

Technicolor Group

TECHNICOLOR UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

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UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(€ in millions)	Note	Six months ended June 30,	
		2011 Unaudited	2010 Unaudited ⁽¹⁾
Continuing operations			
Revenues		1,559	1,499
Cost of sales		(1,260)	(1,186)
Gross margin		299	313
Selling and administrative expenses	(7)	(197)	(202)
Research and development expenses	(8)	(65)	(78)
Other income (expense)	(7)	(25)	(11)
Profit from continuing operations before tax and net finance income (expense)		12	22
Interest income	(9)	4	3
Interest expense	(9)	(78)	(44)
Gain on Technicolor's debt restructuring on May 26, 2010	(9)	-	381
Other financial income (expense)	(9)	(18)	(128)
Net finance income (expense)		(92)	212
Share of loss from associates		(1)	-
Income tax	(10)	(13)	(14)
Profit (loss) from continuing operations		(94)	220
Discontinued operations			
Net loss from discontinued operations	(0)	(18)	(124)
Net income (loss)		(112)	96
Attributable to:			
- Equity Holders		(112)	96
- Non-controlling interests		-	-
		Six months ended June 30,	
		2011	2010
		Unaudited	Unaudited
Weighted average number of shares outstanding (basic net of treasury stock)		206,807,162	51,601,849
Earnings (loss) per share from continuing operations (22)			
- basic		(0.45)	3.95
- diluted		(0.42)	3.19
Earnings (loss) per share from discontinued operations			
- basic		(0.09)	(2.4)
- diluted		(0.08)	(1.93)
Total earnings (loss) per share			
- basic		(0.54)	1.55
- diluted		(0.50)	1.26

(1) See Note 4 "Reconciliation with consolidated financial statements released as of June 30, 2010"

The accompanying notes on pages 8 to 46 are an integral part of these unaudited interim condensed consolidated financial statements.

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UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(€ in millions)	Note	Six months ended June 30,	
		2011 Unaudited	2010 Unaudited
Net income (loss) for the period		(112)	96
Actuarial gains and (losses) ⁽¹⁾	(19)	9	(35)
Fair value gains (losses), gross of tax on available-for-sale financial assets :			
- fair value adjustments of the period		-	11
- reclassification adjustments to income on disposal of available-for-sale financial assets		-	(10)
Fair value losses, gross of tax on cash flow hedges :			
- on cash flow hedges before the hedged transactions affect profit or loss		(1)	(7)
- reclassification adjustments when the hedged forecast transactions affect profit or loss		-	(6)
Currency translation adjustments of the period ⁽²⁾		(38)	(18)
<i>Total other comprehensive loss</i> ⁽³⁾		(30)	(65)
Total comprehensive income (loss) for the period		(142)	31
<i>Attributable to:</i>			
- <i>Equity holders of the parent</i>		(142)	31

(1) Includes zero million and €(4) million related to held for sale businesses as of June 30, 2011 and June 30, 2010, respectively.

(2) Includes zero million and €(66) million related to held for sale businesses as of June 30, 2011 and June 30, 2010, respectively. The currency translation adjustments reclassified on disposal of a foreign operation amount to zero as of June 30, 2011 and June 30, 2010.

(3) Tax effect of the other comprehensive gains and losses is zero as of June 30, 2011 and June 30, 2010.

The accompanying notes on pages 8 to 46 are an integral part of these unaudited interim condensed consolidated financial statements.

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UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(€ in millions)</i>	<i>Note</i>	<u>June 30, 2011 Unaudited</u>	<u>December 31, 2010 Audited</u>
ASSETS			
Non-current assets:			
Property, plant and equipment		412	430
Goodwill	<i>(12)</i>	600	644
Other intangible assets	<i>(12)</i>	453	512
Investments in associates		10	12
Investments and available-for-sale financial assets		8	4
Derivative financial instruments	<i>(18)</i>	3	6
Contract advances and up-front prepaid discount		49	73
Deferred tax assets	<i>(10)</i>	462	488
Income tax receivable		35	48
Other non-current assets		76	63
Cash collateral and security deposits	<i>(13)</i>	15	19
Total non-current assets		<u>2,123</u>	<u>2,299</u>
Current assets:			
Inventories		137	153
Trade accounts and notes receivable		445	666
Current accounts with associates and joint-ventures		-	4
Derivative financial instruments	<i>(16)</i>	1	-
Income tax receivable		9	17
Other current assets		294	318
Cash collateral and security deposits	<i>(13)</i>	49	55
Cash and cash equivalents	<i>(13)</i>	314	332
Assets classified as held for sale	<i>(11)</i>	45	90
Total current assets		<u>1,294</u>	<u>1,635</u>
Total assets		<u>3,417</u>	<u>3,934</u>

The accompanying notes on pages 8 to 46 are an integral part of these unaudited interim condensed consolidated financial statements.

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UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(€ in millions)	Note	June 30, 2011 Unaudited	December 31, 2010 Audited
EQUITY AND LIABILITIES			
Shareholders' equity:			
	(14)		
Common stock (174,846,625 shares at June 30, 2011 with nominal value of €1 per share)		175	175
Treasury shares		(156)	(156)
Additional paid-in capital		641	641
Subordinated perpetual notes		500	500
Notes redeemable in shares		281	278
Other reserves		96	87
Retained earnings (accumulated deficit)		(903)	(791)
Cumulative translation adjustment		(269)	(231)
Shareholders' equity		365	503
Non-controlling interests		2	2
Total equity		367	505
Non-current liabilities:			
Borrowings	(17)	1,216	1,278
Retirement benefits obligations	(19)	312	332
Restructuring provisions	(20)	4	7
Other provisions	(20)	101	97
Deferred tax liabilities	(10)	172	193
Other non-current liabilities		105	131
Total non-current liabilities		1,910	2,038
Current liabilities :			
Borrowings	(17)	58	47
Retirement benefits obligations	(19)	36	46
Restructuring provisions	(20)	35	49
Other provisions	(20)	69	69
Trade accounts and notes payable		378	528
Accrued employee expenses		141	158
Income tax payable		21	17
Other current liabilities		374	374
Liabilities classified as held for sale	(11)	28	103
Total current liabilities		1,140	1,391
Total liabilities		3,050	3,429
Total equity and liabilities		3,417	3,934

The accompanying notes on pages 8 to 46 are an integral part of these unaudited interim condensed consolidated financial statements.

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UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(€ in millions)

	Note	Six months ended June 30,	
		2011 Unaudited	2010 Unaudited ⁽¹⁾
Net income (loss)		(112)	96
Loss from discontinued operations		(18)	(124)
Profit (loss) from continuing operations		(94)	220
<i>Summary adjustments to reconcile profit (loss) from continuing operations to cash generated from continuing operations</i>			
Depreciation and Amortization		121	117
Impairment of assets		14	1
Net changes in provisions		(20)	(11)
(Profit) / loss on asset sales		(2)	(6)
Interest (income) and expense		74	41
Gain on Technicolor's debt restructuring on May 26, 2010	(9)	-	(381)
Other non cash items (including tax)		24	52
Changes in working capital and other assets and liabilities		65	7
Cash generated from continuing operations		182	40
Interest paid		(62)	(51)
Interest received		3	3
Income tax (paid) / received		4	(12)
Net operating cash generated from / (used in) continuing activities		127	(20)
Net operating cash used in discontinued operations	(11)	(12)	(20)
Net cash from / (used in) operating activities (I)		115	(40)
Acquisition of subsidiaries, associates and investments, net of cash acquired		(5)	(2)
Net cash impact from sale of investments		(2)	19
Purchases of property, plant and equipment (PPE)		(59)	(67)
Proceeds from sale of PPE and intangible assets		4	3
Purchases of intangible assets including capitalization of development costs		(29)	(12)
Cash collateral and security deposits granted to third parties		(12)	(2)
Cash collateral and security deposits reimbursed by third parties		20	29
Loans (granted to) / reimbursed by third parties		(2)	-
Net investing cash used in continuing activities		(85)	(32)
Net investing cash generated from / (used in) discontinued operations	(11)	(1)	5
Net cash used in investing activities (II)		(86)	(27)
Increase in capital	(23)	-	203
Proceeds from borrowings		1	1
Repayments of borrowings		(11)	(255)
Fees paid linked to the debt and capital restructuring	(23)	(2)	(30)
Payment of the interests claims of TSS holders	(23)	-	(25)
Net financing cash used in continuing activities		(12)	(106)
Net financing cash used in discontinued operations	(11)	(1)	(2)
Net cash used in financing activities (III)		(13)	(108)
Net (decrease) / increase in cash and cash equivalents (I+II+III)		16	(175)
Cash and cash equivalents at beginning of period		332	569
Exchange gain / (losses) on cash and cash equivalents		(22)	22
Cash and cash equivalents at end of period		326 (*)	416

(1) See Note 4 "Reconciliation with interim consolidated financial statements released as of June 30, 2010"

(*) Including €12 million of cash classified within "assets held for sale" (see note 0).

The accompanying notes on pages 8 to 46 are an integral part of these unaudited interim condensed consolidated financial statements.

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UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(€ in millions)	Attributable to equity holders of the Group								Non-	Total equity	
	Share capital	Treasury shares	Additional paid-in capital	NRS	Perpetual Notes	Other reserves	Retained earnings	Cumulative translation adjustment	Total Group equity (deficit)	controlling interest	(deficit)
Balance at December 31, 2009	1,012	(156)	1,643	-	500	112	(3,340)	(226)	(455)	2	(453)
Variation for the period ended June 30, 2010											
<i>Total other comprehensive loss (*)</i>	-	-	-	-	-	(47)	-	(18)	(65)	-	(65)
<i>Net income for the period</i>	-	-	-	-	-	-	96	-	96	-	96
Total comprehensive income for the period	-	-	-	-	-	(47)	96	(18)	31	-	31
Reduction of share capital through a reduction in the nominal value of the shares	(985)	-	(1,643)	-	-	-	2,628	-	-	-	-
May 2010 increase in capital by issuance of 526,608,781 new shares (note 14)	53	-	295	-	-	-	-	-	348	-	348
Fees linked to the issuance of new shares	-	-	(9)	-	-	-	-	-	(9)	-	(9)
Issuance of notes redeemable in shares of the Company (NRS) (note 14)	-	-	-	638	-	-	-	-	638	-	638
Fees linked to the issuance of NRS	-	-	-	(16)	-	-	-	-	(16)	-	(16)
Tax impact on fees paid to the issuance of new shares and NRS (***)	-	-	1	3	-	-	-	-	4	-	4
Gain on the debt extinguishment through issuance of equity instruments (**)	-	-	(20)	(100)	-	-	-	-	(120)	-	(120)
Payment of the interest claims of the TSS holders	-	-	-	-	-	-	(25)	-	(25)	-	(25)
Tax impacts on interest claims paid on TSS and treasury shares (***)	-	-	-	-	-	-	13	-	13	-	13
Other	-	-	-	-	-	-	1	-	1	-	1
Balance at June 30, 2010	80	(156)	267	525	500	65	(627)	(244)	410	2	412
Variation for the semester ended December 31, 2010											
<i>Total other comprehensive gain (*)</i>	-	-	-	-	-	21	-	13	34	-	34
<i>Net income for the period</i>	-	-	-	-	-	-	(165)	-	(165)	-	(165)
Total comprehensive income for the period	-	-	-	-	-	21	(165)	13	(131)	-	(131)
Capital increase linked to DPN reimbursement	50	-	163	-	-	-	-	-	213	-	213
NRS converted into equity	45	-	204	(249)	-	-	-	-	-	-	-
Fees linked to the issuance of NRS	-	-	-	(1)	-	-	-	-	(1)	-	(1)
Tax impacts on debt restructuring	-	-	7	3	-	-	-	-	10	-	10
Other tax impacts on equity	-	-	-	-	-	-	1	-	1	-	1
Share-based payment to employees	-	-	-	-	-	1	-	-	1	-	1
Balance at December 31, 2010	175	(156)	641	278	500	87	(791)	(231)	503	2	505
Variation for the period ended June 30, 2011											
<i>Total other comprehensive income (*)</i>	-	-	-	-	-	8	-	(38)	(30)	-	(30)
<i>Net income (loss) for the period</i>	-	-	-	-	-	-	(112)	-	(112)	-	(112)
Total comprehensive income for the period	-	-	-	-	-	8	(112)	(38)	(142)	-	(142)
Tax impact on NRS interest of the period	-	-	-	3	-	-	-	-	3	-	3
Other	-	-	-	-	-	1	-	-	1	-	1
Balance at June 30, 2011	175	(156)	641	281	500	96	(903)	(269)	365	2	367

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

(**) Refer to details in note 17.

