

ARCHOS: Results for the first half 2011

- Turnover increase +135%
- Operating margin at 7% (€ 5M)
- Net Income increased by € 4.8M

The Board of Directors met on August 8, 2011 and approved the consolidated half-year 2011 financial statements under IFRS GAAP. The financial statements have been reviewed by the auditors.

I. Summary of consolidated P&L for first half of 2011

Consolidated Profit & Loss (in €M)	1st Half 2011	1st Half 2010	Var in €M	Var %
Revenue	71.7	30.5	41.2	135%
Gross Profit	16.8	7.0	9.8	140%
<i>Gross Margin as % of revenue</i>	<i>23,4%</i>	<i>22,9%</i>		
Operating Expenses	11.8	8.8	3.0	34%
Current Operating Income	5.0	-1.8	6.8	N/A
Non recurring expenses	0.0	0.0	0.0	N/A
Operating Income	5.0	-1.8	6.8	N/A
Financial net income	-2.9	-1.3	-1.6	N/A
Taxes	-0.4	0.0	-0.4	N/A
Net consolidated income	1.7	-3.2	4.8	N/A

In the first half of 2011, the Group achieved a turnover of € 71.7 million versus € 30.5 million for the same period in 2010, posting an increase of 135%.

During the first half of the year the strong growth which began in the last quarter of 2010 continued. This evolution is linked to the increasing development of the tablet market on which the group has positioned itself as a major player, benefiting both from a recognized technological position and a differentiated price positioning.

Revenue IFRS €M	1st Half 2011	1st Half 2010	Var in €M	Var %
EUROPE & Others	47.5	22.3	25.2	113%
ASIA	11.1	1.5	9.5	616%
USA	13.1	6.7	6.5	96%
TOTAL	71.7	30.5	41.2	135%

The progression of activity in Asia is related to the direct distribution from Hong Kong including the activities of white-label tablet distribution. In Europe at the end of the first half, ARCHOS began the distribution of some products to Carphone Warehouse.

The group's gross profit reached € 16.8 million posting a margin of 23.4% against 22.9% in the first half of 2010.

Total operating expenses of €11.8 million includes Research & Development expenses of €2.1 million.

Operating expenses excluding Research and Development expenses amounting to € 9.7 million, registered an increase of € 2.1 million compared to the same period of 2010. Due to the impact of the growth of revenue on some lines of expenses (primarily the expenses of marketing operations and trade cooperation related to points of sale), it is more relevant to compare these expenses with those of the second half 2010 which amounted to € 9.0 million.

The costs of Research and Development totaled € 2.1 million, an increase of € 0.9 million. The increase was mainly due to the reduction of the impact of the research tax credit and the fact that in the first half of 2011 there has been no investment subsidies taken into account (whereas € 0.4 million were posted as expenses reduction for the first half of 2010).

Operating income amounted to + € 5.0 million or 7% of turnover.

The financial result was negative at € 2.9 million against € 1.3 million in the first half of 2010. This amount is split between: € 0.8 million of financial interest, € 0.9 million of exchange rate differences on operations relating to the period fluctuations mainly on the US\$ and a € 1.2 million negative impact of latent losses on conversion into € of US\$ held in the bank at the closing date.

Financial interest was impacted by Echostar's loan interest between January 1st and the date of early reimbursement of the loan on May 18th (€ 0.4 million) plus the early refund penalty for € 0.1 million. The balance of interest expense represents interest on overdrafts generated by purchases of foreign currency and factoring charges. The funds from the capital increase received in May will help to significantly reduce the financing expenses in the second half.

The tax expense amounted to € 0.4 million, including € 0.2 million for CVAE in France and € 0.2 million for taxes calculated on the half-year profit of some of the subsidiaries. The impact of changes in deferred tax is not significant in the first half, therefore the level of deferred tax has not been adjusted over the period.

After taking into account the financial result and taxes, the Group recorded a net profit of € 1.7 million for the first half of 2011, against a net loss of € -3.2 million for the first half of 2010.

