# 2018 FIRST HALF FINANCIAL REPORT

*This is a free translation into English of the French "rapport financier semestriel" and is provided solely for the convenience of English speaking users.*

This is the report on the group for the first half 2018 condensed consolidated accounts which are prepared in compliance with *articles L 451-1-2 III* of the *Code monétaire et financier 222-4 et suivants* of the *Règlement Général de l'Autorité des Marchés Financiers.*

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

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

Mr. Frederic Rose, Chief Executive Officer, Technicolor.

## I.2 Attestation

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

*Issy-les-Moulineaux, July 27th, 2018*

Frederic Rose

Chief Executive Officer, Technicolor

# II. GROUP MANAGEMENT REPORT THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

## 1.1. Presentation on financial results for the first half of 2018 published on July 24th, 2018

Technicolor announced in a press release dated July 24th, 2018 its financial results for the first half of 2018. Earnings before Interest & Tax (EBIT) from continuing operations amounted to €(106) million compared to €(57) million in the first half of 2017. Revenues amounted to €1,769 million compared to €2,098 million in the first half of 2017. Net financial expenses totaled €21 million in the first half of 2018 compared to €62 million in the first half of 2017.

The income tax charge for the six months ended June 30, 2018 amounted to €11 million (€6 million in the first half of 2017). Net result amounted to a loss of €152 million in the first half of 2018 compared to a loss of €106 million in the first half of 2017.

Revenues and financial results of continued operations released by the Group are presented under 2 main business segments: Entertainment Services and Connected Home. All the remaining activities (including unallocated Corporate functions) are grouped in a segment “Corporate & Other” as a reconciling item.

## 1.2. Key messages

**First Half 2018 Key Highlights from continuing operations**

| | First Half | | |
|---|---|---|---|
| In € million | **2017** | **2018** | At constant rate |
| **Revenues** from continuing operations | **2,098** | **1,769** | **(9.3)%** |
| **Adjusted EBITDA** from continuing operations | **82** | **57** | **(20.0)%** |
| As a % of revenues | 3.9% | 3.2% | |
| **Free Cash Flow** from continuing operations | **(109)** | **(150)** | **(41)** |

- Revenues from continuing operations amounted to €1,769 million, down 9.3% year-on-year at constant rate, with an Adjusted EBITDA of €57 million compared to €82 million in the first half 2017.
- Production Services recorded a solid performance (+4.6% year-on-year at constant rate) driven by high capacity utilization and strong growth in Film and TV VFX as well as Advertising VFX.
- In DVD Services, revenues declined 9.5% at constant rate year-on-year, reflecting lower Standard Definition DVD volumes partly compensated by continued growth in Blu-ray™ and Ultra HD.
- Connected Home saw an overall 13.6% decline in revenues year-on-year at constant rate, as the shortage of key components led to €210 million of orders which could not be delivered in the first half. Nevertheless, revenues outside North America grew by 15% at current rates year-on-year, only partly compensating for the declines in the US.

- Connected Home launched a three-year transformation targeting market share gains while improving profitability and being able to absorb potential new headwinds in the market. The plan includes reducing the annual fixed cost structure by 40% representing c. €140 million of savings compared to 2017, over a period of three years. Expected future cash costs associated with this plan amount to c.€55 million with an average pay-back of less than 15 months.
- Free cash flow from continuing operations at €(150) million, down by €41 million year-on-year at constant rate, reflecting mainly lower adjusted EBITDA, working capital affected by seasonality of DVD services and higher taxes.
- Solid financial structure, with a nominal gross debt of €1,113 million, up €10 million compared to December 2017. The Group also had a strong level of liquidity at end of June, including cash on hand of €197 million and committed undrawn credit lines of €392 million.
- With regard to the disposal of the Patent Licensing business of Technicolor that was announced on March 1, Technicolor and InterDigital have now entered into a definitive acquisition agreement, the terms of which are in line with those announced on March 1.
- As mentioned, the Group is committed to deleveraging and expects to make significant debt prepayments in the second half of 2018, including from the proceeds of the sale of the Patent licensing business.
- The Board of Directors has appointed Mr. Maarten Wildschut as Board Observer for an 18-month term and intends to propose his election as a Director at the next shareholders meeting. Mr. Wildschut is Co-Head of RWC European Focus Fund, a London investment fund which owns 10,1% of Technicolor's share capital.

**Full Year 2018 guidance confirmed**

Based on first half performance and current assessment of the market by the management (i.e. 15% year-on-year decline in North American video cable market and no increased supply tightness for components), Technicolor confirms it expects an Adjusted EBITDA from the continuing operations broadly stable compared to 2017 at constant exchange rate.

# Segment Review – H1 2018 Result Highlights

| Entertainment Services (Represented) | H1 2017 In € million | H1 2017 As a % of revenues | H1 2018 In € million | H1 2018 As a % of revenues | Change YoY Reported | Change YoY At constant rate |
|---|---|---|---|---|---|---|
| **Revenues** | **838** | | **756** | | **(9.8)%** | **(3.1)%** |
| o/w Production Services | 383 | 46% | 376 | 50% | (2.0)% | +4.6% |
| DVD Services | 455 | 54% | 380 | 50% | (16.4)% | (9.5)% |
| **Adj. EBITDA** | **64**[1] | **7.7%** | **55** | **7.2%** | (14.8)% | (7.9)% |

- **Production Services** revenues were up 4.6% year-on-year at constant rate and down 2.0% at current rate. The Division achieved significant year-on-year Adjusted EBITDA improvement driven by high capacity utilization and continued operational improvements.

  **Business Highlights:**

  Film & TV Visual Effects ("VFX"): with a record-breaking revenue performance in the first half of 2018 Production Services achieved strong year-on-year growth during the first half and has secured a significant pipeline of future projects well into 2019. Production continued on major tentpoles, including Disney's *The Lion King* and *Dumbo*, Warner Bros.' *Aquaman*, Fox's *X-MEN: Dark Phoenix*, and Universal's *The Voyage of Doctor Doolittle*;

  Advertising VFX: high single digit revenue growth year-on-year as the division continues to expand capabilities in India thereby benefiting from lower costs and improved margins as the cost structure was further streamlined;

  Animation & Games: In Feature Animation, Technicolor delivered early this year, *Sherlock Gnomes* (Paramount) and *Sgt. Stubby: An American Hero* (Fun Academy). Key awards, including *SpongeBob Squarepants* for Paramount and *Asterix – The Secret of the Magic Potion* for M6 - occurred later than expected impacting the first half performance. High-end episodic CG animation continued to achieve a high utilization rate at the Group's facilities in India with strong visibility over the next 18 months;

  Postproduction continued to show a solid level of activity in the US and the UK driven by episodic and streaming content, but less than prior year reflecting production timing schedules.

- **DVD Services** revenues reached €380 million in the first half of 2018, down 9.5% at constant currency compared to the first half of 2017.

[1] Last year proforma following corporate cost reallocation

Blu-rayTM volumes demonstrated strong growth, up 12% in the first half supported by a solid slate of new release titles, the impact of Sony DADC outsourcing volumes and increasing consumer demand for the Ultra HD format. Standard Definition DVD volume declined by 18% in the first half, as the positive second quarter impact from Sony DADC was more than offset by the ongoing shift to the Blu-rayTM format (particularly on major new releases) and reduced catalog activity across several major studio customers. CD volume also decreased in the first half with lower consumer demand for physical music product.

Overall, disc volume was down 13% in the first half, with combined Standard Definition DVD and Blu-ray™ volume down 11%. Volume trends were additionally challenged by a difficult year-on-year comparison to a strong second quarter in 2017, which had combined volume growth of 6% driven in large part by very significant DVD catalog activity that did not reoccur in the second quarter of 2018**.**

Adjusted EBITDA was in line with expectations, negatively impacted by lower volumes, Sony DADC onboarding costs and selected increases in raw material pricing. Continued cost reduction initiatives and customer product mix partially mitigated the aforementioned effects.

DVD Services division-wide has launched initiatives to adapt distribution operations and related customer agreements in response to continued volume reduction and increasing order profile complexity. Customer contract renegotiations will occur over the next several years in line with specific renewal dates in order to move to volume-based pricing. Ongoing efforts to further grow and diversify the distribution customer base outside of packaged media will also form a key part of this initiative.

**Volume data for DVD Services**

| | | First Half | | |
|---|---|---|---|---|
| In million units | | **2017** | **2018** | Change |
| **Total combined volumes** | | **576.1** | **503.7** | ***(13)%*** |
| By format | DVD | 409.7 | 337.9 | *(18)%* |
| | Blu-ray™ | 118.8 | 133.5 | *+12%* |
| | CD | 47.6 | 32.3 | *(32)%* |
| By segment | Theatrical/Broadcast | 506.9 | 454.6 | *(10)%* |
| | Games | 13.6 | 12.0 | *(12)%* |
| | Software & Kiosk | 8.0 | 4.8 | *(40)%* |
| | Music & Audio | 47.6 | 32.3 | *(32)%* |

**###**

| Connected Home (Represented) | H1 2017 In € million | H1 2017 As a % of revenues | H1 2018 In € million | H1 2018 As a % of revenues | Change YoY Reported | Change YoY At constant rate |
|---|---|---|---|---|---|---|
| **Revenues** | **1,252** | **-** | **1,003** | **-** | (19.9)% | (13.6)% |
| **Adj. EBITDA** | **53**[2] | **4.2%** | **26** | **2.5%** | (51.7)% | (42.1)% |

- **Connected Home** revenues totaled €1,003 million in the first half of 2018, down 13.6% year-on-year at constant rate. The year on year decline was due to:
    - an unfavorable comparison with prior year when Technicolor benefited from a sole supplier role at Charter for the launch of the WorldBox;
    - the implementation of the selectivity customer program;
    - c. €210 million revenue delays due to the severe components shortage, mostly MLCCs.

  In North America, Technicolor is the only company delivering so far the new DOCSIS 3.1 gateways to Comcast, Cox and Rogers and has also started to deliver the equivalent product to Charter. Latin America revenues grew for the third consecutive quarter on a year-on-year basis and Asia Pacific remained strong with new products introduced in Australia and India, and good performances in Korea and Japan. In Europe, Middle-East and Africa, the segment continued to add AndroidTV and DOCSIS 3.1 new wins, both offers being critical for the coming years.

  Looking forward to the rest of the year, Connected Home expects a continued adverse impact resulting from the global shortage of components. While Technicolor has put in place actions to mitigate the impact and guarantee supply, the segment is expected to continue to suffer delays during the second half and early 2019. Connected Home is also expecting the video cable market in North America to drop significantly for the rest of the year (-15% year-on-year), only partly offset by strong demand in broadband.

