



**THOMSON**  
*images & beyond*

# Fourth Quarter 2006 and Full Year 2006 Results

**February 15, 2007**

# Safe Harbor Statement

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*Thomson is a company listed in NYSE and Euronext Paris SA stock-exchanges, and this presentation contains certain statements, including any discussion of management expectations for future periods, that constitute "forward-looking statements" within the meaning of the "safe harbor" of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on management's current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements due to changes in global economic and business conditions as well as conditions specific to Thomson's business, and regulatory factors. More detailed information on the potential factors that could affect the financial results of Thomson is contained in Thomson's filings with the U.S. Securities and Exchange Commission.*

# 2006 Results Highlights

*Frank E. Dangeard, Chairman & CEO*

# 2006 Finished Strongly

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Core business revenues	4Q06: +11.2% FY06: +8.3% at cst currency	Strong Q4 performances from DVD Services, Network Services, Access Products and Licensing
Core business EBIT	€504m	Core EBIT margin at 8.8%
Net result	€55m	Back to positive Group net result
Net debt	€1,358m at end '06	Substantial reduction in balance sheet financial liabilities of €460m
Core free cash flow	€483m	Strong cash-flow generation for Core at +15%

## 2006 Highlights

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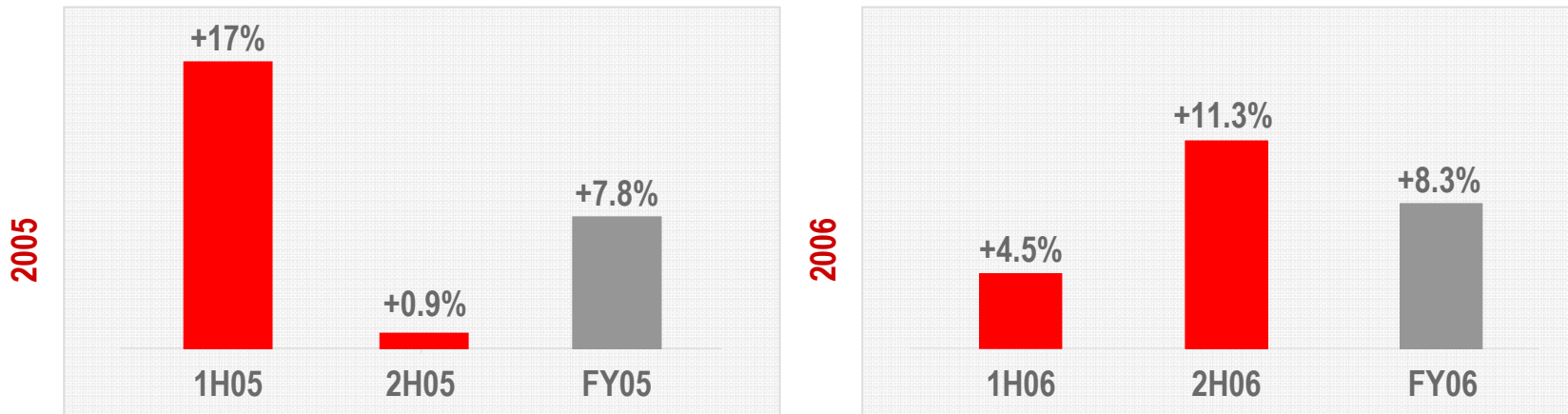
- Thomson concludes the 2004-2006 plan well positioned at the heart of convergence around digital video
- Our growth businesses of Content Services, Network Services, Broadcast & Networks and Access Products (telecom) delivered beyond expectations
- The Group has diversified its client base – clients over \$25m more than doubled compared to 2004
- The range of products and services expanded substantially, notably in expanding digital video and new media markets
- Thomson showed very good operational reactivity, exceeding its initial cost reduction targets
- The year ends with materially reduced and declining exposure to legacy Consumer Electronics markets

