevant products. Thomson's products are covered by product warranty plans of varying periods, depending on local practices and regulations. The evaluation of warranty provisions are based on the historical relationship between the costs of the warranty and sales, and take into account exceptional events known to the Group. Thomson accrues an estimate, at the time of sale, for all returns from its customers related either to product failures or consumer returns. Thomson's general policy is to only accept returns of damaged products. Thomson believes that its warranty provisions are adequate and that the judgment applied is appropriate. The amounts estimated to be due and payable in the future could, however, differ materially from what is recognized in the Company's consolidated financial statements.

In order to determine the appropriate amount of its warranty reserve and related provisions, the Group has established a calculation that is applied on a uniform and consistent basis by the Group's entities. This calculation is based on variables that are determined based on the Group's historical experience relating to (1) the product failure rates by product family and by country, (2) the most recent figures of sales during the most recent period and (3) the average claim cost per product family. When determining the appropriate year-end warranty reserve amount, we assume no change in product mix or in the average claim cost per product family.

As of December 31, 2004, the Group's warranty reserve amounted to €50 million with net accruals amounting to €81 million and usages amounting to €93 million.

Thomson estimates that on a consolidated basis the financial impact on the warranty reserve at December 31, 2004, if the failure rates were increased/decreased by 1 percentage point, would have resulted in the recognition/reversal of an additional warranty expense/income of €8 million.

Deferred tax assets allowance

Management judgment is required in determining the Group's allowance provision for deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. Thomson recognizes deferred tax assets if (1) the deferred tax asset can be compensated with a deferred tax liability that has the comparable maturity date, or (2) if it is probable that the Group will have future positive taxable income, from which the temporary differences or the tax-loss carry forwards can be deducted in a foreseeable future. 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 will not happen again in a nearby future, and/or (2) the expectation of exceptional gains. We have considered tax-planning in assessing whether deferred tax assets should be recognized.

At December 31, 2004 the Group has recorded a €2 million deferred tax liability at year-end and €1,742 million of deferred tax assets, of which €1,462 million have been reversed through valuation allowance reflecting management's estimates on un-recoverability of such assets.

Thomson estimates that on a consolidated basis the financial impact on the accumulated deferred tax assets valuation allowance at December 31, 2004, if future taxable income were increased by 10 percentage points, would have resulted in a decrease of the related accumulated valuation allowance by €26 million, increasing the net result of the Group by the same amount. In the case future taxable income were decreased by 10 percentage points, the Group would have recognized an additional related valuation allowance amounted to €26 million, resulting in an additional net loss of €26 million.

Pension & post-retirement benefits

The Group's determination of its pension and post-retirement benefits obligations and expense for defined benefit pension plans is dependent on the use of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 17 to our consolidated financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels. Our assumptions regarding pension and post-retirement benefits obligations include, among others, discount rates and rates of future increase of compensation and are based on actual historical experience and external data.

The assumptions regarding the expected long-term rate of return on plan assets are determined by taking into account, for each country where the Group has a plan, the distribution of investments and the long-term rate of return expected for each of its components. The capital markets experience fluctuations that cause downward/upward pressure and higher volatility. As a result, short-term valuation of related plan assets are decreasing/increasing, which effect is to increase/decrease the present value of the pension and post-retirement obligation. While Thomson's management believes that the assumptions used are appropriate, significant differences in actual experiences or significant changes in the assumptions may materially affect our pension and post-retirement benefits obligations under such plans and related future expense.

As of December 31, 2004 the pension, post-retirement and termination benefits liability amounted to €589 million, while the present value of the obligation amounted to €944 million and the fair value of plan assets amounted to €184 million. For the year ended as of December 31, 2004, the Group recognized €37 million of expenses related to such liability.

Please find hereafter a table summarizing the estimated impact of discount rate variations on the benefits obligation as of year end, as well as on the 2004 pension and post-retirement benefits expense.

(€ in million)	1 pt increase in discount rate	1 pt decrease in discount rate
Effect on the PBO	(87)	103
Effect on the income statement	-	-

Capital gain on exchange of non-monetary assets

On July 31, 2004, Thomson entered into a transaction with TCL, by which Thomson has contributed its TV manufacturing business to a new incorporated entity, TTE, in exchange of a non-controlling interest in this entity. TCL had the control of TTE from that date.

Thomson has assessed this capital gain as being the difference between the fair value and the carrying value of the exchanged assets less the portion of that gain represented by the economic interest retained by the Group.

Although, in order to determine the fair value of the business given up, Group's management has used certain valuation techniques for which assumptions retained have impacted the fair value of the business given up and therefore the capital gain recognized, the Group set up a measurement process that has involved an external appraiser that has used several methodologies, of which one is based on external available information.

Goodwill and indefinite-lived intangible assets impairment test

We review annually goodwill and other indefinite-lived intangible assets for impairment. Such review requires management to make material judgments and estimates when performing impairment tests. The impairment test for goodwill involves a two-step process. The first step consists of a comparison of a reporting unit's fair value to its carrying value. If the carrying value is greater than its fair value, then step two must also be completed. Step two requires a computation of the implied fair value of a reporting unit's goodwill in comparison to the carrying amount of goodwill. Any excess of the carrying amount of goodwill over its implied fair value must be recorded as an impairment charge.

Thomson completed the impairment test for these assets as of June 30, 2004, which resulted in a €5 million impairment charge recognized in the Content & Network segment.

As of December 31, 2004 the net book value of goodwill amounted to €1,242 million.

The impairment test for indefinite-lived intangible assets other than goodwill consists of comparing the carrying amount of the intangible asset to its fair value. Any excess of the carrying amount over an asset's fair value is recorded as an impairment charge.

Thomson performed its annual impairment test in 2004, which did not result in any impairment charge for these assets.

As of December 31, 2004, the net book value of indefinite-lived intangible assets amounted to €651 million.

Thomson's management believes its policies relating to such impairment testing are critical accounting policies involving critical accounting estimates because determining the fair value of reporting units requires (1) determining the appropriate discount rate to be used to discount future expected cash flow of the reporting unit, (2) estimating the terminal value of each free cash flow computed, (3) estimating the growth rate of the revenues generated by the assets tested for impairment and (4) estimating the operating margin rates of underlying assets for related future periods.

Thomson used the same discount rates for these impairment tests that were used in planned acquisition projects taking into account the specificities of the businesses tested. These rates range from 8 to 15% and are specific to each division, reflecting their relative risk as estimated by Thomson management. In estimating the future revenues growth rates, operating margin rates and operational cash flow generated by a particular asset, the Group used its internal budget for each business, which is updated every six months and which models cash flow for the next five-year period. Finally, the perpetual growth rate used to determine the cash flows on a perpetual basis are based on the inflation rate. A terminal value is determined to model the cash flows in the sixth year and following years.

Based on differences observed between the book values and fair values of goodwill and indefinite-lived intangible assets ("Tested Assets"), the increase of one point in the discount rate or the decrease of one point in the perpetual growth rate would have resulted in the Group recognizing an additional loss of value on certain long lived assets in the Content and Networks division amounting to €6 million and €4 million, respectively. Conversely, the decrease of one point in the discount rate and/or the increase of one point in the perpetual growth rate would have resulted in the Group to recognize no loss in the value of the Tested Assets.

Transition to IFRS

Basis of preparation of the Group's consolidated financial statements under IFRS

In accordance with the Regulation 1606/2002 of the European Parliament regarding the application of international accounting standards, the Group is required to prepare its consolidated financial statements in compliance with IFRS effective as of December 31, 2005 as adopted by the European Union.

The Group prepared its primary consolidated financial statements for 2004 in accordance with the French GAAP as set forth in the French law on consolidation (Act of January 3, 1985) and in Regulation 99-02 of the *Comité de la Réglementation Comptable* (CRC), approved by the decree dated June 22, 1999.

The Group will issue its first consolidated financial statements under IFRS as of December 31, 2005, with one-year historical financial information for 2004, prepared in accordance with the same accounting principles, except for IAS 32, IAS 39 and IFRS 5, which will only be applied starting from January 1, 2005 onwards.

For the release of these comparative consolidated financial statements for 2005 and in accordance with the AMF recommendation relating to the financial information for the transition period, the Group prepared the 2004 financial information on the transition to IFRS disclosing for preliminary information purposes the quantified impact expected from the transition to the IFRS on:

- The reconciliation from French GAAP to IFRS of the Group's consolidated shareholders' equity as of January 1, 2004 and December 31, 2004,
- The reconciliation from French GAAP to IFRS of the Group's consolidated net income for the twelve-month period ended December 31, 2004.

The 2004 financial information related to the expected quantified impact of the transition to the IFRS on the 2004 data was prepared by those IFRS standards and interpretations, which the Group considers to be applied for the preparation of its comparative Group's historical consolidated financial statements as of December 31, 2005.

Given the potential evolution of the standards and interpretations effective as of December 31, 2005 and the response to technical questions and projects currently discussed by the IASB and the IFRIC, the Group may modify some options and accounting methods for the preparation of its first consolidated financial statements under IFRS.

The information presented in this document and related to both the results of operations and financial position of the Group under French GAAP and IFRS has been reviewed by the audit committee and was subject to specific audit procedures by the Group's auditors.

The Group's IFRS transition project

In order to prepare the transition to IFRS, the Group set up a project with the following objectives:

- to ensure project achievement on time;
- to determine its accounting options;
- to inform the audit committee and management board of directors; and
- to define the objectives of the project management office (PMO) and of the training and technical committee.

In order to ensure a complete and consistent approach, the PMO led the whole process in coordination with operational business units. The training & technical committee worked towards defining the accounting options, designing the technical processes and providing the necessary training schemes or programs within the Group organization.

The project team, in coordination with business units, has appointed IFRS coordinators within each operational division in order to push down the process to the subsidiaries.

The IFRS project covers three main phases:

- Analysis of the differences between French GAAP and IFRS – identification of all differences has been completed.
- Assessment of impacts of changes of existing accounting principles to IFRS – all impacts were determined, except for IAS 32, IAS 39 and IFRS 5, applicable starting January 1, 2005, and are summarized below in “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004”.
- Implementation – update of the data processing system, training of the local and corporate teams, update of the Group's accounting manual, validation of the accounting of the impacts in subsidiaries.

Standards and interpretations applied for the IFRS consolidated financial statements

The preparation of the 2004 financial information described below in “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004” is based on the standards and interpretations published as of December 31, 2004 and endorsed by the European Union, and on the options and interpretations not yet published nor adopted but which are mandatory as of December 31, 2005 or can be elected for an earlier application.

For the 2004 financial information, the Group applied all IFRS standards and interpretations, which are mandatory as of December 31, 2005 except for the following standards, which the Group did not elect for an earlier application:

- IFRS 5 – “Non current assets held for sale and discontinued operations”. The Group will apply this standard starting from January 1, 2005.
- IAS 32 – “Financial instruments: disclosure and presentation”. The Group will apply this standard starting from January 1, 2005.
- IAS 39 – “Financial Instruments: recognition and measurement”. The Group will apply this standard starting from January 1, 2005.

The options adopted by the Group, for first time implementation, applied to the opening balance sheet at January 1, 2004 are summarized below in “—Description of the options in connection with the first time adoption of IFRS”. The accounting standards applied by the Group are summarized below in “—Description of the main IFRS accounting policies applied by the Group”.

Description of the options in connection with the first time adoption of IFRS

The 2004 IFRS financial information was prepared in compliance with IFRS 1 “First Time Adoption of the International Financial Reporting Standards”. The general principle is the retroactive application on the opening balance sheet of the standards elected for the 2004 IFRS financial information. The relating IFRS adjustments are accounted for in the opening shareholders’ equity (see “—Description of the main IFRS adjustments”).

The following accounting policies have been retroactively applied pursuant to the optional implementation provisions of IFRS 1:

Business combinations

The Group elected not to apply IFRS 3 to business combinations that have occurred prior to January 1, 2004 (see below at “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004—Description of the main IFRS adjustments—Business combinations”).

All acquisitions made since January 1, 2004 have been recognized in accordance with IFRS 3.

Translation of foreign subsidiaries accounts

In accordance with IFRS 1, the Group elected to recognize cumulative translation differences of the foreign subsidiaries into opening retained earnings as of January 1, 2004, after having accounted for the IFRS adjustments on the opening shareholders’ equity (see below at “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004—Description of the main IFRS adjustments—Translation of foreign subsidiaries accounts”). All cumulative translation differences for all foreign operations have been deemed to be zero at the IFRS transition date. In case of subsequent disposal of these foreign subsidiaries, the related income will not include the reversal of the cumulative translation differences prior to January 1, 2004.

Valuation of assets at fair value

Under certain circumstances, the Group elected to apply IFRS 1 option, which enables the Group to measure several tangible assets at their fair value at the opening IFRS transition date (see below at “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004—Description of the main IFRS adjustments—TTE Transaction”). This fair value corresponds to the deemed cost under IFRS at the IFRS transition date. This method has been used to value the TV assets that were transferred to TCL in July 2004.

Employee benefits

In accordance with the IFRS 1 optional exemption, the Group elected to recognize all cumulative actuarial gains and losses as of January 1, 2004 into opening retained earnings (see below at “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004—Description of the main IFRS adjustments—

Employee benefits”). The application of this option has no impact on the method elected by the Group for the future accounting of the actuarial gains and losses on retirement benefits.

Share-based payment

According to IFRS 1, the Group elected to apply IFRS 2 to all equity instruments previously granted after November 7, 2002 and for which the rights have not vested as of December 31, 2004 (see below at “—Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004—Description of the main IFRS adjustments—Share-based payment”).

Description of the main IFRS accounting policies applied by the Group

The accounting policies summarized below are those applied as of January 1, 2004 and do not take into account the adjustments related to the application of IFRS 1, as presented above in “—Description of the options in connection with the first time adoption of IFRS”.

The 2004 IFRS financial information has been prepared using the historical cost convention. This convention will also be applied for the 2005 consolidated accounts with some exceptions regarding several assets and liabilities, for which specific arrangements recommended by the IFRS have been retained: fair value of available-for-sale financial assets, and financial assets at fair value through profit and loss.

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 consolidated financial statements.

The Board 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. The actual results could significantly differ from these estimates depending on different conditions and hypotheses.

Business combinations

In the event of new acquisitions within the Group’s consolidation scope, the assets and liabilities of the acquired company, which satisfy the IFRS accounting criteria, are recorded at fair value at the acquisition date. The assets held-for-sale by the Group are recorded at the fair value net of exit costs.

Only the identifiable liabilities satisfying the criteria of recognition of a liability for the acquired company are recorded under business combinations. Thus, a restructuring liability is not recognized as a liability for the acquired company if we do not have a current obligation to execute the restructuring plan at the acquisition date.

The adjustments of assets and liabilities values related to new acquisitions, initially recorded using provisional values (due to expertise work being currently carried out or to further analyses to be performed), are accounted for as retroactive adjustments to goodwill, should they occur within the twelve-month period following the acquisition date. Beyond this period, these adjustments are directly recognized into net result unless they correspond to corrections of errors.

Finally, minority interests are accounted for on the basis of the acquired assets fair value.

Acquisitions of minority interests

The acquisitions of minority interests are not currently covered by the IFRS framework and the ongoing projects of the IASB. Acquisitions of minority interests are included within the amendments made to the IFRS 3 “Business combinations”. Moreover, without specific rules, the Group still applies the French GAAP. In the event the Group acquires additional interests in a subsidiary, the difference between the purchase price and the carrying value of these acquired minority interests is recorded as goodwill in the Group’s consolidated financial statements.

Scope and consolidation method

The subsidiaries, the sub-subsidiaries and the special-purpose entities controlled by the Group are consolidated.

The entities that are controlled by the Group and on which the Group has the power to govern the financial and operational policies in order to benefit from the arising advantages, are fully consolidated. Control is presumed to exist when the Group directly or indirectly owns more than half of the voting rights of an entity (the voting rights taken into account are the real and potential voting rights which are immediately exercisable) and when no other shareholder holds a significant right allowing veto or the blocking of ordinary decisions made by the Group.

Consolidation is also applied to special-purpose entities that are controlled, whatever their legal forms are, even where the Company holds no shares in their capital.

Investments in companies in which the Group has joint control with a limited amount of partners (joint-ventures) are consolidated under the proportionate consolidation method: the assets, liabilities, revenues and costs are consolidated in proportion to our investment.

Investments in companies over which the Group has significant influence are accounted for under the equity method. Significant influence means the right to participate in financial and operating policy decisions of the investee, without having either control or joint control over those policies. The goodwill arising on these entities is included in the carrying value of the investment.

Translation of foreign subsidiaries

The consolidated financial statements of affiliates for which the functional currency is different to that of the parent company are translated as follows:

- The assets and liabilities, including the goodwill and the adjustments relating to the fair value in the consolidated accounts, are translated into euros at the rate effective at the period end.
- The revenues and costs are translated into euros at the average exchange rate of the period, as long as this rate is not impacted by significant changes.

The translation adjustments are directly recorded to shareholders’ equity.

Translation of foreign currency transactions

Transactions in foreign currency are translated at the exchange rate effective at the trade date. Monetary assets and liabilities in foreign currency are translated at the rate of exchange prevailing at year-end, except for receivables and payables which are covered by exchange rate hedge instruments and for which the method described in section 1.b of the consolidated statements is still applied in 2004. The Group will start to apply IAS 32 and IAS 39 as from January 1, 2005. The translation of foreign currency resulting from these operations will be recorded in the income statement as a profit or loss on exchange.

The non-monetary assets and liabilities are translated at the historical rate of exchange effective at the trade date. However, the recoverable value of depreciated tangible assets is determined by the exchange rate at the balance sheet date.

Intangible assets

(a) Goodwill

At the acquisition date, goodwill is measured at the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is always presented in the currency of the acquired affiliate and measured at cost less accumulated impairment losses and is not amortized.

Goodwill is allocated to each of the cash-generating units or groups of cash-generating units that benefit from the synergies of the business combinations and corresponds to the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(b) Research and development expenses

Research expenses are expensed as incurred. Development costs are expensed as incurred, unless they meet the IAS 38 capitalization criteria. Capitalized development costs correspond to costs of development projects aiming at improving new processes, which are considered as technically viable and expected to provide future economic benefits.

These capitalized expenses relate to direct labor costs (including pension costs and medical retiree benefits), costs of materials and service fees necessary for the development projects.

The capitalized costs are recorded at cost less accumulated depreciation and impairment, if any. They are amortized over a period ranging from one to five years starting from the operational starting date of the projects.

Software is capitalized at the production cost if used for internal purpose only. The subsequent expenses relating to the data processing system are capitalized if they increase future economic benefits of assets to which they relate and if this cost can be allocated to the asset reliably.

(c) Other intangible assets

The other intangible assets (rights acquired for the use of patents, licenses, brands, etc.) acquired from third parties as well as acquired IT software are recorded at their purchase price plus all associated costs relating to their acquisition and set-up.

All other costs, including those relating to the development of intangible assets internally produced (brands, customer files, etc.), are recorded as expenses of the period when they are incurred.

Intangible assets with indefinite useful lives are not amortized. The intangible assets considered to have a finite useful life are amortized over their estimated useful lives and their value is written down in the case of an impairment loss.

Tangible assets

Tangible assets are valued at historical cost, excluding the cost of borrowings which are expensed as incurred. They are essentially amortized using the straight-line method over the useful life of the asset, which ranges from 20 to 40 years for buildings and from 1 to 12 years for materials and machinery.

The assets from finance leases are capitalized at the lower of the discounted value of future payments and the market value. They are amortized using the straight-line method over the lesser of the estimated useful life of the asset or over the duration of the lease. The amortization costs related to the assets acquired through these contracts are included within the amortization allowances.

Amortization of the tangible and intangible assets

Goodwill, intangible assets having an indefinite useful life and ongoing research and development projects are tested annually for impairment as well as when circumstances indicate that they might be impaired.

The tangible and intangible assets having a definite useful life are tested for impairment only if events or circumstances indicate that they might be impaired. The value of the assets essentially depends on significant changes in the operational environment of the assets or from a lower than expected economic performance of the assets.

The impairment test consists of comparing the net present value of the asset with the recoverable value. The recoverable value of the asset is the higher of its fair value less costs to sell and its value in use. The recoverable value of an asset is individually assessed, unless the asset does not generate any cash inflows independent of those from other assets or groups of assets. In this case, as for goodwill, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

For determining the value in use, the Group uses estimates of future pre-tax discounted cash flows generated by the asset over a period of 5 years, including a residual value when appropriate. These flows are consistent with the most recent budgets approved by the Group directors. Cash flows beyond this period are estimated using a steady or declining growth rate for the subsequent years. Estimated cash flows are discounted using pre-tax long-term market rates, representing the time value of money and the specific risks of the assets.

The fair value less costs to sell corresponds to the value that could be obtained from the sale of the asset (or the unit), in an arm's-length transaction between knowledgeable and willing parties, less the transaction costs.

Impairment loss is recognized in the operating result. Impairment of goodwill can never be reversed.

Inventories

Inventories are valued at cost or production cost. The production costs include the direct costs of raw materials, labor costs and a part of the overheads representative of the indirect costs of production, and excludes the general administration costs.

The cost of inventory sold is determined based on the weighted average method or the FIFO (first in – first out) method, depending on the nature of the inventory.

When the net realizable value of inventories in the normal course of the business is lower than its carrying value, the inventory is written down by the difference.

Financial instruments

The Group has elected to apply IAS 32 and IAS 39 from January 1, 2005. As of that date, the trading financial assets and liabilities will be recorded at their fair value, plus the transaction costs that are directly attributable to their acquisition.

In compliance with IAS 39, the financial assets and liabilities are to be classified under one of the following categories:

(a) Available-for-sale financial assets

This category of assets will consist of the financial assets currently classified as either other investments, other financial assets or marketable securities.

The changes in fair value will be recognized in shareholders' equity until their disposal or the recognition of an impairment loss in the income statement.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity: bonds, and debtors. These investments are measured at amortized cost using the effective interest method.

(c) Transaction assets (for trading)

The standard defines this category as investments held for trading. Subsequent changes in the fair value are recognized in the profit and loss.

(d) Third party loans and receivables

This category consists of receivables from controlled entities and trade receivables. These receivables are measured at amortized cost using the effective interest method.

(e) Financial liabilities

Financial liabilities are composed of borrowings and other financial debts, which are initially measured at fair value net of transaction costs. Then they are adjusted to amortized cost using the effective interest method.

(f) Financial liabilities – hybrid/compound instruments

These liabilities consist of an equity component (option to exchange/convert into Thomson's shares), which grants an option to the holder of the instrument to convert it into an equity instrument of the issuer. These liabilities (bonds convertible into new or existing shares) are accounted for in financial debts in the Group's accounts under French GAAP. According to IAS 32, these specific liabilities, including issuing costs directly attributable to the borrowing, shall be accounted for separately as a liability and an equity component in the Group's shareholders' equity.

The carrying amount of the liability component is measured at the fair value of a similar liability that does not have an associated equity component (the fair value is determined from the present value of future cash flows relating to a similar instrument without an equity component). The carrying value of the equity instrument represented by the option to convert the instrument into Thomson's shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

(g) Trade receivables and payables

The trade receivables and payables are part of the current financial assets and liabilities. At the date of their initial recognition, they shall be measured at the fair value of the amount to be received or paid.

This generally represents their nominal value because of the short time between the recognition of the instrument and its realization (for assets) or its settlement (for liabilities).

(h) Derivatives

The Group uses derivatives as hedging instruments for hedges of foreign currency risks and changes in interest rates. These instruments include agreements of interest rate swap agreements, foreign currency, options and foreign currency forward contracts. They shall be accounted for in accordance with hedge accounting.

(i) Derivatives not designated as hedging instruments

Derivatives not designated as hedging instruments are measured at fair value. Subsequent changes in fair value are recognized in the income statement. The draft of the amendment to IAS 39 regarding the use of the fair value option has not yet been officially adopted by the European Union.

Treasury shares

Treasury shares are recorded at purchase cost and deducted from shareholders' equity. The loss or gain on disposal of these shares is recorded in shareholders' equity and not in the income statement.

Deferred taxes

Deferred taxes result from temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts. They are accounted for using the balance sheet liability method.

Deferred taxes for all temporary differences are calculated for each taxable entity using the balance sheet liability method.

All deferred tax liabilities are recorded:

- for all taxable temporary differences except when the deferred tax liability results from the depreciation of goodwill not deductible for tax purposes or from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the trade date, affects neither the net income nor the taxable income or loss; and
- for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except when the Group is able to control the timing of the reversal of the temporary differences and when it is likely that this temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recorded for all deductible temporary differences, the carryforward of unused tax losses and unused tax credits, to the extent that it is likely that future taxable income will be available against which these temporary differences can be utilized, except when the related deferred tax asset results from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the trade date, affects neither the net income nor the taxable income or loss.

The carrying value of the deferred tax assets is reviewed at each balance sheet date and reduced when it is not likely that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are valued using the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are classified as non-current assets and liabilities.

Leases

Leases which transfer substantially all risks and rewards incidental to the ownership of the leased asset are classified as finance leases. This transfer is based on different indicators analyses like (i) the existence of a bargain price option in the agreement, (ii) the fact that the lease term is for the major part of the economic life of the asset, or (iii) the present value of minimum lease payments amounts to substantially all of the fair value of the leased asset. The assets accounted for as finance leases are capitalized and a financial liability is accounted for by the lessee.

These assets are amortized over the shorter of their useful life and the lease term.

Leases which are not classified as finance leases are operating leases. The payments related to these contracts are recorded as expenses on a straight-line basis over the lease term.

Employee benefits

The Group operates different pension schemes for some employees. Pension plans, retirement indemnities and other commitments which are defined benefits schemes (i.e., where the Group commits itself to guarantee a certain level benefits) are recognized in the balance sheet based on an actuarial valuation of the defined benefit obligations at the balance sheet date less the fair value of the related plan assets.

The method used for determining employee benefits is based on the Projected Unit Credit Method. The discounted value of the Group benefit obligations is determined by attributing the benefits to employee services in accordance with the benefit formula of each plan. The provisions for these benefits are determined annually by independent qualified actuaries based on demographic and financial assumptions such as mortality, employee turnover, future salaries and benefit levels, discount rates and expected rates of return on plan assets.

Contributions paid related to pension plans which are defined contribution plans (plans under which the Group does not have any other obligations than those contributions) are recorded as expenses in the period to which they relate.

(a) Actuarial gains and losses

Net cumulative gains and losses that are lower than the greater of either 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets at the beginning of the period are not recognized. Net cumulative actuarial gains and losses outside the 10% corridor are recognized in the income statement over the expected average remaining working lives of the employees.

(b) Other long-term benefits

The obligations related to the other long-term benefits of the jubilee award are also based on actuarial assumptions.

Share-based payment

As required by IFRS 2 "Share-based Payment", the service received from the employees for the grant of the stock options consists of an additional compensation to the employee. It is accounted for as an employee expense and is charged to the income statement over the vesting periods of the plans (usually 3 to 4 years).

The fair value of instruments, and especially of options granted, is determined based on the Black-Scholes valuation model and take into account the number of options expected to be vested annually. The expense will be therefore recorded over the vesting period.

Reserves

Reserves are recorded at the balance sheet date when the Group has a legal or constructive obligation as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The recorded reserve represents the best estimate of the expenditure required to settle the obligation at the balance sheet date.

Where the effect of the time value of money is material, the recorded amount of a provision should be the present value of the expenditures expected to be required to settle the related obligation. The present value is determined using pre-tax discount rates that reflect the assessment of the time value of money and the risks specific to the liabilities.

Increases in provisions resulting from the discounting and recorded to reflect the passage of time are recognized as borrowing costs in the income statement.

Reserves for restructuring: Reserves for restructuring costs are recognized whenever the Group has a constructive obligation towards third parties, which results from a decision made by the Group before the balance sheet date and supported by the following items:

- the existence of a detailed and finalized plan of the sites concerned, their location, the role and the approximate number of headcounts concerned, the nature of the expenses that are to be incurred and the effective date of the plan; and
- the announcement of this plan to the employees concerned.

The restructuring reserve only includes the expenses directly linked to the plan and which do not relate to the Group's continuing activities.

Revenues

Revenue is measured at the fair value of the amount received or receivable, taking into account the amount of any trade discounts or volume rebates allowed by the entity.

(a) Sales of goods

Related revenue is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) Services agreements

The Group signs contracts for a 1 to 5 year period through its Technicolor subsidiary, which provide an exclusive right on the client's geographical area. They include provisions that establish pricing terms for services and volumes to be provided and other terms. For these agreements, the Group paid advances to the clients which are accounted for as "contract advances" and are amortized with a corresponding reduction of revenue according to the quantities produced or films processed.

(c) Royalties

Revenue from licenses is recognized based on a formal agreement with the licensee and is accounted for in accordance with the terms of the agreement.

Main IFRS net equity adjustments as of January 1, 2004 and December 31, 2004 and net result adjustments for the twelve-month period ended December 31, 2004

Description of the main IFRS adjustments

The differences identified between the 2004 statements under French GAAP and IFRS are presented below, detailing the net opening equity reconciliation and the net result reconciliation for the twelve-month period ended December 31, 2004.

Business combinations

As mentioned above, the Group elected to apply the IFRS 1 exemption, which allows not to restate business combinations that have occurred prior to January 1, 2004. All business combinations made after this date have been restated in accordance with IFRS 3 using the purchase accounting method.

(a) Customer relationships

Under French GAAP, market share acquired through business combination is capitalized separately from goodwill and not amortized.

Under IFRS, market share corresponds to “customer relationships”, and is classified as intangible assets that meet the criteria defined by IAS 38. Acquired market share is amortized over the expected useful life. This accounting treatment is the same as that applied under U.S. GAAP (as presented in the U.S. GAAP reconciliation at Note 31(g) to our consolidated financial statements). Customer relationships are amortized over useful lives ranging from 16 to 40 years.

Accumulated amortization costs of customer relationships had a negative impact of €58 million on the opening net equity. The €23 million amortization expense for 2004 was calculated on a €393 million gross amount of intangible assets.

(b) Restructuring costs

Under French GAAP, restructuring costs of a business combination are recorded as part of allocating the cost of the combination when the restructuring plans have been clearly defined and if they have been announced and finalized before the end of the period subsequent to the period when the combination occurred.

In compliance with IFRS 3, a reserve related to the costs of the closures of plants and sites is recorded as a liability for the acquiree as part of allocating the cost of the combination, if and only if the restructuring plan meets the criteria defined by IAS 37 at the acquisition date.

Consequently, restructuring plans of the acquirees, which were accounted for as part of allocating the cost of the combination under French GAAP but were not announced at the acquisition date, have been recognized as an expense under IFRS. Accordingly, in 2004, €29 million of restructuring costs have been expensed under IFRS (of which €17 million relates to the Displays activity, with the remainder relating to the content services businesses operating under the Technicolor brand). This adjustment has been accounted for against goodwill arising on these acquisitions. The €7 million of related French tax effect, calculated on these reserves, has been reversed (as presented on “Tax effect on IFRS adjustments” line in the reconciliation table below).

(c) Goodwill

Under French GAAP, goodwill was amortized on a straight-line basis over its estimated useful life (ranging from 5 to 20 years), based on the estimates.

In compliance with IFRS 3, goodwill is not amortized but is tested annually for impairment and when impairment indicators are present.

As the Group elected to apply the IFRS 1 exemption, which allows the Group to elect not to restate business combinations that have occurred prior to January 1, 2004 and not to change their initial recognition, the net carrying value of goodwill regarding these acquisitions and accounted for under French GAAP corresponds to the new gross value under IFRS.

In compliance with IFRS 3, the total goodwill amortization expense in 2004 adjusted under IFRS amounts to €100 million (favorable impact on the net income). This amount does not include the €30 million goodwill impairment related to TTE (€18 million), Zhao Wei (€7million) and Screenvision (€5 million). Under IFRS, the impairment remains an expense in the 2004 income statement.

Consolidation scope

Under IFRS, according to SIC 12 interpretation, special purpose entities (SPEs) that are controlled in substance are consolidated even if the Group has no share in their capital. Under French GAAP, these SPEs were not consolidated as of December 31, 2003 if the Group had no share in their capital. As of January 1, 2004, the consolidation of these entities became mandatory under French GAAP in accordance with the CRC 04-03 Regulation subsequent to the issuance of Article 133 on French law on Financial Security issued on August 1, 2003. Due to the change in French laws, there are no more adjustments to be made as of December 31, 2004.

As of December 31, 2003, the Group had two special purpose entities, whose aim was to implement two synthetic leases for Thomson Display Mexicana S.A. de C.V. and for Thomson Multimedia Polska Sp.zo.o (Poland) as described under Note 24(b) to our consolidated financial statements.

Under IFRS, these entities have been consolidated for the first time as of January 1, 2004. The impact of this consolidation generated an adjustment of €193 million of fixed assets, €321 million of financial long-term debt and €85 million of reversal of deferred income. The opening shareholders' equity has been unfavorably impacted by €43 million.

Translation of foreign subsidiaries accounts

In compliance with IFRS 1 (see above at “—Description of the options in connection with the first time adoption of IFRS—Translation of foreign difference”), the Group elected to apply the exemption, which allows to recognize cumulative translation differences relating to foreign subsidiaries into retained earnings as of January 1, 2004. These cumulative translation differences amounted to a €612 million loss as of January 1, 2004 and have been charged to the opening retained earnings. All cumulative translation differences for all foreign operations have been deemed to be zero at the IFRS transition date. This IFRS adjustment has no impact on the consolidated shareholders' equity as of January 1, 2004. In case of subsequent disposal of these foreign subsidiaries, the related income will not include the reversal of the cumulative translation differences prior to January 1, 2004.

TTE transaction

The Group and TCL combined their respective TV assets in a new company, TTE, in which the Group holds a 33% interest and TCL holds a 67% interest. The accounting principle regarding the recognition of a capital gain on the share of the TV activity actually sold to TTE has no impact under

IFRS. As under French GAAP, no capital gain has been recognized on the share of the activity indirectly owned by the Group.

(a) Transaction costs

In 2003, the Group engaged the services of outside consultants in connection with several potential third party transactions, including principally the contribution of the manufacturing assets of its TV activity into TTE, a joint entity in which it would have a minority interest.

Since the TTE transaction was not yet finalized, at December 31, 2003, external consulting costs incurred in connection with TTE amounting to €9 million were deferred under French GAAP.

At December 31, 2004, €23 million of total outside costs incurred on this transaction were allocated as follows:

- €11.5 million (before tax effect) of which €7.6 million recognized as part of allocating the costs of the combination, and €3.9 million recognized as deferred tax liabilities; and
- €11.5 million related to the disposal of the Group's TV activity and was charged against the capital gain arising from the transaction.

Under IFRS, as no transactions were completed at 2003 year-end, the €9 million cost was expensed against the opening net equity. The €14 million incurred in 2004 was allocated as follows:

- €6.9 million was recognized as part of allocating the costs of the combination, generating a difference of €0.6 million compared with French GAAP. These acquisition costs have been recognized before tax effect.
- €6.9 million has been charged against capital gain, generating a €4.6 million difference on capital gain between French GAAP and IFRS.

The favorable impact disclosed in the income statement includes the reversal of the €3.9 million deferred tax (disclosed under the line "Tax effect on IFRS adjustments" in the reconciliation table) and the €4.6 million related to the capital gain adjustment.

(b) Valuation of transferred assets at fair value

As mentioned above at "—Description of the options in connection with the first time adoption of IFRS—Valuation of assets at fair value", the IFRS 1 application related to the valuation of the tangible assets of TV activities that were sold to TCL in July 2004. This valuation had a negative impact of €17 million on the opening net equity, which corresponds to the difference between €128 million asset carrying value and €111 million fair value. The valuation of the assets at fair value as of January 1, 2004 led to the reversal of a €2 million depreciation in the IFRS consolidated financial statements.

(c) Capital gain on transfer of the Television activities

The option elected to measure these assets at fair value generated a reduction of the net consolidated value of the transferred activity, and consequently increased the capital gain related to this transaction by €11 million under IFRS.

Revenue recognition

(a) Revenue recognition on licensing activities

Revenue from the Group's licensing and patents business activities results from licensing agreements for the non-exclusive use of patents developed or acquired by the Group.

Under French GAAP, revenue is recognized as income in the related period if (1) a contract was signed before the date the Group consolidated financial statements have been approved by the board of directors and if (2) the revenue recognized is earned, which means it relates to licenses used during periods prior to the date the current year accounts were approved.

According to IAS 18, under IFRS (as for U.S. GAAP, refer to Note 31(t) to our consolidated financial statements), such revenue is recognized when it is received or earned based upon a formal agreement signed between the parties.

Accordingly, the impact on IFRS opening net equity is a negative effect of €27 million. In 2004, the impact on the IFRS net result is a positive effect of €24 million, including the reversal of the previous €27 million (positive impact) and €3 million (negative impact) related to revenues accounted for in 2004 under French GAAP but deferred to 2005 under IFRS.

(b) Rebates and price reductions received

Under French GAAP, some rebates received from suppliers were recorded as a deduction of cost of sales for the related period.

Under IFRS, when those rebates are linked to future purchases commitments, they should be considered upfront payments on future business and spread over that future business. This was accounted for in the 2004 IFRS income statement as a negative impact for an amount of €4 million.

Research and development costs

Like under French GAAP, under IFRS, research and development expenses relating to internal projects are expenses as incurred.

Under French GAAP, the Group's policy is to expense development costs (except software) as they are incurred. Under IFRS these costs should be capitalized when they meet criteria defined under IAS 38. The retroactive application of IAS 38 led to the recognition of an asset corresponding to the net book value of the intangible asset had the IAS 38 ever been applied.

This IFRS adjustment has a positive impact of €16 million on opening retained earnings as of January 1, 2004. In 2004, the €14 million of net development costs were capitalized in compliance with IAS 38, thus positively impacted the 2004 income statement.

Employee benefits

The Group elected to apply the IFRS 1 exemption relating to the recognition of cumulative actuarial gains and losses in the opening balance sheet (see above at “—Description of the options in connection with the first time adoption of IFRS—Employee benefits”).

The valuation and accounting method regarding pension and retirement benefits, as described in notes 1 and 17 to our consolidated financial statements, are closely related to U.S. GAAP. The main differences are as follows:

- the prior service costs resulting from plan amendments or new plan creation and related to vested rights are spread over the average remaining working lives of employees participating in the plans under French GAAP. Under IFRS, this cost is directly accounted for as an expense. The prior service costs related to non vested rights are amortized under both accounting standards;
- the valuation method of some early retirement benefits differs under IFRS;

- some retirement benefits obligation valued as of September 30 under French GAAP have been remeasured as of December 31, under IFRS;
- the impact of the U.S. Medicare Modernization Act passed in December 2003 related to post-retirement medical plans for employees in the U.S. was accounted for in the IFRS balance sheet assets as a reimbursement right. Under French GAAP, this impact has been taken into account for 2004 and recognition has been deferred; and
- the accounting method for the curtailments and amendments to benefits plans differs under IFRS.

As of January 1, 2004, the effect of IFRS adoption on opening shareholders' equity in relation to employee benefits was a negative impact of €150 million. This impact was mainly due to the following:

- In accordance with the IFRS 1 optional exemption, actuarial losses as of January 1, 2004 (€248 million) were recorded in shareholders' equity.
- a positive effect on opening shareholders' equity of €81 million has been recognized on January 1, 2004 relating to unrecognized prior service costs resulting from changes in medical retiree plans for employees in the U.S. announced prior to January 1, 2004. These amounts were deferred under French GAAP.
- under IFRS, a positive effect of €43 million on opening shareholders' equity has been recognized as a result of the U.S. Medicare Modernization Act as of January 1, 2004.
- the other adjustments result in a negative effect of €26 million on the opening shareholders' equity mainly due to valuation method differences and to the change of the measurement date for some plans.

The IFRS impact on the 2004 income statement in relation to employee benefits is a negative effect of €25 million. This impact is mainly due to the following:

- A €40 million negative adjustment on curtailment gain relating to the closure of Marion and Circleville plants was recognized as opposed to French GAAP. This impact was already booked under IFRS in the 2004 opening balance sheet.
- As a consequence of the IFRS 1 option, the pension costs recognized in 2004 under IFRS no longer includes the amortization of actuarial losses existing as of January 1, 2004. A positive effect of €10 million was recorded in the 2004 income statement.
- A positive effect of €9 million is due to valuation method differences, principally related to early retirement plans.

Share-based payment

For the opening balance sheet as of January 1, 2004, the Group elected to apply the IFRS 1 exemption relating to the retroactive application of the rules related to equity instruments granted to employees. As a result of this exemption, only equity instruments granted after November 7, 2002 and not yet vested as of December 31, 2004 have been adjusted.

The equity instruments which have been adjusted under IFRS 2 in compliance to IFRS 1 are as follows:

- *Bons d'Achat et de Souscription d'Actions* ("BASA") for the Group's employees that were entirely vested prior to December 31, 2004;
- Thomson shares attributed to TTE employees prior to December 31, 2004, for the part vested prior to December 31, 2004; and

- Stock options granted in 2004 as a replacement of stock option rights granted prior to November 7, 2002.

In accordance with the requirements of IFRS 2 “Share-based payment”, stock options granted to employees are recorded as an expense in the income statement. The expense corresponds to the stock option’s fair value recognized in the income statement over the vesting periods of the rights related to these plans (generally 3 to 4 years). The stock option fair value is determined using the Black-Scholes model, taking into account an annual review of the options effectively vested and the number of options expected to be exercisable.

Under French GAAP, unlike under IFRS, the fair value of the service of the employees is not recognized as an expense.

There are no adjustments recorded to the opening balance sheet.

The impact of IFRS 2 application on this year’s income statement regarding the plans not covered by the aforementioned exemptions was a €3 million expense.

Deferred tax

(a) Deferred tax on consolidated entities

In compliance with IAS 12, the Group accounts for deferred tax assets related to investments in subsidiaries, associates and interests in joint venture, except when the Group is able to control the timing of the reversal of the temporary differences and when the taxable income is not considered sufficient for these temporary differences to be utilized.

A €3 million deferred tax asset was recognized in the opening shareholders’ equity, only to the extent that the Group is not able to control the distribution of future profits in some entities (essentially the Screenvision Group).

In 2004, an additional €2 million net deferred tax asset was recorded as deferred tax income.

(b) Deferred tax on entities with different operational currency to the Group’s local currency

Under IFRS, a deferred tax is recorded on differences between the tax base and the carrying value of the non-monetary assets of the consolidated entities for which the functional currency differs from the local currency.

Consequently, net deferred tax liabilities amounting to €6 million was recognized in the 2004 opening shareholders’ equity.

In 2004, an additional €4 million net deferred tax liability has been recognized in the Group’s deferred tax expense.

The combined effect of the adjustments described in the above sections (a) and (b) is a €3 million reduction of the opening shareholders’ equity and a €2 million reduction of the 2004 net income.

(c) Deferred tax on IFRS adjustments

The net deferred tax effect, based on IFRS adjustments, amounts to €14 million of deferred tax liability recognized in the opening shareholders’ equity as of January 1, 2004 and €9 million deferred tax income recognized in the 2004 income statement.

French GAAP / IFRS net equity reconciliation as of January 1, 2004 and December 31, 2004 and net income reconciliation for the twelve-month period ended December 31, 2004 (except for IAS 32 and IAS 39)

	January 1, 2004	Net result for the year	Other	Translation differences	December 31, 2004
Shareholders' equity under French GAAP	3,583	(636)	(171)	(106)	2,670
Customer relationships	(58)	(23)		6	(75)
Restructuring costs for business combinations		(29)		2	(27)
Goodwill amortization		100		7	107
Consolidation scope - Special purpose entities	(43)		43		
Transaction costs - TTE transaction	(9)	4			(5)
Fair value of property, plant and equipment	(17)	2			(15)
Capital gain on transferred assets		11			11
Revenue recognition - Patent licensing	(27)	24			(3)
Rebates received		(4)			(4)
Capitalization of development costs, net	16	14			30
Employee benefits	(150)	(25)		8	(167)
Share-based payment		(3)	3		
Other IFRS adjustments	5	(5)		(1)	(1)
Total IFRS adjustments before tax	(283)	66	46	22	(149)
Tax effect from IAS 12 except on IFRS adjustments	(3)	(2)			(5)
Tax effect on IFRS adjustment	(14)	9			(5)
Shareholders' equity under IFRS	3,283	(563)	(125)	(84)	2,511

The above reconciliation does not take into account the adjustments on minority interests, which the Group considers as immaterial. The amounts presented under "Other IFRS adjustments" are individually considered by the Group as not significant by the Group (under €3 million).

IFRS Impact on Cash-flow Statement

The IFRS cash flow statement is affected by changes related to the accounting treatment and classification of several cash flows resulting from the operating, investing and financing activities.

The cash and cash equivalents as determined under French GAAP are not subject to changes under IFRS.

Principal Differences Between French GAAP and U.S. GAAP

The principal differences between French GAAP and U.S. GAAP affecting our consolidated financial statements mainly relate to (i) the criteria and the timing of recording of provisions, principally for restructuring activities, (ii) the recording of certain amortization and impairment charges that are classified below operating income under French GAAP but within operating income under U.S. GAAP, (iii) the recognition of revenue, (iv) the accounting treatment of investment securities and financial instruments, (v) the amortization of certain intangible assets and (vi) the accounting treatment of certain advantages in connection with employee share offerings.

Despite the new accounting standard on restructuring activities (SFAS 146 – "Accounting for Costs associated with Exit or Disposal Activities"), differences in the recognition of restructuring accruals have been reduced since the implementation of the new French rule on liability recognition (Regulation No. 2000-06 of the French Committee on Accounting Regulations applied since January 1, 2002). However, with respect to termination costs, U.S. GAAP remains more stringent than French GAAP

since the former provide additional criteria in comparison with French GAAP to recognize a liability. As such, SFAS 146 requires that the communication of the benefit arrangement includes sufficient details to enable employees to determine the type and amount of benefits they will receive if they are terminated. In the case the termination benefits are provided by way of contract or by law, U.S. GAAP (FAS 112 – “Employers’ Accounting for Postemployment Benefits”) requires to accrue for such costs when the liability is probable, whereas French GAAP requires the announcement of the restructuring plan. In addition, SFAS 146 requires that costs to terminate a contract be provided for at the date the third party is notified of such decision or at the cease-used date in the case of a lease agreement. By contrast, under French GAAP, the accrual is to be recorded at the announcement to vacate the facility. Also, SFAS 146 requires that accruals for cost to terminate a lease be reduced by estimated sub-lease rentals, whereas French GAAP requires the existence of a sub-lease contract to reduce such liability. Finally, SFAS 146 requires the recognition of a restructuring liability at its present value when the difference between the face value of a liability and its present value is material. As a result, the date upon which a restructuring liability is recognized under French GAAP do not always correspond to that of U.S. GAAP.

Furthermore, the provisions of EITF 95-3 “Recognition of Liabilities in Connection with a Purchase Business Combination” do not allow costs incurred by the acquiring company to be recognized as a liability assumed as of the consummation date of the acquisition. In addition, U.S. GAAP limits the window period to a maximum of twelve months following the consummation date of the business combination whereas French GAAP extends this window period to the closing date of the fiscal year following the one in which the business combination occurred. Consequently, all differences between French and U.S. GAAP regarding restructuring are of temporary nature and relate to the classification of restructuring costs.

U.S. GAAP (FIN 45 – “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Guarantees for the Indebtedness of Others”) requires the recognition of the fair value of certain guarantees given as a liability at the date the guarantee is granted for their non-contingent part. Under French GAAP, such commitment cannot be provided for because it does not meet the present obligation criteria required to accrue for a liability.

In addition, certain early retirement plans are reserved under U.S. GAAP when rights are acquired by employees whereas under French GAAP such liability is accrued when the plan is announced.

The accounting treatment for derivative instruments may differ between French and U.S. GAAP. Under French GAAP, we defer premiums and discounts as well as gains and losses on forward exchange contracts that hedge the future expected commercial forecasts and amortize them to income over the life of the underlying transactions being hedged. Under U.S. GAAP, these transactions do not qualify as future transactions eligible for hedge accounting, and therefore, derivative instruments are accounted for at their market value and the corresponding unrealized gains or losses are recorded in financial income.

Under U.S. GAAP, we measure our available for sale investments at fair value and report temporary un-realized gains or losses as a separate component of shareholder’s equity. Under French GAAP such investments are carried at the lower of cost or fair market value. Under French GAAP, goodwill is amortized over its estimated useful life (which ranges from 5 to 20 years). Whereas under U.S. GAAP, SFAS 142 “Goodwill and Other Intangible Assets” states that goodwill is no longer amortized but should be tested for impairment at least annually. Any recognized impairment is permanent.

Purchase price allocation for our acquisitions differs from French to U.S. GAAP mainly due to accounting treatment differences regarding restructuring reserves as well as the recording, when applicable, of deferred tax assets related to customer relationships and trademarks. Such intangibles having a finite useful-life under U.S. GAAP are amortized, whereas they are not amortized under French GAAP.

The issuance by Thomson of *bons de souscription d'actions* ("BASA" or warrants) are considered under French GAAP as instruments of shareholders' equity and, as such, do not affect the consolidated net income of the Group. Under U.S. GAAP, the BASA granted to employees is accounted for under APB 25 in the following manner: their intrinsic value is accounted for as an expense and shown as a separate reduction of shareholders' equity. As the intrinsic value is nil, these instruments do not have an impact on the net income of the Group under US GAAP.

The accounting treatment for bonds redeemable for cash or convertible into shares may differ under French GAAP and U.S. GAAP. Under French GAAP, we account for convertible bonds as financial debt and recognize issuance costs as an asset amortized over the debt term. Under U.S. GAAP, since certain subordinated bonds issued on September 16, 2004, which are denominated in U.S. dollars, are (1) redeemable for U.S. dollars and/or (2) convertible into newly issued ordinary shares or existing ordinary shares (or a combination of both), which, at the option of the bondholders, may be delivered in the form of American Depositary Shares representing such ordinary shares (the "Bonds"), the embedded conversion option has been bifurcated and accounted separately within long-term liabilities. The conversion option and the debt component have been recognized at fair value at inception. Subsequent changes of the fair value of the embedded derivative have been charged to the statement of operations under U.S. GAAP. The allocation of a portion of the Bonds proceeds to the embedded derivative and issuance costs creates a discount on issuance which is being amortized to earnings over the life of the Bonds under U.S. GAAP.

The treatment for the first time consolidation of Special Purpose Entities (SPEs) may differ under French GAAP and U.S. GAAP. Under French GAAP and pursuant to the application of Article 133 of the French Law on Financial Security (Loi de Sécurité Financière or LSF) new SPEs are consolidated retroactively as of January 1, 2004 with the cumulative impact recorded through shareholders' equity. Under U.S. GAAP and in accordance with the FASB published revision to FIN 46 ("FIN 46R"), the consolidation impact of these SPEs created before February 1, 2003, has been recognized through the 2004 statement of operations as cumulative effect of change in accounting principle.

In connection with the transaction with TCL to create TTE, Thomson provided a call option to TCL for Thomson shares at a fixed price. Under French GAAP, Thomson recorded this right granted to TCL in consideration for the Group's 33% interest in TTE with a corresponding reduction in shareholders' equity of the Group. Under U.S. GAAP, Thomson recorded financial debt in consideration for the TTE shares it received. In connection with the shares granted to employees of TTE, French GAAP does not require Thomson to recognize the fair value of the benefit granted, and, as a result, the Group has not recorded a corresponding operational expense. However, U.S. GAAP requires that this benefit be recorded as an operational expense equal to the intrinsic value of these shares and reevaluated until the date the shares are acquired.

Our financial statements under U.S. GAAP are also affected by the classification as compensation gain or expense of the re-evaluation at fair market value of certain benefits granted by TSA, formerly our main shareholder, to our employees in connection with employee share offerings. These benefits principally consist in discounts on the offering price and in bonus shares.

In connection with the stock options issued by Thomson for the benefit of its employees, French GAAP does not require Thomson to recognize the fair value of the right granted, and, as a result, the Group has not recorded a corresponding operational expense. However, U.S. GAAP requires that this benefit be recorded as an operational expense equal to the intrinsic value of these securities. In addition, U.S. GAAP requires that the notes to the financial statements include the fair value of these benefits, as well as the effect that these benefits would have had on the consolidated income from operations if the fair value method had been applied.

The Group is currently evaluating the impacts of the following new U.S. accounting standards: (a) EITF 02-14 "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other than Common Stocks", (b) EITF 03-13 "Applying the Conditions of Paragraph 42 of SFAS 144 – Accounting

for the Impairment or Disposal of Long-Lived Assets”, (c) EITF 04-08 “The Effect of Contingently Instruments on Diluted Earnings per Share”, (d) SFAS 123R “Share-based Payment – An Amendment of Statement 123”, (e) SFAS 151 “Inventory Costs, an Amendment of ARB 43, Chapter 4” and (f) SFAS 153 “Exchange of Non-Monetary Assets”.

For more detailed information regarding the foregoing differences between French GAAP and U.S. GAAP, as well as certain additional differences between French GAAP and U.S. GAAP as it applies to Thomson (including regarding pensions and termination benefits, stay bonus, and reversal of deferred tax valuation allowance), please refer to Note 31 and 32 to our consolidated financial statements.

Results of Operations for 2004 and 2003

Evolution of division structure

In 2004, as in 2003, our activities were organized and reported on according to four operating divisions: Content & Networks, Components, Consumer Products and Licensing. For a summary of these divisions and our subsequent reorganization thereof, see Item 4: “Information on the Company—Our Organization—Transformation to Implement Our Strategy.” For information of our 2004 net sales and operating income presented according to our new organization effective January 1, 2005, please refer to Thomson’s Form 6-K, as submitted to the SEC on March 3, 2005.

