Lagardère

→ Press release

LAGARDERE SCA RECURRING EBIT (BEFORE ASSOCIATES) UP 25.4% IN THE FIRST HALF OF 2005

LAGARDERE MEDIA RECURRING EBIT (BEFORE ASSOCIATES)
UP 10.8% IN THE FIRST HALF OF 2005
(UP 13.8% BEFORE STOCK OPTION PLAN COSTS)

FULL-YEAR GUIDANCE FOR LAGARDERE MEDIA RECURRING EBIT (BEFORE ASSOCIATES)
GROWTH REVISED UPWARDS TO BETWEEN "5% AND 9%"

At its meeting on September 14, 2005, the Supervisory Board reviewed the consolidated financial statements of **LAGARDERE SCA** for the six months ended June 30, 2005, as presented by Arnaud Lagardère, General Partner, and by Philippe Camus and Pierre Leroy, Co-Managing Partners.

The 2005 first-half consolidated financial statements are prepared in accordance with international financial reporting standards (IFRS). Pro forma 2004 IFRS financial statements are also provided for comparative purposes.

Highlights:

- Lagardère Media net sales up 6.6% at €3,734.5m (up 2.8% on a like-for-like basis).
- Lagardère Media recurring EBIT before associates up 10.8% at €195m after stock option plan costs, rising to 13.8% before stock option plan costs.
- Further debt reduction: net bank debt (excluding EADS and T-Online) of €1,122m, versus €1,699m at December 31, 2004.
- Guidance on growth in recurring EBIT before associates raised to between “5% and 9%”, compared with the previous guidance of “4% to 8%”.

CONSOLIDATED NET SALES

Consolidated net sales for the six months ended June 30, 2005 amounted to €6,152m, compared with €5,692m for the first half of 2004, an increase of 8.1%.

- **Like-for-like growth of 2.8% in Lagardère Media net sales**

  First-half net sales at **Lagardère Media** came to €3,734.5m, up 2.8% on a like-for-like basis.

  The Books division reported an exceptional performance, with like-for-like sales up by 7.2%. General Literature and Part-Works achieved particularly strong growth over the first six months of the year. The consolidation of British publisher Hodder Headline added €106.2m to first-half net sales.
  The Lagardere Active division achieved a substantial 12.2% rise in like-for-like sales thanks to a fine start to the year in TV production and broadband, despite slower growth in radio.
  The Press business, which increased like-for-like sales by 0.6%, had a tough start to the year due to weak advertising markets and the negative effect of publication date timings.
  The Hachette Distribution Services division reported modest sales growth (1.2.% like-for-like), mainly as a result of unfavorable first-half comparatives for Spanish operations.

- **Robust growth in EADS net sales**

  The figure shown on the **"EADS"** line represents 15.09% of the revenues generated by EADS in the period, compared with 15.04% in the first half of 2004.

  EADS reported a 10.4% increase in consolidated revenues in the first half of 2005 relative to the same period of 2004. All divisions recorded growth. Airbus benefited from the recovery in the aeronautics cycle, making 189 deliveries, compared with 161 in the same period of 2004. Growth for the other divisions was largely driven by progress on current major defense programs: the A400M military transport aircraft, the Eurofighter combat aircraft, and the NH90 and Tigre military helicopters. The Space division was boosted by accelerated production on the Ariane5 launcher program.

RECURRING EBIT BEFORE ASSOCIATES

Lagardère SCA is continuing to simplify and clarify the presentation of its financial statements. The bulk of the Group's corporate costs, previously included in "Other Activities", are now mostly recharged to individual operating divisions.
This will automatically lead to an increase in net income from "Other Activities", and a matching decrease in net income from the divisions.
Recurring EBIT before associates and EBIT as reported by the Lagardère Group will be unaffected.
The 2004 figures in this press release have been restated to provide meaningful comparatives.

