

2010 first-half results

UPGRADE TO FULL-YEAR GUIDANCE

- **Consolidated net sales stable: €3,716m, down 2.7% on a like-for-like basis**
- **Media recurring EBIT before associates: €183m, up 0.6%, or down 1.8% at constant exchange rates**
- **Adjusted net income⁽¹⁾: €97m, up 20%**

Paris, August 26, 2010 – Arnaud Lagardère “Our results for the last three months confirm the upturn in the advertising market experienced in the first quarter. We are therefore upgrading our 2010 guidance. Media recurring EBIT before associates should be very much better than our March guidance, improving from a fall of about 10% to a fall of around 5%”.

- **Net sales stable at €3,716m on a reported basis.** As expected, a slowdown in revenues at Lagardère Publishing and Lagardère Unlimited⁽²⁾ led to a fall in net sales on a like-for-like basis, of 2.7%.
- **Media recurring EBIT before associates up 0.6% at €183m.** This good performance is due to:
 - a rise of around 3% in advertising revenues on a same-magazines basis
 - tight cost control
 - the upturn in air traffic for Lagardère Services and excellent management by Lagardère Publishing.The trend in media recurring EBIT before associates, down only 1.8% at constant exchange rates, is much better than the March 2010 full-year guidance.
- **The non-recurrence of the gain on EADS shares (€539m in the first half of 2009) resulted in a drop in net income.** Despite relative stability in recurring EBIT before associates, a slight fall in net interest expense and a lower tax charge, Net income attributable to equity holders of the company was down to €80m (against €318m⁽³⁾ for the first half of 2009). This year-on-year difference was due to non-recurring and non-operating items, which showed a net expense of €43m in the first half of 2010 versus a net gain of €205m in the comparable period of 2009.
- **Adjusted net income rose by 20% to €97m.**
- **Net debt** of €2,199m at June 30, 2010, due to stability in free cash flow⁽⁴⁾ (negative €47m, versus negative €51m for the first half of 2009).

⁽¹⁾ Excluding the contribution from EADS and non-recurring and non-operational items

⁽²⁾ Arnaud Lagardère announced the creation of a new division called Lagardère Unlimited which replaced Lagardère Sports the 2nd of June

⁽³⁾ Including a €38m contribution from the 20% interest in Canal+ France held as of June 30, 2009. No contribution from Canal+ France was recognized in the first half of 2010

⁽⁴⁾ Net cash used in operating and investing activities, excluding financial assets and short-term investments

CONSOLIDATED NET SALES

Lagardère SCA consolidated net sales for the first half of 2010 were €3,716m, virtually unchanged relative to the first half of 2009 on a reported basis. On a like-for-like basis, net sales were down 2.7%. These figures reflect favorable exchange rate effects of €85m (appreciation of currencies such as the Canadian and Australian dollars and some Eastern European currencies), plus positive effects of €14m from changes in the scope of consolidation.

	Net sales (€m)			Change 2010/2009 reported	Change 2010/2009 like-for-like
	Q1 2010	H1 2010	H1 2009		
LAGARDERE	1,751	3,716	3,720	(0.1%)	(2.7%)
• Lagardère Publishing	433	975	1,009	(3.4%)	(4.5%)
• Lagardère Active	407	855	831	2.9%	0.6%
• Lagardère Services	824	1,712	1,619	5.7%	1.6%
• Lagardère Unlimited	87	174	261	(33.1%)	(33.8%)

- **Lagardère Publishing** – Only a limited fall in net sales in the first half of 2010. International rights sales partly offset by the decline in sales of the Stephenie Meyer saga (after an exceptional 2009), especially in the United States. Publication of the spin-off (*The Short Second Life of Bree Tanner*) in June 2010 had only a marginal effect on the first half. Literature sales held up well in France, as did sales of e-books in the United States (which by end June had reached the same level as for the whole of 2009). Overall, net sales at Lagardère Publishing for the first half of 2010 were 6.5% up on the comparable period of 2008 on a like-for-like basis, a remarkably resilient performance.
- **Lagardère Active** – The first-quarter trend was confirmed as advertising revenues picked up strongly in the second quarter of 2010. After remaining virtually flat over the first three months, advertising revenues rose by 3.0% on a same-titles basis in the six months to end of June.

The growth of nearly 6.0% in advertising revenues for the second quarter of 2010 was largely due to the recovery of the International Magazines business, which advanced by close to 8% on a same-titles basis in the quarter on excellent performances in Russia, the United Kingdom and China. Advertising revenues also rose in France, though at a slower pace. Circulation revenues fell by just under 1% on a same-titles basis in the first half of 2010 after a modest rise in the first quarter. The second-quarter dip in circulation revenues slightly impaired the division's first-half net sales.