(***) Due to full recognition of French consolidated loss carried forwards, €17 million of deferred tax assets related to fees on issuance of new shares and NRS, interest claims paid to TSS holders and losses on treasury shares have been recognized.

The accompanying notes on pages 8 to 46 are an integral part of these interim unaudited condensed consolidated financial statements.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 General information

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

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

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

The interim condensed consolidated financial statements were approved by the Board of Directors of Technicolor SA and authorized for issuance on July 27, 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared on the basis of the Group continuing to operate as a going concern (see Note 3.1 for more detailed information) and in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (EU) as of July 27, 2011, which include IAS 34 “Interim Financial Reporting”.

IFRSs include the standards approved by the International Accounting Standards Board (“IASB”), that is, International Accounting Standards (“IASs”) and accounting interpretations issued by the IFRS Interpretations Committee, formerly known as the International Financial Reporting Interpretations Committee (“IFRIC”), or issued by the former Standing Interpretations Committee (“SIC”).

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

These interim condensed consolidated financial statements should be read in conjunction with the 2010 annual IFRS consolidated financial statements.

The accounting policies applied by the Group are consistent with those followed in the preparation of the Group’s annual IFRS Consolidated Financial Statements for the year ended December 31, 2010 and described in Note 2 to the 2010 annual consolidated financial statements, which are an integral part of the 2010 Group’s Annual Report, except for the following standards, amendments and interpretations which have been applied for the first time.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2.2 Standards, amendments and interpretations effective as of January 1, 2011 and applied as of January 1, 2011

New standard or interpretation	Main provisions	Main impacts on the 2011 interim condensed consolidated financial statements
Improvements to IFRSs (May 2010)	The IASB issued Improvements to IFRSs – a collection of amendments to seven International Financial Reporting Standards – as part of its program of annual improvements to its standards.	The application of this amendment since January 1, 2011 had no material impact on the Group interim condensed consolidated financial statements.
IAS 24, Related Party Disclosures – Revised definition of related parties (revised)	The revised standard provides a partial exemption for government-related entities and a revised definition of a related party.	The application of this revised standard since January 1, 2011 had no impact on the Group interim condensed consolidated financial statements.
IAS 32, Financial Instruments: Presentation – Amendments relating to classification of rights issues	The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.	The application of this revised standard since January 1, 2011 had no impact on the Group interim condensed consolidated financial statements
IFRIC 14, Prepayments of a Minimum Funding Requirement (amendment)	The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.	The application of this revised standard since January 1, 2011 had no impact on the Group interim condensed consolidated financial statements.

2.3 Standards, amendments and interpretations that are effective and have been early adopted by Technicolor as of January 1, 2010

New standard or interpretation	Main provisions	Main impacts on the 2011 interim condensed consolidated financial statements
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	<p>IFRIC 19 clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially:</p> <ul style="list-style-type: none"> - the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability. - the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. - the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. 	<p>Technicolor has elected to apply IFRIC 19 by anticipation in the 2010 interim condensed consolidated financial statements. The main impact of this interpretation in the 2010 interim condensed consolidated financial statements is the recognition of a financial non-cash gain of €150 million, representing the difference between the carrying amount of the debt extinguished by the debt restructuring process and the fair value of the equity instruments remitted at May 26, 2010. (see notes 1.2, 3.9, 23 and 26 to the 2010 annual consolidated financial statements for more information).</p> <p>The impact of the gain on earnings per share in the 2010 interim condensed consolidated financial statements of IFRIC 19 is as follows:</p> <ul style="list-style-type: none"> • basic: 2.91 • diluted: 2.33 <p>There is no impact of IFRIC 19 in the 2011 interim condensed consolidated financial statements.</p>

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

New standard	Effective Date	Main provisions
IFRS 9, Financial Instruments – Classification and Measurement	Annual periods beginning on or after January 1, 2013	IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.
IFRS 10, Consolidated Financial Statements	Annual periods beginning on or after January 1, 2013.	IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, Consolidation - Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements.
IFRS 11, Joint Arrangements	Annual periods beginning on or after January 1, 2013.	IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
IFRS 12, Disclosure of Interests in Other Entities	Annual periods beginning on or after January 1, 2013.	IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.
IFRS 13, Fair value measurement	Annual periods beginning on or after January 1, 2013	IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements.
IFRS1, Severe Hyperinflation and removal of Fixed Dates for first time adoption (amendment)	Annual periods beginning on or after July 1, 2011.	This amendment provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.
IFRS 7, Disclosure – transfers of Financial Assets (amendments)	Annual periods beginning on or after July 1, 2011.	These amendments allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
IAS 1, Presentation of Financial Statements (amendments)	Annual periods beginning on or after July 1, 2012.	The amendments to IAS 1 only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be 'recycled' (e.g. cash-flow hedging, foreign currency translation), and those elements that will not.
IAS 12, Deferred tax - Recovery of Underlying Assets (amendment)	Annual periods beginning on or after January 1, 2012.	This amendment applies when an asset is measured using the fair value model in IAS 40 <i>Investment Property</i> .
IAS 19, Employee Benefits (amendments)	Annual periods beginning on or after January 1, 2013	These amendments include the main following items: <ul style="list-style-type: none"> Require recognition of changes in the net defined benefit liability (asset) in other comprehensive income (end of the corridor approach) Introduce enhanced disclosures about defined benefit plans Modify accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits

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

2.5 Functional and presentation currency

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

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2.6 Basis of measurement

The IFRS financial information has been prepared using the historical cost convention with some exceptions regarding various assets and liabilities, for which specific provisions recommended by the IFRS have been retained: available-for-sale financial assets at fair value, derivative financial instruments and financial assets at fair value through profit and loss, and initial recognition of a financial assets or liability at fair value.

2.7 Use of estimates

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

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

2.8 Translation of foreign currency transactions

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

	Closing rate		Average Rate	
	June 2011	December 2010	June 2011	June 2010
US dollar (US\$)	0.68937	0.74898	0.70374	0.76111
Pound sterling (GBP)	1.10963	1.15922	1.14120	1.15835
Canadian dollar (CAD)	0.71276	0.74999	0.72263	0.73151

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key assumptions retained were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2010 except for the main following estimates that have been reassessed as of June 30, 2011:

3.1 Going concern

The interim condensed consolidated financial statements as of June 30, 2011 were approved by the Board of Directors on July 27, 2011 on a going concern basis.

Certain legal proceedings that have been initiated relating to the *Sauvegarde* Plan continue (see note 25). As the appeal did not stay the implementation of the *Sauvegarde* Plan, and the appellants did not

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request a temporary injunction of the execution of the judgment of the Nanterre Commercial Court of February 17, 2010, the Group completed the transactions necessary for the execution of the *Sauvegarde* Plan within the timetable contemplated therein.

In their appeal, the TSS holders have requested the nullification of the General Meeting of Creditors and the re-opening of the *Sauvegarde* proceeding or, alternatively, a modification of the *Sauvegarde* Plan in a manner more favorable to the TSS holders, or ultimately, the treatment of the TSS holders outside of the *Sauvegarde* Plan. On November 18, 2010, the Versailles Court of Appeal dismissed the claims of the appellants and confirmed the validity of Technicolor's *Sauvegarde* Plan. Nevertheless, certain TSS holders appealed on February 14, 2011 to the French Supreme Court (*Cour de cassation*) through a *pourvoi en cassation* procedure against the decision of the Versailles Court of Appeal. There is therefore a risk that the *Sauvegarde* Plan will be terminated with retroactive effect (i) if the *Cour de cassation* reverses the decision of the Versailles court of appeal and judges, on its own, that the *Sauvegarde* Plan is invalid, or (ii) in case the *Cour de cassation* remands the matter to another court of appeal (*Cour d'appel de renvoi*) and such Court of Appeal were to find in favor of the TSS holders.

The Group believes it has sound arguments to contest the demands of the appellants and remains confident regarding the outcome of this proceeding.

The Board of Directors also considered the Group's cash flow projections as of June 30, 2011 which support the operating performance and sensitivities and believes that the Group can meet its expected cash requirements and address potential financial consequences of ongoing litigation, until at least June 30, 2012.

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

3.2 Tangible and intangible assets with finite useful lives

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

For the period ended June 30, 2011, the Group recognized depreciation expense amounting to €55 million related to PPE and amortization expense of €42 million for intangible assets with finite useful lives (these figures exclude the depreciation expense recorded within the loss from discontinued operations). As of June 30, 2011, the net carrying amount of PPE and intangible assets with finite useful lives amounted to €412 million and €259 million, respectively (excluding PPE and intangible assets classified as held for sale).

In order to ensure that its assets are carried at no more than their recoverable amount, Technicolor evaluates at each reporting date certain indicators that would result, if applicable, in the calculation of an impairment test in accordance with the accounting policy stated in Note 2 of the 2010 consolidated financial statements. The recoverable amount of an asset or group of assets may require the Group to use estimates, to assess the future cash flows expected to arise from the asset or group of assets and a suitable discount rate in order to calculate present value. Any negative change in relation to the operating performance or the expected future cash flows of individual assets or group of assets will change the expected recoverable amount of these assets or groups of assets and therefore may require a write-down of their carrying amount.

As of June 30, 2011, the Group reviewed its triggering indicators and determined that some amortizable assets and cash generating units may have lost value.

Consequently, the Group recognized an impairment of €7 million related to tangible assets and €7 million related to intangible assets (see Note 7).

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

The Group reviews annually goodwill and other indefinite-lived intangible assets for impairment in accordance with the accounting policy stated in Note 2 of the 2010 consolidated financial statements.

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Such review requires management to make material judgments and estimates when performing impairment tests.

