

Tuesday 8 August 2006

2006 HALF-YEARLY RESULTS

NET POSITIVE RESULT FOR THE FIRST HALF OF 2006 IN LINE WITH THE DEVELOPMENT PLAN

First results of the strategic development plan

Key elements of the Profit and Loss account following a provisional audit review

€ '000s	June 2006	June 2005	Variation
Turnover	9,179	9,077	+1%
Gross Margin	3,203	2,710	+18%
<i>% of Turnover</i>	35%	30%	
Operating Costs	3,139	3,690	-15%
Gross Operating Surplus	(43)	(1,209)	
Operating Profit (Loss)	64	(1,385)	
Financial Profit (Loss)	(120)	258	
Interim Profit (Loss) before tax	(56)	(1,127)	
Extraordinary items	233	(152)	
Pre-tax Profit (Loss)	177	(1,279)	
Net Profit (Loss)*	325	(1,279)	

* Neotion benefited from deferred taxation and an R&D tax credit amounting to €148k during the first half of 2006.

The turnover for the first six months amounts to €9,179k, the operating result once again returns to the black, and the net profit stands at €325k, all of which is in line with the annual forecasts.

The turnover for the first 6 months of 2006 is up 1% on the same period last year. Year on year, turnover shows an increase of 19.8% for the first quarter, and a drop of 10% for the second quarter. This result was expected and can be explained as follows:

- a fundamentally adverse effect caused by exceptionally high but non-recurring sales of finished products during Q.2, 2005;
- a build-up of the invoicing for Neotion Pockets which have a lower unit value but a higher margin. Neotion Pockets sales have increased to account for 32% of turnover during the first half of 2006, against 13% for the whole of 2005, while sales of Finished Products have dropped from 62% for the whole of 2005 to 32% of turnover during the first half of 2006.

As anticipated, the company is looking for partners for its Finished Products business, which represents a significant asset. The half-year turnover is currently in line with the 2006 annual forecast of more than €21m, with three effects expected to influence this result positively over the next 6 months, namely:

- an increase in sales of both NP4 ICs and Neotion Pockets;
- a very positive underlying effect due to the low turnover during the second half of 2005;
- the usual seasonal impact which results in a high level of turnover during the last quarter.

The gross margin has gained 5 points to 35%, which is half way to achieving the objective for 2006 of more than 40% from the 27% actual gross margin achieved in 2005. The gross operating surplus, on the other hand, is now down to (€43k) as opposed to (€1.2m) in 2005, in line with the annual targets and reflecting the improved mix of sales. Thus the operating result has risen by more than €1.4m from one half-year to the next, swinging it just back into the black.

As at 30 June 2006, Neotion had more than €9.5m available to finance its development plan. Following an increase in share capital of €8m raised from qualified investors, the company was admitted to Euronext Paris' ALTERNEXT stock market on 22 June 2006. The share price is quoted directly and Neotion's equity now stands at €13.9m.

"Our strong first half year's trading results confirm that our vision of the future is sound, and that the profound changes currently taking place will give rise to new needs and therefore new market demand for Neotion's innovative products. We intend to capitalise on these initial results by increasing the size and number of new projects in France and Europe as a whole, in Asia and soon in the USA" declared Jean-Yves Le Roux, Neotion's Chairman and CEO.

Successful commercial launch of a new range of products incorporating MPEG-4

During the first half of 2006, Neotion concluded the successful commercial launch of the NP4 ICs, a new generation of chips for the digital media markets which in particular incorporate MPEG-4 decoding, advanced security features for content providers, and IP interfaces for Internet access and for creating new services which will use this connectivity.

The commercial availability of this chip will enable the development of the Neotion Pocket dTV, the first credit card-format MPEG-4 decoder with built-in operator security. The Pocket has already been selected by TPS and SONY for a world first: the launch of the BRAVIA™ range of pay-TV sets in France.

Partnership agreements have been concluded with VIACCESS, IRDETO and CONAX, software houses supplying security solutions for dTV operators.

As for earlier generation products and despite the difficult market conditions, Neotion has continued to maintain their sales at healthy levels.

Neotion has also met with a great deal of success at both Peking's CCBN exhibition and Las Vegas' NAB media show, where it presented all its solutions for digital equipment manufacturers and digital media operators.

Future Prospects

In the short term, the release of new products will be in line with Neotion's strategic plan and starting in Autumn, will address several new mass markets via manufacturing or distribution partners, as well as several new operator markets where security is a primordial concern. The number of prospects has increased 7-fold since the start of the year, and their interest in Neotion's products is growing.

The first half year results are in line with the annual forecasts announced during the company's introduction on the ALTERNEXT exchange. During the second half of 2006, Neotion anticipates that turnover will continue to grow and that its current positive but weak operating profit will go from strength to strength. Disregarding extraordinary items, Neotion confirms it expects its target turnover for 2006 to be more than €21m, and the net profit to be between €1.5m and €2m.

In the medium term, positioned with good product offerings at the verge of a historical change in a mass market, the company expects to profit fully from the switch-over from analogue to digital TV based on the solid standards now in place and which the governments worldwide favour.

On 16 June 2006, 119 countries agreed on the 17 June 2015 as the deadline for completing the transition from analogue to digital. For its part, France has decided to bring this date forward to 30 November 2011.

Neotion's highly cost-effective solutions meet these new requirements exactly, especially with regard to telecommunications and television operators, regardless of the communications networks used, whether they be satellite, digital terrestrial, broadband or mobile, etc. The company's product range establish it as the undisputable leader for miniaturised digital media access solutions including state-of-the-art encryption and the highest performing compression-decompression standards (MPEG-4).

Neotion's admission to Alternext was done through private placement and gave rise to the publication of an information prospectus which was not endorsed by the Autorité des marchés financiers (AMF), France. Neotion therefore has not, and will not, publicly issue its shares. Neotion shares can therefore only be held by Qualified Investors. (1)

(1) A qualified investor is a moral person having the necessary means and competence to understand the risks inherent in transactions involving financial instruments. The list of categories of investors recognised as qualified is set by Decree in French law.

About NEOTION:

Neotion is a world leader in digital television, and designs, develops and markets a wide range of innovative products and services for both brown goods markets and the media-related industries.

The takeover of XEOLE in February 2004 enabled the company to become a major player in the area of MPEG-4 AVC video compression very quickly. In March 2004, Neotion formed a subsidiary company based in Asia. Finally, in February 2006, Neotion successfully launched its Neotion Pocket dTV, an MPEG-4 digital receiver in credit card format!

Neotion's product offerings span several rapidly growing markets:

- Secure digital broadcasting and reception;
- Digital video compression and recording for TV, PC and DVD;
- PC-TV convergence and the home network market.

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