French Radio advertising revenues rose by some 15% in the second quarter, with slight growth for music stations. Although Europe1 achieved growth of close to 15% to end of June, International Radio activities were a disappointment, with a sharper fall than in the first quarter (poor performance in Russia).

Sales at Lagardère Entertainment, after a 40% rise in the first quarter, fell during the second quarter due to low program delivery volumes in that quarter. This volatility, which reflects normal cyclical trends in audiovisual production, had a not insignificant effect on the division's net sales.

- **Lagardère Services** – The pace of growth accelerated in the second quarter of 2010, driven mainly by positive exchange rate effects. Despite the negative impact of the Icelandic volcano, like-for-like sales growth was close to the first-quarter level, with May and June revealing a steady improvement in the pace of top-line growth. Retail (which accounts for two-thirds of Lagardère Services revenues) advanced by over 3% on a like-for-like basis, while press distribution again showed a slight decline. French retail operations (Relay France and Aelia) performed well, helped mainly by the upturn in air traffic.
- **Lagardère Unlimited** – Non-recurrence of the revenue generated by Football World Cup qualifiers and by marketing of the Men’s World Handball Championship depressed revenues at Sportfive and WSG. No major events were billed by Lagardère during the first half of 2010 apart from the African Cup of Nations.

RECURRING EBIT BEFORE ASSOCIATES

Lagardère SCA generated 2010 first-half recurring EBIT before associates of €179m, 3.7% lower than in the first half of 2009.

Media recurring EBIT before associates rose by 0.6% to €183m, but fell by 1.8% at constant exchange rates. Slippage in the Lagardère Unlimited contribution, caused by a particularly thin sporting events calendar for the division, had a marked negative effect, with the other three divisions recording overall growth of more than 15%.

- **Lagardère Publishing** **limited to 10%** the decline in recurring EBIT before associates (**€101m**), despite the exceptional performance achieved in the first half of 2009 (when recurring EBIT before associates rose by 61% to €112m). The year-on-year fall reflected lower sales of the Stephenie Meyer saga, partly offset by international rights sales. A weaker contribution from Education also dented 2010 first-half recurring EBIT before associates, though there was growth in the contribution from Literature.
- **Lagardère Active** posted recurring EBIT before associates of **€36m**, an **improvement of €27m** on the first half of 2009. Most of this was due to growth of around 3% in advertising revenues on a same-titles basis. Each percentage point of advertising revenue growth has a favorable impact of €7m on recurring EBIT before associates over a full year. The ongoing “One Step Further” cost-cutting plan had an impact in line with expectations during the first half of 2010. Lagardère Active is expecting favorable effects of €40m from cost-cutting over the full year, partly canceled out by inflationary effects of around €20m.
 1. The improvement in Lagardère Active’s recurring EBIT before associates was driven by the Magazines business, especially international operations, with very positive performances in the United States, Russia, Spain and China. In the Magazines business, only Italy saw recurring EBIT before associates fall in the first half of 2010.
 2. Within the Broadcast business, the overall stability in recurring EBIT before associates masked contrasting fortunes: Radio reported growth, while Television was hit by increased losses at Virgin 17. French Radio operations reported particularly strong growth in recurring EBIT before associates, which was to some extent offset by a reduced contribution from International operations on a poor performance from Russia. Virgin 17 was deconsolidated at the end of May 2010.
- **Lagardère Services** recurring EBIT before associates was **€10m higher** than for the first half of 2009 at **€37m**. Half of this improvement was due to the non-recurrence of a net loss of nearly €5m related to the bankruptcy of the American wholesaler Anderson, booked in the first half of 2009. Cost-cutting plans in the Distribution business, especially in Belgium and Spain, also had a positive effect. Retail activities suffered a hit of around €2m from air traffic disruption caused by the Icelandic volcano.

- Recurring EBIT before associates at Lagardère Unlimited fell from €24m to €9m, mostly on the lack of Football World Cup qualification matches and the non-recurrence of the Men's World Handball Championship. The effect was particularly marked at WSG. The contribution from Sportfive improved slightly, helped by the non-recurrence of over €10m of bad debt provisions booked in the first half of 2009.

Non-media activities reported negative recurring EBIT before associates of €4m, versus a positive €5m in the first half of 2009, reflecting the non-recurrence of an exceptional gain on final settlement of a claim arising from the VAL contract in Taipei. The discontinuation of rent paid by Presstalis for occupying a property owned by Hachette also had a negative effect.