Technicolor's management believes its policies relating to such impairment testing are critical accounting policies involving critical accounting estimates because determining the recoverable amount of cash-generating units requires (1) determining the appropriate discount rate to be used to discount future expected cash flow of the cash-generating unit and (2) estimating the value of the operating cash flows including their terminal value, the growth rate of the revenues generated by the assets tested for impairment, the operating margin rates of underlying assets for related future periods and the royalty rates for trademarks. These assumptions used by the Group for the determination of the recoverable amount are described in Note 14 of the 2010 consolidated financial statements.

In addition to the annual review for impairment, Technicolor evaluates at each reporting date certain indicators that would result, if applicable, in the calculation of an additional impairment test in accordance with the accounting policy stated in Note 2 of the 2010 consolidated financial statements. Following this review, Technicolor has therefore considered the recoverable amount of those continuing goodwill reporting units which had a lower than expected economic performance during the first semester of 2011. This review did not indicate the need for any impairment charge with respect of these assets.

As of June 30, 2011, the net book value of goodwill and other intangibles amounts to €600 million (excluding goodwill classified as held for sale) and €194 million, respectively.

3.4 Deferred tax

Management judgment is required to determine the Group's deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized in accordance with the accounting policy stated in Note 2 of the 2010 consolidated financial statements. When a specific subsidiary has a history of recent losses, future positive taxable income is assumed improbable, unless the asset recognition can be supported for reasons such as (1) the losses having resulted from exceptional circumstances which are not expected to re-occur in the near future, and/or (2) the expectation of exceptional gains or (3) future income to be derived from long-term contracts. The Group considered tax-planning in assessing whether deferred tax assets should be recognized.

Given the finalization of the debt restructuring process and the better visibility of the future taxable profit in France, the remaining unrecognized French tax losses carried forward were recognized at June 30, 2010. The impact amounted to €38 million in the interim consolidated statement of operations and €17 million in Equity.

As of June 30, 2011, the Group's deferred tax liabilities and deferred tax assets amount to respectively, €172 million €462 million reflecting management's estimates of their recoverable amount.

3.5 Provisions and litigation

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

3.6 Impact of our debt restructuring on financial result as of June 30, 2010

The allocation of the carrying value of the extinguished debt between the part extinguished through issuance of equity instruments and the part extinguished through new debts has been determined based on the restructuring agreement signed on July 24, 2009 with the majority of its creditors. In compliance with IFRIC 19 the difference between the carrying value of the financial debt extinguished through issuance of equity instruments and the fair value of equity instruments issued has been recognized in "other financial income and expense" of the Group consolidated statement of operations under the line "Gain on Technicolor's debt restructuring on May 26, 2010" for an amount of €150 million.

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In making its evaluation of the fair value of new shares, management considered the opening price of Technicolor's shares on the Euronext Paris on May 26, 2010. The evaluation of the fair value of the NRS was considered to be the value of new shares except for the NRS IIC for which management made an estimate of the cash option value that reduces the fair value.

In compliance with IAS 39, the restructuring of the remaining debt after partial conversion into equity instrument has been treated as a debt extinguishment of Technicolor's original debt and the recognition of a new financial debt. In compliance with IAS 39-43, the new financial debt has been recognized at fair value, resulting in a gain in the consolidated statement of operations under the line "Gain on Technicolor's debt restructuring on May 26, 2010" for an amount of €229 million.

Because Technicolor's debt is not listed, in making the evaluation of the fair value, management considered a mix of parameters such as the listed price of debts of companies having a comparable S&P and Moody's rating and the trading of the Group's debt in private transactions when available.

For further details, refer to notes 1.2 and 23 and 26 to the 2010 consolidated financial statements.

4 RECONCILIATION WITH INTERIM CONSOLIDATED FINANCIAL STATEMENTS RELEASED AS OF JUNE 30, 2010

According to IFRS 5, the consolidated statement of operations for the comparative period has to be restated in order to reflect the effect of the scope of discontinued operations defined as of June 30, 2011.

For the first semester 2011, there has been no change in discontinued perimeter as compared to June 2010 with the exception of PRN.

For PRN, Technicolor has decided during Q4 2010 to end the disposal process. Accordingly, PRN which was classified as a discontinued operation in June 2010 has been reclassified into continued operations and withdrawn from Assets held for sale classification. Accordingly the interim consolidated statement of operations of June 2010 has been restated with this reclassification in continuing operations.

The column "IFRS 5" below represents the statement of operations of PRN which is no longer in discontinued operations compared to the one published in June 30, 2010.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4.1 Reconciliation for June 30, 2010 interim consolidated statement of operations

<i>(€ in millions)</i>	Semester ended June 30, 2010 (released in 2010)	IFRS 5	Semester ended June 30, 2010 (released in 2011)
Continuing operations			
Revenues	1,468	31	1,499
Cost of sales	(1,174)	(12)	(1,186)
Gross margin	294	19	313
Selling and administrative expenses	(192)	(10)	(202)
Research and development expenses	(76)	(2)	(78)
Other income (expense)	(11)	-	(11)
Profit from continuing operations before tax and net finance income (expense)	15	7	22
Net finance income (expense)	212	-	212
Income tax	(14)	-	(14)
Profit from continuing operations	213	7	220
Discontinued operations			
Net loss from discontinued operations	(117)	(7)	(124)
Net income	96	-	96

4.2 Reconciliation for June 30, 2010 interim consolidated statements of cash flows

The main variations in the June 30, 2010 are the following:

<i>(€ in millions)</i>	Semester ended June 30, 2010
Loss from discontinued operations	(7)
Profit from continuing operations	7
Net operating cash generated from continuing activities	9
Net operating cash used in discontinued operations	(9)
Net cash from operating activities	-
Net investing cash used in continuing activities	(2)
Net investing cash generated from discontinued operations	2
Net cash used in investing activities	-
Net financing cash generated from continuing activities	-
Net financing cash (used in) / generated from discontinued operations	-
Net cash (used in) / provided by financing activities	-

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5 SIGNIFICANT CHANGES IN THE SCOPE OF CONSOLIDATION SINCE DECEMBER 31, 2010

On April 4, 2011 Technicolor sold the Grass Valley Transmission business to Parter Capital Group.

On May 3, 2011 Technicolor sold to the FCDE (Fonds de Consolidation et de Développement des Entreprises) the Grass Valley Head-end business, operating under the Thomson Video Networks brand.

6 INFORMATION BY SEGMENTS

Based on the level of information given to the Group's Executive Committee (considered as the Chief Operating Decision Maker in the meaning of the standard) on a recurring basis, the Group determined that its reportable operating segments under IFRS 8 are: Technology, Digital Delivery and Entertainment Services. All the remaining activities (including unallocated Corporate functions) are grouped in a segment "Other" as a reconciling item.

▪ **Technology**

Technology segment is organized around the following businesses:

- Research & Innovation
- Licensing
- MediaNavi

▪ **Digital Delivery:**

Digital Delivery supplies hardware and software technologies to the Media & Entertainment industry in the areas of access and delivery platforms, as well as content preparation and management services, enabling its customers to deliver an improved end-user entertainment experience. Digital Delivery comprises:

- Connect
- Digital Content Delivery (DCD) Services Business

▪ **Entertainment Services:**

This segment offers video-related content management services for the Media & Entertainment industry. This segment offers services related to end-to-end management of content for our customers in the Media & Entertainment industries in the following areas:

- Post Production Services and Theatrical Services: Film Services, Content preparation and creation
- DVD Services: Replication and distribution of DVD, Blu-Ray™ discs and video and game CD
- Digital Production
- PRN

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The following comments are applicable to the two tables below:

- The Technology segment generates substantially all of their revenues from royalties. Entertainment Services and Digital Delivery generate their revenue from the sale of goods and services.
- The caption "EBITDA adjusted" corresponds to the profit (loss) from continuing operations before tax and net finance income (expense), net of other income/(expense) and depreciation and amortization (including impact of provision for risks, litigation and warranties).
- The caption "Profit (loss) from continuing operations before tax and net finance income (expense)" does not include intercompany items.
- The captions "Amortization of customer relationships" and "Other depreciation and amortization" only relate to continuing operations and include amortization of customer advances and upfront prepaid discount (in "other depreciation and amortization").
- The caption "Other non-cash income (expenses)" includes mainly the net variation of provisions without cash impact.
- The caption "Other segment assets" includes advances to suppliers and to customers.
- The caption "Total segment assets" includes all operating assets used by a segment and consists principally of receivables, inventories, property, plant and equipment, intangible assets and goodwill, net of depreciation and provisions. Segment assets do not include income tax assets.
- The caption "Unallocated assets" includes mainly financial assets, current accounts with associates and joint-ventures, income tax assets and assets held for sale.
- The caption "Unallocated liabilities" includes mainly financial and income tax liabilities and liabilities classified as held for sale.
- The caption "Capital expenditures" excludes the net change in payables to suppliers of both PPE and intangible assets (amounting to €9 million and €2 million as of June 30, 2011 and 2010, respectively).
- The caption "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 (with the exception of provisions including those related to employee benefits, income tax, payables on acquisition of companies and payables to suppliers of PPE and intangible assets).
- All the statement of operations and balance sheet items disclosed in the tables below have been measured in accordance with IFRS.
- Two external customers within the Entertainment Services segment represent more than 10% of the Group's revenue (€158 million and €195 million, respectively) as of June 30, 2011.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

<i>(€ in millions)</i>	Technology	Digital Delivery	Entertainment Services	Other	Consolidation Adjustments	Total
Six months ended June 30, 2011						
Statement of operations items						
Revenues with external customers	219	579	759	2	-	1,559
Intersegment sales	2	5	-	1	(8)	-
EBITDA adjusted	163	(25)	74	(45)	-	167
Profit (loss) from continuing operations before tax and net finance income (expense)	157	(68)	(30)	(47)	-	12
Out of which the main non-cash items below:						
Amortization of customer relationships	-	(8)	(6)	-	-	(14)
Other depreciation and amortization	(4)	(23)	(81)	(2)	-	(110)
Other non-cash income (expenses)	(3)	(14)	(6)	(7)	-	(30)
Balance sheet items						
Assets						
Operating segment assets	72	450	907	18	-	1,447
Goodwill	-	235	365	-	-	600
Other segment assets	149	100	186	247	-	682
Total segment assets	221	785	1,458	265	-	2,729
Investments in associates	2	-	-	8	-	10
Unallocated assets						678
Total consolidated assets						3,417
Liabilities						
Segment liabilities	169	443	490	456	-	1,558
Unallocated liabilities						1,492
Total consolidated liabilities (without equity)						3,050
Other information						
Capital expenditures	(4)	(26)	(66)	(1)	-	(97)
Capital employed	84	181	620	(41)	-	844

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<i>(€ in millions)</i>	Technology	Digital Delivery	Entertainment Services ⁽¹⁾	Other	Consolidation Adjustments	Total
Six months ended June 30, 2010						
Statement of operations items						
Revenues with external customers	188	641	668	2	-	1,499
Intersegment sales	1	1	4	1	(7)	-
EBITDA adjusted	126	10	60	(54)		142
Profit (loss) from continuing operations before tax and net finance income (expense)	117	(27)	(14)	(54)	-	22
Out of which the main non-cash items below:						
Amortization of customer relationships	-	(9)	(5)	-	-	(14)
Other depreciation and amortization	(5)	(32)	(62)	(2)	-	(101)
Other non-cash income (expenses)	(5)	(11)	(10)	(5)	-	(31)
Balance sheet items						
Assets						
Operating segment assets	78	592	969	45	-	1,684
Goodwill	13	358	461	-	-	832
Other segment assets	122	118	196	392	-	828
Total segment assets	213	1,068	1,626	437	-	3,344
Investments in associates	3	-	-	3	-	6
Unallocated assets						1,087
Total consolidated assets						4,437
Liabilities						
Segment liabilities	176	589	437	571	-	1,773
Unallocated liabilities						2,252
Total consolidated liabilities (without equity)						4,025
Other information						
Capital expenditures	(2)	(19)	(59)	(1)	-	(81)
Capital employed	67	267	746	(56)	-	1,024

- (1) Following the decision of Technicolor to end the disposal process of PRN during Q4, 2010, PRN has been reclassified into continued operations. Accordingly the information above has been restated and the PRN business is now presented within the Entertainment Services segment.

