fnac

Ivry, July 28th , 2016

Sales growth driven by France (+1.6%)
Increase in current operating income and free cash flow

- Consolidated revenues up 0.5% in the first half of 2016 (at constant exchange rates)
- Positive sales momentum in France (+1.6% in the first half of 2016), at a faster rate than in 2015 (+0.4%)
- Stable gross margin
- Increase in current operating income (+€6m) and free cash flow (+€4m)

Alexandre Bompard, Chairman and Chief Executive of the Fnac Group, made the following comments: *"At a time when Fnac is preparing to open a new page in its history, it continued its positive momentum in the first half of 2016. With higher consolidated revenues, sales growth in France, and improved operating profit and cash flow generation, Groupe Fnac continues to reap positive results, thanks in particular to its continued development strategy. Groupe Fnac is in a good position as the combination with Darty starts."*

KEY FIGURES

(in millions of euros)	H1 2015	H1 2016	Change
Revenues	**1,628**	**1,620**	**-0.5%**
Change at comparable scope of consolidation and constant exchange rates			*0.5%*
Current operating income (COI)	**-29**	**-23**	**19.3%**
Net income, Group share	**-43**	**-76**	**-76.4%**
Net current income(1)	-41	-35	15.9%
Free cash flow from operations	**-277**	**-273**	**1.3%**
Net cash	**257**	**68**	**-73.6%**
Shareholders' equity	**549**	**632**	**15.1%**

(1) Consolidated net income, Group share excluding non-recurring items and excluding financial expenses related to the acquisition of Darty

Note: First-half performance is marked by the seasonal nature of the Group's business. The first half of the year traditionally contributes little to the results for the entire year. The change in free cash flow reflects the strong traditional seasonal increase in working capital early in the year.

SECOND QUARTER 2016 HIGHLIGHTS

In the second quarter of 2016, consolidated revenues increased +0.4% at constant exchange rates.
The impact of exchange rates was negative by -0.8% over the period, mainly due to the depreciation of the Brazilian real and, to a lesser extent, the Swiss franc.
Consolidated revenues stood at €781 million, down -0.4% compared to the same period in 2015.
On a same-store basis, revenues were stable compared to the second quarter of 2015.

Continued positive sales momentum in France

With sales growth of 1.7% in the second quarter, France has continued to show good commercial momentum despite an unfavorable environment for store visits (strikes, fuel shortages, floods). In particular, Fnac France benefited from good Internet activity performance and accelerated expansion of proximity formats.
During the first half of the year, sales rose +1.6%, compared to +0.9% in the second half of 2015 and 0.4% over the whole of 2015.

More varied performances internationally

Revenues from the Iberian Peninsula grew +0.5%, driven by Fnac Spain which benefits from growing markets. The consumer environment remains more difficult in Portugal, where our markets continue to be on the downside. Promotional intensity remains high in both of these countries.
Fnac Brazil sales were down over the period by -16.3% (at constant exchange rates) in a deteriorated economic and social environment.
"Other Countries" revenues fell by -4.1% at constant exchange rates. Activity in Belgium suffered from the social and security climate, which had a strong negative effect on traffic in Brussels stores. The growth of the website continued at a very strong pace. Fnac Switzerland sales grew (at constant exchange rates).

Internet channel dynamism

The growth of the internet channel remained dynamic in the second quarter and was driven primarily by Fnac.com and Fnac.be.
Omnichannel sales represented 57% of the Group's online orders (compared to 51% in the first quarter of 2016 and 44% in 2015). They grew considerably in all countries.
Marketplaces continued to expand at a very high rate in France and the Iberian Peninsula.
The Group continuously reinforces its omnichannel organization and enriches its online services. Fnac Switzerland launched its commercial site Fnac.ch on July 26. In France, the Express+ service[1] now includes free delivery in 2 hours, an option which is available at Paris and Lille and will be available this summer in 8 other French cities.

