

ARCHOS

2010 Annual Results

18 March 2011

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ARCHOS

1. 2010 Results

- P&L
- Balance Sheet
- Analysis
- 2011

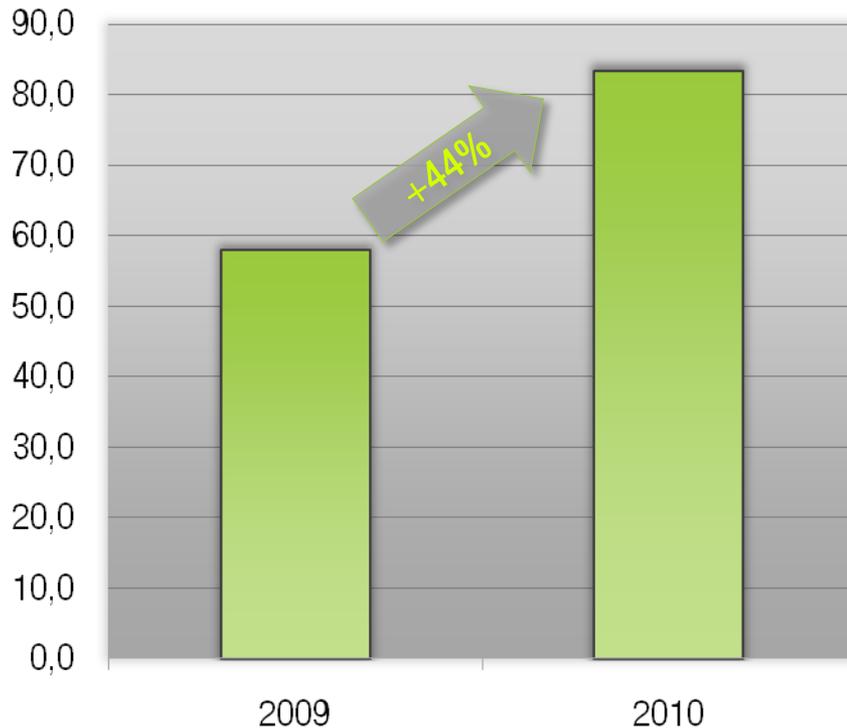
2. Why ARCHOS will succeed in 2011?

3. ARCHOS, changing dimension

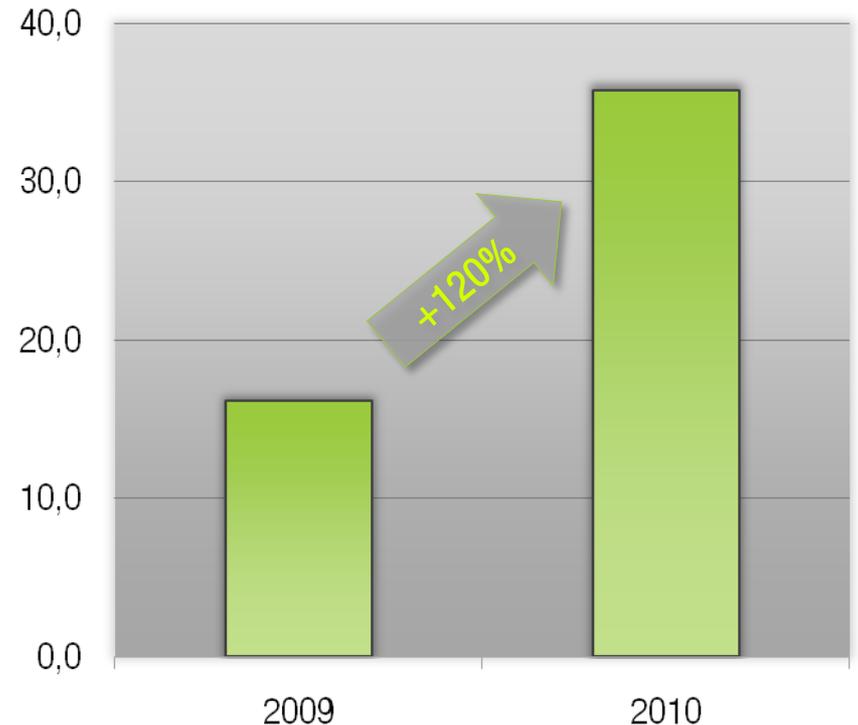
Winning turnaround

4 quarters in a row with double digit growth

Year turnover (M€)