  Technicolor decided to launch a three-year transformation program to adapt to these new market realities. This program will accelerate the customer “selectivity” plan to better achieve product synergies and develop stronger partnerships with key suppliers to improve product costing and time to market. The plan includes reducing the annual fixed cost structure by 40% representing c. €140m million versus 2017, over a period of three years. Total costs associated with this plan amount to c.€90 million with c.€55 million still to be spent with an average pay-back of less than 15 months. It should enable the Group to be more competitive in growing its market share while helping to improve overall profitability.

[2] Last year proforma following corporate cost reallocation

**Revenue Breakdown for Connected Home**

| In € million | | First Half 2017 | 2018 | Change[3] |
|---|---|---|---|---|
| **Total revenues** | | 1,252 | **1,003** | *(13.6)%* |
| By region | North America | 791 | **472** | *(34.3)%* |
| | Europe, Middle-East and Africa | 193 | **195** | *+1.3%* |
| | Latin America | 168 | **159** | *+7.1%* |
| | Asia-Pacific | 100 | **177** | *+86.6%* |
| By product | Video | 748 | **543** | *(22.0)%* |
| | Broadband | 504 | **460** | *(1.2)%* |

First Half Adjusted EBITDA was at €26 million down €27 million at current rate year-on-year, impacted by significant cost increases (€28 million) incurred for memories and MLCCs. As previously communicated, the additional costs for components moving forward, will now be mostly assumed by customers, most of the negotiations being finalized. Pricing will be adapted in line with future price fluctuations.

###

| | H1 2017 | | H1 2018 | | Change YoY | |
|---|---|---|---|---|---|---|
| **Corporate & Other** (Represented) | In € million | As a % of revenues | In € million | As a % of revenues | Reported | At constant rate |
| **Revenues** | **8** | | **10** | | +22.8% | +22.8% |
| **Adj. EBITDA** | **(35)[4]** | **-** | **(24)** | **-** | +32.1% | +31.7% |

**Corporate & Other** now includes Research & Innovation activities and Trademark Licensing business.

Corporate & Other recorded revenues of €10 million in the first half of 2018, related to the Trademark Licensing business. Adjusted EBITDA amounted to €(24) million, a significant improvement compared to the first half of 2017, as a result of cost saving initiatives.

###

[3] Year-on-year change at constant currency

[4] Last year proforma following corporate cost reallocation

### Summary of consolidated results for the first half of 2018

| | First Half | | |
|---|---|---|---|
| In € million | 2017[5] | 2018 | Change[6] |
| **Revenues from continuing operations** | **2,098** | **1,769** | **(15.7)%** |
| Change at constant currency (%) | | | (9.3)% |
| o/w Entertainment Services | 838 | 756 | (9.8)% |
| Connected Home | 1,252 | 1,003 | (19.9)% |
| Corporate & Other | 8 | 10 | +22.8% |
| **Adjusted EBITDA from continuing operations** | **82** | **57** | **(31.0)%** |
| Change at constant currency (%) | | | (20.0)% |
| As a % of revenues | 3.9% | 3.2% | (70)bps |
| o/w Entertainment Services | 64 | 55 | (14.8)% |
| Connected Home | 53 | 26 | (51.7)% |
| Corporate & Other | (35) | (24) | +32.1% |
| **Adjusted EBIT from continuing operations** | **(25)** | **(47)** | **(89.7)%** |
| Change at constant currency (%) | | | (86.0)% |
| As a % of revenues | (1.2)% | (2.7)% | (150)bps |
| **EBIT** from continuing operations | **(57)** | **(106)** | **(85.6)%** |
| Change at constant currency (%) | | | (87.2)% |
| As a % of revenues | (2.7)% | (6.0)% | (330)bps |
| Financial result | (62) | (21) | +41 |
| Income tax | (6) | (11) | (5) |
| Share of profit/(loss) from associates | - | - | ns |
| **Profit/(loss)** from continuing operations | **(125)** | **(138)** | **(13)** |
| Profit/(loss) from discontinued operations | 19 | (14) | (33) |
| **Net income** | **(106)** | **(152)** | **(46)** |

Revenues from continuing operations totaled €1,769 million in the first half of 2018, down by 9.3% at constant currency compared to the first half of 2017, resulting mainly from lower revenues in the Connected Home segment and in DVD Services.

Adjusted EBITDA from continuing operations amounted to €57 million in the first half of 2018, down (20.0)% at constant currency compared to the first half of 2017. The Adjusted EBITDA margin amounted to 3.2%, down by 70 points year-on-year due mainly to the Connected Home segment and the DVD Services division.

[5] proforma following corporate cost reallocation

[6] Year-on-year change at current currency.

Depreciation and Amortization ("D&A")[7] amounted to €(104) million compared to €(107) million in the first half of 2017. D&A also included €(22) million of amortization related to purchase price allocation, mostly related to the 2015 acquisitions (Cisco Connected Devices, The Mill, Cinram North America). As a result, the Adjusted EBIT from continuing operations amounted to €(47) million, down by 89.7% year-on-year at current rate.

Restructuring provisions accounted for €(38) million at current rate and related to Entertainment Services (Postproduction and DVD Services site closures, both in the US), and Connected Home.

The EBIT from continuing operations amounts to a loss of €(106) million in the first half of 2018.

Financial result totaled €(21) million in the first half of 2018 compared to €(62) million in the first half of 2017, reflecting:

- Net interest costs improved by €5 million reflecting the positive impact of lower average interest rates related to the debt structure, and amount to €(19) million in the first of half of 2018;
- Other financial charges amounted to €(2) million in the first half of 2018 compared to €(38) million in the first half of 2017. First half 2017 included an IFRS adjustment write off for €27 million, generated by the repayment of the old Term Loan maturing in 2020.

Income tax amounted to €(11) million, higher by €5 million at current rate compared to the first half of 2017.

Group net income amounts to €(152) million at current rate in the first half of 2018 compared to a loss of €(106) million in the first half of 2017.

[7] Including impact of provisions for risks, litigations and warranties.

## Reconciliation of adjusted indicators (unaudited)

Technicolor is presenting, in addition to published results and with the aim to provide a more comparable view of the evolution of its operating performance in the first half of 2018 compared to the first half of 2017 a set of adjusted indicators, which exclude the following items as per the statement of operations of the Group's consolidated financial statements:

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

These adjustments, the reconciliation of which is detailed in the following table, amounted to an impact on Group EBIT from continuing operations of €(59) million in the first half of 2018 compared to €(32) million in the first half of 2017.

| | First Half | | |
|---|---|---|---|
| In € million | **2017** | **2018** | Change[8] |
| **EBIT** from continuing operations | (57) | (106) | (49) |
| Restructuring charges, net | (22) | (38) | (16) |
| Net impairment losses on non-current operating assets | (4) | (3) | +1 |
| Other income/(expense) | (6) | (18) | (12) |
| **Adjusted EBIT** from continuing operations | **(25)** | **(47)** | **(22)** |
| As a % of revenues | (1.2)% | (2.7)% | (150)bps |
| Depreciation and amortization ("D&A") [9] | 107 | 104 | (3) |
| **Adjusted EBITDA** from continuing operations | **82** | **57** | **(25)** |
| As a % of revenues | 3.9% | 3.2% | (70)bps |

[8] Change at current currency.

[9] Including impact of provisions for risks, litigations and warranties.

## Free Cash Flow Reconciliation and Summarized financial structure (unaudited)

Technicolor defines "Free Cash Flow" as net cash from operating activities (continuing and discontinued) plus proceeds from sales of property, plant and equipment ("PPE") and intangible assets, minus purchases of PPE, purchases of intangible assets including capitalization of development costs.

| In € million | June 30, 2017 Restated | June 30, 2018 |
|---|---|---|
| **Adjusted EBITDA from continuing operations** | **82** | **57** |
| Changes in working capital and other assets and liabilities | (39) | (55) |
| Pension cash usage of the period | (13) | (13) |
| Restructuring provisions – cash usage of the period | (25) | (27) |
| Interest paid | (26) | (20) |
| Interest received | 1 | 2 |
| Income tax paid | (1) | (12) |
| Other items | (19) | (7) |
| **Net operating cash generated from continuing activities** | **(40)** | **(75)** |
| Purchases of property, plant and equipment (PPE) | (25) | (30) |
| Proceeds from sale of PPE and intangible assets | 1 | - |
| Purchases of intangible assets including of development costs | (45) | (45) |
| Net operating cash used in discontinued activities | (39) | 30 |
| **Free cash flow** | **(148)** | **(120)** |
| Nominal gross debt | 1,099 | 1,113 |
| Cash position | 183 | 197 |
| **Net financial debt at nominal value (non IFRS)** | **916** | **916** |
| IFRS adjustment | **(7)** | **(6)** |
| **Net financial debt** (IFRS) | **909** | **910** |

- Capital expenditures amounted to €75 million, up by €5 million year-on-year;
- Cash outflow for restructuring totaled €27 million in the first half of 2018, up by €2 million year-on-year, mainly resulting from higher restructuring cash out in Connected Home;
- The change in working capital & other assets and liabilities was negative by €55 million in the first half of 2018 mostly driven by the seasonality of DVD services;
- Cash position at €197 million at end June 2018, compared to €183 at June end 2017.

## III. TECHNICOLOR UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2018

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

| (€ in million) | Note | For the 6-month period ended June 30, 2018 | 2017 (*) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenues | | 1,769 | 2,098 |
| Cost of sales | | (1,571) | (1,832) |
| **Gross Margin** | | **198** | **266** |
| Selling and administrative expenses | (3.2) | (168) | (204) |
| Research and development expenses | | (77) | (87) |
| Restructuring costs | (9.1) | (38) | (22) |
| Net impairment gains (losses) on non-current operating assets | (3.2) | (3) | (4) |
| Other income (expense) | (3.2) | (18) | (6) |
| **Earning before Interest & Tax (EBIT) from continuing operations** | | **(106)** | **(57)** |
| Interest income | | 2 | 1 |
| Interest expense | | (21) | (25) |
| Other financial income (expense) | | (2) | (38) |
| **Net financial income (expense)** | (7.3) | **(21)** | **(62)** |
| Share of gain (loss) from associates | | - | - |
| Income tax | (4) | (11) | (6) |
| **Profit (loss) from continuing operations** | | **(138)** | **(125)** |
| **DISCONTINUING OPERATIONS** | | | |
| Net gain (loss) from discontinuing operations | (11) | (14) | 19 |
| **Net income (loss)** | | **(152)** | **(106)** |
| *Attribuable to:* | | | |
| *- Equity holders* | | (152) | (105) |
| *- Non-controlling interest* | | - | (1) |

| EARNINGS PER SHARE (in euro, except number of shares) | Note | June 30, 2018 | 2017 |
|---|---|---|---|
| Weighted average number of shares outstanding (basic net of treasury shares held) | (6.2) | 413,440,227 | 412,472,546 |
| ***Earnings (losses) per share from continuing operations*** | | | |
| - basic | | (0.33) | (0.30) |
| - diluted | | (0.33) | (0.30) |
| ***Earnings (losses) per share from discontinuing operations*** | | | |
| - basic | | (0.04) | 0.05 |
| - diluted | | (0.04) | 0.05 |
| ***Total earnings (losses) per share*** | | | |
| - basic | | (0.37) | (0.25) |
| - diluted | | (0.37) | (0.25) |

(*) Amounts for the six months ended June 30, 2017 are re-presented to reflect the impacts of Discontinued Operations.