Development of new product families

The contribution of new product families to revenues continued to rise, reaching 16.5% of revenues in the second quarter (compared to 16.1% in the first quarter and 15.2% for all of 2015). This steady increase attests to the strong underlying momentum of these categories, which is strengthened by good commercial performance and gains in market share. After expanding Fnac.com's offer to the Sports category in late 2015, the Group continued its online offer diversification initiatives in the second quarter with the introduction of DIY and Gardening categories.

[1] Unlimited delivery in 1 business day of Fnac.com products in stock

Accelerated expansion into new store formats

The development of the store network, an essential component of the Group's omnichannel strategy, continued in the second quarter with the opening of three stores, including one franchise store in the Travel format in France (Gare du Nord) and two integrated stores internationally (the first *Fnac Connect* in Bilbao in Spain and the first proximity store in Aalst in Belgium).

At the end of June 2016, the network includes 52 stores in the new formats, operated mainly as franchises, plus 4 franchise stores in high-potential countries including Qatar, Ivory Coast and Morocco.

On May 23, the Group announced a partnership with the Vindemia Group, a subsidiary of Casino Group, and the leading distributor in the Indian Ocean region. The partnership plans to open 6 franchise stores in La Réunion and opens prospects for development of the brand in the Indian Ocean region. The first store opened on July 13 in Saint-Pierre.

After 7 openings in the first half of the year, the pace of expansion will still be sustained the second half, with a goal of about twenty openings in 2016.

Partnership with Vivendi

At the General Meeting of May 24, the shareholders approved resolutions to ratify the strategic partnership with Vivendi, including the capital increase that would enable Vivendi to become a 15% shareholder in Groupe Fnac.

Under the terms of this partnership, the Fnac and Vivendi groups announced an initial joint commercial initiative on July 11 to enhance their respective subscription programs and allow Canal+ customers to receive a refund of their subscription to Fnac's Express+ delivery service.

Offer for Darty Plc

On May 18 2016, Fnac published its Offer Document containing the detailed terms and conditions of its offer for Darty.

At the Combined General Meeting held on June 17, a large majority of Groupe Fnac's shareholders approved the issuance of new Fnac shares to the shareholders of Darty.

On July 18, the French Competition Authority announced that it had decided to authorize the purchase of Darty by Groupe Fnac. After several months of constructive dialogue between Fnac and the Authority, the Authority acknowledged that the physical stores and online sales belonged to a single market. This was a landmark decision in Europe. The combined entity will have to sell 5 existing stores and one store yet to be opened out of the combined networks of Fnac and Darty in France of more than 400 stores.

On July 19, the Offer was declared unconditional in all respects, and all related conditions precedent as described in the Offer Document were satisfied or waived. To date, Fnac announced that it holds or received valid approvals under the terms of the offer for a total number of shares representing approximately 92.40% of Darty capital.

FIRST HALF 2016 RESULTS

At constant exchange rates and comparable scope of consolidation, revenues rose +0.5%.

The impact of exchange rates was negative by -1.0%, mainly due to the depreciation of the Brazilian real.

The Group's consolidated revenues totaled €1,620 million in the first half of 2016, down -0.5% compared to the first half of 2015.

Groupe Fnac's current operating income improved by €5.6 million, in the first half of 2016 (a loss of -€23.4 million compared to a loss of -€29.0 million in first half of 2015).

The gross margin rate was stable compared to the first half of 2015 and stood at 29.7%. The Group pursued an aggressive commercial policy in markets that remain highly promotional. The stability of the gross margin is the result of good management of commercial operations, the growing contribution from services, and increased collaboration with key suppliers.

The Group is satisfied with the implementation of the performance plan in the first half of the year, in line with its annual target of €30 million to €40 million in cost savings over 2016.

Other non-current operating income and expenses represented a net expense of -€23.3 million in the first half of 2016, compared to -€1.7 million in the first half of 2015. They include costs incurred in connection with the acquisition of Darty (for an amount of €9.1 million), the balance comprising mainly costs of organizational changes.

Net financial expenses amounted to -€24.1 million, compared to -€4.5 million in the first half of 2015. These consist primarily of expenses related to the establishment of foreign exchange hedging instruments in connection with the acquisition of Darty and costs related to the financing of the acquisition and the future combined group.