# FY06 Results

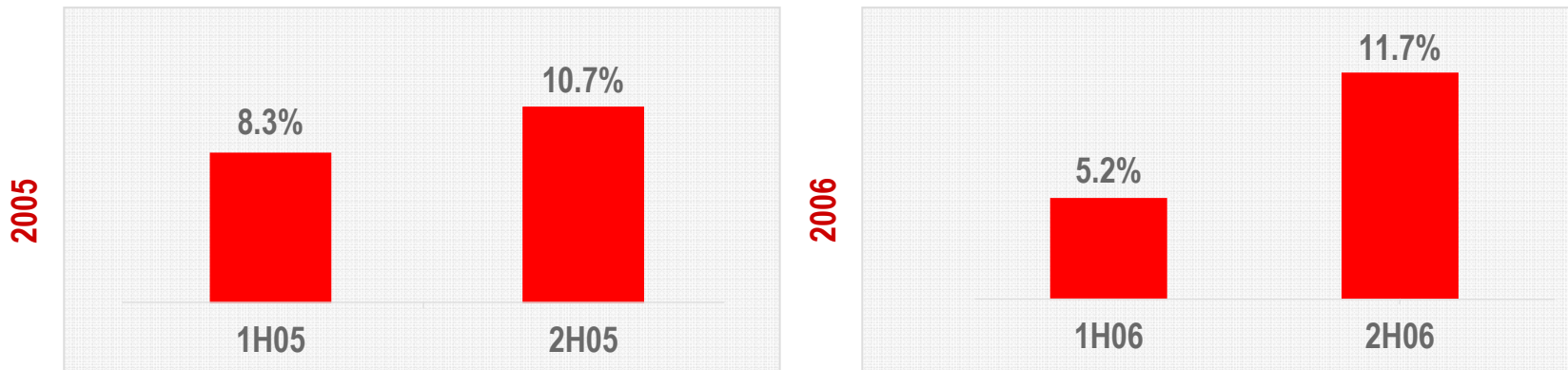
*Julian Waldron, SEVP & CFO*

# Core Growth And Margins Improved In H2

## Revenue growth



## EBIT margins

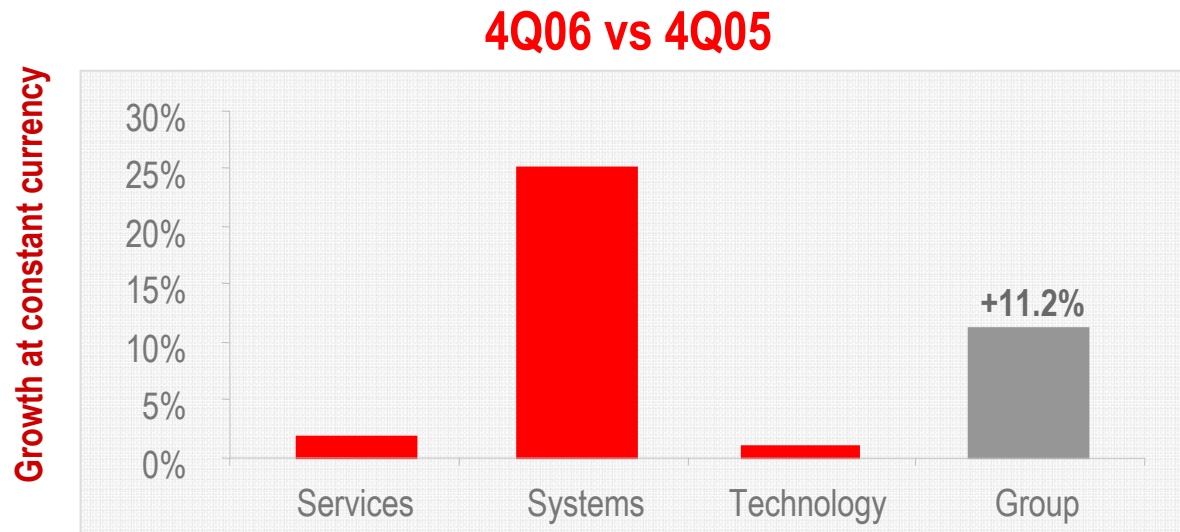


Seasonal trends as expected

# 11.2% Core Revenue Growth In Q4, In Line With Q3

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- Services returned to growth – strong organic growth in Network Services and a strong DVD quarter
- Systems grew 25% - strong telecom and cable, but some broadcast contracts pushed out
- Solid performance in Licensing



# Services

## Key Business Initiatives

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- **Excellent titles and cost-cutting actions in DVD delivered margin improvement in H2 – restructuring to be completed in 1H07**
- **Network Services won additional clients to drive future growth**
  - Live broadcast services – ITV and France24
  - Dutch state channels
  - Wal-Mart in-store IPTV network
  - Out-of-Home advertising in China through a partnership with CGEN
- **Expansion in emerging electronic distribution platforms and new media**
  - Digital Intermediates worldwide
  - Content ingest and encoding for on-line platforms
  - Management of IPTV and mobile platforms
- **We are expanding in high-end VFX and animation**
  - New contract wins for MPC
  - Partnership with Paprikaas in India