*The accompanying notes on pages 20 to 44 are an integral part of these interim condensed consolidated financial statements.*

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| *(€ in million)* | *Note* | For the 6-month period ended June 30, 2018 | 2017 (*) |
|---|---|---|---|
| **Net income (loss) for the year** | | **(152)** | **(106)** |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Remeasurement of the defined benefit obligations | *(8.1)* | 11 | 19 |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Fair values gains / (losses), gross of tax on cash flow hedges: | | | |
| - reclassification adjustments when the hedged forecast transactions affect profit or loss | *(7.4)* | 2 | (9) |
| Currency translation adjustments: | | | |
| - currency translation adjustments of the year | | 1 | (106) |
| - reclassification adjustments on disposal or liquidation of a foreign operation | | - | - |
| **Total other comprehensive income** | | **14** | **(96)** |
| **Total comprehensive income of the period** | | **(138)** | **(202)** |
| *Attribuable to:* | | | |
| *- Equity holders of the parents* | | *(138)* | *(201)* |
| *- Non-controlling interest* | | - | *(1)* |

(*) Amounts for the six months ended June 30, 2017 are re-presented to reflect the impacts of Discontinued Operations.

*The accompanying notes on pages 20 to 44 are an integral part of these interim condensed consolidated financial statements.*

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *(€ in million)* | *Note* | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Goodwill | *(5.1)* | 955 | 942 |
| Intangible assets | *(5.2)* | 626 | 625 |
| Property, plant & equipment | *(5.3)* | 223 | 243 |
| Other operating non-current assets | | 45 | 38 |
| **TOTAL OPERATING NON-CURRENT ASSETS** | | **1,849** | **1,848** |
| Non-consolidated Investments | *(7.1)* | 18 | 17 |
| Other non-current financial assets | *(7.1)* | 14 | 19 |
| **TOTAL FINANCIAL NON-CURRENT ASSETS** | | **32** | **36** |
| Investments in associates and joint-ventures | | 2 | 2 |
| Deferred tax assets | | 276 | 275 |
| **TOTAL NON-CURRENT ASSETS** | | **2,159** | **2,161** |
| Inventories | | 242 | 238 |
| Trade accounts and notes receivable | | 541 | 684 |
| Contract assets | *(1.2)* | 95 | - |
| Other operating current assets | | 206 | 256 |
| **TOTAL OPERATING CURRENT ASSETS** | | **1,084** | **1,178** |
| Income tax receivable | | 41 | 37 |
| Other financial current assets | *(7.1)* | 9 | 10 |
| Cash and cash equivalents | *(7.1)* | 197 | 319 |
| Assets classified as held for sale | *(11)* | 2 | 7 |
| **TOTAL CURRENT ASSETS** | | **1,333** | **1,551** |
| **TOTAL ASSETS** | | **3,492** | **3,712** |

*The accompanying notes on pages 20 to 44 are an integral part of these interim condensed consolidated financial statements.*

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *(€ in million)* | *Note* | **June 30, 2018** | **December 31, 2017** |
|---|---|---|---|
| **EQUITY & LIABILITIES** | | | |
| Common stock (414,461,178 shares at June 30, 2018 with nominal value of 1 euro per share) | *(6.1)* | 414 | 414 |
| Treasury shares | *(6.1)* | (158) | (158) |
| Subordinated Perpetual Notes | | 500 | 500 |
| Additional paid-in capital & reserves | | (190) | (38) |
| Cumulative translation adjustment | | (384) | (385) |
| **Shareholders' equity attributable to owners of the parent** | | **182** | **333** |
| Non-controlling interest | | 3 | 3 |
| **TOTAL EQUITY** | | **185** | **336** |
| Retirement benefits obligations | *(8.1)* | 335 | 355 |
| Provisions | *(9.1)* | 25 | 23 |
| Contract liabilities | *(1.2)* | 2 | - |
| Other non-current operating liabilities | | 58 | 59 |
| **TOTAL OPERATING NON-CURRENT LIABILITIES** | | **420** | **437** |
| Borrowings | *(7.2)* | 1,085 | 1,077 |
| Deferred tax liabilities | | 196 | 193 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,701** | **1,707** |
| Retirement benefits obligations | *(8.1)* | 28 | 27 |
| Provisions | *(9.1)* | 111 | 110 |
| Trade accounts and notes payable | | 850 | 947 |
| Accrued employee expenses | | 117 | 129 |
| Contract liabilities | *(1.2)* | 85 | - |
| Other current operating liabilities | | 298 | 334 |
| **TOTAL OPERATING CURRENT LIABILITIES** | | **1,489** | **1,547** |
| Borrowings | *(7.2)* | 22 | 20 |
| Income tax payable | | 27 | 33 |
| Other current financial liabilities | *(7.1)* | - | 1 |
| Liabilities classified as held for sale | *(11)* | 68 | 68 |
| **TOTAL CURRENT LIABILITIES** | | **1,606** | **1,669** |
| **TOTAL LIABILITIES** | | **3,307** | **3,376** |
| **TOTAL EQUITY & LIABILITIES** | | **3,492** | **3,712** |

*The accompanying notes on pages 20 to 44 are an integral part of these interim condensed consolidated financial statements.*

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| *(€ in million)* | *Note* | For the 6-month period ended June 30, 2018 | For the 6-month period ended June 30, 2017 (*) |
|---|---|---|---|
| **Net income (loss)** | | **(152)** | **(106)** |
| Income (loss) from discontinuing activities | | (14) | 19 |
| **Profit (loss) from continuing activities** | | **(138)** | **(125)** |
| *Summary adjustments to reconcile profit from continuing activities to cash generated from continuing operations* | | | |
| Depreciation and amortization | | 109 | 115 |
| Impairment of assets | | 10 | 3 |
| Net changes in provisions | | (3) | (29) |
| Gain (loss) on asset disposals | | (4) | (2) |
| Interest (income) and expense | *(7.3)* | 19 | 24 |
| Other non-cash items (including tax) | | 17 | 39 |
| Changes in working capital and other assets and liabilities | | (55) | (39) |
| **Cash generated from continuing activities** | | **(45)** | **(14)** |
| Interest paid | | (20) | (26) |
| Interest received | | 2 | 1 |
| Income tax paid | | (12) | (1) |
| **NET OPERATING CASH GENERATED FROM CONTINUING ACTIVITIES (I)** | | **(75)** | **(40)** |
| Acquisition of subsidiaries, associates and investments, net of cash acquired | *(10.1)* | 1 | (21) |
| Proceeds from sale of investments, net of cash | *(10.1)* | 4 | 10 |
| Purchases of property, plant and equipment (PPE) | | (30) | (25) |
| Proceeds from sale of PPE and intangible assets | | - | 1 |
| Purchases of intangible assets including capitalization of development costs | | (45) | (45) |
| Cash collateral and security deposits granted to third parties | | (1) | (1) |
| Cash collateral and security deposits reimbursed by third parties | | 6 | 9 |
| Loans (granted to) / reimbursed by third parties | | - | - |
| **NET INVESTING CASH USED IN CONTINUING ACTIVITIES (II)** | | **(65)** | **(72)** |
| Increase of Capital | | - | 1 |
| Proceeds from borrowings | *(7.2)* | - | 647 |
| Repayments of borrowings | *(7.2)* | (13) | (606) |
| Fees paid linked to the debt | | (1) | (7) |
| Dividends and distributions paid to Group's shareholders | | - | (25) |
| Other | | 16 | (19) |
| **NET FINANCING CASH USED IN CONTINUING ACTIVITIES (III)** | | **2** | **(9)** |
| **NET CASH FROM DISCONTINUED ACTIVITIES (IV)** | | **30** | **(45)** |
| **CASH AND CASH EQUIVALENTS AT BEGINING OF THE PERIOD** | | **319** | **371** |
| **Net decrease in cash and cash equivalents (I+II+III+IV)** | | **(108)** | **(166)** |
| Exchange gains / (losses) on cash and cash equivalents | | (14) | (22) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **197** | **183** |

(*) Amounts for the six months ended June 30, 2017 are re-presented to reflect the impacts of Discontinued Operations.

