

2019

Annual Report

VIVENDI

To make it easier to read this document, the following table identifies the main headings required to be covered by Regulation 98-01 of the Commission des Opérations de Bourse (French stock exchange commission):

CROSS-REFERENCING TABLE

Chapter	Heading	Page
I	Auditors and people responsible for the document and the annual financial statements	
	1.1 Names and titles of those responsible for the document	210
	1.2 Statement by those responsible	210
	1.3 Names and addresses of statutory and alternate auditors	210
	1.4 Information policy	12-211
III	General information about the company and its capital stock	
	3.1 General information concerning the company	178-180
	3.2 General information concerning the capital stock	181-201
	3.3 Ownership structure and voting rights	192
	3.4 Stock exchange prices	193-200
	3.5 Dividends	201
IV	Information about the company's business	
	4.1 Presentation of the Vivendi group	2-67
	4.3 Contingencies and exceptional factors	202
	4.4 Human resources	16
	4.5 Investment policy (dealt with in each business sector)	25-67
V	Assets; financial situation and performance	
	5.1 Consolidated financial statements	70-119
	Individual financial statements of the parent company	122-156
VI	Administration, management and control	
	6.2 Director's shareholdings	209
VII	Information about recent developments and future prospects	
	7.1 Recent developments	84-85
	7.2 Future prospects	84-85

NOTICE:

This document has been established using the euro as the standard currency. Tables presenting the main financial indicators in French francs appear on page 71 for the consolidated financial statements and page 123 for the individual financial statements.

	Page
I. INTRODUCTION TO VIVENDI	
• History	2
• Key data for the group	6
• Key data for business outside France	10
• Creating value	12
• Human resources	16
• Research and Development	19
II. BUSINESS SECTORS	
• Companies listed by sector	22
• Water	25
• Energy	31
• Waste management	36
• Transport	39
• FCC	42
• Telecommunications	44
• Publishing and multimedia, audiovisual activities, cinema	49
• Construction	58
• Property	63
III. CONSOLIDATED FINANCIAL STATEMENTS	
• Five-year consolidated financial summary	70
• Management report	72
• Financial statements	87
• Notes to the consolidated financial statements	91
IV. INDIVIDUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY	
• Presentation of the individual financial statements	122
• Individual financial statements of the parent company	138
• Notes to the balance sheet and to the income statement	142
• Subsidiaries and affiliated companies	158
V. REPORTS OF THE STATUTORY AUDITORS	
• Report of the Statutory Auditors on the consolidated financial statements	172
• Report of the Statutory Auditors on the financial statements	173
• Report of the Statutory Auditors on regulated contracts	174
VI. GENERAL INFORMATION	
• General information concerning the company	178
• General information concerning capital stock	181
• Information about the company's business	202
• Auditors and people responsible for the reference document	210

This presentation contains forward-looking statements (as defined in the United States Private Securities Litigation Reform Act, as amended) based upon current management expectations. Numerous risks, uncertainties and other factors (including, among others, risks relating to: governmental regulation affecting our businesses; competition; our ability to manage rapid changes in technology in the industries in which we compete; litigation risks, unanticipated costs and integration of new acquisitions and joint ventures) may cause actual results to differ materially from those anticipated, projected or implied in or by the forward-looking statements. Many of the factors that will determine our future results are beyond our ability to control or predict. These forward-looking statements are subject to risks and uncertainties and, therefore, actual results may differ materially from our forward-looking statements. You should not place undue reliance on forward-looking statements which reflect our views only as of the date of this document. We undertake no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

Introduction to Vivendi

History

On December 14, 1853 an Imperial decree authorized the creation of Compagnie Générale des Eaux, which won its first public service concession to supply water in Lyons. Over the following years, Compagnie Générale des Eaux won contracts in Nantes (1854), Montmartre and Auteuil, near Paris (1857), and Nice (1864). The company signed a public service management contract with the Paris municipal authority in 1860 and began distributing water to the Paris suburbs in 1869. The French concession model was first exported to Venice in 1880, and continued its successful development in France in Rennes, Boulogne-sur-Mer, Arcachon, Arras and the Rouen suburbs (1880-83). The first contract for wastewater treatment was signed between the Rheims local authority and the newly-formed Compagnie des Eaux-Vannes in 1884. The first loan stock issue of FF20m in 1899 attracted a great many subscribers. Scientific research made it possible in 1909 to build the Rimiez plant, which used ozone to clean water. Générale des Eaux went on to form Sade in 1918 and acquired Tuyaux Bonna in 1924. The company and its subsidiaries continued their expansion in Monaco (1941) and Marseilles (1943), and renewed its contract for the Paris suburbs in 1949.

1961

- Programme to modernize and refurbish plants in the Paris suburbs doubles water distribution capacity.

1967

- First operating contracts for household waste incineration and composting plants (Arras, Vierzon and St Chamond).

1972

- Expansion of wastewater treatment activities. Générale des Eaux moves into Spain.

1980

- Creation of OTV by merging subsidiaries specializing in water treatment.
- Takeover of CGEA (transport and waste management).

1981

- Générale des Eaux becomes France's leading energy company through the acquisition of Compagnie Générale de Chauffage.
- Acquisition of PSG (wastewater treatment in the USA).

1983

- Joint founder of the Canal+ pay television channel.

1984

- Creation of Compagnie des Eaux de Paris.

1985

- Operation of the world's largest household waste incineration plant in Miami (USA).

1986

- Development of private sector water distribution business in the UK through General Utilities.

1987

- Creation of SFR (mobile telephony), Générale d'Images (audiovisual activities) and Compagnie Générale de Santé (healthcare).

1988

- Takeover of SGE (building and civil engineering).
- Générale des Eaux generates 20% of its net sales outside France.

1990

- Générale des Eaux reports net sales of over €15 billion, including 25% outside France.
- Acquisition of an interest in AWT in the USA.

1992

- Substantial commercial activity outside France (Sydney, Buenos Aires, Mexico City, Caracas, Spain, etc.).
- GSM network brought into service by SFR.
- Générale des Eaux researchers develop water nanofiltration.

1993

- Net sales of €23 billion, of which 30% outside France.
- Générale des Eaux becomes the main shareholder in AWT, which supplies water to New York City.

1994

- Independence, a 1,000 MW independent power plant, comes on stream in the United States.
- Total Quality programme and Customer Service Charters introduced for water companies in France.
- Générale des Eaux becomes Europe's leading operator in waste management.

1995

- Creation of CGIS, bringing together Générale des Eaux's property activities.

1996

- Jean-Marie Messier succeeds Guy Dejouany as chairman of Compagnie Générale des Eaux.
- Creation of Cegetel, France's second largest telecommunications operator, by Compagnie Générale des Eaux, BT, Mannesmann and SBC.
- Creation of the Energy Services business sector through the merger of Compagnie Générale de Chauffage and Esys-Montenay.

1997

- Industrial partnership agreement between Compagnie Générale des Eaux and Havas creates a major French communications and multimedia business.

- Creation of Télécom Développement, a joint subsidiary of Cegetel and SNCF, to operate an alternative telecommunications network throughout France.
- Contract to supply water and electrical power for the whole of Gabon (1.5 million inhabitants), and a 20-year operating contract for a water treatment plant in Tianjin, China's third biggest city.
- Reclassification of SGE stock, reducing Générale des Eaux's shareholding from 85% to 51%. SGE share price increases 50% over the course of the year.
- CGEA becomes UK leader in waste management after a successful takeover bid for Leigh Interests.
- SFR has 2.2 million subscribers at the end of 1997, more than twice the previous year's figure. Cegetel poised to launch its "7" fixed-line network.

1998

- Cegetel launches its "7" fixed-line network for residential and business customers.
- Shareholders approve the name change from Compagnie Générale des Eaux to Vivendi and the merger with Havas.
- Générale des Eaux (Vivendi's water business) is awarded the contract for the Chengdu water treatment plant in China, the first Chinese BOT contract awarded to the private sector.
- FCC and Vivendi enter into a strategic alliance in Spain, creating the country's leading utilities company and opening the way for joint projects in Latin America.
- Vivendi becomes a major player worldwide in multimedia through Havas's acquisition of American company Cendant Software, one of the world's two leading producers of PC educational and "how-to" software (the company has since been renamed Havas Interactive Inc.).
- SFR has 4.25 million subscribers, and Cegetel's "7" service has over one million calls a day and 600,000 lines in service.

1999

January:

- Vivendi launches the first ever euro issue of convertible bonds that can be converted into new or existing shares, worth a total of €1.7 billion. The operation is oversubscribed almost six times on the day of the launch.

Introduction to Vivendi History

February:

- Cegetel launches e.medi@, a service providing Internet access from a mobile telephone.

March:

- Vivendi launches a friendly takeover bid for USFilter, the US leader in water, for a total of \$6.2 billion.
- Onyx acquires the industrial service businesses of Waste Management in the United States.
- With the acquisition (in association with Saur) of Czech company IJVS, the second largest water and wastewater company in southern Bohemia, Générale des Eaux strengthens its position as the leading private water operator in the Czech Republic.

April:

- Vivendi successfully closes its issue of bonds with the option of conversion into Vivendi Environment shares. Worth a total of €2.85 billion, the issue is oversubscribed by more than double the available number in less than a day.
- Vivendi registers over 100,000 employee shareholders.
- Cegetel has more than 1 million fixed lines in service.
- Havas acquires Aique, Argentina's third largest publisher of school textbooks.
- Dalkia wins the 25-year contract to operate the Suresnes district heating network.

May:

- CGEA Transport wins the ten-year contract to operate the Stockholm metro and tramway network.
- New stage in the reciprocal process of reducing cross-shareholdings in Compagnie de Saint Gobain.
- Havas acquires MediMedia, an international group specializing in medical information. The medical branch of Havas becomes world leader in pharmaceutical information and number four in medical information.
- Eurovia (SGE) acquires Teerbau, the largest roadworks company in Germany, strengthening its position as European number two in roadworks.
- Vivendi and its subsidiary CGIS sell the hotel business to the Accor group.

June:

- Vivendi closes its public offering worth €800m, which enables some 500,000 people to become Vivendi shareholders.
- Vivendi closes its capital increase with reserved subscription rights. Worth €2.7 billion, it is the biggest public offering ever carried out in France.
- Onyx acquires Superior Services, the fourth largest solid waste treatment company in the US, strengthening its presence in North America.
- The Vivendi and Pathé boards of directors decide to propose the merger of their companies to their shareholders, followed by the redistribution of their assets.
- Générale des Eaux wins a four-year water and wastewater treatment contract on the West Bank, the first contract of its type awarded to the private sector by the Palestinian Water Authority.
- OTV wins the contract to design and construct the first wastewater treatment plant in Santiago de Chile. It will be followed by a series of similar facilities for Greater Santiago, which has a population of 5 million.

July:

- The Vivendi-RWE-Allianz consortium wins the contract for the partial privatization of Berliner WasserBetriebe, the Berlin water company, in the biggest privatization ever carried out in Germany's water sector. BWB is the municipal company in charge of drinking water production and distribution and wastewater collection and treatment for Berlin's 3.5 million inhabitants.
- CGEA Transport starts operating almost half Melbourne's commuter train network under a 15-year contract.

August:

- OTV wins the contract to build the world's largest plant for ultrafiltration of water through membranes in London.
- Havas, through Spanish subsidiary Anaya, concludes a joint venture agreement with Abril, the leading magazine publisher in Latin America (11,000 employees). The agreement covers the 50/50 acquisition of Brazilian publishers Atica and Scipione, Brazil's leading educational publishers.

September:

- Vivendi Water, created by the merger of Générale des Eaux and USFilter, becomes the international brand name of Vivendi's water business.
- Following the merger with Pathé and the immediate disposal of its cinema activity, and after the purchase of stakes held by Granada and Pearson, Vivendi owns almost 25% of BSkyB.
- Vivendi becomes a 49% shareholder in Canal+ following the purchase of the Richemont group's stake.

October:

- Vivendi Water wins a three-year contract to study water network improvements with the Calcutta authorities.

November:

- Havas launches atmedica, a medical information portal for healthcare professionals.
- Signature of an agreement with NASD (National Association of Securities Dealers Inc), Softbank Corp and News Corp on the creation of Nasdaq-Europe by end 2000.

December:

- The quality of SFR's network is judged the best in France according to the results of the annual survey carried out by ART, the French telecommunications regulatory body.
- Cegetel has more than 1 million customers for its "7" fixed-line service, and SFR has 7.3 million subscribers.

2000

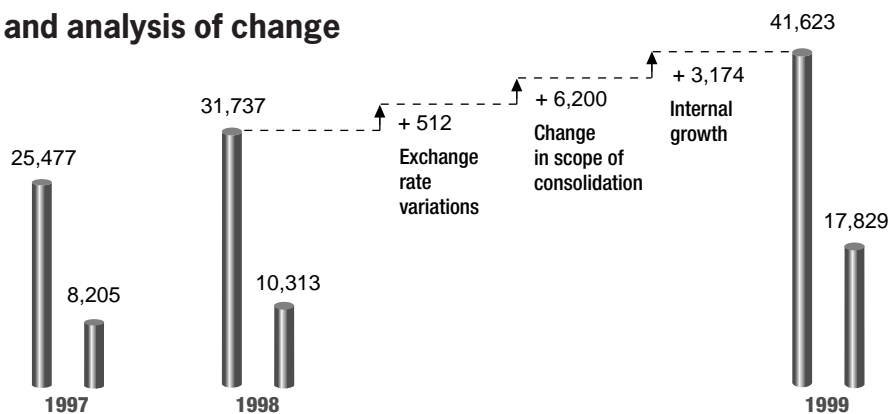
January:

- Creation of VivendiNet, owned jointly and equally by Vivendi and Canal+, bringing together all their Internet activities.
- Signature of an alliance between Vivendi and Vodafone AirTouch to create a 50/50 joint company to develop the first European multi-access portal. The portal will have an instant customer base of more than 70 million subscribers.

Key data for the group

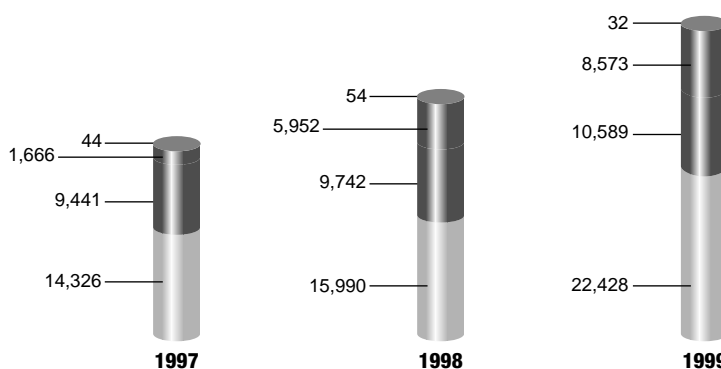
Consolidated net sales and analysis of change (in millions of euros)

- Total
- Net sales outside France

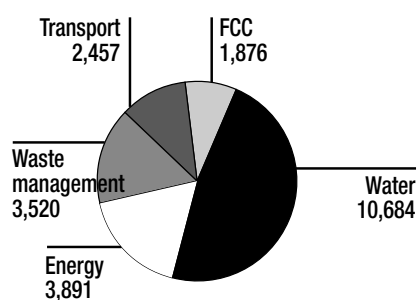


Change in consolidated net sales by division (in millions of euros)

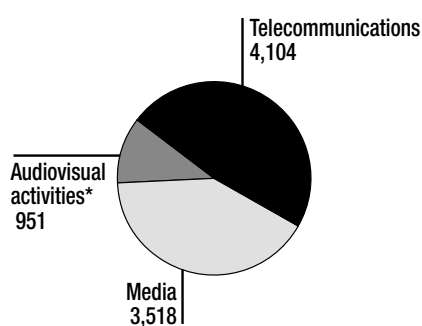
- Environmental Services
- Construction & Property
- Communications
- Other



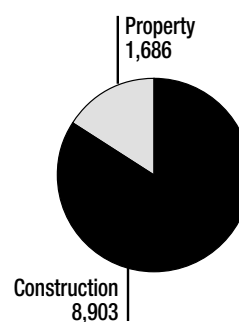
Consolidated net sales by business sector (in millions of euros)



Environmental Services



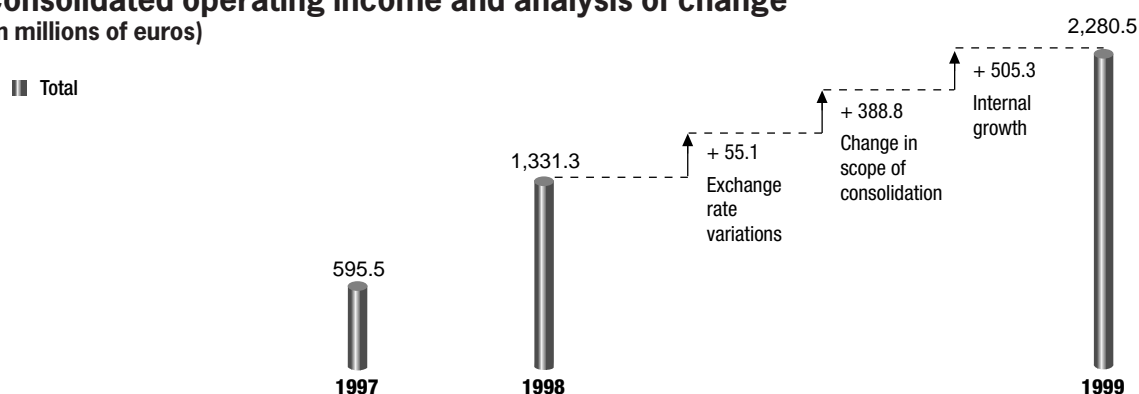
Communications



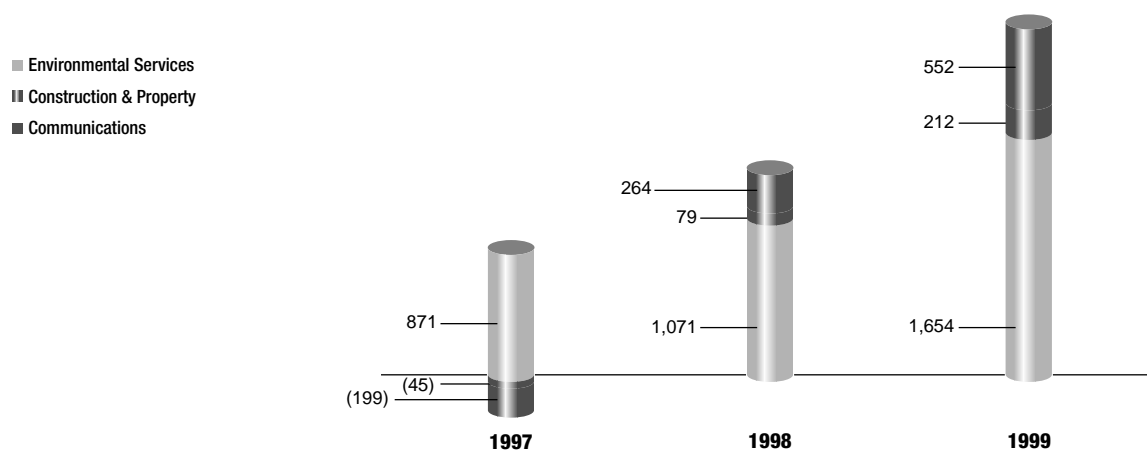
Construction & Property

* Canal+ fully consolidated from October 1, 1999.

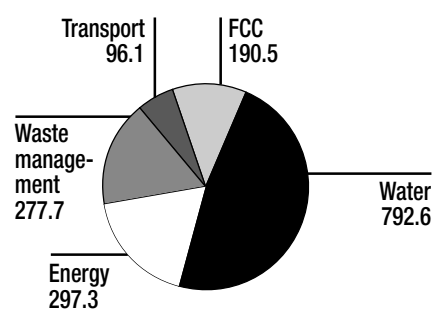
Consolidated operating income and analysis of change (in millions of euros)



Change in consolidated operating income/(expense) by division (in millions of euros)

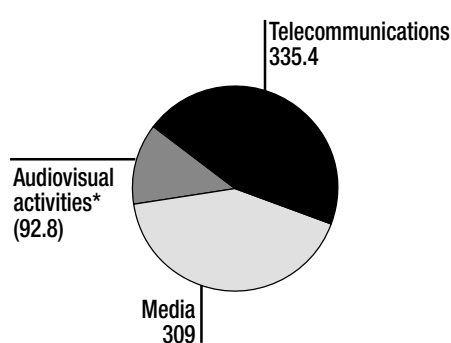


Consolidated operating income/(expense) by business sector (in millions of euros)



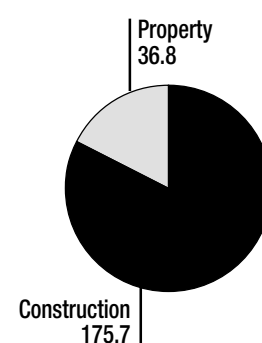
Environmental Services

1,654.2



Communications

551.6

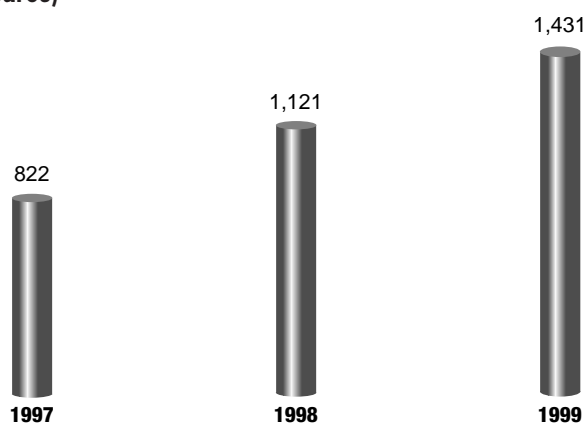


Construction & Property

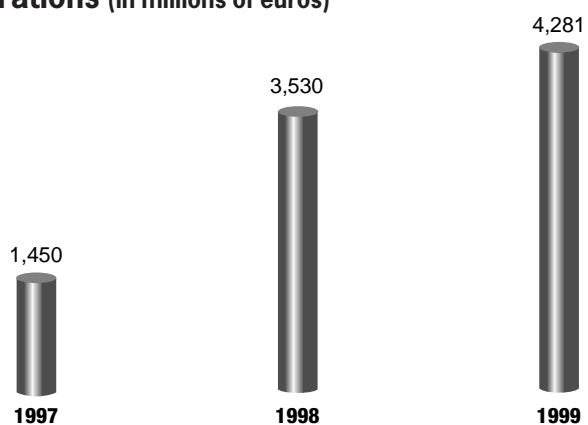
212.5

* Canal+ fully consolidated from October 1, 1999.

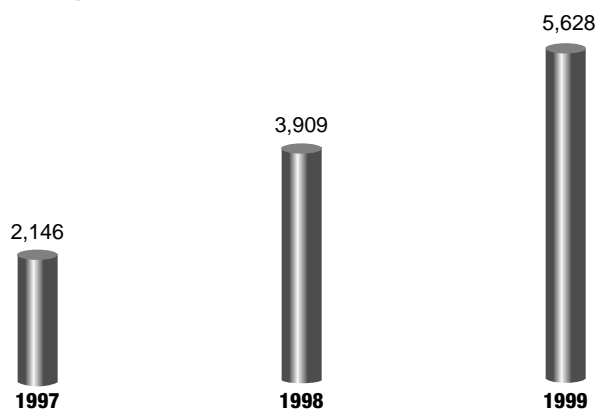
Net income (in millions of euros)



Net cash flow from operations (in millions of euros)



Capital expenditure and acquisition of investments (in millions of euros)

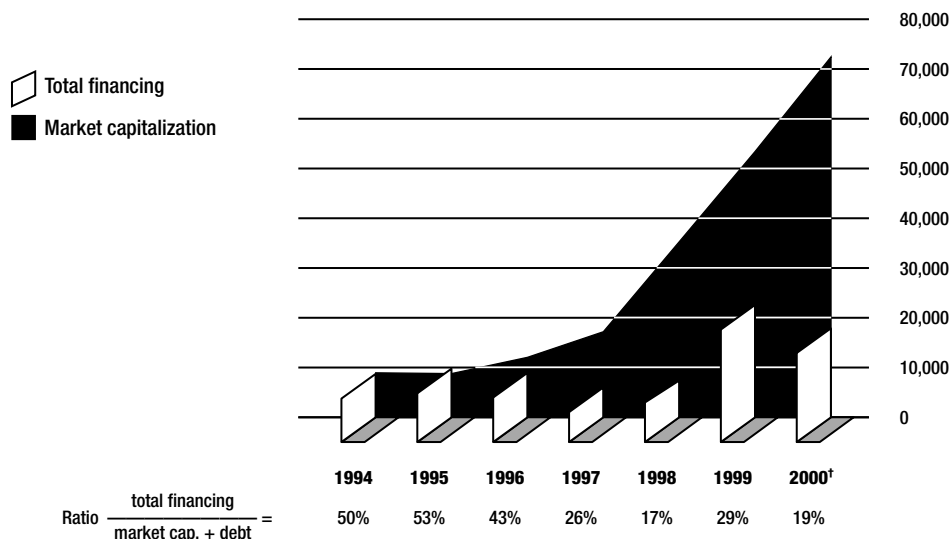


Total financing* and market capitalization from 1994 to 1999 (in millions of euros)

*Net balance sheet debt + long-term financial receivables + capital leases – non-recourse financing

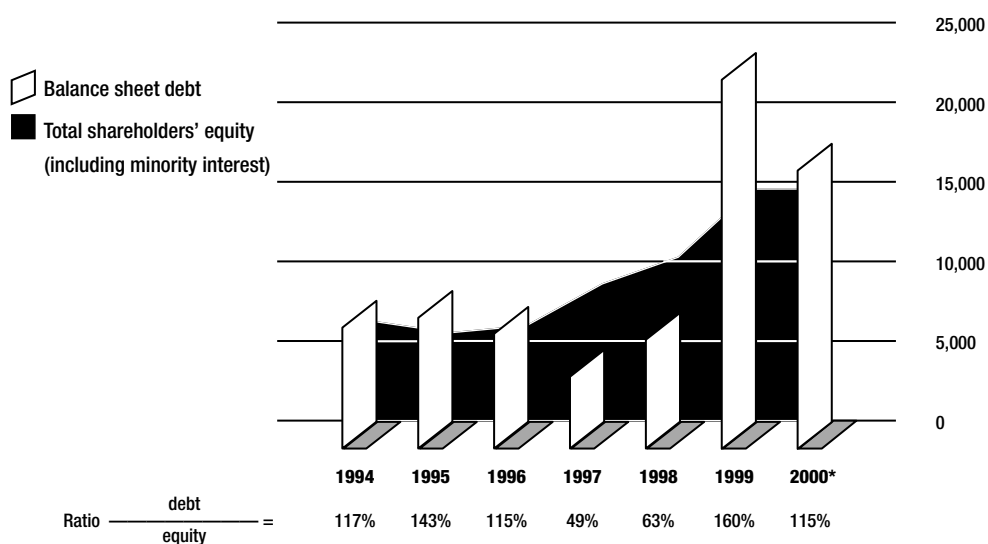
†After disposals realized or announced in the first half of 2000