# Systems

## Key Business Initiatives

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- **23.1m access products shipped in the year, +22% vs 2005**
  - Positive mix in telecoms with significantly increased proportion of advanced services gateways – eg. FT, BT,...
  - HD MPEG-4 STB volumes small but growing well (4 platforms in service worldwide) – eg BSkyB, DirecTV,...
  - Cable revenues nearly doubled year-on-year
- **Grass Valley had a slower year-end**
  - Continued success in encoding and compression
  - Market share increasing in systems integration and news
- **Network Software doubled revenues**
  - Further consolidation of EMEA leadership in softswitches
  - Success of systems for mobile video services

# Technology

## Key Business Initiatives

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- **Key indicators**
  - Another year of solid profit and cash generation
  - 959 Licensing contracts outstanding at end-December
  - 79% of revenues from digital programs
- **Key drivers of licensing performance**
  - Continued growth of MPEG-LA and mp3 programs :  
MPEG-LA increased its share of revenues
  - Growing contribution from newer programs such as Digital TV and LCD
- **Contract wins in Content Security, both Watermarking and Digital Rights Management**

# Return To Net Profit In 2H06 And For The Full Year

- Core Business EBITDA stable
- Losses in non core and discontinued operations dramatically reduced

in €m	EBITDA* 2006	EBITDA* 2005	Change
Services	446	532	(16)%
Systems	244	193	+27%
Technology	307	290	+6%
<b>Core business</b>	<b>925</b>	<b>939</b>	<b>(1)%</b>

\*EBITDA is defined as EBIT + D&A

in €m	2006	2005
EBIT Services	160	205
Systems	132	109
Technology	289	277
Corporate	(77)	(79)
<b>Core EBIT</b>	<b>504</b>	<b>512</b>
Non-core EBIT	(25)	(122)
<b>Total EBIT from continuing</b>	<b>479</b>	<b>390</b>
Interest	(89)	(78)
Other	(197)	(46)
Tax	-	(68)
<b>Net from continuing</b>	<b>193</b>	<b>198</b>
Discontinued	(138)	(771)
<b>Net income</b>	<b>55</b>	<b>(573)</b>

# Reduced Impact of Non-Core and Discontinued Operations

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- Substantial gain on post-retirement provisions
- Major restructuring of non-core continuing operations
- AVA
  - Proceeds of 70M\$ received from US Accessories sale in 2007
  - Sale processes for remaining US and EU businesses ongoing

- TCL
  - Position marked down to €40m
  - All impacts of 2006 agreements taken in the year
  - P&L impacts over 3 lines – total €(181)m:

€ millions	TCL impact
EBIT from continuing operations	(25)
Finance costs	(70)
Loss from associates	(86)

# Financial Result and Tax

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- **Financial Result**

- Minimal impact of SLP option vs €94m gain in 2005
- TCL costs of €(70)m

- **Tax**

- Current income tax charge at (58)m in FY06 vs. €(42)m in FY05
- Additional deferred tax asset recognised in France reflecting changes in withholding tax regime, leading to an overall reported tax charge at zero
- Group tax loss carryforward rose to €3.9bn – almost 2/3rds in US and France