*The accompanying notes on pages 20 to 44 are an integral part of these interim condensed consolidated financial statements.*

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## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *(€ in million)* | Share Capital | Treasury shares | Additional paid-in capital | Perpetual Notes | Other reserves | Retained earnings | Cumulative translation | Equity attributable to equity holders of the Group | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 2016** | **413** | **(157)** | **1,212** | **500** | **(56)** | **(982)** | **(229)** | **701** | **3** | **704** |
| Net income (loss) | - | - | - | - | - | (105) | - | (105) | (1) | (106) |
| Other comprehensive income | - | - | - | - | 10 | - | (106) | (96) | - | (96) |
| **Total comprehensive income for the period income** | **-** | **-** | **-** | **-** | **10** | **(105)** | **(106)** | **(201)** | **(1)** | **(202)** |
| Capital increases | 1 | - | 1 | - | - | - | - | 2 | - | 2 |
| Dividend paid | - | - | - | - | (25) | - | - | (25) | - | (25) |
| Variation of treasury shares | - | (1) | - | - | - | - | - | (1) | - | (1) |
| Shared-based payment to employees | - | - | - | - | 5 | - | - | 5 | - | 5 |
| Change in Non-controlling interests | - | - | - | - | - | - | - | - | 1 | 1 |
| **Balance as of June 30, 2017** | **414** | **(158)** | **1,213** | **500** | **(66)** | **(1,087)** | **(335)** | **481** | **3** | **484** |
| Net income (loss) | - | - | - | - | - | (67) | - | (67) | - | (67) |
| Other comprehensive income | - | - | - | - | (17) | - | (50) | (67) | - | (67) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **(17)** | **(67)** | **(50)** | **(134)** | **-** | **(134)** |
| Capital increases | - | - | (2) | - | - | - | - | (2) | - | (2) |
| Change in NCI | - | - | - | - | - | - | - | - | - | - |
| Variation of treasury shares | - | - | - | - | - | - | - | - | - | - |
| Shared-based payment to employees | - | - | - | - | 5 | - | - | 5 | - | 5 |
| Tax impact on equity | - | - | - | - | - | (17) | - | (17) | - | (17) |
| **Balance as of December 31, 2017** | **414** | **(158)** | **1,211** | **500** | **(78)** | **(1,171)** | **(385)** | **333** | **3** | **336** |
| IFRS 9 Impact (1) | - | - | - | - | (1) | (9) | - | (10) | - | (10) |
| **Balance as of January 1, 2018** | **414** | **(158)** | **1,211** | **500** | **(79)** | **(1,180)** | **(385)** | **323** | **3** | **326** |
| Net income (loss) | - | - | - | - | - | (152) | - | (152) | - | (152) |
| Other comprehensive income | - | - | - | - | 13 | - | 1 | 14 | - | 14 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **13** | **(152)** | **1** | **(138)** | **-** | **(138)** |
| Capital increases | - | - | - | - | - | - | - | - | - | - |
| Dividend paid | - | - | - | - | - | - | - | - | - | - |
| Variation of treasury shares | - | - | - | - | - | - | - | - | - | - |
| Shared-based payment to employees | - | - | - | - | (3) | - | - | (3) | - | (3) |
| **Balance as of June 30, 2018** | **414** | **(158)** | **1,211** | **500** | **(69)** | **(1,332)** | **(384)** | **182** | **3** | **185** |

(1) Please refer to Note 1.2.2 for more details.

*The accompanying notes on pages 20 to 44 are an integral part of these interim condensed consolidated financial statements.*

## 2. General information

Technicolor is a worldwide technology leader in the Media & Entertainment sector, developing and monetizing next-generation video and audio technologies. Please refer to Note 3 for detailed operating segments.

In these unaudited 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.

### 2.1. Main events of the period

**Disposal of Patent Licensing**

On March 1, 2018, Technicolor announced that it concluded with InterDigital an exclusive agreement pursuant to which this company irrevocably commits to acquire Technicolor's Patent Licensing businesses, including substantially all of Technicolor's patent portfolio, excluding some mobile patents, a small number of patents for nascent technologies and some patents associated with patent pools.

Technicolor must receive U.S.$150 million upfront whilst also receiving 42.5% of all future cash receipts from InterDigital's licensing activities in the Consumer Electronics field beyond operating expenses (these cash flows can be estimated at U.S.$215 million, based on prudent assumptions).
In addition, this transaction provides that Technicolor and InterDigital will also enter into a perpetual grantback licensing agreement, which will give Technicolor freedom to operate its remaining businesses and benefit from existing and future patents, whilst providing Technicolor with an adequate level of intellectual property protection. As in 2016, Technicolor's operating businesses paid around €15 million of royalties to Technicolor's Patent Licensing business in 2017. Based on these figures, Technicolor has estimated the value of this agreement at U.S. $108 million.

A funded research cooperation agreement is also planned, under which InterDigital Labs and Technicolor R&I Lab will collaborate in the development of research programs in the areas of video coding, connected home and immersive technologies. During this cooperation, InterDigital will pay Technicolor U.S.$5 million per year and will invest an additional U.S.$5 million annually in internal R&D projects that are aligned with the priorities of the research cooperation.
This transaction allows Technicolor to fully focus on its operating businesses, thus simplifying its structure and allocating its capital and resources to its core operating businesses.

### 2.2. Accounting policies

#### 2.2.1. Basis for preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) effective as of June 30, 2018 and adopted by the European Union as of July 24, 2018, which include IAS 34 “Interim Financial Reporting”.

The standards approved by the European Union 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 2017 annual consolidated financial statements.

The accounting policies applied by the Group are consistent with those followed in the preparation of the Group’s Consolidated Financial Statements for the year ended December 31, 2017, and described in the 2017 annual consolidated financial statements, which are an integral part of the 2017 Group’s Registration Document, except for the standards, amendments and interpretations which have been applied for the first time in 2018 (see Note 1.2.2).

Technicolor financial statements are presented in euro and has been rounded to the nearest million.

The unaudited interim condensed consolidated financial statements and notes were approved by the Board of Directors of Technicolor SA and authorized for issuance on July 24, 2018.

### 2.2.2. New standards, amendments and interpretations

**Main standards, amendments and interpretations effective and applied as of January 1, 2018**

| New standard and interpretation | Main provisions |
|---|---|
| IFRS 15 – Revenue from contracts with customers | IFRS 15 specifies how and when revenue should be recognized. The standard provides a single five-step model to be applied to all contracts with customers. The IASB issued in April 2016 some clarifications on the way those principles should be applied. (see below) |
| IFRS 9 - Financial Instruments | IFRS 9 includes requirements for recognition and measurement, classification, impairment, derecognition and general hedge accounting. The Standard introduces guidance on applying the business model assessment and the contractual cash flow characteristics assessment. (see below) |
| Amendments to IFRS 2 – Share-based payment | These amendments clarify the classification and measurement of share-based payment transactions and in particular:<br>- The accounting for cash-settled share-based payment transactions that include a performance condition;<br>- The classification of share-based payment transactions with net settlement features;<br>- The accounting for modifications of share-based payment transactions from cash-settled to equity-settled.<br>. There was no significant impact identified |
| Improvements to IFRSs 2014-2016 | These amendments are part of the annual improvement program of the IASB.. |

The Group has adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers on their effective date of January 1, 2018. The impacts of adoption on the Group's consolidated financial statements and accounting policies are described below. In accordance with the transitional provision of IFRS 9 and IFRS 15, the Group has not restated prior year comparatives.

The following table shows the adjustments recognized for each line item in the Statement of financial position. Line items that were not impacted by the changes have not been included, and as a result, the sub-totals and totals cannot be calculated from the numbers provided.

| *(€ in million)* | December 31, 2017 | IFRS 9 | IFRS 15 | January 1, 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Other non-current operating assets | 38 | (2) | - | 36 |
| Other non-current financial assets | 19 | (2) | - | 17 |
| **TOTAL NON-CURRENT ASSETS** | **2 161** | **(4)** | **-** | **2 157** |
| Trade accounts and notes receivable | 684 | (10) | (80) | 594 |
| Contract assets | - | - | 103 | 103 |
| Other operating current assets | 256 | - | (23) | 233 |
| **TOTAL CURRENT ASSETS** | **1 551** | **(10)** | **-** | **1 541** |
| **TOTAL ASSETS** | **3 712** | **(14)** | **-** | **3 698** |
| **EQUITY & LIABILITIES** | | | | |
| Other reserves | (78) | (1) | - | (79) |
| Retained earnings | (1 171) | (9) | - | (1 180) |
| **TOTAL EQUITY** | **336** | **(10)** | **-** | **326** |
| Provisions | 23 | (4) | - | 19 |
| Contract liabilities | - | - | 2 | 2 |
| Other operating non-current liabilities | 59 | - | (2) | 57 |
| **TOTAL NON-CURRENT LIABILITIES** | **1 707** | **(4)** | **-** | **1 703** |
| Contract liabilities | - | - | 63 | 63 |
| Other current operating liabilities | 334 | - | (63) | 271 |
| **TOTAL CURRENT LIABILITIES** | **1 669** | **-** | **-** | **1 669** |
| **TOTAL EQUITY & LIABILITIES** | **3 712** | **(14)** | **-** | **3 698** |

**IFRS 9 – Financial Instruments**

IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement. On adoption, the Group has not restated the comparative period but presents the cumulative effect of adopting IFRS 9 as a transition adjustment to the opening balance of other comprehensive income and retained earnings as of January 1, 2018. The effect of changes to the Group's consolidated financial statements due to the adoption of IFRS 9 are described below.

Classification and measurement of financial assets

The Group has classified its financial assets in the following two categories: financial assets measured at amortized cost and financial assets measured at fair value through profit and loss. The selection of the appropriate category is made based both on Technicolor's business model for managing the financial asset and on the contractual cash flows characteristics of the financial asset. The new asset classes replace the following IAS 39 asset classification categories: available-for-sale investments, derivative and other current financial assets, loans receivable, trade receivables, financial assets at fair value through profit and loss.

The Group's business model for managing financial assets is defined on portfolio level. The business model must be observable on practical level by the way business is managed. The cash flows of financial assets measured at amortized cost are solely payments of principal and interest. These assets are held within a business model which has an objective to hold assets to collect contractual cash flows. Financial assets measured at fair value through profit and loss are assets that do not fall in either of the amortized cost category or fair value through other comprehensive income category.

Other non-current financial assets: Investments in unlisted private equity shares and unlisted venture funds are classified as fair value through profit and loss. Under IAS 39, these items were classified as available-for-sale. Fair valuation is recorded in other financial income and expenses based on the business model assessment performed in conjunction with IFRS 9 transition.

Loans: The Group's business model for managing loans to third parties is to collect contractual cash flows and hence to recognize and measure at amortized cost. When contractual provisions of a loan may affect the cash flows, the loan is recognized and subsequently re-measured at fair value through profit and loss. Under IAS 39, these items were measured at amortized cost less impairment using the effective interest method.

Classification and measurement of financial liabilities

The Group classifies derivative liabilities at fair value through profit and loss and all other financial liabilities at amortized cost. These classes replace the IAS 39 classes derivative and other financial liabilities, compound financial instruments, loans payable, and account payable. The implementation of IFRS 9 has not had an effect on the classification and measurement of financial liabilities.

Impairment

The Group assesses expected credit losses ("ECL") on financial assets on a forward-looking basis whereas the impairment provision under IAS 39 was based on actual credit losses. The impairment requirements concern the following financial assets: financial assets measured at amortized cost as well as financial guarantee contracts and loan commitments.

A loss allowance is recognized based on 12-month expected credit losses unless the credit risk for the financial instrument has increased significantly since initial recognition. For trade receivables and contract assets, the Group applies a simplified impairment approach to recognize a loss allowance based on lifetime expected credit losses.

Hedge accounting

The Group 's hedge accounting model has not been impacted by IFRS 9, all hedging relationships qualify for treatment as continuing hedging relationship. The requirement for hedge effectiveness of 80-125 % has been removed from IFRS 9 and the effectiveness of hedging is evaluated based on the economic relationship between the hedging instrument and hedged item.