Market capitalization at February 14, 2000



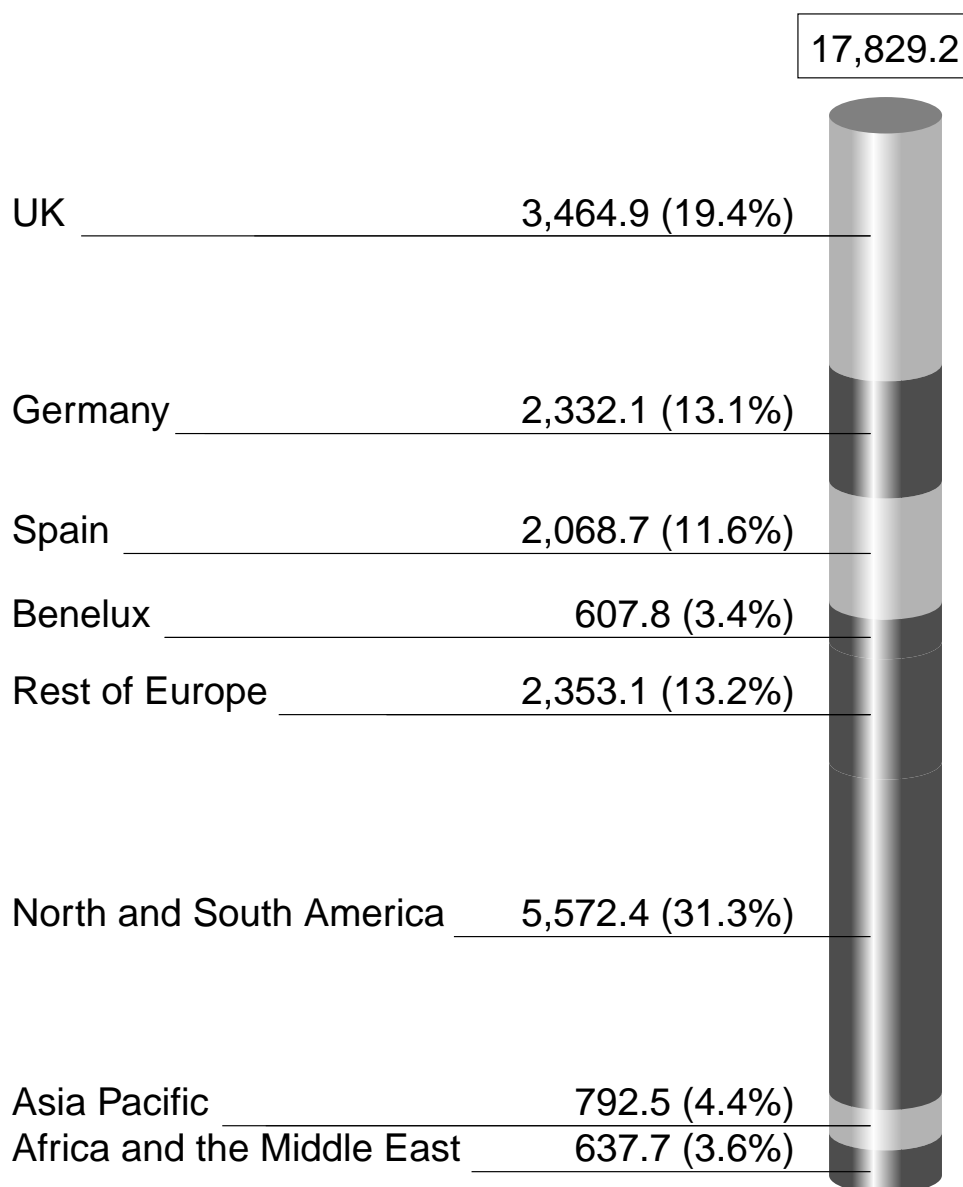
Change in shareholders' equity and balance sheet debt (in millions of euros)

*After disposals realized or announced in the first half of 2000



Key data for business outside France

Breakdown of net sales outside France by geographic area (in millions of euros)



UNITED KINGDOM

Water:	543.9
Energy:	355.4
Waste management:	543.8
Transport:	1,103.9
FCC:	22.7
Telecommunications:	
Media:	175.3
Audiovisual activities:	13.2
Construction:	705.6
Property:	1.1

GERMANY

Water:	341.7
Energy:	42.7
Waste management:	80.9
Transport:	124.9
FCC:	
Telecommunications:	
Media:	92.9
Audiovisual activities:	12.2
Construction:	1,607.4
Property:	29.4

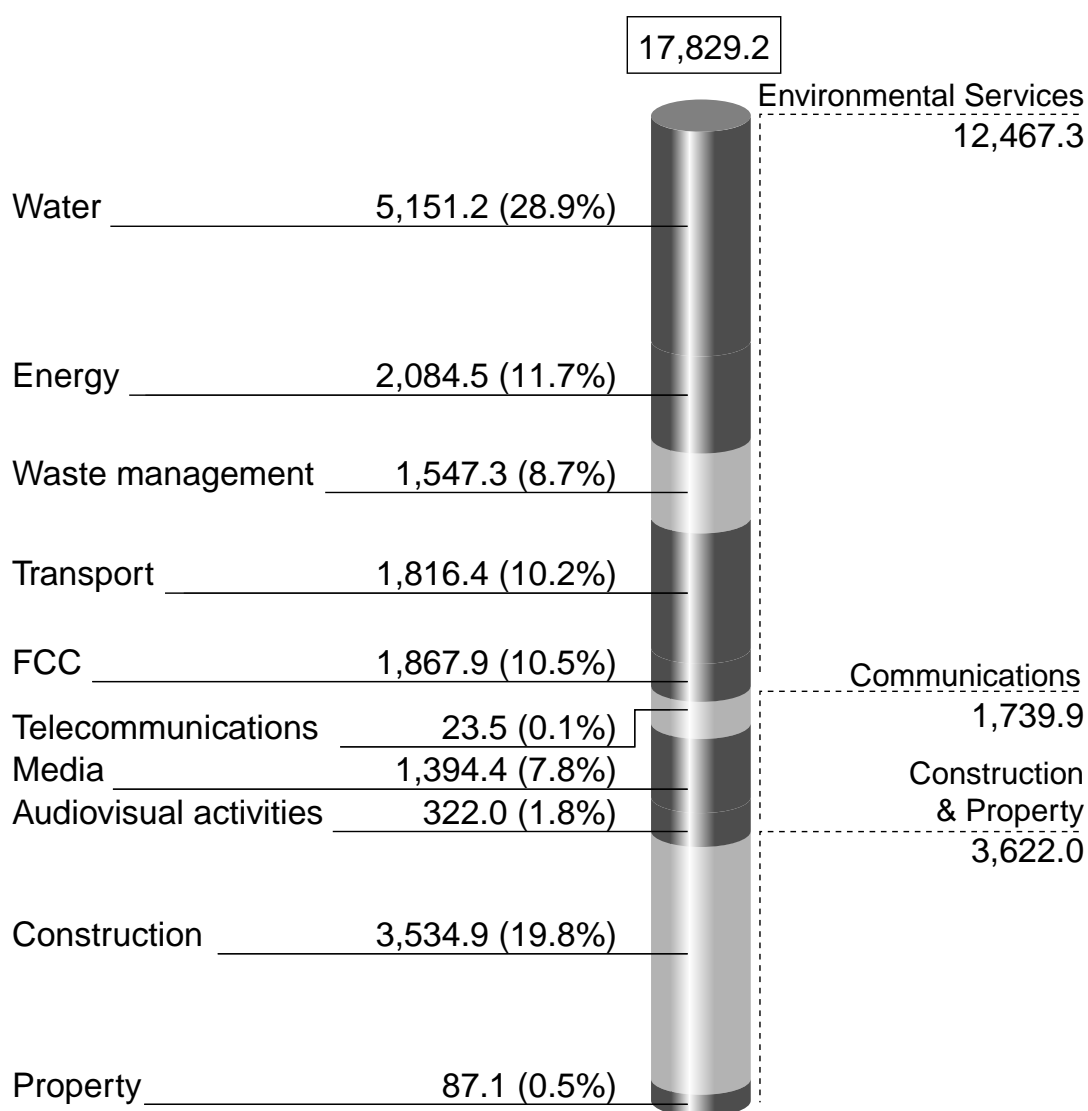
SPAIN

Water:	34.4
Energy:	74.4
Waste management:	16.8
Transport:	0.1
FCC:	1,688.7
Telecommunications:	
Media:	213.6
Audiovisual activities:	6.0
Construction:	33.6
Property:	1.1

BENELUX

Water:	33
Energy:	112.8
Waste management:	4.9
Transport:	41.0
FCC:	
Telecommunications:	
Media:	112.3
Audiovisual activities:	
Construction:	302.2
Property:	1.6

Breakdown of net sales outside France by business sector (in millions of euros)



REST OF EUROPE

Water:	509.7
Energy:	427.0
Waste management:	91.6
Transport:	485.7
FCC:	51.1
Telecommunications:	23.5
Media:	127.8
Audiovisual activities:	234.0
Construction:	381.7
Property:	21.0

AMERICAS

Water:	3,165.9
Energy:	964.6
Waste management:	621.2
Transport:	
FCC:	104.7
Telecommunications:	
Media:	588.7
Audiovisual activities:	23.5
Construction:	81.6
Property:	22.2

ASIA PACIFIC

Water:	255.2
Energy:	103.7
Waste management:	166.8
Transport:	59.7
FCC:	0.0
Telecommunications:	
Media:	63.9
Audiovisual activities:	23.4
Construction:	109.3
Property:	10.5

AFRICA / MIDDLE EAST

Water:	267.4
Energy:	3.9
Waste management:	21.3
Transport:	1.1
FCC:	0.7
Telecommunications:	
Media:	19.9
Audiovisual activities:	9.7
Construction:	313.5
Property:	0.2

CREATING VALUE

“Creating and sharing value” is one of Vivendi’s seven core values. To ensure that this is put into practice, Vivendi has established rules and procedures that govern strategic decisions, management practices and financial disclosure. Creating value also entails offering incentives to employees and management: the Group Savings Scheme gives employees a stake in Vivendi’s earnings growth, and management compensation is directly related to operating performance. In addition, Vivendi’s Board of Directors and governing bodies are committed to compliance with the principles of good corporate governance.

In total, the creation of value for shareholders was reflected in a 28% rise in the price of the Vivendi share in 1999.

VIVENDI’S APPROACH TO CREATING VALUE

As recommended by the Executive Committee and approved by the Board of Directors, creating value for shareholders is an integral part of the Vivendi strategy. This entails implementing principles and procedures that apply across all businesses.

Investment decisions

Improving the profitability of existing operations and seeking new avenues for growth are the levers for creating value for shareholders. The Executive Committee reviews all projects requiring an investment in excess of €50m.

Projects are chosen on the basis of two main criteria:

- an in-depth risk analysis;
- return on capital invested in the medium and long term for each project.

Vivendi’s internal management indicators focus on the idea of return on capital employed, which is calculated by dividing operating income net of a notional tax charge by the book value of capital employed by business activity, including

goodwill. Given the differences in maturity and risk between the group’s activities, these indicators would not have any relevance at group level. However, they are used within each business and compared with forecasts made on a like-to-like consolidation basis and in respect of each acquisition.

No unnecessary dilution

While the potential value of a particular project may warrant limited one-off earnings dilution, Vivendi makes it a policy to avoid “unnecessary” dilution for its shareholders, so that they may benefit fully from Vivendi’s growth:

- dividends are paid in cash only;
- shares granted under stock option schemes are purchased on the market in preference to issuing new shares;
- Vivendi reserves the right to withdraw shares acquired on the stock market, for example to offset the diluting impact of bond conversions.

Optimization of the financial structure

Vivendi’s net debt-to-equity ratio, after accounting for disposals scheduled for the first quarter of 2000 (Sithé Energies, SGE and CGIS), was close to 100% at the end of 1999, compared with 63% one year earlier. This change offers Vivendi maximum leverage in a low interest rate environment, while maintaining a very sound balance sheet structure. Most of its indebtedness derives from environmental services: financial expenses are covered 5.5 times by gross operating surplus, a level in line with that observed in the environmental services sector.

Financial disclosure policy

The role of financial communications is to ensure that all shareholders – whether French or non-French, individual or institutional – receive clear, complete and regular information on Vivendi’s strategy, earnings and development.

At Vivendi's Annual Shareholders' Meeting, scheduled for April 27, 2000, its shareholders will receive:

- a copy of Vivendi's annual report, available in French and English upon publication of the annual financial statements in early March 2000;
- a copy of the *Lettre aux Actionnaires*, a newsletter published four times a year in French;
- the half-year financial statements, published in French and English;
- press releases, financial notices and legal publications.

In addition, shareholders in France can call a freephone number (0 805 806 807), which received 70,000 calls in 1999, and shareholders everywhere can consult Vivendi's Internet site (www.vivendi.com).

Individual shareholders are invited to participate in informal shareholder meetings held outside Paris and led by Jean-Marie Messier (meetings were held in Lyons and Nice in 1999). On-site visits are also offered to individual shareholders (in 1999, the 50 sites opened up to shareholders received more than 10,000 visitors). Lastly, a shareholder reception area was opened in early 1999 at Vivendi's head office in Paris to welcome and inform shareholders.

For institutional shareholders, Vivendi's disclosure policy is organized around regular meetings held in the main international financial marketplaces. In 1999, over 300 investors and financial analysts attended Vivendi presentations, and more than 1,000 investors participated in individual meetings in Paris and outside France. Sector-specific seminars are also organized on a yearly basis. Lastly, a financially-oriented Internet site for institutional shareholders (<http://finance.vivendi.com>) went online in March 1999.

Group Savings Scheme and management profit-sharing schemes

The interests of the shareholders are served all the better because they also personally concern management and other employees of Vivendi.

- Group Savings Scheme: employees are directly involved in Vivendi's growth through an employee savings scheme which had collected approximately €500m by the end of 1999. Through this scheme, 105,000 Vivendi employees in France and elsewhere have become shareholders, contributing to the stability of Vivendi's shareholding structure. Following the success of the scheme, Vivendi also established, in France, Pégase, an additional option that will gradually enable all employees, in particular those investing smaller sums, to benefit from Vivendi's growth (see Human Resources). A similar programme, Pegasus, will be launched in 2000 for employees outside France.

Pégase is a specific programme carried out as part of Vivendi's Group Savings Scheme. The programme aims to allow employees of French companies within the group to subscribe Vivendi shares by way of Pégase-Vivendi, a mutual fund specially set up for the purpose. The programme also allows subscribers to benefit from a leverage effect and a guarantee. The leverage effect consists of a bank loan to subscribers for a total corresponding to nine times the amount of their initial payment. Subscribers are guaranteed a redemption price that covers the amount of the loan and provides them with a minimum return on their investment that is equal to their initial payment plus interest of 5% a year. If the Vivendi share price has risen, they are guaranteed a percentage of the increase over the term of the investment. The Pégase-Vivendi fund subscribed 1,758,057 Vivendi shares on April 29, 1999.

The Pegasus programme, which also forms part of the Group Savings Scheme, aims to enable employees of companies outside France to benefit from an employee shareholding scheme with similar advantages to those of Pégase. The employees' contributions are invested in euros in the diversified Vivendi Growth Fund set up for the operation. Subscribers have a guarantee from their employer that, when they redeem their mutual fund shares, they will recover the amount of their initial payment plus interest equivalent to six times the increase in the Vivendi share price or to a minimum amount of 5% per year.

- Management profit-sharing schemes: through variable bonuses and stock options, company executives also have a

stake in improving Vivendi's performance. Options to purchase or subscribe shares are granted on the basis of three criteria: level of responsibility, performance, and the identification of management staff who show high potential or have carried out significant business operations. The number of stock options granted to senior executives and options that had been exercised at December 31, 1999 are presented in the table on page 187.

- An exceptional stock purchase option plan (called the "out-performance" plan) set up in May 1999 includes a maximum of 6 million shares, drawn from treasury shares, reserved for Vivendi's 50 principal managers. These stock purchase options, which are granted without any discount, are priced on the basis of stock trading prices recorded over the most recent 20-day trading period. They may be fully exercised after five years only if the Vivendi share outperforms that of its main competitors by at least 25%. The outperformance of the Vivendi share is measured by comparison with an index comprised of international stocks (50% environmental services and 50% telecommunications/media). This incentive scheme for managers is an illustration of Vivendi's fundamental management values.

CORPORATE GOVERNANCE

Vivendi is committed to complying with the principles of good corporate governance.

- The Board of Directors met nine times in 1999 (compared with seven times in 1998 and six times in 1997). It currently comprises 14 members, including ten independent directors (non-executive directors who do not represent any major shareholders or financial or trading partners). Three directors are not French nationals. The board examines the

company's strategic orientations and significant investments. Each director must own at least 250 shares for the entire term of his or her office. It will be put to the Shareholders' Meeting on April 27, 2000 that this number be increased to 750 shares.

- The Board of Directors has set up two independent committees – the Audit Committee and the Remuneration Committee – whose members are chosen from among the company's directors.

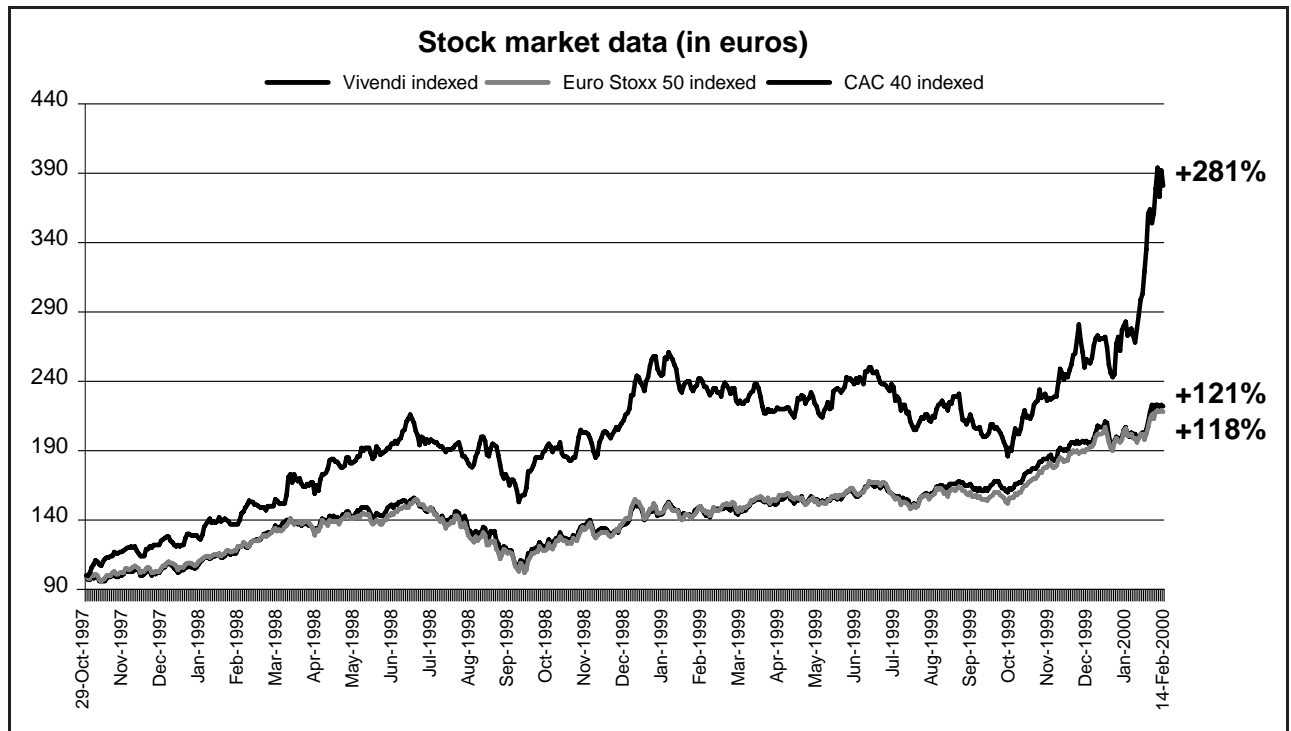
– the Audit Committee met twice in 1999. It comprises four members: Marc Viénot (chairman), Philippe Foriel-Destezet, Henri Lachmann and Serge Tchuruk. The committee reviews the financial statements before they are submitted to the Board of Directors. It also examines accounting policies and methods, the quality of internal control procedures, and the working programmes of the internal and external auditors. As part of its mission, the committee is entitled to meet – without the presence of the executive directors – the statutory auditors and senior management responsible for preparing the statements and internal procedures.

– the Remuneration Committee met three times in 1999. It comprises three members: Jean-Louis Beffa (chairman), Bernard Arnault and René Thomas. The committee reviews the remuneration of Vivendi's executive directors and senior executives. In addition, it is consulted on stock subscription or purchase schemes, and on the selection of Vivendi's executive and other directors.

SHARE PRICE

The Vivendi share is quoted on the main market of the Paris stock exchange with monthly settlement (code 12143).

On December 30, 1999, the share price reached €89.65, up 28% in one year. Since October 29, 1997, when the half-year financial statements were published, the increase has been as high as 281%.



HUMAN RESOURCES

Increase in the number of employee shareholders

The Group Savings Scheme set up in 1996 proved highly successful in 1999. Capital increases reserved for employees attracted €171m in savings compared with €168m the previous year. In addition, the main feature of 1999 was the establishment of a leveraged savings plan, which attracted €329m and 70,000 subscribers. Its success clearly shows the high level of interest in this type of programme on the part of Vivendi employees. Total savings attracted in 1999 amounted to €500m.

Some 105,000 employees have now become shareholders through group savings plans. Together they own 3.2% of the capital stock, making them Vivendi's biggest shareholder.

In addition to these standard types of employee savings scheme, the Board of Directors voted on November 25, 1999 to grant each Vivendi employee working in environmental services and communications ten Vivendi stock options. This decision concerns approximately 250,000 employees.

Recruiting young people

Between November 1997 and November 1999, Vivendi companies recruited 10,129 people under the age of 30, including 2,272 under work-and-study programmes. This is well in excess of the numbers committed to in the Global Solidarity Agreement entered into in November 1997 with Martine Aubry, the French Minister of Employment and Solidarity.

On November 16, 1999, these newly hired young people met with Jean-Marie Messier to discuss their professional future and key developments within Vivendi. At this meeting, the chairman presented the European Solidarity Charter, a new commitment to the employment and integration of young people. The charter, sponsored by Mr Romano Prodi, president of the European Commission, calls for the recruitment by Vivendi of 14,000 young people in Europe under the age of 30 over a two-year period.

Vivendi and flexible work scheduling

Most of the group's French companies implemented the 35-hour working week before it was required by new legislation. At the end of 1999, approximately three-quarters of Vivendi's French workforce was covered by a company- or industry-wide agreement.

The reduced working week agreements focused on reorganizing work in the aim of significantly enhancing the level of service delivered to customers. The agreements concluded at Dalkia and Cegetel are just two examples.

Occupational safety

As a follow-up to the international conference held in late 1998 in Brussels, which focused on occupational health, safety and working conditions, Vivendi multiplied the number of in-house awareness campaigns on occupational safety.

In 1999, an occupational safety site was set up on the Vivendi intranet, and a feedback mechanism was established to gather international indicators on the frequency and magnitude of industrial accidents throughout Vivendi. In addition, all accident prevention coordinators were invited to a day-long seminar held to exchange workplace safety practices. Lastly, a Vivendi Safety at Work Charter has been signed by Jean-Marie Messier, chairman of Vivendi, and Jacques Bacilière, secretary of the European Social Dialogue Conference.

The charter, which has been lodged with the International Labour Organization, represents a very high degree of commitment. It sets out a number of duties and places a binding commitment on company management "to ensure compliance with the health and safety standards set down by the International Labour Organization, or compliance with safety standards set down in national or regional legislation, wherever these are more favourable, and to do so in all countries of the world where Vivendi operates."

Developing management skills

Vivendi Management began operating in January 1999, and was able to offer a full range of services very rapidly. More than 4,000 Vivendi employees have already taken part in the conferences organized by Vivendi Management. They include some 500 managers from European profit centres, who have participated in the "Managers" Seminar, and approximately 20 senior managers, who have participated in the "Executives" Seminar.

In-service training for employees

Training programmes initiated in earlier years were continued in 1999. Many initiatives were developed to improve employee skill levels by devising new job profiles, training plans that are better aligned with operational requirements, programmes with a more international focus, and validation of work experience.

The increasingly international aspect of training programmes is particularly evident in Latin America, where Dalkia founded a school to fight illiteracy among workers in Brazil, and where Vivendi Water established a training centre in Mexico through its affiliate OMSA. In the UK, CGEA and its Urban Environment Institute opened the United Kingdom College of Environment and Transport, and other centres are being planned in countries where CGEA has extensive operations.

The system of validating work experience is increasingly used throughout Vivendi, in compliance with the Global Solidarity Agreement. CGEA, which explored this approach early on, continued its efforts and is opening the programme up to more and more applicants.

The system of validating work experience is increasingly being used in other Vivendi companies due to the agreement concluded between Vivendi and AFPA, the French adult training association. Dalkia participated in a new pilot project commissioned by the French Employment and Solidarity Ministry to deliver professional skills certificates. Three UK subsidiaries (Three Valleys Water, Dalkia Utilities Services in energy and Onyx Environmental in waste management) have developed a number of programmes aimed at validating work experience.

Using new technologies to assist social policy

Vivendi has set up "In Vivo," an intranet site designed to promote internal mobility among managers. The site is open to all and lists several hundred international job vacancies. With the spread of the Vivendi intranet throughout the group, the number of jobs on offer should increase dramatically.

The industrial relations partners of the European Social Dialogue Committee and conference have also taken advantage of the opportunities offered by the Vivendi intranet. Vivendi has provided them with:

- a Social Dialogue site on the intranet, through which industrial relations partners participating in the Group Works Council and the social dialogue committee and conference can inform employees of the activities of these organizations. A charter has been signed to this end;
- access to the internal e-mail system, subject to compliance with a code of good conduct.

Change in breakdown of Vivendi employees by division

	Executives	1997 Other	Total	Executives	1998 Other	Total	Executives	1999 Other	Total
Environmental services	8,750	102,789	111,539	10,857	125,096	135,953	19,395	151,732	171,126
Communications	1,782	1,679	3,461	9,472	15,842	25,314	9,995	20,468	30,463
Construction & Property	9,128	68,110	77,238	10,215	63,785	74,000	10,038	63,888	73,927
Other	290	791	1,081	309	34	343	51	24	75
Total	19,950	173,369	193,319	30,853	204,757	235,610	39,479	236,112	275,591

Breakdown of Vivendi employees by geographical area

	1997	1998	1999
Africa	6,607	7,983	9,086
Americas	9,326	7,656	27,658
Asia Pacific	2,072	3,167	6,344
Europe	175,314	216,804	232,503
Total	193,319	235,610	275,591

The Vivendi Foundation

The purpose of the Vivendi Foundation is to support organizations that create jobs of use to the community. The foundation contributes to Vivendi's social policy by maintaining or creating activities in disadvantaged urban and rural areas. Since its inception in 1995, the foundation has helped fund more than 1,100 projects, with grants ranging from €4,500 to €22,500 per project.

Each project is sponsored by a Vivendi employee who agrees to review the project on a voluntary basis and regularly monitor its progress after the grant has been paid. The foundation has a grants budget of €3m per year and, since 1998, this amount has been increased to €4.5m to foster job creation for young people.

Projects are of three types: services to individuals and businesses; event promotion (culture and rural tourism); and environmental projects (enhancement of local sites).

Over four years, the foundation has created or safeguarded more than 10,500 jobs throughout France, including 1,503 jobs for young people under the age of 30.

In total, 89% of the projects supported by the foundation in 1996, 1997 and 1998 are still active. This success rate is much higher than the national average for business creation, and is particularly rewarding given that the foundation generally supports projects created by people facing social hardship and projects that create jobs for them (they include the long-term unemployed, people eligible for the minimum subsistence income, single mothers, etc.).

In January 2000, the Vivendi Foundation allocated one-third of its annual budget, approximately €1.5m, to projects to restore and maintain forests damaged by the violent storms that hit France at the end of 1999.

The Vivendi Foundation plans to continue its work beyond the five-year term that was initially set and to extend its operations outside France.

RESEARCH AND DEVELOPMENT

The goal of Vivendi's research and development teams is to invent new methods and processes in response to their four major challenges: health and safety, economic performance, quality of life and sustainable development. With a total budget of €230m, the teams bring together more than 2,000 people from around the world who work to meet life's ever-changing needs.

Vivendi is internationalizing its research, development and innovation (RDI) activities in step with its own growth around the world. An international network made up of more than 20 centres drives its research and innovation activities. In 1999, four new centres were set up: in Hong Kong (water), the North American Technology Center (water), Inovatel in Grenoble (telecommunications) and the Cegetel Foundation (otherwise known as the Institute for the Future of Information) in Sophia Antipolis (France). In addition, a number of cooperation agreements are currently being finalized with Berliner Wasser-Betriebe in Berlin. In all, more than 2,000 people – in Europe, the United States, Australia and Asia – are designing or developing the products, processes, software and so on that will enable Vivendi to consolidate its competitive edge across business lines in terms of economic performance, safety, convenience and sustainable development.

Vivendi's research and innovation teams are pragmatic and focused on customers: consumers, local authorities, the small office/home office (SO/HO) sector, and companies in the industrial sector. They maintain an ongoing dialogue with the world's scientific communities and cooperate with many major research institutions and research networks around the world. In France, examples include the Pasteur Institute, the National Institute for Agronomic Research, Nice Sophia Antipolis University, CEMAGREF, the Ecole des Mines (Paris), the Research Centre for the Construction and Public Works Industry, the Ecole Supérieure des Travaux Publics, and the National Centre for Space Studies. Outside France, there are relations with Georgia Tech University in the United States, EAWAG in

Switzerland, the Australian Water Quality Centre, Hong Kong Science and Technology University, Tsinghua University in China, the Asian Institute of Technology in Thailand and the Helsinki University of Art and Design.

Health protection

Health protection is a central focus of Vivendi research teams. The two principal topics are improving the quality of distributed water and fighting air pollution.

The large-scale implementation of membrane filtration techniques, including nanofiltration (in the Méry sur Oise plant) and microfiltration (an area in which Memcor is the world leader), has demonstrated the decisive advantage of using these technologies to produce drinking water from resources of very varying quality. These techniques also effectively eliminate parasites such as *Cryptosporidium*, which are the source of increasing concern. In addition, new means of detection are being developed for these parasites.