Q4 turnover (M€)



- ▶ 2009: 1st year of Turnaround, ARCHOS back into MP3
- ▶ 2010: 2nd year of Turnaround, ARCHOS leader in Android tablets

Profit & Loss

2010 vs 2009

Consolidated Profit & Loss (in M€)	2010	2009	Var M€	Var %
Revenue	83,3	57,9	25,4	44%
Gross Margin	19,4	7,8	11,6	148%
<i>Gross Margin rate %</i>	<i>23,3%</i>	<i>13,5%</i>		
Operating Expenses	19,2	18,7	0,5	2%
Current Operating Income	0,2	-10,9	11,1	

- ▶ Revenue: +44 %
- ▶ Gross Margin: +10 points
- ▶ Fixed expenses are flat
- ▶ +11.1 M€ Current Operating Income

Profit & Loss by semester

2010 vs 2009

Consolidated Profit & Loss (in M€)	S1	S1	Var				
	2010	2009	M€	S2	S2	Var	
				2010	2009	M€	
Revenue	30,5	27,7	2,8	52,8	30,2	22,6	+ 75 %
Gross Margin	7,0	4,7	2,3	12,4	3,1	9,3	
<i>Gross Margin rate %</i>	<i>23,0%</i>	<i>17,0%</i>		<i>23,5%</i>	<i>10,4%</i>		+ 12 pts
Operating Expenses	8,8	9,1	-0,3	10,4	9,6	0,8	
Current Operating Income	-1,8	-4,5	2,7	2,0	-6,5	8,5	

- ▶ Strong improvement in S2 10 vs S2 09
 - + 75% Revenue
 - + 12 points Gross Margin
 - + 8,5 M€ Current Operating Income

In M€	2010
Current Operating Income	0,2
Non recurring expenses	-0,4
Echostar Loan Interests	-1,0
Other financial net expenses	-0,9
Taxes	-0,2
Net Consolidated Income	-2,3

Other points of interest

- ▶ Echostar loan: 5 M€ costs 1 M€/year interests
- ▶ Deferred tax assets: 29 M€
 - Cumulated deferred taxes on Archos SA: 29 M€
 - Only 15 M€ activated to date

Net Cash Variance (M€)	S2 2010	S1 2010
Net Cash initial	10,6	15,7
R&D Investment	-1,0	-1,9
Working Capital Requirement	-1,9	-6,8
Others ¹	-0,1	3,6
Cash end of period	7,5	10,6
Total Cash Variance	-3,0	-5,1

¹ Including capital increase of 6 M€ in S1 2010

- ▶ S2 2010: +75 % growth in revenue BUT only 2 M€ used in Working Capital Requirement

Outcome of turnaround strategy

Product portfolio well balanced across price points

	<100€	100€ - 200€	200€ - 300€	>300€
<p>● In-house</p> <p>● Partnership</p>				
Vision MP3 Players				
Android WiFi Players				
Android Home Tablets				
Android Internet Tablets				
Windows Tablets				
S2 2010 Turnover (%)	25%	30%	30%	15%

Why has P&L improved?