The changes to classification and measurement of financial assets in the Statement of financial position is described line-by-line as follows:

| *(€ in million)* | December 31, 2017 | IAS 39 Classification | IFRS 9 Classification | Change in measurement | January 1, 2018 |
|---|---|---|---|---|---|
| **Other non-current operating assets** | **38** | Fair value P&L | Fair value P&L | **(2)** | **36** |
| **Total non current operating assets** | **38** | | | **(2)** | **36** |
| **Non-consolidated Investments** | **17** | Fair value OCI | Fair value P&L | | **17** |
| *Cash collateral & security deposits* | 15 | Fair value P&L | Fair value P&L | | 15 |
| *Loans & others* | 4 | Amortized cost | Fair value P&L | (2) | 2 |
| **Other non-current financial assets** | **19** | | | **(2)** | **17** |
| **Total non-current financial assets** | **36** | | | **(2)** | **34** |
| **Trade accounts and notes receivable** | **684** | Amortized cost | Amortized cost | **(10)** | **674** |
| **Total current operating assets** | **684** | | | **(10)** | **674** |
| *Cash collateral and security deposits* | 8 | Fair value P&L | Fair value P&L | | 8 |
| *Other financial current assets* | 2 | Amortized cost | Amortized cost | | 2 |
| *Derivative financial instruments* | - | Fair value P&L | Fair value P&L | | - |
| **Other financial current assets** | **10** | | | | **10** |
| *Cash* | 274 | Fair value P&L | Fair value P&L | | 274 |
| *Cash equivalents* | 45 | Fair value P&L | Fair value P&L | | 45 |
| **Cash and cash equivalents** | **319** | | | | **319** |
| **Total current financial assets** | **329** | | | | **329** |
| **Borrowings** | 1,095 | Amortized cost | Amortized cost | | 1,095 |
| **Other current financial liabilities** | 1 | | | | 1 |
| **Total financial liabilities** | **1,096** | | | | **1,096** |
| *Other reserves* | (78) | | | (1) | (79) |
| *Retained earnings* | (1,171) | | | (9) | (1,180) |
| **Shareholder's Equity** | **336** | | | **(10)** | **326** |
| **Non Current Provision** | **23** | | | **(2)** | **21** |

**IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 replaces IAS 18 – Revenue and IAS 11 – Construction contracts and establishes a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized to reflect the transfer of promised goods and services to customers for amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods and services.

The Group has conducted an analysis of the impact of the adoption of IFRS 15 and concluded that the new standard will not affect its Consolidated financial statements.

Connected Home segment

Connected Home segment offers a complete portfolio of Broadband and Video Customer Premise Equipment ("CPE") and develops software solutions. The contracts signed have no multiple performance obligations and there is no variable consideration over time. Software inside modems or digital set-top-boxes are specific to each customer and are not marketed separately.

Entertainment Services segment

Our Production Services division provides a full set of award-wining services around Visual Effects ("VFX"), Animation and Games activities, as well as digital video and sound Postproduction Services. The services are generally rendered over a short period except for VFX services where services may be provided over a longer period. Our contracts stipulate that we have a right to payment for performance completed to date in case of a termination by the customer, and the progress measurement is based on the input method (i.e. labor costs).

Our DVD Services division provides turnkey integrated supply-chain solutions including mastering, replication, packaging, direct-to-retail distribution through two separate contracts (a replication contract and a distribution contract). In case of variable price over the contract term, the revenue is already adjusted to anticipate the probable discount.

In case of a contract advance paid to the customer, the consideration payable to the customer is already accounted for as a reduction of the transaction price and amortized based on the units of production.

Licensing businesses (including Patent Licensing as discontinued operations)

Revenue is generated by the sale of licenses. The new standard has no impact. Licenses using portions of the Company's intellectual property portfolio are considered one performance obligation because of the high-tech characteristic of the portfolios for which new developments are necessary for licensee to get the most up-dated high-tech product all along the licensing period.

The Group separates paid-up license agreements into two categories: (i) agreements that provide access rights over the term of the license to future technologies that are highly interdependent or highly interrelated to the technologies provided at the inception of the agreement and (ii) agreements that do not provide for rights to such future technologies (right of use). Paid-up amounts related to the first category continues to be recognized as revenue over the term of the related license agreement based on expected volumes or, in absence of reliable information, on a straight-line basis. For the second category of contract, revenue continues to be recognized in the month the license agreement is signed.

In case of paid-up license amounts received for past periods (waiver for past infringement of the licensee), such amount is recognized up-front at signature of the contract.

For per-unit license agreements the Group continues to accrue the related revenue based on estimates of licensees' underlying sales adjusted in the following quarter to true-up revenue to the actual amounts reported by the licensees.

### Main standards, amendments and interpretations that are not early adopted by Technicolor or not effective yet

| New standard and interpretation | Effective Date | Main provisions |
|---|---|---|
| IFRS 16 - Leases | Annual periods beginning on or after January 1, 2019 | IFRS 16 specifies how to measure, present and disclose leases. The standard provides a single lease accounting model, requiring the lessee to recognize assets and liabilities for all leases unless the term lease is 12 months or less or the underlying asset has low value. Lessors continue to classify leases as operating or finance leases, applying substantially a comparable methodology from its predecessor, IAS 17.<br><br>At this stage, the Group has identified all leases concerned and collected the necessary data and judgment on renewal probability. The Group is currently assessing the impact of the possible transition methods, the expectation is that the main impact relates to Technicolor's real estate operating leases. |
| Amendments to IFRS 9 – Prepayment Features with Negative Compensation | | These amendments clarify the classification of particular prepayable financial assets and the accounting for financial liabilities following a modification. The Group is currently assessing the potential impact. |
| Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures | | These amendments have been added to clarify that an entity applies IFRS 9 to long-term interest in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. They are not adopted by the European Union yet. |
| Improvements to IFRSs 2015-2017 | | These amendments are related to IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements, IAS 12 – Income Taxes and IAS 23 – Borrowing Costs but they are not adopted by the European Union yet. |

### 2.2.3. Basis of measurement & estimates

The preparation of the interim condensed 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. These assumptions and estimates inherently contain some degree of uncertainty.

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:

- Impairment of goodwill and intangible assets with indefinite useful lives;
- Determination of expected useful lives of intangible assets;
- Deferred tax assets recognition;
- Assessment of actuarial assumptions used to determine provisions for employee post-employment benefits;
- Measurement of provisions and contingencies;
- Determination of royalties payables.

The underlying assumptions used for the main estimates are similar to those described as of December 31, 2017. The management revises these estimates if the underlying circumstances evolve or in light of new information or experience. Consequently, estimates made at June 30, 2018 may subsequently change.

### 2.2.4. Translation

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

| | Closing rate | | Average rate | |
|---|---|---|---|---|
| | June 2018 | December 2017 | June 2018 | June 2017 |
| US Dollar (USD) | 1.1650 | 1.1956 | 1.2077 | 1.0905 |
| Pound sterling (GBP) | 0.8881 | 0.8878 | 0.8798 | 0.8594 |
| Canadian Dollar (CAD) | 1.5402 | 1.5014 | 1.5468 | 1.4483 |

## 3. Scope of consolidation

No significant acquisition or divestiture occurred during the first half of 2018.

# 4. Information on operations

## 4.1. Information by business segments

Technicolor has two continuing businesses and reportable operating segments under IFRS 8: Entertainment Services and Connected Home.

Our Patent Licensing division, which was formerly included in the operating segment Technology, is presented as Discontinued Operations. As a result, our Trademark Licensing and Research & Innovation activities have been transferred to the segment “Corporate & Other”.

The Group’s Executive Committee makes its operating decisions and assesses performances based on two types of activities. All remaining activities, including unallocated corporate functions, are grouped in the segment “Corporate & Other”.

Prior period has been represented for comparability purposes according to this new organization and reporting structure.

**Entertainment Services**

The Entertainment Services segment is organized in two divisions:

- The Production Services division provides a full set of award-winning Visual Effects (“VFX”), Animation, digital video and sound Postproduction services;
- The DVD Services division replicates, packages and distributes video, game and music for DVD, Blu-ray™ discs and CD.

The Entertainment Services segment supports content creators from creation to postproduction (Production Services), while offering global distribution solutions through its replication and distribution services for DVD, Blu-ray™ discs and CD (DVD Services).

Entertainment Services segment generates its revenue from the sale of goods and services.

**Connected Home**

Connected Home segment offers a complete portfolio of Broadband and Video Customer Premise Equipment (“CPE”) to Pay-TV operators and Network Service Providers (“NSPs”), including broadband modems and gateways, and digital set-top-boxes.

Connected Home segment generates primarily its revenue from the sale of goods.

**Corporate & Other**

This segment includes:

- Unallocated Corporate functions, which comprise the operation and management of the Group’s Head Office, together with various Group functions centrally performed, such as Sourcing, Human Resources, IT, Finance, Marketing and Communication, Corporate Legal Operations and Real Estate Management, and which cannot be strictly assigned to a particular business within the two operating segments;
- Post-disposal service operations and commitments related to former consumer electronics operations, mainly pension and legal costs.
- Research & Innovation (R&I), which aims at fostering organic growth in close collaboration with the businesses by innovating in next generation video technologies and experiences;
- Trademark Licensing business, which monetizes valuable brands such RCA© and Thomson© which were operated by the Group when it was a leading stakeholder in the Consumer Electronics business.

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

| (€ in million) | Connected Home | Entertainment Services (2) | Corporate & Other | Adj | TOTAL |
|---|---|---|---|---|---|
| | Six months ended June 30, 2018 | | | | |
| **Statement of operations items** | | | | | |
| Revenues | 1,003 | 756 | 10 | - | **1,769** |
| Intersegment sales | - | - | - | - | - |
| **Earning before Interest & Tax (EBIT) from continuing operations** | **(38)** | **(41)** | **(27)** | **-** | **(106)** |
| *Of which:* | | | | | |
| Net impairment losses on non-current operating assets | (2) | (1) | - | - | (3) |
| Restructuring costs | (13) | (25) | - | - | (38) |
| Other income (expenses) | (7) | (8) | (3) | - | (18) |
| Depreciation & amortization | (45) | (62) | (2) | - | (109) |
| Other non-cash items (1) | 3 | - | 2 | - | 5 |
| **Adjusted EBITDA** | **26** | **55** | **(24)** | **-** | **57** |
| **Statements of financial position items** | | | | | |
| Segment assets | 1,342 | 1,498 | 89 | - | 2,929 |
| Unallocated assets | | | | | 563 |
| **Total consolidated assets** | | | | | **3,492** |
| Segment liabilities | 1,012 | 516 | 382 | - | 1,910 |
| Unallocated liabilities | | | | | 1,397 |
| **Total consolidated liabilities** | | | | | **3,307** |
| **Other information** | | | | | |
| Net capital expenditures | (42) | (31) | (2) | - | **(75)** |
| Capital employed | 23 | 576 | 21 | - | **620** |

(1) Mainly variation of provisions for risks, litigations and warranties.