Changes in scope of consolidation

- In accordance with the new regulation Article 133 of the French Law on Financial Security (*Loi de Sécurité Financière* or “LSF”) issued on August 1, 2003, Thomson fully consolidated two special purpose entities (“SPEs”) starting on January 1, 2004. One of the SPEs was established in 2000 in connection with a synthetic lease transaction for Thomson Display Mexicana S.A. de C.V. concerning a new television tube manufacturing facility located in Mexicali (Mexico), which was unwound in January 2005. The other SPE was established in 2001 in connection with a similar lease transaction for Thomson multimedia Polska sp.zo.o (Poland), which involved the transfer of legal title of its tube manufacturing equipment. On March 31, 2004, Thomson multimedia Polska sp.zo.o unwound the synthetic lease transaction by repaying the debt held via the SPE. Consequently, legal title of the equipment was transferred back to Thomson multimedia Polska sp.zo.o.
- On January 7, 2004, Thomson completed the acquisition of the tubes division of the Chinese company Xinyuan Highway Development (known as “Fortune”). We fully consolidated Fortune as of such date. Concurrently with this transaction, Thomson increased its ownership in Thomson Guangdong Display Co. Ltd. to 77%.
- On March 23, 2004, Thomson signed a definitive agreement to sell to the Taiwanese company, Foxconn, its optical pick-up manufacturing entity located in China within Thomson OKMCO Shenzhen Co. Ltd. Thomson will continue its research, product development and selling activities in this business.
- On April 20, 2004, Thomson acquired International Recording, a Rome-based company specializing in creating multiple foreign language versions for theatrical and broadcast content, as well as for video games. We fully consolidated this company as of such date.
- On May 12, 2004, Thomson acquired Command post, a leading Canadian provider of video/audio post-production and film services for the North American motion picture industry. We fully consolidated this company as of such date.
- On May 15, 2004, Thomson acquired the video division of ParkerVision, a pioneer of live television production automation systems. We fully consolidated this company as of such date.
- On June 11, 2004, Thomson acquired from Beijing C&W Electronics (Group) Co. Ltd. its 45% minority interest in Thomson Zhao Wei Multimedia Co., Ltd. (China). Thomson already held the other

55% and had joint control. This company then formed part of Thomson's television business contributed to TTE as of July 31, 2004.

- On June 16, 2004, Thomson acquired from Alcatel its 25% minority interest in Nextream S.A. Thomson already held the other 75%, together with the management control. Nextream which was fully consolidated is now 100% held by the Group.
- On June 18, 2004, Thomson acquired Madrid Film SL, also known as Madrid Film Group, the largest film and post-production operation in Spain. We fully consolidated this company as of such date.
- On June 24, 2004, Thomson acquired the set-top box manufacturing assets of Hughes Network Systems (the manufacturing activity of DIRECTV Group) and signed an agreement for the long-term development and supply of digital satellite set-top boxes (STBs). We fully consolidated this activity as of that date.
- On June 25, 2004, in order to complete the agreements signed in 2003 concerning Canal Plus Technologies and the sale of the MediaGuard™ business to Kudelski, Thomson sold to Kudelski 50% of its shares in Canal Plus Technologies to form a joint venture in the field of the conditional access systems patents, which is consolidated under the pro rata method as of such date.
- On July 19, 2004, Thomson acquired Gyration, a Silicon Valley technology company that has developed a line of next-generation user-interface (UI) devices using proprietary technology based on gyroscopes. The technology is currently incorporated in a variety of hand-held UI devices, mainly for personal computers (PCs). We fully consolidated this company as of such date.
- On July 31, 2004, Thomson and TCL combined their respective television assets in a new company, TTE Corporation (TTE), of which Thomson holds 33% and TCL 67%. Thomson contributed substantially all of its television assets mainly located in Mexico, Poland and Thailand as well as its R&D centres located in the U.S., Germany and Singapore. Thomson licenses certain intellectual properties (trademarks and patents) to TTE, and currently TTE exclusively uses Thomson services for the distribution of television sets in Europe and in the U.S., with Thomson acting as the sales and marketing agent. Thomson has neither control nor joint control of TTE and consolidates TTE under the equity method from August 1, 2004. The television activity before July 31, 2004 is presented under the full consolidation method. Thomson accounted for the contribution to TTE of its television business as a disposal and recorded its 33% interest in TTE as an acquisition.
- On September 22, 2004, Thomson sold its 19.9% interest in Total Technology Company Limited. Prior to such date, this company was consolidated under the equity method.
- On October 27, 2004, Thomson acquired 77.61% in Corinthian Television Facilities Limited (UK) Corinthian is one of Europe's leading broadcast television facilities companies providing live studios, graphics, video, audio production and post-production and transmission play-out to major international broadcasters through long term contracts. We fully consolidated this company as of such date.
- On November 4, 2004, Thomson acquired a 50% interest in Beijing Nokia CITIC Digital Technology Co Ltd. This company is mainly engaged in the production of digital multimedia terminals for reception of digital broadcasting and interactive services via satellite, cable, terrestrial and telecom networks and related products and systems for digital Internet services. The company is consolidated under the proportional consolidation method from that date.
- On November 18, 2004, Thomson acquired EADS DCS (Defense and Communication Systems) Video Over Internet Protocol (IP) activity, specialised in the integration of video over IP systems, which enables seamless access to voice, data and video content. This activity is fully consolidated from that date.
- On December 9, 2004, Thomson acquired The Moving Picture Company ("MPC"). MPC is a London (UK) provider of visual effects and post-production services to both the motion picture and commercial advertising industries. We fully consolidated this company as of such date.

- On December 10, 2004, Thomson sold its 36% interest in KeyMRO. The company, which had been consolidated on a proportional basis, was no longer consolidated as of such date.
- On December 31, 2004, Thomson sold Thomson Servicios Corporativos S.A de C.V, a set-top box manufacturing company in Mexico, to Elcoteq. Prior to December 31, 2004, the activity was fully consolidated.

Please refer to Notes 23 and 8 to our consolidated financial statements, which present the cash impact of the acquisitions and disposals of our investments and the goodwill from our acquisitions.

Notification of threshold crossing in the share capital of French companies

Under article L.223-6 of the Code de Commerce, we disclosed that in 2004:

- In September 2004, Thomson acquired an interest of 10% in the share capital of Nextamp;
- On January 29, 2004, Thomson acquired 3.19% of the share capital of Nagra Thomson Licensing (formerly Canal+ Technologies) from Sony Venture Capital Europe. On March 19, 2004, Thomson acquired 1.37% of the share capital of the same company from Sun Microsystems, increasing its interest in the company to 100% of its share capital. On June 25, 2004, Thomson sold 50% of Nagra Thomson Licensing to the Kudelski group; and
- On June 16, 2004, the Group, which was a 75% shareholder of Nextstream S.A., acquired the remaining 25% from Alcatel. Thomson previously held operational control of the company. Nextstream is currently 100% held by the Group.

Changes in accounting principles

1. Treatment of SPEs

Article 133 of the French Law on Financial Security (*Loi de Sécurité Financière*, or “LSF”) issued on August 1, 2003, modified article L233-16 of the French Commercial Code, which did not permit the consolidation of a company unless at least one share was owned. According to this new Article 133 and disregarding the number of shares held, fully controlled special purpose entities (“SPEs”), are consolidated as of January 1, 2004, applying a retroactive method. The law did not allow an early application. Thomson has two such SPEs, one put in place in 2000 and the other in 2001, which are affected by the application of this new article in 2004. These SPEs have been consolidated retroactively as of December 31, 2003, increasing the net tangible fixed assets by €193 million, financial debt by €321 million and decreasing deferred income by €85 million and with the net impact booked to equity for €(43) million. We unwound the Mexicali synthetic lease in January 2005, while Thomson multimedia Polska sp.zo.o unwound its synthetic lease transaction on March 31, 2004.

Following the consolidation of these SPEs, as of December 31, 2004, the Group no longer reports off-balance sheet future payments related to synthetic leases.

2. Income Statement Presentation

Thomson has elected to modify its income statement presentation, as permitted by regulation 99-02, to take into account upcoming changes to the presentation format of the income statement to take place over the next two years under IFRS. Thomson also believes that such a change provides more useful information to the users of its financial statements. Prior periods have been restated with the new classification and sub-total captions, however there is no change to previously reported income statement amounts.

Analysis of Net Sales

In 2004, consolidated net sales amounted to €7,994 million, compared with €8,459 million in 2003, a decrease of 5.5%, resulting primarily from negative effects of exchange rate fluctuations and the

deconsolidation of our television business with the creation of TTE as of August 1, 2004, offset in part by strong sales growth recorded by our Content and Networks businesses. At constant 2003 exchange rates, consolidated net sales remained relatively stable recording a 0.5% decrease compared to 2003. At a constant scope of consolidation (2003 perimeter but without adjustment for currency movements), consolidated net sales grew by 0.6%. On both a constant scope of consolidation and constant 2003 exchange rate basis, consolidated net sales of the Group increased by 6% in 2004.

Content and Networks

Consolidated net sales for the Content and Networks division totaled €4,073 million in 2004 compared with €3,714 million in 2003, representing an increase of 9.6%. This increase was recorded despite the negative impact of exchange rate variations of €208 million. Consolidated net sales of the Content and Networks division increased by 15.2% at constant 2003 exchange rates and by 8.6% at a constant scope of consolidation (2003 perimeter but without adjustment for currency movements). On both a constant scope of consolidation and constant exchange rate basis, consolidated net sales of the Content and Networks division increased by 14% in 2004 compared to 2003 driven primarily by very strong revenue growth in Broadband Access Products, with more measured revenue growth in our Content Services and Broadcast & Media Solutions businesses. The effect of strong volume growth was partially offset by pricing pressure across many of our Content and Networks businesses.

In 2004, sales of our Content Services businesses were essentially unchanged compared to 2003 (5% growth at constant 2003 exchange rates), driven by increased volumes across our Content Services businesses. In Home Entertainment Services (DVD), the number of DVDs replicated in 2004 amounted to 1.3 billion in 2004, an increase of 31%, resulting primarily from a strong release schedule in 2004 of certain major customers. The number of VHS cassettes duplication continued to decline and decreased by 45% to 150 million units. Our Film Services business showed strong growth, increasing by 25% its volumes with approximately 5.3 billion feet of film reel processed, compared to 4.2 billion feet in 2003. This increase resulted primarily from an increased number of prints required for major releases, the contribution to revenue of our acquisition of Madrid Film and the full-year consolidation of Cinecolor Lab Company, Ltd, which we acquired in October 2003. The post-production services industry also experienced general growth in 2004.

In 2004, we continued to invest in the installation of new DVD replication lines (33 new lines in 2004). We also announced the building of the first studio-located digital intermediate facility to be located on the Sony Studios in California, which coupled with the expansion projects at our digital intermediate facilities in our London, Montreal, Toronto and New York sites, will substantially increase our capacity for the digital intermediate service offering. In addition, we expanded the offering and geographical presence of our Contents Services businesses with the acquisitions of Command Post in Canada, Madrid Film in Spain, The Moving Picture Company in the United Kingdom, and International Recording in Italy. In addition, as part of Thomson's strategy to develop in broadcast play-out services, we acquired Corinthian Television in the United Kingdom.

Sales of our Broadcast & Media Solutions and Broadband Access Products businesses grew by approximately 26% (32% at constant 2003 exchange rates). As part of this growth, the increase of our Broadcast & Media Solutions business was due primarily to growth in our volume market share in the production and post-production markets, as customers accelerated their migration to the High Definition ("HD") format in 2004 in the United States, Europe and Asia and chose our HD products. Although market demand for play-out and satellite network products was slow in early 2004 as many customers were in the process of developing business plans for their transition to HD formats, it accelerated at the end of 2004 as those customers started to implement those plans. In 2004, we entered into several contracts to sell our HD equipment to such customers as FOX Network, HBS, DIRECTV, Universal Studios, Cinefilm and Digimax. We expect the growth of HD technology to remain a catalyst for 2005 spending in both play-out and satellite network products. We derive approximately

a third of net sales from HD-based products across all our product lines, and we expect this proportion to increase in the coming years. 2004 was also marked by our acquisition of the video division of ParkerVision, which, although having a minimal effect on our total net sales, significantly increases our ability to expand our digital news productions and professional audio/video product offerings.

Our Broadband Access Products business grew strongly by selling 11.8 million decoders and cable modems worldwide in 2004, compared with 6.9 million units sold in 2003, with approximately 4.2 million within decoders shipped during the last quarter of 2004. This increase was primarily due to increased sales resulting from our 5-year agreement with DIRECTV, signed in May 2004, for the development and the supply of satellite decoders by Thomson to DIRECTV, establishing Thomson as the preferred decoder supplier to this network operator. While volume of sales of decoders grew substantially, sales grew at a lower rate due to lower sales prices. We also sold 6.4 million DSL modems in 2004, up from 3.2 million in 2003, although this increase in units sold was offset by the continued rapid decrease in prices for DSL modems.

Components

Consolidated net sales for the Components division increased by €95 million to €1,167 million in 2004 from €1,072 million in 2003, an increase of 9.0% (14.5% at constant 2003 exchange rates). The increase was due to the consolidation of Fortune, which contributed 2004 sales of €171 million with 4.9 million units sold, and the treatment as external (i.e., non-Group) sales of €192 million of sales starting August 1, 2004 to entities previously held by the Group (i.e., prior to their contribution to TTE). The increase was offset in part by the continued deterioration of the market for television manufacturing in the United States and Europe (both in volume and in value), with significant price and volume pressure from importers (whose market share increased relative to local manufacturers). The increase was also offset in part by a weak U.S. dollar and liquidations of inventory by certain U.S. competitors.

The Group's activities in China were strong, recording volumes that more than tripled compared with 2003. Following the acquisition of Fortune, our production of tubes in China represents 42.3% of our worldwide production of tubes by volumes. This growth was offset by substantial price erosion in this market worldwide. For more information on our partnership strategy in our Displays activity, please see "Information on the Company—Our Strategy—Preferred Partner of the Media & Entertainment Industries" and "—Events Subsequent to December 31, 2004—Recent Developments Relating to Our Partnership Strategy for the Displays Activity."

Consumer Products

Consolidated net sales for the Consumer Products division totaled €2,325 million in 2004 compared with €3,198 million in 2003, a decrease of 27.3%. At constant 2003 exchange rates, net sales decreased by 23.3% compared to 2003. At a constant scope of consolidation (net of the deconsolidation impact of the transfer of our television businesses to TTE starting August 1, 2004 and without adjustment for currency movements), net sales grew by 0.7% compared to 2003. On both a constant scope of consolidation and constant 2003 exchange rate basis, consolidated net sales grew by 6% in 2004. The "Mainstream" business contributed slightly more than 50% of the division's 2004 revenues, while the "Essentials" business contributed the remainder of the division's revenues.

The "Essentials" portfolio of products recorded decreased sales of 10.9% compared to 2003 (a decrease of 4.3% at constant 2003 exchange rates). This decrease was primarily due to weakness in the communications industry in the NAFTA region and to pricing pressure caused by increasing low-cost Chinese imports on the European market. These factors were offset in part by the good sales performance of the consumer accessories solutions business within our Essentials activity, due primarily to its increased product range and client base of the Recoton business acquired in 2003.

Our “Mainstream” consumer products recorded decreased sales of 36.6% compared to 2003 (a decrease of 34.1% at constant 2003 exchange rates), primarily due to the deconsolidation of our television businesses to TTE starting August 1, 2004. In the first seven months of 2004, prior to the closing of the Combination Agreement creating TTE on July 31, 2004, our television sales amounted to €845 million, compared to €834 million over the same period in 2003, representing an increase of 6%. This increase reflected primarily improved sales of Digital Light Processing (DLP) televisions in the NAFTA region and Liquid Crystal Display (LCD) televisions in Europe, resulting from increased market demand for flat screen products as prices for such products decline. Sales of our Home Audio/Video products decreased by 16.9% from 2003 (a decrease of 13.4% at constant 2003 exchange rates), due mainly to aggressive price competition in this market.

Following the transfer of our television business to TTE, we provided certain products (manufactured at our plant in Angers, France) and sales and marketing services (as sales agent) to TTE from August to December 2004, totaling €152 million.

Licensing

Consolidated net sales for the Licensing division amounted to €404 million in 2004 compared with €462 in 2003, a decrease of 12.7%, primarily as a result of the negative impact of the evolution of the exchange rate of the U.S. dollar relative to the Euro, as most of our licensing sales are made in U.S. dollars, and to a lower amount of past-payment licenses compared to 2003, when we entered into certain important licensing contracts. At constant 2003 exchange rates, sales in 2004 decreased by 6% compared to 2003. Revenues related to digital-based programs represented approximately 70% of total revenues of the division, particularly MPEG2 and MP3, reflecting the growth of our digital licensing program in terms of the volumes of existing contracts and the number of new contracts finalized during the year. We also started new licensing programs in 2004 such as a program relating to digital TV, and the Group booked its first revenues from the commercialization of this digital TV program. In 2004, the “agnostic” licenses programs (compatible both with analog and digital technologies) recorded significant progress in renewal rates. In 2004, the Group continued to develop its licensing portfolio: the Group has 878 licensing contracts at year-end 2004, a 17% increase compared with year-end 2003.

Operating Income

Cost of sales amounted to €6,284 million in 2004, or 78.6% of net sales, a decrease of 3.9% compared with cost of net sales of €6,536 million in 2003, or 77.3% of net sales.

As a result, gross margin was €1,710 million in 2004, or 21.4% of net sales, compared with €1,923 million in 2003, or 22.7% of net sales.

Selling and marketing expenses amounted to €613 million, or 7.7% of net sales in 2004, compared with €728 million or 8.6% of net sales in 2003.

Administrative expenses amounted to €386 million, or 4.8% of net sales in 2004, compared with €393 million or 4.6% of net sales in 2003.

Research and development expenses net of external funding were €277 million in 2004, or 3.45% of net sales in 2004, compared with 3.5% in 2003. External funding is comprised principally of grants from national or European Union (EU) government agencies and is accounted for as income based on the stage of completion of the project and is directly deducted from research and development costs. Excluding government agency subsidies of €8 million in 2004 and €9 million in 2003, research and development expenses were €285 million in 2004, compared with €304 million in 2003. Out of the total spending on research and development in 2004, €50 million was allocated to core research areas.

As a result of the above factors, consolidated operating income reached €434 million in 2004, or 5.4% of net sales, a decrease of 14.6% compared with €508 million in 2003, or 6% of net sales. This decrease in operating income was primarily due to reduced operating income in our Licensing and to a lesser extent in our Content and Networks division, partially offset by reduced operating losses in our Consumer Products division.

Content and Networks

Operating income for the Content and Networks division amounted to €407 million in 2004 compared with €436 million in 2003, a decrease of 6.8%. The division's profitability was negatively impacted by exchange rate variations of €18 million during the year.

The division's 2004 operating margin was 10.0% compared with a 2003 operating margin of 11.7%. Operating margins during 2004 decreased largely as a result of a margin decline in our Content Services business, driven by sharp decline in VHS volumes, price declines in DVD and cost increases of raw materials, notably polycarbonate. This decrease was offset, however, in part by our continuing cost-control measures, continued shift of production to low-cost territories, economies of scale due to substantially increased DVD volumes, successful integration of current year and prior year acquisitions and consolidation of our VHS duplication facilities.

Within the division, the Content Services businesses maintained margins above 12%, while our activities in Broadband Access Products and Broadband & Media Solutions improved their operational margins compared to 2003, primarily as a result of increased sales and improved product mix, notably with telecommunications and cable operators.

Components

The Components division recorded an operating loss of €105 million compared with an operating loss of €101 million in 2003. This loss resulted from the substantial erosion of prices in the tubes market worldwide, offset in part by increased volumes sold, productivity gains in our Chinese operations and decreased costs of raw materials, which declined in parallel with market prices for tubes.

Consumer Products

The Consumer Products division recorded an operating loss of €64 million in 2004, compared with an operating loss of €124 million in 2003. This improvement is due primarily to reduced losses in our Mainstream businesses compared to 2003, mainly attributable to improved television sales in the first seven months of 2004 (prior to the transfer of this business to TTE as of August 1, 2004) and the deconsolidation of our television activity, offset in part by decreased operating income generated by the rest of the division.

Following the closing of the Combination Agreement creating TTE, our sales agent service billings were invoiced to TTE at cost in accordance with contractual arrangements.

Licensing

Operating income for the Licensing division amounted to €325 million in 2004 compared with €411 million in 2003, primarily as a result of lower revenue. The operating margin of the division reached 80.5% down from 88.8% in 2003, reflecting primarily a lower amount of past-payment licenses as well as increased investment in new licensing programs.

Operating income under U.S. GAAP

Under French GAAP, operating income was €434 million in 2004, or 5.4% of net sales, a decrease of €74 million, as compared to operating income of €508 million in 2003. Under U.S. GAAP, we recorded

in 2004 operating income of €(180) million compared with operating income of €32 million in 2003.

- There are material differences between French GAAP and U.S. GAAP. The difference in operating income as reported under U.S. GAAP versus French GAAP in 2004 resulted mainly from reclassifications and restatements related to restructuring reserves, pension plans interest costs, certain intangible assets amortization and accruals for a number of provisions which have different classifications under French and U.S. GAAP.
- Reclassification and restatements due to differences in the criteria and the timing of recording restructuring provisions between U.S. GAAP and French GAAP represent €(763) million in 2004, compared with €(264) million in 2003.
- Reclassifications of pension plans interest costs related to shut-down activities, included in the financial result under French GAAP and classified as operating expenses under U.S. GAAP, amount to €(25) million in 2004, compared with €(24) million in 2003;
- Excluding restructuring expenses and reclassifications of pension plan interests costs, reclassifications from “Other income (expense), net” under French GAAP to “Operating income (loss)” under U.S. GAAP amount to €200 million in 2004 and €86 million in 2003, including fixed asset write-offs for €(36) million in 2004 (€52 million in 2003). The positive €200 million impact on reclassification in operating income is mainly due to classification as discontinued operations of two operations in 2004 under U.S. GAAP, impacting positively the operating income in an amount of €280 million.
- Customer and supplier relationships having a finite useful-life are amortized under U.S. GAAP for an amount of €(34) million and €(27) million in 2003 and 2004, respectively, whereas they are not under French GAAP.

Please refer to Note 31 and 32 to our consolidated financial statements for a further discussion of the principal differences between French and U.S. GAAP.

Other Income and Expenses

Restructuring Costs

Restructuring costs represent €742 million in 2004 compared to €217 million in 2003. The non-cash impairment charge of €530 million related to our decision to seek a partnership for our Displays activity is substantially the largest element. In 2004, restructuring costs by segment consisted primarily of the following:

- *Content and Networks:* Restructuring programs include the consolidation and the rationalization of our VHS duplication facilities in the United States and Europe. Costs related to this plan amounted to €16 million. This plan was announced during the first half of 2004. Other restructuring costs relate to the downsizing of our Broadcast facilities (€3 million), a voluntary departure plan at one of our broadband facilities (€7 million), and to certain businesses acquired in 2002. The latter are expensed as incurred because they benefit the future activity of the Group (i.e., training, moving or integration costs).
- *Components:* In 2004, the Components division recorded €690 million restructuring costs, of which €129 million were recorded in the first half of 2004. The restructuring costs mainly related to:
 - Thomson’s decision to actively seek for partnership in the Displays activity. As a consequence of this decision, the Group has reassessed the carrying value of all Displays’ business fixed assets, which has resulted in the recognition of a non-cash impairment charge of €530 million. For recent developments regarding our partnership strategy for the Displays activity, see “— Events Subsequent to December 31, 2004—Recent Developments Relating to Our Partnership Strategy for the Displays Activity.”

- The closure of the tube plant in Marion, Indiana, and our television glass plant in Circleville, Ohio, resulting in €30 million of exit costs and €23 million of write-off of assets for the tube plant and in €36 million of exit costs and €56 million of write-off for the closure of the glass plant. The above-mentioned exit costs are net of employee benefits curtailment gains that are related to these two plant closures, and amount to €24 million. Certain closure costs of the tube plant have been charged to the acquisition costs of Fortune for an amount of €19 million.
- Certain restructuring plans to downsize our workforce in the tube business in Europe, Asia and America for an amount of €11 million.
- The downsizing of our facilities in the storage digital module business for a restructuring charge of €5 million.
- *Consumer Products:* Restructuring charges amounting to €12 million, relating to our plan to downsize our television manufacturing factory in Angers, France, downsizing measures within R&D operations in Germany, the closure of our sales unit in Morocco, as well as restructuring of our Juarez operations in Mexico and sales locations in the United Kingdom.
- *Holdings:* Reorganization of the holding segment is mainly related to the reorganization/ downsizing of our corporate headquarters in Indianapolis, Indiana, for which expenses charged to income during the period amount to €2 million. Other costs are related to ongoing expenses on the downsizing of certain research and development centers in France for €2 million and the re-organization of our Group headquarters in Boulogne, France for €4 million.

For more information on restructuring costs as they relate to our reorganization and restructuring programs, please refer to Note 18 to our consolidated financial statements.

Other income and expense, net

Other income and expense amounted to a net expense of €27 million in 2004, compared with €32 million in 2003. The principal components of "Other income (expense), net" in 2004 include costs of €25 million incidental to the restructuring of our Displays activities and exceptional assets depreciation of €14 million in the Content and Network division, relating to an indemnity paid in relation with the acquisition of the Panasonic Disc Services business in 2002. These and other expenses were offset in part by capital gains realized from the disposal of certain fixed assets and investments related to the creation of TTE and the sale of Thomson's interest in the company, MUSICMATCH. For additional information on other income and expense, please refer to Notes 3 and 6 to our consolidated financial statements.

Financial Result

Net interest income/expense

Net interest charges reached €24 million in 2004, compared with net interest charges of €9 million in 2003. Net interest expense included primarily the interest on promissory notes issued to Carlton (now ITV) in connection with the acquisition of the Technicolor businesses, the interest on the convertible/exchangeable bonds issued in 2000, 2002 and 2004 and due respectively in 2006, 2008 and 2010. We also paid interest on a U.S. private placement issue starting in June 2003.

For more information on these convertible/exchangeable bonds and on the private placement, please refer to Note 20 to our consolidated financial statements. For more information on the promissory notes, please refer to Note 22 to our consolidated financial statements. The change in net interest charges during 2004 in comparison with 2003 is mainly due to a higher LIBOR (short-term U.S. dollar interest rates) and to a higher average net debt level.

Other financial expense

Other financial expenses totaled €55 million in 2004, compared to €70 million in 2003. Other financial expenses in 2004 include mainly pension plan interest costs in Germany and the United States related to discontinued activities and other interest on non-financial payables which includes the amortization of up-front bank fees related to debt issues and foreign exchange gains and losses. The reduction in 2004 compared to 2003 is mainly due to the improvement of the foreign exchange result. Please refer to Note 5 to our consolidated financial statements for additional information on other financial expense.

Amortization of goodwill

Goodwill amortization totaled €130 million in 2004 compared with €76 million in 2003, notably due to additional goodwill amortization related to TTE. Going forward, as Thomson adopts IFRS accounting standards, goodwill will no longer be amortized.

Income Tax

Pursuant to the provisions of the French Tax Code (article 209 quinquies) and in accordance with a tax agreement from the French Tax Authorities dated November 6, 2002, Thomson S.A. (the parent company) files a worldwide consolidated tax return. This tax agreement has been retroactively applied as of January 1, 2001 and will expire on December 31, 2005 unless renewed.

The Group tax charge amounted to €88 million in 2004, compared with €63 million in 2003. The tax charge in 2004 resulted primarily from current taxes incurred in the United Kingdom, Mexico, Australia and the Netherlands, as well as withholding taxes on income earned by our Licensing division, which cannot be credited against taxes payable in France and the United States.

In 2004, the Group registered a net deferred tax liability of €4 million. This amount mainly reflects the partial recognition of accumulated losses in the United States to take into account the anticipated improvements in the result of U.S. fiscal consolidation resulting from the exit from loss-making activities such as the manufacturing of televisions through the creation of TTE and certain factories in our Components division. However, the Group reduced by €57 million its deferred tax asset following the French Finance Law for 2005 (*Loi de Finance*) of December 2004, which has reduced the future tax rate on licensing revenues as well as on capital gains, making Thomson's long-term capital losses unusable as from January 1, 2006.

The effective tax rate, defined as the ratio of the tax charge to net income before tax, amortization of goodwill and minority interests, was 35.0% in 2003. In view of the negative net income in 2004, this ratio is not meaningful for this year.

For additional information, please refer to Note 7 to our consolidated financial statements.

Net Income

Income derived from minority interests amounted to €1 million in 2004 compared with a minority interest income of €8 million in 2003. The decrease of minority interest results primarily from the acquisition of the minority interest in ATLINKS (now Thomson Telecom) in early 2003 and in Nextream in 2004.

As a result of the factors discussed above, the Group recorded a net loss of €636 million in 2004, compared with net income of €26 million in 2003. Net income as a percentage of net sales was (8.0)% in 2004, compared with 0.3% in 2003.

Net loss per share was €2.32 in 2004, compared to net income per share of €0.09 in 2003.

Net income under U.S. GAAP

Under U.S. GAAP, we recorded a net loss of €695 million in 2004 compared to a net loss of €46 million in 2003. The difference in net income under U.S. GAAP versus French GAAP in 2004 mainly relates to (i) the reversal of goodwill amortization recorded under French GAAP and (ii) the re-measurement of the embedded derivative of our convertible debt issued in September 2004 as of closing date. For more details see Notes 31 and 32 to our consolidated financial statements.

Results of operations for 2003 and 2002

Evolution of division structure

In 2003, we organized and reported our activities according to four operating divisions: Content & Networks, Components, Consumer Products and Licensing. For a summary of these divisions and our subsequent reorganization thereof, see Item 4: “Information on the Company—Our Organization—Transformation to Implement Our Strategy.”

The operations of the former New Media Services division were absorbed in 2003 by the Consumer Products activities (principally guide-related activities) and Content and Networks activities (principally the screen-advertising activity). Figures for 2002 have been restated accordingly.

Changes in scope of consolidation

- Since January 1, 2003 the financial statements of all subsidiaries in which Thomson has a direct or indirect controlling interest have been consolidated, whether or not the activity is significant, except for three insignificant companies held for liquidation. As a result, thirty entities have been included in the scope of consolidation, representing an external turnover of €14.6 million, operating income of €1.0 and total assets of €45.2 million.
- In January 2003, Screenvision Europe Group sold its 71% participation in a subsidiary, TWICE, which is therefore not consolidated subsequent to December 31, 2002.
- On January 31, 2003, Thomson acquired 89% of Canal+ Technologies (Thomson held a small percentage of Canal+ Technologies before this agreement). The company acquired comprised two businesses, namely conditional access systems marketed under the brand name MediaGuard™ and middleware operating systems marketed under the brand name of MediaGuard™. In both cases, the related products and services are marketed to digital TV operators.

During December 2003, Thomson completed the sale of the MediaHighway™ business and the MediaGuard™ business. The assets retained were intellectual property assets plus cash acquired with and retained in the business. Accordingly, the activity of Canal+ Technologies has been accounted for as a non-operating activity for 2003 and its results included in “other income (expense), net”, together with the gain on disposal, net of expected costs. More details of the financial consequences of the purchase (refer to Note 23 to our consolidated financial statements) and sale of the Canal+ Technologies business are in Note 6 to our consolidated financial statements. The revenue and the operating result of Canal+ Technologies before any impact related to the disposal of the activity disposed of were €90 million and €(2) million respectively for the eleven months of the year 2003.

- On February 5, 2003, Thomson acquired from Alcatel the latter’s 50% interest in the ATLINKS joint venture for €69 million. Thomson already held the other 50%, together with management control. ATLINKS is now 100% held by the Group.
- On February 28, 2003, the Group acquired Pacifica Media Affiliates (PMA) assets, a leading Los Angeles-based provider of audio editorial, and mixing facilities for feature films and broadcast production content. PMA has been fully consolidated since that date.

- On March 31, 2003, an amendment to the joint venture agreement with Schneider concerning Easyplug was agreed, according to which Thomson lost control over the joint venture. Easyplug is therefore consolidated by the equity method at 50% since that date.
- On May 8, 2003 Screenvision Europe, a 50-50 joint venture with Carlton Communications, acquired 100% of RMB Slovakia and 50% of Nordic Media Link AB (NML). These entities are consolidated from that date using the pro rata method.
- On June 6, 2003, Thomson acquired from Microsoft its 20.4% of minority interests in TAK. The Group now owns 100% of this company.
- On June 16, 2003, Screenvision Europe acquired the 50% minority interest in RMB Entertainment.
- On June 16, 2003, Thomson purchased the remaining 11% minority interests in Thomson Multimedia India Private Ltd. The Group now owns 100% of this company.
- On July 8, 2003, Thomson acquired for an amount of €50 million the business and assets of the Recoton accessories business, a leading provider of accessories and related services to the U.S. retail industry. The Recoton business has been fully consolidated since that date.
- On July 8, 2003, Thomson acquired additional shares in Celstream, a global information technology services firm with advanced expertise in product development, located in India. Thomson owns 38.75% of Celstream, which has been consolidated by the equity method since that date.
- On September 18, 2003, Thomson acquired from Qualcomm its 20% interest in the Technicolor Digital Cinema (TDC) joint venture, for a total amount of €23 million (of which €15 million was paid in cash in 2003). The Group now owns 100% of TDC, which is fully consolidated since that date (previously, TDC was consolidated using the pro rata method).
- On October 21, 2003, Thomson acquired Cinecolor Lab Company, Ltd, a Thai company and one of the premier motion picture film laboratories and post-production facilities in the Austral-Asian film and post-production markets. Cinecolor is fully consolidated since that date.
- On November 13, 2003, Thomson completed the disposal of all of its interests in the business and assets of Singingfish for €7 million.
- On December 31, 2003, Thomson sold 55.1% of its participation in Total Technology Company, a company located in Asia.

Please refer to Note 23 to our consolidated financial statements, which presents the cash impact of the acquisitions and disposals of our investments.

Notification of threshold crossing in the share capital of French companies

Under article L.223-6 of the Code de Commerce, we disclosed that in 2003:

- Thomson increased its ownership percentage in Canal+ Technologies (Paris) from 3% to 95%. In December 2003, Thomson completed its sale of its Canal+ Technologies business, while maintaining ownership of the intellectual property and cash of the company.
- Thomson increased its ownership in TAK SAS (Paris) from 81% to 100%.
- Thomson increased its (indirect) ownership in ATLINKS (now Thomson Telecom) from 50% to 100%.

Changes in accounting principles

No change in accounting principles occurred in 2003.

Article 133 of the French Law on Financial Security (*Loi de Sécurité Financière*, or “LSF”) issued on August 1, 2003, modified article L233-16 of the French Commercial Code, which did not permit the

consolidation of a company unless at least one share was owned. According to this new Article 133 and disregarding the number of shares held, fully controlled special purpose entities (“SPEs”), are consolidated as of January 1, 2004, applying a retroactive method. The law did not allow an early application. Thomson has two such SPEs, one put in place in 2000 and the other in 2001, which are affected by the application of this new article in 2004. These SPEs have been consolidated retroactively as of December 31, 2003, increasing the net tangible fixed assets by €193 million, financial debt by €321 million and decreasing deferred income by €85 million and with the net impact booked to equity for €(43) million. We unwound the Mexicali synthetic lease in January 2005, while Thomson multimedia Polska sp.zo.o unwound its synthetic lease transaction on March 31, 2004.

Analysis of Net Sales

In 2003, consolidated net sales amounted to €8,459 million, compared with €10,187 million in 2002, a decrease of 17.0%. Consolidated net sales decreased by 6.5% at constant 2002 exchange rates and by 19.5% at a constant scope of consolidation (2002 perimeter but without adjustment for currency movements). On both a constant scope of consolidation and constant 2002 exchange rate basis, consolidated net sales of the Group decreased 9.6% in 2003. This figure reflects, on the one hand, the stable performance of the Content and Networks and Licensing activities and, on the other hand, a decrease in sales in the traditional businesses in the Consumer Products and Components divisions.

Content and Networks

Consolidated net sales for the Content and Networks division totaled €3,714 million in 2003 compared with €3,924 million in 2002, representing a decrease of 5.3%. The negative impact of exchange rate variations amounted to €491 million. At constant 2002 exchange rates, consolidated net sales of the Content and Networks division increased by 7.2%. Changes in the scope of consolidation (2003 acquisitions and the full-year effect of 2002 acquisitions) contributed €223 million of sales to the Content and Networks division during 2003. On a constant scope of consolidation (2002 perimeter) and at constant exchange rate, consolidated net sales of the Content and Networks division increased 0.5% between 2002 and 2003.

Overall, our activities related to the creation and distribution of content were particularly strong during 2003:

- The number of DVDs replicated in 2003 amounted to 955 million in 2003, an increase of 70%. On the other hand, the number of VHS cassettes replicated decreased 37% to 274 million units.
- The services provided to the film industry also recorded strong growth, with a 16% increase in volumes (approximately 1.3 billion meters of film reel were mastered). In addition, new contracts were entered into in 2003.

In 2003, our Content Services activity invested in the installation of new DVD duplication lines (48 new lines in 2003) and developed its production capacities in film and post-production activities by expanding its laboratory in Rome, Italy and opening a new post-production laboratory in New York.

Over the course of the year, Thomson pursued its strategy of targeted acquisitions in order to reinforce its services and geographical presence with the acquisitions of Pacifica Media Affiliates in the United States and Cinecolor in Thailand.

In 2003, sales generated from broadcasters and network operators decreased on average. Nevertheless, the growth of these businesses during the fourth quarter 2003 confirmed the positive trend observed starting in the third quarter 2003. The broadcast equipment and integrated solutions business benefited from an improved market environment, particularly at the end of 2003. Numerous contracts were signed with new customers such as NAB, France 3, Starhub, Visions and CNBC. In

addition, the delivery of encoders to DIRECTV in the United States helped increase our volume of business with this major customer. With respect to the Broadband Access Products business, 6.9 million decoders and cable modems were sold worldwide in 2003, compared with 5.4 million units sold in 2002. The number of DSL modems sold also increased in 2003.

Components

Consolidated net sales for the Components division amounted to €1,072 million, compared with €1,560 million in 2002, a decrease of 31.3%. At constant 2002 exchange rates, consolidated net sales decreased 22.9%. This decrease reflects the deterioration of the market for television manufacturing in the United States, with a significant decrease in market share held by local manufacturers to the benefit of importers. These factors translated into a significant decrease in demand and prices in the U.S. market for television tubes. In Europe, this business maintained a strong position despite the impact of a significantly weakened U.S. dollar, which rendered cost-competitive some imports of competitors from Latin America. The Group's activities in China were strong, recording volumes that more than doubled compared with 2002. Following the acquisition of Fortune, our production of tubes in China represents 40% of our worldwide production of tubes by volumes on a run-rate basis. In 2003, revenues from optical modules for DVD players and from game modules significantly decreased compared with 2002.

Consumer Products

Consolidated net sales for the Consumer Products division totaled €3,198 million compared with €4,264 million in 2002, a decrease of 25.0% or, at constant 2002 exchange rates, a decrease of 15.3%.

“Mainstream” Consumer Products: The decrease in sales resulted from weak performance in the United States and a strong erosion of prices affecting all product segments as a result of strong Asian competition. Revenues in Europe were stable despite a significant reduction in prices, which were offset by gains in market share in traditional products and flat screens.

“Essentials” Consumer Products: The “Essentials” family of products recorded good results, and Recoton's large product range and customer base were successfully integrated. The “Essentials” segment was significantly more stable given the market environment compared with the decrease in the “Mainstream” consumer products business.

Licensing

The Licensing division surpassed its second half and full-year objectives in 2003. Consolidated net sales for the Licensing division amounted to €462 million, an increase of 7.7% compared with 2002. At constant 2002 exchange rates, this growth attained 14.2%. Revenues related to digital-based programs represented 68% of total revenues of the division, reflecting the growth of our digital licensing program in terms of the volumes of existing contracts and the number of new contracts finalized during the year. In 2003, the Group continued to develop its licensing program: the Group has 750 licensing contracts at year end 2003, an 11% increase compared with year-end 2002.

Operating Income

Cost of sales amounted to €6,536 million in 2003, or 77.3% of net sales, a decrease of 15.8% compared with cost of net sales of €7,761 million in 2002, or 76.2% of net sales. As a result, gross margin was €1,923 million in 2003, or 22.7% of net sales, compared with €2,426 million in 2002, or 23.8% of net sales.

Selling and marketing expenses amounted to €728 million, or 8.6% of net sales in 2003, compared with €916 million or 9.0% of net sales in 2002.

Administrative expenses amounted to €392 million, or 4.6% of net sales in 2003, compared with €418 million or 4.1% of net sales in 2002.

Research and development expenses net of external funding were €295 million in 2003, or 3.5% of net sales in 2003, compared with 3.7% in 2002. At constant 2002 exchange rates, research and development expenses net of external funding amounted to €323 million in 2003 compared with €374 million in 2002. External funding is comprised principally of grants from national or European Union (EU) government agencies and is accounted for as income based on the stage of completion of the project and is directly deducted from research and development costs. Excluding government agency subsidies of €9 million in 2003 and €12 million in 2002, research and development expenses were €304 million in 2003, compared with €386 million in 2002.

As a result of the above factors, consolidated operating income reached €508 million in 2003, or 6% of net sales, a decrease of 29.2% compared with €718 million in 2002, or 7% of net sales. The strong performance of our Content and Networks business was offset by operating losses recorded in our Consumer Products and Components divisions.

Content and Networks

Operating income for the Content and Networks division amounted to €436 million in 2003 compared with €420 million in 2002, an increase of 3.8%. The division's profitability was negatively affected by the translation of U.S. dollar denominated operating income into euros by €69 million during the year. However, the division improved its operating margin during 2003 as a result of cost control management, continued development of its most competitive manufacturing sites and the consolidation of sites that combine DVD and VHS duplication facilities and post-production services. These initiatives more than offset the reduction in prices, notably with respect to DVDs. The division's 2003 operating margin reached 11.7% (12.0% at constant 2002 exchange rates) compared with a 2002 operating margin of 10.7%. Within the division, content-related activities produced sustained profits, while our activities in Broadband Access Products and broadcast equipment and services recorded gradual improvement in their operational margins during the year, thus illustrating potential for growth.

Components

The Components division recorded an operating loss of €101 million compared with an operating profit of €84 million in 2002. This loss derived from weak performances in optical modules for DVD players and games modules and the significant deterioration of market conditions for tubes in the United States.

Consumer Products

The Consumer Products division recorded an operating loss of €124 million in 2003 compared with an operating loss of €52 million in 2002. This loss is primarily due to the deterioration of sales in the United States. The "Essentials" business, which was profitable, represented 38% of the division's sales.

Licensing

Operational income for the Licensing division increased 6.2% to €411 million compared with €387 million in 2002. The operating margin of the division reached 88.8%.

Operating income under U.S. GAAP

Under French GAAP, operating income was €508 million in 2003, or 6.0% of net sales, a decrease of €210 million, as compared to operating income of €718 million in 2002. Under U.S. GAAP, we

recorded in 2003 operating income of €32 million compared with operating income of €465 million in 2002.

There are material differences between French GAAP and U.S. GAAP. The difference in operating income as reported under U.S. GAAP versus French GAAP in 2003 resulted mainly from reclassifications and restatements related to restructuring reserves, pension plans interest costs, certain intangible assets amortization and accruals for a number of provisions which have different classifications under French and U.S. GAAP, including:

- Reclassification and restatements due to differences in the criteria and the timing of recording restructuring provisions between U.S. GAAP and French GAAP, which represent €264 million in 2003, compared with €140 million in 2002.
- Reclassifications of pension plans interest costs related to shut-down activities, included in the financial result under French GAAP and classified as operating expenses under U.S. GAAP, which amount to €24 million in 2003, compared with €26 million in 2002;
- Excluding restructuring expenses and reclassifications of pension plan interests costs, reclassifications from “Other income (expense), net” under French GAAP to “Operating income (loss)” under U.S. GAAP, which amount to €86 million in 2003 and €15 million in 2002, including fixed asset write-offs for €52 million in 2003 (€15 million in 2002).
- Customer and supplier relationships with a finite useful-life being amortized under U.S. GAAP for an amount of €22 and 34 million in 2002 and 2003, respectively, whereas they are not under French GAAP.

Please refer to Note 31 and 32 to our consolidated financial statements for a further discussion of the principal differences between French and U.S. GAAP.

Other Income and Expenses

Restructuring Costs

Restructuring costs amounted to €217 million in 2003, compared with €141 million in 2002. In 2003, restructuring costs consisted primarily of the following by segment:

- *Content and Networks:* Restructuring programs initiated in 2003 related to the integration of film and broadcast activities for an amount of €9 million, and other restructuring plans related to businesses acquired in 2001 and 2002, totaling €29 million in restructuring charges.
- *Components:* Restructuring charges of €100 million with respect to the reorganization of manufacturing capacities in the United States, Italy and Asia in response to market conditions.
- *Consumer Products:*
 - New restructuring plans announced in 2003, including the Tune up and CPMax programs, whose objectives are to adapt the cost structure to the market environment for an amount of €13 million, and the reorganization of certain Mexican factories in order to improve their profitability, which led to a restructuring charge of €9 million; and
 - other restructuring charges related to plans initiated in 2002, including a €7 million charge related to the closure of a factory in France, which was announced in 2002 but for which a restructuring charge was unavailable at the end of 2002.
- *Holdings:* The reorganization of certain research facilities in France for an amount of €9 million and changes to the cost structure at corporate headquarters for €4 million.

For more information on restructuring costs as they relate to our reorganization and restructuring programs, please refer to Note 18 to our consolidated financial statements.

Other income and expense, net

Other income and expense amounted to a net expense of €32 million in 2003, compared with net income of €45 million in 2002. In 2003, this expense includes gains on the disposal of assets (mainly assets of Canal+ Technology), as well as related to the closure of production lines in the United States for €19 million and an additional €4 million related to retirement commitments arising from Thomson's restructuring plans.

For additional information on other income and expense, please refer to Notes 3 and 6 to our consolidated financial statements.

Financial Result*Net interest income/expense*

Net interest charges reached €9 million in 2003, compared with a net interest income of €9 million in 2002. Net interest expense included primarily the interest on promissory notes issued to Carlton in connection with the acquisition of the Technicolor businesses, the interest on the convertible/exchangeable bonds issued in 2000 and 2002 (2000 OCEANE and 2002 OCEANE) and due respectively in 2006 and 2008 and the interest on a U.S. private placement launched in June 2003.

For more information on these convertible/exchangeable bonds, please refer to Note 21 to our consolidated financial statements. The change in net interest income during 2003 in comparison with 2002 is mainly due to lower interest rates on deposits. Additional interest charges due to the U.S. private placement program are balanced by the prepayment of part of the debt related to the purchase of Technicolor in March 2003.

Other financial expense

Other financial expenses totaled €70 million in 2003, compared with €137 million in 2002. Other financial expenses in 2003 include pension plan interest costs in Germany and the United States related to discontinued activities. In 2002, these expenses also included valuation allowances on other investments carried at the lower of cost or market value, which generally affected investments in technology companies. Please refer to Note 5 to our consolidated financial statements for additional information on other financial expense.

Amortization of goodwill

Goodwill amortization totaled €76 million in 2003 compared with €78 million in 2002.

Income Tax

Pursuant to the French Tax Code and in accordance with a tax agreement from the French tax authorities dated November 6, 2002, Thomson S.A. (the parent company) files a worldwide consolidated tax return.

In 2003, the income tax charge of the Group amounted to €63 million, mainly located in Poland and in the U.K., whilst in the U.S. and in France, where Thomson recognized a tax loss, patents income bears withholding taxes.

Also, the Group recorded a net deferred tax asset of €28 million. This amount includes mainly the recognition of deferred tax asset on part of the tax losses generated in the U.S in 2003, in view of an expected return to profitability in the U.S. in connection with the transfer of loss-making activities, with regards to the Combination Agreement to form TTE (see Note 29 to our financial statements).

Our effective tax rate, defined as the ratio of income tax expense to consolidated income before taxes, goodwill amortization, minority interests and equity investments, was 35.0% in 2003, compared with 11.3% in 2002. For additional information, please refer to Note 7 to our consolidated financial statements.

Net Income

Income derived from minority interests amounted to €8 million in 2003 compared with a minority interest expense of €13 million in 2002. The decrease of minority interest results primarily from the acquisition of the minority interest in ATLINKS (now Thomson Telecom) in early 2003.

As a result of the factors discussed above, we recorded net income of €26 million in 2003 compared with €373 million in 2002. Net income as a percentage of net sales reached 0.3% compared with 3.7% in 2002.

Earnings per share amounted to €0.09 in 2003, compared with €1.35 in 2002.

Net income under U.S. GAAP

Under U.S. GAAP, we recorded net losses of €46 million in 2003, compared to net income of €351 million in 2002. The difference in net income under U.S. GAAP versus French GAAP in 2002 mainly relates to the accounting treatment of derivative instruments, the reversal of goodwill amortization recorded under French GAAP, and purchase price allocation and amortization of intangibles resulting from our recent acquisitions as well as pension and termination benefits.

Liquidity and Capital Resources

Cash Flows

	2002	2003	2004	2004
		(€ in millions)		(U.S.\$)
Net cash provided by operating activities	1,104	1,183	401	504
Net cash used by investing activities	(1,716)	(792)	(902)	(1,134)
Net cash provided (used) by financing activities	540	511	5	6
Net increase (decrease) in cash and cash equivalents	(69)	920	(477)	(599)

Net cash provided by operating activities

The decrease in net cash provided by operating activities is due primarily to the negative cash impact of €30 million from the increase in working capital in 2004, whereas in 2003 the working capital reduction generated €640 million of operating cash flow. We seek to manage our working capital movements (defined as the variation of inventories plus the variation of trade and other receivables, net, less the variation of trade accounts, notes payable and accrued expenses) in an efficient manner with reference to our net sales (adjusted for acquisitions), and we achieved further progress towards this objective in 2004. We believe our working capital is sufficient to meet our present requirements.

In 2004, the cash generated from the sale of inventories to TTE did not improve our operational cash flow to the extent that the total effects were included in the line item "Acquisition of investments" under "Net cash provided by operating activities" in our consolidated statements of cash flow. This sale did, however, have a positive effect on the Group's net cash position.

Net cash provided by operating activities was also adversely affected by cash payments relating to restructuring costs of €200 million, an increase of €27 million from €173 in 2003, and to a €124 million tax expenditure, an increase of €135 million compared to 2003, with the non recurrence of a 2003 €70 million tax refund, the increase of the tax cash disbursements for a total of around €45

million in Mexico, Australia, Poland, the United Kingdom and Canada and the increase of withholding taxes by around €15 million.

Net cash used in investing activities

Net cash used in investing activities totaled €902 million in 2004, compared with €792 million in 2003.

Financial investments totaled €680 million in 2004, compared with €565 million in 2003. Our main investments were acquisitions strengthening the Content and Networks and Components divisions, which included cash payments in connection with our acquisition of the set-top box manufacturing assets of Hughes Network Systems (€204 million) and The Moving Picture Company (€68 million), as well as the Fortune acquisition (€75 million). We also paid €84 million of principal and €8 million of interest on debt related to the acquisition of Technicolor. Moreover, we incurred a negative cash flow effect of €115 million in connection with the disposal activities of our television business and the creation of TTE. The Group intends to continue to proceed with selective acquisitions within the context of our five strategic priorities and our Two-Year Plan.

Capital expenditures amounted to €348 million in 2004, compared with €510 million in 2003, underlining the Group's efforts to optimize its investments. The principal investments were made in the Group's Content and Networks division primarily for installation of new DVD replication facilities and investments in new post-production laboratories/studios, while additional investments were made in the production of extra-flat tubes in the Components division.

Proceeds from fixed asset disposals totaled €49 million in 2004, compared with €34 million in 2003.

Net cash provided by financing activities

Net cash provided by financing activities was €5 million in 2004, compared with €511 million in 2003. In 2004, the proceeds from new debt issues were offset primarily by the early reimbursement of other debt, as well as the payment of dividends and share buy-backs. In particular, in order to finance the Group's expansion and to lengthen the average maturity of its debt, the Group issued convertible bonds for U.S.\$500 million (€366 million) due 2010 to Silver Lake, repurchased €182 million (including €11 million of accrued interests and premium) of convertible bonds maturing in 2006, and unwound and paid off a €138 million capital lease also maturing in 2006. In addition, in January 2005, the Group repurchased €587 million (excluding interest) of convertible bonds maturing in 2008 following the exercise by the bondholders of their right of early redemption. We also unwound our synthetic lease in January 2005 relating to our factory in Mexicali, Mexico for an amount of U.S.\$227 million.

In 2003, net cash provided by financing activities primarily reflected the issuance of Senior Notes, privately placed with institutional investors, for an amount of €369 million (in two issuances of U.S.\$406 million and GBP 34 million), maturing in 7, 10 and 12 years. The notes were issued to finance the development of our activities, including through acquisitions, as well as to extend the average maturity of our debt.

Financial resources

At the end of 2004, we had a net debt position (financial debt plus debt related to the Technicolor acquisition minus cash and cash equivalents) of €679 million (including a synthetic lease for €165 million, consolidated in 2004 which was unwound and paid off in 2005), compared with a net deposit position of €77 million (excluding two off-balance sheet synthetic leases for €321 million) at the end of 2003. On a comparable basis, at year-end 2003, Thomson would have reported a net debt of €244 million including €321 million of lease debt, as lease debt was not consolidated in 2003 but is now consolidated in 2004.

Financial debt totaled €2,501 million at the end of 2004 (including convertible/exchangeable bonds for €1,638 million, including €48 million in accrued premium and €12 million in accrued interest), compared with €2,128 million at the end of 2003. Financial debt does not include promissory notes of U.S.\$115 million (including accrued interest) which are included in “Debt related to Technicolor acquisition” in our consolidated financial statements. We have the option of partially repaying these notes in Thomson shares. For all four of the installment payments of the promissory notes in March 2002, 2003, 2004 and 2005, respectively, we paid the entire amounts in cash. Cash and cash equivalents were €1,906 million at the end of 2004, compared with €2,383 million at the end of 2003.

At the end of 2004, we had committed undrawn credit facilities of €1,750 million with a consortium of banks, and committed credit facilities of €51 million with two banks which were fully drawn. Furthermore, we have negotiated uncommitted credit lines from unaffiliated third-party lenders amounting to €945 million, of which €178 million were used as of December 31, 2004 for borrowings.

Moreover, we had in 2004 a securitization program in the United States. The program, established in December 2002, allowed for the sale of our U.S. commercial receivables up to a maximum of U.S.\$200 million (€147 million at the December 31, 2004 closing rate). As of December 31, 2004, we had no outstanding receivable sales under this securitization program. This program was cancelled in March 2005.

We expect to fund the continued active development of the Group using our available cash and our cash flow from operating activities and to the extent appropriate, through borrowings from our available credit facilities or by accessing the capital markets.

Contractual Obligations and Commercial Commitments including Off-Balance Sheet Arrangements

Unconditional Contractual Obligations and Commercial Commitments

The table presented below provides information regarding contractual obligations and commercial commitments as of December 31, 2004, for which we are obliged to make future cash payments. Some of these commitments are not included in our balance sheet as indicated in the table. This table does not include contingent liabilities or commitments. These are, however, described below under the heading “—Conditional Contractual Obligations and Commercial Commitments” and in Note 24 to our consolidated financial statements. 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 given the two alternatives.

Guarantees given by entities of the Group securing debt, capital leases, operating leases or any other obligations or commitments of other entities of the Group are not disclosed as the related obligations are already included in the table below. These may, however, be disclosed under U.S. GAAP in accordance with the requirements of FIN 45 (please refer to Note 31(w) to our consolidated financial statements).