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7 SELLING AND ADMINISTRATIVE EXPENSES AND OTHER INCOME (EXPENSE)

<i>(€ in millions)</i>	Six months ended June 30, 2011	Six months ended June 30, 2010
Selling and marketing expenses	(67)	(60)
General and administrative expenses	(130)	(142)
Selling and administrative expenses	(197)	(202)
Other income (expense) (1)	(25)	(11)

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

(a) For 2011:

- A settlement loss of €6 million with a third party together with €3 million one-off exit costs in the context of the reorganization of our European logistic business within our Entertainment Services segment.
- An impairment charge of €4 million linked to the end of the photochemical film printing operations in Mirabel (Canada)
- An impairment charge of €7 million linked to development projects.
- Restructuring costs for €10 million (see note 20).

(b) For 2010:

- Restructuring costs for €15 million (see note 20) together with other income of €4 million.

8 RESEARCH AND DEVELOPMENT EXPENSES

<i>(€ in millions)</i>	Six months ended June 30, 2011	Six months ended June 30, 2010
Research and development expenses, gross	(86)	(82)
Capitalized development projects	19	9
Amortization of research and development intangible assets	(9)	(14)
Subsidies (1)	11	9
Research and development expenses, net	(65)	(78)

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

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9 NET FINANCE INCOME (EXPENSE)

<i>(€ in millions)</i>	Six months ended June 30, 2011	Six months ended June 30, 2010
Interest income	4	3
Interest expense	(78)	(44)
Interest expense, net (1)	(74)	(41)
Gain on the debt restructuring through issuance of equity instruments (2)	-	150
Gain on the new debt at fair value (2)	-	229
Gain on disposal proceeds notes - DPN	-	2
Gain on Technicolor's debt extinguishment on May 26, 2010	-	381
Financial component of pension plan expense	(7)	(8)
Exchange gain (loss) (3)	2	(61)
Change in fair value on financial instrument (loss) (4)	(3)	(6)
Other (5)	(10)	(53)
Other financial (expense) income, net	(18)	(128)
Total Net finance income (expense)	(92)	212

- (1) The debt extinguishment in 2010 did not result in any fees that adjusted the carrying value of the reinstated debt. Interest expense has been computed using the effective interest rate on the new reinstated debt from May 26, 2010. Until the debt restructuring on May 26, 2010 interest expense was at an average effective rate of 2.30% and from May 26, 2010 at 11.17%. Interest expense includes €15 million (€3 million in 2010) due to the difference between the effective interest rate and the nominal rate of the debt.
- (2) In 2010, in accordance with IFRIC 19 (see notes 3.6 and 17), the difference between the carrying value of the debt converted into equity and the fair value of the equity instruments issued corresponds to a non cash financial gain of €150 million recognized in the consolidated statements of operations.
In accordance with IAS 39-43 (see notes 3.6 and 17), the reinstated debt has been recognized initially at its fair value and the difference with the carrying value of the extinguished debt (a non cash financial gain of €229 million) recognized in the consolidated statement of operations. Impacts on the 2010 consolidated statement of operations are analyzed in note 17.
- (3) In 2010, the exchange rate result was negatively impacted for €54 million by the ineffectiveness of a US dollar borrowing that was originally put in place to hedge a net investment in a US subsidiary. Given the decrease of the net investment the hedge was no longer effective and therefore, the revaluation of the borrowing was booked in financial result.
- (4) In 2011 and 2010, related mainly to a loss from revaluation of interest rate caps.
- (5) In 2010, include €32 million of fees linked to the debt restructuring not recognized in Equity. Refer to details in the interim consolidated statements of changes in equity and note 14.1.

10 INCOME TAX

The income tax expense for the six months ended June 30, 2011 is determined using the year-end 2011 forecast effective tax rate. This rate is computed on a country-by-country basis.

The income tax charge for the six months ended June 30, 2011 amounted to €13 million (steady compared to the first half of 2010).

Analysis of variations of deferred tax assets and liabilities:

<i>(€ in millions)</i>	Deferred tax assets	Deferred tax liabilities	Total Net deferred tax assets
At December 31, 2010	488	(193)	295
Changes impacting the continuing result of the period	(6)	-	(6)
Changes impacting shareholders' equity	3	-	3
Other movements (1)	(23)	21	(2)
At June 30, 2011	462	(172)	290

- (1) This caption mainly includes currency translation adjustments and outgoing entities.

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11 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

For the year 2011, there has been no change in discontinued perimeter compared to June 2010 with the exception of PRN business. The Group has decided to end the disposal process for PRN in Q4 2010, which is therefore consolidated as part of the Entertainment Services segment within continuing operations.

11.1 Results of discontinued operations

(€ in millions)	Six months ended June 30, 2011			Total
	Results related to the Grass Valley businesses	Results related to other discontinued businesses		
Revenues	27	5		32
Cost of sales	(18)	(5)		(23)
Gross Margin	9	-		9
Operating expenses and other expenses other than impairment of assets	(19)	(1)		(20)
Loss from operations before tax and finance cost and before impairment	(10)	(1)		(11)
Net interest expense (3)	(1)	1		-
Other financial expense	(1)	(1)		(2)
Income tax	-	-		-
Loss for the period from discontinued operations before impairment	(12)	(1)		(13)
Loss on impairment of businesses held for sale (2)				(5)
Loss for the period from discontinued operations				(18)
				<hr style="border-top: 1px solid black;"/>
(€ in millions)	Six months ended June 30, 2010			Total
	Results related to activities discontinued in 2008 (*)	Results related to the Grass Valley businesses	Results related to the Media Network (MN) businesses	
Revenues	1	199	37	237
Cost of sales	1	(137)	(28)	(164)
Gross Margin	2	62	9	73
Operating expenses and other expenses other than impairment of assets (1)	-	(138)	(11)	(149)
Profit (Loss) from operations before tax and finance cost and before impairment	2	(76)	(2)	(76)
Net interest expense (3)	(4)	(3)	-	(7)
Other financial expense	-	(2)	(1)	(3)
Income tax	-	-	2	2
Loss for the period from discontinued operations before impairment	(2)	(81)	(1)	(84)
Loss on impairment of businesses held for sale (2)				(40)
Loss for the period from discontinued operations				(124)

(*) Corresponds mainly to the AVA business

(1) In 2010, include restructuring costs for €54 million and a net curtailment gain on pension plans for €4 million

(2) In 2011 and 2010, correspond to an impairment loss to adjust the held for sale businesses at their fair value less costs to sell. See note 11.2 below.

(3) Consists of interest expense of €1 million for the period ended June 30, 2011 and interest expense of €7 million for the period ended June 30, 2010.

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11.2 Losses on impairment of held for sale businesses

IFRS 5.15 requires that a disposal group classified as held for sale be measured at the lower of its carrying amount and fair value less costs to sell.

Based on the latest information available to the Group regarding the potential selling prices of the held for sale businesses and on the non-current assets carrying values of such businesses as of June 30, 2011, the Group recognized an impairment loss of €5 million for the held for sale businesses classified as discontinued.

11.3 Net cash used in discontinued operations

<i>(€ in millions)</i>	Six months ended June 30,	
	2011	2010
	(18)	(124)
Loss from discontinued operations		
<i>Summary adjustments to reconcile loss from discontinued operations to cash used in discontinued operations</i>		
Depreciation and Amortization	1	1
Impairment of assets	5	40
Net changes in provisions	(17)	33
(Profit) / loss on asset sales	7	1
Interest expense	-	7
Other non cash items (including tax)	1	(3)
Changes in working capital and other assets and liabilities	8	31
Cash generated used in discontinued operations	(13)	(14)
Interest received / (paid)	1	(7)
Income tax received / paid	-	1
Net operating cash used in discontinued operations (I)	(12)	(20)
Net cash impact from sale of investments	(12)	4
Purchases of property, plant and equipment (PPE)	-	(1)
Cash collateral and security deposits granted to third parties	(1)	(1)
Cash collateral and security deposits reimbursed by third parties	12	3
Net investing cash generated from / (used in) discontinued operations (II)	(1)	5
Repayments of borrowings	(1)	(2)
Net financing cash used in discontinued operations (III)	(1)	(2)
Net decrease in cash and cash equivalents (I+II+III)	(14)	(17)

11.4 Assets and liabilities held for sale

The assets and liabilities attributable to the operations not yet sold as of June 30, 2011 and December 31, 2010 have been classified as held for sale in the Group consolidated balance sheets and presented separately from other assets. During the first semester of 2011, the Group decided to sell ContentGuard.

As of December 31, 2010 two main businesses were classified as held for sale: Grass Valley (Transmission and Head-end) and Screenvision Europe. Transmission and Head-end businesses have been sold during the first semester of 2011. Therefore, only ContentGuard and Screenvision Europe are classified as held for sale as of June 30, 2011.

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

<i>(€ in millions)</i>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Goodwill and intangible assets	14	-
Other assets	17	25
Inventories	-	23
Accounts receivable and other receivables	2	42
Cash	12	-
Total - Assets classified as held for sale	45	90
Provisions	5	29
Retirement benefit obligations	-	8
Accounts payable and other liabilities	23	66
Total - Liabilities directly associated with assets classified as held for sale	28	103

12 GOODWILL AND OTHER INTANGIBLE ASSETS

<i>(€ in millions)</i>	<u>Patents and trademarks</u>	<u>Customer relationships</u>	<u>Other intangibles (1)</u>	<u>Total intangible assets</u>	<u>Goodwill</u>
At December 31, 2010					
Cost	558	494	314	1,366	
Accumulated amortization and impairment	(238)	(365)	(251)	(854)	
Net amount	320	129	63	512	644
2011					
Opening net amount	320	129	63	512	644
Exchange differences	(20)	(8)	(2)	(30)	(33)
Additions	-	-	23	23	-
Amortization charge	(14)	(14)	(14)	(42)	-
Impairment loss	-	-	(7)	(7)	-
Reclassification as held for sale	(3)	-	-	(3)	(11)
Closing net amount	283	107	63	453	600
At June 30, 2011					
Cost	571	439	318	1,328	
Accumulated amortization and impairment	(288)	(332)	(255)	(875)	
Net amount	283	107	63	453	600

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

Technicolor Group

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 CASH, CASH EQUIVALENTS, CASH COLLATERAL AND SECURITY DEPOSITS

<i>(€ in millions)</i>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Cash	95	117
Cash equivalents	219	215
Cash classified within the held for sale assets	12	-
Total	326	332
<i>Of which restricted cash (1)</i>	45	45
Cash collateral and security deposits (2)	64	74

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

(2) Cash to secure credit facilities and other obligations of the Group, out of which the current portion amounts to €49 million as of June 30, 2011.