(2) Revenues from Production Services and DVD Services were €376 million and €380 million, respectively.

As of June 30, 2018, the aggregate amount of the transaction prices allocated to the remaining performance obligations was €292 million and related to the Films and Animations businesses of our Production Services division. Revenues will be recognized until completion of the projects.

| (€ in million) | Connected Home | Entertainment Services [4] | Corporate & Other [(*)] [(1)] | Adj | TOTAL |
|---|---|---|---|---|---|
| | Six months ended June 30, 2017 [(2)] | | | | |
| **Statement of operations items** | | | | | |
| Revenues | 1,252 | 838 | 8 | - | **2,098** |
| Intersegment sales | - | 1 | - | (1) | - |
| **Earning before Interest & Tax (EBIT) from continuing operations** | **12** | **(27)** | **(42)** | **-** | **(57)** |
| *Of which:* | | | | | |
| Net impairment losses on non-current operating assets | (3) | - | (1) | - | (4) |
| Restructuring costs | (8) | (11) | (3) | - | (22) |
| Other income (expenses) | (1) | (6) | 1 | - | (6) |
| Depreciation & amortization | (40) | (72) | (3) | - | (115) |
| Other non-cash items [(3)] | 11 | (2) | (1) | - | 8 |
| **Adjusted EBITDA** | **53** | **64** | **(35)** | **-** | **82** |
| **Statements of financial position items** | | | | | |
| Segment assets | 1,489 | 1,579 | 126 | - | 3,194 |
| Unallocated assets | | | | | 681 |
| **Total consolidated assets** | | | | | **3,875** |
| Segment liabilities | 1,049 | 518 | 488 | - | 2,055 |
| Unallocated liabilities | | | | | 1,336 |
| **Total consolidated liabilities** | | | | | **3,391** |
| **Other information** | | | | | |
| Net capital expenditures | (36) | (32) | (1) | - | **(69)** |
| Capital employed | 119 | 647 | (39) | - | **727** |

(*) Formerly Other.

(1) Following the presentation of the Patent Licensing business as Discontinued Operations, "Trademark Licensing" and "Research & Innovation", formerly reported as part of the Technology segment, have been included in the Corporate & Other segment.

(2) 2017 amounts are re-presented to reflect the impacts of Discontinued Operations (see Note 11) and the new allocation of corporate cost to our operating segments.

(3) Mainly variation of provisions for risks, litigations and warranties.

(4) Revenues from Production Services and DVD Services were €383 million and €455 million, respectively.

## 4.2. Operating income & expenses

| | For the 6-month period ended June 30, | |
|---|---|---|
| (€ in million) | 2018 | 2017 [(*)] |
| Selling and administrative expenses | (168) | (204) |
| Net impairment gains (losses) on non-current operating assets [(1)] | (3) | (4) |
| Other income (expense) | (18) | (6) |

(*) Amounts for the six months ended June 30, 2017 are re-presented to reflect the impacts of Discontinued Operations.
(1) Fixed asset write-off.

Other expenses for the period ended June 30, 2018 included mainly a provision of €8 million in the Connected Home segment related to a settlement with a client and a provision of €5 million in the DVD Services division.

Other expenses for the period ended June 30, 2017 were related to litigation settlements.

For the period ended June 30, 2018, related party transactions were not significant.

## 5. Income Tax

The income tax expense for the six months ended June 30, 2018 is determined using the year-end 2018 forecasted effective tax rate. This rate is computed at entity level or at the tax consolidation level if appropriate.

The income tax charge for the six months ended June 30, 2018 is summarized below:

| | For the 6-month period ended June 30, | |
|---|---|---|
| *(€ in million)* | 2018 | 2017 (*) |
| France | - | (1) |
| Foreign | (11) | (5) |
| **Total Income Tax** | **(11)** | **(6)** |

(*) Amounts for the six months ended June 30, 2017 are re-presented to reflect the impacts of Discontinued Operations.

## 6. Goodwill, intangible & tangible assets

### 6.1. Goodwill

The following table provides the allocation of the goodwill to each Goodwill Reporting Unit (GRU) based on the organization effective as of December 31, 2017 and June 30, 2018.

| *(€ in million)* | Connected Home | Entertainment Services | | TOTAL |
|---|---|---|---|---|
| | | Production Services | DVD Services | |
| **At December 31, 2017** | **422** | **183** | **337** | **942** |
| Exchange difference | 4 | 2 | 7 | 13 |
| **At June 30, 2018** | **426** | **185** | **344** | **955** |

Due to adverse market conditions in the Connected Home business and in connection with the 3-year transformation program decided by Technicolor (see note 12), a sensitivity analysis was performed based on the reforecast of Year-End 2018 and on key assumptions such as gross margin rate and perpetual growth rate.

There was no indication of impairment of goodwill for Connected Home from this sensitivity test.

## 6.2. Intangible assets

| (€ in million) | Trademarks | Patents & Customer Relationships | Other intangibles | Total Intangible Assets |
|---|---|---|---|---|
| **At December 31, 2017, Net,** | **248** | **254** | **123** | **625** |
| *Cost* | *255* | *642* | *389* | *1,286* |
| *Accumulated depreciation* | *(7)* | *(388)* | *(266)* | *(661)* |
| Exchange differences | 5 | 4 | 1 | 10 |
| Additions | - | 2 | 39 | 41 |
| Depreciation charge | - | (24) | (39) | (63) |
| Impairment loss (1) | - | (6) | - | (6) |
| Other (2) | - | 5 | 14 | 19 |
| **At June 30, 2018, Net,** | **253** | **235** | **138** | **626** |
| *Cost* | *260* | *652* | *429* | *1,341* |
| *Accumulated depreciation* | *(7)* | *(417)* | *(291)* | *(715)* |

(1) Of which €4 million relates to Discontinued activities.

(2) Includes assets held for sale.

## 6.3. Property, plant & equipment

| (€ in million) | Land | Buildings | Machinery & Equipment | Other Tangible Assets (1) | TOTAL |
|---|---|---|---|---|---|
| **At December 31, 2017, Net,** | **3** | **21** | **100** | **119** | **243** |
| *Cost* | *3* | *63* | *1,132* | *372* | *1,570* |
| *Accumulated depreciation* | *-* | *(42)* | *(1,032)* | *(253)* | *(1,327)* |
| Exchange differences | - | - | - | 1 | 1 |
| Additions | - | - | 1 | 42 | 43 |
| Depreciation charge | - | (2) | (23) | (17) | (42) |
| Impairment loss (2) | - | - | (2) | (6) | (8) |
| Other | - | - | 14 | (28) | (14) |
| **At June 30, 2018, Net,** | **3** | **19** | **90** | **111** | **223** |
| *Cost* | *3* | *64* | *1,128* | *380* | *1,575* |
| *Accumulated depreciation* | *-* | *(45)* | *(1,038)* | *(269)* | *(1,352)* |

(1) Includes assets in progress.

(2) In June 30, 2018, included an impairment of €7 million related to a restructuring plan.

### 6.4. Commitments related to assets operated under operating lease

As of June 30, 2018, commitments related to future minimum and non-cancellable lease payments are detailed below:

| *(€ in million)* | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Minimum future lease payments | 306 | 309 |
| Future lease payments commitments received | (1) | (4) |
| **Net value of future lease commitments** | **305** | **305** |

## 7. Equity & Earnings per share

### 7.1. Change in share capital

| *(In euros, except number of shares)* | Number of shares | Par value | Share capital in Euros |
|---|---|---|---|
| **Share Capital as of December 31, 2017** | **414,461,178** | **1** | **414,461,178** |
| Issuance of new shares | - | - | - |
| **Share Capital as of June 30, 2018** | **414,461,178** | **1** | **414,461,178** |

As of June 30, 2018, Technicolor owns 1,074,994 treasury shares.

### 7.2. Earnings (Loss) per share

**Diluted earnings (loss) per share**

| | For the 6-month period ended June 30, | |
|---|---|---|
| *(€ in million, except number of shares)* | 2018 | 2017 (*) |
| **Net income (loss)** | **(152)** | **(106)** |
| Net (income) loss attributable to non-controlling interest | - | 1 |
| Net (gain) loss from discontinued operations | 14 | (19) |
| **Numerator:** **Adjusted profit "Group share" from continuing operations attributable to ordinary shareholders** | **(138)** | **(124)** |
| **Basic weighted number of outstanding shares ('000)** | **413,440** | **412,473** |
| Dilutive impact of stock-option, free & performance share plans | - | 2,636 |
| **Denominator:** **Diluted weighted number of outstanding shares *('000)*** | **413,440** | **415,109** |

(*) Amounts for the six months ended June 30, 2017 are re-presented to reflect the impacts of Discontinued Operations.

Certain stock-options and performance share plans have no dilution impact due to the current stock price and conditions not met as of June 30, 2018 but could have a dilution impact in the future.

## 8. Financial assets, financing & derivative financial instruments

### 8.1. Fair value of financial assets and liabilities

In accordance with IFRS 13 – Fair Value measurement, 3 levels of fair value measurement have been identified for financial assets & liabilities:

- Level 1: quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: internal models with observable parameters including the use of recent arm's length transactions (when available), references to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.
- Level 3: internal models with non-observable parameters.

| | | Fair value measurement by accounting categories as of June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| *(€ in million)* | June 30, 2018 | Amortized costs | Fair value through profit & loss | Fair value through equity | Derivative instruments (see Note 7.4) | Fair Value measurement | December 31, 2017 |
| **Other non-current operating assets** | **45** | - | 45 | - | - | | **38** |
| **Total non current operating assets** | **45** | | | | | | **38** |
| **Non-consolidated Investments** | **18** | **-** | 18 | - | - | Level 2 | **17** |
| *Cash collateral & security deposits* | 10 | - | 10 | - | - | Level 1 | 15 |
| *Loans & others* | 3 | - | 3 | - | - | | 4 |
| *Derivative financial instruments* | 1 | - | - | - | 1 | Level 2 | - |
| **Other non-current financial assets** | **14** | | | | | | **19** |
| **Total non-current financial assets** | **32** | | | | | | **36** |
| **Trade accounts and notes receivable** | **541** | 541 | - | - | - | | **684** |
| **Total current operating assets** | **541** | | | | | | **684** |
| *Cash collateral and security deposits* | 9 | - | 9 | - | - | Level 1 | 8 |
| *Other financial current assets* | - | - | - | - | - | | 2 |
| **Other financial current assets** | **9** | | | | | | **10** |
| *Cash* | 161 | - | 161 | - | - | Level 1 | 274 |
| *Cash equivalents* | 36 | - | 36 | - | - | Level 1 | 45 |
| **Cash and cash equivalents** | **197** | | | | | | **319** |
| **Total current financial assets** | **206** | | | | | | **329** |
| Borrowings [(1)] | (1 107) | (1 107) | - | - | - | | (1 097) |
| Other current financial liabilities | - | - | - | - | - | Level 2 | (1) |
| **Total financial liabilities** | **(1 107)** | | | | | | **(1 098)** |

(1) Borrowings are recognized at amortized costs. The fair value of the Group debt is €1,062 million as of June 30, 2018 (€1,108 million as of December 31, 2017). This fair value is based on quoted prices in active markets for term loan debt (Level 1).