Unconditional Commitments	Amount of commitments expiring per period					
	2003 Total	2004 Total	Less than 1 year	> 1 and =< 3 years	> 3 and =< 5 years	After 5 years
	(€ in millions)					
Financial debt ⁽¹⁾	2,128	2,501	904	827	13	757
Of which: Capital lease obligations ⁽²⁾	61	51	14	22	15	—
Debt related to Technicolor acquisition ⁽¹⁾	178	84	84	—	—	—
Unconditional Future Payments — not included in our balance sheet						
Operating leases ⁽³⁾	485	425	83	118	79	145
Other ⁽⁴⁾	137	68	20	24	23	1
Royalties ⁽⁵⁾	2	1	1	—	—	—
Unconditional Purchase Obligations — not included in our balance sheet						
- Financial investments ⁽⁶⁾	28	16	15	1	—	—
- Property, plant & equipment ⁽⁷⁾	73	9	9	—	—	—
- Commercial purchase obligations ⁽⁸⁾	123	165	106	45	14	—
TOTAL	3,154	3,269	1,222	1,015	129	903

(1) Financial debt (see Note 20 of our consolidated financial statements) and debt related to Technicolor acquisition (see Note 22 of our consolidated financial statements) are reported for their principal amounts and accrued interest as of December 31, 2004. 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. The balance of the debt related to the Technicolor acquisition was paid off in March 2005.

(2) Our capital lease related to our tube manufacturing plant in Mexicali, Mexico, was paid off in 2005.

(3) For more information on our operating leases, see Note 24(a) of our consolidated financial statements.

(4) Other unconditional future payments relate to information technology service agreements and general sponsoring agreements entered into in the U.S., and other contractual advances.

(5) Royalties to be paid for which future amounts are fixed. Royalties to be paid for which the amount is based on a per unit basis are not included, except if a fixed minimum amount will be charged. These are mainly related to licensing fee agreements.

(6) In November 2004, Thomson agreed to acquire an 8% stake in the Chinese television and mobile phone manufacturer Konka (of which 4.8% was subject to approval by the relevant Chinese authorities), corresponding to a financial investment of €14 million as of December 31, 2004.

(7) Unconditional purchase obligations comprise DVD plant expansions in the U.S. as well as certain equipments following the acquisition of Fortune. See below for a more detailed description of the off-balance arrangement related to the acquisition of the tubes business of Fortune.

(8) Commercial purchase obligations include commitments to buy advertising space for €69 million in its cinema sales house screen advertising activity, and €72 million of commercial purchase obligations in the Content & Network segment.

In 2003, a significant off-balance sheet arrangement relates to the Group's purchase of a picture tubes business in China. On July 18, 2003, Thomson and its affiliated company, Thomson Guangdong Displays Company Limited, entered into a sales and purchase agreement by which they agreed under certain conditions to acquire the production equipment which previously belonged to the Chinese tube manufacturer Fortune located in Dongguan (Guangdong province) China. The equipment consisted of three CPT production lines with an annual capacity of 4.3 million tubes (21, 25 and 29 inch) as well as electron gun manufacturing equipment and related assets. The acquisition was valued at 668 million Chinese yuan (approximately U.S.\$80 million) for the fixed assets plus an additional amount for working capital. The acquisition closed as planned in January 2004 and was financed out of the Group's existing cash, which was partly lent to and partly injected as capital in Thomson Guangdong Displays Company Limited. The activity is expected to generate additional revenue of approximately U.S.\$210 million per year and positive cash flow from the beginning of the operations, before taking into account investments for line upgrades. In 2004, this off-balance sheet commitment amounted to €4 million.

Conditional Contractual Obligations and Commercial Commitments

The table below includes only contingent liabilities or commitments, all of which are not included in our balance sheet. These are disclosed in detail in Note 24 to our consolidated financial statements.

Conditional Commitments	Amount of commitments expiring per period					
	2003 Total	2004 Total	Less than 1 year	> 1 and =< 3 years	> 3 and =< 5 years	After 5 years
	(€ in millions)					
Guarantees given						
- to suppliers	5	25	9	14	—	2
- for legal court proceedings and customs duties ⁽¹⁾	62	65	22	12	1	30
- other ⁽²⁾	84	200	43	1	77	79
Standby letters of credit ⁽³⁾	110	68	68	—	—	—
Other conditional commitments ⁽⁴⁾	73	81	19	32	13	17
TOTAL	334	439	161	59	91	128

(1) These guarantees comprise:

- Guarantees for customs duties amount to €43 million and comprise mainly duty deferment guarantees, required by the customs administration to benefit from a derogatory customs regime. Imported goods are normally taxed when they enter the territory. In the case of regular import flows, customs may grant a derogatory 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.
- The Group also grants to customs administrations various operation guarantees to exempt from duties goods transiting through custom 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 matches the one-month renewable term of the agreements.
- Guarantees given for legal court proceedings amount to €22 million. It comprises a €14 million bank guarantee that Thomson gave to the Italian direct tax office in order to be allowed to pay by installment its tax debt resulting from the reassessment of its taxable income from 1993 to 1998 (see Note 27 to our consolidated financial statements).

(2) Includes guarantees given for assets disposal (€181 million in 2004 compared with €65 million in 2003). Moreover, under the terms of many of its long-term contracts, the Group must provide to its clients performance guarantees issued by banks. As of December 31, 2004 and 2003, these guarantees amount to €9 million and €14 million, respectively, mainly related to long-term contract in its broadcast activities.

(3) Standby letters of credit relate mainly to guarantees in favor of suppliers.

(4) Conditional obligations include contingent earn-out payment related to the purchase of 20% of Technicolor Digital Cinema L.L.C. and other obligations.

There is no known event, demand, commitment, trend or uncertainty that is reasonably likely to result in the termination, or material reduction in availability to the Company, of the off-balance sheet arrangements described above in “—Unconditional Contractual Obligations and Commercial Commitments” and “—Conditional Contractual Obligations and Commercial Commitments”.

PART III

ITEM 18 - FINANCIAL STATEMENTS

The following consolidated financial statements and related notes, together with the report of the Independent Auditors, are filed as part of this Amendment No. 1 to this Annual Report:

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Income Statement	F-2
Consolidated Balance Sheet	F-3
Consolidated Statements of Cash Flow	F-5
Consolidated Statements of Changes in Shareholder's Equity and Minority Interests	F-6
Notes to the Consolidated Financial Statements	F-7

ITEM 19 - EXHIBITS

The following exhibits are filed as part of this Amendment No. 1 to this Annual Report:

- Exhibit 1: Bylaws of Thomson (Incorporated by reference to Exhibit 4.1 to the Company's Form S-8 filed on April 22, 2005)
- Exhibit 4: Combination Agreement among TCL, TCL International Holdings Limited and Thomson S.A., dated as of January 28, 2004 (Incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2003)
- Exhibit 8: Subsidiaries (Refer to Note 30 to our consolidated financial statements)
- Exhibit 12.1: Chief Executive Officer Certification
- Exhibit 12.2: Chief Financial Officer Certification
- Exhibit 13.1: Chief Executive Officer Certification
- Exhibit 13.2: Chief Financial Officer Certification
- Exhibit 14: Consent of Barbier Frinault & Autres (Ernst and Young) and of Mazars & Guérard.
- Exhibit 99.1: Excerpts of Thomson's report on Form 6-K submitted to the SEC on April 21, 2005.

Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to this Annual Report on its behalf.

THOMSON S.A.

By: /s/ Frank E. Dangeard _____

Name: Frank E. Dangeard

Title: Chairman and Chief Executive Officer

Dated: December 22, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of THOMSON

We have audited the accompanying consolidated balance sheets of THOMSON and subsidiaries ("THOMSON") as of December 31, 2004 (as restated), 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and minority interests, and cash flows for the years then ended. These financial statements are the responsibility of THOMSON's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of THOMSON's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of THOMSON's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THOMSON as of December 31, 2004, 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in France.

Accounting principles generally accepted in France vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 and 32 to the consolidated financial statements.

As described in the Notes 31 and 32, the 2004 consolidated financial statements have been restated.

Paris, France, March 4, 2005 except for the Notes 31 and 32 as to which the date is December 19, 2005.

BARBIER FRINAULT & AUTRES
Ernst & Young
Jérôme Guirauden

MAZARS & GUERARD
Mazars
Thierry de Bailliencourt

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Year ended December 31,		
		2002	2003	2004
(€ in millions)				
Net sales	(3)	10,187	8,459	7,994
Cost of sales		(7,761)	(6,536)	(6,284)
Gross margin		2,426	1,923	1,710
Selling, general and administrative expense		(1,334)	(1,120)	(999)
Research and development expense	(4)	(374)	(295)	(277)
Operating income		718	508	434
Restructuring costs	(18)	(141)	(217)	(742)
Other income (expense), net	(6)	45	(32)	(27)
Equity investments	(9)	-	(7)	(3)
Earnings before interest, goodwill amortization and tax		622	252	(338)
Interest income (expense), net		9	(9)	(24)
Other financial expense, net		(137)	(70)	(55)
Financial expense	(5)	(128)	(79)	(79)
Amortization and impairment charge of goodwill		(78)	(76)	(130)
Income tax	(7)	(56)	(63)	(88)
Net income before minority interests		360	34	(635)
Minority interests		13	(8)	(1)
Net income (loss)		373	26	(636)

	Year ended December 31,		
	2002	2003	2004
(in euro, except number of shares)			
Weighted average number of shares outstanding - basic net of treasury stock ⁽¹⁾	277,240,438	276,796,602	273,646,869
Basic net income (loss) per share	1.35	0.09	(2.32)
Diluted net income (loss) per share⁽²⁾	1.29	0.09	(2.32)

(1) In 2003 and 2004, the decrease is due to the treasury sharestock acquired (note 16).

(2) See note 16.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	Note	As of December 31,		
		2002	2003	2004
		(€ in millions)		
ASSETS:				
Long lived assets:				
Intangible assets, net	(8)	2,183	1,935	2,206
Property, plant and equipment		3,800	3,554	3,535
Less: accumulated depreciation		(2,178)	(2,080)	(2,481)
Property, plant and equipment, net	(8)	1,622	1,474	1,054
Equity investments	(9)	4	11	128
Other investments	(10)	58	125	113
Loans and other non-current assets		156	49	39
Total investments and other non-current assets		218	185	280
Total long lived assets		4,023	3,594	3,540
Current assets:				
Inventories	(11)	962	744	569
Trade accounts and notes receivable, net	(12)	1,675	1,315	1,180
Current accounts with affiliated companies		71	79	183
Other receivables	(13)	1,278	960	968
Contracts advances, net	(14)	242	205	179
Cash and cash equivalents	(15)	1,463	2,383	1,906
Total current assets		5,691	5,686	4,985
Total assets		9,714	9,280	8,525

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	Note	As of December 31,		
		2002	2003	2004
(€ in millions)				
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTERESTS				
Shareholders' equity:	(16)			
Common stock (273,308,032 shares, nominal value €3.75 per share at December 31, 2004 ; 280,613,508 shares, nominal value €3.75 per share at December 31, 2003 and 2002)		1,052	1,052	1,025
Treasury shares		(155)	(210)	(55)
Additional paid in capital		1,938	1,938	1,748
Retained earnings		1,447	1,411	666
Cumulative translation adjustment		(339)	(612)	(718)
Revaluation reserve		4	4	4
Shareholders' equity		3,947	3,583	2,670
Minority interests		38	9	20
Reserves:				
Reserves for retirement benefits	(17)	705	653	589
Restructuring reserves	(18)	127	118	104
Other reserves	(19)	216	206	176
Total reserves		1,048	977	869
Financial debt	(20)	1,694	2,128	2,501
<i>(of which short-term portion)</i>		262	263	904
Current liabilities:				
Trade accounts and notes payable		1,235	1,364	1,221
Accrued employee expenses		223	183	165
Other creditors and accrued liabilities	(21)	1,070	858	995
Debt related to Technicolor acquisition	(22)	459	178	84
Total current liabilities		2,987	2,583	2,465
Total liabilities, shareholders' equity and minority interests		9,714	9,280	8,525
• Off-balance sheet commitment	(24)			
• Contingencies	(27)			

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2002	2003	2004
		(€ in millions)	
Operating Income	718	508	434
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation of property, plant and equipment	358	302	278
Amortization of intangible assets	38	39	40
Amortization of contracts and changes in reserves reflected in operating income ⁽¹⁾	45	107	118
Decrease (increase) in inventories, net	155	120	(64)
Decrease (increase) in trade and other receivables, net	401	262	65
Increase (decrease) in trade accounts, notes payable and accrued expenses	(139)	258	(31)
Change in other current assets and current liabilities ⁽²⁾	(115)	(170)	(10)
Restructuring cash expenses	(175)	(173)	(200)
Others ⁽³⁾	(182)	(70)	(229)
Net cash provided by operating activities (I)	1,104	1,183	401
Capital expenditures	(608)	(510)	(348)
Proceeds from disposal of fixed assets ⁽⁴⁾	16	34	49
Acquisition of investments (note 23) ⁽⁵⁾	(1,273)	(565)	(680)
Proceeds from disposals of investments	149	249	77
Net cash used by investing activities (II)	(1,716)	(792)	(902)
Net cash provided (used) by operations (I+II)	(612)	391	(501)
Dividends paid ⁽⁶⁾	-	(66)	(74)
Minority interests and share repurchases	-	(55)	(58)
Increase in short-term debt ⁽⁷⁾	218	215	272
Repayment of short-term debt	(248)	(31)	(209)
Increase in long-term debt (note 20)	607	456	406
Repayment of long-term debt	(37)	(8)	(332)
Net cash provided (used) by financing activities (III)	540	511	5
Effect of exchange rates and changes in reporting entities (IV)	3	18	19
Net increase (decrease) in cash and cash equivalents (I+II+III+IV)	(69)	920	(477)
Cash and cash equivalents at the beginning of year	1,532	1,463	2,383
Cash and cash equivalents at the end of year	1,463	2,383	1,906

(1) The amortization of contract advances amounts to €144 million, €136 million and €66 million for the years ended December 31, 2004, 2003 and 2002, respectively.

(2) This line excludes any change in balance sheet items unrelated to operating income, which mainly includes interest, income tax and non-current items, the cash effect of which is presented under "Others".

(3) Includes any change in balance sheet items unrelated to operating income, mainly interest, income tax and non-current items, the cash effect of which is presented here.

(4) Includes for €28 million the cash received in connection with the disposal of the optical components production plant.

(5) Includes the various impacts linked to the disposal of Thomson's TV business against a 33% stake in TTE.

(6) Cash dividends paid to Thomson's shareholders in 2004 amount to €71 million. Dividends paid to minority interests amount to €3 million.

(7) Including the net cash impact of currency swap transactions.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND MINORITY INTERESTS

	Number of shares	Common stock	Additional paid in capital net of costs	Redeemable bonds	Treasury shares	Accumulated retained earnings	Cumulative translation adjustment	Revaluation reserves	Shareholders' equity	Minority interests
	(in thousands)					(€ in millions)				
Balance at December 31, 2001	265,113	994	1,235	761	(156)	1,074	46	4	3,958	71
Translation adjustment	-	-	-	-	-	-	(385)	-	(385)	(9)
Redeemable bonds ⁽¹⁾	15,500	58	703	(761)	-	-	-	-	-	-
Treasury stock loaned (interest)	-	-	-	-	1	-	-	-	1	-
Change in perimeter	-	-	-	-	-	-	-	-	-	(11)
Net income (loss)	-	-	-	-	-	373	-	-	373	(13)
Balance at December 31, 2002	280,613	1,052	1,938	-	(155)	1,447	(339)	4	3,947	38
Translation adjustment	-	-	-	-	-	-	(273)	-	(273)	(1)
Dividends	-	-	-	-	-	(62)	-	-	(62)	(4)
Treasury stock (3,000,000 shares)	-	-	-	-	(55)	-	-	-	(55)	-
Change in perimeter	-	-	-	-	-	-	-	-	-	(32)
Net income (loss)	-	-	-	-	-	26	-	-	26	8
Balance at December 31, 2003	280,613	1,052	1,938	-	(210)	1,411	(612)	4	3,583	9
Translation adjustment	-	-	-	-	-	-	(106)	-	(106)	(1)
Dividends	-	-	-	-	-	(71)	-	-	(71)	(3)
Change in perimeter	-	-	-	-	-	-	-	-	-	14
Treasury stock purchased (4,157,010 shares)	-	-	-	-	(74)	-	-	-	(74)	-
Warrants ⁽³⁾	-	-	12	-	-	-	-	-	12	-
Treasury stock cancelled (7,305,476 shares) ⁽⁴⁾	(7,305)	(27)	(200)	-	227	-	-	-	-	-
Treasury stock granted to employees (141,488 shares)	-	-	(2)	-	2	-	-	-	-	-
Stock options granted ⁽⁵⁾	-	-	-	-	-	5	-	-	5	-
Change in accounting principles ⁽²⁾	-	-	-	-	-	(43)	-	-	(43)	-
Net income (loss)	-	-	-	-	-	(636)	-	-	(636)	1
Balance at December 31, 2004	273,308	1,025	1,748	-	(55)	666	(718)	4	2,670	20

(1) 15.5 million of non-interest bearing "ORA" bonds redeemable in 15.5 million Thomson shares, nominal value €3.75 per share, were issued by Thomson and subscribed by Carlton on March 16, 2001 and redeemed in shares on March 16, 2002.

(2) Impact due to the first consolidation of two special purpose entities (notes 1, 2 and 24).

(3) On September 15, 2004, the extraordinary shareholders meeting approved a subscription plan for warrants (Bon d'Acquisition ou de Souscription d'Actions "BASA") for individual shareholders that filed certain conditions. As of December 31, 2004, a number of 12,471,859 BASA at €1 each were subscribed. Each BASA give the right to subscribe one Thomson share at €16.

(4) On October 19, 2004, a total of 7,305,476 treasury shares were cancelled through a share capital reduction.

(5) Fair value as of July 31, 2004 of a common stock call option granted to TCL Corporation in connection with the TV Combination Agreement (notes 2 and 16).

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

1. THE GROUP AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Thomson provides a wide range of video (and enabling) technologies, systems, finished products and services to customers and professionals in the entertainment and media industries. In order to advance its strategy, Thomson announced its intention to put in place a reorganization of its activities as of January 1, 2005. The Group's activities will be organized into three principal activities: Services, Systems & Equipments and Technology, plus two further divisions regrouping its remaining activities: Displays & Consumer Electronics partnerships and Corporate. The financial information presented in these financial statements remains based on the divisional structure in place during 2003 and 2004, which regrouped activities around four principal divisions: Content & Networks, Components, Consumer Products and Licensing.

In these financial statements, the terms "Thomson group" (formerly the Thomson multimedia group), "the Group" and "Thomson" mean Thomson S.A. together with its consolidated subsidiaries. Thomson S.A. refers to the Thomson group parent company (formerly Thomson multimedia S.A.).

The consolidated financial statements of Thomson have been prepared in accordance with French generally accepted accounting principles ("French GAAP") as set forth in the French law on consolidation (the Act of January 3, 1985) and within Regulation 99-02, approved by the decree dated June 22, 1999 of the Comité de la Réglementation Comptable (CRC).

Financial statements of consolidated subsidiaries, when prepared in accordance with the accounting principles generally accepted in their country of origin, have been adjusted to French GAAP accordingly in consolidation. All figures are presented in millions of euro unless otherwise stated.

Statements of operations presentation: Thomson has elected to modify their statements of operations, as permitted by regulation 99-02, to take into account upcoming changes to the presentation format of the statements of operations to take place under IFRS. Thomson also believes that such a change provides more useful information to the users of financial statements. Prior periods and new sub-total captions have been restated with the new classification, however there is no change to previously reported statements of operations amounts.

Cash Flow presentation: Thomson has elected to present the breakdown of its "cash flow from operating activities" using the reconciliation from "operating income" according to the method permitted by regulation 99-02, instead of the reconciliation from "net income". Under this new method, operating income instead of net income is reconciled to the cash provided by operating activities. Thomson believes that such a change provides more useful information to the users of its financial statements. Also, "others" includes interest, non-current items and income tax, which are determined using the direct method (i.e., the net cash paid or received).

Use of estimates: The preparation of the consolidated financial statements in conformity with French GAAP 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 consolidated statements. Actual results could differ from these estimates.

Estimates made by management include among other items, allowance for doubtful accounts, inventory and investment valuation allowances, retirement and post-retirement benefits, depreciation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

and amortization, loss reserves, deferred tax, contingencies and environmental obligations. The accounting consequences of the TV disposal and TTE purchase as well as the assessment of the write-off of certain displays' assets have been estimated using third parties offers (note 6, 9 and 18).

In 2003, design-tooling amortization was extended from 18 months to 24 months, mainly in the Consumer Products segments, because the usage of such tools is proven to be longer and because such tools are guaranteed by the supplier over such duration. The impact of the new duration, if applied in 2002, would have improved the operating income in an amount of €3 million in 2002. Had the previous duration been applied in 2003, the amortization charges would have increased by €2 million.

IFRS reconciliation: Thomson presents in the MD & A section of the annual report a reconciliation of its net income and its retained earnings to IFRS.

a) Consolidation

The financial statements of the subsidiaries in which Thomson has a direct or indirect controlling interest have been consolidated.

Article 133 of the French Law on Financial Security (Loi de Sécurité Financière or "LSF") issued on August 1, 2003, modified article L233-16 of the French Commercial Code, which did not permit the consolidation of a company unless at least one share was owned. According to this new Article 133 and disregarding the number of shares held, fully controlled special purpose entities (SPEs), are consolidated as of January 1, 2004, applying a retroactive method. The law did not allow early application. Thomson has two such SPEs, one put in place in 2000 and the other in 2001, which are affected by the application of this new article in 2004.

These SPEs have been consolidated retroactively as of December 31, 2003, increasing the net tangible fixed assets by €193 million, the financial debt by €321 million, decreasing the deferred income by €85 million and with the net impact booked to equity for €-43 million.

After consolidation of these SPEs, as of December 31, 2004, the Group no longer reports off-balance sheet future payments related to synthetic leases.

Investments in companies over which Thomson exercises significant influence, directly or indirectly, but does not control, are accounted for under the equity method.

Investments in companies over which Thomson has joint control with a limited number of partners ("joint ventures") are accounted for under the pro rata consolidation method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

b) Translation of foreign subsidiaries' financial statements

The financial statements of foreign subsidiaries are translated into euros using the following principles:

- balance sheets are translated at the closing foreign exchange rates prevailing at the balance sheet date;
- statements of income and cash flows are translated at the average exchange rates of the period; and
- the resulting translation differences are reflected as a translation adjustment in the shareholders' equity section of the balance sheet.

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

	2002		2003		2004	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
U.S. dollar	0.95356	1.05803	0.79177	0.87934	0.73303	0.80173
Pound sterling	1.53728	1.59132	1.41884	1.44323	1.41365	1.47262
Canadian dollar	0.60423	0.67386	0.61599	0.63124	0.60938	0.61882
Hong Kong dollar	0.12228	0.13566	0.10199	0.11293	0.09429	0.10294
Polish zloty	0.24869	0.25915	0.21268	0.22602	0.24537	0.22155
China Renminbi	0.11521	0.12783	0.09566	0.10620	0.08857	0.09686

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

c) Transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currencies are converted in functional currency at the respective exchange rates prevailing at the balance sheet dates. The related unrealised exchange gains and losses are included under "other financial expense, net" in the consolidated statements of operations, except if the assets or liabilities were hedged.

Transactions denominated in foreign currencies are converted at the exchange rate prevailing at the date of the transaction or at the rate of the applicable forward contract if hedged.

d) Financial instruments

Thomson enters into financial instruments to hedge foreign currency risk, interest rate risk and from time to time to hedge the market volatility of certain marketable equity investments.

Financial risk exposures are managed centrally by the corporate treasury department in Paris in accordance with market conditions and in the framework of procedures established by management. Thomson enters into over-the-counter financial instruments, with a limited number of counterparts. Depending on local foreign currency regulations or practical access to markets, foreign exchange transactions are carried out by the corporate treasury in Paris or by the Hong Kong regional treasury or by the Americas regional treasury (the latter for transactions in Mexican peso). Affiliates unable to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

enter into foreign currency hedging operations with corporate treasury because of local laws or regulations do so directly with local banks under the supervision of corporate treasury and in accordance with corporate policies and procedures.

Foreign currency risk

Thomson operates as a global company and consequently is subject to mismatches between the currencies in which sales are made and the currencies in which expenses are incurred.

Moreover, the Group operates in certain emerging markets, which are subject to risks and uncertainties inherent in such markets, including economic and governmental instability, controls on repatriation of earnings and capital and restrictions on the means available to Thomson to hedge currency fluctuation risks.

Thomson's policy is to reduce the impact of foreign currency fluctuations on net commercial transaction exposures generally on a short-term basis and in certain cases for longer periods depending on the cycle of the underlying business activities. The Group buys and sells currencies on a forward basis and buys currency options.

Foreign currency forward contracts, and foreign currency options, are considered as hedges for accounting purposes if they are designated to hedge accounts receivable and accounts payable amounts on the balance sheet at the closing date of the period or anticipated commercial transactions.

The nature of the commercial products sold and the consistency of the demand for these products are such that it is reasonable to consider the anticipation of future cash flows generated by market demand as similar to firm order commitments.

Gains and losses on foreign currency instruments designated as hedges of the following year's anticipated commercial transactions are recognized as income or expense over the same period as the underlying transaction.

Foreign currency instruments that do not qualify for hedge accounting are recorded at market value, and gains and losses resulting from these instruments are recognized as "other financial expense, net" in the consolidated statements of operations.

Interest rate risk

Thomson's policy is to hedge interest rate exposures in accordance with target ratios of fixed/floating debt, which are set periodically as a function of market conditions.

The Group enters into interest rate swaps and buys forward rate agreements and caps.

Gains and losses on interest rate instruments designated as hedges of the Group's debt instruments, are accounted for over the life of the contract, on an accrual basis, as an increase or decrease to "interest income (expense), net" and the accruals are included either in "other receivables" or "other creditors and accrued liabilities" on the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Interest rate swaps and forward rate agreements that do not qualify for hedge accounting as well as interest rate caps are marked-to-market and if there is a loss it is recognized in “other financial expense, net” in the consolidated statements of operations.

Equity risk

From time to time, Thomson hedges the market volatility of certain marketable equity investments. Gains and losses on equity instruments designated as hedges are deferred until the related marketable equity securities are sold.

e) Net sales

Sale of goods and services

Revenue consists of income from all activities of consolidated subsidiaries after elimination of inter-company transactions. Revenue is recognized when ownership is transferred which generally occurs at the time of shipment.

Licensing revenue

Patent licensing agreements generally provide that a specified royalty amount is earned at the time of shipment of each product shipped to a third-party by a licensee. Thomson’s policy is to record licensing revenue as it is earned. The gross royalty amount is determined on a quarterly basis and in accordance with the license agreement. Generally, the actual royalty amount is required to be declared by the licensee and paid to the Group within 30 to 60 days after the end of the calendar quarter. New license agreements can also include a provision for the licensee to pay for past shipments.

The Group may enter into specific licensing agreements according to which its only obligation is to maintain and defend the patent rights licensed to its customers. Under such contracts, the related revenues are recognized when the right to such revenues is acquired.

Sales of patents incidental to patent licensing activities are recorded as revenues when earned.

Warranty and returns

Estimated product warranty costs are accrued at the time of sale. The warranty reserve covers all of the products that are still under warranty. The amount of the reserve is determined based upon known non-recurring product issues as well as on historical experience.

The warranty reserve is intended to cover all returns from customers related either to product failures or consumer returns. Although Thomson’s general policy is to not accept returns of undamaged products, Thomson may accept returns for undamaged products on a discretionary basis. The impact of these returns has historically not been material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Price protection

Price protection may be granted to customers in certain countries where it is common when Thomson's retail price of a product decreases for items held in stock by the customer. Price protection programs are discretionary. Accordingly, Thomson accrues for price protection at the time allowances are probable of being granted to customers. Price protection is reflected as a reduction of sales.

Sales incentives

Sales incentives to customers under sales incentives programs are deducted from sales unless the following conditions are met:

- Thomson receives an identifiable and separable benefit (goods or services) in exchange for the cash paid to the customer, and
- Thomson can reasonably estimate the fair value of the benefit.

Amounts paid in excess of such identified benefit are deducted from sales.

f) Long lived assets

Goodwill is amortized on a straight-line basis over its estimated useful life, generally over a period of 3 to 20 years.

Trademarks and similar rights with an indefinite economic life are no longer subject to amortization, in accordance with French GAAP.

Software development costs are generally expensed. Elements may be capitalized as intangible assets when they comply with the following criteria:

- the project is clearly defined and costs are separately identified and reliably measured,
- the technical feasibility of the software is demonstrated,
- the software will be sold or used in-house,
- a potential market exists for the software, or its usefulness (in case of internal use), is demonstrated, and
- adequate resources for the project are available.

Software costs thus capitalized are categorized and amortized over their economic useful lives, which generally do not exceed 3 years.

Unless impaired, property, plant and equipment are carried at historical cost.

Depreciation is computed using the straight-line or declining-balance method over the estimated useful lives of the assets or using the unit of production method when appropriate.

Depreciation is generally applied over the following estimated useful lives of the fixed assets:

- 20 to 40 years for buildings,
- 1 to 12 years for plant and equipment,
- 4 to 10 years for other fixed assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

At the balance sheet dates and whenever events or changes in market conditions indicate a potential impairment of intangible assets or property, plant and equipment, the expected future cash flows (undiscounted for tangible as well as intangible with a definite useful life and discounted for intangible with an indefinite useful life) of the related assets are compared with the carrying amounts of such assets. Whenever such review indicates that there is an impairment, the carrying amount of such assets is reduced to their fair market value. The fair value is computed by reference to the discounted expected future cash flows generated by these assets.

g) Other investments

Other investments are recorded at the lower of historical cost or net realizable value, assessed on an individual basis. Net realizable value is based upon the underlying equity of the investment, its expected future profitability, or its market value (average of the quoted prices of the closing month for listed investments).

h) Inventories

Inventories are carried at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) or weighted-average method.

The cost of finished goods and work in progress inventories includes the cost of raw materials, labor and subcontracted purchases used during production, plus an allocation of industrial overhead. A valuation allowance is recorded when the carrying value is higher than the market value.

i) Research and development

Research and development costs are expensed as incurred (subject to the qualification set out in paragraph (f) above, concerning software development costs).

Subsidies for research and development are accounted for as income based on the stage of completion of the projects and are directly deducted from research and development costs. Certain projects are funded by means of repayable advances from governmental entities. Thomson deducts such external funding directly from research costs as incurred, as the repayments are generally contingent on future revenues generated by the project and are possible, but not probable.

j) Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid investments with an initial maturity of three months or less.

k) Deferred tax

Thomson uses the liability method of tax allocation and records deferred taxes when there is a difference between the tax and accounting basis of assets and liabilities. A valuation allowance is recorded when there is uncertainty regarding the future utilization of these temporary differences. Tax on undistributed earnings of subsidiaries and equity companies are taken into account only when there is a planned distribution of dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

l) Pensions, retirement and termination benefits

Retirement indemnities and post-retirement benefits are accrued over the years of service of the employees.

The method used is the Projected Unit Credit Method with projected final salary using U.S. GAAP methodology. Actuarial gains or losses, such as gains and losses resulting from the effect of changes in actuarial assumptions, are deferred except for that part in excess of 10% (“corridor”) of the greater of the beginning balance of the fair market value of plan assets or the projected benefit obligation. This part in excess is amortized over the average remaining service period of active employees expected to receive benefits under the plan or if all of a plan’s participants are inactive, the average remaining life expectancy of the inactive participants is used. This part is included as a component of the pension costs.

In accordance with the opinion 2004-05 of the French Conseil National de la Comptabilité (CNC), jubilee awards are now classified under “Other creditors and accrued liabilities” caption.

m) Reserves

Reserves and liabilities are accounted for in compliance with regulation 00-06 of the French Committee on Accounting Regulations (Comité de la Réglementation Comptable) relating to the accounting for liabilities.

Restructuring reserves are recorded when Thomson has a current obligation as a result of a past event and for which an outflow of resources is probable and a reliable estimate can be made. Consequently, restructuring reserves are accrued for when a restructuring decision to close a facility, or to reduce or relocate the workforce meets the criteria stated in Regulation 00-06 of the French Committee on Accounting Regulations.

n) Statements of cash flows

Cash flows from operating activities are determined using the reconciliation from “operating income” according to the method permitted by Regulation 99-02, instead of the reconciliation from “net income”.

o) Other income and expense

“Other income (expense), net” includes restructuring costs, gains or losses on disposals of fixed assets, write-offs/impairments of fixed assets and any other material unusual items.

p) Legal reserve

Pursuant to French law, Thomson is legally required to contribute a minimum of 5% of its annual net income (after any reduction for losses carried forward from the previous year) to a legal reserve. This minimum contribution is no longer required when the legal reserve equals 10% of the aggregate nominal value of its issued share capital. The legal reserve may be distributed only upon liquidation. At December 31, 2004 Thomson’s legal reserve amounted to €43 million, compared to an aggregate nominal value of its share capital at the same date of €1,025 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

q) Earnings per share

The basic earning per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Treasury shares are not considered as outstanding for the purposes of the computation of earnings per share.

The diluted earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year adjusted to include any potential dilutive issues of common shares (mainly share options, warrants, and convertible bonds issued by the Company on its own common shares). Net income for the purposes of this calculation is therefore restated to exclude the interest expense, net of tax, related to such potential dilutive issues and numerator is restated by the equivalent in shares of convertible bonds.

2. SIGNIFICANT CHANGES IN THE CONSOLIDATED COMPANIES

As of and for the year ended December 31, 2004, Thomson's consolidated balance sheets and statements of operations include the accounts of companies listed in note 30. The following is a summary of the number of companies consolidated and accounted for under the full consolidation method, the equity method and the pro rata consolidation method.

	December 31,					
	2002		2003		2004	
	France	Others	France	Others	France	Others
Number of companies:						
Parent company and consolidated subsidiaries	29	148	38	153	37	156
Companies consolidated by pro rata method	5	25	5	26	5	28
Companies accounted for under the equity method	-	2	3	7	3	6
Sub-total	34	175	46	186	45	190
Total	209		232		235	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Changes in 2004

- (To be read in connection with note 24): In accordance with the new regulation Article 133 of the French Law on Financial Security (Loi de Sécurité Financière or “LSF”) issued on August 1, 2003, Thomson fully consolidated two SPEs starting on January 1, 2004. One of the SPEs was put in place in 2000 in connection with a synthetic lease transaction for Thomson Display Mexicana S.A. de C.V. concerning a television tube manufacturing facility located in Mexicali (Mexico) and the other SPE was put in place in 2001 in connection with a similar lease transaction for Thomson multimedia Polska sp.zo.o (Poland) which involved the transfer of title of its tube manufacturing equipment. On March 31, 2004 Thomson multimedia Polska sp.zo.o unwound the synthetic lease transaction by repaying the debt held via the SPE; consequently title of the equipment was transferred back to Thomson multimedia Polska sp.zo.o.
- On January 7, 2004, Thomson completed the acquisition of the Tubes division of the Chinese company Xinyuan Highway Development (known by the name of “Fortune”). This activity is fully consolidated from that date. Concurrently with this operation, Thomson increased its ownership in Thomson Guangdong Display Co. Ltd. to 77%.
- On March 23, 2004, Thomson signed a definitive agreement to sell to the Taiwanese company, Foxconn, its optical pick-up manufacturing activity located in China within Thomson OKMCO Shenzhen Co. Ltd. Thomson continues its research, product development and selling activities in this business.
- On April 20, 2004, Thomson acquired International Recording, a Rome-based company specializing in creating multiple foreign language versions for theatrical and broadcast content, as well as for video games. This company is fully consolidated from that date.
- On May 12, 2004, Thomson acquired Command post, a leading Canadian provider of video/audio post-production and film services for the North American motion picture industry. This company is fully consolidated from that date.
- On May 15, 2004, Thomson acquired the video division of ParkerVision, a pioneer of live television production automation systems. This activity is fully consolidated from that date.
- On June 11, 2004, Thomson acquired from Beijing C&W Electronics (Group) Co. Ltd. the 45 % minority interest owned in Thomson Zhao Wei Multimedia Co., Ltd. (People’s Republic of China). Thomson already held the other 55%, as well as joint control. This company then formed part of the TV business contributed by Thomson to “TCL-Thomson Electronics” (TTE) in July 2004.
- On June 16, 2004, Thomson acquired from Alcatel the 25% minority interest owned in Nextream S.A. Thomson already held the other 75%, together with the management control. Nextream which was fully consolidated is now 100% held by the Group.
- On June 18, 2004, Thomson acquired Madrid Film SL, also known as Madrid Film Group, the largest film and post-production operation in Spain. This company is fully consolidated from that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- On June 24, 2004, Thomson acquired the HNS' set-top box manufacturing assets of Hughes Network Systems (the manufacturing activity of Direct TV Group) and signed concurrently an agreement for the long-term development and supply of digital satellite set-top boxes (STBs). This activity is fully consolidated from that date.
- On June 25, 2004, in order to complete the agreements signed in 2003 concerning Canal Plus Technologies and the sale of the MediaGuard™ business to Kudelski, Thomson sold to Kudelski 50% of its shares into Canal Plus Technologies to form a joint venture in the field of the conditional access systems patents, which is consolidated under the pro rata method from that date.
- On July 19, 2004, Thomson acquired Gyration, a Silicon Valley technology company that has developed a line of next-generation user-interface (UI) devices using proprietary technology based on gyroscopes. The technology is currently incorporated in a variety of hand-held UI devices, mainly for personal computers (PCs). This company is fully consolidated from that date.
- On July 31, 2004, Thomson and TCL combined their respective TV assets in a new company, TTE, of which Thomson holds 33% and TCL 67%. Thomson contributed its industrial TV assets mainly located in Mexico, Poland and Thailand as well as its R&D centres located in the U.S., Germany and Singapore. The new company "TCL-Thomson Electronics"(TTE) is licensed by Thomson for certain intellectual properties (trademarks and patents) and will exclusively use Thomson services for the distribution of TV sets in Europe and in the U.S., Thomson acting as an agent. Thomson has neither control nor joint control of TCL-THOMSON ELECTRONICS and consolidates TCL-THOMSON ELECTRONICS under the equity method from July 31, 2004. The TV activity before July 31, 2004 is presented under full consolidation method. Thomson accounted the contribution of its TV business as a disposal and booked the 33% interest in TCL-THOMSON ELECTRONICS as an acquisition.
- On September 22, 2004, Thomson sold its 19.9% interest in Total Technology Company Limited. Before that date, the company was consolidated under the equity method.
- On October 27, 2004, Thomson acquired 77.61% in Corinthian Television Facilities Limited (UK). Corinthian is one of Europe's leading broadcast television facilities companies providing live studios, graphics, video, audio production and post-production and transmission playout to major international broadcasters through long term contracts. This company is fully consolidated from that date.
- On November 4, 2004, Thomson acquired a 50% interest in Beijing Nokia CITIC Digital Technology Co Ltd. This company is mainly engaged in the production of digital multimedia terminals for reception of digital broadcasting and interactive services via satellite, cable, terrestrial and telecom networks and related products and systems for digital Internet services. The company is consolidated under the pro rata method from that date.
- On November 18, 2004, Thomson acquired EADS DCS (Defense and Communication Systems) Video Over Internet Protocol (IP) activity, specialised in the integration of video over IP systems, which enables seamless access to voice, data and video content. This activity is fully consolidated from that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- On December 9, 2004, Thomson acquired “The Moving Picture Company” (MPC). MPC is a London (UK) provider of visual effects and post-production services to both the motion picture and commercial advertising industries. This company is fully consolidated from that date.
- On December 10, 2004, Thomson sold its 36% interest in Keymro. The company that was pro rata consolidated is no more consolidated from that date.
- On December 31, 2004, Thomson sold Thomson Servicios Corporativos S.A de C.V, a set-top box manufacturing company in Mexico to Elcoteq. The activity before December 31, 2004 was fully consolidated.

Changes in 2003

- Since January 1, 2003, the financial statements of all subsidiaries in which Thomson has a direct or indirect controlling interest have been consolidated, whether or not the activity is significant, except for three insignificant companies held for liquidation. As a result, thirty entities have been included in the scope of consolidation, representing an external turnover of €14.6 million, operating result of €1 million and total assets of €45.2 million.
- In January 2003, Screenvision Europe Group sold its 71% participation in a subsidiary, TWICE, which is therefore not consolidated subsequent to December 31, 2002.
- On January 31, 2003, Thomson acquired 89% of Canal+ Technologies (Thomson held a small percentage of Canal+ Technologies before this agreement). The company acquired comprised two businesses, namely conditional access systems marketed under the brand name MediaGuard™ and middleware operating systems marketed under the brand name of MediaHighway™. In both cases, the related products and services are marketed to digital TV operators.

During December 2003, Thomson completed the sale of the MediaHighway™ business and the MediaGuard™ business. The assets retained were intellectual property assets plus cash acquired with and retained in the business. Accordingly, the activity of Canal+ Technologies has been accounted for as a non-operational activity for 2003 and its results included in “other income (expense), net”, together with the gain on disposal, net of expected costs. More details of the financial consequences of the purchase and sale of the Canal+ Technologies business are in notes 6 and 23. The revenue and the operating result of Canal+ Technologies before any impact related to the disposal of the activity disposed of were €90 million and €-2 million respectively for the eleven months of the year 2003.

- On February 5, 2003, Thomson acquired from Alcatel the latter’s 50% interest owned in the ATLINKS joint venture for an amount of €69 million, Thomson already held the other 50%, together with the management control. ATLINKS is now 100% held by the Group.
- On February 28, 2003, the Group acquired Pacifica Media Affiliates (PMA) assets, a leading Los Angeles-based provider of audio editorial, and mixing facilities for feature films and broadcast production content. PMA has been fully consolidated since that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- On March 31, 2003, an amendment to the joint venture agreement with Schneider concerning Easyplug was made, according to which Thomson lost control over the joint venture. Easyplug is therefore consolidated by the equity method at 50% since that date.
- On May 8, 2003, Screenvision Europe, a 50-50 joint venture with Carlton Communications, acquired 100% of RMB Slovakia S.r.o. and 50% of Nordic Media Link A.B. (NML). These entities are consolidated from that date using the pro rata method.
- On June 6, 2003, Thomson acquired from Microsoft its 20.4% of minority interests in TAK. The Group now owns 100% of this company.
- On June 16, 2003, Screenvision Europe acquired the 50% minority interest in RMB Entertainment S.A.
- On June 16, 2003, Thomson purchased the remaining 11% minority interests in Thomson multimedia India Private Ltd. The Group now owns 100% of this company.
- On July 8, 2003, Thomson acquired for an amount of €50 million the business and assets of the Recoton accessories business, a leading provider of accessories and related services to the U.S. retail industry. The Recoton business has been fully consolidated since that date.
- On July 8, 2003, Thomson acquired additional shares in Celstream, a global information technology services firm with advanced expertise in product development, located in India. Thomson owns 38.75% of Celstream, which has been consolidated under the equity method since that date.
- On September 18, 2003, Thomson acquired from Qualcomm its 20% interest in the Technicolor Digital Cinema (TDC) joint venture, for a total amount of €23 million (of which €15 million was paid in cash in 2003). The Group now owns 100% of Technicolor Digital Cinema, which is fully consolidated since that date (previously, TDC was consolidated using the pro rata method).
- On October 21, 2003, Thomson acquired Cinecolor Lab Company, Ltd, a Thai company and one of the premier motion picture film laboratories and post-production facilities in the Austral-Asian film and post-production markets. Cinecolor is fully consolidated since that date.
- On November 13, 2003, Thomson completed the disposal of all of its interests in the business and assets of Singingfish for €7 million.
- On December 31, 2003, Thomson sold 55.1% of its participation in Total Technology Company, a company located in Asia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Pro forma information

For comparative purposes, the table below presents supplemental information on a pro forma basis as if the 2004 business acquisitions and disposals had been completed at the beginning of the period and provides for the same information as of the immediate comparative period.

Unaudited (In millions of euro, unless otherwise stated)	12 months 2003	Impact of acquired and disposed businesses ⁽²⁾	TV business ⁽³⁾	12 months 2003 Pro forma	12 months 2004	Impact of acquired and disposed businesses ⁽²⁾	TV business ⁽³⁾	12 months 2004 Pro forma
Net sales	8,459	636	(1,707)	7,388	7,994	285	(845)	7,434
Operating income (loss)	508	64	199	771	434	32	114	580
Financial expense ⁽¹⁾	(79)	(10)	(2)	(91)	(79)	(5)	(1)	(85)
Goodwill amortization	(76)	(14)	(51)	(141)	(130)	(8)	(33)	(171)
Minority interests	(8)	1	-	(7)	(1)	(1)	-	(2)
Net income (loss)	26	41	146	213	(636)	18	80	(538)
<i>Weighted average number of shares outstanding in the period (in thousands)</i>	<i>276,797</i>	<i>-</i>	<i>-</i>	<i>276,797</i>	<i>273,647</i>	<i>-</i>	<i>-</i>	<i>273,647</i>
<i>Basic net income (loss) per common share (In euro)</i>	<i>0.09</i>	<i>0.15</i>	<i>0.53</i>	<i>0.77</i>	<i>(2.32)</i>	<i>0.07</i>	<i>0.29</i>	<i>(1.96)</i>
<i>Diluted net income (loss) per common share (In euro)</i>	<i>0.09</i>	<i>0.15</i>	<i>0.53</i>	<i>0.77</i>	<i>(2.32)</i>	<i>0.07</i>	<i>0.29</i>	<i>(1.96)</i>

(1) The additional pro forma financial expense represents only the increase of interest expenses measured as if the Group had paid for the related acquisitions at the beginning of the year and thereafter for the years presented.

(2) The 2003 pro forma information has been computed as if 2003 and 2004 business combinations had occurred as of January 1, 2003. The 2004 proforma information has been computed as if 2004 business combinations had occurred as of January 1, 2004. The following are acquisitions that have been restated for the proforma information:

- During the twelve months ended December 31, 2004, the material acquisitions comprise the following entities:
 - Fortune
 - ParkerVision
 - Gyration
 - Madrid Film
 - MPC
 - Corinthian
 - EADS acquisition
 - HNS business
 - Command post
 - International recording
- During the twelve months ended December 31, 2003, the material acquisitions comprise the following entities:
 - PMA
 - Cinecolor Lab Cie
 - Recoton business
 - Technicolor Digital Cinema (minority interest purchase)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- In addition, the 2003 and 2004 proforma information excludes businesses disposed during 2004 and 2003 as if related disposals have been made as of January 1, 2003.
 - Thomson Optical pick-up manufacturing activity within Thomson OKMCO Shenzhen Co. Ltd. has been excluded from consolidation in April 2004.
 - Except the disposal of the TV business, which is shown in a separate column, no other material entity or segment component was excluded from consolidation in 2003 and 2004.
- (3) On July 31, 2004, Thomson and TCL international merged their TV business into a new company, TTE. Following this transaction, Thomson no longer had control over its TV manufacturing business and TTE is now accounted for using the equity method. As a result, the proforma information excludes the contribution of the TV business for 2003 and 2004.

3. INFORMATION BY GEOGRAPHIC AREA AND BUSINESS SEGMENT

	France	Rest of Europe	U.S.	Rest of Americas	Asia/ Pacific	Elimination	Total
(€ in millions)							
December 31, 2004							
Net sales	1,851	1,339	3,702	438	664	-	7,994
Transfers from/to other geographical areas	413	632	120	307	557	(2,029)	-
Operating income ⁽¹⁾	213	120	(1)	57	45	-	434
Long lived assets, net	29	294	305	211	215	-	1,054
December 31, 2003							
Net sales	2,032	1,342	3,992	462	631	-	8,459
Transfers from/to other geographical areas	589	884	110	310	593	(2,486)	-
Operating income ⁽¹⁾	259	163	21	60	5	-	508
Long lived assets, net	87	496	480	240	171	-	1,474
December 31, 2002							
Net sales	2,028	1,418	5,345	534	862	-	10,187
Transfers from/to other geographical areas	416	931	286	298	735	(2,666)	-
Operating income ⁽¹⁾	211	213	191	60	43	-	718
Long lived assets, net	92	448	716	197	169	-	1,622

(1) The variations of inter-company profits included in the inventories of the buying geographic area are deducted from or added to the operating income of the selling area.

Net sales and operating income are classified by the location of the business that invoices the customer.

Analysis by Business Segment

Until 2004, Thomson's organizational and reporting structure consisted of four segments: Content & Networks, Components, Consumer Products and Licensing.

- *Content & Networks* comprises the following activities:
 - Video content preparation and distribution activities under the Technicolor® trademark (post-production, media asset management, replication and distribution of films, DVDs and VHS cassettes) and the screen-advertising businesses (Screenvision);

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- Broadcast and network equipment and services under GVG® trademark; and
 - The Broadband Access Products activity, including decoders and modems. The business of ATLINKS, carried out in conjunction with telecommunications companies, is also managed within the Broadband Access Products activity.
- *Components*, produces and sells television tubes, other display devices, optical components and television and video components.
 - *Consumer Products* activities comprise television sets, audio and video products, accessories, and home telephony products sold through retail channels. The Consumer Products segment also includes the worldwide marketing and sales organization for retail products.
 - *Licensing* manages and develops the Group's portfolio of licenses, as well as those of external customers.

In addition, Corporate column includes amounts related to central corporate functions and worldwide programs unrelated to a specific business segment (e.g., central research and development).

The operations of the former *New Media Services* division have been absorbed in 2003 by *Consumer Products* activities (principally guide-related activities) and *Content & Networks* activities (principally the screen-advertising activity).

	Content & Networks	Components	Consumer Products ^(*)	Licensing ^(*)	Corporate	Consolidation Adjustments	Total
(€ in millions)							
December 31, 2004							
Net sales to external customers	4,073	1,167	2,325	404	25	-	7,994
Intersegment sales ^(a)	8	181	33	1	144	(367)	-
Depreciation and amortization	(165)	(97)	(40)	(1)	(15)	-	(318)
Operating income (loss)	407	(105)	(64)	325	(129)	-	434
Interest income (expense), net	(16)	(20)	(11)	5	18	-	(24)
Income from equity investments	-	-	(3)	-	-	-	(3)
Other income (expense), net and restructuring charges ^(b)	(40)	(730)	(4)	-	5	-	(769)
Segment assets ^(c)	2,611	578	502	8	68	-	3,767
Capital expenditures ^(c)	(202)	(93)	(31)	-	(20)	-	(346)
Capital employed ^(e)	2,007	263	161	(115)	(3)	-	2,313
Net goodwill	1,064	23	155	-	-	-	1,242

(*) Includes the TV business up to the sale date, July 31, 2004 of €845 million and €-114 million respectively, in net sales and operating income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	Content & Networks	Components	Consumer Products ^(*)	Licensing ^(*)	Corporate	Consolidation Adjustments	Total
(€ in millions)							
December 31, 2003							
Net sales to external customers	3,714	1,072	3,198	462	13	-	8,459
Intersegment sales ^(a)	9	424	13	1	148	(595)	-
Depreciation and amortization	(141)	(99)	(80)	(5)	(16)	-	(341)
Operating income (loss)	436	(101)	(124)	411	(114)	-	508
Interest income (expense), net	(16)	(5)	(13)	5	20	-	(9)
Income from equity investments	(5)	-	(2)	-	-	-	(7)
Other income (expense), net and restructuring charges ^(b)	(75)	(149)	(52)	1	26	-	(249)
Segment assets ^(d)	2,431	920	911	8	98	-	4,368
Capital expenditures ^(c)	(297)	(137)	(48)	(2)	(9)	-	(493)
Capital employed ^(e)	1,917	612	320	47	82	-	2,978
Net goodwill	1,077	-	23	-	-	-	1,100

(*) Includes the TV business for €1,707 million and €-199 million, respectively, in net sales and operating income

	Content & Networks	Components	Consumer Products ^(*)	Licensing ^(*)	Corporate	Consolidation Adjustments	Total
(€ in millions)							
December 31, 2002^(**)							
Net sales to external customers	3,924	1,560	4,264	429	10	-	10,187
Intersegment sales ^(a)	42	664	56	-	188	(950)	-
Depreciation and amortization	(152)	(125)	(105)	(2)	(12)	-	(396)
Operating income (loss)	420	84	(52)	387	(121)	-	718
Interest income (expense), net	(20)	(3)	(23)	8	47	-	9
Income from equity investments	-	-	-	-	-	-	-
Other income (expense), net and restructuring charges ^(b)	(38)	(42)	2	-	(18)	-	(96)
Segment assets ^(d)	2,736	1,047	1,244	19	76	-	5,122
Capital expenditures ^(c)	(359)	(244)	(67)	(1)	(11)	-	(682)
Capital employed ^(e)	2,209	728	771	66	107	-	3,881
Net goodwill	1,310	1	9	-	-	-	1,320

(*) Includes the TV business for €2,223 million and €-71 million respectively in net sales and operating income

(**) Restated with the transfer of Nextream and Broadband Access Products activities from the Consumer Products segment to the Content & Networks segment and with the transfer of previous New Media Services activities to Consumer Products and Content & Networks segments.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(a) The Licensing segment does not include license fees charged to other segments.

(b) The caption in “other income (expense)” mainly comprises the following:

For the year ended December 31, 2004 significant items are :

- €-742 million of restructuring expenses as detailed in note 18 “restructuring reserves”.
- €+40 million for Gain on disposal of fixed assets/investments as detailed in note 6.
- €-6 million for Write-off of fixed assets as detailed in note 6.
- €-61 million for other non current gains (losses)

Significant “other non current gains (losses)” are the following:

- A loss of €-14 million has been recognized in the Content & Network Segment and relates to an indemnity paid in relation with the acquisition of the PDSC business made in 2002.
- Losses of €-25 million were recognized corresponding to costs incidental to the restructuring of its displays activities including an operational impairment amounted to €-3 million (consisting primarily of the reduced production output that resulted from the restructuring announcement until the effective closure), €-6 million loss related to the settlement of pension obligation in the United States of America following the closure of Tubes & Glass Plants, €-16 million on certain risks related to the exit of the business.
- Following the classification in 2003 of Canal + Technologies as a discontinued operation, the Group has reported a €-8 million non-current loss, net of tax in the period ended December 31, 2004.