Consolidated net income, Group share recorded a loss of -€75.5 million in the first half of 2016, compared to -€42.8 million in the first half of 2015. This decrease is attributable to costs associated with the acquisition of Darty.

Adjusted for non-current items and financial expenses related to the acquisition of Darty, the consolidated net income, Group share improved by €6,6 million (a loss of -€34.8 million in the first half of 2016 compared to a loss of -€41.4 million in the first half of 2015).

FREE CASH FLOW

Free Cash Flow from operations improve by 4M€ totaling -€273 million in the first half of 2016, compared to -€277 million in the first half of 2015.
Given the seasonal nature of the Group's business, cash flow is traditionally negative in the first half of the year. The Group continued its working capital optimization initiatives.

Investments amounted to €23.4 million, compared to €15.3 million in the first half of 2015, in line with the phasing of our annual plan. As planned, investments are higher in the first half compared to last year, without modifying the annual capex objective. This increase is primarily related to store remodeling in France and the Iberian Peninsula, the opening of the new store in Aalst in Belgium and the development of Fnac.ch web site.

FINANCIAL STRUCTURE

Net cash totaled €68 million at June 30, 2016, compared to €257 million at June 30, 2015.
This decrease is a result of the acquisition of 29.7% of Darty capital in April 2016 (for an amount of €354 million) and the repayment to Kering at the end of December 2015 of the perpetual deeply subordinated notes (TSSDIs) (for an amount of €68 million), which was partly offset by the capital increase reserved for Vivendi (for a net amount of €157 million).

Shareholders' equity totaled €632 million at June 30, 2016, an increase compared to its level at June 30, 2015 (€549 million).

As of June 30, 2016, all covenants of the credit facility were met.

CONCLUSION AND OUTLOOK

Performance during the first half of the year confirms the positive sales momentum of recent months and the strengthening of the Group's commercial and financial model.

In 2016, Fnac intends to strengthen its leadership in a consumer environment that remains uncertain. More specifically, it has set as priorities the accelerated development of its store network in France and abroad, continuation of its strategy to enrich product offerings, especially on the Internet, and intensified initiatives for books and ticketing.

The Group will continue its policy of improving operational efficiency and reiterates its cost savings target for the Group, on a stand alone basis, of €30 million to €40 million for 2016.
It will also continue its efforts to maximize cash generation.

In the longer term, Fnac, on a stand-alone basis and irrespective of the Darty transaction, confirms its current operating profitability target of above 3% under stabilized market and macroeconomic conditions[2].

The second half will also be marked by the start of the combination of Darty and Fnac.

[2] For the purposes of Note 1 to Rule 28.1 of the City Code on Takeovers and Mergers, Fnac confirms that this is a long-term goal, not an indication of a possible level of Fnac profit for the current fiscal year or for any subsequent fiscal year

The condensed consolidated financial statements for the first half of 2016 approved by the Board of Directors on July 27, 2016 were reviewed by the Statutory Auditors.

Summary income statement

(in millions of euros)	H1 2015	H1 2016	Change
Revenues	**1,628**	**1,620**	**-0.5%**
Gross margin	**484**	**482**	**-0.4%**
% Revenues	*29.7%*	*29.7%*	
Total costs	**-513**	**-505**	**1.5%**
% Revenues	*-31.5%*	*-31.2%*	
Current operating income	**-29.0**	**-23.4**	**19.3%**
% Revenues	*-1.8%*	*-1.4%*	
Other non-current operating income and expenses	-1.7	-23.3	N/A
Operating income	**-30.7**	**-46.7**	**-52.1%**
Net financial expenses	-4.5	-24.1	N/A
Income tax	-7.4	-4.4	40.5%
Consolidated net income	**-42.6**	**-75.2**	**-76.5%**
of which Group share	-42.8	-75.5	-76.4%
Consolidated net income, Group share excluding non-current items and excluding financial expenses related to the acquisition of Darty	**-41.4**	**-34.8**	**15.9%**
EBITDA	**1.4**	**8.3**	**N/A**
% Revenues	*0.1%*	*0.5%*	