Sales 

▶ 1st to address the market of Windows Tablets

- Sep 09: Archos 9 PC Tablet



▶ 1st to address the market of Android Tablets

- Sep 09: Archos 5 Internet Tablet



▶ Diversified in three market segments

- 50 references: Android tablets, MP3 players, WiFi players

▶ Well-balanced product portfolio

- 25% < 100€, 100€ < 30% < 200€, 200€ < 30% < 300€, 15% > 300€

▶ New distribution channels opened with entry-level tablets

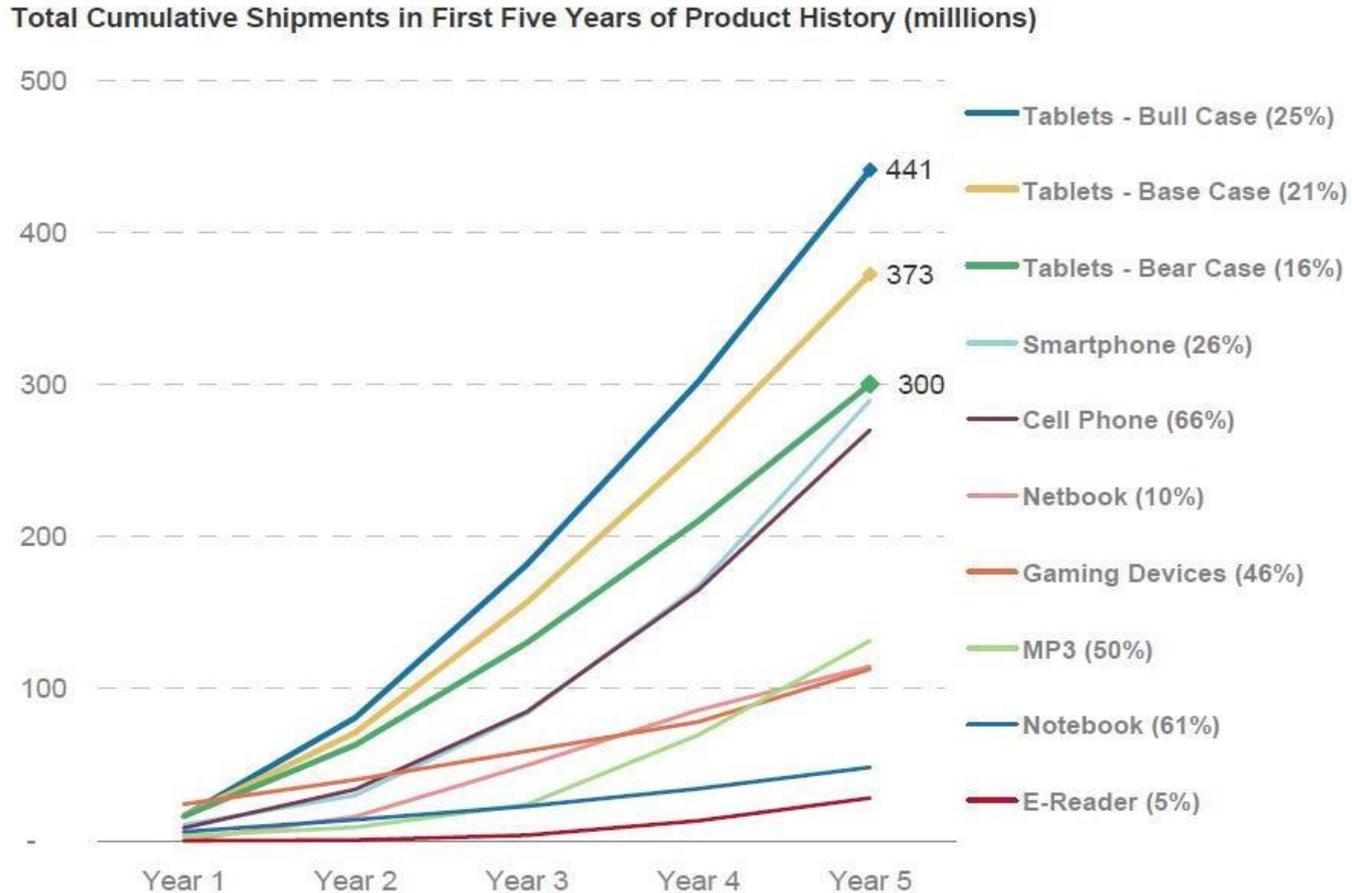
- Auchan, Carrefour, Sears, Kmart, Tesco, Asda...

Why has P&L improved ?

Gross Margin 

- ▶ **Full-turnkey business model with manufacturing partners**
 - ARCHOS no longer purchases any components
 - Optimized supply chain, reduced working capital
 - Just-in-time delivery, fast stock rotation
 - Reduced risk of inventory obsolescence
- ▶ **7 manufacturing partners yielding flexibility & diversity**
 - Flexibility in production capacity
- ▶ **7 manufacturing partners yielding cost optimization**
 - ARCHOS monitors and controls every detail of partners' BOM* cost
 - Comparing BOM* costs amongst partners yields cost reduction