14 Shareholders' equity

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

In 2010, in accordance with the *Sauvegarde* Plan, the following equity instruments were issued as of May 26, 2010:

<i>(€ in millions, except number of shares)</i>	<u>Nominal value</u>	<u>Fair value</u>	<u>Difference (1)</u>	<u>Fair value net of issuance cost & tax (2)</u>
Share capital	53	53	-	53
Paid-in-surplus	295	275	20	267
NRS	638	538	100	525
Total Equity instruments issued as of May 26, 2010	986	866	120	845

(1) Corresponds to the difference between the carrying value of the debt extinguished and the fair value of equity instruments issued on May 26, 2010. Refer to the "statement of changes in equity" and note 1.2 and 3.9 to the 2010 consolidated financial statements. Of the €150 million total IFRIC 19 gain on debt extinguished by equity, €120 million are analyzed above and €30 million gain resulted from the exchange rate difference between the extinguishment of the debt at the exchange rates used in the *Sauvegarde* Plan and the exchange rates as at May 26, 2010.

(2) €26 million fees linked to the issuance of new shares and the NRS have been recognized in Equity as a reduction of the paid-in capital and the NRS respectively for €9 million and €17 million (with a global tax effect of €8 million and €6 million respectively).

Notes Redeemable in Shares

On May 26, 2010, €638 million of NRS were issued by way of set-off debts of senior creditors. The NRS I were redeemed in December 2010 (except for 5,328,181 NRS I where redemption was deferred until December 31, 2011 at the option of the holders). The NRS II and NRS IIC will be redeemed on December 2011 into a fixed number of shares (subject to the option of the holders to defer redemption until December 31, 2012). Because all the interest will be capitalized and repaid by a fixed number of shares, the NRS have been classified in their entirety as equity.

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The number of NRS issued as of May 26, 2010 is as follows:

	Number of bonds issued	Maturity
<i>NRS I</i>	319,218,837	31/12/2010
<i>NRS II</i>	200,069,100	31/12/2011 (****)
<i>NRS IIC (*)</i>	119,150,196	31/12/2011 (****)
<i>Total NRS on May 26, 2010</i>	638,438,133	
<i>NRS I redeemed by issued shares on December 31, 2010 (**)</i>	(313,890,656)	
<i>Total NRS on December 31, 2010 and on June 30, 2011 (***) (will be redeemed by new shares at conversion ratio 0.144 for NRS I which have not been converted yet and of 0.159 for NRS II and NRS IIC)</i>	324 547 477	31/12/2011 (****)

(*) The NRS IIC may be redeemed in cash at Technicolor's option.

(**) The redemption of 5,328,181 NRS I into shares was deferred until December 31, 2011 at the bond holder's request.

(***) Amounts to €278 million in the consolidated statement of change in equity after IFRIC 19 impact and net of fees and tax.

(****) NRS II and NRS IIC holders can defer the redemption until December 31, 2012.

In accordance with IFRIC19 (see notes 1.2 and 3.9 to the 2010 annual consolidated financial statements) the equity issued (share capital, paid-in capital and NRS) in exchange for the debt extinguished has been stated at fair value using the listed price of Technicolor's shares on the Euronext Paris as of May 26, 2010.

14.2 Net Equity Hedging Reserve

Gains and losses on hedging instruments accounted for as cash-flow hedges are recognized in other comprehensive income (OCI). At December 31, 2010, a loss of €0.5 million on hedging instruments was recognized in OCI. During the first half of 2011, of the result on hedging instruments recognized in OCI at December 31, 2010, €1.5 million in gain (of which €0.5 million recognized in OCI as of December 31, 2010) was recognized in profit (loss) from continuing operations as the underlying hedged amounts were realized. At June 30, 2011, a loss of €1.7 million on hedging instruments was recognized in OCI.

14.3 Breach of minimum statutory share capital threshold

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

Technicolor SA is under a *Sauvegarde* Plan and Article L225-48 of the French Commercial Code (rules for Limited Liability company in case of loss in excess half of the share capital) is not applicable to Technicolor SA until the end of the *Sauvegarde* Plan which will end on February 17, 2017 (article L. 225-248 al.5 of the French Commercial Code).

As contemplated under the *Sauvegarde* Plan, the conversion of NRS notes into equity will improve the share capital of Technicolor SA.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 FINANCIAL RISK MANAGEMENT

The Group's financial risk management, and in particular its liquidity risk, has been impacted by the 2010 debt restructuring described in Note 17 below. The deterioration of the Group's financial condition and the subsequent debt negotiations and *Sauvegarde* proceeding considerably increased the liquidity risk of the Group but the closing of the debt restructuring on May 2010 as well as the putting in place of two committed credit facilities allowed the Group to improve its financial structure (see note 27 to our 2010 consolidated financial statements for more detailed information on the Group's borrowing situation and liquidity risk).

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

16 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(€ in millions)	June 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Interest rate caps (1)	3	-	6	-
Total non-current	3	-	6	-
Forward foreign exchange contracts- cash flow and fair value hedges	1	-	-	-
Forward foreign exchange contracts- not designated as hedges (2)	-	-	-	-
Total current	1	-	-	-
Total	4	-	6	-

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

(2) Hedges of debt and cash denominated in foreign currency; both the derivative and the debt/cash are marked-to-market and the foreign exchange gain or loss is recognized in income.

Credit risk on these financial derivative assets arises from the possibility that counterparties may not be able to meet their financial obligations to Technicolor. The maximum risk is the marked-to-market carrying values shown in the table above, that is, €4 million at June 30, 2011.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17 BORROWINGS

▪ Debt restructuring process

On November 30, 2009 the Nanterre Commercial Court opened a *Sauvegarde* proceeding for the benefit of the Company based on the terms of the restructuring agreement with its senior creditors of July 24, 2009.

In accordance with French law, on January 27, 2010, the Shareholders' Meeting approved the resolutions required to implement the plan. On February 17, 2010 the Nanterre Commercial Court approved the proposed *Sauvegarde* plan (the "*Sauvegarde* Plan") after ensuring it protected the interests of all creditors and offered a "viable solution" for the Company ("*une possibilité sérieuse pour l'entreprise d'être sauvagée*").

The *Sauvegarde* Plan is binding upon all creditors of Technicolor. An appeal against the February 17, 2010 decision of the Nanterre Commercial Court was brought by certain holders of TSS (*Titres Super Subordonnés*) or deeply subordinated perpetual notes, in the Versailles Court of Appeal on February 23, 2010 (see note 25).

In far as such appeal from TSS holders does not itself suspend the judgment, in accordance with the *Sauvegarde* Plan the following operations were completed on May 26, 2010:

- a conversion of €1.3 billion of senior debt into securities by way of:
 - a share capital increase of €348 million (including share premium) out of which €203 million were subscribed by shareholders on exercise of their preferential subscription right and were used to reimburse the debt
 - the issuance of €638 million of notes redeemable in a fixed number of shares of the Company ("Notes redeemable in shares" or NRS) reserved to the senior creditors;
 - the issuance of notes redeemable in cash or shares of the Company (disposal proceeds notes, or DPN), linked to the disposal proceeds of certain non-core assets of the Company, reserved to the senior creditors in an amount of up to €299 million at the exchange rate contemplated in the *Sauvegarde* Plan (€309 million at the May 26, 2010 exchange rate) out of which €48 million were reimbursed in cash on May 26, 2010 by the company to the creditors;
- the execution of a new term loan facility and the issuance of new notes (the reinstated debt) valued initially at fair value in accordance with IAS 39-43 as explained in note 26.3(h) to the 2010 annual consolidated financial statements. The principal characteristics of the reinstated debt are described in Notes 23 and 26 to the Group's 2010 annual consolidated financial statements.
- the payment of the interest claims of the TSS holders against the Company in cash in an amount of €25 million (definitively extinguishing these interest claims).

On May 26, 2010 the debt restructuring of Technicolor was finalized.

Since the DPN could be repaid partly or totally in cash and/or through a variable number of shares, they did not meet the criteria of equity instruments and were classified until their redemption as financial debt. At redemption on December 31, 2010, the DPN were reimbursed with €52 million of cash including €4 million for interest (of the €52 million, €46 million was from the proceeds of the sale of Screenvision) and 50 million new shares.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The impact of the debt restructuring on the Group's June 2010 interim condensed consolidated financial statements can be summarized as follows:

Restructured debt as of May 26, 2010 (*)	Debt as of May 26, 2010 (1)	Debt extinguished by equity (2)	Disposal proceeds notes (DPN) (3)	Re-instated debt (4)
<i>In € million</i>				
Extinguished debt/Reinstated debt	2,918	1,016	309	1,593
Reimbursement of DPN on May 26, 2010			48	
Reinstated debt at fair value on the balance sheet as of May 26, 2010			259	1,364
<i>Equity instruments issued :</i>				
Equity instruments in exchange of debt : stated at fair value in the balance sheet (before issuance costs)		663		
Equity instruments issued on exercise of the preferential subscription right (5) : at carrying value (before issuance costs)		203		
Gain in the interim consolidated statement of operations as of May 26, 2010		150	2	229

(*) The allocation of the carrying value of the extinguished debt between the part extinguished through issuance of equity instruments and the part extinguished through new debt was determined based on the restructuring agreement signed on July 24, 2009 with the majority of its creditors.

- (1) Restructured debt at May 26, 2010 exchange rate before restructuring.
- (2) In accordance with IFRIC19, the difference between the carrying value of the financial debt extinguished and the fair value of equity instruments issued was recognised for €150 million out of which €30 million of exchange rate impact related to the difference between the extinguishment of the debt at the exchange rates contemplated in the *Sauvegarde* Plan and the exchange rates as at May 26, 2010. The *Sauvegarde* Plan contemplated a rate of 1€= 1.3US\$ and 1€= 0.9091£ for debt extinguishment in foreign currencies. See notes 1.2, 3.9, 23 and 26 to the 2010 annual consolidated financial statements.
- (3) The DPN included €10 million of exchange rate impact related to the difference between the extinguishment of the debt at the exchange rates contemplated in the *Sauvegarde* Plan and the exchange rate as at May 26, 2010.
- (4) In accordance with IAS39-43, the impact of the initial recognition of the new debt at its fair value was €229 million at May 26, 2010 exchange rate). See notes 1.2, 3.9, 23 and 26 of the 2010 annual consolidated financial statements.
- (5) In accordance with the *Sauvegarde* Plan, the cash proceeds from exercise of the preferential subscription rights were used to reimburse the debt.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The tables below present information concerning Technicolor's debt at June 30, 2011 compared to December 31, 2010.