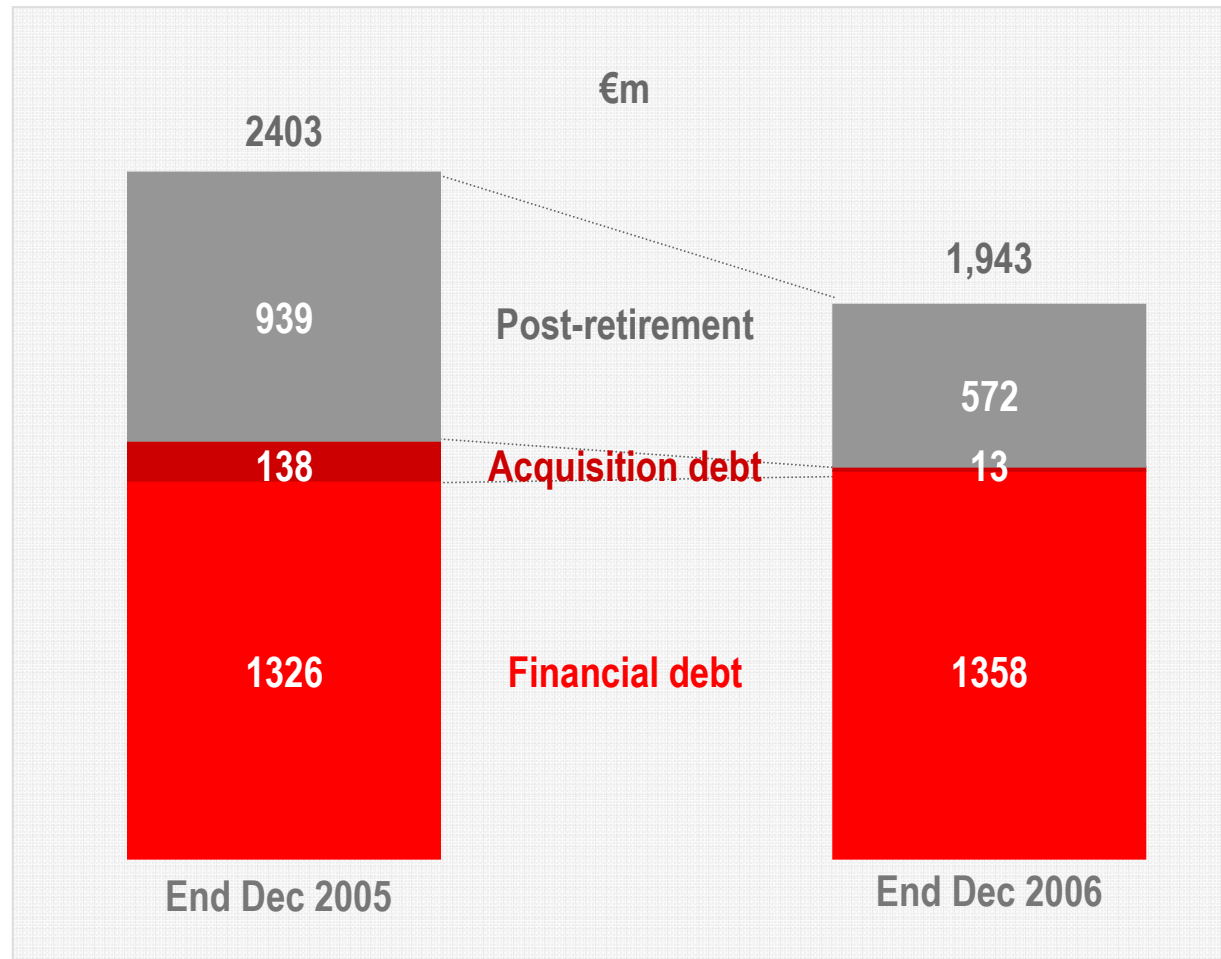
# Core Business Cash Flow Increased

	FY06	FY05	Comments on changes from FY05
<b>Services</b>	396	256	<ul style="list-style-type: none"> <li>Reduced amortization of contracts and net capital expenditures and improvement of working capital compensated EBIT decline</li> </ul>
<b>Systems</b>	100	178	<ul style="list-style-type: none"> <li>Strong increase of R&amp;D expenses (+34%) and increase in working capital requirement, partly compensated by a strong improvement in EBITDA year-on-year</li> </ul>
<b>Technology</b>	230	242	<ul style="list-style-type: none"> <li>Stable – in line with sales and EBIT</li> </ul>
<b>Corporate</b>	(116)	(101)	<ul style="list-style-type: none"> <li>Stable – in line with EBIT</li> </ul>
<b>Tax</b>	(46)	(73)	<ul style="list-style-type: none"> <li>Benefit of the Group's tax loss carry forwards</li> </ul>
<b>Financial charges</b>	(81)*	(80)	<ul style="list-style-type: none"> <li>Stable year-on-year</li> </ul>
<b>Core business</b>	483	422	<ul style="list-style-type: none"> <li>+15%</li> </ul>

\*Excluding one-off payment of €59 m of accrued interest relating to prior years on redemption of convertible bond in January 2006