- **<u>Solid growth in Lagardère Media recurring EBIT before associates</u>**

Lagardère Media contributed €195m in the six months ended June 30, 2005, 10.8% higher than in the first half of 2004 after stock option plan costs. Excluding stock option plan costs (€10m in the first half of 2005, vs €4m in the first half of 2004), growth was 13.8%.

The Books division turned in another very fine performance, with recurring EBIT before associates increasing by 58% to €53m. Growth was driven by the contribution from General Literature and the success of part-works internationally. Another factor was the contribution from Hodder Headline, which amounted to some €10m over the period.

Lagardere Active also performed very well, with recurring EBIT before associates rising by 13.8% to €34m. TV production and theme channels were the main drivers of growth after a fine start to the year. Radio, after a good first quarter, was hampered by tough conditions in the advertising market and unflattering comparatives. As anticipated, costs associated with investment in broadband showed a slight increase.

The Distribution business reported a slight decline in recurring EBIT before associates of 1%, to €40m. This was largely due to a slowdown in Spain, reflecting tough comparatives. The first half of 2004 had a huge boost from the impact of the royal wedding on newspaper and magazine sales, and part-works sales also reached exceptionally high levels. The first half of 2005 saw a return to more sustainable (but nonetheless satisfactory) levels of sales. In addition, the decline in music sales had an adverse effect on Virgin. On the other hand, all the division's other businesses reported growth.

First-half recurring EBIT before associates for the Press division was €68m, down 6% compared with the same period of 2004. A number of factors contributed to this trend:

- As expected, the Press division continued its policy of investing in new title launches during the first half of 2005. This policy, which began in the first half of 2004, is starting to bear fruit, with Choc!, Public and Psychologies Magazine all performing well. However, the investment in new titles is continuing to depress the division's margins.
- The advertising market proved tougher than expected in the period, despite a revival in France and the United States during the second quarter.
- The Group lost a custom publishing contract with Philip Morris in the United States, accounting for just over half of the first-half drop in recurring EBIT before associates.

- **<u>Strong growth in recurring EBIT at EADS</u>**

In the first half of 2005, **EADS** was proportionately consolidated in the **LAGARDERE SCA** financial statements at a rate of 15.09%.
The **EADS** financial statements have been restated to bring them into line with the accounting policies applied by the **LAGARDERE** group.

EADS achieved recurring EBIT before associates of €221m in the first half of 2005, 46% up on the first half of 2004.
This substantial increase reflects an increase in Airbus deliveries (189, vs 161), ongoing recovery at the Space division, and an improved performance at Defense & Security. EADS has reiterated its 2005 full-year growth targets. However, second-half earnings are likely to be much lower, due to the combined effect of an acceleration in R&D spend and the arrival at maturity of much less favorable currency hedges.

- **Overall, recurring EBIT before associates for the Lagardère Group was €415m, against €331m in the first half of 2004, an increase of 25.4%.**

NON-RECURRING ITEMS

Non-recurring items represented a net loss of €3m, or €5m for Lagardère excluding EADS.

INCOME FROM ASSOCIATES

Income from associates came to €52m, compared with €39m in the first half of 2004.
Lagardère Media and Other Activities combined rose by 3% to €33m. *Canal*Sat made a contribution of €27m, compared with €25m in the first half of 2004.

EBIT advanced by 28.6% to €464m. The contribution from Lagardère excluding EADS rose by 3.7% to €222m.

NET INTEREST EXPENSE BY DIVISION

Consolidated net financial expense for the first half of 2005 amounted to €33m, compared with €41m for the first half of 2004.
Net interest expense for Lagardère excluding EADS fell only slightly (€22m for the first half of 2005, against €24m for the first half of 2004), despite a marked reduction in net debt; this was because in the first half of 2004, the Group capitalized the interest on the debt contracted to finance the acquisition of the Editis assets sold in September 2004.

INCOME TAXES

Income tax expense for the Group as a whole was €121m, compared with €100m in the first half of 2004, reflecting the increase in EBIT.