17.1 Analysis by nature

(€ in millions)	June 30, 2011	December 31, 2010
Debt due to financial institutions	1,267	1,319
Bank overdrafts	2	-
Other financial debt	4	5
Accrued interest	1	1
Total	1,274⁽¹⁾	1,325⁽¹⁾
<i>Total non-current</i>	<i>1,216</i>	<i>1,278</i>
<i>Total current</i>	<i>58</i>	<i>47</i>

(1) The nominal value is €1,450 at June 30, 2011 and €1,523 million at December 31, 2010 (see note 26.3 to the 2010 annual consolidated financial statements)

17.2 Debt due to financial institutions

Debt due to financial institutions as of June 30, 2011 includes principally €758 million of term loans and €488 million of notes as follows:

Currency	Amount (€ millions)	Type of rate	Average Nominal rate (1)	Average Effective rate (1)
US\$	349	Fixed	9.35%	12.26%
US\$	271	Floating (2)	7.68%	11.92%
GBP	18	Fixed	9.55%	12.90%
EUR	121	Fixed	9.00%	11.48%
EUR	488	Floating (2)	7.68%	11.64%
Reinstated debt	1,247			
Others	27	Various		
Total	1,274			

(1) Rates as of June 30, 2011

(2) 3 month Euribor/Libor with a 2% floor and an average margin of 5.68%

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17.3 Main features of the Group's borrowings

(a) Maturity

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

(€ in millions)	June 30, 2011	December 31, 2010
Less than 1 month	5	5
Between 1 and 3 months	21	10
Between 3 months and less than 1 year	32	32
Total current debt	58	47
Between 1 and 2 years	80	66
Between 2 and 3 years	100	94
Between 3 and 4 years	119	117
Between 4 and 5 years	116	119
Over 5 years	977	1,080
Total non-current debt	1,392	1,476
Total debt	1,450	1,523
IFRS Adjustment ⁽¹⁾	(176)	(198)
Balance sheet debt under IFRS	1,274	1,325

(1) The reinstated debt was initially recognized at fair value and then is subsequently measured at amortized cost.

(b) Interest rate characteristics

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

(€ in millions)	Amounts at June 30, 2011 with interest rate fixed for the following periods			
	Floating rate debt (interest fixed for less than 1 year)	1 year to 5 years	Greater than 5 years	Total
Total nominal debt	916 ⁽¹⁾	162	372	1,450
IFRS Adjustment ⁽²⁾				(176)
Balance sheet debt under IFRS				1,274

(1) Includes €883 million (nominal amount) of floating rate debt that has a 2% floor (before margin); this debt is partially hedged via interest rate caps with a cap rate of 3% (before margin). The combination of the floor and cap creates, for the hedged debt, debt that is at fixed rate when the reference EURIBOR or LIBOR rate is 2% or less, then is at variable rate when the reference rate is above 2% and less than 3% and then again is at fixed rate when the reference rate is 3% or above.

(2) The reinstated debt was initially recognized at fair value and then is subsequently measured at amortized cost.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(c) Analysis of borrowing by currency

<i>(€ in millions)</i>	June 30, 2011	December 31, 2010
Euro	622	620
US Dollar	625	675
Other currencies	27	30
Total debt	1,274	1,325

(d) Undrawn credit lines

<i>(€ in millions)</i>	June 30, 2011	December 31, 2010
Undrawn, committed lines	184	194

The Group has two 3-year committed receivables backed credit facilities, maturing in 2013, for a total amount of €186 million, drawn for the issuance of standby letters of credit for an amount of €2 million at June 30, 2011. The availability of these credit lines may vary depending on the amount of receivables.

(e) Financial covenants and other limitations

Covenants

The Credit Agreement and the Note Purchase Agreement governing the reinstated debt contain certain affirmative and financial covenants including covenants that in particular require that (i) EBITDA(*) be not less than a certain multiple of net total interest on a trailing twelve month basis ("interest cover covenant") on June 30 and December 31 of each financial year, (ii) total net debt be not more than a certain multiple of EBITDA on a trailing twelve month basis ("leverage covenant") on June 30 and December 31 of each financial year, and (iii) capital expenditure be not more than a certain amount for each financial year. Each of the interest cover covenant and leverage covenant become stricter over time. The total net debt, the total net interest (**) and the capital expenditures are all calculated on the basis of the entire Group perimeter. For EBITDA calculation for the twelve months ended June 30, 2011 the basis for the portion in 2011 is the total Group EBITDA and the basis for the portion in 2010 is the "Covenant Group" perimeter that excludes discontinued activities and PRN.

(*) The definition of EBITDA is based on a contractual definition and includes a number of adjustments.

(**) Net total interest, which is contractually defined, is also based, only on the Covenant Group perimeter for 2010 and on the total Group for 2011.

For a comprehensive description of the financial covenants of the Group and other limitations, please refer to Note 26.3 (g) to the 2010 consolidated financial statements.

At June 30, 2011, the calculation of these financial covenants was as follows:

Interest cover covenant

For the twelve months ended June 30, 2011, EBITDA must be no less than 3.05 times the net interest for the period.

EBITDA:	€503 million
Net Interest:	€123 million
Ratio EBITDA / Net Interest:	4.09 :1.00

Since 4.09 is greater than the required minimum level of 3.05, the Group meets this financial covenant.

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Leverage covenant

Total net debt of the Group at June 30, 2011 must be no more than 3.05 times the EBITDA for the twelve months ended June 30, 2011. For the calculation of the net debt, the accrued interest is excluded; moreover the debt and cash of the Group in foreign currencies are valued at the average exchange rate over the twelve months ended June 30, 2011.

Net Debt:	€980 million
EBITDA:	€503 million
Ratio Net Debt / EBITDA:	1.95 : 1.00

Since 1.95 is less than the maximum allowed level of 3.05, the Group meets this financial covenant.

Capital Expenditure covenant

Capital expenditure for the Group cannot exceed €205 million for the financial year ending December 31, 2011. No measurement is performed as of June 30, 2011.

Other covenant / limitations

In addition to certain information provision covenants, the Credit Agreement and Note Purchase Agreement include certain negative covenants that restrict the ability of the Company and certain of its subsidiaries, subject in each case to certain exceptions and limitations. For a comprehensive description of the financial covenants of the Group and other limitations, please refer to Note 26.3 (g) to the 2010 consolidated financial statements.

(f) Fair value of the new debt

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

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

As a result, the fair value of the debt was estimated at €1,364 million at the May 26, 2010 exchange rate. Accordingly, the weighted average effective rate of the new debt (excluding DPN) was determined to be 11.89%.

18 FINANCIAL INSTRUMENTS AND MARKET RELATED EXPOSURES

18.1 Interest rate risk

(a) Interest rate operations

In accordance with the Group's policies on financial risk management, the Group enters into interest rate hedging operations.

In April 2010, in anticipation of the finalization of the new reinstated debt, the Group purchased caps. These caps for nominal amounts of \$480 million and €270 million protect the Group if 3 month Libor or 3-month EURIBOR respectively goes above 3%. If the reference rate goes above the cap rate the bank counterparty will pay the difference between the market rate and 3% to Technicolor. The caps mature in 2014. See note 16 above.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(b) Effective interest rates at period end

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

	June 30, 2011	December 31, 2010
Effective Interest rate on borrowings	11.76%	11.78%

18.2 Liquidity risk and management of financing and capital structure

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

The Group's current access to the financial markets has been impacted by the debt restructuring and the *Sauvegarde* Plan. This restructuring has allowed the Group to put in place in April 2010 two 3-year committed receivables backed credit facilities for a total amount of €186 million (converted at the June 30, 2011 exchange rates).

Nevertheless, due to its overall level of remaining indebtedness and to the restrictions in the Group's new reinstated debt, the Group's access to financial market remains very limited. For more information about the restrictions in the Group's new reinstated debt see Note 26.3 (g) to the 2010 consolidated financial statements.

19 RETIREMENT BENEFIT OBLIGATIONS

(<i>€ in millions</i>)	Pension plan benefits	Medical post- retirement benefits	Total
Opening provision at January 1, 2011 (*)	336	42	378
Net Periodic Pension Cost	10	1	11
Benefits paid and contributions	(24)	(1)	(25)
Actuarial gains recognized in OCI (1)	(9)	-	(9)
Currency translation adjustments and other	(4)	(3)	(7)
Closing provision at June 30, 2011 (**)	309	39	348

(*) Excluding pension reserve of held for sale perimeter (€8 million as of December 31, 2010).

(**) Out of which current portion amounts to respectively €36 million and €46 million for June 30, 2011 and for December 31, 2010.

(1) As of June 30, 2011, actuarial gains recognized in the consolidated Statement of Comprehensive Income amount to €9 million, explained by:

- a slight increase of the discount rates as of June 30, 2011 compared to December 31, 2010 generating actuarial gains mainly for US and German pension plans, and
- the impact of the legislation change in the reference inflation index in the UK.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20 PROVISIONS FOR RESTRUCTURING AND OTHER CHARGES

20.1 Restructuring provisions

<i>(€ in millions)</i>	Restructuring provisions
Opening provisions at January 1, 2011	56
Current period expense (1)	12
Release of provision (1)	(2)
Usage during the period	(24)
Currency translation adjustment	(2)
Other movements	(1)
Closing provisions at June 30, 2011	39
<i>Of which current</i>	35
<i>Of which non-current</i>	4

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

<i>(€ in millions)</i>	Six months ended June 30, 2011	Six months ended June 30, 2010
<u>Profit (loss) from continuing operations</u>		
<i>Termination costs</i>	(10)	(14)
<i>Impairment of assets (part of a restructuring plan)</i>	-	(1)
Continuing restructuring expenses	(10)	(15)
<u>Profit (loss) from discontinued operations (2)</u>	2	(54)
Total restructuring expenses	8	(69)

(2) As of June 30, 2010, €54 million are related to held for sale activities and mainly related to termination costs.

20.2 Other provisions

<i>(€ in millions)</i>	Warranty	Others (1)	Total (2)
Opening provisions at January 1, 2011	26	140	166
Current period additional provision	4	38	42
Release of provision	(4)	(14)	(18)
Usage during the period	(2)	(11)	(13)
Change in held for sale provision	-	(4)	(4)
Currency translation adjustments and other	(1)	(2)	(3)
Closing provisions at June 30, 2011	23	147	170

(1) Others include mainly provisions for risk and litigation and for onerous contracts.

(2) Split of total provisions between non-current and current:

- as of June 30, 2011, €101 million classified as non-current and €69 million as current.

- as of December 31, 2010, €97 million classified as non-current and €61 million as current.

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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE-BASED PAYMENTS

In February 2011, the Board of Directors approved a Long-Term Incentive Plan (LTI) that has been implemented during the first 2011 semester. As part of this plan, free shares may be awarded in 2012, 2013 and 2014 to some senior executives subject to and proportionally to fulfillment of specified performance conditions based both on market performance criteria and on Technicolor performance achieved respectively on December 31, 2011, 2012 and 2013 as approved by the Board of Directors. For free shares that would be awarded based on 2011 and 2012 performance, final vesting is still conditional to senior executives staying in the company at least until June 8, 2013.

As of June 30, 2011, the number of stocks options and free shares is analyzed as follows:

<i>(In millions of stock options)</i>	<u>Under IFRS 2</u>	<u>Out of IFRS 2 scope</u>	<u>Total</u>
Number of stock options and free shares as of December 31, 2010	2.2	0.3	2.5
Forfeited during 2011 first semester	(0.1)	-	(0.1)
2012-2014 Long-Term Incentive Plan (maximum number)	1.6	-	1.6
Total	3.7	0.3	4.0

Compensation expenses charged to income

The compensation expenses charged to income for the services received during the period amount to €1 million for the six months ended June 30, 2011 and 2010.