Tablets: the fastest ramping mobile device

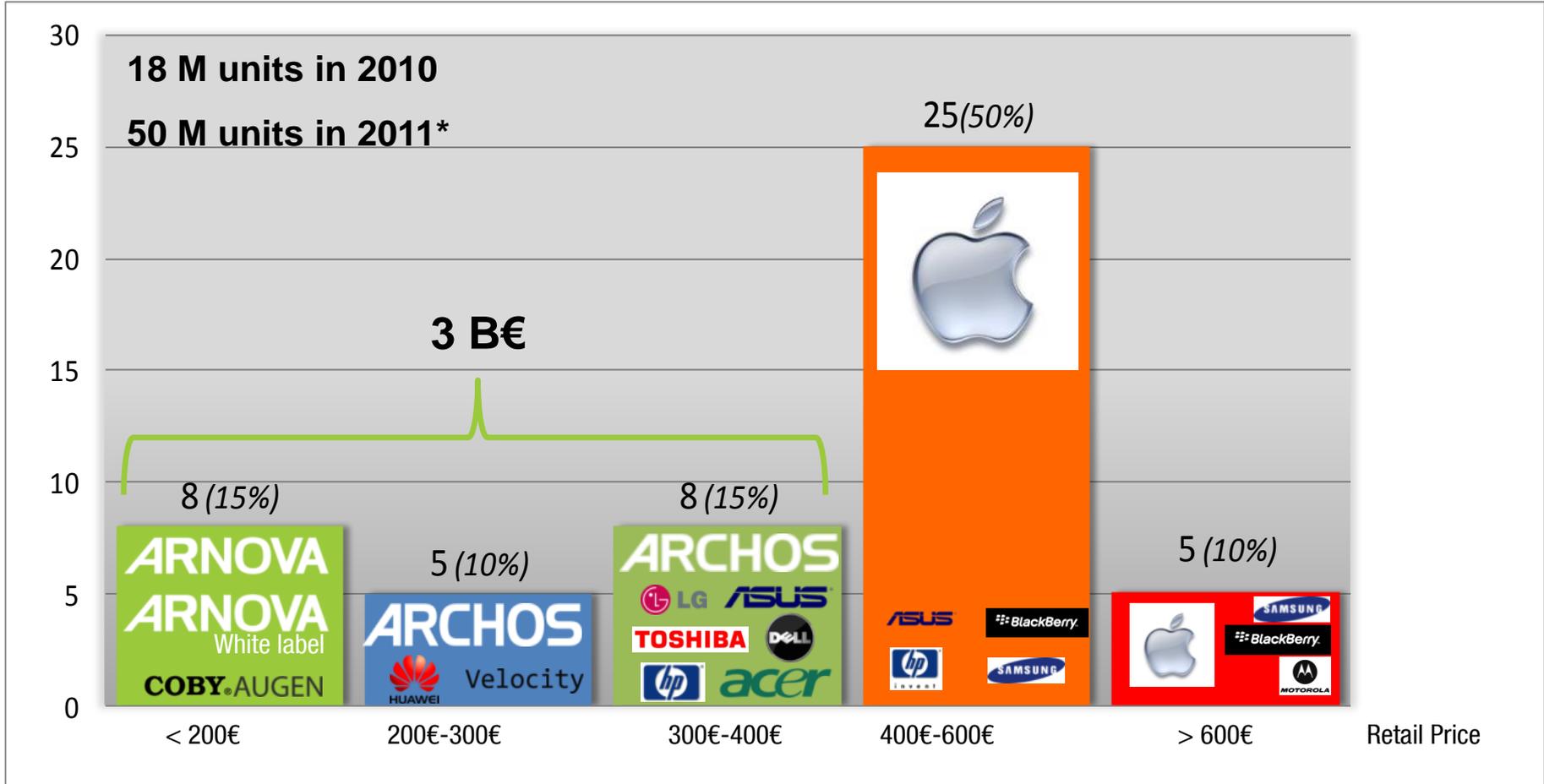


Note: Percentages represent current penetration rates for each device. Figures for bull, base, and bear case forecasts represent penetration rate in year five. For notebook, cell phones, and gaming devices, shipments are in early years of product history.