For the year ended December 31, 2003 significant items are :

- €-217 million for restructuring expenses as detailed in note 18 “restructuring reserves”.
- €+51 million for gain on disposal of fixed assets/investments as detailed in note 6.
- €-52 million for write-off of fixed assets as detailed in note 6.
- €-31 million for other non current gain(losses)

Significant “other non current gains (losses)” are the following:

- During February 2003, the Components segment decided to temporarily stop one of its large-size tube production lines (line 1) in Marion, Indiana. The decision to definitively close the line was finally announced on June 12, 2003, together with the decision to close a second line (see below). The costs incurred between February and June associated with this closure have been classified under “other income/(expenses)” and totaled €-8 million. They include mainly employee unemployment costs (€-3 million) and operational impairment (€-5 million). Operational impairment consists primarily of the reduced production output that resulted from inter-plant job changes that are required by the seniority protection clauses in the union contracts.
- €-10 million related to Components segment, which decided to stop a second display production line (line 2) in Marion, Indiana, in June. The costs incurred between February and June associated with this closure have been classified under “other income/(expenses)” and amount to €-10 million. This mainly includes employee unemployment costs (€-4 million), operational impairment (€-5 million) and some other costs (€-1 million) with no future benefits for the Group and which are directly related to the decision to temporarily stop the production line.
- €+6 million income related to the reversal of a provision for litigation (i.e., a judgment rendered in favor of Thomson), as well as other various miscellaneous income.
- €-4 million pertains to pension and medical retiree benefit expenses incidental to the major restructuring plans. Such pension settlement expense corresponds to a portion of the unrecognized pension loss as employees from previous restructuring plans terminated their lay-off status and withdrew their pension money. Such amount is broken down by segment as follows: €-2 million in Consumer Products, €-1 million in Holdings and €-1 million in Content & Networks.
- €-8 million are related to litigation in the Audio Video profit center.

For the year ended December 31, 2002 significant items are :

- €-141 million for restructuring expenses as detailed in note 18 “restructuring reserves”.
- €+79 million for gain on disposal of fixed assets/investments as detailed in note 6.
- €-15 million for Write-off of fixed assets as detailed in note 6.
- €-19 million for other non current gain(losses)

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Significant “other non current gains (losses)” are the following:

- €-8 million is related to the TAK activity, discontinued in 2002. TAK was in the former New Media Services segment (now Content and Networks) and was developing and marketing services for interactive television. The amount classified in “other income (expense), net” corresponds to operating costs of the period of this discontinued activity. Prior year operating losses have not been restated (€-10 million for year 2001). Restructuring costs related to this discontinued activity (€-5 million) have also been classified under “other income (expense), net”.
 - The effect of operational inefficiencies in one of the Components segment glass plants due to a fire, mainly unabsorbed overheads, labor variance and scrap, is presented under “other income (expense), net” in an amount of €-3 million.
 - On June 10, 2002, in connection with a patent infringement claim concerning the Consumer Products segment, Thomson entered into a settlement and license agreement with the plaintiff. The payment is comprised of damages and royalties for the period prior to the date of the agreement (June 10, 2002), and a fully paid up worldwide license for the remaining life of the settled patents. Consistent with 2001 classification, the damages in excess of the previous year accruals have been classified under “other income (expense)” and amount to €-5.7 million. When patent infringement cases are settled in the Group’s favor the settlement received by the licensing companies of the Group corresponding to the amount of royalties which should have been received during the license period, is recorded under “net sales”
 - The Group experienced operational inefficiencies on one of its Components segment glass panel lines beginning in the second half of 2001 due to equipment failure. Because no insurance indemnity had yet been agreed upon with the insurance company in 2001, the Group elected to classify the portion of scrap and overhead and labor variance in connection with this situation under “other income (expense), net” in the amount of €-6.6 million in 2001. In 2002, the insurance recovery proceeds received were allocated in an amount of €10 million and €9.9 million to “other income (expense), net” and operating income, respectively, in proportion to the costs incurred in 2001 and 2002 respectively.
- (c) Amounts before the net change in debt related to capital expenditure payables of €-2 million, €-17 million and €+74 million for the years ended December 31, 2004, 2003 and 2002, respectively.
- (d) Amounts include advances to suppliers.
- (e) Capital employed is defined as being the aggregate of net tangible and intangible assets (excluding goodwill), operating working capital and other current assets and liabilities (excluding reserves, together with those related to employee benefits, tax, debt related to Technicolor acquisition and debt to suppliers of fixed assets).
- (f) As set out under accounting policies of the Group, Thomson’s patent license agreements generally provide that a specified royalty amount is earned on each product shipped to a third-party by a licensee. Thomson’s policy is to record licensing revenue as it is earned. The gross royalty amount is determined on a quarterly basis and in accordance with the license agreement. However, some agreements may include royalty payments related to previous periods’ production. Such payments can be significant, as was the case notably in 2003.

Also, in the context of the sale of the Canal+ Technologies assets (see note 6), Thomson Licensing S.A. sold fully paid-up licenses on patents.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Reconciliation of segment information to consolidated figures:

	2002	2003	2004
		(€ in millions)	
Segment assets	5,122	4,368	3,767
Goodwill	1,320	1,100	1,242
Investments and other non-current assets	218	185	280
Current accounts with affiliated companies	71	79	183
Other receivables	1,278	960	968
Contract advances, net ⁽¹⁾	242	205	179
Cash and cash equivalents	1,463	2,383	1,906
Total consolidated assets	9,714	9,280	8,525

(1) Contract advances relate to the Content & Networks segment.

4. RESEARCH AND DEVELOPMENT EXPENSE

	2002	2003	2004
		(€ in millions)	
Research and development expense gross	(386)	(304)	(285)
Government agency subsidies	12	9	8
Research and development expense, net of subsidies	(374)	(295)	(277)

5. FINANCIAL EXPENSE

	2002	2003	2004
		(€ in millions)	
Interest income	51	32	31
Interest expense	(42)	(41)	(55)
Interest (expense) income, net ⁽¹⁾	9	(9)	(24)
Cash payment discounts granted	(10)	(9)	(5)
Cash payment discounts obtained	1	1	-
Pension plan interest costs relating to shut-down activities	(26)	(24)	(25)
Other financial charges including bank fees	(13)	(14)	(25)
Dividends	-	2	-
Exchange profit (loss)	(2)	(18)	9
Other ⁽²⁾	(87)	(8)	(9)
Other financial expense, net	(137)	(70)	(55)
Total	(128)	(79)	(79)

(1) Includes €2 million, €6 million and €15 million of interest on promissory notes related to the acquisition of Technicolor for the years ended December 31, 2004, 2003 and 2002, respectively.

(2) This amount mainly includes the valuation allowance related to financial investments carried at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

6. OTHER INCOME (EXPENSE), NET

	2002	2003	2004
		(€ in millions)	
Gain on disposal of fixed assets/investments ⁽¹⁾	79	51	40
Write-off of fixed assets other than in a restructuring plan ⁽²⁾	(15)	(52)	(6)
Other ⁽³⁾	(19)	(31)	(61)
Total other income (expense), net	45	(32)	(27)

(1) Gain on disposal of fixed assets/investments

a. For the period ended December 31, 2004:

- i. The formation of TTE has been accounted for as an exchange of non similar assets, giving rise to a gain that is the difference between the fair value of assets given up and their carrying value, less the portion of that gain represented by the economic interest retained by Thomson, offset by charges relating to the disposal elsewhere.
- ii. In September 2004, the Group recognized a €9 million capital gain from the disposal of its investment in MUSICMATCH (a non controlled entity).

b. For the period ended December 31, 2003:

- i. this amount mainly relates to Canal+ Technologies businesses disposal:
 On January 31, 2003, Thomson acquired 89% of Canal+ Technologies (Thomson held a small percentage of Canal+ Technologies before this agreement) for a purchase consideration of €190 million. The business acquired comprised two businesses, namely conditional access systems marketed under the brand name MediaGuard™ and middleware operating systems marketed under the brand name of MediaHighway™. In both cases, the related products and services are marketed to TV operators.
 During December 2003, Thomson completed the sale of the MediaHighway™ business and of the MediaGuard™ business. The assets retained were intellectual property assets, plus cash acquired with and retained in the business. The sale of the two businesses resulted in a capital gain of €46 million after tax (recorded in the holdings segment). The activity of Canal+ Technologies has been accounted for as a non-operational activity for 2003, and all income and expense of the businesses, together with the gain on disposal net of expected costs have been combined and recorded under "other income (expense), net".

c. For the Period ended December 31, 2002:

- i. the gain relates to the disposal of unconsolidated investments together with the gain on hedges associated with such investments.

(2) Write-off of long lived assets other than in Restructuring plan

a. For the period ended December 31, 2004:

- i. The write off mainly relates to a €-6 million impairment of certain intangible assets in the Content & Networks Segment.

b. For the period ended December 31, 2003:

- i. This amount mainly relates to the impairment of certain production assets of the Content & Networks segment for €-21 million, and to the impairment of certain assets in the Components segment for €-27 million.

c. For the period ended December 31, 2002:

- i. This amount concerns Content & Networks for €-7 million, Components for €-4 million and Consumer Products for €-3 million.

(3) Other

This caption is detailed in note 3 by segment for 2002 to 2004.

7. INCOME TAX

Pursuant to the provisions of the French Tax Code (article 209 quinquies) and in accordance with a tax agreement from the French Tax Authorities dated November 6, 2002, Thomson S.A. now files a worldwide consolidated tax return (hereafter referred to as the "Regime").

This Regime provides that the basis for income tax computation of the parent company includes the taxable result of French and foreign entities more than 50% owned (the "Foreign Entities"). Within

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certain limits, the French Tax Code allows for the reduction of the taxable income of profitable companies by offsetting taxable losses of other entities. Also French income tax payable, as determined by the method described above, allows for the application of foreign taxes due in local jurisdictions and related to foreign entities more than 50% owned, to be applied as a credit to income taxes due in France.

The Regime has been in force since January 1, 2001 and will expire on December 31, 2005 unless renewed. As a consequence, Thomson filed worldwide consolidated tax returns for the years 2002 in November 2003 and for the year 2003 in November 2004, and the related consequences are reflected in Thomson's 2003 and 2004 financial statements.

a) Income tax expense is summarized below:

	2002	2003	2004
	(€ in millions)		
Current income tax:			
France	(18)	(12)	(18)
Effect of the Regime	33	-	-
Sub-total current income tax France	15	(12)	(18)
Foreign	(93)	(79)	(66)
Total current income tax	(78)	(91)	(84)
Deferred income tax			
France	47	(2)	(82)
Foreign	(25)	30	78
Total deferred income tax	22	28	(4)
Total income tax	(56)	(63)	(88)

In 2004, Thomson booked a net deferred tax liability of €4 million. This amount is mainly explained by the recognition of deferred tax assets in USA (€83 million) because of the expected profitability of Thomson Inc., following the exit of loss making TV business and the repositioning in Tube business (plants closure). The deferred tax asset recognized has been reduced in France due to the anticipated impact of the 2005 "Loi de Finance" which modifies and reduces drastically the capital gain tax rates. As a first consequence, starting January 1, 2005, the tax rate on Licensing income will be reduced from 19% to 15%. As a second consequence, starting January 1, 2006, the taxable income resulting from Licensing revenues can no longer be, for tax purpose, offset by capital loss carried forwards. Therefore, the deferred tax asset relating to these capital loss carry forwards has been written down by an amount of €57 million.

In 2004, the current income tax charge amounts to €18 million in France (non recoverable withholding taxes on Licensing revenue) and €66 million abroad, of which U.K. accounts for €17 million, Mexico for €10 million, Australia for €8 million and Netherlands for €7 million.

In 2003, the income tax charge of the Group amounted to €63 million, mainly in Poland and the U.K., while in the U.S. and France, where Thomson is in a loss position, patents income bears withholding taxes. Also, the Group has recorded a net deferred tax asset of €28 million. This amount includes mainly the recognition of deferred tax asset on part of the tax losses generated in the U.S in 2003, in view of an expected return to profitability in the U.S. resulting from the transfer of loss activities, as outlined in TCL agreement.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The increase of the current tax expense in 2003 compared to 2002 is mainly due to French taxes and relates to the effects of a non recurring tax refund in 2002 relative to the introduction of the Regime for €33 million.

In 2002, the Group recorded a net deferred tax asset of €22 million. This amount includes, in France a net of €47 million corresponding to the recognition of a tax benefit related to capital losses and valuation allowances on ordinary tax rate deferred assets, and a €25 million charge related to foreign entities.

b) Reconciliation between the provision for income tax and the pre-tax accounting income/(loss):

	2002	2003	2004
		(€ in millions)	
Net income/(loss)	373	26	(636)
Income tax	(56)	(63)	(88)
Minority interests	13	(8)	(1)
Net income before tax (before minority interests and after equity)	416	97	(547)
Equity result of unconsolidated subsidiaries	-	(7)	(3)
Pre-tax accounting income	416	104	(544)
Provision for income tax using the statutory rate of 33.33% (33.33% in 2003 and 34.33% in 2002)	(143)	(35)	181
Permanent differences	3	2	(15)
Income tax refund due to retroactive application of the Regime	33	-	-
Unrecognized deferred tax assets and change in valuation allowance ⁽¹⁾	(68)	(63)	(281)
Tax credits	9	17	8
Effects of differences in tax rate ⁽²⁾	35	30	26
Other, net ⁽³⁾	75	(14)	(7)
Income tax	(56)	(63)	(88)
Pre-tax accounting income/(loss) before amortization of goodwill and share in net income of equity affiliates⁽⁴⁾	494	180	(414)
Effective tax rate⁽⁴⁾	11.3%	35.0%	(21.2%)

(1) As of December 2004, tax loss carry forward have not been capitalized and deferred tax assets have been written off, in the USA for €78 million, France for €106 million and Italy for €47 million.

As of December 2003, the net tax loss carry forwards created by the Regime have been recognized in the amount of €16 million based upon a probable taxable income before December 31, 2006. Also, €65 million of deferred tax on temporary differences has been depreciated in the U.S.

In 2002, this amount includes €-61 million of change in valuation allowance, €-12 million of unrecognized deferred tax assets and €5 million of carry-back from Thomson, Inc.

(2) In 2004, this amount comprises €23 million related to operations taxed at a reduced rate in France and €3 million of effects of foreign tax rate differentials.

In 2003, this amount comprised €21 million related to operations taxed at a reduced rate in France and €9 million of effects of foreign tax rate differentials.

In 2002, this amount comprised €26 million related to operations taxed at a reduced rate in France, €11 million of effects of foreign tax rate differentials and €-2 million of effects of additional tax rate of 3.3%.

(3) In addition to other taxes of foreign subsidiaries (including U.S.) not based upon taxable income, this amount includes:

- In 2004, €-6 million of unrecoverable withholding tax on licensing revenues.

- In 2003, €-11 million of unrecoverable withholding tax on licensing revenues.

- In 2002, mainly €99 million for the recognition of unusual deferred tax benefits as described in paragraph a) above as well as €-19 million of unrecoverable withholding tax on licensing revenues.

(4) The effective tax rate has been calculated on a net result before tax, minority interests, equity investments (refer to (a) above) and goodwill amortization (€-130 million, €-76 million and €-78 million respectively at December 31, 2004, 2003 and 2002).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

c) Income/(loss) before income taxes and minority interests:

	2002	2003	2004
		(€ in millions)	
Domestic activities	103	251	152
Foreign activities	313	(154)	(699)
Total income/(loss) before tax and minority interests	416	97	(547)

d) Deferred tax liabilities and income taxes payable:

	2002	2003	2004
		(€ in millions)	
Deferred tax liabilities	23	23	2
Income taxes payable	151	85	60
Total tax liabilities	174	108	62

e) Deferred tax assets and liabilities included in other receivables and other creditors and accrued liabilities of the balance sheet:

	2002	2003	2004
		(€ in millions)	
Deferred tax assets (net)	1,437	1,657	1,742
Valuation allowance	(1,154)	(1,365)	(1,462)
Deferred tax assets, net (note 13)	283	292	280
Deferred tax liabilities (note 21)	(23)	(23)	(2)
Net deferred tax assets⁽¹⁾	260	269	278

(1) Including €93 million for Technicolor at December 31, 2002. This amount includes €-42 million of valuation allowance on deferred tax assets recorded through goodwill on Technicolor, PDSC and Grass Valley.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

f) Major temporary differences that give rise to deferred tax assets and liabilities:

	2002	2003	2004
		(€ in millions)	
Tax effect of tax loss carry-forwards	680	786	865
Foreign Tax credit related to the Regime ⁽¹⁾	112	176	233
Tax effect of temporary differences related to:			
Accrued vacation pay	9	8	7
Reserve for restructuring costs	29	27	18
Reserve for other risks and losses	144	126	102
Reserve for depreciation of assets	13	37	180
Reserve for pensions	192	195	186
Other temporary differences	314	365	252
Total temporary differences	701	758	745
Deferred tax assets, gross	1,493	1,720	1,843
Tax effect of temporary differences related to:			
Reserve for depreciation of assets	(55)	(44)	(75)
Other	(24)	(42)	(28)
Deferred tax liabilities, gross	(79)	(86)	(103)
Total valuation allowance	(1,154)	(1,365)	(1,462)
Net deferred tax assets (liabilities)	260	269	278

(1) Foreign tax credits are comprised of corporate taxes paid outside France and deductible from the Regime future income tax payable.

g) Expiration of the tax loss carry forward

	(€ in millions)
2005	152
2006	27
2007	54
2008	146
2009	34
2010 and thereafter	2,104
Total	2,517

Out of this amount, €171 million correspond to the net tax loss carry forward created after January 1, 2001 in the Regime and can be used to offset taxable income on a worldwide basis until 2005.

A valuation allowance is recognized for almost all the tax loss carry-forwards relating to European marketing subsidiaries (out of which Thomson multimedia Sales Germany GmbH represents 39% of the total tax loss carry-forwards).

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8. LONG LIVED ASSETS

(a) Intangible assets:

(€ in millions)	2002	2003	2004		
	Net	Net	Gross	Accumulated Amortization	Net
Goodwill	1,320	1,100	1,518	(276)	1,242
Patents, trademarks and customer relationships ⁽¹⁾	803	796	850	(101)	749
Other intangibles ⁽²⁾	60	39	352	(137)	215
Total	2,183	1,935	2,720	(514)	2,206
Gross value	2,524	2,317			
Accumulated amortization	(341)	(382)			

(1) This caption consists mainly of the trademarks (€169 million for Technicolor trademark at December 31, 2004 closing rate) and customer relationships (€220 million and €65 million, respectively for Technicolor and PDSC at December 31, 2004 closing rate) which are not amortized.

(2) The increase in 2004 is due to the addition of the DIRECTV customer relationships (€175 million as of December 31, 2004 closing rate) purchased as part of the HNS business described in note 2.

Goodwill

(€ in millions)	Purchase Date	Amortization Period (years)	2002	2003	2004		
			Net	Net	Gross	Amortization	Net
ATLINKS	1999 & 2003	15	26	56	60	(14)	46
Technicolor Group ⁽¹⁾	2001	20	535	417	454	(97)	357
Screenvision US	2001	20	39	31	34	(6)	28
BTS	2001 & 2002	15	116	107	130	(37)	93
Nextream	2001 & 2004	15	5	5	19	(2)	17
Thomson Broadband (ADSL)	2001	10	61	54	67	(21)	46
Vidfilm	2002	20	68	27	28	(4)	24
Grass Valley	2002	15	93	80	84	(16)	68
Southern Star Duplitek	2002	20	49	27	28	(4)	24
Panasonic Disc Services Corporation (PDSC) ⁽¹⁾	2002	20	272	223	225	(32)	193
Screenvision Europe	2002 & 2003	20	19	16	17	(7)	10
Technicolor Digital Cinema	2003	20	-	17	17	(1)	16
Cinecolor	2003	20	-	11	11	(1)	10
Fortune ⁽²⁾	2004	15	-	-	11	(1)	10
Gyration ⁽²⁾	2004	8	-	-	13	(1)	12
Corinthian ⁽²⁾	2004	20	-	-	25	-	25
The Moving Picture Company ⁽²⁾	2004	20	-	-	68	-	68
HNS ⁽²⁾	2004	8	-	-	11	(1)	10
TCL-Thomson Electronics (TTE) ⁽²⁾	2004	3	-	-	155	(22)	133
Others (<i>less than €10 million net individually</i>)			37	29	61	(9)	52
Total			1,320	1,100	1,518	(276)	1,242

1) Technicolor and PDSC goodwill gross value decreased by respectively €36 million and €16 million in 2004 due to the decrease in value of the USD.

2) As of December 31, 2004, a preliminary purchase valuation assessment had been carried out on these companies. The final assessment should be completed no later than the close of the first financial year subsequent to the acquisition pursuant to French Regulation 99-02.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Patents, trademarks and customer relationships:

For acquisitions, Thomson carries out a purchase valuation assessment, including the assessment of the valuation of intangible assets. For material amounts, Thomson relies on independent experts to determine the amount of intangible assets. With respect to customer relationships, the valuation methodology used is generally based on the discounted future cash flows expected to be generated by the existing customer portfolio at the acquisition date. With respect to trademarks, the valuation methodology used is based on royalty rates which could reasonably be paid by third-party licensees on similar trademarks. Such intangibles are not amortized but are subject to periodic impairment tests using the same criteria as applied in the initial valuation.

Patents, trademarks and customer relationships consist mainly of:

- Trademarks of Technicolor® (€169 million at December 31, 2004), Grass Valley® (€33 million at December 31, 2004), Recoton® (€22 million at December 31, 2004) and THOMSON®.
- Customer relationships of Technicolor (€220 million), PDSC (€65 million), Screenvision Europe (€22 million), Southern Star Duplitek (€34 million) and Vidfilm (€33 million).
- A license to use the RCA® trademark for consumer electronics products was obtained in 1988 and in 1999 an extended usage of the RCA® trademark was purchased from General Electric. Trademarks are no longer amortized.
- In 2002 and 2003, license rights were acquired to use third-party patents in the Content and Networks segment. There is no value in Thomson's consolidated balance sheets for the majority of patents owned by the Group.

Other intangible assets

Other intangible assets include mainly software and a customer relationship with DIRECTV.

(b) Property, plant and equipment:

(€ in millions)	2002	2003	2004		
	Net	Net	Gross	Accumulated Amortization	Net
Land	76	67	62	(4)	58
Buildings	281	278	474	(296)	178
Plant and equipment	983	850	2,621	(1,993)	628
Other fixed assets	282	279	378	(188)	190
Total	1,622	1,474	3,535	(2,481)	1,054
Gross value	3,800	3,554			
Accumulated amortization	(2,178)	(2,080)			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

As of December 31, 2004, 2003 and 2002 the accumulated depreciation includes €601 million, €56 million and €38 million, respectively, of write-downs that have been recognized within the framework of restructuring plans (note 18).

9. EQUITY INVESTMENTS

These investments represent companies engaged in activities similar to those of Thomson's consolidated subsidiaries.

Equity investments in unconsolidated affiliates are summarized below:

(€ in millions)	% Interest	Investments			Income/(loss)		
	2004	2002	2003	2004	2002	2003	2004
TCL-Thomson Electronics (*)	33.0%	-	-	116			(3)
CTE El Athir (Tunisia)	30.0%	4	4	3	-	-	-
EasyPlug, S.A.S. (France)	50.0%	-	3	3	-	(1)	-
EasyPlug, Inc. (U.S.)	50.0%	-	-	-	-	(1)	-
Celstream Tech. Private Ltd. (India)	44.8%	-	1	1	-	-	-
MTEP (U.S.)	12.5%	-	1	1	-	(1)	-
Techfund Capital Europe (France)	20.0%	-	2	3	-	-	-
Metric Line (France)	40.0%	-	-	-	-	-	-
Others		-	-	1	-	(4)	-
Total		4	11	128	-	(7)	(3)

(*) The goodwill as of December 31, 2004 of €133 million is shown separately in goodwill note 8.

10. OTHER INVESTMENTS

(€ in millions)	2002	2003	Gross	2004	
	Net	Net		Valuation allowance	Net
Investments in:					
- listed securities ⁽¹⁾	5	14	36	-	36
- unlisted securities ⁽²⁾	53	111	157	(80)	77
Total	58	125	193	(80)	113
Gross value	248	211			
Accumulated amortization	(190)	(86)			

(1) Among which €13 million of shares has been pledged to a bank as collateral to hedge counterpart risk. This caption also includes common shares in a listed company strategic to the Group totalling €15 million at December 31, 2004 closing rate.

(2) This caption includes minority positions in unquoted companies strategic to the Group, including at December 31, 2004, a preference share investment totaling €73 million at December 31, 2004 closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

11. INVENTORIES

	2002	2003	2004
		(€ in millions)	
Raw materials	379	291	145
Work in process	123	59	58
Finished goods and purchased goods for resale	561	478	427
Sub-total	1,063	828	630
Less: valuation allowance	(101)	(84)	(61)
Total	962	744	569

As of December 31, 2004, approximately 81% (73% in 2003 and 76% in 2002) of inventories were valued by the FIFO method with the remainder valued by the weighted average cost method.

As of December 31, 2004, 2003 and 2002 the accumulated depreciation includes €11 million, €9 million and €8 million, respectively, of write-downs recognized within the framework of restructuring plans.

12. TRADE ACCOUNTS AND NOTES RECEIVABLE, NET

	2002	2003	2004
		(€ in millions)	
Trade accounts and notes receivable ⁽¹⁾	1,742	1,363	1,222
Less: valuation allowance ⁽²⁾	(67)	(48)	(42)
Total	1,675	1,315	1,180

(1) Including advances to suppliers. Sales deductions and price protection allowances are deducted from trade accounts and notes receivables gross for €230 million, €205 million and €235 million as of December 31, 2004, 2003 and 2002, respectively.

(2) The valuation allowance includes a write-down of €2 million in 2002 (nil in 2004 and 2003).

Sales of receivables

The Group has in place a securitization program, since December 2002, which covers certain of its North American receivables. Under the program Thomson, Inc. entered into an agreement allowing the sale, on a revolving basis, of a senior undivided ownership interest in a designated pool of receivables up to a maximum of USD 300 million. In 2004 the amount of the program was reduced to USD 200 million (€147 million at the December 2004 closing rate).

No sales of receivables were outstanding at December 31, 2004, 2003 and 2002 under the securitization program.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

13. OTHER RECEIVABLES

	2002	2003	2004
		(€ in millions)	
Value added tax receivable ⁽¹⁾	110	99	100
Other taxes receivable ⁽²⁾	232	56	62
Subsidies	23	23	19
Deferred taxes assets, net of valuation allowance	283	292	280
Prepaid expenses	67	61	42
Other ⁽³⁾	563	429	465
Total	1,278	960	968

(1) The value added tax receivable corresponds to the consolidated value added tax position generated in the normal course of the Thomson group's business.

(2) The significant tax receivable at the end of 2002 corresponds to the impact resulting from the worldwide tax consolidation Regime (note 7).

(3) As of December 31, 2004, 2003 and 2002, €117 million, €116 million and €122 million, respectively, are related to accrued royalty income. Thomson has acquired at year-end €98 million of receivables due from third parties (mainly retailers) to TTE to finance TTE's working capital requirement for a period not exceeding 24 months in application to the combination agreement (Note 23).

14. CONTRACT ADVANCES, NET

Contract advances primarily relate to customer contracts with Technicolor that conducts business with the majority of its customers under long-term contracts. These contracts award to Technicolor a customer's business within a particular territory over the specified contract period (typically from 1 to 5 years). The contracts contain provisions that establish pricing terms for services and volumes to be provided and other terms and conditions. Consideration is typically paid as an advance to the customers in return for the customer's various commitments over the life of the contracts.

Such advance payments are recorded as "contracts advances, net" and are amortized as a reduction of "net sales" on the basis of units of production or film processed. Technicolor customer advances amounted to €164 million, €188 million and €225 million as of December 31, 2004, 2003 and 2002, respectively. For the years ended December 31, 2004, 2003 and 2002, the company recorded a total of €134 million, €121 million and €66 million, respectively, of amortization of customer contracts advances.

As of December 31, 2004 advances paid on contracts on the Group's screen advertising joint ventures in the U.S. and Europe were €15 million (€17 million as of December 31, 2003).

The related amortization amounts to €10 million for year ended December 31, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

15. CASH AND CASH EQUIVALENTS

	2002	2003	2004
		(€ in millions)	
Cash and cash equivalents	1,463	2,383	1,906
Of which restricted cash deposits ⁽¹⁾	89	76	55

(1) Primarily a deposit by TCE Television Taiwan guaranteeing a loan to Thomson for the same amount

16. SHAREHOLDERS' EQUITY

Common stock and additional paid-in capital

	2002	2003	2004
Outstanding number of shares	280,613,508	280,613,508	273,308,032
Nominal value in €	3.75	3.75	3.75
Thomson share capital in €	1,052,300,655	1,052,300,655	1,024,905,120

Treasury shares

	2002	2003	2004
Treasury stock at cost (€)	156,490,328	211,322,802	55,307,575
Number of Treasury shares held	3,373,070	6,373,070	3,082,766
Out of which			
<i>purchased in the year</i>	-	3,000,000	4,157,010
<i>attributed</i>	-	-	(141,838)
<i>cancelled</i>	-	-	(7,305,476)

Since 2000, the shareholders' meeting has authorized and renewed the authorization to the Board of Directors to repurchase ordinary shares in the market for multiple purposes (future exchange of shares for strategic partnerships, possible exchange with convertible bonds, stock option plans, etc).

Pursuant to the authorization of November 10, 2000, the Group had repurchased 3,267,850 Treasury shares as of December 31, 2002 in addition to 105,220 existing treasury shares.

At the end of 2003, Thomson held a total of 6,373,070 shares following the repurchase of 3 million shares the company made in November 2003.

Effective May 7, 2004 the shareholders' meeting approved the renewal of the plan to repurchase approximately 10% of the share capital in the market for multiple purposes.

At December 31, 2004, the Group held a total of 3,082,766 shares as treasury shares on its balance sheet for a value of €55 million which is presented as a deduction of the equity. These were acquired pursuant to the following transactions as authorized by the Board of Directors:

Pursuant to the authorization of May 7, 2004, the group repurchased 4,157,010 Treasury shares during the year for a cost of €74 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

On August 30, 2004, as agreed by the Board of Directors on July 22, 2003, a total of 141,838 shares have been attributed under specific conditions. A total of 403,441 shares remain to be attributed over 3 years to 27 beneficiaries.

On October 19, 2004, the Board decided to cancel 7,305,476 Treasury shares.

In addition, in December 2004, Thomson sold puts on its own shares with maturities in March, April and May 2005 for 2,000,000 shares.

From time to time, the Group may enter into financial transactions, notably lending, concerning treasury shares. As of December 31, 2004, no transaction were outstanding.

Stock option plans and dilutive potential ordinary shares

At December 31, 2004, stock option plans, created in accordance with the decision at the shareholders' meeting on November 10, 2000, were as follows:

	Plan 1 Purchase options	Plan 2 Subscription options	Plan 3 Subscription options
Board's decision	December 18, 2000 March 16, 2001 July 23, 2001	October 12, 2001	September 22, 2004
Number of Beneficiaries	463	556	574
Number of options granted	4,018,500	3,540,300	7,366,590
Exercise period	50% as of December 18, 2003 50% as of December 18, 2004	50% as of October 12, 2004 50% as of October 12, 2005	50% as of September 22, 2007 50% as of September 22, 2008
Plan life	10 years	10 years	10 years
Exercise price	55.90 Euros	31.50 Euros	16.00 Euros
Number of options cancelled since the beginning of the plan	3,045,300	2,888,700	18,000
Number of remaining participants	74	58	569
Number of options outstanding	973,200	651,600	7,348,590

The board of Directors approved on September 22, 2004, a stock option subscription plan, for 574 beneficiaries, as follows:

358 beneficiaries of former stock option plans have accepted to cancel the options that were granted under Plan 1 and Plan 2 for a total number of 3,972,000 stock options in exchange for the granting of new options under plan 3. Under this plan, 852,700 options were granted to 216 employees who did not benefit from plan 1 and 2. The subscription option price was €16. Former employees and retirees were not eligible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

As of December 31, 2004, no stock options have been exercised from plan 1 and plan 2.

“BASA” (Bon d’Acquisition ou de Souscription d’Actions)

On September 15, 2004, the General Assembly approved a subscription plan (Bon d’Acquisition ou de Souscription d’Actions “BASA”) for all individual shareholders which have fulfilled the two following conditions:

- Shareholders which have purchased or subscribed shares before June 30, 2002 and,
- Which still own 80% of such shares as of July 21, 2004.

Such shareholder has the right to subscribe Thomson subscription certificate at €16 per certificate. The number of certificates subscribed amounts to 12,471,368 at €1 each. Each certificate will be exercisable after the issuance of 2005 annual consolidated financial statement of Thomson beginning March 1, 2006 and will expire on June 30, 2006. Thomson may choose to deliver new Thomson shares or existing treasury shares.

Common stock call option agreement in connection with the formation of “TCL-Thomson Electronics”(TTE)

In connection with the Combination Agreement with TCL Corporation (“TCL Corp”) to form “TCL-Thomson Electronics” (TTE), Thomson granted to TCL Corp the option to purchase from Thomson 2,500,000 common shares at an exercise price of €18.12 per share.

The Exercise period of this Call Option Agreement will start on the First Exercise Date (October 31, 2004), which is 3 months after the closing date of the Combination Agreement, and will end on October 31, 2006.

Earnings per share

The Group may issue 30,621,515 basic shares (weighted average number) in connection with its outstanding convertible/exchangeable bonds (note 20) and a maximum of 3,158,099 shares in connection with the promissory notes due to Carlton (note 22).

After consideration of the weighted average number of potential ordinary shares over the period and the restatement of financial charges net of tax (€19 million) associated with these two financial instruments and based on 2004 interest on the promissory notes, there is no dilutive effect on the earnings per share for the year ended December 31, 2004.

Minority interests

In 2004, the increase in minority interests is mainly due to the capital increase within Thomson Guangdong Display Company Ltd. (formerly Thomson Foshan Colour Picture Company Ltd.).

In 2003, the decrease of the minority interests is due to the acquisition by Thomson of the 50% minority interests in ATLINKS.

In 2002, the most significant component of minority interests (€38 million including net result) consisted mainly of the 50% equity investment in ATLINKS (€36 million) held by shareholders other than the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Cumulative translation adjustment

This item represents exchange differences arising from the translation of foreign subsidiaries' financial statements.

Revaluation reserve

This item represents the Group's share in the revaluation of certain tangible fixed assets.

17. RESERVES FOR RETIREMENT BENEFITS

I - Summary of benefits

	2002	2003	2004
		(€ in millions)	
Pension plan ^(a)	380	365	358 ⁽¹⁾
Post-retirement medical benefits ^(b)	325	288	231
Total reserves for retirement benefits	705	653	589

(*) In accordance with CNC opinion 2004-05, "jubilee awards" are classified under "Other creditors and accrued liabilities" (€13 million in 2004). Prior years have not been restated.

a) Pension plan

In some countries, Thomson pays contributions to governmental entities bearing the costs of retirement benefits. Such contributions are charged to expense as incurred. In other countries, mainly in Germany and in the U.S., Thomson provides defined benefits to employees upon their retirement.

- **In Germany**, employees have a non-funded pension plan granted and managed by Thomson.
- **In the United States**, the employees of Thomson, Inc. are covered under a defined benefit pension plan funded by a trust fund maintained by Thomson, Inc. The funding policy is to contribute on an annual basis an amount at least sufficient to meet the minimum requirements of the U.S. Employee Retirement Income Security Act of 1974 ("ERISA"). Benefits are equal to a percentage of the plan member's earnings each year plus a guaranteed rate of return on earned benefits until retirement. Technicolor operates a defined benefit pension plan (the "Technicolor Plan") that covers substantially all employees that are not covered by collective bargaining agreements.
- **In Italy**, according to local regulations, Thomson accrues indemnities for all employees ("Trattamento di Fine Rapporto" regulation) as if all employees would get indemnified at year-end. This indemnity is increased each year based on each employee's seniority and an inflation factor.
- **In France**, contractual retirement indemnities are payable upon retirement of the employees and are due only if the employee is on Thomson payroll when he or she retires. Such indemnities are based and accrued on the employee's estimated salary at retirement date and on his/her years of service. In some subsidiaries, "jubilee awards" are payable depending on the seniority of each employee in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

b) Post-retirement medical benefits

Thomson Inc. and its subsidiaries provide health care coverage for retired employees who must meet seniority and age conditions.

Significant events occurred as follows:

- In November 2003, Thomson Inc announced a plan amendment to the postretirement medical plan that transferred more costs to the retirees through higher monthly premium payments, starting January 1, 2004. The plan re-measurement resulted in a USD 129 million (€95 million at closing exchange rate of December 2004) unrecognised prior service gain which is deferred and recognized in gain over a period of time based upon expected future service years.
- By end of 2003, the US government passed legislation, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (The Act) related to postretirement medical plans. As a result of the Act, subsidies to be received are accounted as a reduction to the benefit obligation. A gain of USD 59 million (€43 million at closing exchange rate of 2004) is recorded to actuarial gains/losses and it is being amortized over time.
- During 2004 Thomson Inc closed two Display plants located in the U.S. (Marion and Circleville). This resulted in a curtailment gain on the medical plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

II - Analysis of the reserve for employee benefits

(€ in millions)	Pension plan			Medical post-retirement benefits			Total benefits		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Present value of benefit obligation ^(*)	(711)	(682)	(646)	(412)	(436)	(298)	(1,123)	(1,118)	(944)
Fair value of plan assets ^(*)	237	221	184	2	-	-	239	221	184
Funded status (I)	(474)	(461)	(462)	(410)	(436)	(298)	(884)	(897)	(760)
Unrecognized actuarial (gain) loss (II)	91	102	113	85	146	110	176	248	223
Unrecognized actuarial prior service cost (III)	3	(6)	(4)	-	2	(43)	3	(4)	(47)
Amount not recognized due to the Thomson asset limitation rule (IV)	-	-	(5)	-	-	-	-	-	(5)
Reserve for employee benefits = -(I)-(II)-(III)-(IV)	380	365	358	325	288	231	705	653	589

(*) The detail of the change of the benefit obligation that are wholly or partly funded and the change of the fair value of assets is explained in the captions a) and b) as follows.

a) Present value of benefit obligation

(€ in millions)	Pension plan			Medical post-retirement benefits			Total benefits		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Benefit obligation at the beginning of the year	(778)	(711)	(682)	(423)	(412)	(436)	(1,201)	(1,123)	(1,118)
Reclassification of jubilee plan	-	-	13	-	-	-	-	-	13
Service cost	(41)	(33)	(23)	(7)	(8)	(4)	(48)	(41)	(27)
Interest cost	(46)	(38)	(33)	(31)	(27)	(20)	(77)	(65)	(53)
Amendment	-	6	(3)	(2)	-	103	(2)	6	100
Business combination	(7)	(4)	9	(2)	-	-	(9)	(4)	9
Plan participants contribution	-	(1)	(1)	(3)	(3)	(4)	(3)	(4)	(5)
Curtailment/settlement	55	39	46	-	11	5	55	50	51
Actuarial gain (loss)	(14)	(33)	(27)	(39)	(99)	17	(53)	(132)	(10)
Benefits paid	60	37	37	30	22	19	90	59	56
Foreign currency exchange rate changes	60	56	18	65	80	22	125	136	40
Benefit obligation at the end of the year	(711)	(682)	(646)	(412)	(436)	(298)	(1,123)	(1,118)	(944)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

b) Fair value of plan assets

(€ in millions)	Pension plan			Medical post-retirement benefits			Total benefits		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Fair value at the beginning of the year	406	237	221	-	2	-	406	239	221
Actuarial return on plan assets	(68)	24	21	-	-	-	(68)	24	21
Employer contribution	-	29	16	-	-	-	-	29	16
Plan participant contribution	-	1	1	-	-	-	-	1	1
Curtailment/settlement	(52)	(38)	(55)	-	(2)	-	(52)	(40)	(55)
Business combination	7	12	(2)	2	-	-	9	12	(2)
Benefits paid	(8)	(7)	(8)	-	-	-	(8)	(7)	(8)
Foreign currency exchange rate changes	(48)	(37)	(10)	-	-	-	(48)	(37)	(10)
Fair value at the end of the year	237	221	184	2	-	-	239	221	184

III - Elements of the statements of operations

Total expense for pensions and other benefits for the years ended December 31, 2002, 2003 and 2004 is detailed as follows:

(€ in millions)	Pension plan			Medical post-retirement benefits			Total benefits		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Service cost	(41)	(33)	(23)	(7)	(8)	(4)	(48)	(41)	(27)
Interest cost	(46)	(38)	(33)	(31)	(27)	(20)	(77)	(65)	(53)
Return on plan assets	26	15	13	-	-	-	26	15	13
Amortization of unrecognized prior service costs	(6)	(2)	(1)	(1)	(1)	6	(7)	(3)	5
Amortization of unrecognized gain or loss	-	1	(4)	(1)	(3)	(7)	(1)	(2)	(11)
Effect of settlement/curtailment	-	(1)	(16)	-	-	49	-	(1)	33
Thomson asset limitation rule impact	-	-	3	-	-	-	-	-	3
Total expense	(67)	(58)	(61)	(40)	(39)	24	(107)	(97)	(37)

IV - Plan assets

When defined benefit plans are funded, mainly in the U.S., U.K. and Canada, the investment strategy of the benefit plans aims to match the investment portfolio to the membership profile. Asset performance is reviewed on a quarterly basis and the asset allocation strategy is reviewed on an annual basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Thomson pension plans weighted-average asset allocations as at December 31, 2004 by asset category are as follows:

Equity securities	58%
Debt securities	39%
Other	3%
Total	100%

V - Information by geographic area

The following information summarizes (a) the reserve for employee benefits, (b) the benefit obligations, (c) the fair value of assets and (d) the unrecognized benefit obligation by geographic area.

a) Reserve for employee benefits

	2002	2003	2004
	(€ in millions)		
Pension plan ⁽¹⁾			
NAFTA ⁽²⁾	51	45	59
Germany	230	232	226
France	41	40	36
Other countries ⁽²⁾	58	48	37
Sub-total	380	365	358
Medical post-retirement benefits			
NAFTA ⁽²⁾	325	288	231
Total reserves for employee benefits	705	653	589

(1) Pension plans in France and Italy relate to termination indemnities.

(2) "NAFTA" includes the U.S., Canada and Mexico. "Other countries" mainly relate to United Kingdom, Italy and Poland.

b) Actuarial present value of benefit obligations

(€ in millions)	Pension plan			Medical post-retirement benefits			Total benefits		
Present value of benefit obligation	2002	2003	2004	2002	2003	2004	2002	2003	2004
NAFTA affiliates	(301)	(247)	(217)	(412)	(436)	(298)	(713)	(683)	(515)
German affiliates	(264)	(283)	(288)	-	-	-	(264)	(283)	(288)
French affiliates	(48)	(45)	(37)	-	-	-	(48)	(45)	(37)
Other affiliates	(98)	(107)	(104)	-	-	-	(98)	(107)	(104)
Total	(711)	(682)	(646)	(412)	(436)	(298)	(1,123)	(1,118)	(944)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

c) Fair value of plan assets

(€ in millions)	Pension plan			Medical post-retirement benefits			Total plan assets		
Fair value of plan assets	2002	2003	2004	2002	2003	2004	2002	2003	2004
NAFTA affiliates	187	175	134	2	-	-	189	175	134
German affiliates	-	-	-	-	-	-	-	-	-
French affiliates	-	-	-	-	-	-	-	-	-
Other affiliates	50	46	50	-	-	-	50	46	50
Total	237	221	184	2	-	-	239	221	184

d) Summary of unrecognized obligations to be amortized

(€ in millions)	Pension plan			Medical post-retirement benefits			Total benefits		
Unrecognized (gain) or loss	2002	2003	2004	2002	2003	2004	2002	2003	2004
Unrecognized actuarial (gain) loss									
NAFTA affiliates	63	27	24	85	146	110	148	173	134
German affiliates	34	50	61	-	-	-	34	50	61
French affiliates	4	12	7	-	-	-	4	12	7
Other affiliates	(10)	13	21	-	-	-	(10)	13	21
Sub-total	91	102	113	85	146	110	176	248	223
Unrecognized actuarial prior service cost (gain)									
NAFTA affiliates	-	-	1	-	2	(43)	-	2	(42)
German affiliates	-	1	1	-	-	-	-	1	1
French affiliates	3	(7)	(6)	-	-	-	3	(7)	(6)
Other affiliates	-	-	-	-	-	-	-	-	-
Sub-total	3	(6)	(4)	-	2	(43)	3	(4)	(47)
Amount not recognized due to the Thomson asset limitation rule									
NAFTA affiliates	-	-	(1)	-	-	-	-	-	(1)
German affiliates	-	-	-	-	-	-	-	-	-
French affiliates	-	-	-	-	-	-	-	-	-
Other affiliates	-	-	(4)	-	-	-	-	-	(4)
Sub-total	-	-	(5)	-	-	-	-	-	(5)
Total unrecognized obligation	94	96	104	85	148	67	179	244	171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

VI - Assumptions used in actuarial calculations

The following table details the assumption used for determining the benefit obligation:

	Pension plan			Medical post-retirement benefits		
	2002	2003	2004	2002	2003	2004
Discount rate	6.30%	5.55%	5.13%	7.00%	6.74%	6.00%
Return on plan assets	9.25%	7.11%	6.73%	-	-	-
Average long term rate of compensation	3.20%	2.97%	3.14%	4.00%	4.00%	4.00%

The long-term rates of return on plan assets have been determined for each plan in consideration of the investment policies, the expected return for each component of the investment portfolio and other local factors in the country of the plan.

The average assumption rate for the increase of the health care cost will be 9.07 % in 2005; 8.10 % in 2006; 7.00% in 2007; 6.03 % in 2008 and 4.58% thereafter.

The effect of a one point increase in the assumed health care cost trend rate would increase the accumulated medical post-retirement benefits as of September 30, 2004 by €31 million at December 31, 2004 closing rate, and the service and interest cost components of the 2004 post-retirement benefit expense by €3 million at December 31, 2004 closing rate. The effect of a one point decrease in the assumed health care cost trend rate would decrease the accumulated medical post-retirement benefits as of September 30, 2004 by €-26 million at December 31, 2004 closing rate, and the service and interest cost components of the 2004 post-retirement benefit expense by €-2 million at December 31, 2004 closing rate.

VII - Impact of IFRS

The net accruals as of December 31, 2003 in the accompanying consolidated balance sheets can be compared with balances determined under IFRS as follows:

(€ in millions)	Pension benefits	Other benefits
	December 31, 2003	December 31, 2003
Reimbursement rights recognized as a separate asset	-	43
Total liability accrued for under IFRS	(495)	(371)
• Difference in timing of recognition of prior service cost	-	(81)
• Recognition of actuarial gains and losses as permitted by IFRS 1	103	145
• Reclassification from restructuring accruals	20	-
• Others	7	19
Total liability accrued for under French GAAP	(365)	(288)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The same comparison of net accruals as of December 31, 2004 is as follows:

(€ in millions)	Pension benefits ^(*) December 31, 2004	Other benefits December 31, 2004
Reimbursement rights recognized as a separate asset	-	43
Total liability accrued for under IFRS	(478)	(348)
• Difference in timing of recognition of prior service cost	2	(73)
• Recognition of actuarial gains and losses as permitted by IFRS 1	98	140
• Effect of 2004 curtailments/settlements	(6)	42
• Reclassification from restructuring accruals	27	-
• Others	(1)	8
Total liability accrued for under French GAAP	(358)	(231)

(*) In accordance with CNC opinion 2004-05, "jubilee awards" are classified under "other creditors and debtors" (€13 million in 2004). Prior years have not been restated under French GAAP.

18. RESTRUCTURING RESERVES

	2002	2003	2004
		(€ in millions)	
Reserves at the beginning of the year	183	127	118
Current year expense ⁽¹⁾	151	226	758
Release of provision ⁽¹⁾	(10)	(9)	(16)
Usage during the period	(175)	(173)	(200)
Change in perimeter ⁽²⁾	34	22	32
Currency translation adjustment and other movements ⁽³⁾	(56)	(75)	(588)
Reserves at the end of the year	127	118	104

(1) Restructuring costs, net of release by segment are:

	2002	2003	2004
		(€ in millions)	
Content & Networks ^(a)	(29)	(48)	(31)
Components ^(b)	(43)	(100)	(690)
Consumer Products ^(c)	(63)	(49)	(12)
Holdings ^(d)	(6)	(20)	(9)
Total restructuring expense net of reversal	(141)	(217)	(742)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The restructuring expense includes for the periods ended as of December 31, 2004, 2003 and 2002:

	2002	2003	2004
		(€ in millions)	
Termination costs	(123)	(175)	(135)
Write off of assets	(18)	(42)	(607)
Total restructuring expense	(141)	(217)	(742)

As of December 31, 2004, the restructuring expense comprises the following plans, by segment:

(a) Restructuring costs of the Content & Networks segment are mainly driven by the following plans:

- The VHS consolidation plan. This plan includes the consolidation and the rationalization of our VHS replication facilities in the United States and in Europe. Costs related to this plan and charged to income this year amount to €16 million. This plan has been announced during the first semester of 2004.
- The Broadcast Industrial downsizing plan: This plan relates to the reduction of Broadcast in house facilities. This plan has been announced during the second half of 2004 and related accrual amounts to €3 million.
- A Voluntary departure plan of one of our broadband facilities in France announced late 2004 and for which the accrual amounts to €7 million.
- Other restructuring costs are related to acquired businesses in 2002. Such restructuring costs are expensed as incurred because they benefit to future activity of the Group, (i.e. training, moving or harmonization costs).

(b) Restructuring costs of the Components Segment mainly relate to

- On October 21, 2004, the Thomson Board announced its decision to actively seek for partnership in the Display business. As a consequence of this decision, the Group has reassessed the carrying value of all Display's business long lived assets, which has resulting in the recognition of a non cash impairment charge amounted to €530 millions.
- The closure of the tube plant and the glass plant in the United States amount to €30 million of exit costs and €23 million of write off of assets for the tube plant and to €36 million of exit costs and €56 million of write off for the closure of the glass plant. The above mentioned exit costs are net of employee benefits curtailment gains that are related to the two above plant closures, and amount to €24 million. Certain closure costs of the tube plant have been charged to the acquisition costs of Fortune (note 2) for an amount of €19 million.
- Certain restructuring plans to downsize our workforce in the tube business in Europe, Asia and America for an amount of €11 million.
- The Downsizing of our facilities in the storage digital module business for which restructuring costs recognized during the year amount to €5 million.

(c) Restructuring activities of Consumer Products mainly relates to

- A restructuring plan that has been set up to re-organize and downsize our remaining TV business. Related termination costs accrued for as of December 31, 2004 amounts to €2 million.
- Certain programs undertaken in 2003 for which costs were not provided for as of December 31, 2003 because they benefited to future activities of the Group (i.e. training, moving or harmonization costs) or because they related to voluntary plan for which costs are recognized upon acceptance by the terminated employees. These costs mainly amount to €10 million.

(d) Reorganisation of the holding segment is mainly related to the reorganisation/downsizing of our corporate headquarters in Indianapolis, Indiana for which expenses charged to income during the period amount to €2 million. Other costs are related to ongoing expenses on the downsizing of certain research and development centres in France for €2 million and the re-organisation of our headquarters in Boulogne, France for €4 million.

As of December 31, 2003, the restructuring expense includes €-175 million of termination costs and other exit costs and €-42 million for the write-down of assets and is comprised of the following plans, by segment:

(a) Content and Networks:

- New restructuring plans aimed to consolidate the film replication business and the broadcast business for a total expense of €- 9 million over 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- b. Restructuring programs related to acquired businesses in 2001 and 2002 amounting to €-29 million. Such restructuring costs are expensed as incurred because they benefit the future activity of the Group (i.e., training, moving or harmonization costs).
 - (b) Components: mainly comprise in 2003 the adaptation of the production capacity:
 - a. Closure of two tubes production lines in Marion and one glass production tank in Circleville amounting to €-60 million.
 - b. Downsizing of the workforce of one plant in Italy amounted to €-14 million.
 - c. Downsizing of our facilities in the storage digital module business in Asia (€-8 million).
 - (c) Consumer Products: mainly comprise in 2003:
 - a. New plans announced in 2003 including the Tune up/CPMax plans for adaptation of the segment costs structure to the business environment (€-13 million), the reorganization of certain Mexican facilities to improve the segment profitability (€-9 million).
 - b. Restructuring costs of programs undertaken in 2002, which are mainly related to the closure of one plant in France (€-7 million), for which reliable estimates were not available at the time of the decision.
 - (d) Holdings activities: mainly comprise in 2003:
 - a. The downsizing of certain research and development centers in France (€-9 million).
 - b. The plan for adaptation of the corporate costs structure to the business environment (€-4 million).
- (2) As of December 31, 2004, the change in perimeter mainly includes the impact of the purchase price allocation of Fortune (note 2) for €19 million, of Command Post (note 2) for an amount of €5 million and of HNS (note 2) for an amount of €8 million.
As of December 31, 2003, the change in perimeter includes mainly the impact for purchase accounting of PDSC for €18 million.
As of December 31, 2002, the change in perimeter is due to the purchase accounting impact of PDSC (€31 million), Grass Valley (€27 million), BTS (€10 million), Thomson Broadband in ADSL activities (€6 million) and Grundig (€1 million) together with a reversal for €-41 million on Technicolor.
- (3) As of December 31, 2004, 2003 and 2002, this amount includes mainly write-down of assets and currency translation adjustments.
At December 31, 2004, currency translation adjustments amount to €-3 million (€-9 million and €-13 million in 2003 and 2002, respectively).
Since January 1, 2002 and according to the new French Regulation 00-06 relating to the accounting for liabilities, all write-downs are reclassified against assets prior to disposals. The impact of this reclassification for years ended December 31, 2004, 2003 and 2002 amounts to €-612 million, €-65 million and €-46 million, respectively. For years 2004, 2003 and 2002, the above-mentioned €-612 million, €-65 million and €-46 million reclassification is broken down as follows:
€-601 million, €-56 million and €-38 million for write-down of long lived assets, respectively (note 8) and €-11 million, €-9 million and €-8 million of write-down of inventories (note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

19. OTHER RESERVES

	Warranty	Losses on subsidiaries ⁽¹⁾	Others ⁽²⁾	Total
	(€ in millions)			
Balance at January 1, 2002	113	52	81	246
Current year expense	167	8	44	219
Release of provision	(17)	(1)	(21)	(39)
Usage during the period	(165)	(3)	(42)	(210)
Currency translation adjustments and others	(6)	(5)	11	-
Balance at December 31, 2002	92	51	73	216
Current year expense	127	4	28	159
Release of provision	(4)	-	(17)	(21)
Usage during the period	(123)	-	(40)	(163)
Currency translation adjustments and others	(13)	4	24	15
Balance at December 31, 2003	79	59	68	206
Current year expense	84	-	65	149
Release of provision	(3)	(1)	(28)	(32)
Usage during the period	(93)	(2)	(32)	(127)
Currency translation adjustments and others	(17)	(13)	10	(20)
Balance at December 31, 2004	50	43	83	176

(1) Primarily includes provisions for losses in excess of the Group's investments in unconsolidated companies.