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22 EARNINGS (LOSS) PER SHARE

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

	Six months ended June 30, 2011	Six months ended June 30, 2010
Numerator:		
Adjusted profit (loss) from continuing operations attributable to ordinary shareholders (€ in millions)	(94)	205
Denominator (*) (weighted shares in thousands)	225,852	64,219
<i>Of which</i>		
NRS IIC (1)	18,945	3,657
DPN (2)	-	8,957
Stock options (3)	98	3

(*) The denominator as of June 30, 2010 is after the reverse share split on July 15, 2010. Weighted average number of share for basic earnings is 206,807 thousands shares as of June 30, 2011 and 51,601 thousands shares as of June 30, 2010. For computation of the diluted earnings (loss) per share, weighted number of NRS IIC, DPN (for year 2010) and stock options are added.

(1) 18,944,881 new shares could be issued at the maturity of NRS IIC on December 31, 2011 if not redeemed in cash.

(2) DPN were redeemed in cash for an amount equal to the net sale proceeds of certain non strategic assets and in new ordinary shares at December 31, 2010 for the remaining part up to the maximum of 50,000,000 shares.

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

(€ in millions)	Six months ended June 30, 2011	Six months ended June 30, 2010
Profit (loss) from continuing operations	(94)	220
Profit (loss) from continuing operations attributable to ordinary shareholders	(94)	220
<i>Interests claim paid on TSS subordinated notes (net of tax)**</i>	-	(17)
<i>Interests on NRS I and II (***)</i>	-	-
Profit (loss) from continuing operations attributable to ordinary shareholders for basic earnings per share	(94)	203
<i>Interests on NRS IIC (***)</i>	-	-
<i>Interests on DPN (net of tax)</i>	-	2
Adjusted profit (loss) from continuing operations attributable to ordinary shareholders for diluted earnings per share (*)	(94)	205

(**) The payment of interest claims of the TSS holders, since this does not impact the net result, is taken as a reduction of earnings for the purpose of calculating the earnings per share.

(***) NRS interests (paid through fixed number of shares) are booked into equity without impact on income

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23 SPECIFIC OPERATIONS IMPACTING THE INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash impact of debt restructuring

(€ in millions)	notes	Six months ended June 30, 2011	Six months ended June 30, 2010
Share capital increase by shareholders with preferential subscription rights	(19)	-	203 (*)
Fees paid for debt and capital restructuring	(9)	(2)	(30)
Payment of the interests claims of TSS holders		-	(25)
Reimbursement of DPN to bank holders	(19)	-	(48)
Reimbursement of borrowings to bank holders		(9)	(203) (*)
Total cash impact of debt restructuring		(11)	(103)

(*) In accordance with the *Sauvegarde* Plan, the cash proceeds from exercise of the preferential subscription rights were used to reimburse the debt.

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

Technicolor may factor certain receivable.

Starting in 2011 the French tax authorities will reimburse the Research tax credit (CIR) after a three-year period (instead a one year period for previous years' CIR). Technicolor decided during the first half of 2011 to sell to a bank its 2010 CIR for € 15 million in cash.

As of June 30, 2010, Technicolor did not sell any receivables without recourse in its continuing operations.

24 CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

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

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

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

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Unconditional and conditional future payments (€ in millions)	Amount of commitments by maturity				
	June 30, 2011	Less than 1 year	1 – 3 Years	3 – 5 years	More than 5 years
Unconditional future payments					
On-balance sheet obligations:					
Financial debt excluding finance leases (1)	1,442	56	179	230	977
Finance leases (2)	8	2	1	5	-
Off-balance sheet obligations:					
Operating leases (3)	334	73	106	56	99
Purchase obligations (4)	87	86	1	-	-
Other unconditional future payments (5)	62	26	32	3	1
Total Unconditional future payments (*)	1,933	243	319	294	1,077
Conditional future payments					
Off-balance sheet obligations:					
Guarantees given (6)	43	33	-	-	10
Other conditional future payments (7)	8	2	3	3	-
Total Conditional future payments (*)	51	35	3	3	10

(*) "Total Unconditional future payments" and "Total Conditional future payments" as of December 31, 2010 amounted respectively to €2,023 million and €53 million on continuing operations.

(1) Financial debt is reported here at its nominal value for its principal amount and accrued interest (IFRS value reported in the interim consolidated statement of financial position is €1,274 million see note 17). Future interest expense and the impact of interest rate swaps are not reported in this table. Currency swaps, hedging operations and foreign exchange options are described below in a separate table.

(2) The main finance leases relate to the Digital Delivery segment (€6 million in the UK and €2 million in the Netherlands).

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

(4) These include in particular commitments to acquire minimum volumes from Asian suppliers for €80 million.

(5) Other unconditional future payments relate in particular to (i) Licence agreements for the Entertainment Services and the Digital Delivery segments, (ii) maintenance commitments mainly in the US and in Canada and (iii) other contractual advances.

(6) These guarantees comprise:

- Guarantees given for disposal of assets for €1 million.
- Guarantees for customs duties and legal court proceedings for €11 million, comprising mainly duty deferment guarantees required by the customs administrations to benefit from customs duty deferrals. Imported goods are normally taxed when they enter the territory. In the case of regular import flows, customs may grant an economic regime, under which a cumulated duty payment is made after a determined one-month credit period. The carrying value of this guarantee is to cover the duties to be paid during the credit period.
- Various operational guarantees granted to customs administrations in order to be exempt from duties goods transiting through customs warehouses for re-exportation, and transit guarantees in order that taxes are paid on goods only at their final destination in the import country. The maturity of these bank guarantees match the one-month renewable term of the agreements.

(7) Conditional obligations mainly include contingent earn out payments for €8 million related to past acquisitions.

Additional information:

- Guarantees and commitments received amount to €121 million as of June 30, 2011. This amount is mainly related to the royalties from licensees (patents, trademarks) within the Technology segment.
- The above table is only related to continuing operations. Contractual obligations and commercial commitments taken by discontinued operations, unconditional and conditional, amount respectively to €1 million and to €16 million as of June 30, 2011.

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Commitments related to financial instruments

Commitments related to financial instruments held by the Group generate both future cash payments and receipts. Therefore they have not been disclosed in the table above.

The forward exchange contracts, swaps and options commitments are disclosed for their related cash inflow and outflow amounts in the following table

(€ in millions)	<u>June 30, 2011</u>
Currency swaps	87
Forward exchange contracts	6
Total commitments given	<u>93</u>
Currency swaps	87
Forward exchange contracts	6
Total commitments received	<u>93</u>

Operating leases

At June 30, 2011, commitments related to future minimum and non-cancellable lease payments are detailed below:

(€ in millions)	<u>June 30, 2011</u> ⁽¹⁾
Minimum future lease payments	<u>334</u>
Future lease payments commitments received ⁽²⁾	<u>(24)</u>
Net value of future lease commitments	<u>310</u>

(1) Minimum operating lease payments shown are not discounted.

(2) Includes mainly operating lease payments from customers of our Broadcast Services activities within the Digital Delivery segment.

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

For a comprehensive description of the guarantees granted by subsidiaries and security interests granted to secure the Reinstated Debt, please refer to Note 36 to the 2010 consolidated financial statements since the end of 2010, eight additional subsidiaries have granted guarantees to secure the Reinstated Debt.

25 CONTINGENCIES

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

Significant pending legal matters include the following:

TSS appeal (pourvoi en cassation) against the *Sauvegarde* Plan

On February 17, 2010, the Nanterre commercial court approved the *Sauvegarde* Plan which is now binding on all of Company's creditors. An appeal against the decision of the Nanterre commercial court was brought by certain holders of Titres Super Subordonnés ("TSS") in the Versailles Court of Appeal. As no temporary stay of the Nanterre decision was filed, Technicolor implemented the *Sauvegarde* Plan in May 2010. On November 18, 2010, the Versailles Court of Appeal dismissed the claims of the TSS holders and confirmed the validity of Technicolor's *Sauvegarde* Plan. However, the holders of TSS brought an appeal on February 14, 2011 before the Cour de cassation (pourvoi en cassation) against the decision of the Versailles Court of Appeal. There is therefore a risk that the *Sauvegarde* Plan will be invalid with retroactive effect (i) if the Cour de cassation reverses the decision of the Versailles Court of Appeal and judges, on its own, that the *Sauvegarde* Plan is invalid or (ii) in case the Cour de cassation remands the matter to another Court of Appeal (Cour d'appel de renvoi), if this Court of Appeal were to hold in favor of the TSS holders. Such invalidity could theoretically result in the invalidation of the capital markets transactions which implemented the *Sauvegarde* Plan in May 2010 and of the issuance of the

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new shares issued in December 2010 for the redemption of the NRS I and the DPN.

The appeal before the Cour de cassation should be heard by the Court within a period of approximately one year following its filing, i.e. during the first half of 2012.

Appeals before the Juge-Commissaire

Appeals have been brought before the Juge-Commissaire of the Commercial Court of Nanterre by certain creditors who contest the treatment of their claims by Technicolor's Mandataires Judiciaires.

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

On February 22, 2011, the Juge-Commissaire rendered a decision in favor of Banco Finantia, holding that Banco Finantia benefited from the four-month deadline within which to file a claim. Technicolor has appealed against this decision.

Italian tax litigations – Videocolor transfer prices

The Company's former Italian subsidiary, Videocolor S.p.A. (Videocolor), was subject to a tax verification process in connection with its exporting of picture tubes to Technicolor USA, Inc. (formerly Thomson Inc) from 1993 to 1998. In its report transmitted to the Italian Direct Taxes Local Office in December 1999, the Guardia di Finanza decided to modify the valuation method of the tubes exported to Technicolor USA, Inc. and, as a consequence, increasing the taxable income of Videocolor in the amount of €31 million for the years 1993 through 1998.

In May 2003, Videocolor elected to benefit, in respect of the years 1993 and 1994 only, from the new tax amnesty, enacted by the Italian Parliament in 2003. In application of this amnesty law, Videocolor paid a total amount of €1 million, thereby ending all disputes with regard to the years 1993 and 1994. 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 million and (ii) tax penalties amounting to €4 million (before interest). Videocolor successfully appealed this assessment in October 2001 but, following an appeal from the tax authorities, the judgment was partially overturned in November 2006, with the Court of Appeal confirming an assessment in the amount of €2 million, including penalties.

Videocolor filed an appeal to the Supreme Court based on the argument that the assessment was not founded on OCDE transfer pricing principles. In addition, the Court of Appeal made a manifest error of calculation in revising the assessments and added a charge of €1.8 million that the Company is contesting with the Supreme Court.

In 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 million and €2 million, respectively and (ii) tax penalties amounting to €3 million and €2 million, respectively. Videocolor challenged the assessments with the tax court in order to nullify these assessments. In November 2004, this tax court rejected almost all of the assessments notified by the Italian Tax authorities. The Direct Taxes Local Office appealed this decision in December 2005. In December 2007, the Court decided in favour of Videocolor, confirming the previous favorable judgment. In July 2008, the Direct Tax Office appealed these rulings to the Supreme Court.