In terms of air quality, one of the key challenges is developing the ability to detect, measure and treat the dioxins that may be found in the emissions from waste incineration plants. By setting up the first private laboratory for the measurement of these substances within CREED, the group's research centre on the environment, energy and waste, Vivendi has demonstrated its commitment to offering concerned citizens a solution to this problem. It will continue to participate actively in scientific research being conducted in this area.

Sustainable development

Protecting the environment and natural sites constitutes another key objective pursued by Vivendi. Examples include the

Introduction to Vivendi Research and Development

reuse of industrial and household wastewater, the recovery and recycling of municipal waste and the treatment of soil polluted by chromium and heavy metals. In addition, Vivendi teams from the construction and waste management businesses have combined their skills to identify the best uses for recycled waste from construction sites.

The Kyoto and Buenos Aires conferences set ambitious targets for reducing the production of gases that contribute to the greenhouse effect in the interest of sustainable development on a global level. Vivendi is particularly active in this area, and is currently conducting several research projects, which include:

- the development of cogeneration systems fired by natural gas or biogas from landfills to optimize energy efficiency;
- the use of micro power generation technologies that could serve as individual heat and electricity supplies, thus solving cost and logistics problems related to energy transmission;
- the development and use of new fuels such as aquazole, NGV and LPG;
- optimizing public transport through information provided to passengers and drivers;
- experimentation with fuel cells.

Information and communication technologies

Vivendi aims to become one of the principal players in the European communications industry, and therefore has a very proactive RDI policy in this area, particularly with respect to mobile telephony, the Internet and multimedia services.

In the telecommunications industry, Cegetel is developing high-speed tools integrating voice, data and image to boost its

offer of new, high-quality multimedia services (access, connection and transmission). Cegetel is also working on the architecture of present and future networks, on measuring their performance and on migration toward third-generation mobile systems (UMTS).

The paradigm shift brought about by the development of the Internet has also given rise to innovations in the convergence of technologies (IP, mobility, fixed telephony, information systems, broadband transmission, etc.) that will pave the way for multimedia content and mediation tools such as e-commerce. These innovations include:

- mobile Internet: users can surf the Web, read e-mail messages, send faxes, and access service packages from a mobile phone, as well as make purchases;
- unified messaging facilities offer single point of entry access to information stored in various servers and networks (voice, fax and e-mail);
- the communicating car (under a cooperation agreement with PSA) integrates multimedia technology into automobiles, enhancing driver safety and improving the quality of road travel.

Innovation is also present in the funding and programming methods applied to research programmes. In addition to participation in the *Réseau National de la Recherche en Télécommunications* (National Telecommunications Research Network), three complementary approaches are used:

- incubation of young Internet companies through @viso, a joint venture between Vivendi and Softbank;
- the funding of start-ups through Viventures, a venture capital fund;
- projects co-managed with academic institutions through the Cegetel Foundation.

Business sectors

COMPANIES LISTED BY SECTOR

ENVIRONMENTAL SERVICES

WATER: 25.6% of total net sales

MAIN SUBSIDIARIES

Générale des Eaux	100.0%
Water services in France	
Société des Eaux de Marseille	48.8%
Société des Eaux du Nord	49.5%
Water services outside France	
USFilter	100.0%
Berliner WasserBetriebe	49.9%
United Water (Australia)	47.5%
CGE Australia	100.0%
OEWA (Germany)	99.5%
OMSA (Mexico)	50.0%
CGE Utilities (Malaysia)	55.0%
CG des Eaux Tchèques	100.0%
CGE Portugal	100.0%
Société d'Eau et d'Electricité du Gabon (SEEG)	53.1%
Tianjin CGE Water Company (China)	55.0%
Szegedi Vizmu (Hungary)	49.0%
Water-related construction and engineering	
Sade	98.4%
Omnium de Traitements et de Valorisation (OTV)	100.0%
Bonna Sabla	99.0%
Groupe de Comptage et Services	100.0%
Krüger (Denmark)	75.0%
Société International de Dessalement (Sidem)	100.0%

ENERGY: 9.3% of total net sales

MAIN SUBSIDIARIES

Energy services	
Dalkia	99.5%
Independent power production	
Sithe Energies Inc. (USA)	61.4%

WASTE MANAGEMENT: 8.5% of total net sales

MAIN SUBSIDIARIES

Compagnie Générale d'Entreprises	
Automobiles (CGEA)	100.0%
SARP Industries	99.4%
SARP	98.2%
Superior Services	100.0%
Renosol	100.0%
Montenay International Corporation (USA)	100.0%
Onyx UK	100.0%
Collex (Australia)	92.0%
Onyx Umweltservice GmbH (Germany)	51.0%
Onyx North America Corp.	100.0%

TRANSPORT: 5.9% of total net sales

MAIN SUBSIDIARIES

Compagnie Générale d'Entreprises Automobiles (CGEA)	100.0%
CGFTE	100.0%
Barraqueiro (Portugal)	47.1%
Connex Rail (UK)	100.0%
DEG (Germany)	60.0%
Linje buss (Sweden)	100.0%

FCC: 4.5% of total net sales 56.6%⁽¹⁾

COMMUNICATIONS

TELECOMMUNICATIONS: 9.8% of total net sales

MAIN SUBSIDIARIES

Cegetel ⁽²⁾	59.0%
Société Française de Radiotéléphone (SFR.)	80.0%
Cegetel 7	80.0%
Cegetel Entreprises	80.0%
America On Line France (AOL)	55.0%
Télécom Développement	49.9%
Transtel	70.0%
Vivendi Telecom International	100.0%
Matel (Hungary)	100.0%
Monaco Telecom	51.0%

(1) and 27.7% overall shareholding

(2) and 44% overall shareholding

PUBLISHING AND MULTIMEDIA – AUDIOVISUAL ACTIVITIES: 10.7% of total net sales

MAIN SUBSIDIARIES

Publishing and multimedia	
Havas	100.0%
Comareg	100.0%
Expansion	100.0%
Groupe Expansion	100.0%
Groupe Express	100.0%
Groupe Moniteur	100.0%
Groupe Tests	99.9%
Société des Editions Scientifiques Juridiques et Médicales	100.0%
Editions Nathan	100.0%
Editions Robert Laffont	100.0%
France Loisirs	50.0%
Groupe Anaya	100.0%
Havas Interactive Inc.	100.0%
Larousse-Bordia	100.0%
MediMedia	100.0%
Advertising	
Havas Advertising	19.7%
Audiovisual activities	
Media Overseas	100.0%
Canal+	49.0%
UGC	39.3%

CONSTRUCTION & PROPERTY

CONSTRUCTION: 21.4% of total net sales

MAIN SUBSIDIARIES

Société Générale d'Entreprises (SGE)	49.2%
Building and civil engineering	
Sogea	100.0%
Norwest Holst (UK)	100.0%
Campenon Bernard SGE	100.0%
Freyssinet International	100.0%
Roadworks	
Eurovia	100.0%
SGE VBU (Germany)	100.0%
Teerbau Konzern	100.0%
Electrical engineering and works	
Compagnie Générale de Travaux et d'Ingénierie Electrique (GTIE)	99.9%
Santerne	100.0%
SDEL	100.0%
Thermal and mechanical activities	
Sophiane	100.0%
Tunzini	100.0%
G+H Montage (Germany)	100.0%
Heinrich Nickel (Germany)	100.0%
Concessions	
Cofiroute	31.1%
Tagus river bridges	24.8%
Stade de France	33.0%
Sogeparc	97.7%

PROPERTY: 4.0% of total net sales

MAIN SUBSIDIARIES

Vivendi Valorisation	100.0%
Compagnie Générale d'Immobilier et de Service (CGIS)	100.0%
Groupe George V	100.0%
Anjou Aménagement Foncier	100.0%
CGIS Entreprises	100.0%
Anjou Grandes Opérations	100.0%
Anjou Patrimoine	100.0%
Anjou Services	100.0%

**OTHER SERVICES
AND HOLDINGS**
0.3% of total net sales

WATER

Water services in France and worldwide – Water-related construction and engineering – Treatment processes

CONSOLIDATED KEY DATA

(in €m)	1999*	1999 pro forma**	1998	1997
Total net sales	10,683.7	7,082.7	6,721.7	6,490.7
Net sales outside France	5,151.2	1,550.2	1,469.7	1,367.6
Gross operating surplus	1,320.0	903.3	830.4	786.6
Operating income	792.6	452.0	405.0	382.2
Gross cash flow	788.0	626.0	456.2	458.0
Capital expenditure and investment acquisitions	7,386.2	498.0	646.4	543.2

* USFilter consolidated for 8 months

** 1999 consolidation scope, excluding major acquisitions

After USFilter was acquired in March, the strategic alliance forged between Générale des Eaux and USFilter resulted in the formation in September 1999 of Vivendi Water. This international group is now the leading global water company of the twenty-first century, with 150 years of experience. In 1999, Vivendi Water earned net sales of €10,683.7m, including €5,151.2m outside France (€4,300m in water distribution, and €500m in treatment processes and water-related engineering), a 56% increase for the water sector compared with 1999.

Vivendi Water serves more than 100 million people worldwide in approximately 100 countries, and has a workforce of close to 70,000. Vivendi Water, the leader in its industry, has achieved a sound balance between the various market segments and is strengthening its position in all segments: local authorities, industry and consumers.

In France, Vivendi continues to operate its water businesses under the “Générale des Eaux” brand (corporate name “Compagnie Générale des Eaux”), and will continue to capitalize on more than 150 years of experience in this area. Also in France, it continues to manage more than 4,000 contracts, representing more than 8,000 local authorities, that cover 25 million people for water distribution and 16 million for wastewater collection and treatment. Vivendi-Générale des Eaux is building on its experience to drive international growth in Europe (with the flagship Berlin contract), Asia and the Middle East.

France: Générale des Eaux ever closer to the customer

Générale des Eaux earned total net sales of €4,505m in 1999 from water and wastewater services, and €896m from water-related engineering operations.

In 1999, Générale des Eaux renewed 204 of its 241 contracts that had reached their term. These renewals included the Ancenis regional authority, La Trinité and Chartres. In addition, Générale des Eaux won 37 new contracts, including the wastewater collection systems for Sablé-sur-Sarthe and Chantonay. Some 330 outsourcing contracts were amended through negotiation (e.g. Lorient, Cabourg and Creusot-Montceau-les-Mines).

Générale des Eaux completed the development in France of its “Générale des Eaux Direct” customer service centres in 1999 (one per region for a total of 11 in France). Customer account

managers are available during extended business hours to answer all questions raised by end-users on subjects such as billing, subscriptions, instalment payments and water quality. Customers may contact account managers immediately and directly to solve most of their problems without leaving home. Proximity and rapid response result in greater end-customer satisfaction while also meeting the needs of local authorities.

Water quality has always been a top priority for Générale des Eaux. As part of its self-monitoring policy, Générale des Eaux carries out more than 600,000 analyses annually, and works with the French health ministry and departmental hygiene and social action authorities (DDASS) on continuous water quality monitoring.

Ever on the cutting edge of innovation, Générale des Eaux opened a state-of-the-art drinking water production plant in Méry sur Oise, built for the Ile-de-France water authority (SEDIF) and managed by Générale des Eaux. The plant uses nanofiltration, a process for filtering through polymer membranes. In a world first, 800,000 inhabitants of the Greater Paris area are now being supplied with softer water. The process was co-developed by Générale des Eaux and OTV engineers and technicians. In November 1999, OTV completed construction work and the new facility was officially connected to the network.

Générale des Eaux is also focusing its attention on all aspects of its industrial customer services: demineralization, ultra-pure water, inspection and recycling, and the management of effluent treatment facilities. As part of this programme, contracts were signed with Fonderies de Lorraine and the Xonrupt dry-cleaning chain.

Water-related construction

OTV designs and builds water and wastewater treatment plants. In 1999, net sales increased to €538m, compared with €514m in 1998.

In France, OTV established a position as a leading player in the industrial market in 1998, with such major customers as Renault and L'Oréal. This position was confirmed in 1999 with an €11m contract from Toyota to install full facilities for water

production and effluent treatment and recycling at its Onnaing plant near Valenciennes. OTV is also leader in the municipal market in France. Contracts in 1999 included one worth €96m to build and operate the new wastewater treatment plant in Le Mans, and a €58.7m contract to design and build that of Rheims. OTV also took charge of most of the work to renovate the Boulogne sur Mer plant (€20.6m out of a contract worth €31.3m in total), and extended the biological treatment process at the Cap Sicié plant in Toulon for €15m.

Water-related engineering

In France, Sade and its water-related engineering subsidiaries earned net sales in excess of €162m in 1999, up approximately 6% over 1998.

Sade continued its activities in connection with the construction, upgrade and rehabilitation of water networks in France's major cities and urban centres. New resources, supply systems and back-up supply interconnections were completed, including the interconnection for the Poses authority (Eure Département), Rouen's southern suburbs, the Douarnenez (Finistère) networks, the networks of the Lagny and Portes de la Brie (Seine-et-Marne) authorities, and the new abstraction zone in Evreux (Eure). Sade also continued to replace or rehabilitate lead-based connection pipes using the various technologies it has developed.

Business in the construction and rehabilitation of wastewater collection systems and structures also increased. Projects included the construction of a 2.20 metre diameter underground storm water tunnel in Nancy (Meurthe-et-Moselle Département), the construction of a 2.50 metre diameter underground wastewater collection system with a spillway structure for effluent flowing into the Seine in Gennevilliers (Hauts-de-Seine), and rehabilitation of inspectable drainage systems in Paris and in the Ile-de-France region.

In the industrial market, both completed projects and new orders, from diverse sources, grew significantly.

Overall, both in and outside France, Sade-Travaux earned net sales of €498m in 1999.

Bonna-Sabla had net sales of €346m in 1999. Business development efforts, facilitated by a general improvement in business conditions for the economy as a whole and the construction industry in particular, focused on products with higher value added, such as prefabricated sections for use in civil engineering, wastewater treatment and building structures, as well as the quality of customized services combined with the provision of equipment for the wastewater industry (pipes and inspection chambers).

Business outside France

The water businesses enjoyed several major international successes in 1999, particularly in Europe, Asia and the Middle East, and demonstrated their ability to respond to a diverse set of water-related challenges and to vastly different operating environments.

Net sales outside France in 1999 amounted to €5.2 billion, up 251% over the previous year.

The highlight of 1999 was the acquisition of USFilter, the leader in the US water business. Générale des Eaux and USFilter combined forces to create the first global group specializing in water treatment. This constitutes a powerful strategic alliance going into the twenty-first century, particularly in the rapidly changing North American market. It will lead to the creation of an unprecedented integrated offer for their commercial, industrial, municipal and residential customers worldwide.

US: the biggest ever acquisition by a French company

In March 1999, the two leaders of the water industry, USFilter and Générale des Eaux, decided to join forces. Vivendi's friendly €5.7 billion tender offer makes this the largest acquisition ever completed in the United States by a French company. Since the merger, the two titans have set up a new organization and appointed new teams.

The official announcement of the establishment of Vivendi Water, made in Berlin on September 20, 1999, marked the

beginning of a momentous venture based on an excellent business fit. Générale des Eaux, the historic source of today's Vivendi, merged with USFilter, the world's top-ranking manufacturer of water treatment systems and equipment (28,000 employees working in 2,000 manufacturing, distribution and sales locations in 100 countries). USFilter offers highly sophisticated equipment, including membranes, and cutting-edge technology. It is the leading firm in the industrial water treatment market in many countries, and also does business with end-consumers, mostly through Culligan (filtering and softening, water coolers, and a special product line for the food processing industry). Through Culligan, USFilter services 3 million households and 1.5 million business facilities worldwide.

USFilter also has a portfolio of operating contracts with more than 1,500 municipal authorities (as an equipment manufacturer/dealer and product and service vendor).

This alliance consolidates Vivendi's position as the world's top water distributor, with delivery to more than 100 million people worldwide and net sales that put it well ahead of its principal competitors. Municipal authorities account for 60% of the new entity's total business, while industrial customers and consumers account for 30% and 10% respectively.

Vivendi Water has acquired an unprecedented strategic position, particularly in the North American municipal water market.

Germany: Berlin, the flagship city

In June 1999, a consortium comprised of Vivendi (45%), RWE (45%) and Allianz (10%) was selected by the Berlin *Land* in connection with the partial privatization of the Berlin water and wastewater services. The proposal submitted by the consortium was considered to offer the 3.5 million citizens of Berlin the best deal in terms of price, quality and employment security for employees of BWB (Berliner WasserBetriebe).

After ratification by the Berlin Senate, the consortium was officially awarded the partial privatization contract, involving a 49.9% interest in BWB. This is the largest privatization ever carried out in the German water industry (the price of the

transaction was €1.69 billion), and involves annual net sales of about €1 billion. The constitutionality of the contract and its implementation was recognized by the Constitutional Court of the state of Berlin on October 21, 1999.

In November 1999, Vivendi Water won a contract with an authority grouping 283 districts in Saxony-Anhalt to distribute water to 400,000 inhabitants and to provide wastewater collection and treatment services for 200,000. This contract, concluded in connection with the partial privatization of Midewa, calls for the comprehensive management of the largest water distribution service in a rural area.

In April 1999, Générale des Eaux won a bid through its subsidiary, OEWA, launched by the Grimma-Geithain interdistrict authority to outsource water and wastewater services. Under the terms of this agreement OEWA will manage water and wastewater services for 19 districts (85,000 inhabitants for water services and 45,000 for wastewater services) in Saxony. OEWA operates 14 drinking water production plants and 24 wastewater treatment plants.

In Germany, Vivendi Water now supplies water services to 4.5 million people and wastewater services to 4.3 million representing total annual net sales of €650m.

Expanding to the east

Under the terms of a cooperation agreement with Saur, Générale des Eaux-Vivendi Water acquired full ownership of IJVS, the second largest water and wastewater company in Southern Bohemia (Czech Republic). IJVS services the population of Ceske Budejovice, the capital of Southern Bohemia, and 25 neighbouring districts for a total of 180,000 inhabitants. It currently earns net sales of €13m. This acquisition enables Générale des Eaux-Vivendi Water to consolidate its position as the leading private player in the Czech water industry. It is already present in Northern Bohemia, where it has been managing the water and wastewater services for the cities of Pilsen (300,000) and Sokolov since 1996.

Vivendi Water also acquired Aqua Pribam (provider of water services to 75,000 people in Central Bohemia) and Vodospol Klatovy (50,000 in Western Bohemia). The company won bids

launched by the cities of Susice (12,000 people), Stary Plzenec (6,000) and Stod (6,000) to outsource water services. Under a cooperation agreement with SVS, Vivendi Water also consolidated its equity interest in ScVK, the Czech Republic's second largest water and wastewater company (provider of services to 1,100,000 people).

In just a few months, Vivendi Water increased the size of its operations in the Czech Republic fivefold, consolidating its position as the leading player in the country's water industry and generating net sales of approximately €50m.

Asia

Vivendi Water was the first private operator to be granted a contract for water services by the Kazakhstan authorities. In November 1999, a 30-year management agreement for water and wastewater was concluded with the city of Almaty (1.2 million inhabitants), the country's financial centre. This is the first full-scale application of the French water management model in one of the countries of the former USSR. Vivendi Water was also selected by the authorities of Astana (300,000 inhabitants), the new capital of Kazakhstan, to develop the drinking water infrastructure. These successes testify to Vivendi's determination to develop business with this country, which has successfully made its economic and political transition and shows great growth potential.

In India, Vivendi Water subsidiary Seureca Space won a bid to improve the management of Calcutta's drinking water network (6 million inhabitants). This three-year, €7.2m contract calls for network identification studies, installation of a pressure monitoring system, and installation and management of meters for major consumers. In-depth studies will be carried out, including network mapping and consumption indicators, prior to the installation of meters and the completion of network upgrade work.

Construction work started on the Chengdu water treatment plant, under the terms of the BOT contract awarded in 1998 (the first of its kind in the water industry in the People's Republic of China). The plant is scheduled to come into service in 2001.

Vivendi Water generates net sales of approximately €200m in Asia.

Générale des Eaux also concluded a cooperation agreement with the Malaysia France Institute (MFI) to train local personnel in the technologies developed by Vivendi Water. Established in 1995, the MFI is a training institute that specializes in new electricity, air conditioning and cooling technologies. Once MFI employees have completed their training, the institute will be able to expand its offer to include water-related technologies.

Middle East

Générale des Eaux-Vivendi Water won the contract to manage water and wastewater services for the southern portion of the West Bank. In June 1999, the company was awarded the contract to manage the water and wastewater services for the West Bank provinces of Bethlehem (150,000 inhabitants) and Hebron (450,000 inhabitants). This is the first time the region has awarded a contract to a private-sector company. The four-year contract is worth €6.4m.

Research agreement

Vivendi Water's Asian research centre, located on the premises of the Hong Kong Technology and Science University, was opened in October 1999. It is the focal point of a research programme funded by Vivendi for a total amount of €1.52m per year. The institute was created to promote exchanges and research programmes with European universities and businesses, and to encourage European organizations and businesses to set up operations in Hong Kong, China and East Asia.

Work done at the Hong Kong centre will complement research carried out in Vivendi Water centres in Atlanta, Lowell and Rockford in the United States, Adelaide in Australia, Copenhagen in Denmark and Watford in the United Kingdom. Vivendi Water invests a total of about €60m per year in these centres and employs 350 researchers.

Water-related construction outside France

OTV earned net sales outside France of €335m, up 8.9% on the 1998 figure, and strengthened its position in Belgium, Italy and Australia.

The level of business outside France returned to previous high levels in 1999. In the industrial market, OTV was awarded several major contracts, including one worth over €16.5m with Petronas, Malaysia's largest oil company.

Many contracts were won in the municipal market. In Europe, OTV built the world's largest plant for the production of drinking water through ultrafiltration under a €13.7m contract. The plant is located near London. Outside Europe, the effects of the crisis seem to be lessening. In South Africa, the Durban municipality awarded OTV a contract worth over €76m to upgrade and operate a wastewater treatment plant. In Chile, OTV is in charge of building the first wastewater treatment plant for the capital, Santiago, under a €44.2m contract. In Mauritius, the group is to build and operate a water treatment plant for €8.8m, and it is continuing its development in China with the signature of several contracts for a total amount of €20m. OTV subsidiary Sidem confirmed its leadership in the sea water desalination market with an order worth €41m from Sharjah in the United Arab Emirates.

Water-related engineering

Bonna-Sabla earned net sales of €72m outside France, led by strong sales growth in North Africa, particularly in Tunisia, where business development has entered into a new phase.

Sade consolidated its operation outside France, with net sales of €85m.

Sade's orders in Europe include: in the UK, the Ardleigh water treatment plant; in Belgium, structures for extracting quarry drainage water which, after treatment, will supplement the drinking water supply of the city of Tournai.

In Africa, the water supply project for the cities of Daoukro and Oumé (Côte d'Ivoire) is being completed.

Business sectors

Water

In South America, the year's largest project was completed in Peru, where the wastewater outfall of the Lima-South treatment infrastructure was built. In Honduras, construction work began on the new 20 kilometre water main for Tegucigalpa, the country's capital.

In Asia, the water supply for the city of DaNang (Vietnam) was strengthened, and the plant manufacturing 2,440mm diameter

steel pipes for the new 27 kilometre water main in Chengdu (People's Republic of China) is now operational. In Manila (Philippines), Sade is currently completing the water and wastewater infrastructure project for the Fort Bonifacio business district (25 kilometres for drinking water supply and 9 kilometres for wastewater collection).

ENERGY

Power production – Thermal facilities – Facilities management

CONSOLIDATED KEY DATA

(in €m)	1999	1999 pro forma*	1998	1997
Total net sales	3,891.2	3,891.2	3,574.3	3,839.7
Net sales outside France	2,084.5	2,084.5	1,874.4	2,169.4
Gross operating surplus	579.8	569.0	596.5	482.3
Operating income	297.3	295.2	290.5	261.1
Gross cash flow	333.9	327.0	884.5	281.5
Capital expenditure and investment acquisitions	2,477.9	2,390.5	1,242.4	444.2

* 1999 consolidation scope, excluding major acquisitions

Vivendi's energy business includes two activity sectors: independent power production, through Sithe Energies, and energy optimization and related services (facilities management), through Dalkia. In September 1999, Vivendi decided to initiate withdrawal from Sithe Energies, whose activity does not fit with the group's strategic businesses. During the year, Sithe Energies consolidated its position as leader in the independent power production market in the North-East of the United States, and continued to expand elsewhere, particularly in Asia. Dalkia confirmed its European leadership in thermal facilities management, especially in the management of district heating networks, and continued to expand outside France. Business outside France represented one-third of Dalkia's net sales in 1999.

Sithe

Independent power production

In 1999, Sithe Energies continued to develop its position as a leader in independent power production in the North-East and outside the United States.

Business in 1999

Power plants under operation maintained a very high level of availability, averaging 95.8% since each plant came into service. This level has made it possible to generate net sales of €1,046.2m.

Outside the United States, two new plants came on stream: on September 28, the 48 MW Changzhou oil-fired power plant (China) in which Sithe China holds an 80% equity interest; and on August 23, the 122 MW gas-fired power plant in Samut-prakan (Thailand) which is wholly owned by Sithe Pacific and located in Thailand's largest industrial zone, a few kilometres from Bangkok.

Expansion inside and outside the United States

In the United States, on November 24, Sithe Energies finalized the acquisition of the 21 power plants of GPU in Pennsylvania, New Jersey and Maryland (total capacity: 7,000 MW operated, including 4,110 MW owned) for a total of €1.45 billion. Sithe Northeast, a wholly-owned subsidiary of Sithe Energies, owns a

total of 38 power plants and therefore has a substantial industrial base using an even spread of energy resources (hydro, gas, coal and oil). The plants are located in a very large market (70 million people) where the deregulation process is particularly advanced. With the GPU transaction, Sithe Energies is poised to become the leader in three pools: New England, New York and Pennsylvania-New Jersey-Maryland. The transaction also doubles its generating capacity in the USA as a whole, with a total of 8,074 MW, representing 49 power plants.

The company sold GPU's plants in February 2000 for \$2.1 billion.

Outside the United States, new resources have been earmarked for the cooperation agreement entered into in Asia between Sithe Energies, AIG Fund I and the Singapore Government. Sithe Energies and AIG Fund II have contributed \$100m each, bringing the fund to a total of \$500m.

In China, Sithe China, a subsidiary of Sithe Asia, received on March 12 the official approval from Chinese authorities for the Puqi project in Hubei Province. This will enable the Sithe China/Marubeni consortium (in which the two companies have interests of 75% and 25% respectively) to carry out the 2 x 300 MW project for an investment of \$428m. The consortium was awarded the contract in September 1997. It should be emphasised that Sithe China is one of the very few foreign companies to have received final approval from the Development Committee of the People's Republic of China for an investment of this size. It is also the first time a foreign company will make use of local equipment.

As its first venture in South Korea, Sithe Energies Asia acquired the 260 MW Ichon plant. Ichon produces electricity for Hyundai Electronics under a 20-year sale agreement that may be extended to 25 or 30 years. Sithe Energies' investment amounts to \$170m. In December, Sithe Asia acquired a second power plant in South Korea, the 100 MW oil-fired HPC/Daesan plant.

In Thailand, two new 90 MW plants (COCO III) came on stream in September and October and will generate additional revenues for Co-generation Company Ltd, in which Sithe Pacific holds a 34% stake.

Under a cooperation agreement with Marubeni (32.5%) and PSEG Global (35%), Sithe Energies launched the 471 MW Rades power plant project in Tunisia. This is Sithe Energies' first project in North Africa.

Dalkia

Energy optimization and related services

Efforts made over the last three years by Dalkia to refocus its business activities and raise its productivity came to fruition in 1999.

After the disposals completed during previous years, Dalkia has concentrated on two core businesses: thermal facilities and energy management, and facilities management.

The productivity objectives have largely been reached through a determined effort to adapt Dalkia's structure, clarify certain tasks and implement an aggressive procurement optimization policy.

The results of this progressive strategy are clearly reflected in the financial statements for 1999. Dalkia's net sales increased by 5.2%, from €2.7 billion at the end of 1998 to €2.85 billion at the end of 1999.

Against this backdrop, the profile of Dalkia's business operations and its growth strategy benefit from a high degree of foreseeability.

Dalkia is highly concentrated on its core business in thermal facilities and energy management. Not including industrial customers, this business line now accounts for three-quarters of net sales. Dalkia is strengthening its position as European leader, in particular by expanding in the management of district heating networks (250 in Europe).

Dalkia is further pursuing two priority expansion objectives.

The first consists of taking responsibility for the utilities that support industrial processes and in specialist industrial main-

tenance services. This activity is growing at a particularly brisk pace, mainly due to the growth of cogeneration.

