

technicolor

CREATIVE STUDIOS

ANSWERS BY THE BOARD OF DIRECTORS TO SHAREHOLDERS' WRITTEN QUESTIONS

This document is a free translation into English.

In the event of conflict in interpretation, reference should be made to the French version.

Written question

Madam Chairperson,

Would you please answer the following questions:

Can you describe the circumstances under which you became aware of the collapse of operational profitability at TCHCS? And what was your reaction at the time?

What is your opinion today on what happened? I recall that in H1 2022, the company reported an operating profit of 19m. At the end of December, this 19m profit became a 51m loss, an extravagant 70m delta of operating loss in 6 months.

Didn't the Finance Department and the Human Resources Department have the responsibility to set up monitoring procedures to prevent such a situation from occurring?

As Chairperson of the company, can you assure us in all sincerity that the company is now managed in the interest of its shareholders? Have you requested an investigation by the French Market Authority to verify that certain insiders have not taken advantage of the fall in profits to magnify the collapse of the share price?

With my thanks,

JM Buchet

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Company's response

(1) Can you describe the circumstances under which you became aware of the collapse of operational profitability at TCHCS? And what was your reaction at the time?

- In mid-November 2022, the company identified the impact of operational difficulties on its profitability forecasts.
- The company immediately informed the market of the downward revision of its adjusted EBITDA after rent estimates through a press release.
- At the same time, the company has launched a broader transformation plan, the measures of which were detailed in the Q3 2022 press release, published on November 30.

(2) What is your opinion today on what happened? I recall that in H1 2022, the company reported an operating profit of 19m. At the end of December, this 19m profit became a 51m loss, an extravagant 70m delta of operating loss in 6 months.

- Technicolor Creative Studios faced a post-Covid recovery crisis. The domino effects of this crisis magnified and accelerated the scale of the difficulties.

- Demand for content for films and series has rebounded post-Covid, making 2022 a very strong year. All four of the Group's divisions reported revenue growth.
- In the same time to this sustained demand, and in contrast, the industry has faced a significant shortage of creative talent in the VFX and animation fields.
- Technicolor Creative Studios was not exempt from this trend and experienced significant operational difficulties.
 - High-margin sales could not be made at The Mill due to a lack of senior team resources.
 - At the same time, some major projects at MPC were affected by a decline in production efficiency, resulting in delivery delays, additional expenses and lower margins.
 - These delivery delays have led to further delays in the launch and delivery of additional projects, *via* a “domino effect”.
- Two main items weighed on EBIT and explain the loss of €51 million:
 - An increase in operating costs of €221 million, to €716 million (or 91.3% of revenues), due in part to an increase in costs related to operational inefficiencies.
 - Restructuring costs of €24 million related to the Re*Imagined Program, which is essential for the continuation of the company's activity.

(3) Didn't the Finance Department and the Human Resources Department have the responsibility to set up monitoring procedures to avoid such a situation from occurring?

- It became apparent that the reporting and monitoring procedures needed to be improved and strengthened, given the jaws effect that the company experienced.
- In order to strengthen the performance of these procedures and monitoring measures, the company has launched an in-depth audit conducted by an independent entity, aimed in particular at identifying areas for improvement in terms of reporting.
- Since then, the company has reviewed all its processes, under the supervision of a new Chief Operating Officer.

(4) As Chairperson of the company, can you assure us in all sincerity that the company is now managed in the interest of its shareholders?

- The Company is and has been managed in the best interests of all its stakeholders, including its shareholders. To this end, important measures to address the urgency of the situation have been taken and have been the subject of several press releases by the Company.

(5) Have you requested an French Market Authority investigation to verify that certain insiders did not take advantage of the fall in profits to magnify the collapse of the share price?

- Technicolor Creative Studios has complied with all applicable rules regarding the confidentiality of information and equal access to information by investors.

- Technicolor Creative Studios has not requested an investigation by the French Market Authority (*Autorité des Marchés Financiers*), but maintains a regular dialogue and full cooperation with the French Market Authority in this regard.