# Balance Sheet Financial Liabilities Fell by €460m

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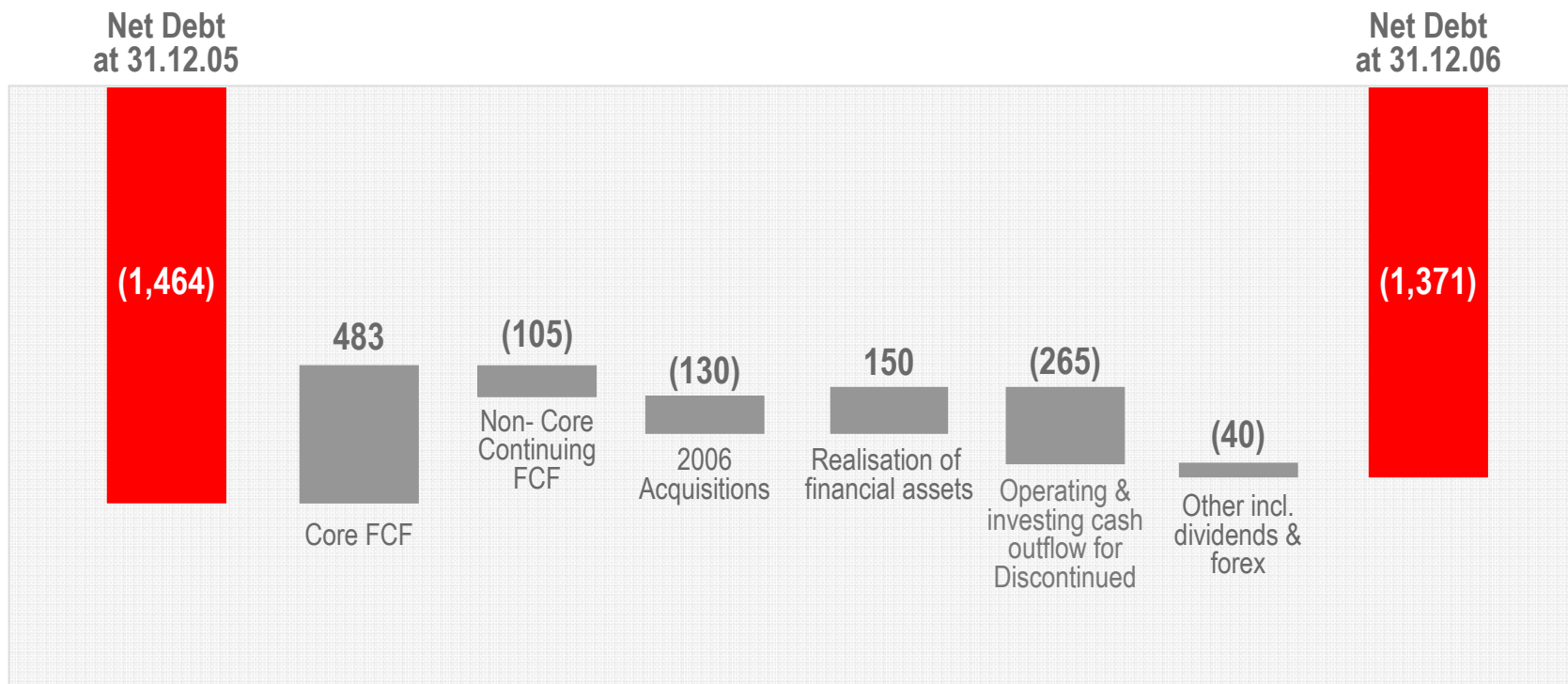
- Other financial obligations (eg. for tubes) also fell sharply

# Balance Sheet

## Change in Net Financial Debt

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### Net Debt\* Evolution end Dec 05 – end Dec 06



\* including 2005 acquisition debt

**2007-2009**

***Frank E. Dangeard, Chairman & CEO***

## Strategy 2007-2009

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Thomson provides **Services, Systems and Technologies** through three divisions with complementary business models