The second objective is related to facilities management businesses, in which Dalkia recorded steady growth during the year.

In all three activities, efforts are concentrating on those areas both in and outside France (mainly elsewhere in Europe) where the best growth opportunities have been identified.

Dalkia's approach to making progress also includes the ongoing improvement of customer service and communication. In 1999, an interactive dialogue system for customer sites was set up based on the intranet, which enables customers to access directly a large quantity of information as well as service reports.

Lastly, the approach involves a constant effort to train staff and modernize working conditions and resources. In June 1999, Dalkia signed an agreement on the adaptation and reduction of the working week, which will allow a far-reaching revision of its work pace and methods. The agreement will enable Dalkia to offer better customer service and will lead to the recruitment of 294 employees over a one-year period, including a majority of young people.

Thermal facilities management in France

Dalkia is a leader in this market, with more than 170 district heating networks.

The district heating networks in Calais (24-year contract) and Suresnes (25 years), as well as other facilities, were renewed and upgraded, with a focus on multiple energy sources and cogeneration. Dalkia won major new contracts in the area of thermal facility management and operate and maintain services for technical systems, such as with the Centre Georges Pompidou, the new Georges Pompidou European Hospital, the head offices of Caisse Nationale du Crédit Agricole and France Télévision in Paris, the Clairval Hospital Centre in Marseilles, and the municipal buildings of Libercourt.

Dalkia is also a pioneer in the area of environmental management. Around ten of its sites have been awarded ISO 14001 certification, and it is active in research into new energies. Its research centre is currently managing a fuel cell programme, and two new power production plants using biogas from landfills have recently been started up in the Greater Paris area.

Lastly, Dalkia works constantly on the creation of new niches, such as the comprehensive management of swimming pool technical systems and the production of micro- and mini-cogeneration units.

Industrial services

Sales growth in the industrial sector accounted for approximately two-thirds of net sales from new contracts entered into during the year (including industrial cogeneration). In the emerging market for outsourced utility services, Dalkia successfully positioned its integrated "energy + services" offer, which allows the cost of energy to be optimized for customers through in-depth knowledge of the sites' power transformation and utilization chain. Several major contracts were signed including high-capacity cogeneration for Eurolysine (45 MW of electricity) and Solvay (90 MW of electricity), and Dalkia's largest contract for the supply of compressed air, concluded with Société des Aciers d'Armatures (SAM: 110m cubic metres per year). Dalkia's objective is to double its industrial business in the next few years, particularly in conjunction with the multi-utilities offer of Vivendi Environment, by combining its own know-how with that of Vivendi Water and CGEA.

In France, the European directives on deregulation of the electricity and gas markets have not yet been fully implemented. In this situation, it was important for Dalkia to consolidate its position rapidly, and the development of cogeneration offered an exceptional opportunity to do so. Cogeneration had a very favourable impact on the average duration of the portfolio, which increased by one year, and therefore had a positive impact on the company's operating income. With a signed capacity of more than 1,300 MW of electricity in France at the end of 1999, Dalkia has been the most active French operator in this market for the last three years.

Facilities management

Facilities management is a very promising market that is still emerging. Dalkia has secured significant positions over the last two years, both in and outside France. Dalkia's portfolio is split into business in operate and maintain services for technical systems and comprehensive non-core business services, and large facilities management contracts. The year's largest contracts in France include Sollac Dunkerque, Séphora and AGT (Alstom Gas Turbine) near Belfort.

On the various sites, the Dalkia Facilities Management teams now report to Dalkia's regional managers in order to facilitate the nationwide coordination of Dalkia's operations in this activity. They are supported by an engineering structure dedicated to facilities management projects and a comprehensive customer service programme set up by Dalkia to deal with major accounts.

In the UK, Trillium FM and Symonds Consulting were sold, and major contracts were concluded with British Gas, the Chichester Hospital (under a 30-year Private Finance Initiative) and the Welsh Assembly. The facilities management business is also being developed throughout Europe and in Latin America.

Business outside France

Net sales increased sharply again in 1999 (by approximately 12% on a like-to-like consolidation basis) despite a reduced scope of consolidation. Operating income grew by 58%. At the end of 1999, business outside France amounted to €1 billion and accounted for one-third of Dalkia's net sales and one-fourth of its operating income, and was generated mainly in Eastern Europe, the UK and the Benelux countries.

Eastern European countries offer the greatest growth potential for Dalkia. MST-Tek, in **Moravia**, now accounts for a very significant percentage of net sales from this region. Dalkia is also expanding in **Poland** in energy management for hospitals, heating networks and facilities management. The market has considerable potential, both in district heating (300 networks and 50,000 MW) and cogeneration (20% of the installed power capacity). Dalkia also consolidated its leadership in **Hungary**,

strengthened positions in **Slovakia** and **Romania**, and gained a foothold in the Baltic countries of **Estonia** and **Lithuania**.

In addition, Dalkia is pursuing cooperation with the EBRD aimed at funding capital expenditure needed to upgrade these countries' energy infrastructure through ESCOs (Energy Saving Companies). Over a three-year period, Dalkia's net sales in the region as a whole have been multiplied by 12, and totalled €200m in 1999. Operating income and net income have been multiplied by 24 and more than 30 respectively.

In the **United Kingdom**, Dalkia remains the leader in energy management and utility services (industry and hospitals). It is also gaining strength in facilities management, where the market remains highly competitive despite its growth.

In the **Belgian** market, where Dalkia has built a leading position, the business portfolio performed well. The facilities management contract with the Antwerp teaching hospital was renewed, and an industrial customer was added to the portfolio through a 15-year contract with SCA Hygiene & Products.

New contracts bolstered operations in **Germany**, particularly in facilities management and heating networks in the east of the country. In **Switzerland**, a 25-year concession was granted for a new heating network in the Greater Geneva area.

In **Spain**, highlights include the development of long-term energy management contracts and a significant start-up of cogeneration business with twelve ten-year contracts in the industrial and healthcare sectors. Dalkia businesses in **Italy** are in a recovery phase, and significant advances have been made with local authorities and hospitals. Taken together as the southern Europe area, Dalkia in Italy, Spain and **Portugal** has now reached breakeven and is positioned to seize future growth opportunities.

In **Sweden**, the acquisition of Telereit, which provides facilities management services in the telecommunications sector, has broadened the customer base of Dalkia FM AB. This subsidiary was initially formed in 1998 through the acquisition of 50% of Locum Drift, a company specializing in the maintenance of technical systems for hospitals in the Greater Stockholm area.

Positions in the **Asia Pacific** region depend on the upcoming privatization of heating networks (South Korea) and the con-

struction of chilled water networks (Malaysia/Singapore), which slowed down in 1999.

The most significant developments in Latin America occurred in **Brazil**, where major agreements on the provision of non-

core business services were entered into with shopping centres and in the industrial sector, through the acquisition of Climatec.

WASTE MANAGEMENT

Municipal waste management – Collection – Treatment – Recycling – Industrial waste management – Industrial cleaning – Pipe network cleaning

CONSOLIDATED KEY DATA

(in €m)	1999	1999 pro forma*	1998	1997
Total net sales	3,520.5	3,112.5	2,836.5	2,306.9
Net sales outside France	1,547.3	1,139.3	1,022.4	693.4
Gross operating surplus	618.9	525.3	495.4	354.7
Operating income	277.7	233.2	225.8	158.3
Gross cash flow	452.5	383.7	379.5	246.8
Capital expenditure and investment acquisitions	1,579.9	315.9	455.2	604.6

* 1999 consolidation scope, excluding major acquisitions.

Ranked number three worldwide in its sector, CGEA operates all its waste management business under the Onyx brand. CGEA is a partner to 70,000 industrial customers, which account for 60% of its net sales. Onyx is also the preferred partner of local authorities and serves 49 million people around the world. With a total workforce of 56,200 and consolidated net sales of €3.5 billion, up 24% compared with 1998, CGEA-Onyx is the only full-service operator in waste management.

With activities spanning the entire waste management chain, Onyx brings together a unique blend of multiple skills that enable it to offer customized solutions to all its customers.

The consolidation of Sarp and Sarp I in 1999 opens up prospects in the markets for liquid and toxic waste, and for pipe network cleaning.

In 1999, the various CGEA-Onyx companies:

- collected 25.5 million tonnes of solid, liquid and special waste in the household, industrial and commercial sectors;
- processed 33 million tonnes of waste through landfill or incineration, as well as through centres specially equipped to handle certain types of waste;
- recycled 3.5 million tonnes;
- composted and recovered for agricultural purposes 1 million tonnes;
- developed the industrial cleaning and flow logistics business.

Onyx's know-how is enhanced through personnel training at the Urban Environment Institute, which provides courses ranging from vocational training certificates to university degrees. The CREED (research and testing centre for the environment and waste) researches and develops new technologies designed to enhance service quality and broaden the company's offering. In 1999, Onyx spent more than €7.6m in research and development, and €24m in personnel training.

In April 1998, CGEA created the Barometer of Public Opinion on Protection of the Environment (BOPE). BOPE has conducted several surveys in France and elsewhere in Europe aimed at spotting trends that impact environmental service professionals.

The most recent survey revealed that Onyx has brand awareness of 32% and CGEA of 23%, the highest among French companies active in this field. Moreover, 59% of the French

population feels that the cost of household waste collection and processing is reasonable, and 47% thinks that private-sector businesses are in a better position to process and destroy waste, versus 33% in favour of municipal services.

Business in France

Net sales in France amounted to €1,973.2m, compared with €1,814.1m in 1998, an increase of 8.8%.

In response to the decision to reduce the VAT rate to 5.5% for selective collection of household waste packaging, local authorities entered into a large number of agreements with the packaging waste recovery company, Eco-Emballages, whose pricing scale was revised. Due to its solid experience and basic infrastructure, which includes 76 sorting centres, Onyx has been able to meet market demand. Over the last two years, the number of people in France provided with the Onyx selective sorting service has doubled, from 4 to 8 million inhabitants out of a total of 25 million who use such services.

In 1999, Onyx renewed 180 contracts (including Marseilles) and entered into 230 new ones. In May 1999, Onyx signed a 20-year integrated waste management services agreement with the authority responsible for the Nevers area. The contract provides for the construction and operation of new facilities including a materials recovery centre, a recycling centre, and a platform for dealing with clinker.

To satisfy the demands of industry and trade and offer both customized solutions and integrated services, Onyx structured its organization around industrial segments. The new organizational structure led to new developments, including a contract with Shiseido Orléans, and the extension of the framework agreement with Renault to the Flins plant, where a full range of services including industrial cleaning and logistics is being delivered. In addition, the French Army's Petrol Division awarded Onyx a contract for the collection and treatment of packaging used for hydrocarbons at its 900 military sites, and Motorola Toulouse awarded it a contract for integrated services.

Thanks to CREED's lead in the areas of research and technical support, Onyx won a first contract with Smurfit's Seine paper mill to recycle its pulp waste.

In Plessis Gassot (in the Greater Paris area), Onyx built the first French biogas-to-energy plant in 1999. The plant, which produces electricity out of biogas derived from the fermentation of landfilled waste, began operating in October 1999 on the class-II landfill site operated by REP, a subsidiary of Onyx. The plant supplies 85 million kWh per year to the Electricité de France network, enough to supply power to more than 30,000 people. Taking into account the recovery of biogas from the Mézières landfill by GRS Valtech, Onyx now provides more than 22 MW to the EDF network. Onyx has demonstrated that it is capable of operating large and small landfill sites alike.

In the industrial cleaning area, Onyx subsidiary Renosol won a contract to clean the Knorr plant in Strasbourg, renewed its contract for Percy hospital in Clamart, and signed a contract to clean 144 Marseilles metro cars.

Business outside France

In 1999, Onyx pursued expansion outside France. Onyx now operates throughout Europe, and in the Americas, the Middle East, Australia and the Asia Pacific region. During 1999, the group strengthened its region-based organizational structure in the aim of bringing decision-making centres closer to their markets. Net sales outside France totalled €1,547.3m, up 51.3% over the 1998 figure, and accounted for 43.9% of consolidated net sales in 1999.

Europe

In **Germany**, Onyx had net sales of approximately €81m. Internal growth remained strong in the industrial contracts area, where new integrated service management contracts were concluded, in particular with Ford and Mercedes.

In the **United Kingdom**, Onyx consolidated its leading position in all segments of the waste collection and processing business. The company's multi-service offer won it a number of

contracts with industrial customers, such as Ford Motor Company, Toyota, BP Hull and Esso, and with retailers, including Asda and Sainsbury's. Onyx Environmental Group was awarded a ten-year waste collection and municipal cleaning contract by the Charnwood Borough Council (153,000 inhabitants), and its waste collection contract with the city of Liverpool was renewed (460,000 inhabitants). Net sales generated in the United Kingdom in 1999 totalled €543.8m.

In **Central Europe**, Onyx opened a Warsaw regional office in 1999 covering Poland, the Czech Republic, Slovakia, Hungary and Slovenia. Present in this region since 1991, mainly through its Test industrial cleaning subsidiary, Onyx is seeking to develop operations further.

In **Portugal**, Onyx won the integrated services management contract for Ford plants and will begin operating the Oporto incineration plant at the beginning of 2000.

In **Norway**, the acquisition of Norsk Gjenvinning, the market leader in household and industrial waste collection, sorting/recycling and recovery, has enabled Onyx to gain a significant position in a country that is a standard setter in environmental protection.

North and South America

Onyx is the only full-service waste management operator in **North America**. The acquisitions made in 1999 strengthened its presence considerably in the world's largest market, where net sales amounted to €546.2m in 1999.

After acquiring the special and liquid waste businesses of Waste Management and the whole of Superior Services, Onyx has now reached the critical mass needed to expand in all areas of the waste management chain.

Superior Services manages 49 collection companies, 23 landfills, 20 transfer stations and 15 recycling units. It has a workforce of 2,800 and services more than 750,000 customers, including 370 municipal services contracts. Its business portfolio is evenly balanced between commercial and industrial customers (60% of net sales) and local authorities and consumers (40% of net sales). Onyx plans to play an active role in

the consolidation process currently under way in all its lines of operation in the US, while positioning itself as the only full-service operator, particularly for industrial customers.

In **South America**, all water and waste management operations were pooled in 1999 under the terms of the FCC-Vivendi agreement, and placed under the responsibility of Pro Activa Medio Ambiente. Year 2000 forecasts for all businesses put net sales at €412m, half from waste management operations. Onyx is presently strengthening its positions through waste collection and street cleansing contracts in Buenos Aires, Caracas and Bogota, where it services a total of 10.5 million people. It has also bolstered its position as an industrial operator in Chile, Argentina and Brazil through the acquisition of Intranscol, the industry leader, and acquired Resicontrol, a toxic waste industry specialist in Brazil.

Middle East

After acquiring Amnir in **Israel** in 1998, Onyx won many contracts in 1999, including contracts in Haifa and Cesare for the transfer and processing of household and industrial waste. At the end of the year, Onyx acquired Tamam, Israel's leading provider of household and industrial waste collection, transfer and landfill operations.

Asia Pacific

In **Australia**, Onyx subsidiary Collex is currently growing at a rate of 25% per year, generating 1999 net sales of about €136.8m. This is the result of both new contracts and the acquisition of new businesses. Today, with the exception of toxic waste management, Onyx operates in all its business activities in Australia.

Winning the waste collection contract for the city of Chennai (formerly Madras), with a population of 2,500,000, has given Onyx a significant position in **India**.

The acquisitions of Pur Chem in **Singapore** and Green Line in **Manila** have strengthened the position of CGEA-Onyx in the region and laid the groundwork for entering new markets, particularly Malaysia and South Korea.

TRANSPORT

Passenger rail transport – Urban and intercity passenger transport

CONSOLIDATED KEY DATA

(in €m)	1999	1999 pro forma*	1998	1997
Net sales	2,456.8	2,425.8	1,991.8	1,688.7
Net sales outside France	1,816.4	1,785.4	1,396.1	1,127.7
Gross operating surplus	181.7	178.4	144.4	96.7
Operating income	56.1	95.0	75.2	45.5
Gross cash flow	123.6	121.2	102.7	73.2
Capital expenditure and investment acquisitions	336.9	217.2	302.1	185.2

* 1999 consolidation scope, excluding major acquisitions.

CGEA Transport is Europe's leading private passenger transport operator. In 1999, CGEA Transport had net sales exceeding €2.4 billion, close to three-quarters of which were generated outside France. With 35,500 employees servicing more than 4,000 local authorities worldwide, the various business units of CGEA Transport carry one billion passengers a year by road and rail.

Active in all modes of transport, CGEA Transport is a full-service operator with strong innovative capabilities. These strengths enable CGEA Transport to meet all the needs of local authorities and industry.

CGEA Transport has long experience in road and rail transport, has conducted customer requirement studies for a number of years, and has in-depth knowledge of territorial development patterns in the regions it serves. These factors enable CGEA

Transport to combine many roles. It is a passenger transport manager that serves the needs of local authorities, and a service provider for industry.

An expert in the management of outsourced public services, CGEA Transport operates rail networks under a variety of regulatory conditions in Europe, Asia Pacific and, more recently, in the Middle East.

To help prepare for future changes in the way people make urban and commuter journeys, CGEA Transport set up Eurolum, a specialized research centre. Established ten years ago, the aim of Eurolum is to contribute to increasing passenger numbers on networks operated by CGEA Transport, to be at the cutting edge of technological changes that may impact the transport industry, and to develop new, environment-friendly modes of transport. Recent innovations include CGEA Transport's development of Taxibus, a taxi service for the price of a bus ride during off-peak hours, and Citel, an electric minibus servicing downtown areas.

For CGEA Transport, training and professional development is a top priority. Through the Urban Environment Institute, many of its employees have earned qualifications either through apprenticeship training or the validation of work experience.

Business in France

CGEA Transport is the leading private operator in the Greater Paris area and has a solid position in the French market, where it operates 80 urban and regional networks. Net sales gener-

Business sectors

Transport

ated in France in 1999 totalled €640.4m, versus €595.7m the previous year.

In 1999, CGEA Transport bolstered its presence in the Greater Paris area through the acquisition of Charpentier, a bus operator in the Yvelines Département, and STRAV/Poisson, a company whose routes are located at the outer limits of the network of the RATP, the Paris transport authority (metro and bus). With these two acquisitions, CGEA Transport increased business volume in the area by 20%. Another of the year's events was the opening of the A14 express route between Mantes and La Défense, to the west of Paris, and the renewal of its oldest contract, initially concluded with Saint Germain in 1926. CGEA Transport's year 2000 target is to hold a 50% share of all private-sector business in the Greater Paris area.

In December 1999, CGEA Transport was awarded a four-year contract for the Saint Etienne network, significantly strengthening its position in the Rhône-Alpes region.

The acquisition in the first quarter of 2000 of a significant portion of Via GTI's businesses will substantially increase CGEA Transport's scope of consolidation, making it the leader in the French market.

In the French rail business, 1999 was marked by particularly intense competitive bidding. CGEA Transport subsidiary CFTA renewed several contracts, including those covering the Guingamp-Carhaix and Guingamp-Paimpol passenger lines in Brittany, the passenger and freight contract in Provins, and a freight contract in the Nevers region.

Tourist lines confirmed their potential in 1999, particularly in the Alps (La Mure), the Pyrénées (Rhune) and Brittany (the Le Trieux steam line). The number of passengers on the La Mure line increased from 67,000 to 82,000 between 1998 and 1999.

Socorail, the subsidiary handling railway sidings for industrial customers, renewed contracts with Shell and Ugine, and set up a best practices exchange programme with DEG Industries, part of CGEA Transport's German subsidiary.

In addition to innovations such as Allegio and Taxibus, CGEA Transport is continuing efforts to create new services. In 1999, the Amiens network set up "Pass' sans contact," a contact-free

magnetic card for bus boarding access control. Eventually, this card will also be used as an electronic purse. In parallel, under the terms of a cooperation agreement with JC Decaux, CGEA Transport introduced the Pager Infobus within the Cannes network. The system informs passengers in real time of the actual arrival time of their bus.

Business outside France

In 1999, CGEA Transport stepped up expansion outside France, mainly in the rest of Europe and the Asia Pacific region. It now operates in 14 countries. This international growth is reflected in the increase in net sales outside France, which totalled €1.8 billion, 74% of CGEA Transport's consolidated net sales in 1999.

Europe

In the United Kingdom, Connex operates two commuter networks in London and Southeast England, which together account for 17% of Britain's passenger rail system. Connex is CGEA Transport's largest subsidiary. In 1999, it won invitations to tender launched by three different London bus lines. The re-negotiation process initiated in 1999 for the Connex South Central franchise could result in the extension of this contract.

In Sweden, CGEA Transport was awarded the contract to operate the Stockholm metro for ten years. With 2,500 employees, €183m in net sales and one million passengers transported daily, the Stockholm metro is one of the largest deals signed by CGEA Transport in the Scandinavian countries. The team that clinched the contract pooled the expertise of CGEA Transport and subsidiaries Linjebuss (Sweden) and Connex (UK). CGEA Transport was also awarded a contract in Sweden to operate three suburban tramway lines connected with the metro network.

In Norway, CGEA Transport acquired SOT, which handles urban and commuter transport as well as express and airport transport services in the Stavanger region in the southwest of the country.

This success validates the decision taken by CGEA Transport 18 months ago to develop a strong Scandinavian presence, as well as its strategy of offering a broad range of skills that can be exported across national borders in order to establish positions in countries where public transport services have been deregulated.

CGEA Transport strengthened its position in Eastern Europe by acquiring 40% of CSAD Bus Ostrava in the Czech Republic.

In Poland, CGEA Transport formed a holding company, CGEA Polska, to promote growth in road and rail transport.

In Germany, DEG began operating the rail line between Kaarst and Mettmann in the Düsseldorf region in late September using new Talent-type automated trains. DEG is also preparing to operate new networks in Schleswig-Holstein and Lower Saxony, which should be running by November 2000. In early August, DEG acquired a bus company in Schwäbisch Hallt in the Stuttgart region with 55 buses, 90 employees and net sales of €7.6m per year. Operation of the three Oberlandbahn rail lines in Bavaria got off to a difficult start due to the unreliability of the rolling stock.

In Portugal, the first North-South Lisbon commuter line was launched in August 1999. The “Fertagus,” managed by the CGEA Transport and Barraqueiro consortium under a 30-year concession, strengthens CGEA Transport’s position in Portugal. The 25-kilometre line, which crosses the Tagus river under the “25 April” Bridge, already transports 60,000 passengers a day, with a target of 150,000. With its partner Barraqueiro, CGEA Transport is currently the only operator in Portugal to combine road and rail transport capabilities.

Middle East

Through its subsidiary, Transport Ahdab, CGEA Transport strengthened the Beirut-Tripoli line in Lebanon – the only bus line that remained in service throughout the 18-year civil war. Acquiring this line has given CGEA Transport a beachhead in this high-potential region, from which it plans to open a link to Baalbek during the first half of 2000.

Asia Pacific

After entering the Australian market in 1998, CGEA Transport consolidated its position in 1999 by winning several major contracts. Today, CGEA Transport operates in all its business activities in Australia.

Already present in Perth with a portion of the city’s bus network, and in Sydney with the monorail and light rail system, CGEA Transport was awarded a 15-year contract to operate the Hillside rail concession in Melbourne in 1999. This concession, composed of 74 trains and 129 kilometres of track, carries 51 million passengers a year. Under the terms of the contract, CGEA Transport will replace a portion of the rolling stock and upgrade the entire infrastructure. The company has undertaken to increase the number of passengers by 64% over the term of the contract. CGEA Transport also acquired a bus company in the Sydney area.

In the Philippines, in May 1999, CGEA Transport began operating the network of the Fort Bonifacio new town under a cooperation agreement with urban developer FBDC.

FCC

Services – Construction – Cement – Property

CONSOLIDATED KEY DATA*

(In €m)	1999	1998	1997
Total net sales	1,876.0	983.2	—
Net sales outside France	1,876.0	983.2	—
Gross operating surplus	270.7	119.0	—
Operating income	190.5	74.5	—
Gross cash flow	204.1	122.9	—
Capital expenditure and investment acquisitions	436.2	883.4	—

* contribution to Vivendi.

FCC is one of the largest groups in Spain and is a leader in environmental services. FCC also operates in the construction, property and cement industries. The group is listed on the Madrid stock exchange. B1998, in which Vivendi acquired a 49% interest in 1998, has a 56.5% controlling stake in FCC. The remainder of the capital stock of B1998 is held by Ms Esther Koplowitz. The management of FCC is shared equally by its two shareholders.

Business in 1999

FCC's total net sales amounted to €3,828m in 1999, up 15.9% compared with 1998. Operating income amounted to €391m, or 10.2% of net sales. This corresponds to a 49.2% increase. FCC's net income amounted to €177m, a 78% increase.

Net sales outside Spain represented 10% of the total, an increase of 23.6% over 1998.

Services

FCC's service businesses cover the water and waste management sectors and represent 34% of total net sales. FCC leads the Spanish waste management industry. This year, because of the transfer of Vivendi's incineration and toxic waste businesses, FCC covers all segments of this market. The highlights of 1999 include the renewal of the waste collection and municipal cleansing contracts for Barcelona and Badalone, as well as the extension of the selective collection contract for Madrid.

In water, FCC's business increased by more than 140% due to the inclusion of Vivendi's Spanish subsidiaries. Excluding the impact of this measure, internal growth was approximately 9%. The acceleration of the privatization process in the sector, which started about 18 months ago in Spain, creates a very bright outlook for this business.

Business in services outside Spain increased 80%. In total, 14% of sales are now made outside Spain. The main contracts awarded to FCC were from the Dominican Republic and Colombia. In addition, FCC took over the international business it was managing through a joint venture with Dragados, following the termination of cooperation agreements between the two groups.

Also in the services sector, FCC operates in urban environmental services, which include in particular businesses in street furniture, transport and parking space management.

Construction

Construction is one of FCC's original core businesses. In 1999, construction contributed 48% of total net sales, compared with 54% in 1998. The Spanish market remained buoyant, and FCC's net sales in this sector increased by 1.3% to €1,677m. However, net sales made outside Spain decreased 2.3% in particular because of the termination of the joint venture agreement with Dragados in this industry, with Dragados assuming the entire order book.

In order to support future expansion in capital-intensive service businesses, it is planned to reduce FCC's stake in FCC Construction, while retaining control of this business.

Cement

Through Portland Valderrivas, FCC is the second-ranking player in the Spanish cement market. This subsidiary experienced strong growth in 1999 (+38%). This is partly explained by increasing demand (+12%) but also by the full-year impact of the acquisition at the end of 1998 of the Cementos del Atlantico cement plants in Andalusia which complete Portland Valderrivas' geographic coverage of Spain.

In order to grow and diversify, Cementos Portland acquired through a friendly takeover at the end of 1999 all shares of Giant, a US company. This €290m transaction is expected to increase Portland's production capacity to 9.6 million tonnes. Furthermore, synergies with activities in the US should lead to productivity gains.

Property

Net sales for the property sector amounted to €125m in 1999, a 19% increase. At the end of the year, the order book amounted to €184m, a 24% increase compared with December 1998. These figures reflect the buoyancy of the Spanish market where FCC is one of the main players.

However, FCC engaged in a divestment and deconsolidation process with respect to the property business. An agreement was reached in 1999 with Caja de Madrid, under which the two groups will merge their property businesses into a joint entity over which they will have equal control.

This new company has total assets of approximately €890m with 2000 net sales estimated at €250m and with a profit margin of approximately 10%. This company is to be listed in the near future. Each of the main shareholders will retain an interest of around 15-20%.

Diversification

Grucyrsa is a source of diversification for FCC. This company includes businesses in logistics, a fast-growing market that expanded by 32% during 1999, as well as financial investments and a development project managed jointly with Barcelo, a Spanish hotel group, and the BBVA bank, and involving the management of 13 hotels in Spain and Mexico.

Outlook

In Spain, FCC's outlook is excellent in its traditional core businesses and in particular in the services sector. In addition, the alliance with Vivendi should enable FCC to move into new business sectors, in particular industrial services, and to expand outside Spain, mainly in Latin America.

Outside Spain, FCC and Vivendi have created a joint subsidiary, Proactiva, grouping all activities in environmental services in Latin America. Over the next few years, this region is expected to see strong growth in services, due to the level of needs that remain unsatisfied in the water and waste management sectors.

TELECOMMUNICATIONS

Fixed telephony – Mobile telephony – Internet access

CONSOLIDATED KEY DATA

(in €m)	1999	1999 pro forma*	1998	1997
Total net sales	4,103.6	4,081.6	2,886.3	1,618.3
Net sales outside France	23.5	—	—	—
Gross operating surplus	1,358.4	1,356.3	671.5	331.3
Operating income/(expense)	335.4	340.0	19.6	(187.8)
Gross cash flow	984.6	984.6	670.6	1,462.7
Capital expenditure and investment acquisitions	2,496.8	1,039.7	1,437.8	1,664.9

* 1999 consolidation scope, excluding major acquisitions.