(2) At December 31, 2004, other reserves include mainly accruals for litigation risks for €17 million (€15 million and €20 million as of December 2003 and 2002, respectively) and contract risks for €5 million (€11 million and €13 million as of December 2003 and 2002, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

20. FINANCIAL DEBT (SHORT-TERM AND LONG-TERM)

(a) Analysis by nature

	2002	2003	2004
		(€ in millions)	
Debt due to financial institutions ⁽¹⁾	204	617	773
Convertible/exchangeable bond (October 2000) ⁽²⁾	782	782	611
Convertible/exchangeable bond (March 2002)	600	600	600
Convertible/exchangeable bond (September 2004)	-	-	367
Bank overdrafts	19	24	29
Other financial debt	44	44	61
Accrued interest including premium ⁽³⁾	45	61	60
Total	1,694	2,128	2,501

(1) As of December 31, 2004, debt due to financial institutions includes the effect of the consolidation of the Mexicali synthetic lease for an amount of €165 million, of which €5 million was considered as a capital lease and was already consolidated as of December 31, 2003. This synthetic lease was reimbursed on January 24, 2005. Debt related to the synthetic lease in Poland of €138 million was reimbursed during 2004.

(2) In 2004, 2,350,553 convertible bonds due 2006 of €72.67 nominal value each were repurchased and cancelled for an aggregate amount of €182 million, decreasing nominal debt by €171 million and accrued interest and premium amortization by €11 million.

(3) At December 31, 2004, accrued interest has been broken down into (i) €48 million (€47 million in 2003) for the premium due at maturity on the October 2000 convertible bond which is recorded as a financial expense over the bond duration and (ii) €12 million (€14 million in 2003) of interest. Accrued interest on "debt related to Technicolor acquisition" (note 22) is included in the total "debt related to Technicolor acquisition".

Convertible bonds

- In October 2000, Thomson issued 11,175,385 convertible/exchangeable bonds, with a nominal value of €72.67 each, due in 2006 for an aggregate amount of €812,115,228. The number of bonds outstanding at December 31, 2004 is 8,411,832 and is explained as follows:
 - In 2004, 2,350,553 convertible bonds were repurchased at an average price of €77.604 and cancelled.
 - In June 2002, Thomson repurchased 413,000 bonds at an average price of €67.495. The repurchased bonds were cancelled.

The convertible/exchangeable bonds issued in October 2000, may be redeemed by bondholders for Thomson ordinary shares beginning October 11, 2001.

The bonds bear interest at a rate of 1% per annum, payable in arrears on January 1 of each year, with the first payment made on January 1, 2001. The bonds will mature and become due at a price of €79.71 per bond on January 1, 2006, unless previously converted, exchanged, redeemed or cancelled. This price is 109.69% of the original issue price. The annual effective interest rate is 2.75%.

Each bondholder may elect to receive, in lieu of receiving payment of the principal, ordinary shares of Thomson of €3.75 par value each, at a ratio of one share for each bond, subject to adjustment upon occurrence of certain events.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The bonds are redeemable at Thomson's option at any time on or after January 1, 2004, in whole but not in part, at a price enabling the bondholder to receive a gross redemption yield equal to the gross redemption yield that would have been received at final maturity, which is 2.75%, if the share price is greater than 120% of the bond redemption price for 20 consecutive days. Thomson may also repurchase any number of bonds at any time at any price on the Paris Bourse. Bonds so repurchased will be cancelled. The costs related to the convertible bond offering (€18 million) are amortized over the bond duration.

- On March 12, 2002, Thomson issued 14,814,815 convertible/exchangeable bonds, with a nominal value of €40.50 each, for an aggregate amount of €600 million. The bonds bear interest at a rate of 1% per annum, payable in arrears on January 1 of each year with the first payment made on January 1, 2003. The bonds will mature and become due at a price of €40.50 per bond on January 1, 2008, unless previously converted, exchanged, redeemed or cancelled.

The bonds are redeemable at Thomson's option at any time on or after November 1, 2003, at a price enabling the bondholder to receive the nominal value plus 1% interest for the period between the last interest payment date and the redemption if the share price is greater than 120% of the nominal price for 10 consecutive days within the 20 days before the announcement of the reimbursement. Bondholders have the option from March 12, 2002, and until 7 days preceding the reimbursement date to convert one bond against one Thomson share (existing or new shares). Bondholders, who do not exercise the conversion option before 7 days preceding the reimbursement date, will receive the nominal amount plus interest as mentioned above. If at any time the remaining bonds outstanding represent less than 10% of total bonds initially issued, the Group may also redeem at nominal value plus interest all the remaining bonds.

The bonds are also redeemable on January 1, 2005, at the option of the bondholders at a price corresponding to the nominal value plus interest for the period January 1, 2004 to December 31, 2004. Of the original 14,814,815 bonds, 14,493,324 bonds were redeemed on January 1, 2005, at the option of bondholders.

Thomson may also repurchase any number of bonds at any time at any price on the Euronext Paris S.A. Bonds so repurchased will be cancelled.

- On September 16, 2004, Thomson issued 23,084 convertible/exchangeable subordinated bonds to Silver Lake Partners LLC, with a nominal value of USD 21,660 each, for an aggregate amount of USD 499,999,440. The bonds bear interest at a rate of 3% per annum in arrears on January 1 and June 30 of each year except the first interest payment which was due and paid December 31, 2004. The bonds will mature and become due at a price of USD 21,660 per bond on September 16, 2010, unless previously converted, exchanged, redeemed or cancelled. The bonds are subject to certain transfer restrictions.

Bondholders have the option from the earlier of March 31, 2006, or the date Thomson publishes its audited financial results for 2005 or the date of certain other exceptional events to convert or exchange any or all bonds held at a conversion ratio of 1,000 shares for each bond. This conversion ratio is subject to adjustment under certain conditions. The shares issued upon conversion or exchange are subject to certain sale restrictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

All bonds are redeemable in cash plus accrued interest at Thomson's option at any time if less than 10% of the bonds remain outstanding or at any time after September 16, 2007, if the average of the closing share price for 10 consecutive days within the 20 days before the redemption notice as well as the closing share price on the redemption notice date times the number of shares into which a bond would be convertible both exceed 150% of the par value of a bond.

Any or all bonds are redeemable in cash plus accrued interest at the option of the holder from September 16, 2008, upon written notice to Thomson.

Private Placement

On June 30, 2003, Thomson issued senior notes in a total amount of USD 406 million (€298 million at the December 31, 2004 exchange rate) that were sold privately to institutional investors in the U.S. This private placement consisted of three series; a series of 7-year maturity notes in an amount of USD 96 million; a series of 10-year maturity notes in an amount of USD 192 million and a series of 12-year maturity notes in an amount of USD 118 million. The notes carry fixed interest rates of 4.13%, 4.74% and 4.84%, respectively, for the 7, 10 and 12-year maturity notes.

Thomson swapped USD 200 million of the total issue, changing the debt from fixed rate to floating rate. Thomson may, at its option, prepay at any time all, or from time to time any part, of the notes. The amount prepaid shall be allocated among all of the notes outstanding at the time in proportion to the respective unpaid principal amounts.

On December 18, 2003, Thomson issued an additional GBP 34 million (€48 million at the December 31, 2004 exchange rate) of senior notes with a 10-year maturity and carrying a fixed rate of 6.11%; the entire amount of these additional notes were swapped to floating rate.

(b) Analysis by maturity

	2002	2003	2004
	(€ in millions)		
Due within:			
One-year	262	263	904*
Two-years	6	17	664
Three-years	1	836	163
Four-years	818	10	13
Five-years	7	602*	-
Thereafter	600*	400	757
<i>Total long-term</i>	<i>1,432</i>	<i>1,865</i>	<i>1,597</i>
Total	1,694	2,128	2,501

* The convertible bonds issued on March 12, 2002, are subject to an early redemption provision at the option of bondholders exercisable on January 1, 2005. Since notice of redemption had already been given in December 2004 by bondholders holding 14,493,324 bonds, this portion of the 2002 convertible was considered short-term debt at December 31, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(c) Analysis by currency

	2002	2003	2004
		(€ in millions)	
Euro	1,557	1,573	1,366
U.S. dollar	18	388	884
Others	119	167	251
Total debt	1,694	2,128	2,501

(d) Analysis by interest rate for long term debt

	2002	2003	2004
		(€ in millions)	
Variable rate (LIBOR 1 month)	6	5	160
Variable rate (LIBOR 3 month)	-	47	191
Variable rate (LIBOR 6 month)	-	-	48
Fixed rates	1,426	1,813	1,198
Total long-term debt	1,432	1,865	1,597

Interest rates on most short-term debt is based on Euribor (Euro Interbank Offered Rate) for euro denominated debt, LIBOR (London Interbank Offered Rate) for U.S. dollar denominated debt and on similar short-term reference rates for other currencies.

(e) Unused credit lines

	2002	2003	2004
		(€ in millions)	
Committed credit lines	1,192	832	1,801
of which used	-	27	51
Uncommitted credit lines	1,331	983	945
of which used for debt	105	118	178
Receivable sales agreement in North America	286	238	147
of which used	-	-	-

On July 5, 2004, Thomson closed a €1.75 billion committed credit facility with a consortium of banks. The facility has a five year maturity. Thomson's previous committed facility in an amount of €800 million was simultaneously cancelled.

Thomson has no financing agreements with rating triggers. Several of Thomson's financing agreements have covenants pertaining to Thomson's consolidated financial situation. These financings are:

- the senior notes issued privately to institutional investors in a total amount of €346 million and a €44 million Mexican capital lease which are subject to two financial covenants: maintenance of a minimum ratio of operating income to interest expense of 3 to 1 and a maximum ratio of net debt to net worth of 1 to 1;
- the €1.75 billion credit facility which is subject to one financial covenant: maintenance of a minimum ratio of operating income to interest expense of 3 to 1;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- the €165 million Mexican synthetic lease which is subject to two financial covenants: maintenance of a minimum ratio of EBIT (earnings before interest and tax) to net interest expense of 5 to 1 and maintenance of a maximum ratio of balance sheet net debt to net worth of 0.7 to 1 and; this lease was repaid on January 24, 2005.

At December 31, 2004, Thomson is in compliance with all of these financial covenants.

21. OTHER CREDITORS AND ACCRUED LIABILITIES

	2002	2003	2004
	(€ in millions)		
Taxes payable	221	164	153
Deferred tax liabilities	23	23	2
Royalties	223	214	262
Long lived assets acquisition balance	95	89	64
Thomson multimedia Polska sp.zo.o - Deferred Income	85	85	-
Other ⁽¹⁾	423	283	514
Total	1,070	858	995

(1) Since 2002 the accruals related to consideration given to a customer are deducted from gross trade accounts receivable (note12).

22. DEBT RELATED TO TECHNICOLOR ACQUISITION

The promissory notes due to Carlton for the acquisition of Technicolor totalled USD 115 million, USD 224 million and USD 481 million, as of December 31, 2004, 2003 and 2002, respectively, including accrued interest equivalent to €84 million, €178 million and €459 million, respectively, at the December 31, 2004, 2003 and 2002 exchange rates. Accrued interest amounted to € 9 million, €15 million and €29 million at December 31, 2004, 2003 and 2002, respectively. The final instalment on these notes is repayable in one remaining instalment on March 16, 2005. Thomson may elect to pay €61 million (USD 84 million) of the notes in Thomson shares (within the limit of 4 million shares as approved by the shareholders' meeting).

On March 16, 2004, and March 14, 2003, respectively, €92 million and €149 million were paid in cash on the maturity date of the promissory note instalments consisting in year 2004 of €84 million for the nominal value and €8 million for the accrued interest since inception of the notes (€139 million for the nominal value and €10 million for the accrued interest in 2003).

On September 16, 2003, promissory notes for an amount of €84 million in nominal value, plus €7 million of interest, were paid early.

The remaining promissory note interest rates are based on six month LIBOR, plus a margin of 0.75% (for the two first maturities, the rate was based on three month LIBOR). The latest and final applicable quotation for six month LIBOR dated September 14, 2004, was 2.05813%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

23. ACQUISITION OF INVESTMENTS

	2002	2003	2004
		(€ in millions)	
Technicolor ⁽¹⁾	(215)	(224)	(83)
BTS	(65)	-	-
Grass Valley	(196)	-	-
Panasonic Disc Service Corporation	(446)	-	-
Canal+ Technologies ⁽²⁾ acquired in January 2003	(90)	(102)	-
Cinecolor	-	(15)	-
Digital cinema (complementary acquisition)	-	(15)	-
Recoton	-	(50)	-
ATLINKS	-	(69)	-
Command Post	-	-	(11)
Gyration	-	-	(15)
Fortune	-	-	(75)
Hughes Network Systems	-	-	(204)
The Moving Picture Company	-	-	(78)
TTE ⁽³⁾	-	-	(115)
Other	(289)	(133)	(96)
Acquisition of investment	(1,301)	(608)	(677)
Plus cash position of companies disposed of	-	-	(16)
Less cash position of companies acquired	28	43	13
Acquisition of investment, net	(1,273)	(565)	(680)

(1) The consideration paid corresponds mainly to the repayment of the promissory notes (note 22) - together with a price adjustment for USD 2 million in 2003.

(2) Thomson acquired on January 31, 2003, 89% of Canal+ Technologies from the Canal+ Group for a gross amount of €190 million. The €90 million cash payment in 2002 was an advance paid to the seller before the closing. In the December 31, 2002, balance sheet, the advance was recorded in "loans and other non current assets". In 2003, Thomson paid €100 million at the closing together with an additional €2 million price adjustment. The businesses of Canal+ Technologies were sold by the end of year 2003 (notes 2 and 6).

(3) TTE acquisition is analysed as follows in millions of euro:

Cash transferred net of cash received	(17)
Financing of TTE under a purchase of receivables agreement for a maximum duration of 24 months	(98)
Net cash disbursed	(115)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

24. CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The two tables presented below provide information regarding contractual obligations and commercial commitments as of December 31, 2004 for which the company is obliged to make future cash payments in accordance with the recommendation on this subject issued by the “*Autorité des Marchés Financiers*” (AMF), formerly “*Commission des Opérations de Bourse*” in February 2002. These tables include firm commitments that would result in unconditional or contingent future payments, but exclude 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 given the two alternatives. No material commitment is omitted in this note 24, in accordance with French GAAP.

Guarantees given by entities of the Group securing debt, capital leases, operating leases or any other obligations or commitments of other entities of the Group are not disclosed as the related obligations are already included in the two tables below.

Contractual obligations	Amount of commitments expiring per period					
	2003 Total	2004 Total	Less than 1 year	> 1 and =< 3 years	> 3 and =< 5 years	After 5 years
	(€ in millions)					
Financial debt ⁽¹⁾	2,128	2,501	904	827	13	757
Of which capital lease liability	61	51	14	22	15	-
Debt related to Technicolor acquisition ⁽¹⁾	178	84	84	-	-	-
Unconditional future payments						
Operating leases ⁽²⁾	485	425	83	118	79	145
Other ⁽³⁾	137	68	20	24	23	1
Unconditional purchase obligations						
Financial investments ⁽⁴⁾	28	16	15	1	-	-
Property, plant and equipment ⁽⁵⁾	73	9	9	-	-	-
Contingent future payments						
Guarantees given ⁽⁶⁾	65	181	26	-	76	79
Other conditional obligations ⁽⁷⁾	63	71	17	24	13	17

(1) Financial debt (note 20) and debt related to Technicolor acquisition (note 22) are reported for their principal amounts and accrued interest as of December 31, 2004. 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) Operating leases are described below in (a) of this note.

(3) Other unconditional future payments relate to information technology service agreements, general sponsoring agreements entered into in the U.S., guarantees given for assets disposal, and other contractual advances.

(4) In November 2004, Thomson acquired a 3.2% stake in the Chinese television and mobile phone manufacturer Konka and has agreed to acquire an additional 4.8% subject to approval by the relevant Chinese authorities. This corresponds to a financial investment of €14 million as of December 2004.

(5) Unconditional purchase obligations comprise DVD plant expansions in the U.S. as well as equipment following the acquisition of Fortune.

(6) Guarantees given for disposal of assets.

(7) Conditional obligations include contingent earn out payments related to the purchase of 20% of Technicolor Digital Cinema L.L.C. and other obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Commercial commitments	Amount of commitments expiring per period					
	2003 Total	2004 Total	Less than 1 year	> 1 and =< 3 years	> 3 and =< 5 years	After 5 years
	(€ in millions)					
Unconditional future payments						
Royalties ⁽¹⁾	2	1	1	-	-	-
Commercial purchase obligations ⁽²⁾	123	165	106	45	14	-
Contingent future payments						
Guarantees given:						
- to suppliers	5	25	9	14	-	2
- for legal court proceedings and custom duties ⁽³⁾	62	65	22	12	1	30
- other ⁽⁴⁾	19	19	17	1	1	-
Total	86	109	48	27	2	32
Standby letters of credit ⁽⁵⁾	110	68	68	-	-	-
Other commercial commitments	10	10	2	8	-	-

(1) Royalties to be paid for which future amounts are fixed. Royalties to be paid for which the amount is based on a per unit basis are not included, except if a fixed minimum amount will be charged. These are mainly related to licensing fee agreements.

(2) Include commitments to buy advertising space for €69 million in its cinema sale house activity, and other €72 million of commercial purchase obligations in the Content and Networks segment.

(3) These guarantees comprise:

- Guarantees for customs duties amount to €43 million and comprise mainly duty deferment guarantees, required by the customs administration to benefit from a derogatory customs regime. Imported goods are normally taxed when they enter the territory. In the case of regular import flows, customs may grant a derogatory 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.
- The Group also grants to customs administrations various operation guarantees to exempt from duties goods transiting through custom 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.
- Guarantees given for legal court proceedings amount to €22 million, including a €14 million bank guarantee that Thomson gave to the Italian direct tax office in order to be allowed to pay by instalment its tax debt resulting from the reassessment of its taxable income from 1993 to 1998 (note 27).

(4) Under the terms of many of its long-term contracts, the Group must provide to its clients performance guarantees issued by banks. As of December 31, 2004 and 2003 these guarantees amount to €9 million and €14 million respectively, mainly related to long-term contract in its broadcast activities.

(5) Standby letters of credit relate mainly to guarantees in favor of suppliers.

Commitments related to financial instruments held by the Group generate both future cash payments and receipts. Therefore they have not been disclosed in the two tables above. These commitments, including options, are disclosed in the following table for their related cash inflow and outflow amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	2002	2003	2004
		(€ in millions)	
Currency swaps	1,609	2,106	1,581
Forward exchange contracts	957	1,641	1,157
Interest rate swaps	95	237	195
Metals hedging contracts	-	-	8
Foreign exchange options	16	13	-
Total commitments given	2,677	3,997	2,941
Currency swaps	1,680	2,148	1,680
Forward exchange contracts	988	1,667	1,157
Interest rate swaps	95	237	195
Metals hedging contracts	-	-	8
Foreign exchange options	16	13	-
Total commitments received	2,779	4,065	3,040

In addition to the commitments mentioned above, the Group has unrecognized retirement benefit obligations amounting to €171 million, €244 million and €179 million as of December 31, 2004, 2003 and 2002, respectively (note 17).

Guarantees and commitments received amount to €2 million, €2 million, and €23 million at December 31, 2004, 2003 and 2002, respectively.

(a) Operating leases

Commitments related to future minimum and non-cancelable operating lease payments amount to €425 million as of December 31, 2004, and are detailed below (€ in millions):

2005	83
2006	65
2007	53
2008	42
2009	37
Thereafter	145
Total ⁽¹⁾	425

(1) The decrease versus 2003 (a total of €485 million at end of 2003) is mainly due to the consolidation of two synthetic leases situated in Poland and Mexico in 2004 (see more detail thereafter).

The significant operating leases are as follows:

In 2000, two leases were contracted related to the sales of office buildings in Boulogne and Indianapolis and are accounted for as operating leases:

- Thomson S.A. sold an office building located in Boulogne-Billancourt, France for €91 million (€89 million net of costs) on February 29, 2000. The building was leased back from the purchaser for a six-year period. The lease requires Thomson S.A. to pay customary operating and repair expenses and to observe certain operating restrictions and covenants. The lease contains renewal options at the end of the initial lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

- Thomson, Inc. sold a U.S. office building (administration and technical services buildings) in March 2000 for €57 million net of costs. The buildings were leased back from the purchaser for a twelve-year period. The lease requires Thomson, Inc. to pay customary operating and repair expenses and to observe certain operating restrictions and covenants. The lease contains renewal options at the end of the initial lease period.

Consolidation of Special Purpose Entities (SPE's)

In accordance with Article 133 of the French Law on Financial Security (Loi de Sécurité Financière or "LSF") issued on August 1, 2003 (note 1), two SPE's have been consolidated in 2004:

- In 2000, the Group entered into a lease agreement for the equipment and building of a television tube manufacturing facility located in Mexico. The manufacturing facility is owned by a special purpose entity (SPE) in which Thomson has no interest. The lease is an operating lease with a term of seven years. During the lease term and at the end of the term the Group has the option to purchase the facility for a purchase price equal to the expected fair market value which is the original purchase price less amortization (this price changes over time). For the Mexican transaction the Group provides a residual value guarantee, which may be due upon termination of the contract if the Group decides not to buy back the equipment. On January 24, 2005, Thomson repaid in advance the debt related to the lease (note 29 on subsequent events).
- In 2001, the Thomson Polish subsidiary (the "Subsidiary") entered into a transaction with a SPE whereby it transferred ownership title of tube manufacturing equipment to the SPE; the Subsidiary received an amount of €138 million corresponding to the fair value of the equipment at transfer date (the "Original Fair Value"). The Subsidiary continued to use the equipment and paid an annual amount corresponding to approximately 19% of the Original Fair Value (recorded as rental expense until December 31, 2003). A deferred gain of €85 million was booked in the balance sheet.
The debt related to the synthetic lease in Poland of €138 million was reimbursed during 2004 and the synthetic lease thereby terminated.

As of December 31, 2003, these future lease payments totalled €42 million for Thomson Displays Mexicana, S.A. de C.V. and €13 million for Thomson multimedia Polska sp.zo.o.

These two SPE's have been consolidated as of January 1, 2004, retroactively with the impact booked to equity for €-43 million.

Following these SPE's consolidation, as of December 31, 2004, the Group no longer reports off-balance sheet future payments related to synthetic leases (note 1).

(b) Other commitments

Thomson has restricted cash deposits as disclosed in note 15. In addition, the Group received payments from clients in order to finance the development costs of certain long-term contracts. In order to guarantee the reimbursement of such payment if the Group does not fulfill its contractual obligations, the Group may set up, at the client's request, advance payment restitution guarantees. As of December 31, 2004 and 2003, these guarantees amount to €7 million and €22 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

25. FINANCIAL INSTRUMENTS AND MARKET RELATED EXPOSURES

As indicated in note 1(d), the Group uses financial instruments to manage its exposure to currency and interest rate risks incurred in the normal course of business.

(a) Foreign currency exposure

Given the international nature of its business, the Group generates significant cash flows in foreign currencies.

The Group primarily uses currency forward contracts or currency options to manage this exposure.

The nominal value of the Group's forward operations and options outstanding as of December 31, 2004, 2003 and 2002 is as follows:

	2002	2003	2004
	(€ in millions)		
Forward exchange contracts (including currency swaps)			
Euro	2,199	2,561	1,873
Canadian dollar	-	-	15
Pound sterling	45	136	183
Hong Kong dollar	-	21	22
Japanese yen	55	27	6
Mexican pesos	52	53	33
Singapore dollar	20	29	26
U.S. dollar	156	674	577
Polish zloty	110	269	88
Other currencies	31	45	14
Total forward purchases	2,668	3,815	2,837
Euro	(295)	(947)	(785)
Canadian dollar	(46)	(77)	(52)
Pound sterling	(183)	(256)	(152)
Japanese yen	(78)	(92)	(29)
U.S. dollar	(1,880)	(2,066)	(1,561)
Other currencies	(84)	(309)	(159)
Total forward sales	(2,566)	(3,747)	(2,738)
Currency options contracts purchased			
Put U.S. dollar/Call Japanese yen	16	13	-
Total	16	13	-
Deferred hedging gains (losses) related to anticipated transactions	6.3	24.7	(1.8)

In order to match the currencies that Thomson borrows with the currencies that are lent to affiliates the corporate treasury enters into currency swaps primarily to convert euro borrowings into USD which are lent to the Group's U.S. affiliates. At the December 31, 2004 exchange rate there was a mark to market currency gain on these swaps of €99 million. This amount is recognized in the balance sheet in "Other receivables" and offsets the reduction in the euro value of the foreign currency intercompany loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(b) Interest rate exposure

The main instruments used by the Group to manage interest rate risks are interest rate swaps, forward rate agreements and interest rate caps.

The Group's interest rate exposure is presented as follows, by maturity:

	December 31, 2004						Total
	2005	2006	2007	2008	2009	There- after	
	(€ in millions)						
Cash and cash equivalents – floating rate	1,906	-	-	-	-	-	1,906
Financial debt:							
Floating rate	904	-	160	-	-	44	1,108
Fixed rate	-	664	3	13	-	713	1,393
Interest rate swaps, from floating to fixed ⁽¹⁾	-	-	-	-	-	-	-
Interest rate swaps, from fixed to floating ⁽¹⁾	-	-	-	-	-	195	195
Caps, fixed rate	37	-	-	-	-	-	37

(1) U.S. dollar/euro = 0.733030

	December 31, 2003						Total
	2004	2005	2006	2007	2008	There- after	
	(€ in millions)						
Cash and cash equivalents – floating rate	2,383	-	-	-	-	-	2,383
Financial debt:							
Floating rate	263	5	5	9	2	31	315
Fixed rate	-	12	831	1	600	369	1,813
Interest rate swaps, from floating to fixed ⁽²⁾	79	-	-	-	-	-	79
Interest rate swaps, from fixed to floating ⁽²⁾	-	-	-	-	-	158	158
Caps, fixed rate	40	-	-	-	-	-	40

(2) U.S. dollar/euro = 0.791766

	December 31, 2002						Total
	2003	2004	2005	2006	2007	There- after	
	(€ in millions)						
Cash and cash equivalents – floating rate	1,463	-	-	-	-	-	1,463
Financial debt:							
Floating rate	262	-	-	-	6	-	268
Fixed rate	-	6	1	817	1	601	1,426
Interest rate swaps, from floating to fixed ⁽³⁾	-	95	-	-	-	-	95
Interest rate swaps, from fixed to floating ⁽³⁾	-	-	-	-	-	-	-

(3) U.S. dollar/euro = 0.953562

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Interest related to interest rate swaps at December 31, contracted by the Group is as follows:

	2002	2003	2004
	(€ in millions)		
Interest received:			
Fixed rate	-	4	10
Floating rate	-	-	-
Interest paid:			
Fixed rate	-	-	-
Floating rate	-	(1)	(6)
Net interest	-	3	4

The Group did not enter into any interest rate hedging operations in 2004.

In 2003, the Group entered into several interest rate swap transactions to convert its debt from fixed to floating rate (3 month LIBOR for USD debt, and 6 month £-LIBOR for GBP one):

- its 12-year senior notes in an amount of USD 118 million;
- its 10-year senior notes in the amount of USD 82 million; and
- its 10-year senior notes in the amount of GBP 34 million.

These swap transactions are accounted for under hedge accounting treatment in accordance with French GAAP.

In 2002, the Group entered into an interest rate swap transaction and purchased an interest rate cap.

Under the interest rate swap, Thomson receives three month USD LIBOR and pays twelve month USD LIBOR in arrears with the latter being capped up to a knock-out interest rate which if reached cancels the cap until such time as interest rates drop below the knock-out rate. This interest rate swap is accounted for in accordance with French GAAP: it is marked-to-market and in case of loss a provision is taken. In 2002, Thomson booked a loss of €1 million on this swap. At December 31, 2003, the marked-to-market valuation of this swap was a loss of €0.6 million so the amount provisioned was reduced, thereby resulting in net positive financial income of €0.4 million in 2003 on this transaction. In 2004, this swap matured with a final total loss of €0.9 million thus an additional loss of €0.3 million was taken in financial result.

The interest rate cap that Thomson bought in 2002 provides that until 2005 Thomson will receive the difference between 3 month USD LIBOR and the cap rate on a nominal amount of USD 50 million if three month USD LIBOR is above the cap rate and less than the knock-out rate. This cap is accounted for in the same way as the interest rate swap. Thomson recorded a loss in 2002 of €0.3 million on this cap. At December 31, 2003, the fair value of this cap was a loss of €0.2 million so the amount provisioned was reduced thereby resulting in net positive financial income of €0.1 million in 2003 on this transaction. At December 31, 2004, the fair value of this cap was also a loss of €0.2 million so that the financial result in 2004 of this cap was nil.

Because of the interest rate differential between the USD and the euro, the Group had in 2004 interest gains on the currency swaps used to convert to USD euros borrowed by Corporate Treasury which it lends to the U.S. affiliates. These swap gains are accounted for as a reduction of interest expense and are entirely included in Thomson's 2004 interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The average interest rate on the Group's consolidated debt is as follows:

	2002	2003	2004
Average interest rate on borrowings	2.42%	2.39%	2.74%
Effective interest rate after interest rate hedging	2.49%	2.25%	2.60%
Effective interest rate after currency swaps and interest rate hedging	1.34%	1.49%	2.21%

The effective weighted average interest rate in 2004 on the Group's consolidated deposits was 1.41% (1.60% and 2.25% in 2003 and 2002, respectively).

The percentage of the Group's average debt at floating rates taking into account interest rate hedging operations is as follows :

	2002	2003	2004
		(€ in millions)	
Average debt	1,586	1,914	2,302
Percentage at floating rate	17%	21%	30%

The Group's average deposits in 2004 amounted to €1,532 million, 100% at floating rate.

A one-point variation in interest rates, applied to the floating rate debt and deposits would have had an impact on the Group annual financial expenses of approximately €9 million.

(c) Equity instruments

At December 31, 2004, Thomson had an outstanding equity forward sale and a call option on a quoted investment as well as puts on Thomson shares. The puts for 2,000,000 Thomson shares have maturities of March, April and May 2005 and were sold in December 2004 in the over the counter market for a premium of €1.6 million. The puts have an exercise price of €18.75. The puts were sold in the framework of Thomson's share repurchase program and if they are exercised will be attributed to the utilisations foreseen in the objectives of the program.

(d) Financial counterpart risk

The financial instruments used by the Group to manage its interest rate and currency exposure are all undertaken with counterparts having an investment grade rating.

The percentage of outstanding foreign exchange operations by counterpart credit rating is as follows:

Foreign exchange forwards:

Counterpart's rating (according to Standard & Poor's)	2002	2003	2004
A-1+	87.8%	66.9%	91.3%
A-1	12.2%	30.5%	2.0%
A-2	-	2.6%	6.7%
Total	100.0%	100.0%	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

All significant cash deposits are maintained with rated financial institutions. An amount of €816 million was invested in mutual funds as of December 31, 2004.

The table below gives the percentage of outstanding cash deposits by counterpart credit rating:

Cash deposit:			
Counterpart's rating (according to Standard & Poor's)	2002	2003	2004
A-1+	80.2%	44.9%	44.8%
A-1	11.9%	14.8%	6.2%
A-2	6.0%	1.8%	2.0%
A-3	0.4%	-	1.1%
B	1.0%	1.5%	2.6%
BB+	0.1%	-	-
Money Market funds	-	36.7%	42.8%
Non rated financial institutions	0.4%	0.3%	0.5%
Total	100.0%	100.0%	100.0%

Accordingly, the Group does not believe that there is a significant risk of non-performance by a major counterpart of the Thomson Group.

(e) Fair value of financial instruments

The fair value of interest rate swap contracts is calculated by discounting the future cash flows. However, for complex swaps, the marked-to-market value calculated by the banks is used.

The fair value of forward exchange contracts and currency swaps is computed by discounting the difference between the contract rate and the market forward rate and multiplying it by the nominal amount.

The fair value of currency options is calculated using standard option pricing software and verified with the banks.

The fair value of all current assets and liabilities (trade accounts receivable and payable, short term loans and debt, cash and bank overdrafts) is considered to be equivalent to net book value due to their short-term maturities.

The fair value of long-term debt is determined by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the borrowing rates at year-end for similar types of borrowing arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The fair value of listed investment securities is calculated using their last known market price at year-end.

	2002		2003		2004	
	Net book value	Fair market value	Net book value	Fair market value	Net book value	Fair market value
(€ in millions)						
Balance sheet:						
Liabilities:						
long-term debt	18	16	436	445	558	566
convertible bonds	1,414	1,326	1,429	1,409	1,638	1,769
Of which, short term portion of convertibles bonds	-	-	-	-	599	599
Assets:	5	5	14	18	36	61
Off-balance sheet:						
<u>Interest rate instruments</u>						
Interest rate swap	(1)	(1)	-	(11)	-	(8)
FRA and CAP	-	-	(1)	(1)	-	-
<u>Foreign exchange instruments</u>						
Forward contracts	20	26	6	30	1	1
Currency option contracts	-	-	-	-	(3)	(3)
<u>Equity instruments</u>						
Collars	-	-	-	(5)	-	-
Call option	-	-	-	-	-	-
Forward sale	-	-	-	-	-	(20)
Puts	-	-	-	-	(2)	(1)
<u>Metal hedging instruments</u>						
Metal forward purchase contracts	-	(1)	-	-	-	-

26. INFORMATION ON EMPLOYEES

The geographical breakdown of the number of employees in companies in the list of consolidated subsidiaries is as follows:

	2002	2003	2004
Europe ⁽¹⁾	17,464	17,277	16,609
North America	14,405	13,073	12,992
Asia ⁽²⁾	20,268	17,015	12,842
Other countries ⁽³⁾	12,967	11,034	6,636
Number of employees in consolidated subsidiaries	65,104	58,399	49,079
Number of employees in equity companies	383	664	32,354
Total employees	65,487	59,063	81,433
⁽¹⁾ Of which Poland	5,256	5,697	5,416
⁽²⁾ Of which People's Republic of China	17,195	13,454	10,609
⁽³⁾ Of which Mexico	11,974	10,048	5,647
Salary costs (€ in millions)	1,841	1,692	1,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Compensation of directors and principal executive officers:

Director's fees were voted by the shareholders' meeting on November 10, 2000. The amount paid in 2004, concerning year 2003, was €298,581.10.

In 2004, the aggregate amount of compensation paid by the Group to the members of its Executive Committee (17 persons) is €8.08 million (excluding the specific plan benefiting certain executive officers of the Components & Networks division and including variable compensation for an amount of €2.65 million).

In 2003, the aggregate amount of compensation paid to the members of the Executive Committee was €7.9 million (excluding the specific plan benefiting certain executive officers of the Components & Networks division and including variable compensation for an amount of €2.38 million).

The aggregate reserve for employee benefits granted to these executive officers was €1.7 million in 2004 and €1.6 million in 2003.

27. CONTINGENCIES

Legal Proceedings

In the normal course of the business, the Group is involved in legal proceedings and is subject to tax, customs and administrative regulation. The Group's general policy is to accrue a reserve when a risk of an obligation to a third-party is identified, the outcome of which may result in a potential liability that can be reasonably estimated.

U.S. customs

In January 1998, a grand jury investigation was initiated by the U.S. Attorney's Office in Baltimore, Maryland. This investigation was conducted by the U.S. Department of Justice relating to the transfer pricing used in the importation of picture tubes by Thomson, Inc. from an Italian subsidiary of the Group between 1993 and June 1998. In October 2002, the U.S. government informed the Company that it has declined to prosecute the grand jury case.

A civil investigation was also initiated by the U.S. Customs Service, which issued pre-penalty notices on December 21, 1998. A pre-penalty notice means that a claim is being contemplated, and is typically a precursor to the issuance of a formal penalty notice. The pre-penalty notices alleged that certain subsidiaries of the Group and five of its employees intentionally undervalued television tubes imported by the Group from the Italian affiliate. The pre-penalty notices were later withdrawn against two of the individual employees. According to the original pre-penalty notices, the tubes at issue had an appraised domestic value of approximately USD 419 million (€307 million at December 31, 2004). On December 28, 2000, the Customs Service amended the pre-penalty notices and alleged an appraised domestic value of approximately USD 425 million (€312 million at December 31, 2004). In an agreement reached with the Customs Service in January 1999, all actions with respect to the pre-penalty notices were suspended for a period of one year in exchange for waivers of the statute of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

limitations through January 2001. In July 2000, all of the parties who previously received pre-penalty notices agreed to waive the statute of limitations defense for an additional period of time in order to allow the U.S. government to complete its investigation and to seek resolution of the matter through administrative proceedings. The waivers were again extended in November 2001, October 2002, March 2003 and July 2004 and are now effective through September 6, 2005.

The amended pre-penalty notices estimated the loss of custom revenues at approximately USD 12.5 million. Under applicable statutes, penalties could be levied in an amount equal to the appraised domestic value of the merchandise and against each of the five employees concerned in an amount up to eight times the loss of revenue.

In addition, the Group indemnified the five employees for the monetary penalties. On May 30, 2003 the parties, including the Company, which received the pre-penalty notices submitted a joint Petition for Cancellation or Remission of Penalties (the "Petition") to the Customs Service. Since this submission, the Company's counsel held various meetings with Customs officials advocating in particular the arguments made in the May 30, 2003 Petition.

On December 21, 2004 a Penalty notice was issued by the US Customs which withdraws allegations of fraud and any action on years 1997 and 1998 and which indicates that no penalty should be issued against individual officers and employees of Thomson. The Penalty notice lowers the loss of revenue from USD 12.5 million to USD 7.1 million and proposes a monetary penalty of USD 28.4 million. On January 21, 2005, Thomson submitted a petition for cancellation or remission of penalties. The Group intends to continue to defend itself vigorously against any allegations of wrongdoing, while cooperating with Customs in an effort to resolve the matter.

Italian tax litigation

The Italian "Guardia di Finanza" tax police conducted a tax verification of the Italian subsidiary of the Group, Videocolor S.p.A, which had exported picture tubes to Thomson, Inc. during the years 1993 through 1998. In its report transmitted to the Italian Direct Taxes Local Office in December 1999, the Guardia di Finanza recommended increasing the prices of the tubes exported to Thomson, Inc., and, as a consequence, increasing the taxable income of Videocolor S.p.A. The taxable income increase, as proposed for the years 1993 through 1998, with regard to picture tube prices, amounts to €31 million. On December 28, 1999, the Direct Taxes Local Office formally advised that an assessment would be due with regard to 1993 amounting to €5.6 million taxable income, resulting in (i) reversal of tax-loss carry-forwards and (ii) additional tax penalties and interest amounting to approximately €2.1 million. On March 21, 2000, Videocolor S.p.A. challenged this assessment before the competent tax jurisdiction of Frosinone in Italy.

On February 13, 2001, the Court of Frosinone rendered its decision regarding the 1993 tax assessment, it maintained part of the assessment based on 1993 elements, yet it invalidated the valuation method of the exported tubes applied by the Italian Direct Taxes Local Office.

On November 23, 2000, the Direct Taxes Local Office gave notice of an assessment with regard to 1994 amounting to €9.7 million taxable income. In February 2001, Videocolor S.p.A challenged this assessment before the Local Tax County Commission. As for 1993, the Group has challenged this assessment before the competent tax jurisdiction of Latina Frosinone which confirmed in March 2003 the initial judgment but without applying penalties.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

On May 16, 2003 Videocolor S.p.A elected to apply for the new tax amnesty, enacted by the Italian Parliament in 2003. Videocolor applied for the years 1993 and 1994 and not for the following years and paid a total amount of €1.35 million following this amnesty application. Videocolor is able to use all the tax losses originating from 1993 and the previous years.

With regard to the year 1995, the Direct Taxes Local Office gave notice in 2001 of an assessment resulting in (i) additional taxes amounting to €4.2 million and (ii) tax penalties amounting to €4.2 million (before interest). The taxable income increase, as proposed for 1995, also mainly relates to picture tube prices. Videocolor S.p.A. appealed this assessment on October 25, 2001, before the competent tax jurisdiction of Frosinone in Italy, which made a decision on March 17, 2003 to reject almost all of the assessment of the Italian Tax authorities. Tax office appealed, on October 30, 2003 and before the court of Latina, this decision and Videocolor S.p.A. is now challenging this appeal.

On September 2002, the Direct Taxes Local Office gave notices of two assessments with regard to 1996 and 1997 fiscal years resulting in (i) additional taxes amounting to €3.5 million and €1.8 million, respectively and (ii) tax penalties amounting to €3.5 million and €1.8 million, respectively. Videocolor S.p.A. challenged the assessments before the competent tax jurisdiction of Frosinone on December 9, 2002, which decided, on November 15th, 2004 to reject almost all of the assessments of the Italian Tax authorities.

On December 17, 2003, the Direct Taxes Local Office gave notice of an assessment with regard to 1998 fiscal year resulting in (i) additional taxes amounting to €127,000 and (ii) penalties amounting to €127,000. Videocolor S.p.A. appealed this assessment on March 2nd, 2004 before the competent tax jurisdiction of Frosinone in Italy.

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

In April 2004, the Association filed a purported class action under Article 41 of the Taiwan Code of Civil Procedure in the Taipei District Court, Taiwan, Republic of China against TCE Television Taiwan Ltd. and General Electric International, Inc. The complaint alleges that the defendants failed to provide employees with necessary instruction on how to protect themselves and failed to take measures to store or dispose of chemicals used in the operation of the Taoyuan electronics plant. The Association claims damages in the amount of TWD 2.4 billion (€59 million at May 26, 2004 noon buying rate) to compensate the members of the Association for the alleged higher-than-normal incidents of cancer and disease suffered by the former plant employees who worked at the facility during the period 1970-1992. Based on the information currently available, the Group is not in a position to estimate the liability and intends to vigorously defend the allegations set forth in the complaint.

Morris Reese

In May 2004, Morris Reese filed suit against ATLINKS USA, Inc. (a wholly owned subsidiary of Thomson) and numerous other manufacturers and distributors of telephone equipment in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging infringement of a U.S. patent n° 6,427,009 which relates to call waiting caller ID technology. In January 2005, the parties entered into a settlement, providing for a dismissal of the lawsuit and a past and future worldwide license in the field of caller ID technology.

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Superguide Corporation

In June 2000, Superguide Corporation filed suit in the U.S. District Court for the Western District of North Carolina against DIRECTV Enterprises, Inc. et al., Thomson, Inc. and Echostar Communications Corporation et al. alleging infringement with respect to three patents relating to program guide data retrieval, display, and program recordation. Gemstar Development Corporation was added as a defendant in March 2001. In July 2002, the U.S. District Court for the Western District of North Carolina granted summary judgment in favor of Thomson, DIRECTV and Echostar, finding that none of the three patents owned by Superguide Corporation were infringed. Superguide Corporation and its licensee, Gemstar Development Corporation, have appealed the District Court's decision with the U.S. Court of Appeals for the Federal Circuit in Washington D.C. Oral argument of the appeal was heard on July 10, 2003 in the U.S. Court of Appeals for the Federal Circuit. On February 12, 2004, the Court of Appeals issued a decision affirming in part and reversing in part the District Court's claim construction of the patents at issue. As a result, the Court of Appeals vacated the summary judgment ruling issued by the District Court in favor of the defendants. On February 26, 2004, Thomson Inc., joined by the other Appellees, filed a petition for Rehearing En Banc with the Court of Appeals. In April 2004, the Court of Appeals denied the petition and remanded the case back to the District Court for further proceedings.

Pegasus Development Corporation and Personalized Media Communications, L.L.C.

In December 2000, Pegasus Development Corporation and Personalized Media Communications, L.L.C. filed suit in the U.S. District Court for the District of Delaware against 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 November 2001, StarSight Telecast, Inc., TVG-PMC, Inc., and Gemstar-TV Guide International, Inc. ("Gemstar") were added as third-party defendants and filed a counterclaim.

Subsequently, Thomson Inc. filed a Revised Second Amended Counterclaim and Amended Third-Party Complaint claiming violation of antitrust laws and unfair competition. Upon Thomson Inc.'s motion, the antitrust and unfair competition claims were transferred to the U.S. District Court for the Northern District of Georgia by the Judicial Panel on Multi-District Litigation for inclusion in the coordinated or consolidated MDL-1274 pretrial proceedings occurring there involving Gemstar, Scientific Atlanta Inc. Pioneer Corp., EchoStar Communications Corp., and other parties. In June 2003, as part of a new commercial arrangement with Gemstar, the Company dismissed with prejudice its antitrust and unfair competition claims against Gemstar and Gemstar agreed to provide the Company with a limited indemnity with respect to the PMC patent litigation. In March 2004, the U.S. District Court for the Northern District of Georgia remanded the antitrust and unfair competition claims back to the U.S. District Court for the District of Delaware, where, pursuant to an order of the U.S. District Court for the District of Delaware in May 2003, the case is subject to an indefinite stay pending the reexamination of the patents at issue by the U.S. Patent and Trademark Office.

Parental Guide of Texas

In December 2000, Parental Guide of Texas, Inc. filed suit against Thomson Inc. and numerous other consumer electronics manufacturers in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging infringement of a patent, which relates to inhibiting the intelligible output of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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possibly undesirable sound and visual events of a television program. In October 2002, Thomson Inc. entered into a Release and License Agreement with Parental Guide of Texas Inc. whereby the Company agreed to license Parental Guide's V-Chip patents. The amount to be paid by Thomson was contingent upon the amount, if any, of the litigation royalty established by Parental Guide in the lawsuit. Thomson Inc. contended that all of the other defendants settled prior to trial and that it did not owe Parental Guide any further license payments. On February 7, 2003, Parental Guide filed suit in the U.S. District Court for the Eastern District of Texas alleging that Thomson Inc. was in breach of the Release and License Agreement. In March 2004, Parental Guide and Thomson Inc. each filed summary judgment motions contending respectively that as a matter of law it should prevail in the lawsuit. On January 20, 2005, the Court issued an Order and Final Judgment in favor of Thomson Inc. On February 18, 2005, Parental Guide filed a notice of appeal.

James Stalcup and Mary Gick Class Action

On February 15, 2002, Mr. James Stalcup and Mrs. Mary Gick, filed a purported class action in the Third Judicial District, Madison County, Illinois pursuant to Section 5/2-801 of the Illinois Code of Civil Procedure on behalf of U.S. consumers who acquired certain television sets manufactured by Thomson, Inc. during the period between 1998 and 2001. The complaint alleged a defect in certain televisions which have a "software-like integrated chip", which can cause temporary audio failure. The Company does not believe that the alleged televisions or the "ICs", which it procures from third parties are defective.

Yet, the Company entered into a Settlement Agreement on December 17, 2003 to resolve all of the alleged claims on a nationwide basis. On December 18, 2003, the Third Judicial Circuit Court in Madison County, Illinois signed an Order preliminarily approving the proposed settlement and conditionally certifying a nationwide class consisting of U.S. residents who acquired one of the Company's televisions (with a CTC 195, 197 or 203 chassis) manufactured between November 1, 1996 and March 31, 2001.

The proposed settlement provides for two alternative remedies: (i) cash reimbursement for any documented out-of-pocket costs paid to a qualified service company to repair or diagnose the alleged audio loss problem, or (ii) a Rebate Certificate applicable to the purchase of a new Thomson-branded television. The Company has agreed to pay the plaintiffs' attorneys' fees and costs, and the administrative costs of the settlement. On May 24, 2004 the Court conducted a fairness hearing which resulted in an Order from the Court granting final approval of the settlement and a judgment of dismissal with respect to Thomson Inc. Also, on May 2004, the court made an interim award of attorneys' fees to plaintiff's counsel which was confirmed in a final order on January 31, 2005.

IP Innovation and Technology Licensing Corp.

On January 14, 2003, IP Innovation LLC and Technology Licensing Corp. filed a complaint against Thomson Inc. in the U.S. District Court for the Northern District of Illinois, Eastern District, alleging infringement of four patents which cover the fields of video noise reduction, audio video synchronization, and audio in video technologies. The Court, after reviewing the complaint, dismissed it without prejudice for failure to establish jurisdiction or appropriate venue. On February 14, 2003, IP Innovation LLC and Technology Licensing Corp. filed a new complaint alleging infringement of the above described patents in the U.S. District court for the Southern District of Indiana. The Company

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has filed an answer contesting the allegations. In May 2004, IP Innovation, TLC and Thomson Inc. entered into a settlement and license agreement resolving the Indiana case. The resolution provides for a past and future license to Thomson in the field of consumer electronics.

On June 20, 2003, Technology Licensing Corp. (“TLC”) filed a lawsuit in the U.S. District Court for the Eastern District of California alleging that certain Grass Valley Group products infringe its “524” patent. The Company intends to defend itself vigorously against the allegations.

Fisher v. Thomson, Inc.

In February 2004, Randy Fisher filed an individual and purported class action in the Twentieth Judicial Circuit, St. Clair County, Illinois alleging that Thomson Inc. failed to disclose to purchasers of certain models of Thomson High Definition Televisions that those televisions would develop numerous latent defects. In January 2005, the parties resolved the dispute whereby the allegations were withdrawn.

UGC Arbitration

Screenvision Holdings (Europe) Limited (“Screenvision”), a joint venture between Thomson and Carlton Communications Ltd, in which the Thomson group holds 50%, has filed an arbitration claim at the ICC Court in May 2003 against UGC S.A., RMB International S.A. (“RMB”) and Regie Media Belge S.A. The claim was filed on the basis that UGC and RMB failed to comply with certain obligations under the agreement for the sale of a 51% stake in an Italian cinema advertising business to Screenvision. The claim amounts to €25 million. Hearings took place in October 2004 and parties submitted their final position in January 2005. Screenvision has been advised that it has a strong case for recovery of all or parts of this amount. However, the ultimate outcome cannot be predicted with certainty and no asset has been recorded in respect of the outcome of this claim.

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

Customs authorities in seven European countries are assessing imports into the European Union by Thomson subsidiaries of televisions manufactured by Thomson 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, Thomson received in May 2004, January and February 2005 various re-assessment notices relating to anti-dumping duty, excluding interest and any penalties applicable, in the United Kingdom, Germany, France, Italy, Spain, Denmark and Sweden in an aggregate amount of around €15.7 million. Thomson believes that it has correctly declared a paid duty on the imported televisions concerned and accordingly strongly disputes the grounds of these re-assessments.

Metabyte, Inc., versus Canal Plus Technologies, S.A.

In 2001, Metabyte, Inc. and Vivek Mehta (the “plaintiffs”) and Canal Plus Technologies, S.A. entered into several agreements which ultimately gave Canal Plus Technologies control over Metabyte Networks, Inc. (“MNI”), a company owned by plaintiffs. One of the agreements was a Put Option Agreement (POA) whereby the common shareholders of MNI could require Canal Plus Technologies to purchase their shares in three Tranches. The POA specifically provided that it would only be exercisable in the event that MNI first met certain technical and financial milestones which were to be

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set by MNI's board and Canal Plus Technologies. No milestones were ever set. In 2002, Canal Plus Technologies rejected plaintiffs' attempt to exercise the put option. Plaintiffs filed suit against Canal Plus Technologies in October 2002 in U.S. District Court for the Northern District of California alleging breach of contract and breach of the covenant of good faith and fair dealing. In June 2004, the Court denied Canal Plus Technologies' motion for summary judgment, which asserted that the POA was an unenforceable agreement to agree, ruling that material issues of fact exist with respect to several matters including whether Canal Plus Technologies, through the conduct of the individuals it placed on the MNI board, excused MNI from the condition precedent of setting and meeting milestones. A court-ordered mediation occurred on December 6, 2004 but was unsuccessful. Pursuant to the Stock Purchase Agreement of Canal Plus Technologies between Thomson and Groupe Canal+ S.A., Groupe Canal+ granted Thomson certain rights with respect to amounts that may become payable by Thomson in connection with this dispute. The matter is scheduled for trial on June 6, 2005.

Thomson Inc. v. Praxair

After closure of the Circleville, Ohio glass manufacturing facility in March 2004, Thomson Inc. received a letter, dated March 25, 2004, from Praxair, Inc., owner and operator of an onsite oxygen manufacturing plant constructed on the Circleville facility property in 1996, demanding assurances that Thomson's performance would be maintained for an alleged remaining seven years of the contract. Although the Circleville facility no longer uses oxygen, Praxair argues that the contract provides for the continuance of certain minimum payments and services. An initial meeting was conducted with Praxair representatives on May 28, 2004, but no progress was made toward a resolution of the dispute. On July 30, 2004, Thomson filed suit against Praxair in Cleveland, Ohio seeking a declaration from the Court that its remaining obligations under the contract, if any, are terminated. Thomson has also sued Praxair and its alliance partner, Corning, Inc., to recover certain damages Thomson contends it sustained as a result of certain misrepresentations which were made by Praxair/Corning concerning the operating efficiencies, benefits, and reduced costs involved in shifting production to an oxy-fueled system. Praxair has responded by filing a Counterclaim seeking a declaration that the contract continues to be valid and enforceable and seeking an award of damages to be proven at trial.

Compression Labs, Inc. v. Adobe Systems, et al.

In April 2004, Compression Labs ("CLI") filed suit against Thomson S.A. and 27 other companies in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging infringement of U.S. patent 4,698,672 which relates to a method and apparatus for processing signals used in video compression systems including the JPEG standard. Compression systems are typically utilized in products such as digital cameras, cellular phones, printers and scanners. The Federal Trade Commission ("FTC") has undertaken a non-public antitrust investigation of CLI and its parent, Forgent Corporation, to determine whether CLI violated the FTC Act by reason of CLI's involvement in the JPEG standard-setting process.

Environmental matters

A certain number of Thomson'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 Thomson 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.

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Soil and groundwater contamination was detected near a former production facility acquired from General Electric and owned by Thomson from 1987 to 1992 in Taoyuan, Taiwan. Production activities at this site ceased after being sold by the Group. Thomson is currently working with the local Taoyuan Environmental Protection Bureau to perform an investigation and feasibility study relating to potential groundwater contamination issues. In accordance with an agreement for the acquisition of General Electric Company's consumer electronics business in 1987, General Electric Company has assumed or indemnified Thomson with respect to certain liabilities resulting from this issue, and should assume or indemnify the Group with respect to certain liabilities that could arise from the period prior to Thomson's acquisition of the property.

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. Potential problems cannot be predicted with certainty, however, 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 and health 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.

28. RELATED PARTIES

- DIRECTV and its subsidiaries ("DIRECTV")

DIRECTV was a shareholder of Thomson until August 21, 2002.

