

Turnover increase of 6% in the first half of the year

2014 First half results

Summarized Consolidated profit and loss (in €M)	ARCHOS	ARCHOS without LOGIC INSTRUMENT	LOGIC INSTRUMENT	ARCHOS	Var (in €M)	Var %
	1 st Half 2014	1 st Half 2014	From January 23 rd to June 30 th 2014	1 st Half 2014		
Revenue	57,3	54,3	3,0	53,9	3,4	6%
Gross Margin	10,4	9,4	1,0	7,6	2,8	37%
Gross Margin as % of revenue	18,2%	17,3%	33,3%	14,1%		29%
Operating Expenses	12,3	10,5	1,8	9,9	2,4	24%
Operatin Margin	-1,9	-1,1	-0,8	-2,3	0,4	-19%
Financial Income	-0,2	-0,2	0,0	0,3	-0,5	N/A
Income Tax	-0,2	-0,2	0,0	0,0	-0,2	N/A
Net Income	-2,3	-1,5	-0,8	-2,0	-0,3	15%

Consolidated financial statements were approved by the Board of Directors on August 8, 2014. The audit procedures were substantially performed. The statutory auditor limited review report is still in progress.

Revenue in €M	ARCHOS	ARCHOS without LOGIC INSTRUMENT	LOGIC INSTRUMENT	ARCHOS	Var (in €M)	Var %
	1 st Half 2014	1 st Half 2014	From January 23 rd to June 30 th 2014	1 st Half 2013		
	(a) = (b+c)	(b)	(c)	(d)	(a) - (d)	(a-d)/(d)
Europe and North America	46,0	43,0	3,0	43,7	2,3	5%
Asia	11,3	11,3		10,2	1,1	10%
TOTAL	57,3	54,3	3,0	53,9	3,4	6%

The turnover of the first half of 2014 amounts to € 57.3 million, up by 6% compared to the first half in 2013. This increase comes mostly from the consolidation of LOGIC INSTRUMENT effective January 23, 2014, the date of acquisition by ARCHOS.

Gross margin realized is 18.2% of revenue corresponding to an increase of 4.1 points compared to 2013. The variance mainly comes from:

- The integration of LOGIC INSTRUMENT (1 pt of margin).
- The inclusion of non-recurring transactions (3.1 pts margin) including some provision reversals and unused liabilities as well as the revenue recognition of the first stage of our relationship with Fédération Française de Football.

Operating expenses amounts to € 12.3 million, up by € 2.4 million. This increase mainly comes from the integration of fixed costs of LOGIC INSTRUMENT. ARCHOS has continued to strengthen its customer service which impacts operating expenses by € 0.6 million. In addition, net research and development expenses increased by € 0.5 million.

Operating income amounts to € -1.9 million, improving by € 0.4 million. The consolidated net loss is € -2.3 million against € -2 million at the same period last year.

At constant perimeter, without LOGIC INSTRUMENT, the net loss improves by € 0.4 million.

Consolidated balance sheet:

ASSETS in €M	ARCHOS	ARCHOS without LOGIC INSTRUMENT **	LOGIC INSTRUMENT *	ARCHOS
	30-Jun-14	30-Jun-14	30-Jun-14	31-Dec-13
Non current assets	8,1	6,7	1,4	5,5
Inventories	30,4	28,7	1,7	29,6
Trade receivables	21,8	20,5	1,3	31,3
Other assets	11,8	11,0	0,8	13,0
Cash and cash equivalent	16,7	13,7	3,0	13,7
TOTAL ASSETS	88,8	80,6	8,2	93,1

LIABILITIES in €M	ARCHOS	ARCHOS without LOGIC INSTRUMENT **	LOGIC INSTRUMENT *	ARCHOS
	30-Jun-14	30-Jun-14	30-Jun-14	31-Dec-13
Total shareholders' Equity	43,1	38,6	4,5	45,4
Minority interests	3,5	3,5		
Non current financial debts	3,6	3,0	0,6	1,9
Current financial debts	10,1	9,1	1,0	14,1
Trade payables	14,4	13,6	0,8	16,4
Other provisions and current liabilities	14,1	12,8	1,3	15,3
TOTAL LIABILITIES	88,8	80,6	8,2	93,1

* Adjusted with Opening Balance Sheet on January 23, 2014

** Adjusted from consolidation entries of LOGIC INSTRUMENT (cancellation of the shareholders' equity, inclusion of minority interests, goodwill for 0.5 €M and removal of investment in subsidiary)

Non-current assets increase by € 2.6 million.

Non-current assets from LOGIC INSTRUMENT represent € 1.4 million. They consist in Research and Development expenses for € 0.7 million, fixed assets for € 0.3 million and deferred tax assets for € 0.3 million.