2016 FIRST HALF RESULTS

Matthieu Malige, Group Chief Financial Officer, will host a conference call for Investors and Analysts on Thursday, July 28, 2016, at 6:15 p.m. (CET); 5:15 p.m. (UK); 12:15 p.m. (East Coast USA)

Conference call dial-in numbers:
France: + 33 1 70 77 09 36
UK: +44 203 043 2441
US: +1 866 907 5928

Replay dial-in numbers available until Friday, August 19, 2016
France: +33 1 72 00 15 00
UK: +44 203 367 9460
US: +1 877 642 3018
Replay access code: 302511#

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NOTES

Current Operating Income (COI) by operating segment

(COI in millions of euros)	H1 2015	% of revenues	H1 2016	% of revenues	% change
France	-31.2	-2.7%	-18.7	-1.6%	40.1%
Iberian Peninsula	4.2	1.5%	1.2	0.4%	-71.4%
Brazil	-1.8	-2.6%	-4.9	-10.1%	N/A
Other countries	-0.2	-0.2%	-1.0	-0.8%	N/A
Group	**-29.0**	**-1.8%**	**-23.4**	**-1.4%**	**19.3%**

Second quarter revenues by operating segment

(revenues in millions of euros)	Q2 2016	Change vs. Q2 2015		
		published	at comparable scope of consolidation and constant exchange rates	on a same-store basis*
France	565.8	1.7%	1.7%	1.6%
Iberian Peninsula	133.5	0.5%	0.5%	-0.5%
Brazil	24.0	-28.1%	-16.3%	-16.3%
Other countries	58.1	-5.9%	-4.1%	-6.6%
Group	**781.4**	**-0.4%**	**0.4%**	**0.0%**

* on a comparable basis and at constant exchange rates

First half-year revenues by operating segment

(revenues in millions of euros)	H1 2016	Change vs. H1 2015		
		published	at comparable scope of consolidation and constant exchange rates	on a same-store basis*
France	1,166.6	1.6%	1.6%	1.5%
Iberian Peninsula	282.1	-0.6%	-0.6%	-1.4%
Brazil	48.4	-28.7%	-11.0%	-11.0%
Other countries	123.1	-4.2%	-2.9%	-5.5%
Group	**1,620.2**	**-0.5%**	**0.5%**	**0.0%**

* on a comparable basis and at constant exchange rates

Store network

	Dec. 31, 2015	June 30, 2016
France	**124**	**129**
Traditional*	74	75
Periphery	14	14
Travel	18	19
Proximity	16	19
Connect	2	2
Including franchise stores	*38*	*43*
Iberian Peninsula	**49**	**49**
Traditional	40	39
Travel	2	2
Proximity	7	7
Connect	0	1
Including franchise stores	*1*	*1*
Brazil	**12**	**12**
Traditional	11	11
Travel	1	1
Other countries	**14**	**15**
Traditional	14	14
Proximity	0	1
Group	**199**	**205**
Traditional	139	139
Periphery	14	14
Travel	21	22
Proximity	23	27
Connect	2	3
Including franchise stores	*39*	*44*

* including one store in Morocco, two in Ivory Coast, and one in Qatar

Definitions of alternative performance indicators

Changes in revenue at constant exchange rates

The changes in revenues at constant exchange rates means that the impact of changes in the exchange rate have been excluded. The impact of exchange rates is eliminated by recalculating sales from year N-1, based on exchange rates used for Year N. It represents a key indicator for the measurement of the change in revenue without the impact of exchange rate.