Source: Morgan Stanley Research, Gartner, IDC, company reports

ARCHOS & ARNOVA market positioning

2011 Tentative Tablet Market Profile (M units)



- ▶ ARNOVA tablets in the 100€-200€ retail price range
- ▶ ARCHOS tablets in the 200€-400€ retail price range

2011 Current business trend

Turnover Q1 2011 higher than Q4 2010

▶ Turnover Q4 2010: 36 M€

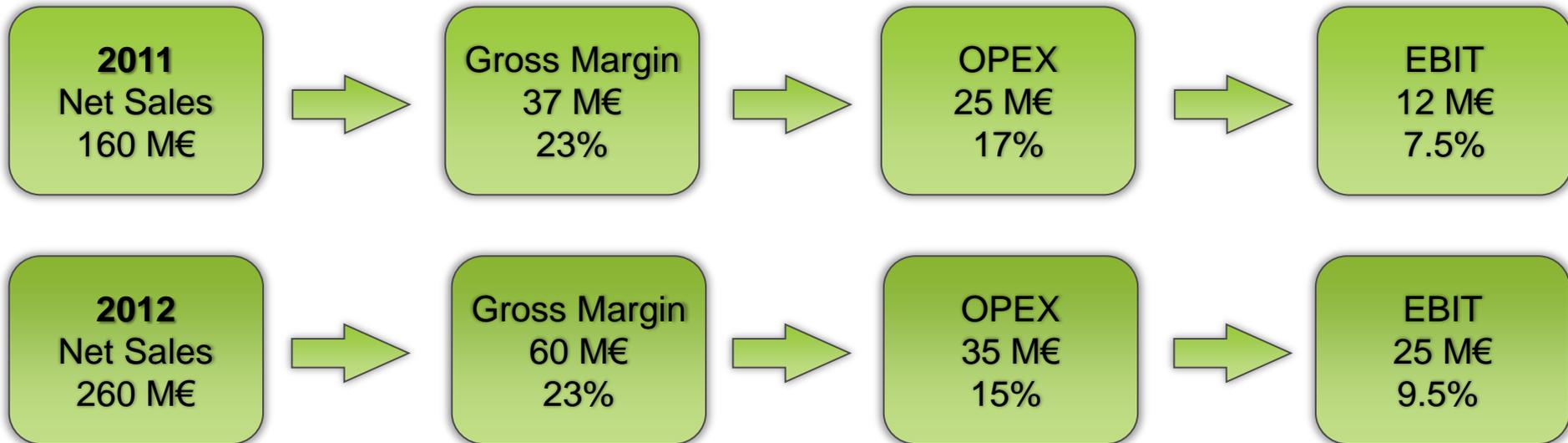
– traditionally Q4 is by far the highest quarter in the year

▶ Turnover Q1 2011 should be higher than Q4 2010

▶ No signs of slowdown in Q2 2011

Tentative Business Model

What if ARCHOS had 5% market share of tablets under 400€



- ▶ Worldwide tablet market: 2010: 18 M, 2011: 50 M, 2012: 80 M*
- ▶ Estimated value of market for tablets < 400€ retail price: 3 B€

Note: the above does not constitute a forecast but merely an evaluation of business model based on ARCHOS taking a 5% market share in the market of tablets below 400€ retail price including VAT

*2011 forecast by: IDC:44M, Gartner:55M, Morgan Stanley: 55M and 83M in 2012

ARCHOS

1. 2010 Results

2. Why ARCHOS will succeed in 2011?

1. First mover advantage
2. Innovation
3. Key technology differentiators
4. Unique Franco-Chinese engineering model

3. ARCHOS, changing dimension

1- First mover advantage

ARCHOS in 2010, 3rd generation of tablets



2008
5" & 7" Archos' OS



2009
5" Android & 9" Windows



2010
7" & 10" Android

- **Still few contenders in tablet market one year after 1st iPad**
 - Apple iPad, Motorola Xoom, ARCHOS Internet Tablet, Samsung Galaxy Tab
 - **Hundreds of other tablets have been released but none has managed yet to make a dent in this new market: Dell, Toshiba, Huawei, LG, HP...**
- ▶ **In MP3 market, only first movers have succeeded**
 - Apple, ~~Creative~~, ARCHOS, ~~iRiver~~, Samsung, Philips were present at start 10 years ago
 - Many others have failed afterwards: Thomson, Sandisk, Dell, Microsoft...
 - Microsoft has spent \$B's in 4 generations of Zune, just thrown in the sponge
- ▶ **In GPS market, only first movers have succeeded**
 - TomTom & Garmin were there at the beginning
- ▶ **In Smartphone market, only first movers have succeeded**
 - Apple, HTC, Samsung, LG, RIM were there at the beginning
 - Nokia, Sony now striving hard
 - **All others, gone with the wind...**