MINORITY INTERESTS in net profit came to €43m (vs €28m) due to the rise in operating profits.

Consolidated net profit for the period totaled €267m, compared with €192m in the first half of 2004. Consolidated net profit for **Lagardère Media and Other Activities** rose from €129m in the first half of 2004 to €142m in the first half of 2005.

€m	H1 2005			H1 2004		
	LAGARDÈRE MEDIA & OTHER ACTIVITIES	EADS	TOTAL LAGARDÈRE GROUP	LAGARDÈRE MEDIA & OTHER ACTIVITIES	EADS	TOTAL LAGARDÈRE GROUP
Net sales	**3,734**	**2,418**	**6,152**	**3,502**	**2,190**	**5,692**
Recurring EBIT before associates	**194**	**221**	**415**	**180**	**151**	**331**
Non-recurring items	(5)	2	(3)	2	(11)	(9)
Income from associates	33	19	52	32	7	39
EBIT	**222**	**242**	**464**	**214**	**147**	**361**
Net interest expense	(22)	(11)	(33)	(24)	(17)	(41)
Income taxes	(42)	(79)	(121)	(47)	(53)	(100)
Net profit before minority interests	**158**	**152**	**310**	**143**	**77**	**220**
Minority interests	16	27	43	14	14	28
Net profit	**142**	**125**	**267**	**129**	**63**	**192**

DEBT

At June 30, 2005, net bank debt stood at €410m, giving a gearing ratio of 8.3%.
Excluding EADS and T-Online, net debt was €1,122m.
This net debt figure is calculated before payment of the €2 one-off extra dividend in early July 2005.

NET CASH GENERATED BY OPERATING AND INVESTING ACTIVITIES

In the six months to June 30, 2005, cash flow (net cash flow from operations plus or minus net cash flow from investing activities) generated by **Lagardère Media and Other Activities** showed a very marked improvement, from a net outflow of €207m in the first half of 2004 to a net inflow of €528m in the first half of 2005. The difference reflects:

- stronger cash flow from operations, which increased by €43m year on year;
- a reduction of nearly €100m in investments in property, plant and equipment, intangibles and financial assets;
- the gain on disposal of the investment in T-Online, €582m.

OUTLOOK

The Books division is set for a good year in 2005 overall, though the strong growth achieved in the first half should not be extrapolated over the year as a whole. The second half is strongly weighted towards sales in Education, a segment experiencing weak growth, while comparatives with the exceptional second half of 2004 will be tough in General Literature (the Dan Brown effect) and part-works.

For the Press division, a marked improvement in the second half looks unlikely at this stage, with conditions in the advertising market still difficult. The loss of the Philip Morris contract is expected to have a similar negative effect to that seen in the first half. Overall, recurring EBIT before associates is likely to show a drop in the second half, before returning to significant growth in 2006.

In Distribution, results should be helped by more favorable growth rate comparatives in Spain and by a drive to rationalize operating costs.

At Lagardere Active, visibility remains poor in radio. The first-half performance of the TV production business cannot be extrapolated over the full year.

Based on these prospects for the second half, and the satisfactory first-half operating performance, we are able to raise our guidance on growth in recurring EBIT before associates for the media business (including Hodder Headline) from our previous figure of between "4% and 8%".
Our revised full-year growth guidance is now in the range “5% to 9%", using the same parameters as were adopted in March 2005:

- euro/dollar exchange rate of 1.30
- excluding the impact of stock options
- excluding the impact of investment costs related to Digital Terrestrial Television

Paris, September 14, 2005

The Lagardère group is a market leader in the media sector (books, press, audiovisual, and distribution/retailing of cultural products). The group also has interests in the high technology sector via a 15.09% interest in EADS.
The group posted revenues of €12,296m in 2004, and employs nearly 47,300 people in over 40 countries.
The Lagardère group is listed on the Premier Marché of the Paris Bourse.

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