Eddy Hartenstein, Vice-Chairman of the Board of Directors of DIRECTV Inc., is a member of the Board of Directors of Thomson.

In the normal course of the business and based on market conditions, Thomson entered into the following transactions with DIRECTV:

The Group sold digital decoders and satellite receivers, as well as services to DIRECTV for amounts of €374 million, €67 million and €40 million during the years ended December 31, 2004, 2003 and 2002, respectively.

Thomson also sells to retailers a significant number of digital decoders and satellite receivers which are designed for prospective DIRECTV subscribers.

At December 31, 2004, 2003 and 2002, receivables from DIRECTV amounted to €35 million, €15 million and €83 million, respectively.

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Over the course of 2003 and 2004, Thomson and DIRECTV agreed on the following agreements:

- On April 14, 2003, Thomson signed a contract to supply DIRECTV with a significant number of encoders and control systems.
- On June 13, 2003, Canal+ Technologies, a subsidiary of the Group and DIRECTV signed a contract involving the supply by Canal+ Technologies to DIRECTV of its Media Highway™ interactivity system. Thomson has guaranteed the performance of the contract.
- On June 24, 2004, Thomson acquired the HNS' set-top box manufacturing business of Hughes Network Systems (the manufacturing activity of Direct TV Group) and signed concurrently an agreement for the long-term development and supply of digital satellite set-top boxes (note 2).

- Microsoft and its subsidiaries (“Microsoft”)

Hank Vigil, Executive Vice President of Microsoft, is a member of the Board of Directors of Thomson.

In the course of its business and based on market conditions, Thomson sells products and services to Microsoft, including, mainly, duplication and distribution services and promotional services, optical kits and royalties. These sales amounted to €77 million, €119 million and €303 million for the years ended December 31, 2004, 2003 and 2002, respectively.

At December 31, 2004, 2003 and 2002, Thomson had accounts receivable from Microsoft amounting to €10 million, €6 million and €0 million, respectively.

- Carlton Communications Plc and its subsidiaries (“Carlton”)

From March 16, 2002 until September 22, 2004, Carlton has held a 5.5% interest in the share capital of Thomson. As a consequence and for practical reasons, Carlton is considered as a related party of Thomson through December 31, 2004.

In March 2001, Thomson partially financed the Technicolor acquisition (note 2) by issuing promissory notes (the “Notes”) to Carlton (note 22) in the amount of €669 million (USD 600 million), based on the historical exchange rate). The Notes were repayable in four equal instalments on the first, second, third and fourth anniversaries of the transaction.

In March 2004, 2003 and 2002, Thomson repaid Carlton the annual instalments of the Notes, in amounts of €92 million, €149 million and €178 million, respectively. These amounts include, respectively, €8 million, €10 million and €7 million of accrued interests.

In addition, on September 16, 2003, Thomson repaid €84 million in nominal value and €7 million of accrued interest prior to maturity. Thus, at December 31, 2004, 2003 and 2002, the outstanding debt due to Carlton relating to the Technicolor acquisition amounts to €84 million, €178 million and €459 million, respectively.

Thomson incurred interest charges related to this debt of €3 million, €6 million and €10 million for years ended December 31, 2004, 2003 and 2002, respectively.

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On May 7, 2002, the Group created a new joint venture with Carlton, Screenvision Europe, in order to purchase and operate the cinema screen advertising businesses in UGC and RTBF theatres in Europe.

During 2004, 2003 and 2002, Carlton and Thomson shared equally in the financing of Screenvision Europe's business. The debt due to Carlton by Screenvision Europe, consolidated by the proportional method in the Group's financial statements, amounted to €18 million, €18 million and €14 million at December 31, 2004, 2003 and 2002, respectively.

These loans bore interest at market rates, with Screenvision Europe incurring interest expense amounting to €0.5 million, €0.5 million, and €0.5 million for the years ended December 31, 2004, 2003 and 2002, respectively.

- France Telecom and its subsidiaries ("FT")

On October 2, 2002, Thierry Breton was appointed chairman and CEO of FT. Following these appointments, he resigned from his position as Chairman and CEO of Thomson but was appointed a member of the Board of Directors of Thomson and Chairman of Thomson's Strategy Committee. As a consequence, FT has been considered as a related party and transactions between Thomson and FT since October 2, 2002 are disclosed hereafter.

In the normal course of its business and based on market conditions Thomson entered into the following transactions with FT:

In December 2000, Thomson entered into a telecommunications outsourcing agreement with FT (Equant), pursuant to which FT will provide all of the Group's telecommunications requirements, including voice, data and videoconferencing. The agreement is known as Thomson Infrastructure Network Operations Services ("TINOS"). On November 7, 2002, with effect as of September 1, 2002, Thomson and FT amended the TINOS agreement in order to include within its scope all of the Group's recent acquisitions. For the year ended December 31, 2004 and 2003 and the three-month period ended December 31, 2002, Thomson recorded, respectively, €34 million, €22 million and €6 million in operating expenses related to the TINOS contract (as amended in November 2002).

In the normal course of business, Thomson is a supplier of ADSL set top boxes and other telephone products to FT. For the year ended December 31, 2004 and 2003 and the three-month period ended December 31, 2002, such sales amounted to €41 million, €23 million and €10 million, respectively. At December 31, 2004, 2003 and 2002, amounts due from FT to Thomson amounted to €9 million, €5 million and €13 million, respectively.

- TTE Corporation and its subsidiaries ("TTE")

On July 31, 2004, Thomson and TCL Corporation formed TTE (note 2). Since this date, Thomson accounts for its investment in TTE using the equity method. As a consequence TTE is a related party of Thomson since August 1, 2004.

In the normal course of business, Thomson is a supplier of CRT tubes to TTE. In addition, Thomson licenses to TTE certain intellectual property and provides exclusive services to TTE. For the 5 month

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period ended December 31, 2004, such sales amounted to €365 million. As of December 31, 2004 amounts due from TTE to Thomson amounted to €106 million.

In addition, Thomson and TTE entered into a 24 months Receivable Purchase and Sale Agreement by which Thomson purchases TTE's receivables and collects them. As of December 31, 2004, Thomson loaned €99 million to TTE and recognized €4 million as financial income during the 5 months ending December 31, 2004.

- Silver Lake Partners (SLP)

SLP has a representative at the Thomson Board of Directors since September 15, 2004, and is therefore considered as a related party of Thomson since that date.

On September 16, 2004, Thomson issued convertible/exchangeable subordinated bonds to Silver Lake Partner LLC (note 20). As of December 31, 2004, Thomson has a financial debt toward SLP amounting to €366 million. Over the year 2004, Thomson recognized interest expenses and certain other charges in an amount of €4 million.

- TSA and its subsidiaries ("TSA")

Although TSA significantly reduced its share capital in Thomson in November 2003, TSA is considered as a related party of Thomson as of December 31, 2004 since Thierry Breton (member of the Board of Directors of Thomson) was chairman of the Board of TSA until March 1, 2005. Therefore, transactions with TSA through December 31, 2004 are disclosed hereafter. TSA is wholly owned by the French State.

Thomson and TSA entered into an agreement on July 1997 defining the relations between Thomson, TSA and Thales S.A. (formerly Thomson-CSF), with respect to the management and the use of certain intellectual property rights. By amendments signed in 2000 and 2002, the parties have agreed to clarify and simplify the use of such intellectual property rights.

By the amendment effective in December 2000 and expiring in July 2006, Thales S.A. and TSA have granted to Thomson Licensing S.A. (a wholly owned subsidiary of Thomson) an exclusive right to grant licenses to third parties on their patents covering optical disk technologies and have also authorized Thomson Licensing S.A. to negotiate and sign such licensing agreements.

In addition in June 2002 retroactive to July 1, 2001, TSA agreed to transfer all of the patents covered by the contract signed in July 1997 to Thomson Licensing S.A., who was already the beneficiary of all revenues derived from such rights.

- Alcatel and its subsidiaries ("Alcatel")

Until July 2002, Alcatel was a shareholder of Thomson, holding up to 3.4% of Thomson's share capital, and had one representative at the Board of Directors of Thomson. As a result, until July 2002, Alcatel was a related party of Thomson, and transactions with Alcatel up to June 30, 2002 are disclosed hereafter.

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In the normal course of its business and based on market conditions, Thomson entered into the following transactions with Alcatel:

Thomson purchased from Alcatel different services and products, primarily communication products, and trademark royalties totalling €26 million for the six-month period ended June 30, 2002.

Also, the Group sold products (mainly modems) to Alcatel for €97 million for the six-month period ended June 30, 2002

Thomson's trade account liabilities to Alcatel amounted to €5 million at June 30, 2002. At the same date, the Group had receivables from Alcatel amounting to €25 million.

Since the creation of the ATLINKS joint venture, Alcatel and Thomson have, consistent with the terms of the joint venture agreement entered into in 1999, shared equally in financing its operations. On a consolidated basis, the debt due to Alcatel by ATLINKS amounted to €14 million at June 30, 2002.

Furthermore, Alcatel had an option to sell its interest in the ATLINKS joint venture, exercisable from October 2002. Thomson and Alcatel reached an agreement in February 2003 on the conditions of the exercise of this option, which involved a cash payment by Thomson of €68 million in consideration for the 50% interest in ATLINKS held by Alcatel.

- NEC Corporation and its subsidiaries ("NEC")

Until June 2002, NEC was a shareholder of Thomson, holding up to 5% of its share capital, and had one representative at the Board of Directors of Thomson. Until June 2002, NEC was a related party of Thomson, and, therefore, the transactions with NEC up to June 30, 2002 are disclosed hereafter.

In the normal course of its business and based on market conditions Thomson entered into the following transactions with NEC:

The Group purchased from NEC components for DVD drives and Plasma displays in the amounts of €1 million for the six-month period ended June 30, 2002.

The Group sold products (mainly DVD drives) and services (notably patent licenses) to NEC in the amounts of €18 million over the first six months of 2002.

At June 30, 2002, receivables from NEC to Thomson amounted to €1 million. As of the same date, amounts due to NEC were negligible.

In 2001, the Group acquired certain patents relating to plasma screen technology and the related know-how for USD 50 million (€57 million), including USD 5 million (€6 million) in withholding taxes paid to the French Treasury, with the objective of setting up a joint venture dedicated to plasma screen manufacturing. At the end of 2002, the parties renounced the original agreement and cancelled the related commercial agreements. As a consequence, NEC paid the Group €47.2 million.

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- A Novo Comlink Espana (“A NOVO”)

As of December 31, 2002, Thomson is no longer a shareholder of A NOVO (note 2). Prior to the exit of A NOVO from the Group’s scope of consolidation in the second half of 2002, the Group accounted for its interest in A NOVO using the equity method.

In the normal course of its business and based on market conditions, the Group purchased equipment, spare parts and raw materials from A NOVO, such purchases amounting to €62 million for the year ended December 31, 2002. The Group owed €15 million to A NOVO at December 31, 2002.

29. SUBSEQUENT EVENTS

On January 1, 2005, a total of 14,493,324 bonds (€587 million) of the original 14,814,815 bonds of the OCEANE issued on March 2002, were redeemed at the option of bondholders.

On January 24, 2005, Thomson repaid in advance the debt related to the Mexicali lease for an amount of USD 227 million (the “Aggregate Acceleration Option Price”). The repayment has been made pursuant to the Conditional Agreements of the initial lease.

Since December 31, 2004, Thomson has continued to advance its partnership project for its Displays business. At the end of February, the first phase of the project was completed, with multiple indications of interest from strategic and from financial partners. In addition, on February 28, 2005, Thomson’s Videocolor subsidiary comprising its Anagni tube production site was formally sold to the Indian company, Videocon, for €10. Prior to disposal, Thomson recapitalized the business with €103 million of cash. Estimated cash and non-cash costs related to these subsequent events could reach up to €365 million of which €195 million has been recorded in Thomson’s 2004 accounts (note 18) and the rest will be recorded into 2005.

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30. LIST OF CONSOLIDATED SUBSIDIARIES

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
1) Fully consolidated			
Thomson (France) (formerly Thomson multimedia)		Parent company	
ATLINKS Communications Canada, Inc. (Canada)	50.0	100.0	100.0
ATLINKS Telecommunication (Guangzhou) Cie Ltd. (People's Republic of China)	50.0	100.0	100.0
ATLINKS Hong Kong Ltd. (Hong Kong)	50.0	100.0	100.0
ATLINKS USA, Inc. (U.S.)	50.0	100.0	100.0
Baja Hughes S. de R.L. de C.V. (Mexico)	-	-	100.0
Comercializadora de Productos Electronicos del Norte, S.A. de C.V. (Mexico)	100.0	100.0	100.0
Deutsche Thomson Brandt GmbH (Germany)	99.9	99.9	100.0
Direct Solutions, Inc. (U.S.)	-	100.0	100.0
European Audio Products (HK) Ltd. (Hong Kong)	100.0	100.0	100.0
European Thai Electronic Company Ltd. (Thailand)	-	100.0	100.0
GALLO 1 S.A. (France)	-	100.0	100.0
GALLO 3 S.A. (France)	-	100.0	100.0
GALLO 4 S.A. (France)	-	100.0	100.0
Gallo 7 (France)	-	100.0	100.0
Gallo 15 (France)	-	100.0	100.0
Gallo 18 (France)	-	-	100.0
Gallo 19 (France)	-	-	100.0
Gyration, Inc. (U.S.)	-	-	100.0
Homefront DSL, Inc. (U.S.)	100.0	(*)	(*)
Immobilière LE GALLO (France)	100.0	100.0	100.0
J2T Holding GmbH (Germany)	100.0	(*)	(*)
Laboratories Thomson Ltd. (Switzerland)	-	100.0	100.0
Manufacturas Avanzadas, S.A. de C.V. (Mexico)	100.0	100.0	(***)
Multimedia Insurance Brokerage (France)	-	100.0	100.0
Nextream S.A. (France)	75.0	75.0	100.0
Nextream France S.A. (France)	75.0	75.0	100.0
Productos Electronicos de la Laguna, S.A. de C.V. (Mexico)	100.0	100.0	100.0
PT Thomson Batam (Indonesia) (formerly Thomson Batam)	-	100.0	100.0
RCA Componentes, S.A. de C.V. (Mexico)	100.0	100.0	(***)
RCA Trademark Management S.A. (France)	100.0	100.0	100.0
S.A. Immobilière Cesson (France)	100.0	100.0	100.0
Servi-Centro Electronico de Mexico, S.A. de C.V. (Mexico)	-	100.0	100.0
Singingfish.com, Inc. (U.S.)	100.0	-	-
Société Tonnerroise d'Electronique Industrielle - STELI (France)	100.0	100.0	100.0
Société Française d'Investissement et d'Arbitrage - Sofia (France)	100.0	100.0	100.0
TAK S.A.S. (France)	80.6	100.0	100.0
TCE Purchasing Company Taiwan (Taiwan)	-	100.0	100.0
TCE Purchasing Company Japan (Japan)	-	100.0	100.0
TCE Purchasing Company Korea (South Korea)	-	100.0	100.0
TCE Television Taiwan Ltd. (Taiwan)	100.0	100.0	100.0
Thomson Media Solutions Malaysia Sdn Bhd (Malaysia) (formerly Thomson Audio Muar Sdn Bhd)	100.0	100.0	100.0
Thomson Asia Pacific Holdings Pte Ltd. (Singapore) (formerly Thomson multimedia Asia Pacific Pte Ltd.)	100.0	100.0	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
Thomson Asia Pacific Investments Pte Ltd. (Singapore) (formerly Thomson multimedia Asia Pte Ltd.)	100.0	100.0	100.0
Thomson Broadcast & Media Solutions Ltd. (United Kingdom) (formerly Thomson Broadcast Ltd.)	100.0	100.0	100.0
Thomson Broadcast & Media Solutions S.A. (formerly Thomson Broadcast Systems S.A.) (France)	100.0	100.0	100.0
Thomson Consumer Electronics International S.A. (France)	100.0	100.0	100.0
Thomson Crown Wood Products Company (U.S.)	100.0	100.0	100.0
Thomson Displays & Components Holding S.A.S. (France)	-	100.0	100.0
Thomson Displays & Components Singapore Pte Ltd. (Singapore) (formerly Thomson Television Singapore Pte Ltd.)	100.0	100.0	(***)
Thomson Displays Mexicana, S.A. de C.V. (Mexico)	100.0	100.0	100.0
Thomson Display R&D (People's Republic of China)	-	-	100.0
Thomson Fund Management, Inc. (U.S.) (formerly Thomson Management Growth Fund)	-	55.2	55.2
Thomson Guangdong Display Company Ltd. (People's Republic of China) (formerly Thomson Foshan Colour Picture Company Ltd.)	55.0	55.0	77.6
Thomson Holding Germany GmbH & Co. O.H.G. (Germany) (formerly Thomson multimedia Sales Germany GmbH & Co O.H.G.)	99.9	99.9	100.0
Thomson Hong Kong Holdings Ltd. (Hong Kong) (formerly Thomson multimedia Hong Kong Ltd.)	100.0	100.0	100.0
Thomson India Private Ltd. (India)	89.0	100.0	(***)
Thomson Industry (Shenzhen) Co Ltd (People's Republic of China) (formerly Thomson Shenzhen Industry Ltd.)	-	100.0	100.0
Thomson Investments Group Limited (BVI)	-	-	100.0
Thomson Japan KK (Japan)	-	100.0	100.0
Thomson Licensing, Inc. (U.S.)	100.0	100.0	100.0
Thomson Licensing S.A. (France)	100.0	100.0	100.0
Thomson Manufacturing Operation Co., Ltd (Thailand) (formerly Thomson multimedia Operations Co., Ltd)	100.0	100.0	(***)
Thomson Marketing Australia Pty Ltd. (Australia)	-	100.0	100.0
Thomson MPH LLC (U.S.)	-	55.2	55.2
Thomson multimedia (Dongguan) Ltd. (People's Republic of China)	100.0	100.0	100.0
Thomson Multimedia Digital Holding (BVI) Limited	-	-	100.0
Thomson multimedia Chile S.A. (Chile)	100.0	100.0	100.0
Thomson multimedia Czech, S.r.o. (Czech Republic)	100.0	100.0	100.0
Thomson multimedia Digital France (France)	100.0	100.0	100.0
Thomson multimedia Engineering Laboratories Ltd. (Japan)	-	100.0	100.0
Thomson multimedia Hungary K.f.t. (Hungary)	100.0	100.0	100.0
Thomson, Inc. (U.S.) (formerly Thomson Consumer Electronics, Inc. & Thomson multimedia, Inc.)	100.0	100.0	100.0
Thomson Kulim Sdn Bhd (Malaysia) (formerly Thomson multimedia Kulim Sdn Bhd)	100.0	100.0	100.0
Thomson multimedia Ltd. (Canada) (formerly Thomson Consumer Electronics Canada, Inc.).	100.0	100.0	100.0
Thomson Maroc (Morocco) (formerly Thomson multimedia Maroc)	-	90.5	90.5
Thomson multimedia Netherlands B.V. (Netherlands)	-	100.0	100.0
Thomson Pensionsverwaltungs GmbH (Germany) (formely Thomson multimedia Pensionsverwaltungs GmbH)	99.9	99.9	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
Thomson multimedia Polska sp.zo.o. (Poland) (formerly Thomson Polkolor sp.zo.o.)	100.0	100.0	100.0
Thomson R&D France S.N.C. (France) (formerly Thomson multimedia R&D France S.N.C.)	100.0	100.0	100.0
Thomson multimedia Sales Europe (France) (formerly Thomson multimedia Marketing France)	100.0	100.0	100.0
Thomson multimedia Sales France (France)	100.0	100.0	100.0
Thomson multimedia Sales Germany and Austria GmbH (Germany)	99.9	99.9	100.0
Thomson multimedia Sales International S.A.S. (France)	100.0	100.0	100.0
Thomson multimedia Sales Italy S.p.A. (Italy)	100.0	100.0	100.0
Thomson multimedia Sales Spain S.A. (Spain)	100.0	100.0	100.0
Thomson multimedia Sales UK Ltd. (United Kingdom)	100.0	100.0	100.0
Thomson multimedia Scandinavia A.B. (Sweden)	100.0	100.0	100.0
Thomson multimedia Switzerland A.G. (Switzerland)	100.0	100.0	100.0
Thomson multimidia do Brazil Ltda. (Brazil)	100.0	100.0	100.0
Thomson OKMCO (Shenzen) Co., Ltd. (People's Republic of China)	100.0	100.0	-
Thomson O.O.O. (Russia)	-	-	100.0
Thomson Plasma S.A.S. (France)	100.0	100.0	100.0
Thomson Receivables Corporation (U.S.)	100.0	100.0	100.0
Thomson Servicios Corporativos S.A. de C.V. (Mexico)	-	100.0	-
Thomson Silicon Components S.A.S. (France) (formerly Gallo 17 S.A.S.)	-	100.0	100.0
Thomson Telecom Australia Pty Ltd (Australia) (formerly ATLINKS Australia Pty Ltd.)	50.0	100.0	100.0
Thomson Telecom España S.A. (Spain) (formerly ATLINKS España S.A.)	50.0	100.0	100.0
Thomson Telecom México S.A. de C.V. (Mexico) (formerly ATLINKS Mexico, S.A. de C.V.)	50.0	100.0	100.0
Thomson Telecom S.A. (France) (formerly ATLINKS Telecom S.A.)	50.0	100.0	100.0
Thomson Television Angers (France)	100.0	100.0	100.0
Thomson Television Components France (France)	100.0	100.0	100.0
Thomson Television España S.A. (Spain)	100.0	100.0	100.0
Thomson Television Germany GmbH (Germany)	99.9	(*)	(*)
Thomson Televisión de México S.A. de C.V. (Mexico)	100.0	100.0	(***)
Thomson Tube Components Belo Horizonte Ltda. (Brazil)	100.0	100.0	100.0
Thomson Tube Components de Mexico S.A. de C.V. (Mexico)	100.0	100.0	100.0
Thomson Tubes & Displays Ltd (Hong Kong) (formerly Thomson multimedia Tubes & Displays Ltd.)	100.0	100.0	-
Thomson Tubes & Displays S.A. (France)	100.0	100.0	100.0
Thomson Videoglass (France)	100.0	100.0	100.0
Total Technology Company Ltd. (Hong Kong)	75.0	-	-
Videocolor S.p.A. (Italy)	100.0	100.0	100.0
Vingt Huit Centelec (France) (formerly Ex Camera)	-	100.0	100.0
<i>Technicolor affiliates</i>			
Colorado International Corporation (U.S.)	100.0	(*)	(*)
CD Manufacturing (UK) Ltd. (United Kingdom)	100.0	100.0	100.0
Central Video, Inc. (U.S.)	100.0	100.0	(*)
Consolidated Independent Television (USA), Inc. (U.S.)	100.0	(*)	(*)
Claymont Investments, Inc. (U.S.)	100.0	100.0	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
Complete Post Production Center, Inc. (U.S.)	100.0	(*)	(*)
Consolidated Film Industries, LLC (U.S.)	100.0	100.0	100.0
Consumer Products Sales Company, Inc. (U.S.)	100.0	100.0	(*)
Corinthian Television Facilities Ltd (United Kingdom)	-	-	77.61
Direct Home Entertainment Ltd. (United Kingdom)	100.0	100.0	100.0
Euronimbus GmbH (Germany)	100.0	100.0	(*)
Euronimbus S.A. (Luxembourg)	100.0	100.0	100.0
Gallo 8 S.A.S. (**) (France)	100.0	100.0	100.0
Interecord (Italy)	-	-	100.0
International Recording S.r.l. (Italy)	-	-	100.0
Kay Holdings Ltd (United Kingdom)	-	-	100.0
La Luna de Madrid Digital, S.L. (Spain)	-	-	100.0
Metrocolor Laboratories (UK) Ltd. (United Kingdom)	100.0	100.0	100.0
Metrocolor London Ltd. (United Kingdom)	-	-	100.0
Miles O'Fun, Inc. (U.S.)	100.0	(*)	(*)
Naamans Finance Corporation (U.S.)	100.0	100.0	100.0
New CCI, Inc. (U.S.)	100.0	(*)	(*)
Nimbus CD International, Inc. (U.S.)	100.0	100.0	(*)
Nimbus International Sales Corporation (Barbados)	100.0	(*)	(*)
Nimbus Manufacturing, Inc. (U.S.)	100.0	100.0	(*)
Nimbus Manufacturing (UK) Ltd. (United Kingdom)	100.0	100.0	100.0
Nimbus Software Services, Inc. (U.S.)	100.0	(*)	(*)
Primacor B.V. (Netherlands)	100.0	100.0	100.0
Real Image Digital, LLC (U.S.)	100.0	100.0	(*)
Technicolor Audio Visual Systems (Rentals) Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Audio Visual Systems Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Australia Investments Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Canada Acquisition Corp. (Canada)	100.0	(*)	(*)
Technicolor Canada, Inc. (Canada)	100.0	100.0	100.0
Technicolor Cinema Distribution, Inc. (U.S.) (formerly Technicolor Acquisition, Inc.)	100.0	100.0	(*)
Technicolor Creative Services Canada, Inc. (Canada) (formerly Covitec, Inc.)	100.0	100.0	100.0
Technicolor Creative Services Ltd (Thailand) (formerly Thomson multimedia Marketing Co., Ltd.)	-	100.0	100.0
Technicolor Creative Services USA, Inc. (U.S.)	-	100.0	100.0
Technicolor Digital Cinema, Inc. (U.S.)	100.0	100.0	100.0
Technicolor Digital Cinema, LLC (U.S.)	-	100.0	100.0
Technicolor Distribution Services France S.A.R.L. (France) (formerly Euronimbus S.A.R.L.)	100.0	100.0	100.0
Technicolor East Coast, Inc. (U.S.)	100.0	100.0	100.0
Technicolor Entertainment Services, S.L. (Spain) (formerly Madrid Film Lab, S.L.)	-	-	100.0
Technicolor Home Entertainment Services de Mexico, S.A. de R.L. de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Holdings B.V. (Netherlands)	100.0	100.0	100.0
Technicolor Holdings of Canada, Inc. (Canada)	100.0	100.0	100.0
Technicolor Holdings, Inc. (U.S.)	100.0	100.0	100.0
Technicolor Holdings Ltd. (United Kingdom)	100.0	100.0	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
Technicolor Holdings S.A. de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Imaging Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Investments Co., Inc. (U.S.)	100.0	100.0	100.0
Technicolor Laboratory Canada, Inc. (Canada)	100.0	100.0	100.0
Technicolor Mexico Acquisition S.A. de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Milan S.p.A. (Italy)	100.0	100.0	100.0
Technicolor One Hour Photo, Inc. (U.S.)	100.0	(*)	(*)
Technicolor Pty Ltd. (Australia)	100.0	100.0	100.0
Technicolor Scandinavia A/S (Denmark)	100.0	-	-
Technicolor Spain, S.A. (Spain)	100.0	100.0	100.0
Technicolor (Thailand) Ltd (formerly Cinecolor Lab Co., Ltd.)	-	100.0	100.0
Technicolor USA Holdings, Inc. (U.S.)	100.0	100.0	100.0
Technicolor Video Services (UK) Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Video Servicios de Mexico, S.A. de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Videocassette Holdings Ltd. (UK) (United Kingdom)	100.0	100.0	100.0
Technicolor Videocassette of Michigan, Inc. (U.S.)	100.0	100.0	100.0
Technicolor Videocassette B.V. (Netherlands)	100.0	100.0	100.0
Technicolor Home Entertainment Services, Inc. (U.S.) (formerly Technicolor Videocassette, Inc.)	100.0	100.0	100.0
Technicolor Vidtronics Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor B.V. (Netherlands)	100.0	100.0	100.0
Technicolor, Inc. (U.S.)	100.0	100.0	100.0
Technicolor Ltd. (UK) (United Kingdom)	100.0	100.0	100.0
Technicolor S.p.A. (Italy)	100.0	100.0	100.0
Technique, LLC (U.S.)	100.0	(*)	(*)
Technivision Ltd. (UK) (United Kingdom)	100.0	100.0	100.0
VCA Technicolor, Inc. (U.S.)	100.0	(*)	(*)
Vidfilm International Digital Ltd. (United Kingdom)	100.0	100.0	100.0
Vidfilm International Digital Subtitling Ltd. (United Kingdom)	-	-	100.0
Vidfilm Services, Inc. (U.S.)	100.0	(*)	(*)
<i>The Moving Picture Company affiliates</i>			
The Moving Picture Company Blondes Films Limited (United Kingdom)	-	-	100.0
The Moving Picture Company Digital Films Limited (United Kingdom)	-	-	100.0
The Moving Picture Company Holdings Limited (United Kingdom)	-	-	100.0
The Moving Picture Company Liar Liar Pants on Fire Limited (United Kingdom)	-	-	100.0
The Moving Picture Company Limited (United Kingdom)	-	-	100.0
The Moving Picture Company Picasso Pictures Limited (United Kingdom)	-	-	100.0
The Moving Picture Company Printed Pictures Limited (United Kingdom)	-	-	100.0
The Moving Picture Production Company Limited (United Kingdom)	-	-	100.0
<i>Broadcast affiliates</i>			
Broadcast Television Systems Ltd. (United Kingdom)	100.0	100.0	100.0
Broadcast Television Systems Australia Pty Ltd. (Australia)	100.0	100.0	100.0
Broadcast Television Systems (S), Pty Ltd. (Singapore)	100.0	100.0	100.0
BTS France S.A.S. (France)	100.0	(*)	(*)
MNC Australia Pty Ltd. (Australia)	100.0	100.0	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	2002	December 31, 2003 2004	
Thomson Broadcast & Media Solutions GmbH (Germany) (formerly BTS Media Solutions GmbH)	100.0	99.9	100.0
Thomson Broadcast & Media Solutions Nederlands B.V. (Netherlands) (formerly Broadcast & Media Solutions Netherlands B.V.)	100.0	100.0	100.0
Thomson Broadcast Solutions do Brazil Ltda. (Brazil)	-	100.0	100.0
Thomson multimedia Broadcast Solutions (Spain) (formerly Thomson multimedia Broadcast Solutions Iberica, S.A.)	100.0	100.0	100.0
Thomson multimedia Broadcast Solutions, Inc. (U.S.)	100.0	(*)	(*)
Thomson multimedia Broadcast Solutions Belgium N.V. (Belgium)	100.0	100.0	100.0
Thomson multimedia Broadcast Solutions Italy S.r.l. (Italy)	100.0	100.0	100.0
Thomson multimedia Distribution B.V. (Netherlands)	100.0	100.0	100.0
Thomson Optical Components Ltd (Hong Kong) (formerly Broadcast Television Systems HK Ltd.)	100.0	100.0	100.0
<i>Grass Valley affiliates</i>			
Grass Valley GmbH (Germany)	100.0	(*)	(*)
Grass Valley Group, Inc. (U.S.)	100.0	(*)	(*)
Grass Valley Group Japan, Ltd. (Japan)	100.0	100.0	100.0
Grass Valley Ltd. (Hong Kong)	100.0	100.0	100.0
Grass Valley Ltd. (United Kingdom)	100.0	(*)	(*)
Grass Valley Pte Ltd. (Singapore)	100.0	100.0	100.0
Grass Valley S.A.R.L. (France)	100.0	100.0	100.0
GVG Pty Ltd. (Australia)	100.0	100.0	100.0
Thomson Broadcast & Media Solutions, Inc. (U.S.) (formerly Grass Valley (US), Inc.)	100.0	100.0	100.0
<i>PDSC affiliates</i>			
Technicolor Export de Mexico, S.A. de R.L. de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Mexicana, S.A. de R.L. de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Home Entertainment Services Ireland Ltd. (Ireland)	100.0	100.0	100.0
Technicolor Home Entertainment Services of America LLC (U.S.)	100.0	100.0	100.0
Technicolor Universal Media Services LLC of America (U.S.)	60.0	66.8	74.85
Technicolor Disc Services International Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Disc Services Corp. (U.S.)	100.0	100.0	(*)
<i>DSL affiliates</i>			
Thomson multimedia Broadband S.A.S. (France)	100.0	100.0	(*)
Thomson multimedia Broadband France S.A. (France)	100.0	100.0	(*)
Thomson Telecom Belgium N.V. (Belgium) (formerly Thomson multimedia Broadband Belgium N.V.)	100.0	100.0	100.0
<i>Digital Intermedia System affiliates</i>			
Thomson Broadband UK Ltd. (United Kingdom)	100.0	100.0	100.0
Thomson Broadband, Inc. (U.S.) (formerly GDS, Inc.)	93.5	100.0	(*)
<i>Canal+ Technologies affiliates</i>			
Canal+ Technologies, Inc. (U.S.)	-	95.4	100.0
Mediabright Ltd. (United Kingdom)	-	95.4	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
Metabyte Networks, Inc. (U.S.)	-	49.0	49.0
Nagra Thomson Licensing (France) (formerly Canal+ Technologies S.A.)	-	95.4	-
2) Consolidated by pro rata method			
3DCD LLC (U.S.)	50.0	50.0	50.0
Cinema Billboard Network, LLC (U.S.)	50.0	50.0	50.0
Easyplug S.A.S. (France)	50.0	-	-
Easyplug, Inc. (U.S.)	50.0	-	-
KeyMRO S.A.S. (France)	-	36.0	-
La Luna Titra, S.L. (Spain)	-	-	50.0
Nagra Thomson Licensing (France) (formerly Canal+ Technologies S.A.)	-	-	50.0
Screenvision Acquisitions 10, Inc. (U.S.)	-	-	50.0
Screenvision Acquisitions 20, LLC (U.S.)	-	-	50.0
Screenvision Cinema Network, LLC (U.S.)	50.0	50.0	50.0
Screenvision Direct, Inc. (U.S.) (formerly Val Morgan Cinema Advertising, Inc.)	50.0	50.0	50.0
Technicolor Cinema Advertising LLC (U.S.)	50.0	50.0	50.0
Technicolor Cinema Billboard, Inc. (U.S.)	50.0	50.0	50.0
Technicolor Digital Cinema LLC (U.S.)	80.0	-	-
Technicolor Screen Advertising, Inc. (U.S.)	50.0	50.0	50.0
Technicolor Screen Services, Inc. (U.S.)	50.0	50.0	50.0
Thomson Broadcast and Media Solutions Nordic A/S (Denmark)	-	50.0	50.0
Thomson CITIC Digital Technology (People's Republic of China)	-	-	50.0
Thomson Zhao Wei Multimedia Co., Ltd. (People's Republic of China)	55.0	55.0	(***)
<i>Screenvision Europe affiliates</i>			
Cinema Publicitaire Belgium S.A. (Belgium)	50.0	(*)	(*)
Cinespot S.A. (Spain)	50.0	50.0	-
Dansk Reklame Films A/S (Denmark) (formerly RMB Dansk Reklame Films A/S)	-	12.5	12.5
Entertainment B.V.B.A. (Belgium) (formerly Twice)	35.5	-	-
Nordic Media Link A.B. (Sweden)	-	25.0	25.0
RMB Contractors S.r.o. (Czech Republic)	50.0	50.0	(*)
RMB Denmark A/S (Denmark)	-	25.0	25.0
RMB Entertainment S.A. (Belgium)	25.0	50.0	50.0
RMB Italia S.r.l. (Italy)	50.0	-	-
RMB Norway (Norway)	-	25.0	25.0
RMB Sweden A.B. (Sweden)	-	25.0	25.0
Screenvision Belgium (Belgium) (formerly RMB Cinema)	50.0	50.0	50.0
Screenvision Czech S.r.o. (Czech Republic) (formerly RMB Czech Arcona S.r.o.)	50.0	50.0	50.0
Screenvision Europe S.A.S. (France) (formerly Gallo 11 S.A.S.)	50.0	50.0	50.0
Screenvision Finance S.A.S. (France)	50.0	50.0	50.0
Screenvision Finland Oy (Finland) (formerly RMB Finland Oy)	-	25.0	25.0
Screenvision France S.A.S. (France) (formerly Circuit A SAS)	50.0	50.0	50.0
Screenvision Group (Europe) Ltd. (United Kingdom) (formerly RMBI II)	50.0	50.0	50.0
Screenvision Holdings (Europe) Ltd. (United Kingdom)	50.0	50.0	50.0
Screenvision Holdings S.A.S. (France)	50.0	50.0	50.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

COMPANY - (Country)	% share held by Thomson ⁽¹⁾		
	December 31,		
	2002	2003	2004
Screenvision Netherlands B.V. (Netherlands) (formerly RMB Netherlands)	50.0	50.0	50.0
Screenvision Portugal (Portugal) (formerly RMB Portugal)	50.0	50.0	50.0
Screenvision Spain S.A. (Spain) (formerly RMB España Multimedia SA)	50.0	50.0	50.0
Screenvision Slovakia S.r.o. (Slovakia) (formerly RMB Slovakia S.r.o.)	-	50.0	50.0
Vandam KH S.A. (Belgium)	50.0	(*)	(*)
3) Consolidated by equity method			
Celstream Technologies Private Ltd. (India)	-	38.8	44.8
CTE El Athir (Tunisia)	30.0	30.0	30.0
Easyplug S.A.S. (France)	-	50.0	50.0
Easyplug, Inc. (U.S.)	-	50.0	50.0
Metric Line (France)	-	40.0	40.0
MTEP (U.S.)	-	12.5	12.5
RF Film, S.A. (Spain)	-	-	50.0
Singingfish.com, Inc. (U.S.)	-	100.0	(*)
Techfund Capital Europe (France)	-	20.0	20.0
Thomson Pacific Consumer Electronics Co. Ltd. (Taiwan)	50.0	50.0	-
Total Technology Company Ltd. (Hong Kong)	-	19.9	-
T.T.E Corporation	-	-	33.0

(1) Percentage rounded to one decimal.

(*) Entities merged into others.

(**) Holding companies of Technicolor affiliates.

(***) Entities transferred to T.T.E. Corporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

31. SUMMARY OF DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

Restatement

During the process of the preparation of our consolidated financial statements under International Financial Reporting Standards (“IFRS”) for the year ended December 31, 2005, we reviewed the first application for fiscal year 2004 of the Financial Accounting Standards Board published and revised Interpretation No. 46R, Consolidation of Variable Interest Entities (“FIN 46R”) and we reconsidered our interpretation of accounting principles generally accepted in the United States (“U.S. GAAP”) for fiscal year 2004 to our dollar-denominated convertible bonds issued on September 16, 2004.

Before restatement and for U.S. GAAP purposes, two SPEs have been consolidated for the first time in 2004 (see Notes 1, 2 and 24) as of January 1, 2004 retroactively through shareholder’s equity as reported under French GAAP. In the restated financial information, under U.S. GAAP and in accordance with FIN 46R, the consolidation of these SPEs was presented as cumulative effect of change in accounting principle in the 2004 consolidated statement of operations for a total impact of €(43) million. This restatement has no impact on the shareholder’s equity under U.S. GAAP.

Before restatement, the conversion option embedded in our dollar denominated convertible bonds issued on September 16, 2004 had not been bifurcated from the host contract for accounting purposes. In the restated U.S. GAAP financial information provided in the present Note 31 and Note 32, a portion of the issuance proceeds are deemed to relate to the fair value of the derivative on issuance with subsequent changes in fair value of the derivative being recorded through earnings. The allocation of a portion of the proceeds to the derivative created a discount on issuance which is being amortized to earnings over the life of the bonds. The adjustment in our restated financial statements reflects an additional non cash financial expense of €85 million for the fiscal year 2004.

As a result of these above restatements, the net result under U.S. GAAP for the year ended December 31, 2004 has been restated to a net loss of €695 million from the previously published net loss of €567 million. The shareholders' equity under U.S. GAAP has been restated to €2,492 million from the previously published amount of €2,577 million.

Items affecting Net Income and Shareholders’ Equity

Thomson’s accounting policies comply with French GAAP. Elements of Thomson accounting policies which differ significantly from accounting principles generally accepted in the United States (“U.S. GAAP”) are described below:

(a) Investment securities

Thomson holds equity securities that have readily determinable fair values and are classified as “Other investments” in the consolidated balance sheets. Other investments are carried at the lower of cost or market value. French GAAP does not permit upward adjustments in the value of these securities to reflect their market value. For U.S. GAAP purposes, the Group has classified these investments as available for sale, measured at fair value, with unrealized gains and temporary declines in the value excluded from earnings and reported as a component of shareholders’ equity, and declines in the value which are other than temporary accounted for as realized losses.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

In 2002, Thomson disposed of its remaining equity securities of Gemstar for which under U.S. GAAP the unrealized gain was €227 million as of December 31, 2001, which amount subsequently decreased to €10 million at the time the sale took place. The recognized gains on the disposal of all these equity securities were computed based on weighted average prices.

In 2002, Thomson acquired certain equity securities that have been classified as held for sale under French GAAP. Such investment is carried at the lower of costs or market value, with decrease in value being charged to income. Under U.S. GAAP, related equity securities have been classified as available for sale. At the end of 2002, the decrease in value of the related investment were determined to be other than temporary, resulting in the recognition of an impairment charge under U.S. GAAP, when under French GAAP a valuation allowance for the same amount has been recognized. As a result, there is no difference between U.S. GAAP and French GAAP in the 2002 Consolidated Income Statement related to this investment. During 2003, the market value of such investment increased resulting under French GAAP in the reversal of the 2002 valuation allowance. Under U.S. GAAP, the new cost basis applied and the upward change in the market value has been excluded from earnings and recorded in Other Comprehensive Income.

During 2004, additional equity securities have been acquired and classified as available for sale under U.S. GAAP and held for sale under French GAAP.

Over the year 2004, the market value of available for sale securities held by Thomson increased. Such increases have been reported as a component of the shareholders' equity under U.S. GAAP, while not reported under French GAAP.

As a result, as of December 31, 2004 under U.S. GAAP, the fair value and the carrying value of marketable securities available for sale held by Thomson amounted to €62 million (€20 million and €5 million as of year end 2003 and 2002, respectively). The fair value of these marketable securities has increased by €20 million during the period from December 31, 2004 to May 27, 2005.

As of December 31, 2004 none of the Thomson's available for sale equity securities is in an unrealized loss position for which other-than-temporary impairment has not been recognized.

(b) Restructuring

Under French GAAP, since January 1, 2002, Thomson records restructuring liabilities according to the new French regulation n°2000-06 of the "Comité de la Réglementation Comptable" relating to the accounting for liabilities. Under this new French regulation, a reserve for restructuring must meet certain conditions, which are very similar to U.S. GAAP requirements. These conditions include (i) the existence of a formalized restructuring plan with the approval by appropriate level of management of the operations and activities to be restructured, (ii) a public announcement of such plan prior to balance sheet date and (iii) the existence of a commitment for the Group for all restructuring plans conditioned by a financial operation (purchase or sale transaction). Moreover, under French GAAP, similar to U.S. GAAP, costs associated with an exit plan recorded in the balance sheet are recognized as restructuring reserves only if the related costs are not associated with or do not benefit continuing activities of the Group. Finally, under this regulation, write-downs of assets are no longer part of the restructuring reserve but are presented as a deduction of the corresponding assets. Prior to January 1, 2002, Thomson recorded restructuring liabilities during the period when restructuring plans had been approved by the appropriate level of management.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Under U.S. GAAP, Thomson has applied the provisions of Statement of Financial Accounting Standards No. 88 (“SFAS 88”) “Employers’ Accounting for Settlement and Curtailment of Defined Benefit Pension Plans and for Termination Benefits”, No. 112 (“SFAS 112”) “Employer’s Accounting for Post employment Benefits” and No. 146 (“SFAS 146”) “Accounting for Costs Associated with Exit or Disposal Activities”, initiated after December 31, 2002, which nullifies Emerging Issues Task Force Issue No. 94-3 (“EITF 94-3”) “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)”.

Even though differences in the recognition of restructuring accruals have been reduced since the implementation of the new French regulation n°2000-06 on liability recognition, U.S. GAAP continues to apply additional criteria in comparison with French GAAP to permit the recognition of a liability. In particular, French GAAP do not require that the communication of the benefit arrangement include sufficient details to enable employees to determine the type and amount of benefits they will receive if they are terminated (“non specific benefits”). These differences in accounting principles create timing differences in the recognition of liabilities including (i) restructuring charges accrued under U.S. GAAP that were recorded for French GAAP purposes in a prior period, (ii) accrual of non specific benefits under French GAAP which are not eligible under U.S. GAAP and (iii) reclassification of write-downs of assets which occurred in 2002 under French GAAP. In addition, and without altering the ending restructuring balance, the presentation of movements of reserve under French GAAP are reversed under U.S. GAAP for costs recorded as incurred and associated to or benefiting continuing activities.

For restructuring related to business combinations accounted for as purchases, Thomson applies the French regulation 99-02 “Consolidated Financial Statements of Commercial Enterprises and Public Companies”. Under such regulation, the acquiring company shall record restructuring liabilities in the purchase business combination if the following conditions are met: (i) the reorganization programs are clearly defined by management and their costs are reasonably estimated; (ii) a public announcement of these plans has been made prior to the end of the fiscal year following the year when the purchase was consummated. Furthermore under French GAAP, the acquiring company may record restructuring liabilities related to duplicate facilities of the acquirer as part of the cost of acquisition in a business combination accounted for as purchase.

Under U.S. GAAP, Thomson applies the “Emerging Issues Task Force” consensus on issue No. 95-3 (“EITF 95-3”) “Recognition of Liabilities in Connection with a Purchase Business Combination” in accounting for all restructuring plans related to its acquisitions. Under EITF 95-3, reserve for restructuring an activity of an acquired company must meet specific conditions which include the following: (i) As of the consummation date management, having the appropriate level of authority, begins to assess and formulate a plan and commit the combined company to the plan as soon as possible after the consummation date; (ii) the finalization of the plan must occur prior to the end of period of one year after the consummation date of the acquisition; (iii) the restructuring costs must not have any future economic benefit to the combined company, they must be incremental to other costs incurred by either the acquired or the acquiring company in the conduct of activities prior to the consummation date and they must be incurred as a direct result of the plant to exit an activity of the acquired company.

In addition, under EITF 95-3 restructuring costs related to the acquiring company are not considered in the purchase price allocation.

Thus, timing differences exist between (i) the French GAAP and U.S. GAAP restructuring charges, since U.S. GAAP do not allow costs incurred by the acquiring company to be recognized as a liability assumed as of the consummation date of the acquisition, and (ii) the French GAAP and U.S. GAAP window periods, since U.S. GAAP limits the window period to twelve months following the consummation date of the business combination whereas French GAAP extends this window period to the closing date of the fiscal year following the one in which the business combination occurred.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

b i) The impact of U.S. GAAP adjustments related to restructuring is as follows:

	December 31, 2003	Current Year Expense	Cash Payments	Release of Reserve to Income	Net Change	Change in Scope of Consolidation	Reclassification in deduction of tangible fixed asset and Others	December 31, 2004
(€ in millions)								
French GAAP restructuring reserve	118	758	(200)	(16)	542	32	(588)	104
CASA and ATZ plans addressed by the pension adjustment under U.S. GAAP	(15)	(14)	10	-	(4)	-	(7)	(26)
Non specific voluntary termination offer not accepted at balance sheet date	(8)	5	-	-	5	-	-	(3)
Non specific involuntary termination arrangements	(1)	(2)	-	-	(2)	-	-	(3)
Future loss on non ceased contract	(8)	2	2	-	4	-	-	(4)
Cost to move inventory or tangible assets to another location	(1)	(1)	1	-	-	-	-	(1)
Reengineering and consulting costs	(1)	(5)	5	-	-	-	-	(1)
Other and adjustment on non eligible assets write-downs (*)	(7)	18	4	2	24	(19)	4	2
Total U.S. GAAP adjustments	(41)	3	22	2	27	(19)	(3)	(36)
Reclassification of assets write downs	(1)	(598)	-	2	(596)	(5)	601	(1)
Reclassification to other cost of Sales	-	(11)	-	-	(11)	-	11	-
Total U.S. GAAP reclassifications	(1)	(609)	-	2	(607)	(5)	612	(1)
<i>Total U.S. GAAP</i>								
<i>Adjustments and reclassifications</i>	<i>(42)</i>	<i>(606)</i>	<i>22</i>	<i>4</i>	<i>(580)</i>	<i>(24)</i>	<i>609</i>	<i>(37)</i>
U.S. GAAP restructuring reserve	76	152	(178)	(12)	(38)	8	21	67

	December 31, 2003	Current Year Expense	Cash Payments	Release of Reserve to Income	Change in perimeter	Currency Translation Adjustments and Others	December 31, 2004
(€ in millions)							
Employee termination benefits	65	107	(159)	(7)	4	19	29
Other costs	11	45	(19)	(5)	4	2	38
TOTAL	76	152	(178)	(12)	8	21	67

The column currency translation adjustments and others includes translation adjustments generated by foreign subsidiaries on variations of the reserves and reclassifications of reserves.

(*) The line item "Other and adjustment on non eligible assets write-downs" relates to various costs non-eligible in U.S. GAAP such as currency translation adjustments on entities under liquidation and assets impairment for duplicate facilities incurred by acquiring companies in purchase business combination.

For restructuring costs incurred end expensed during the period and associated to or benefiting continuing activities, the Group elected for reporting purposes under French GAAP to present an accrual ("Current year expense") followed by a cash usage ("Cash payments") of the same amount in the table of changes in restructuring reserve above.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	December 31, 2002	Current Year Expense	Cash Payments	Release of Reserve to Income	Net Change	Change in Scope of Consolidation	Currency Translation Adjustments and Others	December 31, 2003
(€ in millions)								
French GAAP restructuring reserve	127	226	(173)	(9)	44	22	(75)	118
CASA plans addressed by the pension adjustment under U.S. GAAP	(8)	(10)	6	1	(3)	-	(4)	(15)
Non specific voluntary termination offer not accepted at balance sheet date	(8)	2	-	1	3	-	(3)	(8)
Non specific involuntary termination arrangements (*)	(41)	28	-	2	30	3	7	(1)
Future loss on non ceased contract	-	(9)	-	-	(9)	1	-	(8)
Cost to move inventory or tangible assets to another location	(1)	(10)	11	-	1	-	(1)	(1)
Reengineering and consulting costs	(1)	(5)	4	-	(1)	1	-	(1)
Other and adjustment on non eligible assets write-downs (**)	(12)	3	18	-	23	(18)	-	(7)
Total U.S. GAAP adjustments	(71)	(1)	41	4	44	(13)	(1)	(41)
Reclassification of assets write downs	(1)	(51)	-	-	(51)	(5)	56	(1)
Reclassification to other cost of Sales	(1)	(9)	2	-	(7)	-	8	-
Total U.S. GAAP reclassifications	(2)	(60)	2	-	(58)	(5)	64	(1)
<i>Total U.S. GAAP</i>								
<i>Adjustments and reclassifications</i>	<i>(73)</i>	<i>(61)</i>	<i>43</i>	<i>4</i>	<i>(14)</i>	<i>(18)</i>	<i>63</i>	<i>(42)</i>
U.S. GAAP restructuring reserve	54	165	(130)	(5)	30	4	(12)	76

	December 31, 2002	Current Year Expense	Cash Payments	Release of Reserve to Income	Change in perimeter	Currency Translation Adjustments and Others	December 31, 2003
(€ in millions)							
Employee termination benefits	35	137	(103)	(5)	4	(3)	65
Other costs	19	28	(27)	-	-	(9)	11
TOTAL	54	165	(130)	(5)	4	(12)	76

The column currency translation adjustments and others include translation adjustments generated by foreign subsidiaries on variations of the reserves and reclassifications of reserves.

(*) The positive amount for the current year expense reflects the accrual under U.S. GAAP in 2003 of prior years non-specific involuntary termination arrangements that turned out to become specific in 2003.

(**) The line item "Other and adjustment on non eligible assets write-downs" relates to various costs non-eligible in U.S. GAAP such as currency translation adjustments on entities under liquidation and assets impairment for duplicate facilities incurred by acquiring companies in purchase business combination.

For restructuring costs incurred and expensed during the period and associated to or benefiting continuing activities, the Group elected for reporting purposes under French GAAP to present an accrual ("Current year expense") followed by a cash usage ("Cash payments") of the same amount in the table of changes in restructuring reserve above.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	December 31, 2001	Current Year Expense	Cash Payments	Release of Reserve to Income	Net Change	Change in Scope of Consolidation	Currency Translation Adjustments and Others	December 31, 2002
(€ in millions)								
French GAAP restructuring reserve	183	151	(175)	(10)	(34)	34	(56)	127
CASA plans addressed by the pension restatement under U.S. GAAP		(8)			(8)			(8)
Non specific voluntary termination offer not accepted at balance sheet date	(5)	(3)	-	-	(3)	-	-	(8)
Non specific involuntary termination arrangements and plans not announced at balance sheet date	(16)	(7)	-	1	(6)	(22)	3	(41)
Cost to move inventory or tangible assets to another location	(3)	(7)	7	-	-	2	-	(1)
Reengineering and consulting costs	(6)	(8)	8	-	-	3	2	(1)
Other and adjustment on non eligible assets write-downs (*)	(24)	(13)	28	1	16	7	(11)	(12)
Total U.S. GAAP adjustments	(54)	(46)	43	2	(1)	(10)	(6)	(71)
Reclassification of assets write downs	(38)	(25)	2	4	(19)	5	51	(1)
Reclassification to other cost of Sales	(8)	(5)	9	-	4	(9)	12	(1)
Total U.S. GAAP reclassifications	(46)	(30)	11	4	(15)	(4)	63	(2)
<i>Total U.S. GAAP Adjustments and reclassifications</i>	<i>(100)</i>	<i>(76)</i>	<i>54</i>	<i>6</i>	<i>(16)</i>	<i>(14)</i>	<i>57</i>	<i>(73)</i>
U.S. GAAP restructuring reserve	83	75	(121)	(4)	(50)	20	1	54

	December 31, 2001	Current Year Expense	Cash Payments	Release of Reserve to Income	Change in perimeter	Currency Translation Adjustments and Others	December 31, 2002
(€ in millions)							
Employee termination benefits	73	53	(90)	(4)	6	(3)	35
Other costs	10	22	(31)	-	14	4	19
TOTAL	83	75	(121)	(4)	20	1	54

The column currency translation adjustments and others include translation adjustments generated by foreign subsidiaries on variations of the reserves and reclassifications of reserves.

(*) The line item "Other and adjustment on non eligible assets write-downs" relates to various costs non-eligible in U.S. GAAP such as currency translation adjustments on entities in liquidation and assets impairment for duplicate facilities incurred by acquiring companies in purchase business combination.