By subscribing to the equity raise of LOGIC INSTRUMENT, ARCHOS took a participation of 34%, which, added to the one purchased by its CEO and potential rights attached, gives to ARCHOS an exclusive control, allowing the company to fully integrate LOGIC INSTRUMENT in its accounts. Following this operation, a goodwill of € 0.5 million has been recognized. It has not been allocated as of today.

Finally, the 2014 Research & Development tax credit amounting to € 0.4 million is impacting the non-current assets.

Consolidated net stock increased by € 0.8 million compared to December 31st 2013.

The group equity decreases by the amount of the loss incurred during the period. Minority interests have been booked as ARCHOS only owes 34% of LOGIC INSTRUMENT.

Financial situation

in €M	ARCHOS	ARCHOS without LOGIC INSTRUMENT **	LOGIC INSTRUMENT *	ARCHOS
	30-Jun-14	30-Jun-14	30-Jun-14	31-Dec-13
Non current financial liabilities				
Bank euro borrowings (1)	3 573	3 021	552	1 921
Bond				
Total non current financial liabilities	3 573	3 021	552	1 921
Current financial liabilities				
Other financial current liabilities (2)	2 913	2 743	169	2 575
Current liabilities (Factoring)	7 198	6 424	774	11 498
Bank loans and other short term Bank debt	16	2	14	
Total current financial liabilities	10 127	9 169	957	14 073
Total gross financial liabilities	13 700	12 190	1 510	15 994
Marketable securities				
Cash and cash equivalents	-16 758	-13 773	-2 985	-13 749
Net debt with accrued interests including Factoring advances	-3 058	-1 583	-1 475	2 245

(1) including FY 2012-2013 R&D Tax Credits refinanced by Oseo-BPI for respectively 1.6 €M et 1.1 €M and Oseo-BPI repayable advances with due date over one year for 0.3 €M

(2) including Oseo-BPI repayable advances for 0.6 €M and FY 2010-2011 R&D Tax credits refinanced by Oseo-BPI for 2.1 €M

Net cash position as of June 30th 2014 amounts to € 16.7 million and increased by € 3 million over the 1st half of the year as explained in the following (the signs indicated the treasury variance):

- Cash flow from operations: € - 0.9 million
- A decrease of the working capital of € + 8 million resulting from the reduction of trade receivables (seasonality impact) and other receivables by € +12.5 million, added to the inventory decrease (€ +0.5 million) and by the account payables and other liabilities drop (€ -5 million)
- The net impact of the integration of LOGIC INSTRUMENT: € +1.1 million
- Research and Development investment : € -1 million
- Reduction of the financing cash flows: € -4.2 (mainly reduction of the use of factoring for € -5.1 million partially offset by the 2013 R&D Tax credit refinanced by BPI for € +1.1 million).

Perspectives

During the first half of 2014, ARCHOS has strengthened its position in three strategic categories - Smartphones, Tablets and Connected Objects and will reinforce in 2014 its place in the top 5 European manufacturers:

- The introduction in March of the 4G smartphones Helium range at less than € 200 has been a success and ARCHOS will renew its 4G range to provide its customers with smartphones increasingly efficient at competitive prices.
- ARCHOS markets since August 2014 the first 4G tablet at less than € 200 and strengthens its range of 3G tablets.
- The Smart Home, which announced the entry of ARCHOS in the world of Connected Objects is now available and ARCHOS will continue to innovate in this growing segment.

All these innovations will be presented at IFA in Berlin in early September.

ARCHOS

Finally, its partnership with LOGIC INSTRUMENT, allows the group to win contracts in the B to B segment of ruggedized tablets and smartphones.

About ARCHOS

ARCHOS, a pioneer in the portable audio and video player market, and now specializing in Android Tablets and Smartphones, has repeatedly revolutionized the market for consumer electronics since 1988. Today, ARCHOS offers its own line of Android Tablets and Smartphones, as well as a full line of OEM devices. In 2000, ARCHOS launched the Jukebox 6000, the first MP3 player combined with a hard disk. In 2008, ARCHOS launched the first generation Internet Tablets, and then the first ever Android powered tablets in 2009. In 2013, ARCHOS launched its first generation of Smartphones with the ARCHOS Platinum series. ARCHOS has offices in the United States, Europe and Asia. ARCHOS is quoted on Compartment C of Eurolist, Euronext Paris, ISIN CodeFR0000182479.

Website: www.archos.com

ARCHOS

Loïc POIRIER

CEO

Email : poirier@archos.com

Tel. : 01 69 33 16 90