Some cash collaterals for U.S. entities are classified as current because of their short maturity but are renewed automatically for periods of 12 months.

## 8.2. Borrowings

The Group's debt consists primarily of Term Loan Debt in U.S. dollars and in euros, issued by Technicolor SA in December 2016 and March 2017 and maturing in 2023 and a loan from the European Investment Bank ("EIB").

### 8.2.1. Analysis by nature

| *(€ in million)* | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Debt due to financial institutions | 1 063 | 1 058 |
| Other financial debts (1) | 40 | 35 |
| Accrued interest | 4 | 4 |
| **Debt under IFRS** | **1 107** | **1 097** |
| *Total non-current* | *1 085* | *1 077* |
| *Total current* | *22* | *20* |

(1) Include capital lease liabilities mainly in Production Services division.

### 8.2.2. Summary of debt

Details of the Group's debt as of June 30, 2018 are given in the table below:

| *(in million currency)* | Currency | Nominal Amount | IFRS Amount (see Note 7.2.3.4) | Type of rate | Nominal rate (1) | Effective rate (1) | Repayment Type | Final maturity |
|---|---|---|---|---|---|---|---|---|
| Term Loan Debt | USD | 254 | 253 | Floating (2) | 5,06% | 5,18% | Amortizing | December 2023 |
| Term Loan Debt | EUR | 275 | 273 | Floating (3) | 3,00% | 3,11% | Bullet | December 2023 |
| Term Loan Debt | EUR | 450 | 447 | Floating (4) | 3,50% | 3,63% | Bullet | December 2023 |
| EIB Loan | EUR | 90 | 90 | Fixed rate | 2,54% | 2,54% | Bullet | January 2023 |
| **Total** | **EUR** | **1 069** | **1 063** | | **3,66%** | **3,77%** | | |
| Other Debt (5) | | 44 | 44 | | 3,55% | 3,55% | | |
| **TOTAL** | | **1 113** | **1 107** | | **3,66%** | **3,76%** | | |

(1) Rates as of June 30, 2018
(2) 3-month Libor with a floor of 0% + 275bp.
(3) 3-month Euribor with a floor of 0% + 300bp.
(4) 3-month Euribor with a floor of 0% + 350bp.
(5) Of which €4 million is accrued interest.

### 8.2.3. Main features of the Group's borrowings

#### 8.2.3.1. Analysis by maturity

| *(€ in million)* | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Less than 1 month | 6 | 5 |
| Between 1 and 6 months | 3 | 13 |
| Between 6 months and less than 1 year | 13 | 2 |
| **Total current debt less than 1 year** | **22** | **20** |
| | | |
| Between 1 and 2 years | 14 | 17 |
| Between 2 and 3 years | 13 | 7 |
| Between 3 and 4 years | 3 | 2 |
| Between 4 and 5 years | 94 | 5 |
| Over 5 years | 967 | 1,052 |
| **Total non-current debt** | **1,091** | **1,083** |
| **Total nominal debt** | **1,113** | **1,103** |
| IFRS Adjustment (see Note 7.2.3.4) | (6) | (6) |
| **Debt under IFRS** | **1,107** | **1,097** |

#### 8.2.3.2. Interest rate characteristics

In the first half of 2018 Technicolor entered into two interest rate hedging operations: a purchase of a 3-month USD Libor cap at a rate of 3% protecting a nominal amount of U.S.$145 million of term loan debt and an interest rate swap whereby €240 million of the group's floating rate term loan debt was swapped to fixed rate with the group receiving 3-month Euribor with a floor of 0% and paying a fixed rate of 0.22%. Both hedges expire with the 3-month fixing on November 30, 2021 (which covers the interest period November 30, 2021 to February 28, 2022). Taking into account these hedging operations:

| | |
|---|---|
| Portion of debt at floating rate before hedging: | 90% |
| Portion of debt at floating rate taking into account hedging: | 57% |

| | **Nominal** | **Effective** |
|---|---|---|
| Average interest rate on group debt before hedging: | 3.66% | 3.76% |
| Average interest rate on group debt after hedging: | 3.70% | 3.81% |

8.2.3.3. Analysis of borrowings by currency

| *(€ in million)* | **June 30, 2018** | **December 31, 2017** |
|---|---|---|
| Euro | 816 | 816 |
| U.S. Dollar | 269 | 271 |
| Other currencies | 22 | 10 |
| **Debt under IFRS** | **1,107** | **1,097** |

8.2.3.4. IFRS analysis of the Term Loan Debt carrying amount

The IFRS value of the Term Loan Debt is the nominal amount of the Term Loan Debt reduced by transaction costs as adjusted by the effective interest rate (EIR) method as well as any adjustments due to debt prepayments. The evolution of the IFRS discount in 2018, that is, the difference between the nominal and IFRS amount of the Term Loan Debt, is as follows:

*(€ in million)*

| | |
|---|---|
| **IFRS discount of the Term Loan Debt as of December 31, 2017** | **(6)** |
| 2018 EIR effect and variation due to exchange rates | - |
| **IFRS discount of the Term Loan Debt as of June 30, 2018** | **(6)** |

This IFRS discount of €6 million will be charged to interest over the remaining life of the Term Loan Debt using the effective interest rate method. The current weighted average effective interest rate of the Term Loan Debt is 3.89%.

8.2.3.5. Undrawn credit lines

| *(€ in million)* | **June 30, 2018** | **December 31, 2017** |
|---|---|---|
| Undrawn, committed lines expiring in more than one year | 357 | 390 |

The Group has a receivable backed committed credit facility in an amount of U.S.$125 million (€107 million at the June 30, 2018 exchange rate) which matures in 2021 and a €250 million revolving facility maturing in 2021 (the "RCF"). Neither was drawn at June 30, 2018. The availability of the receivables backed credit facility line varies depending on the amount of receivables. The group also has a bilateral committed facility in an amount of €35 million which expires in May 2019 and thus is not included in the amount shown in the table above.

8.2.3.6. Financial covenants and other limitations

For a detailed discussion of the limitations under the Term Loan Debt, the EIB Loan and the RCF please refer to Note 8.3.3.5 to the Group's 2017 consolidated financial statements.

The EIB Loan contains a single affirmative financial covenant which requires that the total gross debt be no more than 4.00 times EBITDA on a trailing twelve-month basis ("Leverage covenant") on June 30 and December 31 of each financial year.

The RCF contains the same financial covenant but this covenant is only applicable if there is an outstanding drawing of more than 40% of the RCF amount on June 30 or December 31 of each financial year.

The U.S.$125 million credit line agreement with Wells Fargo contains the same financial covenant but this covenant is only applicable if outstanding availability under the line is less than U.S.$20 million on June 30 or December 31 of each financial year.

The €35 million credit line agreement with Crédit Agricole d'Ile de France also contains the same financial covenant, but this covenant is only tested on December 31 of each financial year.

The Term Loan Debt does not contain a financial affirmative covenant.

The total gross debt and Adjusted EBITDA are calculated on the basis of the entire Group perimeter. Therefore, the variance of €45 million between the Adjusted EBITDA determined in respect of the leverage covenant definition and the Adjusted EBITDA is equal to the Adjusted EBITDA in the discontinued activities.

Likewise, the variance of €2 million between the gross debt determined in respect of the leverage covenant definition and the gross debt from continuing operations is equal to the debt in the discontinued activities. See Note 11 for more information about the discontinued operations.

Leverage covenant

Total gross debt of the Group at June 30, 2018 must be no more than 4.00 times the EBITDA of the Group for the twelve months ending June 30, 2018.

| | |
|---|---|
| Gross Debt | €1,109 million |
| Covenant EBITDA | €310 million |
| Gross Debt / Covenant EBITDA Ratio | 3.58 |

Since 3.58 is less than the maximum allowed level of 4.00, the Group meets this financial covenant.

## 8.3. Net financial income (expense)

| | For the 6-month period ended June 30, | |
|---|---|---|
| *(€ in million)* | 2018 | 2017 |
| Interest income | 2 | 1 |
| Interest expense | (21) | (25) |
| **Net interest expense** | **(19)** | **(24)** |
| | | |
| Net interest expense on defined benefit liability | (3) | (3) |
| Foreign exchange gain / (loss) | 5 | (1) |
| Other [(1)] | (4) | (34) |
| **Other financial income (expense)** | **(2)** | **(38)** |
| | | |
| **Net financial income (expense)** | **(21)** | **(62)** |

(1) In 2017, other financial expenses are mainly related to the reversal of the IFRS discount after the early repayment of the Old Term Loan Debt for €27 million.

## 8.4. Derivative financial instruments

The Group uses derivatives to reduce market risk. Technicolor uses principally forward foreign currency operations to hedge foreign exchange risk.

The Group executes operations on the over the counter derivatives markets.

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| *(€ in million)* | Assets | Liabilities | Assets | Liabilities |
| Forward foreign exchange contracts - cash flow and fair value hedges | - | - | - | 1 |
| **Total current** | **-** | **-** | **-** | **1** |
| Interest rate hedges | 1 | - | - | - |
| **Total non-current** | **1** | **-** | **-** | **-** |
| **Total** | **1** | **-** | **-** | **1** |

Credit risk on these transactions is minimized by the foreign exchange policy of trading short-term operations as well as bilateral collateral agreements with certain of the Group's banks. The marked-to-market carrying value shown in the table above, at June 30, 2018 of €1 million is entirely covered by collateral deposited by the Group's banks with Technicolor.