Against the backdrop of a boom in the telecommunications industry driven by growth in new markets and the positive impact of gradual deregulation, Cegetel once again recorded strong growth in 1999. Total net sales increased from €2.9 billion in 1998 to €4.1 billion in 1999, up 42% on the strength of internal growth alone. For the second year in a row, Cegetel generated operating income. At €351m, the 1999 amount was up sharply over the previous year's total of €23m. At the same time, Cegetel substantially increased its customer base, from 5 million at the end of 1998 to nearly 9 million at the end of 1999. These figures position Cegetel as one of France's largest service businesses. The year's highlights included higher than initially forecast growth in the number of mobile telephone customers and the attainment of targets set for the long-distance fixed telephone business. In addition, Cegetel consolidated its organizational structure and asserted its presence in the business market by successfully diversifying into the public sector, acquiring key customers in the manufacturing sector and developing integrated solutions.

Cegetel's expansion in 1999 must be analysed within the larger context of growth in the telecommunications industry in France, driven by two main trends. The first is the very rapid growth of mobile telephony in France, which added 9.4 million new customers in one year. Numbers rose from 11.2 million people equipped at the end of 1998 to more than 20.3 million at the end of 1999, a 33.8% penetration rate. The second major trend is the increasing volume of data transmissions, due in particular to the explosive development of the Internet. Data traffic, which hardly exceeded 10% of the French telecommunications market in 1998, doubled in 1999 and should reach 70% by 2003. In 1999, Cegetel consolidated its position as the leading private telecommunications operator in France and is extremely well positioned in the two market segments that are driving the industry's growth. Active in the mobile telephony market since 1987, in the last two years Cegetel has become the top-ranking private player in recently deregulated markets such as fixed voice telephony, data transmission and Internet access. Cegetel's share of the French telecommunications market, which stood at 11% at the end of 1998, increased steadily throughout 1999 to reach 15%. This growth was achieved despite the arrival of new players in the consumer long-distance telephone services market and in the Internet access and business telecommunications markets.

Mobile telephony

For SFR, 1999 was another year of strong growth. Net sales grew 37% to €3,720m, compared with €2,708m in 1998. Its customer base increased 74%, from 4.2 million at the end of 1998 to 7.3 million at the end of 1999. The pace of growth picked up

considerably in 1999, with SFR adding 3 million new customers, compared with 2 million in 1998. This achievement is all the more impressive given the intense competition between the three French telephone operators reflected in an unprecedented price and promotional war. In 1999, SFR maintained a significant share of the subscriptions market, which generates higher revenues than prepaid services. SFR also strengthened its position in the small office/home office (SO/HO) market (SFR Pro), and was thus able to maintain average revenues per customer that were markedly higher than those of its competitors.

From a commercial perspective, innovations introduced in 2000 included the Walkphone, the first mobile telephone with an integrated radio function.

The doubling of the evening and weekend calling time included in flat-rate packages was extended to all subscriptions and to Entrée Libre prepaid formulas. It was also one of the main features differentiating the SFR offer in 1999. One of the commercial highlights of the year was the development of SFR partner networks. At the end of 1999, there were 500 Espaces SFR stores in France, mainly in town centres, and 50 Aloha stores in principal shopping centres. At the end of 1999, the Espaces SFR stores were awarded the Services Certification Label, a first in the distribution of telephony services in France.

SFR continued its significant capital expenditure programme in the aim of strengthening its network capacity to keep pace with its growing customer base. The €889m in capital expenditure was principally invested in the network, which was again considerably strengthened to increase coverage and above all capacity, particularly in large cities, where SFR began using the 1800 MHz frequency band in addition to the 900 MHz band it already operated. Overall, network capacity increased 50% in one year with more than 8,700 antennas covering 98% of the French population and 82% of the French territory. Efforts made to improve the quality of the SFR network were recognized in the 1999 survey conducted by ART, the French telecommunications regulator, which placed SFR far ahead of the other two operators, with the best ranking in 65 of the 92 criteria used. SFR obtained the best score for the market as a whole in both peak hour and off-peak hour service, under most of the circumstances surveyed – whether outdoors, in

buildings or on trains and, in particular, on TGV high-speed trains.

SFR customer services, integrated into a dedicated structure (Cegetel Service), were again strengthened in 1999. They now employ 2,500 people working from four locations, with ad hoc support from outsourced services. They handle more than 200,000 calls per day.

SFR also strengthened its expertise in information systems, allocating additional human and other resources to meet market growth. These systems have been adapted to an increasingly diversified offer and to growth in prepaid formulas that can be re-credited in real time. All information systems and network equipment proved to be Y2K compliant, since Cegetel largely anticipated risks related to the millennium bug by setting up a special €30m programme in 1997.

Fixed telephony and Internet access services

In the new markets for fixed telephony and the Internet, which were deregulated two years ago, Cegetel achieved 1999 net sales of €317m, up 110% compared with 1998 despite the emergence of many new players.

This expansion was accompanied by very strong growth in traffic routed by the long-distance fixed network of Cegetel's subsidiary, Télécom Développement (TD). At the end of 1999, TD's traffic reached a volume of 29 million minutes per day (+120% in one year) with a 99.99% service availability ratio comparable to the quality levels of the best international operators.

Measuring 16,000 kilometres at the end of 1999, a 2,000-kilometre increase compared with 1998, TD's network is now connected to 176 local France Télécom switches located over the entire French territory, compared with only ten the previous year. Further progress was made in 1999 to hook up the TD network with the various Cegetel networks (the SFR mobile network, the data network and local loops maintained by Cegetel Entreprises). The TD network now constitutes the

Business sectors

Telecommunications

backbone of all telecommunication services offered by Cegetel.

Consumer services

In the consumer services market, the sales momentum of the “7” fixed-line service was bolstered by particularly attractive pricing in comparison with France Telecom (a 20-30% reduction on average), innovative pricing (7 Pro and off-peak hour and weekend prices for consumers), elimination of the subscription system, and the introduction of a prepaid telephone card. The percentage of indirect sales through distribution channels significantly increased in 1999 and partly explains the sharp increase in the number of lines in operation at the end of the year. The increase was also due to the development of joint offers and services between SFR and the “7” (Privi 7) and by the attractive pricing of fixed calls to SFR mobile telephones for business customers.

In its first 18 months of existence at the national level, the “7” service asserted itself as the main challenger of the public telephone operator in an increasingly open market where some 60 operators are now active. The “7” had 1.5 million lines at the end of 1999, compared with 600,000 one year earlier, and 1,000,000 customers, against 400,000 at the end of 1998.

Overall, the “7” almost tripled net sales in 1999, from €51m in 1998 to €143m one year later. At the end of 1999, the “7” had taken approximately 8% of the consumer market for long-distance phone services (6% of the residential market and 12% of the business market).

In the area of consumer Internet services, the customer base of AOL CompuServe France (a 55% subsidiary of Cegetel and Canal+) increased 42%, from 310,000 at the end of 1998 to over 440,000 one year later. AOL CompuServe France held on to its position as the public telephone operator's major challenger despite particularly intense competition. In 1999, the launch in France of free Internet access services altered the playing field considerably. AOL CompuServe France adjusted its offer by proposing “all-in packages” including both the cost of calls and Internet access. Lastly, AOL CompuServe France teamed up with NC Numéricâble to offer high-speed Internet access via cable to certain of its customers.

Business services

In the business telecommunications market, Cegetel strongly increased net sales in 1999, reaching €175m compared with €107m in 1998 (not including mobile telephony services). At the end of 1999, Cegetel Entreprises had 26,000 customer sites for voice services and 7,800 customer sites for data services, compared with 14,900 and 3,500 respectively at the end of 1998. Cegetel Entreprises pursued efforts to integrate mobile services into its offer (via SFR Entreprise) in response to business customer demand for integrated fixed/mobile pricing, and has developed new integrated telecommunications solutions. Net sales of business mobile telephony services grew sharply, to €270m, included in SFR's total net sales.

In 1999, Cegetel Entreprises improved the balance between its telephony and data transmission services, with an increase in data that includes its Internet and intranet access services. In addition, Cegetel Entreprises enlarged its offer to encompass all telephony services, including local telephony, by using corporate local loops. At the end of 1999 Cegetel covered a large part of the central and western business districts of Paris and nearby suburbs and also offered services in Lille and Lyons.

At the same time, the data transmission network has been developed and now includes 140 access points in France. Cegetel Enterprises broadened the scope of its offer by developing a fuller range of freephone numbers used in particular by call centres, which constitute a fast-growing market, and by laying the groundwork for an e-commerce business.

Cegetel Enterprises won significant contracts in 1999 for fixed telephony (7 Entreprise), as well as for data services and the Internet. The quality of its offers has been recognized by customers that have signed major contracts, such as Aérospatiale, Manpower, Usinor, Paribas, Eurotunnel, France Télévision and the Paris hospital authority. Cegetel Entreprises has also developed services and solutions for local authorities, including the Lille and Marseilles municipal authorities. The year was also marked by the introduction of real innovations in the convergence of fixed and mobile telephony, and in telephone/Internet services. They include an Internet-based telephone service that routes, free of charge, telephone calls

between a company's various sites in France using Cegetel's data network under an Internet protocol, and a "mobile intranet" that allows users to access their company's intranet from their mobile phone.

Cegetel subsidiary Cegetel.rss continued the technical and commercial rollout of RSS, an intranet network for French health professionals, under a concession awarded by the government authorities. In 1999, efforts to improve the network's technical reliability led to a significant increase in the service availability ratio and efficiency. In the second half of 1999, these improvements helped the commercial development of the RSS network, which at the end of the year had more than 12,000 users, with approximately 60 hospitals and clinics connected throughout France. The first contract covering the health institutions of Mâcon was concluded with the municipal authorities, and the first cooperation agreements were signed with key players and manufacturers in the health industry.

Human resources

Recruitment continued at a sustained pace in 1999, particularly at Cegetel Service, which maintains direct relations with customers. Its workforce increased by 46% to 2,873, in line with the increase in the number of customers. At December 31, 1999, Cegetel had 7,943 employees (average age 32), compared with 7,000 one year earlier. As early as July 1999, Cegetel implemented the 35-hour workweek before it was required by French law, and launched an in-house programme called "Chorus" to consolidate the Cegetel management style based on common benchmarks, practices and values.

Lastly, after setting up an incentive scheme in 1998, Cegetel pursued the same policy in 1999 by entering into a profit-sharing agreement that enables employees to benefit from the growth of the business.

Outlook

In 2000, Cegetel is expected to enjoy strong growth. In addition to market share targets, efforts will be focused on the quality of services and winning customer loyalty. The French mobile telephony market will continue to expand at a steady rate, spurring growth at SFR, which aims to gain at least as many new customers as it did in 1999. SFR should be able to maintain its market share through aggressive marketing and further efforts to build customer loyalty.

The Year 2000 will be critical for innovation, with the development of Internet applications for mobile telephones. SFR will continue to develop its offer of voice servers and Internet services for mobiles. The company will launch high-speed Internet services on mobiles using the GPRS standard, which allows for much higher transmission speed than the current GSM standard. SFR also plans to apply for a UMTS licence, and will pursue an ambitious capital expenditure programme to maintain the competitive edge provided by the quality of its network.

In 2000, the "7" service is again poised to post a strong increase in the number of customers. More generally, all Cegetel's fixed telephony activities are likely to expand with the introduction of automatic switching for subscribers at the beginning of 2000. Individuals and businesses that opt for this facility will be able to use Cegetel's long-distance services without having to dial the prefix 7. This feature will further simplify market entry, thus encouraging competition. Carrier selection for fixed calls toward mobiles should also become widespread in 2000, facilitating use of the "7" service. Other significant regulatory decisions should be taken in 2000 by government authorities with respect to the access of private operators to the French local call market, whose economic importance has increased substantially with the growth of the Internet. Cegetel is ready to play a major role, given the likelihood of the adoption of an unbundling policy announced by government authorities for the end of 2000. To prepare for this change, Cegetel launched an experiment in high-speed

Business sectors

Telecommunications

Internet access for the network of Monaco Télécom, a Vivendi subsidiary, in November 1999.

In the business and SO/HO markets, Cegetel Entreprises is poised to pursue strong growth, bolstered by the impact of the offers launched in 1999. Cegetel also applied for a national radio licence for the high-speed wireless local loop, a technology it had already tested in 1999. The licensing decision, which will be made at the end of the first half of 2000, should make it possible to roll out rapidly a comprehensive high-speed service offer in approximately 100 large French towns.

As announced in January 2000, Vivendi and Vodafone AirTouch have agreed, under certain conditions, to allow Vivendi to acquire from Mannesmann, an additional 7.5% stake in Cegetel. At December 31, 1999, Cegetel's shareholding structure was as follows: Vivendi (44%), British Telecom (26%), Mannesmann (15%) and SBC (15%). Vivendi has a pre-emptive right on Cegetel shares held by its partners.

PUBLISHING AND MULTIMEDIA

Publishing – Multimedia – Audiovisual activities – Cinema

CONSOLIDATED KEY DATA

(in €m)	1999*	1999 pro forma**	1998	1997
Total net sales	4,469.3	2,823.3	3,078.4	47.3
Net sales outside France	1,716.4	755.4	840.9	23.5
Gross operating surplus/(deficit)	467.0	290.6	365.6	(6.7)
Operating income/(expense)	216.2	248.9	243.9	(10.9)
Gross cash flow	1,211.4	982.1	380.6	437.4
Capital expenditure and investment acquisitions	5,363.0	95.4	1,634.6	1,620.4

* including Canal+ fully consolidated for three months.

** 1999 consolidation scope, excluding major acquisitions.

Vivendi's publishing, multimedia and audiovisual activities underwent sustained growth in 1999, with a 45.2% increase in net sales over one year. Havas, which is among the leaders in all its activities, continued to refocus on information and publishing content, and strengthened its operations outside France. Canal+, owned 49% by Vivendi at the end of 1999, confirmed its European leadership in the pay television sector, with almost 14 million subscriptions, of which more than half are outside France. The merger with Pathé in September, immediately followed by the sale of its cinema business, enabled Vivendi to take a 24.5% stake in BSKyB after purchasing the shares held by Granada and Pearson.

Publishing and multimedia

Havas is present in 40 countries* and offers a very broad spectrum of products and services, ranging from press publications to Internet, book publishing, trade shows and CD-ROMS, and spanning the fields of information, education, knowledge and entertainment.

Havas is a player of the first rank in all its businesses. The group is one of the world leaders in the multimedia industry, and is the leader in Continental Europe in educational and reference work publishing, and free sheets. In France, it ranks first in the general literature and trade information markets, as well as in book distribution.

In the last two years, Havas has refocused its operations on information and publishing content in the broader aim of re-organizing its various businesses into a seamless and complete whole.

Havas pursued efforts to restructure throughout 1999, selling off many non-core assets. Businesses sold include its outdoor advertising business comprised of Avenir, HMC Transports and Claude Publicité (to the JCDecaux group); Havas Régies (to the pool of press publishers working under contract with Havas Régies); and Havas Média Hebdomadaires (to the France Antilles group). In addition, by selling 9% of its shareholding in Havas Advertising to international institutional investors, Havas reduced its own equity interest to 20.7% while remaining the

* not including Havas Advertising.

Business sectors

Publishing and multimedia

pivotal shareholder in the world's fourth largest communications consultancy.

In less than two years, Havas has invested €1.5 billion to strengthen its position in core businesses. In 1999, it initiated a friendly takeover bid on Barbour Index Plc, the UK trade information group. Other acquisitions in 1999 include full equity ownership of Doyma, the top-ranking publisher of medical journals in Spain, through the purchase of shares owned by Bertelsmann; full equity ownership of Aique, the third largest educational publisher in Argentina, through its subsidiary Anaya; full equity ownership of MediMedia, an international group specializing in medical information; a 50% equity interest in the Brazilian publishers Atica and Scipione through a joint venture with Abril; and full equity ownership of NiL Editions, a French publisher of general literature.

Havas had net sales of €3.3 billion in 1999, of which 40% were generated outside France, and operating income of €340m. In two years, the operating margin has increased from under 4% to 10%.

With 20,000 employees and 300 subsidiaries and brands, Havas operates in four major languages: English, Spanish, Portuguese and French.

Trade information

With 80 press titles, 60 trade shows and 10 specialist imprints, the Trade Information segment has a leading position in France and has recently gained leading positions in several other European countries. Havas is integrating the new technologies into its content resources in the twofold aim of becoming the standard Internet source for trade professionals and building up its service offer in the most promising markets.

Havas MediMedia, a medical information specialist, includes such publishers as MediMedia, Masson, Doyma, OVP-Editions du Vidal and Quotidien Santé. MediMedia, acquired in August 1999 to extend Vidal's international reach, has operations in nearly 35 countries including Germany (Gelbe Liste), Asia and Australia (MIMS), Italy (L'Informatore Farmaceutico), Spain

(Vademecum), Switzerland (Compendium) and the United States.

With net sales totalling €300m, of which 60% are generated outside France, and 1,800 employees, Havas MediMedia is among the world's leading providers of medical information. A global player in this field, Havas MediMedia delivers consistently high quality and up-to-date information to healthcare professionals through a full range of products and services. Its general medical press offering provides much-needed insight into medical news and relevant issues for the profession (*Le Quotidien du Médecin*, the leading medical daily in France with a circulation of 82,000; *Jano*, leading weekly publication in the Spanish medical press; *Medico* in Italy, etc.). Through its specialist medical press, the proceedings of learned societies and innovations in international research are circulated discipline by discipline (*Compendium*, *Journal Français d'Ophthalmologie*, etc.). Havas MediMedia also publishes books and journals (Masson and Doyma); dictionaries and pharmaceutical databases (Vidal and MIMS), which are increasingly available via electronic media, CD-ROMs and online; and administrative management tools for medical practices and pharmacies (IMES, OMF and Thesaurus Vidal-SEMP in France, Triple i in the United States, Prescribe in Belgium, MIMS Script in Australia, etc.). Lastly, Havas MediMedia organizes trade shows, including Médec, Intermédica and Thermalies.

Havas Business Information operates in several sizeable markets: information technologies, industry, construction, lifestyle and local authorities, retail and distribution, agriculture and agribusiness, and the law. The Havas Business Information sub-segment currently employs 2,500 employees and earns net sales of €580m per year.

Havas Business Information includes trade press publishing specialists (Moniteur, Usine Nouvelle, LSA, France Agricole and Tests in France; The Builder Group/SPL and Barbour Index in the UK; Agepe in Italy; and Cetisa-Boixareu in Spain); book publishers (Dalloz and Dunod in France who, along with Editions du Moniteur, have a catalogue of more than 5,000 print works and CD-ROMs and publish more than 400 new titles and editions each year); and trade show organizer Exposium (60 trade shows, including 10 outside France). Many

“hard copy” products have now been digitized and made available on CD-ROM or online.

With the acquisition of Barbour Index in 1999, Havas became the leading publisher of reference information for trade professionals preparing specifications for the UK construction industry. Most of the titles or products issued by Havas Business Information lead their market: *01 Informatique* is the top-ranking IT publication in France, and its Web site is among the online leaders there. *Linea EDP* has the same ranking in Italy, while *Le Moniteur* (in France) and *Building* (in the UK) are the undisputed leaders of the construction industry trade press.

Many new publications were launched in 1999: *LSA Marques*, LSA’s “custom magazine” published bimonthly; *Nouveaux Produits Nouveaux Marchés*, a weekly newsletter; *Emballages Magazine*, a newsletter; special issues such as *L’Usine Nouvelle Biotech* and *Biotech Infos*, a newsletter; the *Guide de l’Industrie* and numerous Web sites such as *marchesonline.com*, *agrimonline.com*, and so on.

The *General Information* sub-segment includes the business and financial information activities of the Expansion group, the trade shows and publication of the L’Etudiant group, news magazines (*L’Express*, *Courrier International* and *Le Vif-L’Express* in Belgium), and Comareg’s free sheets (*Bonjour*). With a workforce of 4,000, annual net sales from these brands currently total €650m.

The business and financial publications have recently gone online with highly practical and innovative sites (*18h.com*, *lexpansion.com*, *business-solo.com*). In 1999, *L’Etudiant* went international, creating the first trade show in Europe to be held in a number of locations. Havas also bolstered its positions in the management and young graduate employment markets in 1999 by acquiring full ownership of *Job Rencontres* through *L’Express* and *L’Etudiant*. *Courrier International* sales have increased by 30% since its new format was introduced in January 1999.

The Trade Information segment will continue to take advantage of external growth opportunities, focusing in particular on consolidating its operations outside France. The Internet is its top priority in the years ahead. Havas seeks to attain online leadership in all areas where it now has strong positions in

traditional media. It also plans to assert its presence internationally in business areas best suited to the Internet (recruitment, health, finance, IT, etc.), while entering new segments to refresh its publications product offer. In addition to the e-projects conducted by its subsidiaries, the Trade Information segment will concentrate on five main projects in 2000: recruitment, with *Cadres Online* (*cadresonline.com*); medical information, with the health portal *atmedica.com*; information technology, with *01net.fr*; finance, with *lavf.com*; and local services with *bonjour.fr*.

General Public

Havas is a dominant player in the educational and entertainment markets, with 50 paper and media imprints. The General Public segment has posted rapid growth in the last 15 months, and nearly 60% of net sales are now generated outside France, in four languages: French, English, Spanish and Portuguese.

Havas is intensifying its search for cooperation agreements that will step up international development, strengthen its Internet presence and secure its position as the leading electronic bookseller in French-speaking countries in the short term.

Havas Interactive Inc. houses all general public multimedia businesses. Since the acquisition of Cendant Software, Havas has become the second leading provider of game software for PCs, with brands such as *Sierra* (*Caesar III*, *Pharaon*, *Gabriel Knight 3*, etc.) and *Blizzard* (*Starcraft*, etc.). It is one of the global leaders in online games with *Won.net*, a site for Web surfers seeking high-quality entertainment, and *Battle.net*, the largest online game service worldwide, which in 1999 recorded up to 60,000 simultaneous connections. It is number two worldwide (number one in Europe) in educational interactive programmes, such as *Knowledge Adventure* (*Classworks*, etc.) and *Coktel* (*Adi*, *Adibou*, *Katego*, etc.), and number three worldwide in “how-to” programmes with *Sierra Home* (the *Artist*, *Master Cook* and *Generation ranges*, etc.).

The *Havas Interactive Inc.* sub-segment publishes products in ten languages. It currently employs 3,600 people and has net sales of €540m per year.

Havas Interactive Inc. plans to use the Internet to promote its successful Adi and Adibou products and to strengthen its advantage in the co-publishing of children's educational books, with Nathan and Bordas, and in the reference book market, with Larousse (Kléio), Le Robert and Harrap. Havas Interactive Inc. also seeks to exploit all possible synergies with the various business units of Havas, Vivendi and other operators in the aim of becoming, in the short term, the global leader in interactive content for all media (CD-ROM, DVD-ROM, playstations and Internet).

In the first quarter of 2000, Havas Interactive Inc. plans to expand the target audience for Won.net by launching a similar European Web site and services tailored to the German, French and UK markets.

Havas Education et Référence (HER) comprises high-profile educational, academic and reference publishers such as Nathan, Bordas, Retz, Galée, Clé International, Armand Colin, Sedes, Le Robert and Larousse in France; Anaya, the first-ranking educational publisher in Spain with 20% market share; Aique in Argentina; Atica and Scipione in Brazil; and Chambers, Harrap and Kingfisher in the UK.

The business portfolio is divided into three areas:

- schools and the full range of educational tools used by teachers;
- at-home learning, non-core educational activities and tools designed to help parents support their children's schooling; and
- general knowledge, which aims to maximize access to information.

With net sales of €515m and 2,600 employees, HER is the leading educational and reference publisher in Europe. In France, it covers the entire school market and has a market share of nearly 40%. HER is the top-ranking academic publisher in literature and social studies.

HER is extending its operations outside France: with a workforce of 1,300 in Latin America and net sales in excess of €92m, it is well positioned to serve the needs of the Spanish- and Portuguese-speaking populations, which will number in excess of 580 million by 2010.

Havas is now the leading publisher of general literature in France, offering a full range of publications that encompass all literary genres, from novels and non-fiction to how-to books, books for adolescents and comic-strip books. Havas includes prestigious publishers such as Robert Laffont (4,000 titles, including the Ramsès series), which has acquired the editorial resources of publishers Fixot and Seghers (narratives and poetry), and Julliard (novels and short stories by young writers). Acquired in 1999 by Robert Laffont, NiL publishes novels, general non-fiction and reference works, along with the well-known Quid almanac. Other well-known Havas publishers include Les Presses-Solar-Belfond, which publishes best-sellers by English-language and French authors as well as detective stories, and also includes the activities of Pré-aux-Clercs (documents and non-fiction, gourmet food, art books, etc.); Omnibus and Hors Collection; Plon-Perrin (non-fiction, documents, novels and history); La Découverte and Syros (social studies and social sciences, educational works); and Les Presses de la Renaissance. Popular paperback imprints include Pocket, 10/18 and Fleuve Noir. Together, under the Havas Poche banner, these publishers sold 16 million copies in 1999. With the establishment of ePocket at the end of the year, Havas Poche is now equipped with a unit specializing in the design of editorial lines for electronic media.

With 450 employees, the Literature sub-segment posts net sales of €170m per year.

The *Book Club and online sales* business is structured around France Loisirs, the undisputed leader in its market, with 28 million books sold each year to nearly four million members, and BOL France. These companies are held under a 50/50 joint venture agreement with Bertelsmann. bol.fr, an online bookstore launched in 1999, offers a selection of 400,000 books published in France, with customized options and worldwide delivery services. In December, bol.fr opened and began selling music online, offering an international catalogue of 100,000 CD-ROMs.

Distribution

Havas Services makes one of the industry's most effective marketing and distribution structures available to publishers

that belong to the Havas group and to partner publishers. Through InterForum, Havas Diffusion Internationale, DIL, Comptoir du Livre, Presses de Belgique, and its subsidiaries in Switzerland and Canada, Havas Services markets and distributes general literature publications.

Through InterForum and Livredis, Havas Services handles the logistics of distributing books and multimedia products in 130 countries. Havas Services also manages the back-office functions of BOL France. The objective of Havas Services is to branch out into other markets and products (telephony, etc.). With world-class automated platforms for storage and order processing, information systems able to handle 75,000 references and 15,000 customer accounts, and the ability to issue 1.8 million invoices a year, Havas Services is equipped with the best logistics set-up in France.

In the third quarter of 1999, Havas Services announced the creation of a digital printing tool integrated into the distribution network. Known as Bookpole, the facility is located in Malesherbes and is managed under a cooperation agreement with Maury Imprimeur. Eventually, Bookpole will make it possible to produce books on reader demand rather than having to keep book stocks. Using the most advanced technologies, Bookpole will offer a broad range of integrated distribution and production services and will make a major contribution to digitizing the book supply chain.

Audiovisual activities

Canal+

Canal+ (pronounced Canal+) is the European leader in pay TV, with recognized know-how in programme production and pay services (premium channels, theme channels, services and Web sites), the provision of paid services to subscribing viewers (subscription management and customer loyalty schemes), and in technology (access control, interactive features, secure payment, etc.).

From its inception, Canal+ has consistently stayed ahead of the major changes that have swept through the audiovisual indus-

try. It is now the top player in the European pay TV market and the only one with operations in 11 European countries. Canal+ was the first pay TV operator to understand the value of digital technology and to offer digital packages in several European countries. This pioneer spirit has enabled Canal+, in all countries of operation and business lines, not only to withstand the competitive pressures from new players in the pay TV market, but also to strengthen its leading position.

Canal+ diversified early on into upstream activities such as production, acquisition of broadcast rights, and the making and distribution of film, television, video and multimedia products.

With net sales in excess of €3.3 billion Canal+ had more than 13.6 million subscriptions at the end of the year, a net increase of 2 million compared with 1998.

A leading pay TV concept in 11 European countries and Africa

In 1984, Canal+ launched the first French pay TV channel, built on the notions of exclusivity, novelty and original programming. Canal+ programming was focused on recent film releases and sports events.

On the strength of its success with pay TV in France, Canal+ began exporting its original concept to new markets in 1989, teaming up with domestic partners with a high profile in media industries. Soon thereafter, awareness of the Canal+ brand grew in countries such as Belgium (1989), Spain (1990), Germany (1991), Africa (1991) and Poland (1995). In 1997, Canal+ extended its international reach by acquiring the channels of NetHold, the third-largest European pay TV group. Canal+ converted to its own premium channel format the pay TV channels owned by NetHold in Flanders, the Netherlands, Sweden, Norway, Finland, Denmark and Italy (Tele+).