NON-RECURRING/NON-OPERATING ITEMS

Non-recurring and non-operating items represented a net loss of €43m compared with a net gain of €205m in the first half of 2009, when Lagardère booked a €539m gain on the sale of a 2.5% interest in EADS that was partly offset by impairment losses of €274m on intangible assets (versus €1m in the first half of 2010).

Restructuring costs booked in the first half of 2010 amounted to €44m (versus €33m in the first half of 2009), including €30m related to the Presstalis recovery plan. The gain arising on the sale of Virgin 17 was partly offset by an impairment loss taken against the equity interest in Le Monde S.A.

CONTRIBUTION FROM ASSOCIATES⁽⁵⁾

The contribution from associates was €21m, versus €85m for the first half of 2009. The equity interest in Canal+ France was reclassified to "Held-for-sale assets" in the balance sheet as of June 30, 2010, at the carrying amount of the interest as of December 31, 2009. Consequently, no contribution from Canal+ France was recognized in the accounts for the six months ended June 30, 2010, compared with a profit of €48m in the first half of 2009. The contribution from EADS fell by €19m year-on-year.

Earnings before interest and taxes (EBIT) totaled €157m, versus €476m for the comparable period of 2009. Nearly 80% of the fall in EBIT was due to the deterioration in non-recurring/non-operating items, the rest being attributable to the lower contribution from associates.

NET INTEREST EXPENSE

Net interest expense for the six months ended June 30, 2010 was €39m, versus €44m for the comparable period of 2009. Despite a slight rise in the average cost of debt as a result of the October 2009 bond issue, net financial expense was a shade lower overall due to the disappearance of charges related to the EADS Mandatory Exchangeable Bond, which was redeemed in March 2009.

INCOME TAX EXPENSE

Income tax expense for the first half of 2010 was €22m, after a high level of income tax in the first half of 2009 due to the fact that some of the impairment losses booked in 2009 – especially by Lagardère Active in the United States – did not generate any tax savings.

MINORITY INTERESTS in net income fell from €18m in the first half of 2009 to €16m in the first half of 2010, with the effect of the decline in profits at WSG (70% owned) offset by better profits from some Lagardère Active subsidiaries.

⁽⁵⁾ Before amortization of acquisition-related intangible assets and impairment losses

After all these factors, **NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** totaled **€30m**, compared with **€318m** for the first half of 2009 (or **€280m** excluding the Canal+ France contribution⁽⁶⁾).

€ MILLION	<u>H1 2009</u>			<u>H1 2010</u>		
	MEDIA	NON-MEDIA & EADS	TOTAL LAGARDÈRE GROUP	MEDIA	NON-MEDIA & EADS	TOTAL LAGARDÈRE GROUP
<u>Net sales</u>	3,720		3,720	3,716		3,716
Recurring EBIT before associates	181	5	186	183	(4)	179
Non-recurring/non-operating items	(334)	539	205	1	(44)	(43)
Contribution from associates	51	34	85	6	15	21
EBIT	(102)	578	476	190	(33)	157
Net interest expense	(41)	(3)	(44)	(22)	(17)	(39)
Income tax expense	(115)	19	(96)	(59)	37	(22)
<u>Net income</u>	(258)	594	336	109	(13)	96
Attributable to minority interests	18	-	18	16	-	16
<u>Attributable to equity holders of the company</u>	(276)	594	318	93	(13)	80

⁽⁶⁾ Contribution to net income from Canal+ France of €38m after amortization of intangible assets associated with this acquisition

ADJUSTED NET INCOME (excluding equity-accounted contribution from EADS)

The year-on-year change in adjusted net income (see calculation below) canceled out the net effect of non-recurring and non-operating items and the equity-accounted contribution from EADS. In addition, the Canal+ France contribution has been restated in the 2009 first-half figures to give true comparatives. On this basis, adjusted net income for the first half of 2010 was €97m, an increase of 20%.

(€million)	H1 2009	H1 2010
Net income attributable to equity holders of the company	318	80
<i>Equity-accounted contribution from EADS</i>	(34)	(15)
<i>Equity-accounted contribution from Canal+ France</i>	(48)	-
<i>Amortization of acquisition-related intangible assets and other acquisition-related expenses, net of taxes</i>	23	9
Net income excluding EADS and amortization of acquisition-related intangible assets	259	74
<i>Restructuring costs, net of taxes</i>	22	41
<i>(Gains)/losses on disposals, net of taxes</i>	(526)	(19)
<i>Impairment losses on goodwill and intangible assets, net of taxes</i>		
- Fully-consolidated companies	316	1
- Associates	4	-
<i>Interest expense on Mandatory Exchangeable Bond, net of interest income calculated at market rates</i>	6	-
Total non-recurring items, net of taxes	(178)	23
Adjusted net income excluding EADS	81	97