Bridge table on the changes in revenues at constant exchange rates

	June 30, 2015	June 30, 2016
N Revenue	1 628.2	1 620.2
N-1 Revenue	1 639.4	1 628.2
Impact of exchange rate on N-1	3.1	-15.3
N-1 revenue recalated with constant exchange rates	**1 642.5**	**1 612.9**
Changes in revenue at constant exchange rates	**-14.3**	**7.3**
Change in %	-0.9%	0.5%

Change in revenue at comparable scope of consolidation

The changes in revenue at comparable scope of consolidation, means that the impact of changes in scope is corrected in order to exclude modifications such as acquisitions or disposals of subsidiaries. Revenues of subsidiaries acquired or sold since 1 January of year N-1 are excluded from calculations of the change. It represents a key indicator for the measurement of the change in revenue without the impact of change in consolidation scope.

Bridge table on change in revenue at comparable scope of consolidation

	June 30, 2015	June 30, 2016
N Revenue	1 628.2	1 620.2
N-1 Revenue	1 639.4	1 628.2
Change in revenue N vs N-1	-11.2	-8.0
Impact of change in consolidation scope	0.0	0.0
Change in revenue at comparable scope of consolidation	**-11.2**	**-8.0**
Change in %	-0.7%	-0.5%

Changes in revenue on a same-store basis

Changes in revenue on a same-store basis means that the impact of directly owned store openings and closings is excluded. Revenues of stores opened or closed since 1 January of year N-1 are excluded from calculations of the change. It represents a key indicator for the measurement of the change in revenue without the impact of opened and closed stores.

Bridge table on changes in revenue on a same-store basis

	June 30, 2015	June 30, 2016
N Revenue	1 628.2	1 620.2
N-1 Revenue	1 639.4	1 628.2
Change in revenue N vs N-1	-11.2	-8.0
Impact of opened and closed stores	0.1	6.7
Changes in revenue on a same-store basis	**-11.1**	**-1.3**
Change in %	-0.7%	-0.1%

EBITDA

EBITDA corresponds to current operating income before depreciation, amortization and provisions on fixed operating assets. It represents a key indicator for the measurement of the Group's performance.

EBITDA reconciliation table

In millions of euros	Financial year ended June 30, 2015	Financial year ended June 30, 2016
Current operating income	**-29.0**	**-23.4**
Net additions to depreciation and amortization (1)	30.4	31.8
EBITDA	**1.4**	**8.3**

(1) Net additions to depreciation and amortization correspond to net additions to depreciation and amortization and provisions for non-current operating assets recognized as operating income

Free cash flow from operations

Free cash flow from operations corresponds to net cash flows from operating activities minus net operating investments. It represents a key indicator for the measurement of the Group's generation of cash flow.

Free cash flow from operations reconciliation table

In millions of euros	Financial year ended June 30, 2015	Financial year ended June 30, 2016
Cash flow from operations before tax, dividends and interest	**-9.9**	**-15.7**
Change in working capital	-238.6	-215.3
Income taxes paid	-7.4	-7.6
Net operating cash flow	**-255.9**	**-238.6**
Operating investments net of disposals, excluding finance leases	-20.6	-34.2
Free cash flow from operations before investment in finance leases	**-276.5**	**-272.8**
Operating investments in finance leases	-	-
Free cash flow from operations after investment in finance leases	**-276.5**	**-272.8**

Consolidated net income, Group share excluding non-current items and excluding financial expenses related to the acquisition of Darty

Consolidated net income, Group share excluding non-current items and excluding financial expenses related to the acquisition of Darty corresponds to consolidated net income minus other non-current operating income and expenses and minus net financial expenses related to the acquisition of Darty. It represents a key indicator for the measurement of the recurring performance of the business, excluding significant items that, because of their nature and their unusual occurrence, cannot be considered as inherent to the current performance of the Group.

Consolidated net income, Group share reconciliation table excluding non-current items and excluding financial expenses related to the acquisition of Darty

In millions of euros	June 30, 2015	June 30, 2016
Consolidated net income	**(42.8)**	**(75.5)**
Other non-current operating income and expenses	(1.7)	(23.3)
Taxes on other non-current operating income and expenses	0.3	0.2
Net financial expenses related to the acquisition of Darty	-	(17.6)
Consolidated net income, Group share excluding non-current items and excluding financial expenses related to the acquisition of Darty	**(41.4)**	**(34.8)**