In June 1999, Canal+ signed an agreement with the National Football League in France giving the channel the right to broadcast the French Championship for a further five-year period. Canal+ subscribers have enjoyed access to French Championship matches for 15 years now. Publicity generated by its coverage of the championship and its first-time coverage

of the Champions' League, as well as the Rugby World Cup, boosted new subscriptions and kept the cancellation rate at the satisfactory level of below 9%. In 1999, Canal+ recorded the highest number of new subscribers since 1989. At the end of the year, the Canal+ portfolio counted nearly 4.6 million subscriptions to its premium channel, with more than one-quarter using digital technology.

Outside France, and despite often intense competitive pressures in some countries, Canal+ turned in an exceptional performance in 1999, adding 1.6 million new subscriptions (net of cancellations). Overall, Canal+ had nearly 7 million subscriptions outside France at the end of 1999.

The introduction of new pay TV offers in Spain has boosted the market. The Canal+ premium channel was particularly strong throughout 1999, ending the year with a net gain of 173,000 subscriptions, compared with 129,000 in 1998. With 800,000 subscriptions, the CanalSatelite Digital programme package consolidated its leading position in 1999, and now has 70% of the digital market. In June 1999, Sogecable and Telefonica entered into an agreement granting co-exclusive broadcasting rights for Spanish Football Championship League and Copa del Rey matches. Until the 2008-2009 season, these matches will be broadcast under both programme and service packages on a pay-per-view basis. Sogecable, which houses all business operations of Canal+ in Spain, was listed on the Madrid Stock Exchange. Subsequent to this, Canal+ and Prisa reduced their equity interest in Sogecable to 19.74% each, compared with 25% earlier.

In Italy, the Tele+ portfolio grew sharply in 1999, with more than 500,000 new subscribers registering for the premium channel. For digital services, the number of subscribers already exceeds 900,000, attesting to the quality and diversity of the D+ digital package. In 1999, six theme channels produced by RaiSat specifically for D+ were added to the digital package, and two new channels were initiated in January 2000: Wishline, dedicated to luxury and elegance, and Milan Channel, entirely devoted to the Milan AC football club.

The leading European developer of theme channels with 25 channels broadcast in 14 countries

Thanks to its extensive experience in content development, Canal+ invested early on in the creation of theme channels in France. Such channels focus on a particular theme or viewer segment, complementing the offer of the conventional general-interest channels and the premium channel. They have grown in line with the development of off-air reception and digital technology. Some of these channels target the French viewing public, such as Demain!, which specializes in employment, and i télévision. The first news channel offered by Canal+, i télévision was launched on November 4, 1999.

Other channels have been developed for export to other European countries through a subsidiary, Multithématiques. These theme channels, reformatted and adapted for the various countries, are currently broadcast in Spain, Poland, Germany, Switzerland, Belgium and Italy. Through Multithématiques, Canal+ is the only market player able to provide the various digital programme and service packages with a series of diversified and high-quality programmes. Multithématiques has become the top-ranked producer of theme channels in Europe, with 25 channels in 14 countries. The number of subscribers has grown from 3.1 million in 1995 to 14 million at the end of 1999.

Since 1999, the CinéCinéma channel has been available in Scandinavia as part of the Canal Digital package and on selected cable networks, and will soon be available in the Benelux countries. In Germany, Planète and Seasons reaped the benefits of the increase in the number of subscribers to the Premiere World platform.

Under the terms of an agreement entered into in January 2000, Lagardère is to acquire a 27.4% equity interest in Multithématiques, with Canal+ maintaining 27.4%. Lagardère will contribute its project to develop channels based on its international brands. The channels in question will be developed by joint ventures in which Multithématiques and Lagardère will each have a 50% stake.

In addition, the two groups will combine their expertise into two companies, one of which will develop and sell theme

channels and the other interactive services. The transactions will involve an increase from 19% to 49% of the equity interest held by Canal+ in a company that develops and sells mostly French-language theme channels (MCM, Canal J and Muzzik) for the purpose of developing channels on the basis of Lagardère's special themes (children, music, people and life-style); and the establishment of a company, in which Lagardère and CanalSatellite will own 51% and 49% respectively, to develop and sell interactive services based on Lagardère media content.

The European leader in digital TV with 4 million digital services subscribers

In April 1996, Canal+ launched CanalSatellite Numérique, the first digital programme and service package in France and in Europe. It now offers more than 200 channels and services. An exclusive cooperation agreement was entered into whereby French football star Zinedine Zidane will lend his image to the CanalSatellite package, and in particular to the Foot+ channel. Under the terms of this agreement, Zinedine Zidane will participate in the scheduled programming of Canal+ and Foot+ as well as in the Canal+ and CanalSatellite Web sites, where he will be interviewed by site visitors or dialogue with them.

ForumBoutique, CanalSatellite's virtual shopping mall, had around 15 shops at the end of 1999, including FNAC Direct, which sells videos, books, CDs, CD-ROMs, and previews and premium offers. Pikto Rezo, the first European network game, was launched as part of the CanalSatellite Jeux offer, which includes eight games and attracts more than 2 million players a month. New and particularly innovative services will be offered to subscribers in 2000 as part of a full-service package providing home banking and personal investment management (featuring access to personal bank account information, stock prices and market trends), e-mail messaging, home betting and a new classified ads service.

With 1.4 million subscriptions at the end of December 1999, CanalSatellite is the largest European digital programme and

service package. CanalSatellite generated positive cash flow in 1999.

In January 2000, Lagardère acquired a 34% equity interest in CanalSatellite when it purchased the shareholdings of Vivendi and Warner, plus 4% directly held by Canal+.

Through its subsidiaries or with partners, Canal+ has also developed various digital cable and satellite offerings in Europe. At the end of 1999, they counted over 2 million subscribers and included CanalSatellite Digital in Spain, D+ in Italy, Canal Digital in the Scandinavian countries, Cyfra+ in Poland, CanalDigitaal in the Netherlands and Le Bouquet, launched in January 1999 in Belgium.

The top-ranking provider of digital technology in Europe

Canal+ is the only French group to have set up an in-house technological research centre to develop digital access control devices (MediaGuard) and interactive systems (MediaHighway) based on open international standards such as DVB in Europe. MediaGuard and MediaHighway are marketed worldwide, and have been purchased in the UK since 1998 by ONdigital, the world's first operator of terrestrial digital television. Under an agreement concluded in February 1999 with MediaOne, the third largest US cable TV operator, Canal+ Technologies developed, in record time, the first interactive television system in the US based on open technology. This platform, available since December 1999 on the MediaOne network in Jacksonville (Florida), uses versions of MediaGuard and MediaHighway customized for North America.

In 1999, other operators rolled out digital platforms using the systems developed by Canal+ Technologies, including Zee Network in India and the Jupiter cable TV network in Japan, under a cooperation agreement with Pioneer.

At the end of 1999, 4.5 million digital terminals were using the technologies developed by Canal+.

In December 1999, Canal+ Technologies became a wholly-owned subsidiary of Canal+, for the purpose of setting up a sales infrastructure designed to respond to market growth and customer requirements.

Subsidiaries operating in production, distribution and management of film and programme broadcast rights

This sub-segment pools and coordinates the production and broadcast rights management subsidiaries that were brought together under Canal+ Image in December 1998.

- Le Studio Canal+ groups film production activities. It co-produces a variety of films that reflect the richness and diversity of French and European cinema and participates in the financing of international films.
- Ellipse Programme is one of the largest audiovisual production companies in France, and one of the principal European producers of animated cartoons. The company offers all kinds of programmes, and produced more than 500 hours in 1999, including fiction, cartoons, documentaries, games and magazine-type programmes.
- After acquiring the Carolco catalogue and UGC DA, Canal+ Image International and Canal+ DA together own the largest catalogue of audiovisual broadcast rights in France and the second largest in Europe based on the number of programmes and the scope of broadcast rights. Canal+ Image International owns more than 5,000 French and foreign films including, for 3,500 films, the right to broadcast in several countries and 3,300 hours of television programmes. The Canal+ Distribution subsidiary markets these rights.
- Ellipse Licence manages derivative rights of a number of programmes. Canal+ Video markets Canal+ programmes and recorded films, while La Bande Son publishes original soundtracks of films.

In 2000, new partners will invest in the Subsidiaries sub-segment, and an IPO is also under consideration.

Canal+ at the heart of the Internet

Canal+ became involved in developing online and multimedia services very early on, launching its own Internet site in August 1995 (www.canalplus.fr). The site, one of the most popular in France, attracts nearly 1 million visitors a month, who view 20 million pages.

In September 1999, Canal+ formed Canal Numedia to develop and exploit synergies between the various Web sites created by Canal+ business units in Europe. Canal Numedia, Cegetel and Havas are now pooling their resources within Vivendi.

UGC

UGC is among the major players in the European film industry, and is active in three core business areas: cinema operation, cinema advertising contracting, and film production and distribution.

In 1999, UGC Ciné-Cité acquired full ownership of Virgin Cinemas's in the UK and Ireland. The acquisition concerned nearly 300 cinemas that account for 15% of the UK film market. Most of the cinemas are of a comparable type to those of UGC Ciné-Cité.

The Virgin cinemas were acquired for a total of £215m (€328m). They are spread over 34 different locations in England, Scotland and Ireland. With 16 million admissions, the network earns annual net sales of €137m.

Following this acquisition, UGC has become Europe's leading cinema operator. UGC now has 700 cinemas that recorded 45 million admissions in 1999 in France, Belgium, Spain, the UK and Ireland, for total net sales of €305m.

With total admissions slightly in excess of 150 million in the French market, the 1999 performance lags slightly behind the exceptional results recorded in 1998. The medium-term trend remains buoyant due to increased investment, a prerequisite for boosting market share.

UGC's projects for 2000 include the opening of a new facility in Strasbourg, four new cinemas in Madrid and four new facilities in the UK.

In the advertising business, net sales grew once again. For the full year, the net sales of Circuit A will exceed €22.8m. The same trend is being observed in the various European markets in which UGC is expanding through its subsidiaries RMB and RMBL.

With net sales of nearly €47.3m in 1998, and a 1999 forecast of nearly €61.4m, partly due to strong performances from films such as *Les Enfants du Marais* and *La Fille sur le Pont*, UFD (UGC Fox Distribution) remains one of the leading domestic distributors in France.

CONSTRUCTION

Public infrastructure concessions – Mechanical and electrical engineering – Roadworks – Building and civil engineering

CONSOLIDATED KEY DATA

(in €m)	1999	1999 pro forma*	1998	1997
Total net sales	8,903.0	8,202.0	7,886.2	8,009.0
Net sales outside France	3,534.9	3,034.9	2,774.4	2,733.0
Gross operating surplus	428.3	342.1	271.0	223.5
Operating income/(expense)	175.7	126.0	82.4	(3.5)
Gross cash flow	463.0	405.8	208.1	343.0
Capital expenditure and investment acquisitions	1,026.3	207.8	297.5	204.0

* 1999 consolidation scope, excluding major acquisitions.

In 1999, its last year within Vivendi's scope of consolidation, SGE posted a record performance as its far-reaching restructuring programme began to pay off, as did efforts to introduce greater contract selectivity and to reposition in high value-added businesses. As a result, the group was able to take full advantage of the business recovery in its core markets, primarily located in Europe.

All its business lines — concessions, installations, roadworks, and building and civil engineering — contributed to producing record high operating income of €175.7m.

Despite a highly selective order-acceptance policy, net sales increased by 12.9%, mainly due to an increase in roadworks business and the external growth strategy conducted in 1999.

In February 2000, Vivendi sold 34.3% of SGE's capital stock to reduce its stake in the company to 14.9%.

SGE's business portfolio comprises concessions, equipment, roadworks, and building and civil engineering. These four businesses are all profit-making.

The relatively balanced contribution of these businesses to net sales can be attributed to the combined effect of the decision to focus growth efforts on high value-added business areas (concessions, equipment and roadworks) and the more selective approach to order acceptance adopted with respect to industries where margins are impaired in the long term (public building projects and major projects).

SGE earns 95% of its net sales in Europe, including nearly 60% in France, 18% in Germany and 8% in the UK. Sales volume is rising in Eastern Europe, mainly in Poland, the Czech Republic, Hungary and Romania. SGE is the largest European construction group.

Elsewhere, SGE has operations in more than 100 countries through Freyssinet's outstanding network, and has a strong presence in French-speaking Africa. In addition to servicing its established customer base, SGE also participates in major construction projects in regions such as the Middle and Far East.

Business in 1999

SGE recorded net sales of €8.9 billion in 1999, up 12.9% over 1998. This increase is due to the widespread economic recovery in virtually all European markets and to the impact of an external growth policy that, over a full year, will boost net sales by €1 billion.

To achieve its goal of attaining steady gains in profitability, SGE continued to be highly selective with respect to low-margin businesses, while expanding in high value-added businesses. In 1999, it acquired Teerbau, the largest German roadworks business, and Sogeparc, the largest parking space operator in France and the second largest in Europe. In addition, SGE acquired companies operating niche markets such as fire protection (Calanbau and Mecatiss) and geotechnical engineering (Ménard Soltraitement).

In its core markets, and primarily in France and the UK, SGE was lifted by the general turnaround in the economy, in sharp contrast to the recession prevailing in the construction industry since the beginning of the 1990s. Efforts to refocus all businesses on private-sector and industrial customers enabled SGE to take full advantage of improved business conditions. In line with the repositioning strategy in place for several years, SGE's growth has been driven less by public infrastructure budgets and more by growth in new market segments such as renovation, refurbishment and maintenance, and by the businesses tied to new information and communication technologies.

Elsewhere, particularly in emerging markets, SGE's businesses are being adversely impacted by the shortage in project financing and by new competitors that do not offer satisfactory safety guarantees. The only sources of profitability under the circumstances are the established customer base and business where SGE's technical know-how secures an exclusive position (e.g. underground work and specialist civil engineering).

Concessions

Founded in the early twentieth century, SGE was originally involved in the management of rail lines and power plants under outsourcing contracts. More recently, the company has developed a large portfolio of concessions to operate infrastructure.

Cofiroute, the only private highway operator in France, manages the road network in the west of the country. It is the cornerstone of SGE's concession business and a major source of recurring profit. In 1999, Government authorities awarded Cofiroute the concession, design and construction of the underground loops of the A86 highway west of Paris, thereby putting an end to a series of legal difficulties that delayed the project for 18 months.

Lusoponte, which operates the two bridges spanning the Tagus in Lisbon, provides a recent example of the integrated approach of the group, which handled the design, construction, funding and operation of the Vasco da Gama Bridge. Both bridges have proved highly successful, with traffic exceeding forecasts by 30%.

The Prado Carénage tunnel, which opened to traffic in 1993, has turned a profit for the second year in a row due to heavy traffic.

For its first accounting period of operation, which was 18 months, the Stade de France stadium in Paris generated a net profit.

SGE, which has been a major player in the parking space business since the 1970s, strengthened its position in this sector by launching a takeover bid on Sogeparc, the European leader with almost 400,000 parking spaces. The bid, which was initiated on July 19, 1999, gave SGE a 97.75% equity interest in Sogeparc as of September 30, 1999. Through its consolidation within SGE, Sogeparc will be able to step up European growth by building synergies with affiliates outside France.

The concession business contributes just over one-fourth of SGE's net income.

Mechanical and electrical engineering

ELECTRICAL ENGINEERING AND WORKS

With net sales of approximately €1.8 billion and 18,000 employees, GTIE is a major player in electrical power equipment and infrastructure. However, an increasing percentage of net sales (more than 40%) is earned in the fast-growing data processing and communications markets, where GTIE integrates engineering and network construction services.

Managed in decentralized fashion, GTIE has nearly 500 profit centres positioned mainly in private-sector markets in France (85% of net sales), Germany (7% of net sales), the UK and the Netherlands. GTIE enjoys steady growth driven by the diversity of its markets.

GTIE is poised for significant expansion in Europe once the takeover bid launched on Emil Lundgren is completed in early 2000. The Swedish company is a specialist in similar business lines and its network of affiliates in Scandinavia, the Netherlands, Poland and Hungary offers an excellent business fit.

The establishment in 1999 of GTIE International, a unit whose objective is to manage international operations, will also support the growth of GTIE.

In particular, GTIE International will bring together the operations of Controlmatic, a German subsidiary whose recovery appears sustained, and those of the Dutch and UK subsidiaries, which continue to post steady growth.

While continuing its policy of supporting its traditional domestic customers outside France, GTIE also plans to pursue external growth opportunities in Europe, with particular emphasis on Eastern Europe. In France, GTIE has once again shown itself to be a flexible and responsive organization, with net sales up 7.6% to €1.53 billion.

In 1999, GTIE's contribution to SGE's net income improved.

THERMAL AND MECHANICAL ACTIVITIES

SGE's thermal and mechanical businesses — industrial thermal engineering, air conditioning, heating, insulation and fire protection — generate net sales of around €1 billion a year. These businesses pursued efforts previously initiated to reposition in high value-added market segments, particularly in niches such as specialist fire protection.

Primarily conducted in Germany through G+H Montage and Nickel, and in France through Tunzini, Wanner and Lefort Francheteau, these business activities are also expanding in Eastern Europe out of the German subsidiaries.

SGE Environnement, which develops turnkey contractor processes and expertise in waste processing and recycling, posted strong growth in 1999. There were several major orders for incineration plants in mainland France (primarily in Besançon and Pontmain), Turkey and Martinique.

In the years ahead, the need to bring waste processing facilities into compliance with new European regulations should provide a boost to SGE Environnement.

Through acquisitions in the specialist fire protection industry (Calanbau in Germany, and Mecatiss and Vracco in France), Sophiane should strengthen its leading position in the European fire protection market.

The thermal and mechanical businesses earned net sales of €1.05 billion.

Roadworks

In 1999, the roadworks business generated net sales of €2.15 billion.

Eurovia, whose scope of business has been mostly limited to France, undertook a major external growth initiative in May 1999 when it acquired Teerbau, the leading German roadworks company. With operations spread throughout Germany and business activities that span both materials production and works, Teerbau will step up Eurovia's expansion in Eastern Europe.

The profile of VBU, a German roadworks subsidiary acquired in the early 1990s, offers an excellent business fit with Teerbau. VBU turned its business around in 1999 after a major restructuring effort.

In France and Germany, Eurovia's strength is based on its expertise throughout the industrial chain, and its role in both materials production and roadworks.

Eurovia is involved upstream, in quarry operation and the production of road-surfacing coatings and binders, and downstream, in road and highway construction, urban roads and other networks, and the installation of industrial flooring.

Since Eurovia's business primarily involves small, recurring projects that are not particularly affected by cyclical downturns, net sales in France increased 7%, due to positive business and weather conditions.

Eurovia pursued its strategy of strengthening industrial and geographic positions in France, and stepped up expansion in Eastern Europe through acquisitions in Poland and the Czech Republic, the development of a branch office in Slovakia and the launch of a major road project in Romania.

In 1999, the contribution of the roadworks business to SGE's net income increased.

Building and civil engineering

Historically, building and civil engineering has been one of SGE's primary lines of business. In 1999, it accounted for 41% of total net sales, which represents a reduction of its contribu-

tion from 46% to 41% after external growth initiatives were undertaken to rebalance SGE's business portfolio.

SGE is a key player in the building, hydraulic engineering, and standard and specialist civil engineering industries in France and elsewhere through a network of well-established subsidiaries. Campenon Bernard SGE has a strong position in the market for major construction and infrastructure projects. Sogea does business in mainland France, the French overseas departments and territories, Africa, the Benelux countries, and the UK (through Norwest Holst). Freyssinet, an expert in cabled structures, structural repairs and geotechnical engineering, earns three-quarters of its net sales outside France.

The building and civil engineering business is conducted mainly through subsidiaries Campenon Bernard SGE, Sogea, Norwest Holst and Freyssinet. Over the last few years, the focus of the business portfolio has shifted from public-sector programmes and major civil engineering projects to a mix dominated by industrial and private-sector customers and smaller-scale projects.

As the traditional building trade has seen the arrival of more and more companies, SGE's business units have pursued two key strategic directions: they have adopted risk management and a selective approach to order acceptance, and have focused on high value-added contracts that highlight SGE's areas of expertise.

This twofold strategy has led to a significant reduction in public building and civil engineering projects and an increase in building renovation projects, maintenance and specialist civil engineering.

In France, the market remains conditioned by depressed public-sector funding. However, there has been a recent upturn in the economy due to a surge in private-sector capital investment.

The civil engineering business went into a slump after completion of the TGV Southeast high-speed train project, which was not been followed by another major project. Conversely, the building market has picked up sharply due to tax incentives offered to spur private investment in housing, and also because of capital investment in the industrial sector.

In Germany, business conditions remained very unfavourable and showed no signs of improving. Due to the gloomy outlook, SGE decided to pull out of the building sector and refocus on facilities management, where profitability is higher and long-term projections can be made.

In the UK, Norwest Holst took full advantage of favourable business conditions, and once again reported satisfactory income for 1999.

Campenon Bernard SGE handed over several major projects: Hilton hotels in Hanoi and Frankfurt, a TGV tunnel in Marseilles, a highway tunnel in Orelle, and the extension of line 2 of the Cairo metro. Parts of lines 2 and 3 of the Athens metro were accepted.

Following the new concession agreement between the French Government and Cofiroute concluded for the A86 highway loop, Campenon Bernard SGE will carry out a large volume of the underground works, an area in which it specializes.

Other substantial orders were placed in 1999, including a tunnel for the St Petersburg metro, an industrial facility in Kourou for ArianeSpace, and a water treatment plant for Générale des Eaux in Cheng Du. In addition, work began on the construction of the Hines Tower at La Défense.

In 1999, Campenon Bernard SGE also signed a contract to construct a fuel storage unit at Chernobyl that will make it possible to dismantle the four units of the nuclear power plant that were damaged in 1986.

Campenon Bernard SGE was also awarded the contract to construct a mill train in Ain Sukhna, the new industrial zone in Suez (Egypt), and on December 9, 1999 signed a contract to design and construct a railway tunnel on the "Betuwe line", the high-speed commercial line linking the Netherlands and Germany.

In 1999, Sogea continued to post very satisfactory growth in Africa. The increase in net sales was driven by rising oil prices, which are helping to fund new infrastructure projects.

With its subsidiary Satom, Sogea was selected in 1999 to construct more than 600 kilometres of road on the African continent, including the road between Bertoua and Garoua-Boulai in Cameroon.

In 1999, Sogea and Satom also entered into a contract to refurbish the Timbuktu airport in Mali.

Sogea was awarded several contracts in mainland France in 1999, including the construction of the Basle-Mulhouse and Vetry airports, the construction of the Verrières and Rauze viaducts, whose highest piers reach over 140 metres, and work on pipes in connection with the tramways being built in Montpellier, Orléans, Nancy, Nantes and Strasbourg.

In the French overseas departments and territories, Sogea Martinique handed over the Fort-de-France wastewater treatment plant in 1999, and at the end of the year began civil engineering work for the waste processing and recycling plant planned for the Centre area of Martinique.

Freyssinet strengthened its position as the world's leading specialist civil engineering firm, further enlarging its range of technologies by acquiring Terre Armée International and Ménard Soltraitement, two specialists in geotechnical engineering.

Freyssinet's expertise in the areas of cabled structures, geotechnical engineering and structural repairs is marketed through its international network of subsidiaries.

PROPERTY

Consumers – Commercial – Property assets and equity investments

CONSOLIDATED KEY DATA

(in €m)	1999	1999 pro forma*	1998	1997
Total net sales	1,686.0	1,686.0	1,818.7	1,444.6
Net sales outside France	87.1	87.1	63.7	89.6
Gross operating surplus / (deficit)	91.6	91.6	19.6	(122.3)
Operating income/ (expense)	36.8	36.8	(3.0)	(55.3)
Gross cash flow	(33.7)	(33.7)	127.3	75.3
Capital expenditure and investment acquisitions	306.5	306.5	84.4	123.8

* 1999 consolidation scope, excluding major acquisitions.

At the end of 1999, Vivendi and the CGIS management team launched a process aimed at bringing new shareholders in to Compagnie Générale d'Immobilier et de Services (CGIS). The rationale behind this move was to give CGIS the funds needed to ensure its growth.

Following a change in its scope of consolidation, CGIS currently has 3,600 employees and annual net sales in excess of €1,600m. CGIS is a full-service real estate company that develops products and services targeting both individual and corporate clients. Its real-estate development and services businesses contribute to creating the environment in which people live, work and pursue leisure activities. CGIS holds leading positions in its markets.

The operations of CGIS are organized into two branches:

- consumers: housing development, land development, management of holiday homes, and fitness centres;
- commercial real estate: office development, shopping centres, logistics hubs, engineering consultancy and project management, asset and property management, transactions, and equity holdings in shopping centres.

CGIS also has a dedicated subsidiary that holds equity interests in major long-term development projects (asset management and development programmes whose value and duration are such that they are managed jointly with other investors) and a dedicated subsidiary set up to enhance the value of certain assets that are part of Vivendi's long-term property holdings.

Consumer branch

CGIS is the principal player in the French consumer real-estate market, with net sales of €650m, 800 employees and a full-service offer.

Its housing development business is centralized within the George V subsidiary. In 1999, 7,200 housing units were reserved, compared with nearly 6,000 one year earlier, consolidating CGIS's position as the top-ranking French housing developer.

George V earns more than 83% of its net sales in the main home market, particularly prime accommodation in central Paris and well-located developments and major projects in the nearby suburbs. These developments are marketed under the Apollonia, Féréal and Seeri trade names. George V has also extended its business to holiday homes in coastal areas, with Univers de France, and serviced apartments, with Facotel.

Through Foncier Conseil, the top-ranking French land developer, CGIS sold more than 2,160 building plots in 1999.

CGIS ranks second in the French holiday property market, managing more than 85,000 beds under the brand names Maeva-Vacantel and City.

CGIS is the top-ranking French provider of fitness centres through its subsidiary Gymnase Club, which operates 35 centres (under the Gymnase Club, Vitatop, Waou and Moving trademarks), 140 clubs under franchise agreements (under the Moving trademark) and 18 corporate fitness centres.

The consumer branch has 2,600 employees and net sales of €830m.

Commercial real estate branch

CGIS is the leading European operator in the commercial real estate market. Through its specialist subsidiaries, CGIS offers customers, users and investors an integrated services package.

The development and ownership business is handled by subsidiary Sari Développement, which carries out building refurbishment projects, builds high-rises and also manages more traditional projects.

CGIS develops shopping centres (mainly in Europe) through Delcis, a joint venture with Marceau Investissement.

Through Coteba Management and its subsidiaries, CGIS is a prime player in the engineering and project management markets.

CGIS is also a key operator in the asset and property management markets through its subsidiary Sari Gestion, which manages more than 2 million square metres, including 20 buildings in the high-rise category.

The CGIS service offer is completed by Sari Conseil, which is responsible for commercial property transactions and marketing.

This branch has 800 employees and earns net sales of €235m, of which a large part is in fees.

Property assets and equity investments

Through its subsidiary dedicated to holding equity interests in large-scale projects and property asset enhancement projects, CGIS holds property assets at La Défense and in Paris in partnership with the Caisse de Dépôt et de Placement du Québec; in the Paris suburbs of Levallois, Issy-les-Moulineaux and Boulogne in partnership with Société Générale and Crédit Lyonnais; and under direct management in Marseilles (Les Docks, in the heart of the Euroméditerranée development project).

Asset enhancement

Vivendi has given its property subsidiary the task of managing and enhancing assets that do not fall within the strategic scope of CGIS (particularly in terms of the current introduction of new shareholders). These assets include several major long-term development projects, located in France at La Défense and on the Mediterranean coast and in Germany in Babelsberg, as well as real estate assets in Germany, particularly in Berlin, totalling 125,000 square metres of commercial property.

Business in 1999

For the property market, 1999 was a very buoyant year, marked by a positive economic environment. After a good year in 1998, the strong economy boosted the markets to levels that had not been seen since the crisis that hit the real estate sector in the early 1990s. Steady GDP growth in Europe, inflation contained under 1%, the trend toward lower unemployment, and low interest rates combined to ignite the property market beyond mere recovery. The operating environment was further supported by tax incentives intended to spur housing and service-sector development.

In the housing sector, the 285,000 housing starts reported in 1998 fell below durable market needs, which are estimated at approximately 325,000 units per year, even though household solvency improved and the tax environment is now favourable.

In 1999, the number of housing starts was likely to increase significantly.

In the commercial real-estate sector, long-term investors returned to the market in 1999: German funds became more active, and French insurance companies resumed their investments, while land development companies consolidated and merged. Crisis behaviour disappeared as demand recovered, transaction volumes picked up and premium property rents rose, leading to a reduction in inventories and a shortage of large surface areas. However, the inventory of old and obsolete office and warehouse properties is decreasing rather slowly, through ad hoc upgrading and conversion programmes.