NET CASH GENERATED BY OPERATING AND INVESTING ACTIVITIES

Free cash flow for the period was negative €47m, compared with negative €51m for the first half of 2009

The main factors in the year-on-year trend were:

- A slight fall in cash flow from operations before interest, taxes & changes in working capital, to €244m (vs. €277m for the first half of 2009). The year-on-year change reflects a virtually unchanged level of recurring EBIT before associates, a slight increase in cash outflows on restructuring, and the postponement to the second half of 2010 of a dividend payment due from an associate.
- An increase of €142m in working capital over the first six months of the year, against an increase of €94m for the first half of 2009 (bear in mind that working capital usually rise at end June, especially at Lagardère Publishing). In addition, the 2009 first-half figure was boosted by a catch-up effect following a particularly unfavorable end to the 2008 financial year. This deterioration was partly offset by a reduction in interest paid.
- Acquisitions of property, plant and equipment and intangible assets, net of disposals, generated a net cash outflow of €102m, unchanged from the 2009 first-half figure.

- Acquisitions of financial assets and short-term investments net of disposals amounted to €40m, the principal items being the acquisition of Best (to be consolidated from the second half of 2010) and contingent purchase consideration paid on past acquisitions by Lagardère Active and Unlimited.

Overall, investing activities generated a net cash outflow of €149m, compared with a net inflow of €614m for the first half of 2009 (including €664m on EADS), mainly as a result of the lack of any significant disposals in the period. Consequently, operating and investing activities generated a net cash outflow of €94m, versus a net cash inflow of €662m for the first half of 2009.

DEBT

At June 30, 2010, net debt stood at €2,199m, versus €2,143m at June 30, 2009. Relative to December 31, 2009, net debt showed an increase of €375m, due to the following factors:

- the net cash outflow of €94m from operating and investing activities in the first half of 2010, which is attributable to seasonal patterns in earnings and in working capital;
- the dividend payout of €192m;
- various non-cash adjustments to the carrying amount of debt (including fair value remeasurements and the effects of exchange rates and changes in the scope of consolidation), which had an overall negative impact of €97m.

Based on our results for the first half of 2010, we are upgrading the guidance on 2010 media recurring EBIT before associates that we issued in March 2010. Media recurring EBIT before associates should be very much better than our March guidance, improving from a fall of about 10% to a fall of around 5%.

- **Lagardère Publishing:** After only a limited fall in recurring EBIT before associates during the first half of 2010, a sharper drop can be expected in the second half. Bear in mind that sales are usually higher in the second half of the year. In addition to the decline in Stephenie Meyer sales, the outlook for the Education market is less favorable than had been expected at the start of the year.
- **Lagardère Active:** Trends in the advertising market over recent months give grounds for greater confidence. To date, third-quarter growth in advertising revenues is in line with the second quarter. However, the comparative base will be tougher in the fourth quarter of 2010 than in the third. Given these factors, we are now looking for full-year advertising revenue growth of around 3%.
- **Lagardère Services:** The recovery in air traffic is a positive, and retail activities should continue to improve.
- **Lagardère Unlimited:** The 2010 first-half figures do not affect our full-year objectives. We expect to see growth in the second half relative to the comparable period of 2009, boosted by the first billings for Euro 2012 qualifying matches.

Lagardère is a pure media group (books, press, broadcast, digital, travel retail and press distribution, sport industry and entertainment), and is among the world leaders in the sector.
Lagardère shares are listed on Euronext Paris (Compartment A).

Important Notice:

Certain statements contained in this document do not relate to known historical facts but rather represent projections, estimates and other forward-looking data based upon the opinion of management. These statements reflect opinions and assumptions prevailing as of the date on which they were made. They are subject to known and unknown risks and uncertainties which may cause future results, performances or events to differ significantly from those indicated in or implied by these statements.

You should refer to the most recent French-language "Document de Référence" filed by Lagardère SCA with the Autorité des Marchés Financiers to obtain further information about these factors, risks and uncertainties. An English version of this document is available by clicking the "Reference Document" link on the Investor Relations page of the Lagardère corporate website (<http://www.lagardere.com/group/home-page-site-284.html>).

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Press Contacts

Thierry Funck-Brentano

tel. +33 (0)1 40 69 16 34

tfb@lagardere.fr

Ramzi Khiroun

tel. +33 (0)1 40 69 16 33

rk@lagardere.fr

Investor Relations Contact

Virginie Banet

tel. +33 (0)1 40 69 18 02

vbanet@lagardere.fr