As of June 30, 2018, a gain on hedging instruments of €2 million was recognized in OCI (compared to a loss of €9 million recognized in OCI in June 2017).

**Commitments related to financial instruments**

Commitments related to financial instruments held by the Group generate both future cash payments and receipts. These commitments are disclosed in the table below as follows:

- Forward exchange contracts, swaps and options: for their related cash inflow and outflow amounts;
- Interest rate swaps and interest rate caps: for the underlying nominal debt amounts.

| *(€ in million)* | June 30, 2018 |
|---|---|
| Currency swaps and forward exchange contracts | 527 |
| Interest rate swap | 240 |
| **Total commitments given** | **767** |
| Currency swaps and forward exchange contracts | 527 |
| Interest rate swap | 240 |
| Interest rate cap | 124 |
| **Total commitments received** | **891** |

# 9. Employee benefit

## 9.1. Post-employment & long-term benefits

| *(€ in million)* | Pension plan benefits | Medical post-retirement benefits | Total |
|---|---|---|---|
| **As of December 31, 2017** | **376** | **6** | **382** |
| Net periodic pension cost | 5 | - | 5 |
| Benefits paid and contributions | (13) | - | (13) |
| Actuarial (gains) losses recognized in OCI | (11) | - | (11) |
| Currency translation adjustments and other | - | - | - |
| **As of June 30, 2018** | **357** | **6** | **363** |
| *Of which current* | *28* | *-* | *28* |
| *Of which non-current* | *329* | *6* | *335* |

As of June 30, 2018, the present value of the obligation amounted to €553 million, the fair value of plan assets amounted to €190 million.

## 9.2. Share-based compensation plans

As of June 30, 2018, the number of stocks options and performance shares is as follows:

| *(in millions of unit)* | June 30, 2018 |
|---|---|
| Number of outstanding stock-options and performance shares as of December 31,2017 | 19.4 |
| Number of performance shares granted during 2018 first half | 0.6 |
| Number of forfeited stock-options and performance shares during 2018 first half | (4.2) |
| **Number of outstanding stock-options and performance shares as of June 30, 2018** | **15.8** |

The impact of compensation plans during the period amounted to €3 million and €(5) million for the six months ended June 30, 2018 and June 30, 2017, respectively. The counterpart has been accounted fully in equity in 2018 and 2017.

# 10. Provisions & contingencies

## 10.1. Detail of provisions

| *(€ in million)* | Provisions for warranty | Provisions for risks & litigations related to continuing operations | Provisions for risks & litigations related to discontinued operations | Provisions for restructuring related to continuing operations | Provisions for restructuring related to discontinued operations | Total |
|---|---|---|---|---|---|---|
| **As of December 31, 2017** | **43** | **41** | **30** | **17** | **2** | **133** |
| Current period additional provision | 6 | 20 | 1 | 43 | 1 | 71 |
| Release | (1) | (3) | - | (5) | - | (9) |
| Usage during the period | (7) | (5) | (6) | (27) | (3) | (48) |
| Other movements and currency translation adjustments (1) | - | (2) | (3) | (6) | - | (11) |
| **As of June 30, 2018** | **41** | **51** | **22** | **22** | **-** | **136** |
| *Of which current* | *41* | *42* | *8* | *20* | *-* | *111* |
| *Of which non-current* | *-* | *9* | *14* | *2* | *-* | *25* |

(1) Includes:
- Mainly the restatement of IFRS 9 Financial Instruments for €(4) million. Please refer to Note 1.2.2 for more details.
- Mainly Fixed Asset written-off in the Provision of restructuring for €(7) million.

The provisions for restructuring are termination costs related to continuing operations (for both employees and facilities).

## 10.2. Contingencies

In the ordinary 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 a loss is probable, and it can be reasonably estimated.

In the framework of the first suit filed by the Taoyuan County Form RCA Employees' Solicitude Association against a Technicolor's subsidiary, the decision of the Taiwan's Supreme Court is expected during the second semester of 2018.

There was no other significant event during the first six months of 2018 regarding the litigation matters disclosed in Note 10 to our 2017 audited consolidated financial statements, and no other significant new litigation has been commenced since December 31, 2017.

# 11. Specific operations impacting the consolidated statement of cash-flows

## 11.1. Acquisitions and disposals of subsidiaries & investments

### 11.1.1. Acquisitions

For the first 6 months ended June 30, 2018, the acquisition of activities and investments, net of cash position of companies acquired amounted to €1 million mainly related to the purchase price adjustments received in relation with the acquisition of LG Electronics set-top box business.

For the first 6 months ended June 30, 2017, the acquisition of activities and investments, net of cash position of companies acquired, amounted to €21 million, of which €14 million (before the purchase price adjustment of €2 million) related to the acquisition of the LG Electronics set-top box business.

### 11.1.2. Disposals

For the first 6 months ended June 30, 2018, net cash impact from disposal of activities and investments amounted to €4 million. It was mainly related to the sale of Digital Cinema activities.

For the first 6 months ended June 30, 2017, net cash impact from disposal of activities and investments amounted to €10 million. It was mainly related to the sale of Digital Cinema activities for €9 million.

## 11.2. Cash impacts on financing operations

The table below summarizes the Group's borrowing changes in the Statement of Balance Sheet position:

| *(€ in million)* | December 31, 2017 | Cash impact of borrowing variation [1] | Non cash variation | | | June 30, 2018 |
|---|---|---|---|---|---|---|
| | | | Capital leases recognition | Currency Translation Adjustments | Transfer Current - Non Current | |
| Non Current Borrowing | 1 077 | (4) | 10 | 6 | (4) | 1 085 |
| Current Borrowing | 20 | (9) | 6 | 1 | 4 | 22 |
| **Total Borrowing** | **1 097** | (13) | 16 | 7 | - | **1 107** |

(1) Mainly related to capital lease liabilities.

## 11.3. Changes in working capital and other assets and liabilities

As French tax authorities reimburse the Research tax credit ("CIR") after a three-year period, Technicolor decided in the first half of 2018 to sell its CIR of 2017 to a financial institution. This sale without recourse occurred at the end of June and led to the derecognition of the €20 million receivables with the following counterparts:

- A cash receipt of €18 million;
- A €1 million receivable towards the financial institution, corresponding to the residual cash to be received when the French tax authorities reimburse the CIR in 2021; and
- A €1 million expense over the period.

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

## 12. Discontinued operations and held for sale operations

On December 18, 2017, the Group announced being in negotiations for the divestiture of its Patent Licensing division, which represents substantially all the revenues and income of its former reporting segment "Technology". Because the disposal was considered as "highly probable" according to IFRS 5, Patent Licensing was presented as Discontinued Operations.

On March 1, 2018, the Group announced that it concluded with InterDigital an exclusive agreement pursuant to which this company irrevocably commits to acquire Technicolor's Patent Licensing businesses (see Note 1.1)

Other discontinued activities relate to remaining subsequent impacts of activities disposed of or abandoned such as Cathode Ray Tubes activities from 2004 and 2005.

**CONSOLIDATED STATEMENT OF OPERATIONS**

| | For the 6-month period ended June 30, | |
|---|---|---|
| *(€ in million)* | 2018 | 2017 |
| **DISCONTINUED OPERATIONS** | | |
| Revenues | 15 | 48 |
| Cost of sales | (12) | (16) |
| **Gross Margin** | **3** | **32** |
| Selling and administrative expenses | (8) | (8) |
| Restructuring costs | (1) | - |
| Net impairment gains (losses) on non-current operating assets | (4) | - |
| Other income (expense) | (4) | 1 |
| **Earning before Interest & Tax from discontinued operations** | **(14)** | **25** |
| Net financial income (expense) | (1) | (1) |
| Income tax | 1 | (5) |
| **Net income (loss)** | **(14)** | **19** |

**CONSOLIDATED STATEMENT OF CASH FLOWS**

| (€ in million) | For the 6-month period ended June 30, 2018 | 2017 |
|---|---|---|
| Income (loss) from discontinuing activities | (14) | 19 |
| *Summary adjustments to reconcile profit from continuing activities to cash generated from continuing operations* | | |
| Depreciation and amortization | - | 4 |
| Impairment of assets | 4 | - |
| Net changes in provisions | (7) | (6) |
| Other non-cash items (including tax) | (1) | 10 |
| Changes in working capital and other assets and liabilities | 51 | (70) |
| Income tax paid | (3) | 4 |
| **NET OPERATING CASH GENERATED FROM DISCONTINUES ACTIVITIES (I)** | **30** | **(39)** |
| **NET INVESTING CASH USED IN DISCONTINUED ACTIVITIES (II)** | **-** | **(1)** |
| Proceeds from borrowings | - | 1 |
| Repayments of borrowings | - | (6) |
| **NET FINANCING CASH GENERATED IN DISCONTINUED ACTIVITIES (III)** | **-** | **(5)** |
| **NET CASH FROM FROM DISCONTINUING ACTIVITIES (I+II+III)** | **30** | **(45)** |

## 13. Subsequent events

**Announcement of CH transformation program**

Technicolor decided to launch a 3-year transformation program for Connected Home to adapt to the new market conditions. This program will accelerate the customer “selectivity” plan to better achieve product synergies and develop stronger partnerships with key suppliers to improve product costing and tome to market. In parallel, a strong productivity improvement plan is implemented with the objective to reduce annual fixed cost structure by 40%.

**Disposal of Patent Licensing**

On July 24, 2018, Technicolor and InterDigital have entered into a final agreement, the terms of which are in line with those announced on March 1, 2018.

There is no other subsequent event that may have a significant impact on the interim condensed consolidated Group financial accounts.

## IV. STATUTORY AUDITORS REPORT ON THE INTERIM FINANCIAL STATEMENTS

**Statutory auditors' report on the interim condensed consolidated financial**

**For the six-month period ended June 30, 2018**

*This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report includes information relating to the specific verification of information presented in the Group's interim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

To the Shareholders,

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

- the review of the accompanying interim condensed consolidated financial statements of Technicolor S.A, for the six-month period ended June 30, 2018,

- the verification of the information contained in the interim management report.

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

### 1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Without qualifying the opinion expressed above, we draw your attention to the Note 1.2.2 - New standards, amendments and interpretations which presents the effects of the first adoption of IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments.

**2. Specific verification**

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

The statutory auditors

| Paris-La-Défense, July 27, 2018 | Courbevoie, July 27, 2018 | |
|---|---|---|
| Deloitte et Associés | Mazars | |
| Bertrand Boisselier<br>*Associée* | Guillaume Devaux<br>*Associé* | Jean-Luc Barlet<br>*Associé* |