In the consumer branch, George V had after-tax net sales of €848m in 1999, up 26% compared with 1998, plus €26m in property marketed on behalf of third parties. After three years of strong growth, net sales are expected to remain steady in 2000. In the main home market, the increase in net sales in the Greater Paris area was 21% in 1999, but the strongest increase was observed in the rest of France (53%).

Against this backdrop, Seeri teamed up with Sogeprom to co-promote the Eiffel Saint Charles programme in Paris. With 302 housing units, it is the largest housing programme in the city. Apollonia, a subsidiary specializing in comprehensive urban development projects, launched a programme in Villeneuve-La-Garenne with 254 housing units.

Overall, 6,500 housing units were sold in 1999, compared with 5,243 in 1998. This boosted operating income by 58% over 1998, to more than €40m. Approved and pending programmes currently total more than 1,800 units.

The decision to extend the Périssol tax incentive scheme until August 31, 1999 helped stimulate sales (more than 46% of 1999 sales were made under these arrangements). The Besson scheme, which has replaced the Périssol scheme, should have a positive impact in 2000.

Net sales from land development operations, through Foncier Conseil, increased by 22%, to €120m, consolidating the company's leading position in building plot development. Foncier Conseil sold 2,030 plots, stable compared with 1998.

In the holiday home management business, CGIS merged Maeva and Vacantel after buying out minority interests in Maeva. Net sales totalled €126m in 1999, an increase of 5% compared with 1998. With 85,000 beds under management, CGIS is the second largest player in this market in France. Although Maeva is mainly involved in the management of holiday residences in seaside and mountain locations (92% of overall business), it also manages serviced apartments located in the centre of major cities (up 27% over 1998) and a tour operator business (€17m).

In the fitness centre business, Gymnase Club recorded net sales of €50m, up 11% compared with 1998. The strongest increase was reported for clubs in the Greater Paris area, where clubs operating under the Waou trade name opened.

Overall, the consumer branch posted net sales of €825m in 1999.

In the commercial real estate branch, Sari Développement, the subsidiary specializing in development and ownership, handed over the 54,000 square metre Egée Tower in the Danton-Faubourg de l'Arche mixed development zone (MDZ) to Philip Morris, pursuant to the sale agreement concluded in 1996. Other handovers during the year include two 7,000 square metre buildings in Bordeaux and Paris. New projects launched in 1999 include, in partnership with Morgan Stanley, the refurbishment of property in Vincennes (9,500 square metres) and Paris (25,300 square metres), and the construction of a 15,400 square metre office building in the Seine Rive Gauche MDZ in Paris. In addition, Sari Développement, in partnership with Pitch, began the construction of an 11,500 square metre office building in the Montsouris MDZ in Paris.

All these projects were submitted for the approval of the CGIS commitment committee in order to ensure strict compliance with risk management standards and prudential regulations. The committee favours short-term operations that offer visibility on future profitability and joint participation in deals with major international investors.

Coteba recorded net sales of €52m in general project management, multidiscipline engineering studies and corporate organization consulting.

Business sectors

Property

During 1999, Coteba handed over many office and residential buildings after renovation or refurbishment. They include the headquarters of CGU France in Paris (53,000 square metres), three luxury buildings in Paris (14,000 square metres), and another building in Paris where work included adding two basement levels (13,700 square metres).

Coteba also handed over a 38,900 square metre industrial site for Hewlett-Packard at Villefontaine and a trading room with 600 work stations for the CIC bank. In addition, the company renovated several hotels in Paris and other parts of France.

In the area of asset and property management, Sari Gestion manages 170 properties in France, which generate €8m in fees, and manages 386 railway stations in the UK that are part of the network managed by Connex. Sari Gestion's business more than doubled compared with 1998, and it now has 70 employees working out of five sites in France and the UK. At the end of 1999, Sari Gestion established Sari Management, an asset management specialist. Sari Conseil's sales and transaction activities generated fees of €3m in 1999.

Through its subsidiary Delcis, CGIS developed and sold a shopping centre in Prague that includes an 18,000 square metre hypermarket, a 40,000 square metre shopping arcade, 12 cinemas and 2,000 parking spaces. The centre is scheduled to open in 2001.

In 1999, the commercial real estate branch reported net sales of €235m.

Property assets and investments

Equity investments made by CGIS in asset-enhancement programmes include a 37% interest in five buildings in Levallois (total surface area: 70,500 square metres), a 57% interest in an 18,241 square metre building in Issy-les-Moulineaux, a 55% interest in a 19,000 square metre building in Boulogne, and full ownership of a real estate complex covering 64,000 square metres in Marseilles.

CGIS also has a 10% equity interest in Sovabail.

These equity interests generated income of €76m in 1999.

As part of its ongoing efforts to refocus on core production and service businesses, CGIS disposed of several assets and businesses for a total amount of more than €1.9 billion. This follows disposals of €2 billion between 1995 and 1998.

In April 1999, Compagnie de Formation (net sales of €30m and 490 employees) was sold to Compagnie Financière de Chézy, thereby enabling CGIS to pull out of this unprofitable non-core business under favourable terms.

In July 1999, the 55,000 square metre Ariane Tower, the 33,400 square metre Michelet Galilée building, and the seven buildings comprising the Les Villages real estate complex (57,300 square metres) were sold to the Unibail group for a total amount of €508m.

At the end of the year, Unibail also acquired Carrousel du Louvre from CGIS (net sales of €10m and 20 employees), which includes 8,800 square metres of retail outlets and 7,500 square metres of conference and exhibition facilities, as well as the related management company. Other holdings sold to Unibail include the CNIT complex at La Défense (net sales of €60m and 410 employees), a 176,000 square metre property comprised of offices, retail outlets, a hotel, and conference and exhibition facilities, as well as the related management companies; and La Colline de La Défense (net sales of €3m and 22 employees), a 16,000 square metre building housing a museum, restaurant and cinema, as well as the related management companies. This transaction raised a total amount of €266m.

In November 1999, CGIS sold all the shares it had held since 1997 in Foncia, a property management company with net sales of €110m and 1,600 employees, to the majority shareholder due to a dispute with the latter. This transaction does not call into question the growth strategy that CGIS is pursuing in this area.

In December 1999, CGIS sold its individual home construction business (net sales of €300m and 1,700 employees), which it considered a non-strategic business asset, as part of an MBO with the 12-person management team and Barclays Private Equity. As part of this sale agreement, CGIS was granted exclusive rights to market the Phénix process outside France for a ten-year period (except in certain EU countries). With 7,400 home sales, the individual home construction business

grew 16% due to the sound positioning of its catalogue of homes and the development of the sales network.

In December 1999, the entire hotel business of CGHS (net sales of €150m and 950 employees), as well as the property and goodwill of 40 hotels (including 33 two- or three-star hotels under the Libertel trademark, four 4-star hotels in Paris and three 5-star hotels outside France under the Westin Demeure trademark) were sold to a consortium comprised of Accor, Blackstone and Colony for a total amount of €466m. Over the full year, the CGIS hotel business increased its net sales by 8% compared with 1998, attributable to a significant improvement in the occupancy rate and the average price per room.

In December 1999, building rights for 202,000 square metres of office space in the Danton mixed development zone in the Paris suburb of Courbevoie were sold to SITQ, in association with Lucia (Colony Capital) for a total of €213m.

Throughout 1999, various property assets totalling 180,000 square metres were sold for a total amount of €276m.

After refocusing in 1999 on its production and service businesses in the property sector, and defining its strategy in the consumer and commercial real estate markets, CGIS plans to introduce new shareholders in 2000, at which point the company will change its name.

Consolidated Financial Statements

Five-year consolidated financial summary

(in millions of euros)	1999	1998	1997	1996	1995
Net sales	41,622.5	31,737.1	25,476.6	25,293.4	24,843.3
Net sales outside France	17,829.3	10,313.0	8,204.8	7,793.0	7,212.2
Gross operating surplus	5,235.0	3,453.0	2,144.2	2,003.8	1,795.1
Operating income plus net financial income/(less net financial expense)	2,060.3	1,340.7	294.2	218.2	(306.3)
Exceptional items	(837.8)	249.3	878.6	139.8	(208.4)
Goodwill amortization	612.0	209.5	374.7	146.8	155.6
Minority interest	5.3	212.2	(115.1)	(56.4)	(194.0)
Net income/(expense)	1,431.4	1,120.8	822.1	297.7	(562.0)
Earnings per share	2.7	2.5	2.1	0.8	
Shareholders' equity	14,944.6	10,263.2	8,589.0	5,960.7	5,521.8
Long term capital	43,927.5	27,854.5	22,005.1	18,132.2	18,017.8
Total fixed assets	45,340.9	26,072.6	20,810.4	19,098.4	18,377.9
Gross cash flow from operations (including net gains on disposals of fixed assets)	4,950.6	3,827.8	3,570.5	1,748.7	1,035.4
Net cash flow from operations	4,280.6	3,529.9	1,449.7	1,148.5	742.4
Capital expenditure and acquisition of investments	21,480.0	7,506.7	5,561.9	2,476.6	2,540.2
Net debt	22,832.6	6,502.1	4,177.0	6,874.6	7,875.7
Number of employees	275,000	235,610	193,300	217,300	221,157

- Average number of shares in 1999: 529.6 million shares
- Earnings per share from 1996 to 1998 have been recalculated to take into account the three-for-one split of the Vivendi share

It is not possible to make a direct comparison between net debt in 1998 and 1999. As of December 31, 1999, this amount includes:

- the debt related to the acquisition of GPU by Sth Energies. GPU was sold back at the beginning of 2000 for €1.7 billion.
- consolidation of investments which have either been included for the first time in the scope of consolidation (Berlin for €1.2 billion) or whose status has changed during the year (Canal+ for €2 billion).

Conversely, the amount as of December 31, 1999 does not include the effect of the reduction of the debt as a result of sales initiated in 1999 and completed at the beginning of 2000 (GPU, SGE, CGIS, CanalSatellite) for €4.3 billion. These sales reduced net debt to €18.5 billion including €4.55 billion in convertible bonds.

(in millions of francs)	1999	1998	1997	1996	1995
Net sales	273,025.7	208,181.7	167,115.6	165,913.8	162,961.1
Net sales outside France	116,952.5	67,648.8	53,819.7	51,118.6	47,309.1
Gross operating surplus	34,339.4	22,650.2	14,064.5	13,144.2	11,775.1
Operating income plus net financial income/(less net financial expenses)	13,515.3	8,795.1	1,929.8	1,431.3	(2,009.2)
Exceptional items	(5,495.6)	1,635.3	5,763.6	917.0	(1,367.4)
Goodwill amortization	4,014.5	1,374.2	2,458.0	962.8	1,020.8
Minority interest	34.8	1,391.8	(754.9)	(369.8)	(1,272.5)
Net Income/(expense)	9,389.4	7,352.2	5,392.5	1,952.7	(3,686.3)
Earnings per share	17.7	16.1	13.7	5.3	
Shareholders' equity	98,030.0	67,322.4	56,340.2	39,099.6	36,220.4
Long term capital	288,145.6	182,713.8	144,344.2	118,939.9	118,188.8
Total fixed assets	297,416.9	171,025.0	136,507.0	125,277.7	120,551.1
Gross cash flow from operations (including net gains on disposals of fixed assets)	32,473.8	25,109.2	23,420.8	11,470.9	6,791.8
Net cash flow from operations	28,078.9	23,154.9	9,509.7	7,533.8	4,869.7
Capital expenditure and acquisition of investments	140,899.6	49,241.0	36,483.9	16,246.0	16,663.0
Net financial indebtedness	149,772.1	42,650.9	27,399.3	45,094.4	51,661.5
Number of employees	275,000	235,610	193,300	217,300	221,157

• Average number of shares in 1999: 529.6 million shares

• Earnings per share from 1996 to 1998 have been recalculated to take into account the three-for-one split of the Vivendi share

MANAGEMENT REPORT

Highlights of the year

A. Main acquisitions

During 1999, Vivendi enjoyed buoyant growth, both internally and externally. Businesses acquired in 1999 had net sales of nearly €6.5 billion and were mainly concentrated in the water, waste management and multimedia sectors. These acquisitions were mainly carried out in the United States and Europe.

As regards the **water sector**, at the end of April 1999, Vivendi acquired control of USFilter, a US group which is the leading global treatment manufacturer of water equipment and systems. USFilter has been consolidated into Vivendi's financial statements as from May 1, 1999. Over this eight-month period, net sales of USFilter included in Vivendi's financial statements amounted to nearly €3,601m.

The **waste management** business sector developed in the United States with, on the one hand, the acquisition from Waste Management of certain toxic waste businesses (this agreement was completed at the end of the second quarter of 1999) and on the other hand the acquisition of a controlling stake in Superior Services after a take-over bid which succeeded on July 15, 1999, at a cost of €932.2m. These acquisitions represent nearly €360m in additional net sales.

In **telecommunications**, Vivendi acquired indirectly through its subsidiary Vivendi Télécom International a 51% interest in Monaco Télécom. The final agreement was signed at the end of the second quarter and accordingly Monaco Télécom is accounted for by the equity method for a seven-month period in 1999, with net sales totalling €45m.

At the end of the year, Vivendi entered into an agreement with Elektrim in order to create a joint venture company which will control PTC, the Polish mobile telephony operator, and Polish cable operator Bresnan. With an investment totalling \$1.2 bil-

lion, Vivendi will hold 49% of this new entity, consolidated with effect from 2000.

As regards **audiovisual activities**, Vivendi increased its interest in Canal+ by acquiring the 15% interest held by Richemont in exchange for Vivendi shares. Vivendi currently owns 49% of the first-ranking European pay-TV channel which is now fully consolidated. Also, Vivendi acquired a stake of nearly 25% in BSKyB through its merger with Pathé SA and through acquisition of the interests previously held by Granada and Pearson. All other assets held by Pathé SA have since that date been sold.

These operations were approved by the Extraordinary Shareholders' meeting on September 10, 1999 and were described in "documents E" registered with the COB on August 3, 1999 (visa number E.99-359) and on August 12, 1999 (visa numbers E.99-359 and E.99-367).

In the **media sector**, Havas acquired Havas Interactive Inc. (formerly Cendant Software), a US company which is a leader in the creation of games software. This acquisition has been integrated into the 1999 financial statements for the entire 12-month period with net sales totalling €535m. Havas Interactive Inc.'s business is highly seasonal, and the marketing of new educational and entertainment products is concentrated on the fourth quarter.

Havas also acquired control of Barbour, a UK company specializing in trade information, whose results have been integrated into the financial statements for the entire year, and of MediMedia, a company which was acquired more recently and specializes in medical information, and which was consolidated for the second half-year of 1999. Vivendi also acquired 100% of Aique through subsidiary Anaya. Furthermore, acquisitions made at the end of 1998 and which were not then consolidated (L'Etudiant and OVP Vidal) have had a full impact over 1999.

SGE acquired Teerbau the first-ranking German roadworks firm, and Terre Armée International, as well as 97.75% of Sogeparc, number two in European parking space manage-

ment, through a take-over bid which was completed on September 30, 1999.

Lastly, the acquisitions completed and consolidated during the second half of 1998 have had a full impact on 1999 financial statements. The main cases in point are FCC, a Spanish services and construction group, and the acquisition of Spanish publisher Anaya.

B. Main new contracts

Vivendi won new contracts, particularly in its Environmental Services Division. The main examples are the privatization of the Berlin Water service, for which Vivendi was awarded, in cooperation with RWE., a contract for the provision of services to 3.5 million inhabitants generating annual net sales of nearly €500m (€103m on a pro rata basis in 1999); the ten year agreement for the operation of the Stockholm metro signed by CGEA Transport with annual net sales of €180m (€90m on a pro rata basis for 1999); and the 15-year contract for the operation of the Hillside rail franchise in Melbourne with annual net sales of €120m (€40m on a pro rata basis for 1999).

With the new contracts awarded in the Environmental Services division and commercial efforts made in the telecommunications business, Vivendi's internal growth reached nearly 10%, (23% for communications activities and 8% for environmental services). Outside France, internal growth reached 13% for environmental services and 5% for communications.

C. Asset disposals

In line with its refocusing policy, Vivendi sold a number of assets in 1999. For instance, it sold a portfolio of property assets in the Greater Paris region to Unibail, as well as the hotels it held directly or indirectly which were sold to a consortium composed of Accor, Blackstone and Colony. These transactions which totalled €1.2 billion generated a capital loss of €386.7m before deferred taxes.

In 1999, Vivendi announced and completed the sale of Havas' billboard advertising activity (Avenir group). This sale was

completed for a total amount of €877m excluding an exceptional dividend and was effective at the end of June, with a capital gain amounting to €575.4m.

At the end of the year, Havas sold 9% of Havas Advertising, the world's fourth-ranking communications consulting firm. Havas' interest was accordingly reduced to 20.7%. The transaction was completed for an amount of €198.4m and generated a capital gain of €148.7m. Vivendi also sold, to Groupe Bruxelles Lambert, headed by Albert Frère, its 18.7% interest in Audi-ofina for a consideration of €704.1m, thus generating a capital gain of €275.2m.

D. Financial operations

During 1999, Vivendi made several issues on financial markets in order to fund its external growth, in particular in the United States.

For instance, after having launched on January 5, 1999 France's first convertible euro-denominated bond issue for an amount of €1.7 billion (1.25%, with a term of five years COB visa number 99-001 dated January 5, 1999), Vivendi launched a new issue through subsidiary Vivendi Environnement in the form of a convertible bond (COB visa number 99-390 dated April 14, 1999). The bonds may be exchanged for Vivendi shares or, at the holder's election and subject to the terms and conditions defined in the registration document, for Vivendi Environnement shares. The total amount of the issue was €2.85 billion with interest at 1.5% per annum. The term of the bond is five years and eight months.

In May 1999, Vivendi decided to increase its capital by €2.73 (COB visa number 99-586 dated May 11, 1999) billion and launched a public offering for 11.5 million shares (COB visa number 99-769 dated June 4, 1999). This procedure considerably extended Vivendi's shareholder base and enabled Vivendi to collect €809m. In total, taking into account amounts subscribed under the Group Savings Scheme for €480.1m, Vivendi will have raised more than €8 billion in new capital in 1999.

E. Creation of Vivendi Environnement

Vivendi Environnement was formed at the end of 1999. This new group is wholly-owned by Vivendi and brings together all its water, energy services (Dalkia), waste management and transport businesses, as well as its interest in FCC.

The major part of the operation was carried out by either the contribution of existing businesses and companies or the purchase of shares. Générale des Eaux, Dalkia and CGEA were transferred at book value in accordance with tax provisions applicable to certain mergers. USFilter and FCC were acquired by Vivendi Environnement.

This new group has prepared consolidated financial statements as of December 31, 1999, which are restricted to a balance sheet, as the contributions were made without any retroactive effect. Pro forma financial statements for 1999 will be prepared upon the IPO of part of the capital of Vivendi Environnement, as announced by Vivendi.

F. Year 2000

The safety measures taken over the past four years and the verifications carried out on December 31, 1999 and January 1, 2000 were successful. The changeover to the Year 2000 took place without any particular problems in any of the business sectors. Costs incurred in 1999, were provided for in the 1998 accounts through a provision of €38.1m, which proved sufficient.

The table below summarizes the relative weight of the various divisions in Vivendi's net sales and its breakdown between net sales made in France and outside France.

(in € billion)	France		Outside France		Total	
	Value	%	Value	%	Value	%
Environmental Services	10.0	42%	12.5	70%	22.5	54%
Communications	6.8	29%	1.7	10%	8.5	21%
Subtotal Environmental Services + Communications	16.8	71%	14.2	80%	31.0	75%
Construction & Property	7.0	29%	3.6	20%	10.6	25%
Total	23.8	100%	17.8	100%	41.6	100%

Vivendi's financial performance in 1999

A. Main developments

A) CONSOLIDATED NET SALES PER DIVISION

Vivendi's consolidated net sales reached €41.6 billion in 1999, compared with €31.7 billion in 1998. This represents a 31.2% increase, of which 10% is due to internal growth. The impact of exchange rates does not exceed 2%, the remaining part of Vivendi's growth being due to external growth (see above).

Environmental Services recorded net sales of €22.4 billion, i.e. nearly 54% of Vivendi's total; in 1998, net sales of these businesses represented approximately €16 billion and 50% of Vivendi's total net sales. The growth rate exceeded 40%, of which 29% is due to external growth (principally USFilter and Superior Services), while nearly 8% was due to internal growth.

The Communications Division had net sales of €8.6 billion in 1999 compared with €6 billion in 1998. The growth rate reached 44%, and includes internal growth of 23% and external growth of 21% (principally Havas Interactive Inc. formerly Cendant Software, MediMedia and Canal+).

The Construction & Property businesses accounted for €10.6 billion of Vivendi's net sales in 1999 compared with €9.7 billion in 1998 (an increase slightly exceeding 9%).

Vivendi's net sales outside France amounted to €17.8 billion, up 73%, of which nearly 10% was due to internal growth. Business outside France now represents 42.8% of Vivendi's

total net sales. This proportion even reached 55% for the Environmental Services division.

The breakdown of Vivendi's net sales per geographic area (outside France) was as follows:

(in € billion)	Euro zone outside France	Europe outside the euro zone	Americas	Other	Total	1998
Environmental Services	3.1	3.6	4.9	0.9	12.5	6.6
Communications	0.7	0.3	0.6	0.1	1.7	0.9
Subtotal Environmental Services + Communications	3.8	3.9	5.5	1.0	14.2	7.5
Construction & Property	2.1	1.0	0.1	0.4	3.6	2.8
Total	5.9 33%	4.9 28%	5.6 31%	1.4 8%	17.8 100%	10.3 100%
1998	4.0 39%	3.8 37%	1.5 15%	1.0 9%	10.3	

In Europe, the increase in net sales reached 42.8% with internal growth at 7.5%.

The increase in net sales in the euro zone outside France, reached 46.7% and is due to: the integration of FCC over a 12-month period, the acquisition of Teerbau in Germany, the integration of the European businesses of USFilter and Canal+ and the awarding of the Berlin water contract.

Three quarters of net sales in this area were made in Germany and Spain, with €2.3 billion and €2.1 billion, respectively.

In European countries not belonging to the Euro zone, the increase is mainly due to the inclusion of USFilter's European businesses and to the impact of the Stockholm metro contract. The United Kingdom is the main market in this region with net sales of €3.5 billion, up 17.6%, including 4.3% of internal growth.

In the US, Vivendi increased its net sales nearly fourfold principally with the acquisitions of USFilter, Superior Services

and Havas Interactive Inc. Internal growth amounted to 23.8% including 20.5% for environmental services businesses other than Sithe Energies.

In the Asia Pacific region, net sales reached €0.8 billion, including €0.3 billion in Australia, up 71%. Vivendi's exposure to risks related to emerging markets remained very limited, since net sales in these areas only represent 2.4% of the total, in an amount of €1 billion.

B) CONSOLIDATED STATEMENT OF INCOME

Vivendi's operating income amounted in 1999 to €2.28 billion, or a 71.3% increase as compared with the preceding year. These figures take into account the cost of the profit-sharing plan, which is now treated as a payroll expense in Vivendi's financial statements, the same policy being adopted for profit sharing schemes in force in certain subsidiaries. Profit-sharing amounted to €63.8m compared with €59.3m in 1998.

Consolidated financial statements

The table below summarizes the various contributions.

(in billions of euros)	1999	1998
Water	792.7	405.0
Energy	297.3	290.5
Waste management	277.7	225.8
Transport	96.1	75.2
FCC	190.5	74.5
Subtotal Environmental Services	1,654.3	1,071.0
Telecommunications	350.6	22.5
Internet	(50.3)	(6.4)
Media	344.1	247.4
Audiovisual activities	(92.8)	—
Subtotal Communications	551.6	263.5
Construction	175.7	82.4
Property	36.8	(3.0)
Subtotal Construction & Property	212.5	79.4
Other	(137.9)	(82.6)
Total	2,280.5	1,331.3

On a like-to-like consolidation basis and at constant exchange rates, the increase reached 33.5% during the year and is largely due to Vivendi's telecommunications operations.

In the environmental services division, operating income amounted to €1.65 billion compared with €1.07 billion in 1998, or a 54.4% increase, due in particular to the consolidation of USFilter. This company contributed approximately €340m to Vivendi's operating income, with a 9.5% margin. If industrial services are not included, the margin is equal to 11%, in line with Vivendi's forecasts.

This division represents 73% of Vivendi's operating income, compared with slightly over 80% in 1998.

The communications division more than doubled its contribution to operating income, at €551.6m against €263.5m in 1998. The communications division already represents more than 24% of total operating income compared with less than 20% in 1998 despite a negative contribution from Canal+ which was consolidated for the fourth quarter only. On a like-to-like basis, the contribution reached nearly 30%.

Vivendi's other businesses have significantly increased their contribution to operating income, which doubled for the construction business and amounted to nearly €37m for the property business as compared with a €3m loss in 1998.

C) NET FINANCIAL EXPENSE

Vivendi's net financial expense amounted to €220.1m and included in particular:

- €871.9m in financing costs, compared with €408m in 1998. The increase is mainly due to an increase in Vivendi's average net debt which more than doubled in 1999. Taking into account the hedging policy put in place at the end of 1998, Vivendi's average cost of debt has been reduced from 5.45% to 5.13% between 1998 and 1999, despite rising interest rates;
- €450.6m of capital gains in connection with the sale of portfolio securities as compared with €553.2m in 1998, primarily relating to Saint-Gobain (reduction of cross-holdings), Vivendi and Alcatel shares;
- €162.9m in financial provisions compared with €298m in 1998, primarily consisting in provisions for financial risks recognized by Vivendi's reinsurance company;
- Other operations mainly consisted in other financial income (€200.5m), in particular dividends received from non-consolidated companies (€63.2m), foreign exchange gains (€102.6m), and premiums related to unexercized put options in respect of securities (€61m).

D) OPERATING INCOME LESS NET FINANCIAL EXPENSE

Vivendi's operating income less net financial expense reached €2.1 billion, up 53.7% in 1999. It has multiplied by seven over a two-year period and is three times higher than the best level observed during the ten previous years.

E) NET EXCEPTIONAL EXPENSE

In 1999, Vivendi recorded net exceptional expense of €837.8m compared with net exceptional income of €249.3m in 1998. Net exceptional expense primarily includes:

- €650.8m in capital gains made in connection with the sale of assets and dilution profit and in particular the capital gain resulting from the sale of Havas' billboard advertising business, i.e. €575.4m in respect of a total sale price of €972.7m (only the capital gain arising over the valuation of this business in 1998 at the time of the Havas merger has been taken into account as net exceptional income); the capital gain of €275.2m made in connection with the sale of 18.7% of Audiofina (total amount of the sale €704.1m), and the sale of 9% of Havas Advertising generating a capital gain of €148.7m.

In contrast, the sale of CGIS's property assets resulted in a pre-tax capital loss of €386.7m (this amount is after the reversals of provisions made in order to cover these risks and carried mostly by Vivendi's captive reinsurance company).

- €1.42 billion in exceptional charges, of which nearly €800m in provisions related to property assets retained by Vivendi, €318.5m in provisions recording the accelerated write-off of Canal+ digital set-top boxes which must be replaced sooner than expected by a new generation of equipment made necessary by the development of multi-access portals; and a number of smaller transactions, including for instance €29m for the discarding of switches in the telecommunications business, etc.
- €95m in restructuring expenses, involving the Environmental Services division in an amount of €63m and SGE for €25.1m.

The group has reviewed the value of its long-term property assets and in particular multiannual construction programmes in order to be in a position to sell them, where appropriate. This review has had the following impact on the 1999 financial statements:

- sales of assets mainly to Unibail and to Accor, resulting in capital losses of €1,537.4m;
- the review of the value of the retained assets has resulted in additional provisions in an amount of €890m;
- these have given rise to tax losses that the group has used or will use with a deferred tax asset in an amount of €1 billion;

- part of these losses has been covered by the reversal of provisions in an amount of €1.15 billion.

In total and taking into account the recovery of operations, property impacted on Vivendi's financial statements in a net amount of €240m.

F) TAXES

In 1998, Vivendi considered that the prospects of generating taxable profits were such as to give valid reasons to consider that it would use only two years out of the five years of tax losses carried forward at the end of that year.

In 1999, the taxable net income recognized during the year, the likelihood that this trend will continue during the next few years and the forecast capital gains resulting from sales which have been initiated or announced, are valid grounds for recognizing the full amount of the assets corresponding to the utilization of tax losses carried forward, whether presently available or potentially arising over the next five years. Accordingly, deferred taxes give rise to income of €1.02 billion compared with slightly less than €280m in 1998. They were calculated on the basis of the reduced tax rate applicable. They are mainly the consequence of the disposals and restructuring of the property sector (see above).