II. Simplified consolidated balance sheet at June 30th 2011

ASSETS in €M	30/06/2011	31/12/2010	LIABILITIES in €M	30/06/2011	31/12/2010
Fixed Assets	21.5	21.0	Total shareholder's Equity	67.1	36.1
Inventories	32.5	18.5	Non current financial debts	0.7	5.7
Trade receivables	21.7	27.5	Current financial debt (1)	3.7	23.5
Other assets	6.4	5.1	Trade payables	19.3	13.3
Cash and cash equivalent	27.3	24.3	Other provisions and current liabilities	18.8	17.8
TOTAL ASSET	109.5	96.4	TOTAL LIABILITIES	109.5	96.4

(1) including €0,0 M of bank overdraft at end of June 2011 and €14,3 M of bank overdraft at the end of December 2010

Inventory net value at end of June 2011 rose by € 14 million, versus end of 2010. This increase is resulting both from a low level of inventory at December 31, 2010 due to shortages at the end of the year, and to the production schedule.

Net cash at 30 June 2011 amounts to € 27.3 million¹, increased by € 19.8 million. The variance on the half year is mainly explained as follows:

- ARCHOS raised + € 28.6 million net equity in May 2011, of which € 5 million was used to reimburse Echostar's Loan of 2008.
- Net Cash flow from operations (without interest and taxes) amounted to + € 5.6 million during the first half of the year.

¹ Net cash: Cash and cash equivalent minus bank overdrafts included in line "Current financial debt" in the balance sheet

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- Working capital requirement rose by € 3.9 million explained by the increase in inventory.
- ARCHOS invested for € 2.2 million mainly for Research and Development.
- Reduction of factoring debt and interest paid accounted for - € 2.6 million and – € 0.8 million respectively

III. Perspectives

Three new growth and profitability vectors

From the end of the third quarter ARCHOS will distribute a new range of accessories for users of Android products. These products should help sustain the level of gross margin and respond to customer expectations for a complete end-user offer.

During the second half of 2011, "B to B" sales activity of equipment designed for business customers should begin through special distribution agreements.

In addition, the group is negotiating agreements with telecom operators on offers related to the 3G key available for the tablets of Generation 9.

Innovative new products and differentiated

In terms of product range, ARCHOS is now selling products covering a much wider market segment (from 30 euros to 500 euros) and continues its innovation with the Generation 9 tablets which have been announced for end September.

This new Generation is characterized by outstanding performance, optional 3G connectivity provided by a 3G key and with each model available in flash memory or 250 Go hard drive memory versions.

ARCHOS also announced two products for the home: the ARCHOS 35 "Home Connect" and the ARCHOS 35 "Smart Home Phone," bringing to the home phone all the features of a mobile phone.

The ARNOVA range will also showcase new products in September, with increased performance and specifications at a compelling retail price point.

New Territories

ARCHOS has started selling some of its products in Brazil and will engage in negotiations as from September with distributors in India. The Group is also improving on the Chinese market with the beginning of interesting discussion with large distributors groups : Hisap and Digital China .

Considering the lack of maturity of the tablets market, ARCHOS maintains a policy of not providing forecasts.

Nevertheless, during the 2nd semester 2011, ARCHOS is working on staying an active player on this promising market without neglecting to maintain, over the year, an average gross margin between 20% and 25%.

Note to the reader: This English language version is a free translation from the original press release which is in French and is available on the company's corporate website (archos.com). In the event of inconsistencies between the original French language version and this English translation, the French version will take precedence.

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About ARCHOS

Archos, pioneer in the portable audio and video player market, and now specialized in Android powered Internet Tablets, has repeatedly revolutionized the market for consumer electronics since 1988. Today, ARCHOS offers Internet Tablets, Tablet PCs and MP3/MP4 players. In 2000, ARCHOS launched the Jukebox 6000, the first MP3 player combined with a hard disk. Then in 2003 ARCHOS introduced the first portable multimedia players with TV recording. In 2006 Wi-Fi is implemented and then touch screens in 2007. In 2008, Archos launched the first generation Internet Tablets, and then the first ever Android powered tablets in 2009. ARCHOS has offices in the United States, Europe and Asia. ARCHOS is quoted on Compartment C of Eurolist, Euronext Paris, ISIN CodeFR0000182479.

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