4 disruptive technologies in 10 years



2000
1st HD-based MP3 player



2003
1st Video Player



2005
1st WiFi MID



2009
1st Android Tablet

- ▶ **ARCHOS has constantly renewed itself through innovation**
 - Reputable long-standing R&D team based in France, Germany and China
 - R&D team recognized by technology leaders: TI, Google, Qualcomm...
- ▶ **ARCHOS continues to innovate**
 - In tablets: Generation 9 released in June 2011
 - In consumer electronics: more gadgets to come in 2011
- ▶ **Unlike PC's, tablet technology is by no means stabilized**
 - Innovation capability will remain key to success in years to come
 - PC manufacturers may not be the best players at this game

3- Key technology differentiators

4 key differentiators in Gen 9 tablets to be released in June 2011

▶ Plastic-overmolded stainless steel structure

- Thinner, lighter and stronger tablet enclosure
- Better cost-effectiveness than competing solutions
- Patented techno used since Gen 7 in 2009



▶ ARCHOS alone to use Hard Disks in tablets

- Deep redesign of Android low-level software layers to support HD's
- ARCHOS has a long experience in using HD's for mobile devices
- Price: 250 GB HD = 32 GB Flash Memory

▶ ARCHOS 1st to use ARM Dual Core A9 @ 1.6 GHz

- Forefront competition limited to ARM Dual Core A9 @ 1GHz (iPad 2, Xoom...)
- All Gen 9 tablets targeted at 1.6 GHz

▶ New disruptive 3G modem solution for tablets

- Will allow ARCHOS to make headway into telcos
- Implemented in all Gen 9 tablets
- Patent pending

4- Unique Franco-Chinese engineering model

ARCHOS leverages its R&D to make a diversity of entry-level tablets

- Most innovative developments: **IN-HOUSE** → ARCHOS Tablets



- Other developments: **PARTNERSHIP** → ARNOVA Tablets



► Entry-level ARNOVA tablets

- ARCHOS' R&D leverages what it does best:
 - Industrial design, product architecture, user interface and applications
- Chinese Industrial Partner concentrates on what it does best:
 - Product development, cost-effective procurement and manufacturing

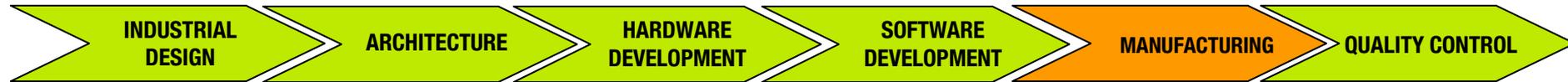
► With 4 manufacturing partners for tablets, ARCHOS can:

- Make a diversity of tablets to address all segments of entry-level market:
 - 3 ARNOVA tablets today → 6 more to come in the Summer
- ARNOVA tablets or White-Label tablets for OEM market:
 - Emerging markets, Retailers' brands, Vertical professional niches

4- Unique Franco-Chinese engineering model

ARCHOS has the best economical equation to make tablets

- Most innovative developments: **IN-HOUSE** → ARCHOS Tablets



- Other developments: **PARTNERSHIP** → ARNOVA Tablets



- ▶ 4 manufacturing partners for tablets yield cost optimization:
 - ARCHOS controls every detail of partners' tablet BOM cost
 - Comparing BOM costs amongst partners yields cost effectiveness
 - Cost reductions learned from partners are used in ARCHOS' products
 - ARCHOS optimizes BOM costs across partners
- ▶ ARCHOS can offer the best value for money because:
 - ARNOVA & White-Label entry-level tablets have the best economical equation
 - ARCHOS branded tablets inherit the lessons learned from partners

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ARCHOS, changing dimension

ARCHOS, en route to reach critical size of 200 M€ turnover