In December 2003, the Direct Taxes Local Office gave notice of an assessment with regard to fiscal year 1998 resulting in (i) additional taxes amounting to €0.1 million and (ii) penalties amounting to €0.1 million. Videocolor appealed this assessment in March 2004 before the court of appeal, which decided, in December 2005, to reject almost all of the assessments of the Italian Tax authorities. The Tax office appealed this decision. In April 2008, the Court decided in favor of Videocolor. In May 2009, the Direct Tax Office appealed this sentence to the Supreme Court. In July 2009, Videocolor filed its memorandum against the appeal of the Direct Tax Office with the Supreme Court.

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Technicolor sold Videocolor in February 2005, but remains responsible for the possible outcome of this dispute as a result of the guarantees given to the buyer.

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

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

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

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

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

Poland Tax Proceedings

To complete two requests for arbitrage on 2003 transfer prices between France & the UK on one side and Poland on the other side, the Polish entity, Technicolor Polska, submitted in June 2009 an €8 million tax refund request to the Polish Tax Authorities. At the same time, the Polish Tax Authorities launched, in 2009, an audit on the 2003 Income Tax & 2004 withholding tax returns.

After lengthy proceedings, the Polish Tax Authorities issued provisional assessments in 2010 with respect to 2003 deductibility of R&D costs & 2004 withholding taxes resulting in (i) additional taxes amounting to €10 million and (ii) interests amounting to €7 million. In between, Polish Tax Authorities had established a €17 million mortgage on the company's assets which also had as an indirect consequence the prevention of the statute of limitations from expiring. In addition to the mortgage, the Polish Tax Authorities seized in December 2010 Technicolor Polska's bank account with a sum of €12 million and stopped VAT refunds. Following administrative appeals and the acknowledgment by the Polish Ministry of Finance that this seizure was legally groundless, the Polish Tax Authorities refunded in June 2011 to Technicolor Polska the cash seized in December 2010. Technicolor Polska is now requesting the VAT refund. In May 2010, the Polish Tax Authorities launched another audit on the 2004 corporate income tax and 2005 withholding tax returns. They issued in January 2011 provisional assessments equivalent to the previous year assessments, i.e. deductibility of 2004 R&D costs & 2005 withholding taxes, amounting €5 million in principal and €3 million in interest.

Technicolor Polska will contest those assessments to the Polish Tribunal, as it does not consider them as valid.

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

In April 2004, the Association filed a purported class action under Article 44-1 of the Taiwan Code of Civil Procedure in the Taipei District Court, Taiwan, Republic of China against TCE Television Taiwan Ltd. ("TCETVT") and General Electric International, Inc. The Association is alleging they were exposed to various contaminants while living and working at the facility, which allegedly (1) caused them to suffer various diseases, including cancer, or (2) caused them emotional distress from fear that living and

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working at the facility increased their risk of contracting disease. The Association claims damages in the amount of TWD 2.7 billion (€64.8 million at June 30, 2011 closing rate).

In 2005, the Association's complaint was dismissed by the Taipei District Court based on the Association's failure to comply with certain procedural aspects of Taiwan's class action statutes. Shortly thereafter, the Association appealed the dismissal, which was reversed by the Taiwan Supreme Court. In 2006, the case was remanded to the Taipei District Court for further proceedings as to procedural compliance by the Association. The case is being vigorously defended. The parties have filed a number of briefs addressing procedural and substantive issues and the court has held several hearings. The Association has also attempted to add TCE Bermuda, Technicolor USA, Inc., Technicolor SA, and General Electric Company as defendants in the lawsuit. It is Technicolor's position that General Electric Company has indemnity obligations to Technicolor with respect to certain liabilities resulting from activities that occurred prior to the 1987 agreement with General Electric. General Electric denies the existence of any such obligations to Technicolor.

Pegasus Development Corporation and Personalized Media Communications, L.L.C.

In December 2000, Pegasus Development Corporation ("Pegasus") and Personalized Media Communications, L.L.C. ("PMC") filed suit in the US District Court for the District of Delaware against Technicolor USA, Inc. (formerly Thomson Inc.), DIRECTV, Inc., Hughes Electronics Corporation, and Philips Electronics North America Corporation alleging infringement with respect to seven patents relating to digital satellite signal processing. In 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, Technicolor USA, Inc filed a Revised Second Amended Counterclaim and Amended Third-Party Complaint claiming violation of antitrust laws and unfair competition. Upon Technicolor USA, Inc.'s motion, the antitrust and unfair competition claims were transferred to the US 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 pre-trial 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 US District Court for the Northern District of Georgia remanded the antitrust and unfair competition claims back to the US District Court for the District of Delaware, where pursuant to an order of the US District Court for the District of Delaware in May 2003, the case is subject to an indefinite stay pending the re-examination of the patents at issue by the US Patent and Trademark Office ("USPTO").

Pegasus claims damages in the form of royalties for some or all of the satellite integrated receivers/decoders ("IRD's") the Company has sold. Through the end of June, 2011, the Company had sold over 64 million IRD units that might be impacted by this litigation, representing a significant portion of the Company's revenue. Pegasus has not yet definitively set forth in the litigation the per unit royalty figure or damages sum they seek in the case.

Pegasus also seeks an injunction to prohibit further sales of IRD's which allegedly infringe the patents in suit. If Pegasus were successful in the litigation and able to convince the Court to enter a permanent injunction, the Company's IRD sales could be disrupted. The Company notes, however, that all of the patents asserted against the Company have already expired, with the exception of one which is set to expire in August 2011. In October, 2010, the Board of Patent Appeals reversed its initial decision ruling the patent in question unpatentable. The Company believes the court is unlikely to issue an injunction prior to the expiration of the last patent. Upon expiration of the last patent, the Company would be free to pursue IRD sales with no risk of an injunction; therefore the risk of this litigation relates primarily to the damages claimed by Pegasus, which amount, as indicated above, Pegasus has not yet claimed.

The stay of proceedings entered by the Delaware District Court in May 2003 remains in effect. The USPTO has now confirmed as patentable four claims of three patents asserted against the Company in the Delaware District Court litigation. However, a third request for re-examination of one of those patents has been tendered to the USPTO and Pegasus and PMC have appealed the rejection of certain asserted claims, all of which could affect the actual claims ultimately confirmed as patentable.

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IP Innovation and Technology Licensing Corp.

On June 20, 2003, Technology Licensing Corp. ("TLC") filed a lawsuit in the US District Court for the Eastern District of California alleging that certain Grass Valley Group products infringe four of TLC's US patents. Thereafter, TLC placed two of the patents into re-issue proceedings before the United States Patent and Trademark Office. In June and July 2005, the District Court granted summary judgment in favor of Technicolor on the remaining two patents. TLC appealed that ruling to the US Federal Circuit Court of Appeals. In July 2006, the parties entered into a Settlement and License Agreement resolving all issues pertaining to the Appeal.

As a result, this lawsuit was stayed as to those patents pending those proceedings. The patents have now reissued, and on October 2, 2009, the trial court formally lifted the stay of proceedings. Subsequent to the sale of the Company's Grass Valley Broadcast Business ("GVBB") and effective December 31, 2010, GVBB assumed the responsibility to defend and indemnify the Company in connection with this lawsuit.

Rembrandt Technologies vs Fox Entertainment and NBC

In December of 2006, Rembrandt Technologies filed separate lawsuits against Fox and NBC in the US District Court for the District of Delaware. Each suit alleges that defendants Fox and NBC infringe US Patent 5,243,627 entitled "Signal Point Interleaving Technique" (the "627 patent") by transmission, or receipt and retransmission, over Fox and NBC television systems, of digital terrestrial broadcast signals that comply with the ATSC digital television standard. Both Fox and NBC have subsequently demanded that Technicolor defend and indemnify them in each case, alleging that Rembrandt's infringement allegations are in essence based upon digital television transmission equipment sold to Fox and NBC by Thales Broadcast and Multimedia, which the Company acquired in December 2005.

While Technicolor has made no commitment with respect to Fox and NBC's demands for indemnity in the event of a settlement or judgment against them, Technicolor has agreed, subject to certain conditions and restrictions, to fund a portion of the defense costs in each case.

On November 8, 2008, the District Court issued an order construing the claims of the '627 patent. Rembrandt has conceded that it cannot prove infringement of the patent under the Court's claim construction, and in March of 2009 the parties reached an agreement in principle which has allowed for the early filing of a motion for summary judgment of non-infringement. Upon entry of a judgment in favour of defendants, Rembrandt has indicated its intention to appeal the judgment to the Federal Circuit Court of Appeals.

Cathode Ray Tubes Investigations

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

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

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

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

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

On March 3, 2010, Thomson/Technicolor filed its written response to the "SO". On May 26 and 27, 2010, Thomson/Technicolor attended an Oral Hearing together with the other parties and the European Commission. Thomson/Technicolor stated that it played a minor role in the alleged anticompetitive

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conduct. Thomson/Technicolor also informed the European Commission about its financial situation and continues to cooperate closely with the European Commission. The EC should render its decision sometime in 2011, but with no certainty.

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

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

Environmental matters

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

Soil and groundwater contamination was detected at a former production facility in Taoyuan, Taiwan acquired in the 1987 transaction with General Electric Company and Technicolor's affiliate in Taiwan owned the facility from approximately 1988 to 1992, when it was sold to an entity outside the Group. Soil remediation was completed in 1998. In 2002, the Taoyuan Environmental Protection Bureau ordered remediation of the groundwater underneath the former facility. The groundwater remediation process is underway. It is Technicolor's position that General Electric Company has a contractual obligation to indemnify Technicolor with respect to certain liabilities resulting from activities that occurred prior to the 1987 agreement with General Electric. General Electric denies the existence of any such obligations to Technicolor.

To date, in order to comply with the Environmental Protection Bureau's order, TCETVT has incurred approximately U.S.\$8.4 million for the groundwater remediation. In the class action case referenced above under "Taoyuan County Former RCA Employees' Solicitude Association", TCETVT has incurred approximately U.S.\$5.7 million to date to defend the action. It is TCETVT's position that General Electric is responsible for most if not all of the costs incurred by TCETVT for both matters, including all future costs and any judgment awarded.

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

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

26 RELATED PARTY TRANSACTIONS

Following the acquisition of 7% of DigitalSmiths in 2011, Technicolor seats at the Board of Director of this company. DigitalSmiths is therefore a new related party to Technicolor as of June 30, 2011.

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27 SUBSEQUENT EVENTS

On July 18, 2011 Technicolor sold its remaining Screenvision Europe business. The write off impact linked to this sale is already taken into account in June 2011 interim condensed consolidated financial statements.

On July 18, 2011 Technicolor announced the launch of phase II of its photochemical film activities optimization which includes mainly operational agreements with Deluxe and leads the Group to cease its release printing manufacturing operations in Mirabel (Canada), employing 178 people. The negative impact on the value of the related fixed assets has been booked for €4 million in June 2011 interim condensed consolidated financial statements, whereas the restructuring costs will impact H2 consolidated financial statements according to IFRS.

On July 27, 2011 Technicolor announced the following agreements:

- Technicolor signed an agreement to acquire the assets of Cinedigm Digital Cinema related to distribution of digital content to movie theatres.
- Technicolor entered into an agreement to acquire LaserPacific's digital post production assets.
- Technicolor launched its franchise licensing program with the establishment of Technicolor PostWorks New York. As part of the agreement, Technicolor will sell its New York post production assets to PostWorks.

These three agreements will impact H2 consolidated financial statements according to IFRS.