### Services

Thomson manages, on an outsourced basis, global video networks

### Systems

Thomson provides video solutions and integrates video network systems

### Technology

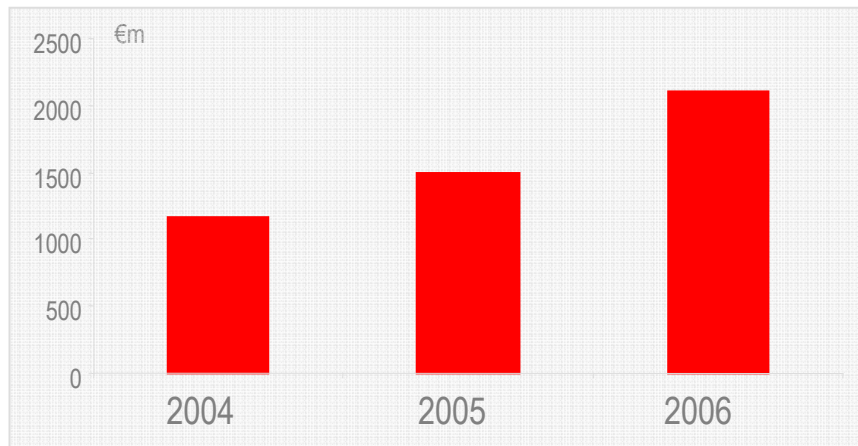
Thomson develops video technologies

# Revenue Mix And Market Positions

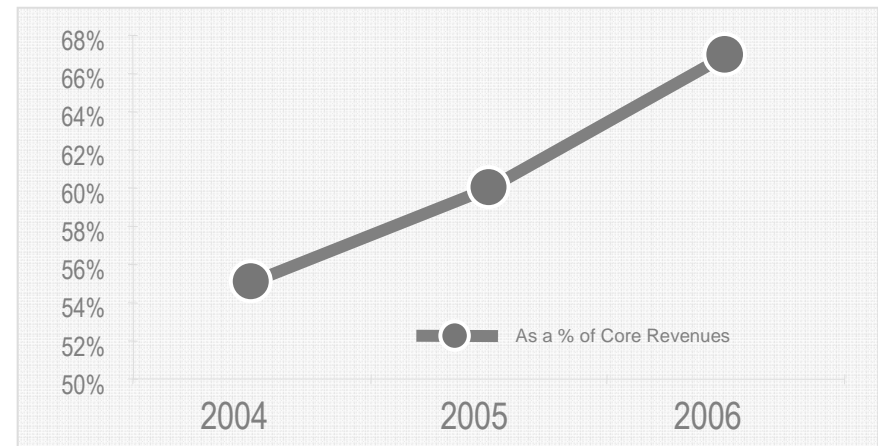
- We have successfully invested in growth businesses\* 2004-2006

- For the Group, in 2006 over 2/3rds of our revenue is digital/electronic based

Key growth businesses\* revenues



Digital/electronic revenues



\*Content Services, Network Services, Telecom and Broadcast & Networks

# Winning Business On An Integrated Basis

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- **State-of-the-art digital broadcasting**

- Cooperation between Services and Systems to design / build TV5, France 24 and ITV's new broadcasting centres

- **Content Security**

- Thomson technology becoming standardised in the content services and playout industries

- **Mobile TV**

- End-to-end solution covering content ingest and production, equipment, network software and management (e.g. Telecom Italia Mobile, SFR)

- **Out-of-Home Advertising**

- Building the world's largest IPTV network for WalMart using Thomson Services and Systems

# Business Framework 2007-2009

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- Main drivers of growth on a worldwide basis will remain Content Services, Network Services, Broadcast & Networks and Access Products (notably telecom and cable)
- R&D investment will continue to be strong and, combined with selected patent acquisitions, will maintain our intellectual property leadership (patents, ICs, content security)
- New media businesses for content makers (mobile content, consumer generated content, advertising) or content distributors (mobile TV, Internet or on-demand delivery) will add to growth
- Key operational programs will continue over the period: cost reduction, process efficiency
- Client diversification will continue – by type and geography
- Priority uses of cash: organic growth, debt management, dividends

# Financial Framework 2007-2009

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- Stable perimeter
- Strong growth in digital/electronic businesses
- Much reduced impact of Non-Core and Discontinued
- Robust Cash flow

**Focus on Group revenue growth and net income growth  
as transformation now completed**

# Financial Objectives

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- **2007 – 2009**

- Grow revenues in line with or faster than overall Media & Entertainment markets \*
- Growth to accelerate over the period
- Strong growth in net income

- **2007**

- Strong growth in digital businesses offset in part by physical media
- Improve operations across the business
- Strong growth in net income