For restructuring costs incurred and expensed during the period and associated to or benefiting continuing activities, the Group elected for reporting purposes under French GAAP to present an accrual ("Current year expense") followed by a cash usage ("Cash payments") of the same amount in the table of changes in restructuring reserve above.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

b ii) The total amount of costs accrued, net of reversal, for each reportable segment is as follows:

	For the year ended December 31, 2003	For the year ended December 31, 2004
Content & Networks	60	28
Components	50	97
Consumer Product	38	9
Holdings	12	6
Total	160	140

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

b iii) A description of the disposal activities has been more fully described in note 18. **Restructuring costs**
The restructuring plans adopted in 2004 and not associated with any business combination recorded under U.S. GAAP for €761 million include the following major actions:

The cost of restructuring plan in the U.S. amounts to €412 million of which €5 million are voluntary termination benefits, €65 million are involuntary termination benefits, €30 million are other exit costs and €312 million are write-down of assets, and is broken down as follows:

- The Display's Business new strategy that led to reassess the carrying value of all fixed assets in Mexico, Torreon, Marion, Lancaster and Belo Horizonte resulted in the recognition of a non-cash impairment charge amounted to €233 million.
- The closure of the glass plant in Circleville, resulted in €30 million of involuntary termination costs (532 people), €56 million of write-down of fixed assets, €6 million of other exit costs; and the tube plant in Marion, resulted in €30 million of involuntary termination costs (587 people), €19 million of other exit costs, €12 million of write-down of fixed assets and €11 million of write-down of inventories.
- The restructuring at Mexicali resulting in €2 million of involuntary termination costs (341 people) and €1 million of voluntary termination costs.
- The restructuring of Grass Valley for €2 million of involuntary termination costs (41 people) and €1 million of other exit costs.
- The closure of Virginia Optical plant (Charlottesville) resulting in €1 million of voluntary termination costs (93 people), and €1 million of loss on ceased contracts.
- The consolidation of creative services operations resulting in €1 million of involuntary termination costs (16 people).
- The Tune up and CP Max plans for adaptation of the costs structure to the US business environment representing €1 million of voluntary termination costs.
- The TV Business exit generating €1 million of voluntary termination costs.
- The restructuring plan in Juarez (end of TTM TV activity) generating €1 million of voluntary termination costs.
- The termination of leasing contracts on two buildings in Indianapolis resulting in €1 million of loss on ceased contracts.
- The closing of a New York Film lab and the consolidation with the newly opened NY Post Production facility nearby resulting in €1 million of loss on ceased contracts.
- The Scranton closure resulted in €1 million of litigation fees. 412

The cost of restructuring plan in Poland amounts to €144 million and relates to the Display's Business new strategy that led to reassess the carrying value of all fixed assets at Piaseczno resulted in the recognition of a non-cash impairment charge amounted to €144 million. 144

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

<p>The cost of restructuring plan in Italia amounts to €114 million of which €5 million are voluntary termination benefits, €5 million are involuntary termination benefits, €5 million are other exit costs, and €99 million are write-down of assets, and relates to the following program:</p> <ul style="list-style-type: none"> - The Display's Business new strategy that led to reassess the carrying value of all fixed assets at Anagni resulted in the recognition of a non-cash impairment charge amounted to €99 million. The downsizing of this plant resulted in €5 million of voluntary termination benefits (121 people). - The VHS consolidation plan resulting in €5 million of involuntary termination benefits (215 people) and €4 million of loss on ceased contracts. 	<p>Restructuring costs</p> <p>114</p>
<p>Cost of plans incurred by French entities amounted to €73 million of which €9 million are voluntary termination benefits, €7 million are involuntary termination costs, €3 million are other exit costs and €54 million are write-down of assets and is broken down as follows:</p> <ul style="list-style-type: none"> - The Display's Business new strategy that led to reassess the carrying value of all fixed assets at Bagneaux, Genlis and Gray resulted in the recognition of a non-cash impairment charge amounted to €54 million. - The reorganization of Thomson Tubes & Displays generating €5 million of voluntary termination benefits (68 people) and €2 million of other exit costs. - Holding's costs include involuntary termination benefits (€4 million) for the restructuring in France, Germany, Asia and America (27 people). - The restructuring of Television Components generating €2 million of voluntary termination costs (43 people). - Thomson Telecom: €1 million of voluntary termination benefits (19 people). - In connection with the reorganization of Thomson Broadcast activities, Thomson incurred €1 million of voluntary termination benefits (6 people). - The restructuring of the Angers plant resulting in €1 million of involuntary termination costs (56 people). - The restructuring of R&D France generating €1 million of involuntary termination costs (7 people). - Nextream France: €1 million of involuntary termination benefits. - The downsizing of the research & development center in Moirans resulting in €1 million of loss on ceased contracts. 	<p>73</p>
<p>Cost of German plans amounts to €5 million relates to the following programs:</p> <ul style="list-style-type: none"> - The Weiterstadt, Greisheim globalisation plans (Broadcast business) for €2 million of involuntary termination costs (13 people). - The downsizing of VRF Villingen for €1 million of voluntary termination costs (20 people) and €1 million of loss on ceased contracts. - Other projects which represent €1 million of involuntary termination costs (6 people). 	<p>5</p>
<p>The costs of restructuring program in Spain amounts to €4 million and relates to the VHS consolidation plan resulting in €2 million of involuntary termination benefits (70 people) and €2 million of loss on ceased contracts.</p>	<p>4</p>

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Cost of plans incurred in Asia relates to the reorganisation in Hong Kong, China and Taiwan: €2 million of voluntary termination benefits (6 832 people) and €2 million of other exit costs.	Restructuring costs 4
Cost of British plans amounts to €3 million and relates to:	
- The headcount reduction at Thomson Multimedia Sales UK affecting 20 people: €1 million of involuntary termination costs.	
- In connection with the reorganisation of Thomson Broadcast activities, Thomson incurred €1 million of loss on ceased contracts.	
- The VHS consolidation plan resulting in €1 million of other exit costs.	3
Cost of plans incurred in North Africa relates to TV business in Maroc: €1 million of voluntary severance costs (16 people) and €1 million of other exit costs.	2
Total restructuring costs.	<u>761</u>
Less fixed assets and inventories write-downs included in the above-mentioned plans	<u>(609)</u>
Current year accrued restructuring expenses.	152

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The restructuring plans adopted in 2003 not associated with any business combination and recorded under U.S. GAAP for €225 million include the following major actions: **Restructuring costs**

Cost of North American plans amount to €123 million of which €13 million are voluntary termination benefits, €41 million are involuntary termination benefits, €14 million are other exit costs and €55 million are write-down of assets, and is broken down as follows:

- The adaptation of the production capacity of two plants in the US that led to the closure of two tubes production lines in Marion, resulted in €14 million of involuntary termination costs (879 people), €15 million of write-down of fixed assets and €1 million of write-down of inventories; and one glass production tank in Circleville, resulted in €10 million of involuntary termination costs (406 people), €4 million of other exit costs, €8 million of write-down of fixed assets and €8 million of write-down of inventories.
- The closure of Virginia Optical plant (Charlottesville) resulting in €3 million of involuntary termination costs (578 people), €6 million of loss on ceased contracts and related costs and €17 million of write-down of fixed assets.
- The Tune up and CP Max plans for adaptation of the costs structure to the US business environment representing €9 million of voluntary severance costs and €3 million of involuntary costs (204 people).
- The closure of Crown Wood (TV) resulting in €2 million of involuntary termination costs (106 people) and €4 million of write-down of fixed assets.
- The restructuring plan in Juarez (end of TTM TV activity and transfer El Paso warehouse into TTM facility) generating €3 million of involuntary termination costs (1,138 people) and €3 million of write-down of fixed assets.
- The second phase of the reorganisation of the Lancaster centre representing €3 million of write-down of fixed assets (Costs to vacate Indianapolis facility).
- The reorganisation program of the TV and video product development for €3 million of involuntary termination costs (52 people).
- The closure of the Toluca plant in Mexico resulting in €2 million of voluntary termination benefits (380 people).
- The termination of leasing contracts on two buildings in Indianapolis resulting in €2 million of loss on ceased contracts.
- The restructuring of Grass Valley for €1 million of involuntary termination costs (14 people) and €1 million of loss on ceased contracts.
- The downsizing of North Hollywood plants resulted in €1 million of loss on ceased contracts.
- The closure of the Englewood facility and the executive offices in Burbank resulting in €1 million of loss on ceased contracts.
- The Scranton closure resulted in €1 million of involuntary termination costs.

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The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Cost of plans incurred by French entities amounts to €48 million of which €13 million are voluntary termination benefits, €29 million are involuntary termination costs, €3 million are other exit costs and €3 million are write-down of assets, and is broken down as follows:	Restructuring costs
<ul style="list-style-type: none"> - The closure of the Steli plant resulting in €3 million of voluntary termination benefits, €10 million of involuntary termination costs (327 people) and €1 million of other exit costs. - The downsizing of certain research & development centers: (1) Rennes (R&D DSL) resulting in €7 million of involuntary termination costs (45 people), (2) Moirans resulting in €3 million of involuntary termination costs (62 people) and €3 million for write-down of assets. - In connection with the reorganisation of Grass Valley and Thomson Broadcast activities, Thomson incurred €1 million of voluntary termination benefits and €1 million of involuntary termination costs (28 people). - The restructuring of the Angers plant resulting in €1 million of voluntary termination benefits. - The reorganization of Thomson Tubes & Displays generating €1 million of voluntary termination benefits. 	48
Other holdings' costs include voluntary termination benefits (€1 million) and involuntary termination costs (€2 million) for the restructuring in France, Germany and Asia	
<ul style="list-style-type: none"> - The restructuring of Television Components generating €2 million of involuntary termination costs (48 people); R&D: €1 million of voluntary termination benefits and €1 million of involuntary termination costs (4 people); Atlinks: €1 million of voluntary termination benefits (13 people) and €1 million of loss on ceased contracts; Videoglass: €1 million of voluntary termination benefits (13 people). - The downsizing of the Marketing and Sales activities for €1 million (9 people). 	24
Cost of German plans amounts to €24 million relates to the following programs:	
<ul style="list-style-type: none"> - The Weiterstadt, Greisheim globalisation plans (Broadcast business) for €14 million: involuntary termination costs (€11 million), loss on ceased contracts (€1 million) and other exit costs (€2 million). - The downsizing of VRF Villingen for €7 million of voluntary termination costs (45 people). - Other projects which represent €2 million of involuntary termination costs (15 employees) and €1 million of other exit costs. 	10
Cost of Italian plans amounts to €10 million and relates to the following program:	
<ul style="list-style-type: none"> - The downsizing of one plant in Anagni (Tubes plant) resulting in €9 million of voluntary termination benefits (206 people) and €1 million for write-down of inventories. 	10

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	Restructuring costs
Cost of British plans amounts to €8 million and relates to the following program:	
- The downsizing of the optical plant in Cork affecting 266 people (€3 million of involuntary termination costs, €1 million of loss on ceased contract and €1 million of other costs).	
- The reorganisation of the Marketing & Sales services resulting in €3 million of other exit costs.	8
Cost of plans incurred in Asia amounts to €5 million and includes €1 million of voluntary termination benefits, €2 million of involuntary termination costs, €1 million of loss on ceased contracts and €1 million of other exit costs.	5
Cost of Spanish plans amounts to €4 million and includes voluntary severance expenses (€2 million) for the optimisation of Marketing & Sales services and involuntary termination costs (€2 million) for the rationalization of the Residential phone activity and impact 18 people.	4
Cost of plans incurred in the Netherlands relates to (1) the VHS activity and amounts to €1 million of involuntary severance costs and €1 million of loss on ceased contracts; And (2) the restructuring of the Breda plant for €1 million of involuntary severance costs.	3
Total restructuring costs.	<u>225</u>
Less fixed assets and inventories write-downs included in the above-mentioned plans.	<u>(60)</u>
Current year accrued restructuring expenses.	165

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The restructuring plans adopted in 2002 not associated with any business combination and recorded under U.S. GAAP for €105 million include the following major actions: **Restructuring costs**

Cost of plans incurred by North American legal entities amount to €40 million of which €2 million of voluntary termination benefits, €21 million of involuntary termination benefits, €10 million of other exit costs and €7 million write-down of assets, including the following:

- Reorganisation program for TV and video product development for €4 million (35 people).
- The Indianapolis downsizing resulted in €1 million of involuntary termination costs, €2 million of idle facility costs and €1 million of write-down of fixed assets.
- Marketing and Sales downsizing program generated voluntary severance costs for €1 million (5 people).
- Programs involving TV Operations in Mexico represented €5 million of involuntary costs affecting 665 people and €2 million of write-down of fixed assets. The closure of the Deptford plant resulted in €1 million write-down of fixed assets and €1 million write-down of receivables.
- The reorganisation of the Lancaster center represents €4 million (54 people). The Scranton closure resulted in idle facility costs for €6 million write down of inventories and fixed assets for €2 million.
- Other involuntary severance programs include the Spider resize program for €3 million (52 people), the Tiger program for €1 million.

Within Digital Media Solutions, the downsizing of North Hollywood plants includes both voluntary (€1 million) and involuntary termination costs (€1 million) affecting 200 people, and the restructuring of Grass Valley for €2 million.

- Reserves for other exit costs of €2 million cover future contract termination losses following the discontinuation of the Philips Automation activities and a closure in Holland.

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Cost of plans incurred by French entities totals €38 million of which €17 million of involuntary termination costs, €4 million of other exit costs and €17 million for write-down of assets, which include the following:

- The closure of the Steli plant has generated €7 million of involuntary severance costs affecting 349 people, €1 million of other exit costs and €3 million of write-off of fixed assets and inventories.
- The reorganization of the Grass Valley Group and Thomson Broadcast activities, resulted in €3 million of involuntary expenses, €3 million of other exit costs and €4 million of write down of assets.
- Additionally, the restructuring of an Atlinks facility in Mexico accrued by Atlinks French legal entity has resulted in €10 million of write-down of assets.
- Other minor expenses include involuntary termination benefits for the downsizing of the Japanese, Korean and French purchase activities (€3 million) affecting 24 people; downsizing of the Marketing and Sales activities (€3 million) related to 36 people and the downsizing of the Residential phone activity (€1 million) affecting 16 people.

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The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	Restructuring costs
Cost of German plans for €10 million relates to the following programs:	
- The Weiterstadt and Greisheim and globalisation plans for €9 million: involuntary termination costs (€4-6 million) concerning 92 people and other exit costs (€3 million).	
- Other plans incurred €1 million of voluntary termination costs (4 people).	10
Cost of plans incurred in Asia amounts to €7 million and includes the restructuring of one of its plant and the continuation of the SAFE program. The costs mainly consist in involuntary termination costs, €3 million affecting 2,687 people and €4 million of fixed assets write-downs.	7
Cost of plans incurred in the Netherlands relates to the restructuring of the Breda plant for €2 million of involuntary severance costs (21 employees).	2
Cost of British plans in connection with voluntary and involuntary programs for €2 million (26 employees). Other exit cost were related to idle facility expenses for €4 million.	6
Cost of Polish plans (€1 million) for involuntary severance expenses following the TIGER program (122 employees).	1
Cost of Spanish plans for €1 million due to voluntary severance expenses concerns 8 people.	1
Total restructuring costs.	<u>105</u>
Less fixed assets and inventories write-downs included in the above-mentioned plans.	<u>(30)</u>
Current year accrued restructuring expenses.	75

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

iv) For acquisitions in the year 2004, plans decided included the following:

HNS

HNS, a manufacturing STB (satellite decoder) business, for which the facility is located in Tijuana, has been acquired, Mexico, on June 24th, 2004, and closed down on December 15th, 2004. All production employees have been released, and fixed assets written off. HNS accrued an initial restructuring liability of €2 million that met the accounting criteria required under EITF 95-3 for accrual. The total restructuring accruals recorded as a liability in the purchase business combination were related to employee termination benefits due to the closure of the facility (affecting 385 people in 2004). €1 million has been paid out as of December 31, 2004. In addition to this restructuring accrual, the company recognized a fair value adjustment on fixed assets acquired, decreasing the carrying value of related assets in the amount of €5 million.

Command Post

In connection with the acquisition of Command Post on May 13th 2004, the Group consolidated Creative Services operations in Canada. The Company accrued an initial restructuring liability of €5 million that met the accounting criteria required under EITF 95-3 for accrual. Of the total restructuring accrual recorded as a liability in the purchase business combination, €2 million were related to redundancies (affecting 15 people in 2004), and €4 million were related to lease overhang half million euro has been paid out for severances.

Parkervision

In connection with the acquisition of Parkervision on May 15th 2004, the Group has implemented a plan of integration and accrued an initial restructuring liability of €1 million that met the accounting criteria required under EITF 95-3 for accrual. Of the total restructuring accrual recorded as a liability in the purchase business combination, half million euro were related to retention packages, and half million euro were related to legal fees, totally paid out as of December 31, 2004.

b v) Regarding the prior year acquisitions, the reserves are analyzed below:

PDSC

In connection with the acquisition of Panasonic Disc Services Corporation (PDSC) in June 2002, the Group has implemented several plans to restructure the operations. As part of the restructuring plans, PDSC accrued an initial restructuring liability of €15.3 million. During 2003, the Company accrued an additional liability of €6.8 million that met the accounting criteria required under EITF 95-3 for accrual. As of December 31st, 2003, the net total restructuring liability for PDSC amounted to €22.1 million. This restructuring accrual related to costs to exit the Cork, Ireland optical plant and to lay off employees. Such amounts were recognized as liabilities assumed in the purchase price allocation of PDSC.

Of the total restructuring accrual recorded as a liability in the purchase business combination, approximately €6.5 million were related to work force reductions and to employee termination benefits

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

due to the closure of facilities and services reorganisation across Europe (affecting 266 people in 2003).

In addition to the restructuring accrual, the company recognized an impairment of fixed assets and inventories in the amount of €6.4 million.

The restructuring accrual also included exit costs for approximately €9.2 million. These incremental exit costs included idle facility costs and contract termination obligations for leasehold payments. At December 31st, 2003, it remained a €5 million restructuring reserve, utilized for €1 million and reversed for €4 million during 2004.

Selected information relating to the restructuring costs included in the allocation of the cost to acquire PDSC is as follows:

	Reserve at June 25, 2002	Cash Payments During the period from June 25, 2002 to December 31, 2002	Currency Translation Adjustment	Reserve at December 31, 2002	Additional Accrual According to EITF 95-3	Cash Payments / Reclassification During year 2003	Reserve at December 31, 2003	Cash Payment / Reclassification During year 2004	Reserve at December 31, 2004
(€ in millions)									
Employee termination costs	-	-	-	-	-	-	-	-	-
Other exit costs	8	-	(1)	7	1	(3)	5	(5)	-
Fixed assets impairments	1	(1)	-	-	6	(6)	-	-	-
Total	9	(1)	(1)	7	7	(9)	5	(5)	-

GVG

In connection with the acquisition of Grass Valley Group (“GVG”) in March 2002, the Group has implemented several plans to reorganize and restructure some of the operations and eliminate dual capacities between Grass Valley activities and Thomson Broadcast activities in North America.

GVG accrued an initial restructuring liability of €7 million mainly related to the closure of the Automation division in Nevada. During 2003, the company accrued an additional liability of €2 million that met the accounting criteria required under EITF 95-3 for accrual. As a result as of acquisition date, the net total restructuring liability for GVG amounted to €8 million. Such amounts were recognized as liabilities assumed in the purchase business combination and included in the allocation of the cost to acquire GVG.

Of the total restructuring accrual recorded as a liability in the purchase business combination, €1 million are asset impairments. This restructuring reserve was mainly related to the closure of the Automation division in Nevada including €5 million of involuntary severance costs, €1 million of litigation fees and €1 million of other exit costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

In 2002, €3 million was paid out for employee termination benefits, €1 million against other exit costs and the €1 million asset impairments were entirely utilized.

In 2003, €2 million was paid out for employee termination benefits, €2 million against other exit costs and €1 million of other exit costs have been reversed. As of year end 2003, the total restructuring liability on this acquisition has been consumed.

Technicolor

The Company accrued an initial restructuring liability of approximately €35 million as of March 16, 2001, the date of the acquisition. During 2002, an additional liability of approximately €1 million has been recognized. Thus the net total restructuring liability for Technicolor amounted to €36 million, using March 16, 2001 exchange rate, related to costs to exit and consolidate certain activities, costs for the impairment of assets as well as costs to terminate employees across various business units: approximately €9 million were related to work force reductions and represented employee termination benefits. Employee termination costs occurred across all the Technicolor business units. The total number of employees initially identified to be involuntarily terminated or relocated approximated 670 people. In 2003 all of them had occurred (closure and downsizing of the entities). Termination payments of approximately €6 and €2 million were made in 2002 and 2001. Payments of the remaining liability of approximately €1 million have been made in 2003.

The restructuring accrual also included approximately €1 million associated with lease and contract termination costs. All such costs were fully paid out in 2002.

The restructuring accrual comprised finally impairments for fixed assets, €26 million that were booked at acquisition date.

Broadcast

The Company accrued an initial restructuring liability of approximately €15 million and during 2002 an additional amount of €8 million. This reserve, which related to involuntary termination benefits, write-down of inventories and fixed assets, and idle facility costs, was totally consumed as of December 31, 2003.

b vi) The number of employees to be terminated is analyzed below:

The remaining €29 million reserve for employee termination benefits at December 31, 2004 relates to approximately employees to be terminated including:

Number of Employees	
US plan	373
French plans	133
German plans	42
Other	16
TOTAL	564

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(c) Pensions

In accordance with the laws and practices of each country, the Thomson Group participates in employee benefits pension plans offering death and disability, retirement and special termination benefits. Those plans provide benefits of various types from flat currency amounts per year of service to final pay plans integrated with social security and multi-employer plans.

For defined contribution plans, expenses correspond to the contributions paid. For defined benefit pension plans, accruals and prepaid expenses are determined using the projected unit credit method.

Disclosures in accordance with SFAS 132, are as follows:

	Pension benefits			Other benefits		
	2002	2003	2004	2002	2003	2004
	(€ in millions)					
<i>Change in Benefit Obligation</i>						
Benefit Obligation at beginning of year	(800)	(736)	(707)	(296)	(412)	(436)
Reclassification of early retirement plans and jubilee awards under other reserves (*)			38			
Service cost	(41)	(33)	(23)	(7)	(8)	(4)
Interest cost	(46)	(40)	(33)	(31)	(27)	(20)
Amendments	(21)	2	(3)	(2)	-	103
Business combinations	(7)	(4)	9	(2)	-	-
Plan participants contributions	-	(1)	(1)	(3)	(3)	(4)
Curtailment / Settlement	52	39	46	-	11	5
Actuarial (loss) gain	8	(31)	(27)	(165)	(98)	17
Benefits paid	60	40	37	30	22	19
Others (foreign currency translation)	59	57	18	64	79	22
Benefit Obligation at end of year	(736)	(707)	(646)	(412)	(436)	(298)
<i>Change in Plan Assets</i>						
Fair value of plan assets at beginning of year	406	237	221	-	2	-
Actual return on plan assets	(68)	24	21	-	-	-
Thomson contribution	-	29	16	-	-	-
Plan participants contributions	-	1	1	-	-	-
Curtailment / Settlement	(52)	(38)	(55)	-	-	-
Business combinations	7	12	(2)	2	(2)	-
Benefits paid	(8)	(7)	(8)	-	-	-
Others (foreign currency translation)	(48)	(37)	(10)	-	-	-
Fair value of plan assets at end of year	237	221	184	2	-	-
Funded status of the plan	(499)	(486)	(462)	(410)	(436)	(298)
Unrecognized actuarial (gains) or losses	106	109	114	85	145	110
Unrecognized actuarial prior service cost	8	(3)	(3)	3	2	(29)
Unrecognized actuarial transition obligation	3	2	-	56	33	-
Accrued (prepaid) benefit cost	(382)	(378)	(351)	(266)	(256)	(217)

(*) Jubilee awards and early retirement plans are classified under "other reserves". Prior years have not been restated.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

For all defined benefit pension plans, the accumulated benefit obligation was in excess of plan assets at December 31, 2004. The accumulated benefit obligation was equal to €614 million at December 31, 2004.

Amounts recognized in the consolidated balance sheet are as follows:

	Pension benefits			Other benefits		
	December 31,			December 31,		
	2002	2003	2004	2002	2003	2004
	(€ in millions)					
Accrued benefit liability (including MLA)	(491)	(471)	(449)	(266)	(256)	(217)
Prepaid benefit cost	12	6	-	-	-	-
Net amount accrued for under U.S. GAAP	(479)	(465)	(449)	(266)	(256)	(217)
Minimum Liability Adjustment (MLA)						
Including in other comprehensive income	97	85	97	-	-	-
Including in Intangible asset	-	2	1	-	-	-
Total Minimum Liability Adjustment	97	87	98	-	-	-

Amounts recognized in the income statement are as follows:

	Pension benefits			Other benefits		
	2002	2003	2004	2002	2003	2004
	(€ in millions)					
<i>Annual cost under U.S. Gaap</i>						
Service cost	(41)	(33)	(23)	(7)	(8)	(4)
Expected interest cost	(46)	(40)	(33)	(31)	(27)	(20)
Expected return on plan assets	26	15	13	-	-	-
Amortization of unrecognized prior service cost	(14)	(9)	(1)	(1)	(1)	4
Amortization of actuarial net losses or (gains)	4	(5)	(4)	1	(4)	(7)
Amortization of net transition obligation	-	(1)	(2)	(18)	(5)	-
Effect of curtailment/settlement	(1)	(2)	(15)	-	(10)	33
Net periodic benefit cost	(72)	(75)	(65)	(56)	(55)	6

Annual costs under French GAAP are as follows:

	Pension benefits			Other benefits		
	2002	2003	2004	2002	2003	2004
Annual cost under French GAAP	(67)	(58)	(61)	(40)	(39)	24

The difference between these amounts and the annual costs under US GAAP results from differences in timing of amortizations of the initial transition liability and from the difference of method of recognition of excess funding by certain companies.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The net accruals as of December 31, 2004, 2003 and 2002 in the accompanying consolidated balance sheets can be compared with balances determined under US GAAP as follows:

	Pension benefits			Other benefits		
	2002	2003	2004	2002	2003	2004
	(€ in millions)					
Net amount accrued for under US GAAP	(479)	(465)	(449)	(266)	(256)	(217)
• <i>Difference of method of absence of recognition of excess funding by certain companies</i>	(11)	(9)	(5)	-	-	-
• <i>Impacts of transition obligation, of prior service cost and of actuarial gains recognized with a different timing under local regulations</i>	12	-	(2)	(59)	(33)	(14)
• <i>Reclassification</i>	-	23	-	-	-	-
• <i>Minimum Liability Adjustment (MLA)</i>	97	87	98	-	-	-
Net amount accrued for in consolidated financial statements	(381)	(364)	(358)	(325)	(289)	(231)

The measurement date of the main part of the projected benefit obligation is December 31, 2004 (some US plans are measured at September 30, 2004).

Actuarial assumptions have been determined on a country by country basis and scheme by scheme. The average assumptions are:

	Pension benefits			Other benefits		
	2002	2003	2004	2002	2003	2004
Benefit obligation discount rate	6.3%	5.5%	5.1%	7.0%	6.4%	6.0%
Estimated annual rate of increase in future compensation	3.2%	3.0%	3.1%	4.0%	4.0%	4.0%
Expected rate of return on plan assets	9.0%	7.1%	6.7%	0.0%	N/A	N/A

The long-term rates of return on plan assets have been determined for each plan in consideration of the investment policies, the expected return for each component of the investment portfolio and other local factors in the country of the plan.

Health care costs are assumed to increase by 9.07 % in 2005, 8.10% in 2006, 7.00% in 2007 and 6.03% in 2008 and 4.58% thereafter.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Regarding the other than pension postretirement benefits plans, a one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
	(€ in millions)	
Effect on total of service and interest cost components	3	(2)
Effect on the postretirement benefit obligation	31	(26)

In 2004, the Group includes the effects of the subsidy to be received linked to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in measuring the accumulated benefit obligation. The reduction in the accumulated benefit obligation for the subsidy related to benefits attributed to past service is 38 million euros. The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period is a reduction of €5 million.

The reduction linked to the subsidy receipt is expected to be €1 million in 2006, €1 million in 2007, €2 million in 2008 and €2 million in 2009.

When defined benefit plans are funded, mainly in the U.S., U.K. and Canada, the investment strategy of the benefit plans aims to match the investment portfolio to the membership profile. Asset performance is reviewed on a quarterly basis and assets allocation strategy is reviewed on an annual basis.

Thomson pension plans weighted-average asset allocations as at December 31, 2004 by asset category are as follows:

Equity securities	58%
Debt securities	39%
Other	3%
Total	100%

Thomson expects to contribute €20 million to its pension plans in 2005.

The following benefit payments, which reflect expected future services are expected to be paid for the next five years:

	Pension benefits	Other benefits
	(€ in millions)	
2005	49	19
2006	48	18
2007	83	20
2008	33	21
2009	34	20

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(d) Postretirement transition obligation

Under French GAAP, Thomson changed the accounting policy to fully recognize the entire un-recognized transition obligation in 1997 against retained earnings. Under U.S. GAAP, the election to delay recognition of the postretirement benefits transition obligation may not be changed and the un-recognized transition obligation continues to be charged to income over years.

(e) Stock based compensation

Under French GAAP, common shares issued upon the exercise of options granted to employees and directors are recorded as an increase to share capital at the exercise price on exercise date. Thomson holds treasury stock to settle qualified employee stock purchase plans. In accordance with French GAAP, the Thomson group did not record any compensation expense on stock based plans.

Under U.S. GAAP, Thomson has elected to apply APB Opinion No.25 “Accounting For Stock Issued To Employees”, which requires that compensation arising from compensatory plans to be measured based on the intrinsic value of the shares granted or sold to employees. For fixed plans, the compensation expense is calculated as the difference between the intrinsic value of the shares at the grant date and the employee strike price and recognized over the vesting period.

On December 18, 2000, the Board of Directors adopted a fixed option plan for 3,458,500 options. The exercise price of the options granted to employees is €55.9. Such exercise price is in excess of the market value of the shares at the grant date, €47. Half of these options have vested on December 18, 2003 and the remaining on December 18, 2004. They may be exercised up to 10 years from the date of grant.

The Board of Directors on **March 16, 2001 and July 23, 2001** increased the number of stock options granted to employees to 4,018,500. The conditions of grant remained the same as the one established by the board on December 18, 2000. As of the two additional grant dates (March 16, 2001 and July 23, 2001), the exercise price of €55.9 was in excess of the market value of Thomson shares, €41.19 and €35.3, respectively, thus no compensation expense was recognized.

As of December 2004, after taking into account the forfeited stock options, as well as options cancelled pursuant to the decision of the Board of Directors of Thomson held on September 22, 2004 (see below), the number of stock option related to fixed option plans adopted as of December 18, 2000, March 16, 2001 and July 23, 2001 is 973,200.

On October 12, 2001, the Board of Directors approved a fixed option plan for a total of 3,540,300 options. Each option gives the holder the right to acquire one new share to be issued at an exercise price of €31.5, which is in excess of the market value of Thomson shares as of the grant date.

Half of these options have vested on October 12, 2004 and the remaining 50% will vest on October 12, 2005. They may be exercised up to 10 years from the date of grant.

As of the grant date (October 12, 2001) no compensation was recognized as the exercise price, €31.5, exceeded the market price, €25.4.

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As of December 31, 2004, after taking into account the forfeited stock options, as well as options cancelled pursuant to the decision of the Board of Directors of Thomson held on September 22, 2004 (see below), the number of stock option related to this plan is 651,600.

On September 22, 2004, the Board of Directors approved a new stock option plan, for 574 beneficiaries, this plan is summarized as follow:

- 358 employees and directors of former stock option plans (those of December 18, 2000, March 16, and July 23, 2001) and, have accepted to cancel the options they were granted under related plans for a total number of 3,972,000 stocks options in exchange for the granting of new options under a new plan. Further, those employees and Directors have, upon this plan, been granted with 2, 541, 890 new options. This plan has been assessed as a variable plan.
- 852,700 options were granted to 216 employees and directors. The subscription option price was €16. Former employees and retirees were not eligible. This plan is a fixed plan.
- Half of these options will vest on September 22, 2007 and the remaining 50% will vest on September 22, 2008. They may be exercised up to 10 years from the date of grant.

As of the grant date (September 22, 2004), €1 million compensation has been recognized as the strike price, €16.0, was below the market price, €16.54.

As of December 31, 2004, after taking into account the forfeited stock options, the number of stock option outstanding is 7,348,590.

“ BASA ” Bon d’Acquisition ou de Souscription d’Actions

On September 15, 2004, the General Assembly approved a fixed stock option plan (Bon d’Acquisition ou de Souscription d’Actions “BASA”) for all individual shareholders who have purchased or subscribed shares before June 30, 2002 and still owned 80% of such shares as of July 21, 2004.

Shareholders meeting that criteria have the right to purchase Thomson subscription certificates at a unit price of €1 per share, allowing them to call one Thomson shares per certificate at an exercise price of €16. The employees and directors of the Group subscribed an estimated number of 3,100,000 certificates out of 12.471.368 subscribed. Each certificate is exercisable after the issuance of 2005 annual Consolidated Financial Statements of Thomson beginning March 1st, 2006 and will expire on June 30, 2006. Thomson may choose to deliver new Thomson shares or existing treasury shares.

These options vested on the day of the grant.

As of the measurement date (October 12, 2004, end of subscription period) no compensation has been recognized under U.S. GAAP as the exercise price, €16.0, plus the premium paid, exceeded the market price, €16.78.

As of December 31, 2004, the estimated number of stock option related to this plan is 3,100,000.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Options granted in connection with the formation of “TCL-Thomson Electronics”(TTE)

In connection with the Combination Agreement with TCL Corporation (“TCL Corp”) to form “TCL-Thomson Electronics”(TTE), Thomson will provide employee bonuses in the form of shares of Thomson’s stock to certain former employees of Thomson that have accepted to be employed by TTE. The number of shares to be issued by Thomson will depend upon the length of time the employees remain employed by TTE. The maximum amount of options to be provided by Thomson is 545,279.

Participants are not considered as Thomson employee and as a result the compensation expense related to this plan was measured based on the fair value of the instrument granted as of the vesting date.

The options vest as follow:

- 25% on August 31, 2004
- 25% At the first anniversary - August 31, 2005
- 25% At the Second anniversary - August 31, 2006
- 25% At the Third anniversary - August 31, 2007

As of December 31, 2004, €4 million compensation has been recognized based on a fair value assessment of the instrument granted to related employees.

As of December 31, 2004, after taking into account the forfeited stock options, the number of stock option related to this plan is 403,441.

Information for stock options granted and forfeited is as follows:

	Number of options	Weighted average exercise price (in Euro)
December 31, 2001	7,108,400	43.9
Forfeited	(257,500)	44.4
December 31, 2002	6,850,900	43.7
Forfeited	(867,500)	42.3
December 31, 2003	5,983,400	43.9
Forfeited	(404,600)	40.2
Granted (July 31, 2004)	545,279	0.0
Granted (September 15, 2004)	3,100,000	16.0
Cancelled (September 22, 2004)	(3,972,000)	43.3
Granted (September 22, 2004)	7,366,590	16.0
Exercised (October 12, 2004)	(141,838)	0.0
December 31, 2004	12,476,831	19.4

Compensation expense charged to income this year

Plan	Compensation expense 2004
Employee offering	1
2004 Stock Option plan	1
TTE Options	4
Other Plans	-
Total	6

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The following table summarizes information for options outstanding and exercisable as of December 31, 2004:

Exercise price	Options outstanding		Options exercisable	
	Number	Average remaining life	Number	Average remaining life
55.9	973,200	6	973,200	6
31.5	651,600	7	325,800	7
16.0	7,348,590	10	-	N/A
16.0	3,100,000	1.5	-	N/A
0	403,441	2	-	N/A

Had compensation cost for stock options awarded under these plan been determined based on the fair value at the date of grant consistent with the methodology of SFAS 123 “accounting For Stock-Based Compensation”, Thomson net income and basic and diluted earnings per share, would have reflected the following pro forma amounts (in millions of Euro, except per share amounts):

	Year ended December 31,		
	2002	2003	2004
U.S. GAAP net income (loss) available to common stockholders (note 31 ad ii)	351	(46)	(718)
Basic earning (loss) per share	1.26	(0.17)	(2.62)
Diluted earning per share	1.21	(0.17)	(2.62)
Add back: stock-based employee compensation expense included in reported net income net of related tax effects	1	3	6
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(40)	(29)	(25)
Pro forma U.S. GAAP net income (loss) available to common stockholders	312	(72)	(737)
Pro forma basic earnings (loss) per share	1.12	(0.26)	(2.69)
Pro forma diluted earnings (loss) per share	1.06	(0.26)	(2.69)

The significant assumptions used by Thomson to estimate the fair value of the options as of the measurement date are as follow:

Valuation assumptions	March 16, 2001	July 23, 2001	October 12, 2001	July 31, 2004 (*)	September 15, 2004	September 22, 2004
Expected life (in years)	10.0	10	10	2	2	9
Risk free Interest rate	5.3%	5.3%	5.3%	2.5%	2.5%	4.0%
Expected Volatility	50.0%	50.0%	50.0%	N/A	33.0%	35.0%
Expected Dividend	0.0%	0.0%	1.8%	1.8%	1.8%	1.8%
Average fair value (**)						
per option as of measurement date	9.9	1.8	53.4	18.2	2.4	4.1

(*) Fair values of options granted to non-employee are given at year end.

(**) Using the Black-Scholes method.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

f) Derivative Instruments and forward exchange contracts

Under U.S. GAAP, all derivative instruments are recorded on the balance sheet at fair market value in other receivables and other creditors and accrued liabilities. Recognition of the gain or loss that results from recording and adjusting a derivative to fair market value depends on the purpose for issuing or holding the derivative. Gains and losses from derivatives that are not used as hedges are recognized immediately in earnings. If a derivative is used to hedge the fair value of an asset, liability, or firm commitment, the gains or losses from adjusting the derivative to its market value will be immediately recognized in other financial expenses, net and, to the extent the hedge is effective, offset the concurrent recognition of changes in the fair value of the hedged item. Gains or losses from derivatives hedging expected future cash flows will be recorded on the balance sheet in accumulated other comprehensive income/(loss) until the hedged transaction is recognized in earnings; however, to the extent the change in the fair value of the derivative exceeds the change in the anticipated cash flows of the hedged transaction, the excess gains or losses will be recognized immediately in earnings.

f i) Forward exchange contracts

Under French GAAP, Thomson defers premiums and discounts as well as gains and losses on forward exchange contracts that hedge the following year's anticipated commercial commitments, and amortizes them to income over the life of the underlying transactions being hedged.

Under U.S. GAAP, SFAS 52 "Foreign Currency Translation" and SFAS 133 "Accounting for Derivatives Instruments and Hedging Activities", unrealized gains and losses on forward exchange contracts which do not hedge firm commitments may not be deferred and as a result, are immediately recognized in operating income.

f ii) Other derivatives

Thomson acquires derivative instruments to reduce the effect of the market volatility of certain marketable equity investments, which are treated as hedging transactions under French GAAP but do not always qualify as hedges under SFAS 133. Under U.S. GAAP, such instruments are marked to market with unrealized gains and losses in financial income of the Consolidated Income Statements.

In 2001, Thomson acquires derivatives instruments that have been unwound in 2002 in connection with the sale of the underlying equity securities (note 31(a)), resulting in a gain amounted to €34 million under U.S. GAAP.

In 2003 and 2004, Thomson put in place equity collars and equity forward (the "Instruments") to reduce the market volatility of certain marketable equity investments. The Instruments qualified as hedge under both French GAAP and U.S. GAAP. More specifically under SFAS 133 of U.S. GAAP, the Instruments were considered a Fair Value Hedge of the equity investment. Retrospective efficiency testing of those was done at December 31, 2003 and 2004, resulting in the conclusion that both met the efficiency requirements of SFAS 133.

Thomson also put in place in 2003 interest rate swaps in order to reduce the price risk associated with a portion of the Group's fixed rate debt. The swaps qualified as hedge instruments under both French GAAP and U.S. GAAP. More specifically under U.S. GAAP the swaps were considered Fair Value

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Hedges of the fixed rate debt. Because the characteristics of the swaps are identical to the debt, the short cut method was used instead of efficiency tests.

Furthermore Thomson put in place in 2003 a rate lock in order to reduce the price risk associated with a future 10 year fixed interest rate debt issuance. Through the rate lock the interest rate was effectively fixed before the debt was issued. The rate lock qualified as a hedge instrument under both French GAAP and U.S. GAAP. Under French GAAP the \$1.07 million (€0.96 million) loss on the rate lock will be recognized over the 10 year life of the debt instrument in financial result. Under U.S. GAAP the lock was considered a Cash Flow Hedge of future interest payments on the debt. The result on the hedge was initially booked in Other Comprehensive Income (“OCI”) and subsequently following issuance of the debt is being reclassified over the 10 year life of the debt to financial result. Over the next 12 months €0.08 million in losses will be reclassified from OCI to financial result.

(f iii) Bonds convertible into shares or redeemable for cash

Under French GAAP, convertible bonds are wholly accounted for as financial debt and issuance costs are accounted for as an asset and amortized over the debt term.

Under U.S. GAAP, since our dollar denominated subordinated bonds issued on September 16, 2004 are (1) redeemable for U.S dollars and (2) convertible into newly issued ordinary shares or existing ordinary shares (or a combination of both), which, at the option of the bondholders, may be delivered in the form of American Depositary Shares representing such ordinary shares (the “Bonds”), the embedded conversion option has been bifurcated and accounted separately within long-term liabilities.

The conversion option and the debt component have been recognized at fair value at inception. Subsequent changes of the fair value of the embedded derivative have been charged to the statement of operations under U.S. GAAP.

The allocation of a portion of the Bonds proceeds to the embedded derivative and issuance costs creates a discount on issuance which is being amortized to earnings over the life of the Bonds under U.S. GAAP.

The embedded conversion option bifurcated from the debt component of the convertible debt instrument amounted to €45 million at inception. Subsequent increase in fair value and amortization of the discount required Thomson to recognize additional non cash financial expense of €85 million as of December 31, 2004.

The Bonds also include an embedded derivative that cannot be reliably assessed, corresponding to the clause of early redemption. The probability for this clause to occur being uncertain, the related embedded derivative cannot be measured reliably and separately of the embedded conversion option and thus is not recognized separately by the Group in its U.S. GAAP financial statements.

(g) Asset re-evaluation

As permitted under French GAAP, Thomson re-evaluated certain fixed assets to market value in conformity with certain country regulations. Such re-evaluations are not permitted under U.S. GAAP and the assets would continue to be recorded at historical value.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(h) Capitalized development costs

In 2002, Thomson acquired Grass Valley and determined under both French GAAP and U.S. GAAP the existence of in-process R&D in an amount of €3 million. Under French GAAP, related in-process R&D project has been written off and charged to “Other Income (expense)”. Under U.S. GAAP, the cost of this intangible, purchased from others for a particular R&D project and that has no alternative future uses, has been reclassified from “Other Income (expense)” to R&D costs.

In 2003, as permitted under French GAAP, Thomson recognized as part of the purchase price allocation of the acquisition of the remaining 20% of Technicolor Digital Cinema, an acquired intangible asset related to a R&D project that meets French GAAP criteria for recognition. Under U.S. GAAP, such project has been determined to in process, and therefore a €2 million expense has been charged to research and development expense.

In 2004, Thomson acquired the video division of ParkerVision and recognized under French GAAP as part of the purchase price allocation of the acquisition, an acquired intangible asset related to a R&D project that meets French GAAP criteria for recognition. Under U.S. GAAP, such project has been determined to in process, and as a result Thomson recognized €2 million research and development expense.

(i) Capitalized interest

For U.S. GAAP purposes, interest cost incurred during the construction period for certain assets should be capitalized, which is not required under French GAAP. As of December 31, 2004, the net book value of capitalized interest amounts to nil.

(j) Provision for year 2000 compliance and Euro transition

As permitted under French GAAP, Thomson provided for costs to be incurred in connection with Year 2000 compliance and Euro currency transition.

Under U.S. GAAP, such provisions may not be recorded and these costs would be expensed as incurred.

In 2002, these provisions have been completely reversed.

(k) Subsidiaries controlled but not consolidated

k i) Under French GAAP, certain immaterial subsidiaries are not required to be consolidated.

In 2004, 2003 and 2002, the respective number of entities consolidated under U.S. GAAP and not under French GAAP was 2, 4 and 20.

k ii) Some investments, considered to be immaterial under French GAAP, are accounted for under French GAAP at the lower of cost and fair value although the Group’s interest in these investments varies from 20% to 50%. Under U.S. GAAP, these investments are accounted for using the equity method.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

In 2004, 2003 and 2002, the respective number of entities accounted for using the equity method and not consolidated under French GAAP was nil, nil and 3, respectively.

(l) Philips Professional Broadcast 33.33% minority interests

Thomson acquired 66.67% of Philips Professional Broadcast in 2001, Thomson and Philips entered into a put and call agreement on the remaining 33.33% interests in this company. Under French GAAP, Thomson recorded the acquisition of the first 66.67% and reported minority interests for the remaining 33.33%. During 2002, Thomson acquired the remaining 33.33% and Philips Professional Broadcast is fully owned by the Group as of December 31, 2002.

Under U.S. GAAP, EITF 00-04 “Majority Owner’s Accounting for Transactions in the Shares of a Consolidated Subsidiary and a Derivative indexed to the Minority Interest in that Subsidiary” has been applied and the put and call agreement has been treated as a financing. Consequently, in 2001, Thomson has fully consolidated Philips Professional Broadcast and the strike price of the call option has been discounted to determine the financing obtained from Philips at acquisition date.

For U.S. GAAP purposes, the Group net income for the year 2002 was adjusted with a €1 million interest Charge related to the debt toward Philips (incurred from January 1, 2002 to the acquisition date (see note 2)), and a €2 million additional expense was recorded to adjust the minority interest loss reported under French GAAP for the period before acquisition date.

Accordingly, as of December 31, 2004, 2003 and 2002 for U.S. GAAP purposes, gross goodwill decreased by €2 million. The debt with Philips was considered fully reimbursed at the exercise of the call option in 2002.

(m) Employee offering/bonus shares

Employee shares fourth offering 2002 and fifth offering 2003

Until TSA (formerly THOMSON S.A.), which is fully owned by the French State held more than 20% of the share capital of the Group, TSA was subject to the French Privatization laws, that states, among other requirements, conditions in which part of the sale of such shares have to be offered to Thomson’s employees.

As a consequence and following the TSA sales of Thomson shares made in March 2002 resulting in the fourth employee offering and in December 2003 resulting in the fifth employee offering, the employees of Thomson have been entitled to acquire a certain number of Thomson shares. Such offers have been made to Thomson’s present and former employees at a 20% discount. Under French GAAP, no compensation expenses have been recognized. Under U.S. GAAP, related discount benefits have been recorded as compensation expense for an amount of nil, €2 million and €14 million for years ended as of December 31, 2004, 2003 and 2002, respectively.

Bonus shares

Under French GAAP, no charge has been recorded in connection with the rights to bonus shares issued in connection with the February 1999, November 1999, October 2000 and March 2002 offering,

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

that are the first, second, third and fourth employee offerings. The fifth employee offering has not given rise to bonus shares for Thomson employees.

Under U.S. GAAP, since the bonus shares will be awarded by TSA (formerly THOMSON S.A.) to both present and former employees without any additional consideration and without any obligation for active employees to stay with Thomson during the holding periods in order to be awarded with such bonus shares, the fair value of the bonus shares at the employee offering date have been charged to income with a corresponding increase to additional paid in capital.

The fair value of outstanding bonus shares awarded as of December 31, 2004, 2003 and 2002 amounted to €69 million, €67 million and €67 million, respectively. Subsequent changes in the fair value of such shares have been recorded as a gain (loss) in 2004, 2003 and 2002 with a corresponding decrease to additional paid in capital of €(1) million, €(1) million and €13 million, respectively.

1,612,079, 521,069 and 149,029 bonus shares related to the first offering (February 1999), second offering (October 1999) and third offering (September/October 2000) were delivered to Thomson employee as of March 2002, January 2003 and November 2003, respectively. In the event of forfeiture, the fair value of bonus shares at that time will be credited to income.

(n) Sale-lease back accounting

Thomson Inc. (ex. Thomson multimedia Inc) sold its U.S. Corporate headquarters (Administration and Technical Services buildings) for €60 million (USD 58 million) in March 2000. The buildings were leased back from the purchaser over a period of twelve years. The resulting lease is accounted for as an operating lease. Under French GAAP, the resulting gain of €7 million (USD 7 million) was recognized as of December 31, 2000, under U.S. GAAP, this gain amounted to €9 million (USD 8 million (after adjustment for capitalized interest)).

Under U.S. GAAP, the resulting gain is deferred and amortized over the life of the lease, except for the portion of the gain, which exceeds the present value of the minimum lease payments measured at disposal date. Thus, for U.S. GAAP reporting, an annual gain of USD 1 million (€1 million using the 2004 average exchange rate) is recognized.

As a result, unrecognized gain as of December 31, 2004, 2003 and 2002 amounts €4 million, €5 million and €6 million. For the year ended December 31, 2004, 2003 and 2002, amortization of the deferred portion of the resulting gain represents €1 million, €1 million and €1 million, respectively.

Thomson sold its French headquarters located in Boulogne-Billancourt for €91 million in February 2000. The building was leased back from the purchaser for a period of six years under an operating lease. Under French GAAP, the Company recognized a gain of €32 million corresponding to the difference between selling price and net book value.

Under U.S. GAAP, the excess of such gain over the present value of the minimum lease payments is recognized at disposal date (€9 million), while the remaining amount has been deferred and amortized over the lease period for €4 million, €4 million and €4 million for the years ended December 31, 2004, 2003 and 2002, respectively. As of December 31, 2004, 2003 and 2002, the unrecognized gain under U.S. GAAP amounts to €5 million, €9 million and €13 million, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(p) Recording of Singingfish acquisition

Under French GAAP, the acquisition of Singingfish, which occurred in September 2000, has been treated as a normal business combination, the excess of the purchase price paid over the fair market value of assets acquired, mainly software, being recorded as goodwill, which is amortized over a 5 year period. In 2001, an impairment loss of €4 million related to goodwill was recorded.

Under U.S. GAAP according to SFAS 7 “Accounting and Reporting by Development Stage Enterprise” and EITF 98-3 “Determining Whether a Non Monetary Transaction Involves Receipt of Productive Assets or of a Business” this acquisition has been treated as a purchase of assets which does not allow a portion of the purchase price to be allocated to goodwill, resulting in the reclassification of the goodwill recorded under French GAAP to intangible assets (taking into account the deferred tax accounting according to the EITF 98-11 “Accounting for Acquired Temporary Difference in Certain Purchase Transactions that are not Accounted for as a Business Combination”) and in an adjustment on the associated amortization expense.

During 2003, Thomson disposed off Singingfish’s assets and liabilities (note 2).

Under U.S. GAAP, Singingfish has been classified as a discontinued operation (note ab vii).

The impact of such adjustment, including the reversal of French GAAP goodwill amortization expense in 2003 and 2002 of €2 million and €4 million, respectively, and related tax effect was €6 million and €(4) million as of December 31, 2003 and 2002, respectively. No adjustment has been made in 2004.

(q) Amortization of intangibles recognized through business combinations

Under U.S. GAAP, the intangible assets are as follows:

	2001	2002	2004		
	Net book value (*)	Net book value (*)	Gross book value	Accumulated Amortization	Net book value (*)
	(€ in millions)				
Technicolor Trademark	215	178	169	(3)	166
Technicolor Customer relationships	254	196	220	(52)	168
PDSC Customer relationships	82	65	65	(8)	57
Screenvision Europe Supplier relationships	21	20	22	(3)	19
Grass Valley Trademark	43	36	33	-	33
Duplitek Customer relationships	-	29	30	(4)	26
Vidfilm Customer relationships	-	31	33	(5)	28
TOTAL	615	555	572	(75)	497

(*) Changes in carrying value are mainly due to change in foreign currency translation.

Technicolor

As of December 31, 2004 under French GAAP, trademark (€169 million, initially booked as of March 16, 2001 for USD 230 million) and customer relationships (€220 million, initially booked for USD 300 million) are not amortized and the tax effect of the difference between book and tax basis of such intangibles is not required to be reflected as a liability at acquisition date.

The accompanying notes are an integral part of the consolidated financial statements.

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All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Under U.S. GAAP, the gross deferred tax liability (€157 million) related to these intangible assets has been recorded in 2001 and a valuation allowance on deferred tax assets has been recognized via goodwill, therefore the net deferred tax assets offset the amount of deferred tax liability recorded on customer relationships for €89 million. Since January 1, 2002, pursuant to the application of SFAS 142 “Goodwill and Other Intangible Assets” (“SFAS 142”), the Technicolor trademark has been assessed as having an indefinite useful life and as a consequence, it is no longer amortized but is tested annually for impairment. As of December 31, 2004, its carrying value amounts to €166 million. Thomson continues to amortize the customer relationships over a 16 year period and amortization expense related to this intangible asset amounting to, net of tax, €(15) million, €(17) million and €(20) million, for 2004, 2003 and 2002 respectively.

In addition, in accordance with EITF 95-3 and FAS 109, restructuring reserves and the related deferred taxes recognized as assumed liabilities have been increased under U.S. GAAP compare to those existing under French GAAP for an amount of €5 million.

After taking into account the adjustments above, as well as those concerning revenue recognition, (note 31(t)), retention bonuses (note 31 (v)) and other final purchase accounting adjustments in the amount, net of tax, of €(4) million, €(2) million and €(5) million, as of December 31, 2004, 2003 and 2002, respectively, gross goodwill, as determined under French GAAP, increased accordingly by €70 million as of December 31, 2004.

The net effect on net income (excluding the effects recorded under note 31 (t) and (v)) amounts to €(15), €(23) and €(15) million for 2004, 2003 and 2002, respectively.

The net impact of deferred tax liability and tax assets depreciation reversal on profit and loss for year 2004, 2003 and 2002 amounts to €6 million, €7 million and €8 million, respectively and has been recorded under note 31 aa).

PDSC

Under French GAAP, customer relationships (€65 million, initially booked as of June 25, 2002 for USD 89 million) are not amortized and the tax effect of the difference between book and tax basis of such intangibles is not required to be reflected as a liability at acquisition date.

Under U.S. GAAP, the gross deferred tax liability (€26 million) related to this intangible has been recorded and a reversal of the valuation allowance on deferred tax assets has been recognized via goodwill so that the net deferred tax assets offset the amount of deferred tax liability recorded on customer relationships. In addition, customer relationships are amortized over 20 years in the amount, net of tax, of €(4) million, €(4) million and €(2) million for 2004, 2003 and 2002, respectively.