**A clear framework to deliver shareholder value**

*\*PWC estimates overall M&E industries grew c.6% per year over last 5 years ("Global Entertainment and Media Outlook: 2006-10")*

# Backup

# Vision Of Our Markets In 2010 – Unchanged From 2004

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- Some consolidation in M&E in Europe; emergence of significant M&E groups and markets in Asia (particularly China)
- M&E clients will have outsourced many of their activities
- China and India will have become mainstream markets

- Electronic delivery of content into the home will have emerged. Consumers will continue to buy pre-recorded content at retail, but will also be purchasing/renting content (events, etc.) directly from home
- In addition to film print, Digital delivery of movies to cinemas will have developed

- The transition to High Definition (HD) will be complete
- Mobile video will be pervasive
- Intellectual Property will remain a key differentiator and significant source of direct and indirect revenues
- Security technologies and services to combat piracy will have been implemented

- Network operators will have largely switched to IP technologies
- All networks will have "triple play" offerings
- "Connected products" will be ubiquitous inside and outside the home
- Home networking will have been implemented

# FY06 Core Business Review

in €m	FY06 Sales	FY06 Constant currency revenue growth	4Q06 Constant currency revenue growth	EBITDA*	EBIT	EBIT margin	FCF
Services	2,489	+0.7%	+1.9%	446	160	6.4%	396
Systems	2,684	+19.2%	+25.1%	244	132	4.9%	100
Technology	547	+0.6%	+0.9%	307	289	52.8%	230
Corporate	27	nm	nm	(72)	(77)	nm	(243)**
<b>Core Business</b>	<b>5,747</b>	<b>+8.3%</b>	<b>+11.2%</b>	<b>925</b>	<b>504</b>	<b>8.8%</b>	<b>483</b>

\*EBITDA is defined as EBIT + Depreciation & Amortization

\*\*Excluding one-off payment of accrued interest of €59m relating to prior years on redemption of convertible bond in January 2006

# Services

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- **Key indicators**

- DVD units up: Q4 +19% at 501m units / FY +8% at 1,444 m units
  - Reflects strong studio releases
  - Q4 performance less impacted by kiosk than previous quarters
- Film footage down: Q4 (24)% to 1.2bn feet / FY (6)% to 5.0bn feet
  - Reflects weaker film slate than 2005 in H2 / Q4

- **Key drivers of performance**

- Major DVD titles: Pirates of the Carribean 2, Cars, Chronicles of Narnia, Mission Impossible 3
- Major Theatrical titles: Happy Feet, Flushed Away, Miami Vice
- Content Services titles: The Good Shepherd, The Holiday, Letters from Iwo Jima (DI); Harry Potter 5, 10,000 BC (VFX)

# Systems

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- **Key indicators**

- 7.2m access products shipped in the quarter vs. 5.5m in 4Q05 (+30%)
  - 2.9m satellite set-top boxes vs. 2.8m in 4Q05
  - 0.9m cable set-top boxes vs. 0.3m in 4Q05 (x3)
  - 3.4m telecom access products vs. 2.4m in Q4 05 (+41%)
  
- 23.1 access products shipped in the year vs. 19m in FY05 (+22%)
  - 11.1m satellite set-top boxes, +2% compared to FY05
  - 2m cable set-top boxes vs. 0.6m in FY05 (x3)
  - 10m telecom access products vs. 7.6m in FY05 (+32%)

# Financial Result

€m	FY06	FY05	Comments / Unusual items
<b>Net Interest Expense</b>	(89)	(78)	<ul style="list-style-type: none"> <li>Higher average debt and higher USD interest rates</li> </ul>
<b>FX and fair value on financial instrument</b>	(6)	(30)	<ul style="list-style-type: none"> <li>FX gain on the option in the SLP bond in FY06 vs. loss in FY05, partially offset by higher option premiums and forward points on currency hedging in FY06 vs. FY05</li> </ul>
<b>Fair value of SLP option</b>	4	94	<ul style="list-style-type: none"> <li>Minimal y-o-y changes to option value in 2006</li> </ul>
<b>Pensions and others</b>	(39)	(28)	
<b>TCL</b>	(70)	-	<ul style="list-style-type: none"> <li>Incl. the loss on 10% stake disposal and mark-to-market adjustments</li> </ul>
<b>Total</b>	(201)	(42)	<ul style="list-style-type: none"> <li>Financial result of €(130)m excl. TCL impacts</li> </ul>