In addition, in accordance with EITF 95-3, part of the restructuring reserve and the related deferred tax recorded on the French GAAP balance sheet at the acquisition date were reversed under U.S. GAAP (€26 million). Other final purchase accounting adjustment was not determined to be U.S. GAAP compliant, decreasing the related goodwill by €2 million.

After taking into account the above adjustments, gross goodwill, as determined under French GAAP decreased by €28 million as of December 31, 2004.

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The net effect on net income amounts to €(4) million and €(7) million for 2004 and 2003 respectively.

The impact of deferred tax liability reversal on net income amounts to €1 million and €1 million for 2004 and 2003 respectively and has been recorded under note 31 (aa).

Screenvision Europe

Under French GAAP, supplier relationships (€22 million initially booked on May 7, 2002) are not amortized and the tax effect of the difference between book and tax basis of such intangibles is not required to be reflected as a liability at acquisition date.

Under U.S. GAAP, the gross deferred tax liability (€7 million) related to this intangible asset has been recorded and a reversal of the valuation allowance on deferred tax assets has been established via goodwill so that the net deferred tax assets offset the amount of deferred tax liability recorded on supplier relationships. Supplier relationships are amortized over 20 years in the amount, net of tax, of €(1) million, €(1) million and €(1) million in 2004, 2003 and 2002, respectively.

After taking into account this adjustment above, goodwill as determined under French GAAP is the same than under U.S. GAAP pursuant to the adoption of SFAS 142.

Grass Valley Group

Under French GAAP, trademark €33 million (USD 45 million initially booked on March 1, 2002) are not amortized and the tax effect of the difference between book and tax basis of such intangibles is not required to be reflected as a liability at acquisition date.

Under U.S. GAAP, the gross deferred tax liability, €13 million related to this intangible has been recorded. This indefinite useful life trademark is not amortized under U.S. GAAP.

In addition, in accordance with EITF 95-3, part of the restructuring reserve and the related deferred tax recorded on the French GAAP balance sheet at acquisition date were reversed under U.S. GAAP (€20 million). Other final purchase accounting adjustment was not determined to be U.S. GAAP compliant, decreasing the related goodwill by €3 million.

After taking into account the adjustments above, gross goodwill as determined under French GAAP decreased by €8 million as of December 31, 2004.

Duplicateck

Under French GAAP, customer relationships (€30 million, initially booked as of April 4, 2002 for AUD 53 million) are not amortized and the tax effect of the difference between book and tax basis of such intangibles is not required to be reflected as a liability at acquisition date.

Under U.S. GAAP, the gross deferred tax liability (€12 million) related to this intangible has been recorded via goodwill. In addition, customer relationships are amortized over 20 years in the amount, net of tax, of €2 million and €(2) million for 2004 and 2003 respectively.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

After taking into account the adjustment above, gross goodwill as determined under French GAAP increased by €12 million, with no corresponding additional amortization charge for the period pursuant to the adoption of SFAS 142.

The net effect on net income amounts to €2 million and €(2) million for 2004 and 2003 respectively.

The impact of deferred tax liability on net income amounts to €4 million and €1 million for 2004 and 2003 respectively and has been recorded under note 31 (aa).

VidFilm

Under French GAAP, customer relationships (€33 million, initially booked as of February 20, 2002 for USD 40 million) are not amortized and the tax effect of the difference between book and tax basis of such intangibles is not required to be reflected as a liability at acquisition date.

Under U.S. GAAP, the gross deferred tax liability (€12 million) related to this intangible has been recorded via goodwill. In addition, customer relationships are amortized over 20 years in the amount, net of tax, of €0 million and €(2) million for 2004 and 2003 respectively.

After taking into account the adjustment above, gross goodwill as determined under French GAAP increased by €12 million, with no corresponding additional amortization charge for the period pursuant to the adoption of SFAS 142.

The net effect on net income amounts to €0 million and €(2) million for 2004 and 2003 respectively.

The impact of deferred tax liability on net income amounts to €2 million and €1 million for 2004 and 2003 respectively and has been recorded under note 31 (aa).

HNS

In 2004 and in relation with the acquisition of HNS business (note 2), Thomson recognized a €175 million Customer relationship under both French GAAP and U.S. GAAP. This intangible asset is amortized over a 8 year period. The net book value as of year end 2004 amounts to €164 million.

(r) BTS purchase price allocation

In 2001, under French GAAP, in connection with BTS business combination, which was accounted for as a purchase, accruals mainly related to involuntary employee termination and inventory write-offs of Thomson were included as a liability in the purchase price allocation.

Under U.S. GAAP, according to EITF 95-3, the costs related to activities or employees of the acquiring company were not considered in the purchase price allocation and the restructuring reserve and the related deferred tax recorded against goodwill under the French GAAP were reversed under U.S. GAAP. As a consequence, goodwill amortization decreased by €1 million in 2001.

In 2002, the finalization of the restructuring plans under French GAAP led to additional accruals that were not eligible under U.S. GAAP (as explained in note 31 (b)). Therefore, the BTS gross goodwill

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

recorded under U.S. GAAP is €23 million less than the amount recorded under French GAAP. The related restructuring impact is mentioned in the restructuring adjustment (see note 31 (b)).

(s) Goodwill amortization and impairment - FAS 142

SFAS 142 was issued in June 2001 and requires companies to stop amortizing goodwill and indefinite lived intangible assets. Instead, SFAS 142 requires that these intangible assets be tested for impairment at least annually. SFAS 142 was effective for the Company as of January 1, 2002 and for purchase business combinations consummated after June 30, 2001. Under French GAAP the goodwill is amortized over the useful life, as described in note 8 a).

For the year ended December 31, 2004, 2003 and 2002, Thomson reversed the amortization expense of goodwill recorded under French GAAP for an amount of €130 million, €76 million and €78 million, respectively, of which €0 million, €2 million and €4 million for the year 2004, 2003 and 2002 respectively, were reversed as mentioned in the Singingfish adjustment (see note 31 (p)).

A €7 million expense has been recognized upon the TTE transaction (see note 2) under U.S. GAAP that corresponds to the carrying value of goodwill related to the business sold.

The goodwill impairment charge recognized under U.S. GAAP amounts to €27 million. In order to measure the impairment loss Thomson has used valuation techniques and the measured impairment losses have been attributed to related goodwill.

(t) Revenue Recognition

t i) Licensing agreement

In November 2000, Thomson entered into a five-year licensing agreement that allows a third party to use certain Thomson patents (the “Licensed Patents”) and simultaneously entered into a five-year software license agreement with the same third party that allows Thomson to use software that will be developed by the third party using the Licensed Patents. Under French GAAP, revenue from the patent licensing agreement was recognized when the patent licensing agreement was executed and non-refundable cash was received by Thomson. Such accounting was appropriate under French GAAP because two separate contracts were entered into by the parties, the cash received was non-refundable, the only obligation of Thomson was to maintain and defend such patents, and the software license agreement includes a “most favored nation provision” allowing Thomson to benefit from lower prices granted by the third party to other customers; thereby providing evidence that the software license agreement pricing is not in excess of fair value. Under U.S. GAAP, the revenue from the patent licensing agreement is considered to be one element of a multi-element arrangement and therefore the patent licensing revenue is being recognized for U.S. GAAP purposes on a straight-line basis over the five-year term of the patent licensing agreement. During 2003, the parties agreed upon the cancellation of the above-related contract. As a consequence, under French GAAP Thomson recognized over the year 2003, the cash received during that period by the client party, whereas under U.S. GAAP Thomson recognized all deferred revenues existing at the date the contract has been cancelled and that were collected. The impact amounts to nil, €14 million and €3 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

t ii) Technicolor revenue recognition

Under French GAAP, Thomson recognizes certain revenue related to the duplication/replication of VHS cassettes and DVDs at the time replication has been completed and title has contractually been transferred. Title transfers upon completion of the replication process, which is generally prior to shipment to the customer, which is made upon customer requests.

Under U.S. GAAP, the Company is required to comply with the provisions of SAB 104 “Revenue Recognition in Financial Statements” (“SAB 104”), which has superseded SAB 101 in 2004 when recognizing revenue.

As of December 31, 2003 and 2002 not all criteria of SAB 101 have been met to allow the company to recognize revenue.

In 2004, Thomson has determined that all criteria were met, enabling Thomson to recognize revenues upon the replication of DVDs.

For the year ended December 31, 2004, 2003 and 2002 the impact of such accounting treatment on the Group consolidated Statement of Operation under U.S. GAAP compared to French GAAP amounts to €1 million, €(2) million and €(1) million, respectively.

t iii) Licensing revenue recognition

Under French GAAP, Thomson has recognized for the year ended December 31, 2004 and 2003 revenue related to the licensing of the usage of Thomson patents on certain products. Under U.S. GAAP, in compliance with SAB 104, Thomson has deferred the recognition of such revenue due to the fact that as of December 31, 2004 and 2003 the related contracts have not been signed on December 31, 2004 and December 31, 2003, respectively.

The deferred recognitions of these revenues under US GAAP have a positive impact of €25 million and a negative impact of €28 million for the years ended December 31, 2004 and 2003 respectively. The impact of €25 million in 2004 is explained by the recognition of €28 million revenues related to contract signed in January 2004 and the deferral of €3 million of revenues related to the contract signed in January 2005.

t iv) Rebates and price reductions received

Under French GAAP, certain rebates received from suppliers are recorded as a reduction of cost of sales in the period they are received.

Under U.S. GAAP, when rebates are related to future purchases commitments, they should be assessed as upfront payments with no culmination of the related earning process, and therefore they are amortized over the period of those commitments.

As a result, the impact on the net income of such restatement is a decrease of €4 million for the year ended December 31, 2004.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(u) Easyplug gain on assets contribution

In December 2001, Thomson contributed cash for a 26% interest in Easyplug Inc. and Thomson Inc. contributed 100% of its wholly owned subsidiary, Easyplug Inc. with a fair value of USD 6 million (€7 million at December 31, 2001 closing rate) for a 24% interest in Easyplug S.A. At a consolidated level, Thomson has a 50% interest and Schneider Electric has a 50% interest in Easyplug S.A., which is a corporate joint-venture as defined by APB 18 “The Equity Method of Accounting for Investment in Common Stock” (“APB 18”).

Under French GAAP, the gain associated with the asset contribution has been eliminated at 50% in the amount of USD 3 million (€3 million at 2001 average rate).

Under U.S. GAAP, according to APB 18 as Thomson received shares in exchange of contributed assets, the investments should be recorded at the lower of carrying amount or fair value. Therefore, the gain recognized under French GAAP has not been recognized but deducted from investment.

(v) Retention bonus

In connection with certain of its acquisitions, Thomson entered into agreements with key employees of acquired companies setting up the conditions for payment of certain retention bonuses. These bonuses are an incentive for their benefitors to remain (for a fixed period of time) employees of their company within the Group they have recently joined and allow Thomson to capitalize on their knowledge and experience.

Under French GAAP, such bonuses have been accounted for as an adjustment of the purchase price for €7 million.

Under U.S. GAAP, Thomson is required to comply with the provisions of SFAS 141 “Business Combination” (“SFAS 141”) and EITF 95-08 “Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination”. The aforementioned bonuses have been accounted for as compensation for future services and amortized over the duration of the stay period. As such, goodwill decreased by €7 million, €7 million and €7 million as of December 31, 2004, 2003 and 2002 and a nil, €1 million and €6 million compensation expense was recorded in operating income for the year ended December 31, 2004, 2003 and 2002, respectively.

(w) FIN 45 - Recognition of Guarantee given

Under French GAAP, and following the recommendation issued by the ‘Commission des Opérations de Bourse’ for financial year closing as of December 31, 2003, off-balance sheet commitments, financial debts as well as leases are disclosed in the note 24.

Under U.S. GAAP and pursuant to FIN 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantee, Including Indirect Guarantees of Indebtedness of Others” application, Thomson shall disclose information on all guarantees except on those covering the consolidated entity own future performance and provide a more extensive disclosure of the guarantees given.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Additionally to supplemental disclosure requirement, which has no effect for Thomson, the FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee.

As of December 31, 2004 and 2003, Thomson recognized a provision pursuant this requirement amounting to nil and €4 million and results from the warranties and indemnification agreement granted related to an asset disposal (note 24 of the consolidated financial statement).

(x) Transaction Costs

Under French GAAP, transaction costs have been deferred as of December 31, 2003. During 2004, they have been added to acquisition costs of targeted investments, when acquisition transactions have been completed or have been charged to the capital Gain (loss) when disposal transactions have been completed.

Under U.S. GAAP, those costs have been expensed as incurred.

As a consequence, the net income of the Group under U.S. GAAP, compared to French GAAP, has been impacted in an amount of €7 million and to €(9) million for the year ended December 31, 2004 and 2003, respectively.

(y) Sale of written call

In 2004 in connection with the TTE transaction with TCL International (See note 2), Thomson granted TCL International a call option, whereby TCL International is entitled to require Thomson to deliver 2.5 million of Thomson common shares at a fixed exercise price of €18.12 per share. Thomson has assessed such above right granted to TCL International as part of the contribution given in exchange of the 33% interest in TTE. This call option has a net cash settlement.

Under French GAAP and at combination date (see note 2), the benefit granted by Thomson to TCL International has been valued and recognized in the related exchange of non monetary assets as part of the equity investment received with the counterparty charged to retained earnings.

Under U.S.GAAP, such written call option is a freestanding derivatives that meet the recognition criteria of the EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" that shall be recognized at fair value as a liability in the consolidated balance sheet, with re-measurement at each balance sheet date because it is entered into in conjunction with some other transaction and is legally detachable and separately exercisable.

As of December 31, 2004 and compare to French GAAP, Thomson recognized an additional €4 million financial expense as a result of the re-measurement process of the related options. As a result, as of year-end 2004, Thomson has recognized a €8 million financial liability and the impact on the net equity under U.S. GAAP compare to French GAAP amounts to €(8) million.

(z) Discounting of long term assets and liabilities

As of December 31, 2004, Thomson recognized certain liabilities that are expected to be settled with a cash payment of more than 12 months.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

French GAAP do not require long term liabilities to be recognized at their present values, but at costs. Under U.S. GAAP, long term liabilities are recognized at their present value and the accretion is recognized as a financial expense.

As of December 31, 2004, the net income and net equity under U.S. GAAP of the Group compared to French GAAP is increased by €1 million.

(aa) Income tax

Tax effects on U.S. GAAP adjustments have been recorded in an amount of €1 million in 2004, €1 million in 2003 and €(10) million in 2002.

Under U.S. GAAP, in connection with deferred tax liabilities recognized on acquired intangible assets, (Note 31 (q) above), valuation allowance on deferred tax assets was reversed against goodwill in the amount of nil, nil and €42 million as of year end 2004, 2003 and 2002, respectively.

(ab) Presentation of consolidated Balance Sheet

ab - i) Classification of the Balance Sheet

The classification of certain items and the format of Thomson's consolidated balance sheets vary to some extent from U.S. GAAP.

The table below presents the current or the non current portion of balance sheet captions:

	As of December 31,		
	2002	2003	2004
	(€ in millions)		
Total Long Lived Assets as reported under French GAAP	4,023	3,594	3,540
Of which current portion of:			
Loan and other non current assets (*)	92	34	39
Total Current Assets as reported under French GAAP	5,691	5,686	4,985
Of which non current portion of:			
Trade accounts and notes receivable	37	1	0
Other receivables	49	30	3
Cash and cash Equivalent	80	60	55
Total Reserve as reported under French GAAP	1,048	977	869
Of which current portion of:			
Other reserves	118	107	120
Total Financial Debt as reported under French GAAP	1,694	2,128	2,501
Of which current portion of:			
Financial debt (**)	262	263	904
Total Current Liabilities as reported under French GAAP	2,987	2,583	2,465
Of which non current portion of:			
Other creditors and accrued liabilities (***)	404	229	135

(*) Thomson had bank accounts cash deposits as a compensating balance to a loan in the same amount at a preferential interest rate. Under U.S. GAAP these amounts would be disclosed as non-current assets in the consolidated balance sheets and would therefore reduce cash and cash equivalents by the same amount.

(**) Includes short term portion of capital lease obligations disclosed in note 24

(***) In 2002, Other Creditors includes the debt related to the Technicolor acquisition

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

In addition, as of December 31, 2004, Anagni operation's assets and related liabilities fulfilled the criteria of assets held for sale as specified under FAS 144. The sale of the entity occurred on of February 28, 2005. Under US GAAP, as of December 31, 2004, the assets held for sale totalling €101 million and the related liabilities amounting to €178 million should be presented separately in the consolidated Balance Sheet. The assets held for sale mainly include €65 million of inventories and net accounts receivable of €23 million and other current assets of €7 million.

ab – ii) Additional information:

Trade receivables and related valuation allowances accounting policy – Trade receivables include amounts due from customers for services provided and products sold in the normal course of the business operation. Thomson maintains allowances for doubtful accounts for estimated losses that result from the inability of its customers to make payments. Thomson bases its allowance on the likelihood of recoverability of accounts receivable based upon past experience and reviews of aging and analysis of specific accounts. If economic or specific industry trends worsen beyond its estimates, Thomson increases its allowances for doubtful accounts by recording additional expense. Thomson charged off trade receivable when the non recoverability is definitive.

Under French GAAP, Thomson has classified €816 million, €873 million and €388 million of SICAV investments in the caption “cash and cash equivalent”, as of December 31, 2004, 2003 and 2002, respectively, Under US GAAP, these investments are classified as trading investment.

Under French GAAP, “Finished goods inventory” caption is broken down as follow:

	As of December 31,		
	2002	2003	2004
	(€ in millions)		
Finished goods inventory	330	281	273
Purchase goods for resale inventory	231	197	154
Finished goods inventory	561	478	427
Valuation allowance	(59)	(46)	(43)
Finished goods inventory, net of allowance	502	432	384

The valuation allowance described under Note 11 corresponds exclusively to loss in value.

Under French GAAP, “other creditors and accrued liabilities” caption includes the following:

	As of December 31,		
	2002	2003	2004
	(€ in millions)		
Income tax payable, deferred taxes and accrued taxes	244	187	155
Royalties payable	223	214	262
Accounts payable	95	89	64
Deferred income	85	85	-
Deferred income	17	15	142
Other accruals	373	238	301
Other creditors	13	11	52
Advertising and promotion payable	20	19	19
Total other creditors and accrued liabilities	1,070	858	995

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Sales between Displays and Components segment and Consumer Products segment are made based upon market conditions.

As of December 31, 2004, tangible assets recognized in the Group consolidated balance sheet that are under capital lease agreements amount to €51 million (2003: €61 million and 2002: €11 million). Thomson recognized a similar financial debt as of the same date. Related depreciation expenses are posted in the caption “costs of sales” of the consolidated Income Statement.

(ac) Presentation of the consolidated Income Statements

ac - i) Operating income

Certain expenses such as “Restructuring costs” and “Pension plans costs on closed factory”, which are classified in French GAAP as non-operating expenses are classified as operating expenses under U.S. GAAP and therefore decrease the operating income under U.S. GAAP in an amount of €(767) million, €(241) million and €(167) million for the year ended as of December 31, 2004, 2003 and 2002, respectively.

Under U.S. GAAP, certain operations are discontinued operations as of December 31, 2004 that were classified under continuing operation under French GAAP (note 31 ad viii). As a result, Thomson’s operating income under U.S. GAAP has been increased in an amount of €280 million. This amount includes €196 million of restructuring costs.

Other items, recorded under “other income (expense)” under French GAAP have been reclassified to operating income under U.S. GAAP. The items reclassified to operating income under U.S. GAAP approximate €(80) million, €(86) million and €(15) million for the years ended as of December 31, 2004, 2003 and 2002, respectively. Main items are listed hereafter.

- In 2004, (a) a loss of €14 million that has been recognized in the Content & Network Segment that is related to an indemnity paid in relation with the acquisition of the PDSC business made in 2002, (b) a loss of €25 million that corresponds to costs incidental to the restructuring of Thomson’s displays activities and includes operational impairments amounted to €3 million (consisting primarily of the reduced production output that resulted from the restructuring announcement until the effective closure), a €6 million loss related to the settlement of pension obligation in the United States of America following the closure of Tubes & Glass Plants and a loss of €16 million on certain risks related to the exit of the business.
- Write offs of long lived assets (€36 million, €52 million and €15 million, in 2004, 2003 and 2002 respectively). Other suppliers commitments costs (nil, €1 million and nil, in 2004, 2003 and 2002 respectively).
- In 2003, under French GAAP, costs related to the decision to temporarily stop two of the Components segment’s large-size tube production lines (lines 1 and 2) in Marion, Indiana have been classified as non-current expenses and amount to €(18) million in 2003 (Note 6). These costs relate to costs incurred between February and June, the decision to definitively close the lines being announced on June 12, 2003. They include mainly employee unemployment costs (€(7) million), and operational impairment (€(10) million). Operational impairment is primarily the reduced production output that resulted from interplant job changes that are required by the seniority protection clauses in the Union contracts. Also, during 2003 €6 million of income

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

related to the reversal of a provision for litigation has been classified as a non-current gain (Judgment of the lawsuit in favour of Thomson); The accrual made was classified as an operating expense under U.S. GAAP and as a consequence the reversal has increased the operating income by the same amount. In addition during 2003, Thomson accrued for €(8) million of expense related to litigation in the Audio Video profit center. Under French GAAP this has been classified as a non current expense and as an operating expense under U.S. GAAP.

- Under French GAAP, in connection with litigations patents infringement settlements (note 3 and 6), the Group elected to classify under “Other income (expense)” the estimated amount in excess of “reasonable royalties to be paid” €0 million, €0 million and €(8) million in 2004, 2003 and 2002, respectively.
- In 2002, €10 million of the proceeds received from insurance recovery has been classified as a non-current item under French GAAP (Note 6). In addition, under French GAAP, in 2002, the Group recorded under “other income and expenses” the operational inefficiencies costs amounting to €(3) million in connection with fire damages in one of its Display and Components plant.
- In 2001, as part of a substantial reassessment of its product portfolio, the Group discontinued certain products or product lines, which have not resulted in restructuring plans. The related costs, mainly write-off of finished goods and raw material inventory (€(30) million), purchase order and other contract cancellation costs (€(18) million) and associated fixed asset write-offs (€(16) million) have been recorded as non-current items under French GAAP as of December 31, 2001. Under U.S. GAAP, such costs were reflected in 2001 in the operating income. In 2002, the Group succeeded in negotiating the reduction of certain contract cancellation costs mentioned above by €5 million. Therefore and consistently with 2001 classification, the Group classified such reversal as an exceptional gain under French GAAP.

The table below reconciles operating income under French GAAP to operating income under U.S. GAAP. Amounts displayed in the next table that would not have been explained here above, are fully explained in other parts of this reconciliation note.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	Year ended December 31,		
	2002	2003	2004
	(€ in millions)		
Operating income as reported in the Consolidated Statements of Operations	718	508	434
Adjustments			
Restructuring	1	(47)	(21)
Pension and termination benefits	(13)	(13)	5
Post retirement transition obligation	(2)	(18)	(18)
Forward exchange contracts	(10)	(10)	2
Stock based compensation	-	-	(5)
Capitalized development costs	-	-	(1)
Capitalized interest	(1)	-	-
Provision for year 2000 and Euro	(1)	-	-
Subsidiaries controlled but not consolidated	(2)	-	(1)
Recording of Singingfish acquisition	(13)	-	-
Purchase price allocation and Amortization of recognized intangible assets	(26)	(34)	(27)
Revenue recognition	3	(12)	21
Retention bonuses	(6)	(1)	-
Compensation (expense) gain related to employee offerings	(1)	(3)	(1)
In process R&D	-	(2)	(2)
Transactions costs	-	(9)	(1)
OCEANE costs	-	-	1
Long-term liabilities	-	-	1
Sub total –adjustments	(71)	(149)	(47)
Reclassifications			
Restructuring	(141)	(217)	(742)
In process R&D	(5)	-	-
Contracts cancellation costs	5	-	-
Fixed assets write-off	(15)	(52)	(36)
Other reclassifications	-	(34)	(44)
Pension plans interest costs	(26)	(24)	(25)
Discontinued operations	-	-	280
Sub total –reclassifications	(182)	(327)	(567)
Operating income according to U.S. GAAP	465	32	(180)

ac ii) Research and development expenses

Under U.S. GAAP, research and development expenses approximate €263 million, €285 million and €364 million for the years ended December 31, 2004, 2003 and 2002, respectively.

ac iii) Cost of sales

Under French GAAP, Thomson has classified certain costs in the consolidated income of operations as research and development costs in an amount of €16 million that are reclassified to costs of sales and general and administrative expenses under U.S. GAAP. As a result of the cost of sales increasing, the gross margin decreased in an amount of €7 million for year ended December 31, 2004 (2003: €5 million and 2002: €5 million). Finally, general and administrative expenses have been increased in an amount of €9 million for year ended December 31, 2004.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

In addition, research and development in process write-off on acquired entities has been reclassified from non-current under French GAAP to operating under U.S. GAAP in the amount of nil, nil, and €5 million for the years ended December 31, 2004, 2003 and 2002 (see Note 31 y iii).

In addition, under French GAAP, warranty costs of €82 million, €123 million and €150 million for the years ended December 31, 2004, 2003 and 2002, respectively, have been classified in selling general, and administrative expenses. Under U.S. GAAP, these amounts would be classified as cost of sales thus decreasing the gross margin by these respective amounts.

Under French GAAP, Thomson has classified cooperative advertising and promotions expenses, which have not been reclassified as a deduction of sales as required by the provision of the EITF 01-09 “Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendors Products”, under “selling, general and administrative expense” caption. Under U.S. GAAP, such costs should be classified as cost of sales, thus decreasing the gross margin by €25 million, €38 million and €53 million for the years ended December 31, 2004, 2003 and 2002, respectively.

ac iv) Additional information

Amortization of capitalized software costs was €12 million, €26 million and €29 million for 2004, 2003 and 2002 respectively.

Advertising costs are expensed as incurred. These costs were €45 million, €62 million and €75 million for the years ended December 31, 2004, 2003 and 2002 respectively.

Rental expense was €88 million, €122 million and €103 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The “other than temporary impairment” charge recorded under U.S. GAAP for listed securities amounted to €0 million, €0 million, and €11 million for the years ended as of December 31, 2004, 2003 and 2002, respectively.

Shipping and handling costs amounted to €294 million, €246 million and €302 million for the years ended as of December 31, 2004, 2003 and 2002 and were classified under cost of sales.

Revenue of the Group under French GAAP amounted to €7,994 million for the year ended December 31, 2004 and is broken down as follow – revenue from delivery of product amounts to €5,110 million, revenue from services amounts to €2,480 million and revenue from licenses amounts to €404 million.

(ad) Additional U.S. GAAP information

ad i) Other comprehensive income

SFAS No. 130, “Other Comprehensive Income,” defines comprehensive income as the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources. French GAAP does not require separate disclosure of all such changes in equity during a fiscal period.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Under U.S. GAAP, the following information would be displayed within the consolidated financial statements as either a separate statement or as a component of the consolidated statement of changes in shareholders' equity and minority interests:

	2002	2003	2004
		(€ in millions)	
Net Income According to US GAAP	351	(46)	(695)
Other Comprehensive Income			
Minimum Liability Adjustment	(37)	12	(12)
Foreign Currency Translation	(400)	(286)	(111)
Unrealized Gain (Loss) on Securities			
Unrealized Holding Gains (Losses) arising during the period	(227)	11	5
Less: Reclassification adjustments for gain included in net Income	1	-	-
Net Unrealized Gains (Losses) on securities	(226)	11	5
Tax effect of the above adjustments (*)	17	-	-
Comprehensive Income according to US GAAP	(295)	(309)	(813)

* Under U.S. GAAP the unrealized gain (loss) on securities is a temporary difference, the tax effect of which is partially offset by the reversal of the deferred tax valuation allowance in the amount of €98 million in 1999 and utilization of long-term capital losses carry-forward with the tax effect of €65 million in 1999. In 2001 and 2002 the decrease of the unrealized holding gains has resulted in the recognition of a deferred tax gain offsetting part of the deferred tax liability recorded in 1999.

If Thomson were to present consolidated financial statements in accordance with U.S. GAAP, the accumulated balances for minimum liability adjustment, foreign currency translation adjustments and unrealized gains on available-for-sale securities, respectively, would be disclosed on the face of the consolidated balance sheets, in the statements of changes in shareholders' equity and minority interests, or in the notes to the financial statements. The following table presents the accumulated balances of each classification noted above.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	MLA	CTA	Net unrealized gains	Total
(€ in millions)				
2002				
Balance at beginning of the year	(60)	86	209	235
current year change	(37)	(400)	(209)(*)	(646)
Balance at the end of the year	(97)	(314)	0	(411)
2003				
Balance at beginning of the year	(97)	(314)	0	(411)
current year change	12	(286)	11	(263)
Balance at the end of the year	(85)	(600)	11	(674)
2004				
Balance at beginning of the year	(85)	(600)	11	(674)
current year change	(12)	(111)	5	(118)
Balance at the end of the year	(97)	(711)	16	(792)

(*) The accumulated CTA on unrealized gain has been included under the column "foreign currency translation adjustments" and represents a decrease of €17 million in the current period change of CTA in the year 2002.

ad ii) Earnings per share under U.S. GAAP

Employee offering

Under French GAAP, the Employee Offering (Note 16) is treated as a capital increase and the average number of shares is computed after having considered the shares issued to employees.

Earnings per share according to U.S. GAAP, giving effect to the adjustments would be as follows:

	Year ended December 31,		
	2002	2003	2004
	(€ in millions)		
Net income before change in accounting principles (i)	351	(46)	(652)
Cumulative effect of change in accounting principle (ii)	-	-	(43)
Net income (i + ii)	351	(46)	(695)
Preferred dividend BASAs (a) (iii)	-	-	(23)
Income available to common stockholders before cumulative effect of change in accounting principle (iv = i + iii)	351	(46)	(675)
Income available to common stockholders (v = iv + ii)	351	(46)	(718)
Average number of shares basic U.S. GAAP	279,590,805	276,796,602	273,646,869
Earnings per share according to U.S. GAAP (iv) before change in accounting principles			
Basic	1.26	(0.17)	(2.46)
Diluted	1.21	(0.17)	(2.46)
Earnings per share according to U.S. GAAP of the cumulative effect of change in accounting principles (ii)			
Basic	-	-	(0.16)
Diluted	-	-	(0.16)
Earnings per share according to U.S. GAAP after cumulative effect of change in accounting principle (v)			
Basic	1.26	(0.17)	(2.62)
Diluted	1.21	(0.17)	(2.62)

(a) Related to BASA plan, offered to non-employees / non-directors as described in note 31(e), the difference between the subscribed price of €1 and the fair value of the option which gave right to purchase one Thomson share at €16 has been considered a preferred dividend.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Reconciliation of average number of shares from French to U.S. GAAP:

	2002	December 31, 2003	2004
Average number of shares used for French GAAP calculations as restated for October 1999 and June 16, 2000 stock splits.	277,240,438	276,796,602	273,646,869
Treasury shares loaned	2,350,367	-	-
Redeemable bonds	-	-	-
Average number of shares used for U.S. GAAP calculation (basic)	279, 590,805	276,796,602	273,646,869

The U.S. GAAP accounting treatment in connection with the treasury shares lent to third parties does not differ from French GAAP. The shares lent are directly credited to equity. Thomson transferred the control over the shares to the third party. Accordingly, for earnings per share purposes, these shares are treated as outstanding in 2002. Starting 2003, no further loan on treasury shares was granted by the Group.

“ORA” bonds issued on March 16, 2001 were redeemed in 15.5 million Thomson shares on March 16, 2002.

Reconciliation from basic earnings per share to diluted earnings per share:

	Income numerator	Shares Denominator	Per share Euro
(€ in millions)			
2004			
Earnings per share according to U.S. GAAP (basic)	(718)	273,646,869	(2.62)
Earnings per share according to U.S. GAAP (diluted)	(718)	273,646,869	(2.62)

As of year-end 2004, in addition to the OCEANEs 2000 & 2002 (Note 20) and promissory note to Carlton (Note 22), Thomson issued additional dilutive instruments convertible bonds (note 20), TCL call option (note 16 & 31(y)), TTE retention shares (note 31(e)), BASA's Thomson (Note 16 & 31(e)), written put option (Note 16) and Thomson 2004 stock option plans (Note 16 & 31(e)). These instruments were not included in the computation of diluted earning per share because they would not have been antidilutive.

	Income numerator	Shares Denominator	Per share Euro
(€ in millions)			
2003			
Earnings per share according to U.S. GAAP (basic)	(46)	276,796,602	(0.17)
Earnings per share according to U.S. GAAP (diluted)	(46)	276,796,602	(0.17)

As of year-end 2003, none potential shares (OCEANEs 2000 & 2002 (Note 20) and promissory notes issued to Carlton) have a dilutive effect on the earnings per share.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	Income numerator	Shares Denominator	Per share Euro
		(€ in millions)	
2002			
Earnings per share according to U.S. GAAP (basic)	351	279,590,805	1.26
Dilutive effect of convertible bonds (OCEANE 2002)	3	11,973,618	(0.04)
Dilutive effect of promissory notes issued to Carlton	2	4,000,000	(0.01)
Earnings per share according to U.S. GAAP (diluted)	356	295,564,423	1.21

As of year-end 2002, the OCEANEs 2000 (Note 20) are antidilutive on the earnings per share.

Subsequent event:

During the first half of 2005, the Group has acquired companies and has given Thomson shares as consideration. In addition, the Group gave stock options to some key employees.

Accordingly, Thomson has delivered a total of 2,351,647 shares and has delivered an additional total of 2,901,328 Thomson's shares by instalement during 2006, 2007 and 2008. An earn-out may also require the Group to deliver 87,075 additional shares. In case Thomson share drops from the closing date until the delivery/availability for sale of shares by the seller, Thomson will deliver additional shares as compensation so that the seller is guaranteed to get the originally determined price.

In addition, Thomson granted 3,861,756 stock options that may be exercised in different period from 2006 through 2008 at an exercise price which range from €20.33 (for 2,101,576 options) to €20.72 (for 1,760,000 options).

ad iii) Combined information concerning pro rata consolidated entities

In accordance with regulations of the U.S. Securities and Exchange Commission with respect to the use of the pro rata consolidation method, summarized financial information of the Company's assets, liabilities, revenues, expenses and cash flows related to investments accounted for using the pro rata consolidation method has been prepared as of December 31, 2004, 2003 and 2002.

The following table presents the entities consolidated under pro rata which summarized financial information is disclosed.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	2002	2003	2004
Thomson CITIC Digital Technology			✓
Nagra Thomson Licensing			✓
La luna Titra			✓
KeyMRO S.A.S. (*)		✓	✓
Thomson Broadcast and Media Solutions Nordic A/S		✓	✓
ScreenVision Europe entities sub-group (note 30)	✓	✓	✓
Screnvision acquisition 10, Inc.			✓
Screnvision acquisition 20, LLC.			✓
Technicolor Screen services, Inc.	✓	✓	✓
Thomson Zhaowei Multimedia Co Ltd (**)	✓	✓	✓
Cinema Billboard Network, LLC	✓	✓	✓
ScreenVision Cinema Network, LLC	✓	✓	✓
Screnvision Direct, Inc. (ex - Val Morgan Cinema Adv. Inc.)	✓	✓	✓
Technicolor Cinema Billboard, Inc.	✓	✓	✓
Technicolor Screen Advertising, Inc.	✓	✓	✓
Technicolor Digital Cinema LLC	✓		
Technicolor Cinema Advertising LLC	✓	✓	✓
3DCD LLC	✓	✓	✓
Easyplug SAS	✓		
Easyplug Inc.	✓		

(*) KeyMRO has been sold as of December 31, 2004 (see note 2).

(**) Zhaowei has been disinvested on July 31, 2004.

	2002	December 31, 2003	2003
		(€ in millions)	
Balance sheet			
Non current assets	104	79	66
Current assets	77	67	83
Non current liabilities	21	25	23
Current liabilities	42	26	25
Income statements			
Net sales	56	84	85
Cost of sales	(42)	(52)	(53)
Gain (loss) from operation	(17)	3	7
Net gain (loss)	(30)	(10)	1
Cash flow statements			
Cash flow from operating activities	(25)	(5)	4
Cash flow from investing activities	(12)	(4)	(4)
Cash flow from financing activities	(6)	2	-

ad iv) Goodwill information

Under U.S. GAAP, goodwill and indefinite-lived intangible assets are no longer amortized and are assessed for impairment on at least an annual basis. Intangible assets with finite lives are amortized over their estimated useful life.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The impairment test for goodwill involves a two-step process. Step one consists of a comparison of a “reporting unit’s” fair value to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below, if certain conditions are met. The fair value for goodwill is determined based on discounted cash flows, market multiple or appraised values, as appropriate. If the carrying value is greater than its fair value, goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit’s goodwill carrying value exceeds the “implied” fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit’s assets and liabilities (a hypothetical purchase price allocation). Thomson performed its annual impairment test as of June 30, 2002, 2003 and 2004.

For the year ended December 31, 2004, under U.S. GAAP, Thomson recorded impairment charges amounting to €27 million.

Thomson did not recognize any goodwill impairment charge for the years ended December 31, 2003 and 2002.

The goodwill impairment charge is reported under the operating income under U.S. GAAP.

Impairment of Indefinite-lived Intangible Assets

The impairment test for indefinite-lived intangible assets other than goodwill consists of comparing the carrying amount of these intangible assets to their fair value. Any excess of the carrying amount over an assets fair value is recorded as an impairment charge. Thomson completed the impairment test for these assets as of June 30, 2004 and determined that the fair value of these assets was in excess of the relative carrying amounts. Accordingly, no impairment charges were recorded for the year ended December 31, 2004 related to indefinite lived intangibles assets. No impairment charges were recognized for the years ended December 31, 2003 and 2002, as well.

Intangible assets acquired subject to amortization mainly consist of:

- Acquisitions in 2004 amounting to €193 million and primarily consisting of customer relationships of the HNS business (€175 million) and NOKIA (€3 million) as well as certain other technology rights for an amount of €15 million. The weighted average amortization period is 8 years
- Acquisitions in 2003 amounting to €116 million and primarily consisting of customer relationships of Duplitech (€32 million) and Vidfillm (€35 million) as well as certain other technology rights for an amount of €34 million. The weighted average amortization period is 15 years
- Acquisitions in 2002 amounting to €206 million and primarily consisting of customer relationships of Panasonic Disc Services Corporation (€85 million), supplier relationships of ScreenVision Europe (€22 million), certain rights on intellectual property acquired (€89 million) as well as acquired developed technology (€10 million). The weighted average amortization period is 13 years.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

	2002		2003		2004	
	Gross book value	Accumulated amortization	Gross book value	Accumulated amortization	Gross book value	Accumulated amortization
Customer and supplier relationship	393	(32)	397	(58)	548	(83)
Intellectual property rights	117	(27)	149	(37)	162	(45)
Other intangibles (mainly software)	195	(126)	141	(111)	139	(121)
Total definite life intangible assets	705	(185)	687	(206)	849	(249)

The aggregate amortization expense for intangible assets for the year ended December 31, 2004, 2003 and 2002 was €63 million, €66 million and €74 million, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for 2005 would be €73 million and €73 million for 2006 and each of the three following years.

No indefinite-lived intangible assets were acquired during the year ended December 31, 2004. Indefinite-lived intangible assets acquired during the year ended December 31, 2003 amounted to €24 million and primarily related to the Recoton acquisition. Indefinite-lived intangible assets acquired during the year ended December 31, 2002 amounted to €43 million and primarily related to the acquisition of Grass Valley Group.

The carrying amount of indefinite-lived intangible assets reached €289 million, €296 million and €321 million as of December 31, 2004, 2003 and 2002, respectively and was primarily related to Technicolor trademark, which is denominated in U.S. Dollars. As a consequence, changes in the carrying amount result from the impact of the conversion in euros of USD denominated intangible assets during 2004, 2003 and 2002.

The research and development assets acquired and written off in the year ended December 31, 2004, 2003 and 2002 amounted to €2 million, €2 million and €5 million, respectively (note 31 h).

Under U.S. GAAP, the aggregate amount of goodwill as of December 31, 2004, 2003 and 2002 amounted to €1,268 million, €1,198 million and €1,360 million, respectively, and is broken down as follows by reportable segment.

The roll forward goodwill by segment under U.S. GAAP is as follows:

	December 31, 2002**	December 31, 2003**	Change in goodwill*	Impairment or disposal**	CTA	December 31, 2004**
			(€ in millions)			
Content & Network	1,348	1,171	123	-	(57)	1,237
Consumer Products	10	25	5	(7)	-	23
Displays & Components	2	2	6	-	-	8
Total	1,360	1,198	134	(7)	(57)	1,268

(*) Changes in goodwill are either due to recent acquisition or to final purchase price allocation

(**) Goodwill on equity accounting investments and proportionally consolidated investments is not presented above.

ad v) Recently issued accounting pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123")

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the fourth quarter of fiscal 2005, beginning August 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on The Company's consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In July 2004, the FASB issued EITF Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock" ("EITF 02-14"). EITF 02-14 requires application of the equity method of accounting when an investor is able to exert significant influence over operating and financial policies of an investee through ownership of common stock or in-substance common stock. EITF 02-14 is effective for reporting periods beginning after September 15, 2004 and is required to be adopted by the Company beginning on January 1, 2005.

The Company is currently assessing the effect that the adoption of EITF 02-14 will have on its consolidated results of operations and financial condition, but does not expect EITF 02-14 to have a material impact.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs--An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing" to clarify that abnormal amounts of idle facility expense, excessive spoilage, freight, and handling costs are to be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2005.

The Company is currently assessing the effect that the adoption of SFAS 151 will have on its consolidated results of operations and financial condition, but does not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions" ("SFAS 153"). SFAS 153 amended APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

do not have commercial substance. SFAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2005. The provisions of SFAS 153 are required to be applied prospectively.

The Company is currently assessing the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition, but does not expect SFAS 153 to have a material impact.

ad vi) Cash flow presentation

The following table presents the reconciliation from net income to cash provided by operating activities in accordance with SFAS 95 "Statement of Cash-Flows" for the years ended 2004, 2003 and 2002.

	2002	December 31, 2003	2004
	(€ in millions)		
Net income (loss)	373	26	(636)
Minority interests	(13)	8	1
Adjustments to reconcile net income (loss) before minority interests to net cash provided by (used in) Operating activities:			
Equity result of unconsolidated subsidiaries (net of dividends received)	-	6	3
Depreciation of property, plant and equipment	358	302	278
Amortization of intangible assets	116	115	170
Amortization of customer contracts	66	136	144
Allowances for losses on fixed assets, investments and provision for retirement indemnities	117	13	15
Deferred taxes	(22)	(28)	4
Net gain on disposal of fixed assets	(79)	(50)	(208)
Changes in restructuring and other reserves items	(54)	82	536
Net change in net working capital:			
Decrease (increase) in inventories	155	120	(64)
Decrease (increase) in trade and other receivables	401	262	65
Increase (decrease) in trade accounts and notes payable and accrued expenses	(139)	258	(31)
Change in other current assets and current liabilities	(175)	(67)	124
Change in working capital	242	573	94
Net cash provided by operating activities	1,104	1,183	401
Interest paid	(22)	(40)	(29)
Income taxes paid	(205)	(60)	(123)

ad vii) Impairment of long-lived assets

On October 21, 2004, the Group announced its decision to exit the Tube business, (see note 18). As a result of this decision, the Group has reassessed the value of fixed assets of the Tube business. In

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

order to properly assess the related fair values, the Group has separated the operations into two main categories: (i) Assets that are to be held and used and (ii) Assets for which the Group has the intention to dispose them off and that meet definition of asset held for sale.

Estimates made by the Group's management that relate to the two above categories are further discussed here below:

Assets to be held and used: as of year ended December 31, 2004, the Group has determined that certain assets of its Tube business should remain held and used because the Group has no intention to dispose of them or because all criteria set forth by FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", were not met as of December 31, 2004. As a result, and based on a group of assets by group of assets fair value analysis that has been performed using various valuation techniques, the Group has written down long-lived assets of this category by €431 million for the year ended December 31, 2004.

As of December 31, 2004, the carrying value of such long lived asset amounts to €218 millions.

Assets held for sale: As of December 31, 2004, the group has determined that its assets relating to its Tube business currently held for sale should be carried at selling price less cost to sell. As a result the Group has recognized an impairment charge of €99 million related to this category of assets; after recording the €99 million impairment charge, its carrying value was reduced to nil.

ad viii) Discontinued operation

In 2004, Thomson disposed of certain affiliates or business components, which met FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" criteria for reporting as discontinued operations, as summarized below.

Anagni and Circleville

Thomson announced on October 21, 2004 the decision to change its strategy in the Display business, which is included in the Components Segment, either by sale, by incorporation of a joint venture or by abandonment. Following this announcement, as of December 31, 2004, the Anagni and Circleville plants have been classified as discontinued operations.

Anagni

As of December 31, 2004, Anagni plant assets and related liabilities met the criteria of assets held for sale as set forth by FAS 144. The sale of the entity occurred on of February 28, 2005. Under US GAAP, as of December 31, 2004, the assets held for sale totalling €101 million and the related liabilities of €178 million should be presented separately in the consolidated balance sheet. The assets are net of an impairment loss of €99 million. The assets held for sale mainly included a €65 million of inventories, net, €23 million in accounts receivable of and €7 million in other current assets and the liabilities held for sale mainly included €25 million of postretirement benefits reserve, €27 million of account payable and €111 million of inter-group liabilities.

Revenues under U.S. GAAP of the related group of assets amounted to €11 million, €26 million and €32 million for the years ended December 31, 2004, 2003 and 2002, respectively (after elimination of inter-company transactions). Net income under U.S. GAAP of the activity amounts to €(163) million, €(47) million and €6 million for the years ended December 31, 2004, 2003 and 2002, respectively. Pursuant to the provisions of FAS 144, the effect of the discontinuation of this group of asset is presented separately and included in income from discontinuing operations.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

Circleville

As of December 31, 2004, the Circleville plant was abandoned and represented as discontinued operation. Revenues under U.S. GAAP of the activity amounted to €0 million, €0 million and €2 million for the years ended December 31, 2004, 2003 and 2002, respectively (after elimination of inter-company transactions). Net income under U.S. GAAP of the activity amounted to €(104) million, €(26) million and €32 million for the years ended December 31, 2004, 2003 and 2002, respectively. Pursuant to provisions of FAS 144, the effect of the discontinuation of this group of asset is presented separately and included in income from discontinuing operations.

TAK

In 2002, Thomson decided to discontinue its activity of interactive home entertainment service to customers in the last quarter 2002 through the signature of agreements with an internet service provider to which such activity has been transferred. Such activity was run through its subsidiary TAK, which is part of the New Media Services segment.

Costs associated with these agreements, employee termination and exit costs as well as other operational cost amount to €0 million, €0 million and €(13) million for the years ended December 31, 2004, 2003 and 2002, respectively. Assets as of December 31, 2002 included a €4 million tax receivable from the French state. According to the provisions of SFAS 144, the effect of the discontinuation of this group of asset is presented separately and included in income from discontinuing operations.

SINGINGFISH

In 2002, Thomson disposed of its Singingfish's assets and liabilities.

Net income under U.S. GAAP of the activity, including the result of the disposal of its assets and liabilities reported by the entity amounted to €0 million, €(3) million and €(14) million for the years ended December 31, 2004, 2003 and 2002, respectively. According to the provisions of SFAS 144, the effect of the discontinuation of this group of asset is presented separately and included in income from discontinuing operations.

	2002	December 31, 2003	2004
	(€ in millions)		
Income from continuing operation before income taxes	407	98	(262)
Income taxes	(68)	(67)	(123)
Income from continuing operations	339	31	(385)
Discontinued operations			
Gain (loss) on discontinued operations	10	(81)	(284)
Income tax benefit	2	4	17
Gain (loss) on discontinued operations	12	(77)	(267)
Net income (loss) before cumulative effect of change in accounting principle	351	(46)	(652)
Change in accounting principle	-	-	(43)
Net income (loss)	351	(46)	(695)

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

ae) Schedule II

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Opening balance	Charged to costs and expenses	Reversal of provisions	Usage	Other movements*	Closing balance
(€ in millions)						
Valuation and qualifying accounts deducted from the related accounts:						
2004						
Trade accounts and notes receivable	48	-	(10)	-	4	42
Other investments	86	4	(4)	(3)	(3)	80
2003						
Trade accounts and notes receivable	67	-	(11)	-	(8)	48
Other investments	190	2	(19)	-	(87)	86
2002						
Trade accounts and notes receivable	79	24	(24)	-	(12)	67
Other investments	179	82	-	(49)	(22)	190
Liabilities - Other reserves:						
2004						
Losses on subsidiaries	59	-	(1)	(2)	(13)	43
Others	68	65	(28)	(32)	10	83
2003						
Losses on subsidiaries	51	4	-	-	4	59
Others	73	28	(17)	(40)	24	68
2002						
Losses on subsidiaries	52	8	(1)	(3)	(5)	51
Others	81	44	(21)	(42)	11	73

* Includes changes in scope of consolidation and currency translation adjustments.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(af) Change in Accounting principle - Variable interest entities and related transactions

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ("FIN 46"). The primary objectives of FIN 46 were to provide guidance on the identification of entities for which control is achieved through means other than through voting rights and how to determine when and which business enterprise should consolidate the variable interest entity ("VIE"). This Interpretation applies immediately to VIEs created after January 31, 2003.

In December 2003, the FASB published a revision to FIN 46 ("FIN 46R"), in part to clarify certain of its provisions. Among other things, FIN 46R deferred the effective date for VIEs created prior to February 1, 2003 to the end of the first reporting period that ends after March 15, 2004. For Thomson, the effective date to account for VIEs created prior to February 1, 2003 is the period ended December 31, 2004. FIN 46R requires consolidation of VIEs by business enterprises considered to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are ownership, contractual, or other pecuniary interests in an entity. The primary beneficiary is required to consolidate the assets, liabilities, and results of the activities of the VIE. FIN 46R requires additional disclosures relating to transactions involving VIEs to be made by primary beneficiaries and enterprises holding significant variable interests in VIEs.

For entities created before January 31, 2003, Thomson consolidated two SPEs beginning January 1, 2004, under both French GAAP (as discussed in Notes 1, 2 and 24 to these annual consolidated financial statements) and U.S. GAAP, because they are both VIEs for which Thomson holds the majority of expected losses and is the primary beneficiary. Due to differences between the treatment of the first time consolidation in French GAAP (impact reflected through shareholder's equity as of January 1, 2004) and U.S. GAAP (accounted under the caption of the statement of operation as a cumulative effect of change in accounting principle), a €(43) million adjustment was included in the cumulative effect of change in accounting principle in the statement of operations for fiscal year 2004.

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

32. U.S. GAAP RECONCILIATION

(a) Net income

	Year Ended December 31,		
	2002	2003	2004
	(€ in millions)		
Net income as reported in the Consolidated Statements of operations	373	26	(636)
a) Investment securities	(1)	(4)	-
b) Restructuring (and cancellation of impairment reversal)	1	(47)	(21)
c) Pensions and termination benefits	(13)	(13)	5
d) Postretirement transition obligation	(2)	(17)	(18)
e) Stock based compensation	-	-	(5)
f i) Forward exchange contracts	7	(5)	10
f ii) Derivatives and hedging activities	(47)	(5)	-
f iii) Bonds convertible into shares or redeemable for cash	-	-	(85)
h) Capitalized development costs	-	(2)	(3)
i) Capitalized interest	(1)	-	-
j) Provision for year 2000 and Euro	(1)	-	-
k) Subsidiaries controlled but not consolidated	2	(2)	(2)
l) Philips Professional Broadcast 33% minority interests	(3)	-	-
m) Compensation (expense) gain related to employee offerings / Bonus shares	(1)	(3)	(1)
n) Sale-leaseback accounting	5	5	5
p) Recording of Singingfish acquisition	(4)	6	-
q) Purchase price allocation and Amortization of recognized intangible assets	(26)	(34)	(27)
r) BTS purchase price allocation	-	-	-
s) Goodwill amortization and impairment SFAS 142	74	74	96
t) Revenue recognition	3	(12)	21
v) Retention bonuses	(6)	(1)	-
w) FIN 45 – recognition of guarantee given	-	(4)	4
x) Transactions costs	-	(9)	7
y) Sale of written Call	-	-	(4)
z) Discount of long term assets & liabilities	-	-	1
aa) Reversal of deferred tax valuation allowance and tax effects of the above adjustments	(10)	1	1
Minority Interests	(1)	-	-
Net income (loss) before cumulative effect of change in accounting principle according to U.S. GAAP	351	(46)	(652)
af) Change in accounting principle - Variable Interest Entities	-	-	(43)
Net income (loss) according to U.S. GAAP	351	(46)	(695)

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

All amounts indicated in the tables are expressed in millions of euro, unless otherwise stated

(b) Shareholders' equity

	Year Ended December 31,		
	2002	2003	2004
	(€ in millions)		
Shareholders' equity as reported in the Consolidated balance sheet	3,947	3,583	2,670
a) Investment securities	(1)	6	11
b) Restructuring	5	(44)	(66)
c) Pensions and termination benefits	(99)	(101)	(107)
d) Postretirement transition obligation	59	32	14
f i) Forward exchange contracts	5	(1)	9
f ii) Derivatives and hedging activities	-	(5)	(5)
f iii) Bonds convertible into shares or redeemable for cash	-	-	(85)
g) Asset reevaluations	(4)	(4)	(4)
h) Capitalized development costs	-	(2)	(5)
i) Capitalized interest	1	1	-
k) Subsidiaries controlled but not consolidated	2	-	(2)
l) Philips Professional Broadcast 33.33% minority interests	(2)	(2)	(2)
m) Employee offering / bonus shares	-	-	-
n) Sale-leaseback accounting	(19)	(13)	(8)
p) Recording of Singingfish acquisition	(4)	-	-
q) Purchase price allocation and Amortization of recognized intangible assets	(44)	(67)	(86)
r) BTS purchase price allocation	1	1	1
s) Goodwill amortization and impairment SFAS 142	70	130	212
t) Revenue recognition	(15)	(26)	(6)
u) Easyplug gain on assets contribution	(3)	(3)	(3)
v) Retention Bonus	(6)	(7)	(7)
w) FIN 45 – recognition of guarantee given	-	(4)	-
x) Transactions costs	-	(9)	(2)
y) Sale of written Call	-	-	(8)
z) Discount of long term assets & liabilities	-	-	1
aa) Reversal of deferred tax valuation allowance and tax effects of the above adjustments	(33)	(32)	(31)
Minority Interests	1	-	(1)
Shareholders' equity according to U.S. GAAP	3,859	3,433	2,492

The accompanying notes are an integral part of the consolidated financial statements.