G) VIVENDI'S SHARE IN NET EARNINGS OF COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

Vivendi's share in net earnings of companies accounted for by the equity method amounted to €32.9m in 1999 compared with €42.5m in 1998. This year again, it consists primarily in the net income generated by Cofiroute (€26m compared with €21.4m in 1998), by Havas Advertising for €11.3m compared with 13.6m in 1998 and by General Utilities' UK subsidiaries for €21.3m compared with €17.4m in 1998.

Furthermore, Canal+, which was fully consolidated during the last quarter, was accounted for by the equity method during the first nine months of 1999. Canal+ and its subsidiaries had a negative contribution of €20m, compared with €9.6m in 1998. BSkyB also had a negative contribution in an amount of €13.7m.

Consolidated financial statements

The remainder consists of smaller amounts such as Philadelphia Suburban for €5.4m and UGC for €0.7m.

H) NET INCOME

Vivendi's consolidated net income amounted to €1,431.4m, up 27.7% against 1998. This corresponds to net earnings per share of €2.7 as compared with €2.46 in 1998, and represents a 10% increase before dilution.

I) FINANCIAL FLOWS FOR THE YEAR

The gross operating surplus increased by 51%, from €3.45 billion to €5.2 billion. Conversely, the cash outflow relating to financial and exceptional operations had a negative impact of €1.6 billion, of which €934.5m due to disposals of property assets. Vivendi's working capital requirements increased by €944m, mainly because of the impact of newly consolidated companies. In total, operating transactions generated €2.42 billion in cash in 1999.

Vivendi's total investments represented more than €21.5 billion, or three times more than in 1998. This reflects efforts made in order to accelerate the group's growth and internationalization. Capital expenditure amounted to €5.6 billion, up by more than 40%. More than two-thirds of this total was used for the Environmental Services division, and in particular Sithe Energies with the acquisition of GPU's assets for \$1.7 billion. In the Communications Division, capital expenditure is mainly related to the continued strengthening of Cegetel's mobile telephony network. Acquisition of investments reached €15.9 billion and were in respect of the following:

- Vivendi's international expansion for €9.2 billion (principally Superior Services, USFilter, Havas Interactive Inc., the Berlin water contract and Elektrim);
- development of audiovisual activities for €3.7 billion (Canal+ and BSKyB);
- to a lesser extent, the development of Vivendi's interests in its subsidiaries for €1 billion, more than half of which was allocated to SGE's take-over bid for Sogeparc.

As indicated in the above paragraph, Vivendi's capital was increased by more than €6 billion, through:

- the capital increase through cash contributions for €2.7 billion;
- in consideration of Pathé and Richemont contributions for €2.2 billion;
- subscriptions by employees to Group Savings Schemes in an amount of approximately €480m.

Taking into account sales of securities and industrial assets in an amount of nearly €4.5 billion, cash flow related to financial activities resulted in an increase in indebtedness of €10 billion. This increase, combined with the debt contributed by the companies which have recently been fully consolidated (principally USFilter, Canal+, Berliner WasserBetriebe and, to a lesser extent, Superior Services), had increased total net debt to €22.8 billion at the end of the year, including €4.55 billion for convertible bonds issued by Vivendi and Vivendi Environnement.

Taking into account disposals that have been announced and already completed at the beginning of 2000, this net debt should rapidly be reduced to around €19 billion.

J) CONSOLIDATED SHAREHOLDERS' EQUITY

Total consolidated shareholders' equity amounted to €14.9 billion as of December 31, 1999 compared with €10.3 billion in 1998.

Vivendi's share of consolidated net equity reached €10.9 billion at the end of 1999 after taking into account the various capital increases completed during the year (see above). Minority interest amounted to €4.0 billion mainly in the capital of Berliner Wasser Betriebe, Canal+, Cegetel, SGE, Sithe Energies and FCC.

At the end of 1999 net debt represented 150% of total shareholders' equity and will probably be reduced to 115% following the disposals announced in 1999 and already wholly completed or launched in the first quarter of 2000. Stock market capitalization was €74 billion at February 29, 2000.

B. Developments within each division

The following paragraphs explain in more detail developments within each division, in respect of net sales, operating income, capital expenditure, acquisitions of investments and cash flow.

A) ENVIRONMENTAL SERVICES

• Summary

As regards the environmental services division, 1999 was marked by very strong international expansion, with a growth

rate exceeding 88% and **net sales** of €12.5 billion made in 1999, compared with €6.6 billion in 1998. The table below details each business sector's contribution to the division's performance both in and outside France.

Net sales Environmental Services (in billion of euros)	1999		1998		1997	
	France	Outside France	France	Outside France	France	Outside France
Water	5.5	5.2	5.3	1.5	5.1	1.4
Energy	1.8	2.1	1.7	1.7	1.7	2.2
Waste management	2.0	1.5	1.8	1.0	1.6	0.7
Transport	0.6	1.8	0.6	1.4	0.6	1.1
FCC	—	1.9	—	1.0	—	—
Total	9.9	12.5	9.4	6.6	9.0	5.4

Operating income increased by more than 54% over the same period, principally because of the significant contribution of €388.5m made by companies acquired during the year. The operating margin is 7.4% of net sales, compared with 6.8% in 1998. The margin increased by nearly 9%.

Capital expenditure amounted to €3.9 billion in 1999 compared with €2.2 billion in 1998. These figures include those of Sithe Energies, the US power production subsidiary, in an amount of €2 billion in 1999, compared with €695m in 1998. Excluding Sithe Energies and the main acquisitions made during the year, investments remained stable at €1.5 billion.

Cash flow generated by the environmental services businesses amounted to €1.8 billion in 1999, unchanged from 1998, which included €391m in non-recurring inflows.

• Water

In 1999, Vivendi's water business generated **net sales** of €10.7 billion, up 58.9% from 1998. This increase is mainly due

to the acquisition of USFilter, which contributed €3.6 billion over an eight-month period. Overall, internal growth amounted to 4.7%.

In **France**, net sales increased by 2.6% to €5.31 billion. One-third of this growth was due to an increase in volume distributed. In a competitive environment, construction businesses managed to maintain net sales at a level close to €580m.

Outside France, excluding USFilter and Aqua Alliance, net sales increased by 7.5% to €845m. In **North America**, net sales amounted to €4 billion, compared with €382m in 1998.

The water business sector contributed €792m to Vivendi's **operating income**, a 95.7% nominal increase, or 9.2% growth on a like-to-like consolidation basis and at constant exchange rates. Overall, water-related businesses generated a margin of 7.4%, compared with 6.2% in 1998.

Capital expenditure amounted to €736m, including €160.5m for renewal costs, a 6.6% increase from 1998.

Water-related businesses' contribution to Vivendi's **cash flow from operations** reached €738m and covered capital expenditure, including both replacement and expansion expenditure.

- *Energy*

In the energy business sector, Vivendi had **net sales** of nearly €3.9 billion, comprising €2.8 billion in services and €1.1 billion in power production. Net sales of services increased by 5.2% including 3.5% in internal growth. As regards independent power production, net sales increased by 13.8% on the basis of constant exchange rates, despite the very small impact of assets acquired from GPU (€30.3m).

The contribution to **operating income** was €297.3m including €170.6m for Dalkia and €126.7m for Sithe Energies. The contribution made by service businesses increased by 25.7%, due to productivity gains in France, reductions in fixed expenses, and expansion outside France, mainly in Moravia. Operating income contributed by independent power production decreased by 29.5% in local currency. This apparent reduction is due to the assignment to Nimo in 1998 of contracts for which €77.6m in operating income had been recognized in 1998. If this impact is eliminated, growth would have been nearly 23.3%, mainly because of the Beco assets, which were acquired during 1998, and because of the improved performance of the Independence power plant.

In 1999, **capital expenditure** amounted to nearly €2.4 billion, including €2 billion in independent power production, represented mainly by the purchase of assets from GPU for €1.7 billion.

Cash flow from operations reached €362m, of which €320m is due to the energy services business, thus covering all the sector's capital expenditure.

- *Waste Management*

Vivendi's waste management businesses generated **net sales** of €3.5 billion in 1999, up 24.1% including internal growth in excess of 9%. In **France**, business remained buoyant through marketing efforts which, through contracts won, led to an 8.8% increase in net sales at €2 billion. **Outside France**, overall growth was in excess of 51%, nearly 30% being due to external

growth which has been described earlier, and more than 13.4% due to internal growth.

Waste management business contributed €277.7m to **operating income**, up 23%, most of this increase being due to external growth.

Capital expenditure and acquisition of investments amounted to €1.6 billion, including €1.2 billion for external growth. Capital expenditure amounted to €412.6m, including nearly €106m relating to acquisitions made in 1999.

Cash flow from operations of waste management businesses covered capital expenditure up to €402m.

- *Transport*

Vivendi's transport businesses generated **net sales** of €2.5 billion, up 23.3% compared with the previous year. External growth was nearly 2% while internal growth from new contracts reached 15.2%. This strong growth is mainly due to marketing successes outside France, in particular in Scandinavia with the contract for the operation of the Stockholm metro (six month contribution), and the contract for the operation of the Melbourne transport system (four month contribution).

Operating income amounted to €96.1m, up 27.7% from 1998. This increase is mainly due to the strong performance of UK businesses, where, despite reduced subsidies, the group's two rail passenger transport licences generated a significantly higher margin due to increased passenger numbers.

Capital expenditure and acquisition of investments amounted to €337m in 1999. This figure includes €241.5m of capital expenditure, €122m of which was covered by **cash flow from operations**.

- *FCC*

FCC is a Spanish group operating in the construction, public works and environmental services sectors, with total sales of nearly €4 billion, €1.9 billion of which was contributed to Vivendi's consolidated net sales, reflecting its 49% interest.

This amount was generated by construction and other businesses (€1.3 billion) and services (€0.6 billion), principally in the water and waste management businesses.

FCC's contribution to Vivendi's **operating income** amounted to €190.5m for the entire year, while in 1998, it contributed €74.5m for a period of six months only.

Vivendi's share of FCC's **capital expenditure and investment acquisitions** amounted to €436.2m including approximately €100m in capital expenditure. This was largely covered by **cash flow from operations** which amounted to €200m.

B) COMMUNICATIONS

• Summary

In 1999, the communications division recorded a strong increase in Cegetel's subscriber base, with 7.34 million mobile

phone subscribers compared with 4.25 million in 1998, as well as 1.1 million fixed-line subscribers compared with 0.4 million at the end of 1998.

Following Vivendi's acquisition of Richemont's 15% stake in Canal+, the European leader in the pay-TV sector, Vivendi owns 49% of Canal+ as from September 10, 1999. Accordingly, Canal+ is fully consolidated in Vivendi's financial statements as from October 1, 1999.

Havas pursued its international expansion policy in particular through the acquisition of Havas Interactive Inc., MediMedia and several smaller companies.

The division's **net sales** were as follows:

Net sales Communications (in billions of euros)	1999		1998		1997	
	France	Outside France	France	Outside France	France	Outside France
Telecommunications	4.1	—	2.9	—	1.6	—
Media	2.1	1.4	2.2	0.8	—	—
Audiovisual activities	0.6	0.3	—	—	—	—
Internet	—	—	—	—	—	—
Total	6.8	1.7	5.1	0.8	1.6	—

The **operating income** contributed by the communications division more than doubled, due to internal growth of the telecommunications business, but also to the contribution of to €58m from acquired companies. On the other hand, the operating performance of companies which have been consolidated on a different basis than previously had a negative impact of €98.4m, mainly in respect of Canal+ (€92.8m) whose seasonal fluctuations are particularly strong at the end of the year (subscriber and programme acquisition costs).

In 1999, **capital expenditure** of €1.4 billion (the same amount as in 1998), consisted of:

- expenditure linked to the strengthening of the capacity of the mobile telephone network €889.0m
- continued development of the fixed-line network € 63.0m
- capital expenditure of Havas € 95.5m
- capital expenditure of Canal+ €182.2m

Cash flow generated by these operations did not fully cover capital expenditure because of the time-lag between investment and generation of cash flow.

• Telecommunications

In 1999, Vivendi's telecommunications businesses generated **net sales** of €4.1 billion, up 42.7% compared with 1998. This amount is partly due to Cegetel's activities, with net sales of €4,080m including €3,678m for SFR, and partly due to sales of €24m of Matel, a Hungarian fixed line telephony operator.

Strong growth in French mobile telecommunications enabled SFR to pursue its expansion policy. In the face of intense competition, SFR was able to maintain its market share at a satisfactory level (around 36%) with average income per customer higher than that of its competitors. Net sales increased by 37% in one year.

The activity of the “7” fixed-line service and business services generated nearly €320m in net sales compared with €144m in 1998.

The entire telecommunications business’ contribution to Vivendi’s **operating income** amounted to €350.6m compared with €22.5m in 1998 and represents a major part of the increase in Vivendi’s operating income.

Capital expenditure amounted to €1.1 billion in the telecommunications business. Of that amount, €889.2m was allocated for the development and strengthening of the mobile telephone network.

Cash flow from telecommunications operations amounted to €1,071m and did not fully cover capital expenditure, except for SFR whose operations generated cash flow of €1,091m, sufficient to cover capital expenditure of €850m.

- *Media*

Vivendi’s media businesses generated **net sales** of €3.5 billion in 1999, compared with €3 billion in 1998, i.e. a 14.3% increase. Havas accounts for nearly all these sales, with €2.1 billion from publishing, €676m from local media and €536m from multimedia, mainly from Havas Interactive Inc. Net sales outside France represent 40% of the total, including €677m in European countries other than France and €589m in the Americas.

Media businesses contributed €344m to Vivendi’s **operating income**, up 39.1% from the previous year. On a like-to-like consolidation basis and at constant exchange rates, growth reached 22.1% and even nearly 25% for Havas.

Havas made **capital expenditure** of €95.5m which was largely covered by €282m in cash generated by media operations.

- *Audiovisual activities*

In 1999, after increasing its interest in Canal+, Vivendi fully consolidated the pay-TV company’s accounts as from October 1, 1999. Accordingly, Canal+ contributed €951m to **net**

sales, one-third of which were generated outside France, mainly in other European countries.

Vivendi’s **operating income** was adversely impacted by the negative contribution of €92.8m from Canal+ for the fourth quarter, which included €65m for Télépiù’s Italian operations.

For the entire year, the operating expense of Canal+ was €24m.

- *Internet*

Vivendi’s Internet businesses expanded rapidly in 1999. Cash outflows consisted in capital expenditure and in expenditure related to the development of new technical platforms and new content.

These businesses generated an **operating expense** of €50.3m and investments of €185.4m. Taking into consideration activities accounted for by the equity method and minority interest which has not been consolidated, Vivendi’s investments in this business sector amounted to €285m in 1999.

C) CONSTRUCTION & PROPERTY

- *Summary*

Vivendi’s construction and property businesses consist of the SGE and CGIS groups. They made net sales of €10.6 billion compared with €9.7 billion in 1998, up 9.1%.

This growth is on the one hand due to acquisitions made in 1999, mainly by SGE with Teerbau, Terre Armée International and Sogeparc, and on the other hand the internal growth of the property businesses, in particular in the housing and commercial real estate sectors.

Disposals of property assets, which represented more than €350m in net sales in 1998, reduced 1999 net sales.

The Construction & Property division contributed €212.4m to operating income, or 9.3% of the total. This is a 170% increase compared with the previous year.

The table below contains the breakdown of net sales for the last three years, between the various business sectors and sales made in France and outside France.

Net sales Construction & Property (in billions of euros)	1999		1998		1997	
	France	Outside France	France	Outside France	France	Outside France
Construction (SGE)	5.4	3.5	5.1	2.8	5.2	2.7
Property (CGIS)	1.6	0.1	1.8	—	1.4	0.1
Total	7.0	3.6	6.9	2.8	6.6	2.8

- *Construction*

SGE's contribution to Vivendi's **net sales** amounted to €8.9 billion, up 12.9% from the previous year. In France, net sales amounted to €5.4 billion, up 5% primarily due to internal growth. Net sales outside France amounted to €3.5 billion, up 27.4%, nearly 23% of which is due to external growth.

€175.7m was contributed to operating income, double the 1998 amount. This increase is due to the sharp recovery of the building and civil engineering business, to a significant increase in roadworks contracts and to the fact that Sogeparc has been included for six months.

- *Property*

CGIS contributed €1.7 billion to Vivendi's **net sales**, an apparent 7.3% decrease, but a 14.5% increase on a like-to-like

consolidation basis. This is due to the impact on 1999 net sales of the sale of buildings and hotels, the individual homes construction business and Foncia. In 1998, these businesses together represented more than €350m in net sales. On a like-to-like consolidation basis, the increase is due to the construction of housing, which increased by 18% during the year, and to commercial real-estate services, which grew by 25%.

In terms of **operating income**, this division contributed €36.8m, compared with an operating expense of €3 million in 1998. Without the impact of the disposals, this contribution would have amounted to nearly €44m.

Events occurring after the end
of the financial year and
outlook

A. Recent disposals

A) SGE

In accordance with the disposal plan announced in 1999, Vivendi reduced on February 10, 2000 its interest in SGE from 49.3% to 14.9%.

This transaction was undertaken through a private placement with institutional investors, covering 13.8 million shares.

Under this transaction, Vivendi received a payment exceeding €600m and will realize a net capital gain of €300m in its consolidated financial statements. In line with this disinvestment, Vivendi intends to waive its double voting rights.

After 12 months, during which Vivendi has agreed not to sell SGE shares — SGE being the only party entitled to engage in such a sale — Vivendi will complete its disinvestment by making use of opportunities existing on the market.

B) SITHE ENERGIES

Sithe Energies, a Vivendi subsidiary, sold to Reliant 21 independent power production plants for €2.13 billion. This transaction involved the plants purchased from GPU and generated a capital gain of €450m.

C) CGIS

Vivendi's withdrawal from the property sector is being continued with the sale of the principal businesses of CGIS, whose shares will be sold. On March 10, 2000, a memorandum of understanding was signed between Vivendi and a group of investors. The operation contains a certain number of conditions that should be lifted in the next few weeks in order to finalize the deal.

B. New developments

A) CANAL+ AND LAGARDÈRE

Canal+, a subsidiary in which Vivendi has a 49% interest, entered into an industrial alliance with the Lagardère group. The objective is to develop, both within and outside France, the creation and distribution of television channels and interactive services.

This agreement enables both groups to combine their capabilities and impact in terms of programming, technological expertise, television assets, brand portfolio and creative potential. Although this deal is subject to approval by the competent authorities, it enables Lagardère to become a shareholder of MultiThématique — a company whose capital will, once the transactions are completed, be held by Canal+ (27.42%), Lagardère (27.42%), Liberty Media (27.42%), Vivendi (9.09%) and PartCom (8.64%) — and to hold a 34% interest in CanalSatellite.

Furthermore, the two groups will create two joint venture companies: one for the creation of theme channels and the other one for the development of interactive services.

B) VIVENDI/VODAFONE AIRTOUCH

On January 30, 2000, Vivendi and Vodafone AirTouch entered into a cooperation agreement in order to develop a multi-access portal for European markets.

This multi-access portal will provide customers with a transparent environment on various devices (e.g. television, personal computer, mobile or fixed telephone and other personal systems) for Web-based communication services, e-commerce and leisure. The multi-access portal will give customers privileged exclusive access to high-quality services and content provided by Vivendi companies, including VivendiNet, Canal+ and Havas.

Vodafone AirTouch and Vivendi believe that the multi-access portal will become the prevailing solution for European content providers, because of the quality of the Internet and e-commerce services it will enable them to offer to their customers.

C) INDUSTRIAL OUTSOURCING IN THE WATER TREATMENT BUSINESS

In line with its expansion in the area of industrial services, Vivendi Water signed a major contract with Hyundai in South Korea. Under this agreement, Hyundai Petrochemical has awarded Vivendi Water the operation of the drinking water and industrial water facilities of its Daesan petrochemical complex. This is the largest complex of its type in Korea.

This agreement, one of the most significant of this type worldwide, reflects Hyundai Petrochemical's policy of focusing on its core business by outsourcing the management of certain of its facilities to specialist contractors. This is also in line with Vivendi's growth strategy in the industrial sector, as reflected in the acquisition of USFilter. Net sales generated by this contract will amount to approximately €1 billion over a twenty year period.

D) NEW CONTRACTS AWARDED TO THE ENVIRONMENTAL SERVICES DIVISION

Since the beginning of 2000, several major contracts have been signed, in particular for water and wastewater services with local authorities in France (Boulogne sur Mer) and outside (Berne in Switzerland, Zhu Hai, Beijing, Dujiangyan and Hui Yin in China, and Tartous in Syria) and for the operation of heating networks by Dalkia which continues to expand in Eastern and Central European countries (Slovakia and Moravia).

C. Financial outlook

Taking into account all these elements, and on the basis of the budgets and business plans established by Vivendi's various subsidiaries, the group expects to have business of close to €40 billion for 2000 based on a scope of consolidation including solely environmental services (water, energy services, waste management and transport) and communications (telecommunications, media, audiovisual activities and Internet).

In 1999, business would have been around €32 billion based on the same scope of consolidation (i.e. without the construction and property businesses and Sithe Energies, and with the full-

year impact of the acquisitions of USFilter, Superior Services, the Waste Management businesses and so on). Vivendi is therefore again expecting very rapid growth in net sales, which are likely to increase by over 20% on a like-to-like basis.

Taking into account the new perimeter (excluding Sithe Energies, Construction and Property, and with the full year impact of the above mentioned acquisitions), Vivendi expect significant growth in cash flow generation, defined as the difference between EBITDA and capital expenditure, for its Environmental Services and Communications divisions.

On top of the increase in cash flow generation and of the potential flotation of a minority stake of Vivendi Environnement, Vivendi will pursue its non-core asset disposal programme. As a result the group's investment capacity should increase by approximately €10 billion.

As part of this asset disposal programme, Vivendi intends to sell Sithe Energies. Vivendi does not intend to dispose of a 9% stake in Canal+, unless the disposal would represent an opportunity for both groups to undertake a significantly value enhancing industrial cooperation.

Vivendi also envisages making significant investments in the Internet industry, in order to offer services to its subscriber bases and develop the content under its control. At present, Vivendi and Canal+ estimate Internet investments, through their 50/50 joint venture VivendiNet, at approximately €500m per annum over the next few years. This amount can be subject to significant changes depending on the evolution of investment opportunities in the European Internet sector. By mid-2000, Vivendi and Canal+, will have access to a customer base of close to 80 million subscribers, which could reach 100 million in 2001. Vivendi and Canal+ intend to quote some of their internet portals as soon as possible in order to enhance their external growth capacity.

Under these conditions, and taking into account disposals already under way or completed, net income should be sufficient to accelerate the rate of growth in earnings per share, despite the increase in the number of shares outstanding.

D. Euro

Since the autumn of 1996, Vivendi has gradually been planning for the changeover to the single currency. Each Vivendi business sector has developed its strategy, designed changeover plans and taken all necessary steps for the adoption of the euro. Costs incurred in connection with these activities are charged to expenses as incurred without any allocation to future financial years.

At the end of 1998, most employees in direct contact with Vivendi's customers had been trained. In each business sector, initiatives have been taken in order to facilitate Vivendi's

customers changeover to the euro, whether local authorities, businesses or consumers.

In 1999, Vivendi's cash management transactions were denominated in euros after all necessary modifications had been made to computer systems in 1998. Individual financial statements will be adjusted gradually during the transition period, but Vivendi's financial statements are already prepared and approved in euros by the Board of Directors. Documents providing financial information are prepared in line with recommendations issued by the COB (the French stock exchange commission) regarding the franc/euro relation.

FINANCIAL STATEMENTS

Statement of income

(in millions of euros)	See notes	1999	1998	1998* Consistent accounting policies	1997
Net sales	1.1	41,622.5	31,737.1	31,706.3	25,476.6
Other revenue	1.2	1,951.3	1,516.8	1,516.8	954.6
Purchases		(23,712.9)	(18,575.3)	(18,691.0)	(14,810.9)
Payroll costs		(10,367.3)	(8,165.8)	(8,165.8)	(6,760.5)
Taxes other than income taxes		(659.3)	(627.9)	(627.9)	(475.7)
Other operating expenses		(3,811.8)	(2,662.5)	(2,662.5)	(2,434.3)
Depreciation	3	(2,678.3)	(1,831.7)	(1,755.6)	(1,314.0)
Employee profit-sharing		(63.8)	(59.3)	(59.3)	(40.3)
Operating income		2,280.5	1,331.4	1,261.0	595.5
Financial (expense)/income		(57.2)	307.3	364.1	(180.5)
Financial provisions	3	(162.9)	(298.0)	(298.0)	(120.8)
Net financial (expense)/income		(220.1)	9.3	66.1	(301.3)
Operating income less net financial expense/plus net financial income		2,060.4	1,340.7	1,327.1	294.2
Exceptional items		(914.3)	42.7	42.7	1,777.5
Depreciation	3	76.5	(206.6)	(206.6)	(898.9)
Net exceptional (expense)/income		(837.8)	249.3	249.3	878.6
Income taxes and deferred tax	4	793.2	(90.0)	(90.0)	(194.7)
Net income before goodwill amortization, equity interest and minority interest		2,015.8	1,500.0	1,486.4	978.1
Goodwill amortization		(612.0)	(209.5)	(209.5)	(374.7)
Net income after goodwill amortization and before equity interest and minority interest		1,403.8	1,290.5	1,276.9	603.4
Share in net earnings of companies accounted for by the equity method		32.9	42.5	42.5	103.6
Minority interest		(5.3)	(212.2)	(208.9)	115.1
Net income		1,431.4	1,120.8	1,110.5	822.1

* In 1998 the Vivendi group decided to adopt, in its financial statements, the options set out in the recommendations made by the "Conseil National de la Comptabilité" on June 18, 1997, regarding capital leases, pension commitments and lump sum payments on retirement, and the recognition of profits from long-term construction contracts using the percentage of completion method.

Consolidated financial statements

Cash flow statement

(in millions of euros)	1999	1998	1998* Consistent accounting policies	1997
Operating transactions				
Gross operating surplus	5,235.0	3,453.0	3,324.3	2,144.2
Financial and exceptional transactions	(1,641.6)	52.5	108.1	523.8
Income taxes	(229.0)	(369.4)	(369.4)	(140.8)
Change in working capital requirements	(944.3)	216.5	216.5	468.7
TOTAL	2,420.1⁽¹⁾	3,352.6	3,279.5	1,948.3
Investment transactions				
Capital expenditure	(5,628.3)	(3,908.8)	(3,895.5)	(2,145.5)
Acquisition of investments	(15,851.7)	(3,580.5)	(3,580.5)	(3,416.5)
Deferred charges	(1,094.3)	536.1	(536.1)	423.5
Property assets held as fixed assets	(68.9)	(33.4)	(33.4)	(144.4)
Proceeds from disposal of securities	3,377.8	2,470.4	2,470.4	3,223.0
Proceeds from disposal of assets	1,092.1 ⁽²⁾	191.7	191.7	289.1
Net change due to long-term loans and deposits	(176.3)	(11.2)	(11.2)	33.7
TOTAL	(18,349.6)	(5,407.9)	(5,394.6)	(2,584.1)
Financing transactions				
Issue of parent company stock	6,077.1	1,158.3	1,158.3	1,085.2
Minority interest in capital increases of subsidiaries	63.2	61.5	61.5	2,269.0
Dividends paid to parent company shareholders	(413.5)	(305.6)	(305.6)	(225.8)
Dividends paid to minority interest in consolidated subsidiaries	(70.3)	(42.7)	(42.7)	6.6
Dividends received from companies accounted for by the equity method	83.7	81.3	81.3	76.2
Other long-term liabilities	230.9	575.5	567.8	299.1
TOTAL	5,971.1	1,528.3	1,520.6	3,510.3
Cash flows for the financial year	(9,958.4)	(527.0)	(594.5)	2,874.5
Net debt at January 1	6,502.2	4,177.0	4,117.0	6,874.6
Impact of exchange rates, scope of consolidation and other	6,372.2 ⁽³⁾	839.8	839.8	176.9
Change in accounting policy relating to capital leases		958.4		
Net debt at December 31	22,832.7 ⁽⁴⁾	6,502.2	5,611.3	4,177.0

* In 1998 the Vivendi group decided to adopt, in its financial statements, the options set out in the recommendations made by the "Conseil National de la Comptabilité" on June 18, 1997, regarding capital leases, pension commitments and lump sum payments on retirement, and the recognition of profits from long-term construction contracts using the percentage of completion method.

(1) This amount includes the impact of disposals of property assets for €934.5m

(2) Including €775.3m of property asset disposals.

(3) At the date on which newly consolidated companies entered the group, they carried a debt of €6.3 billion including €2 billion for Canal+, €1.2 billion for Berliner WasserBetriebe and €1.9 billion for USFilter.

(4) This corresponds to the amount posted on Vivendi's balance sheet as of December 31. This amount has been calculated taking into account the debt of Canal+ and Berlin. It has been calculated before the anticipated impact of the sales planned for the beginning of 2000.

Assets

(in millions of euros)	See notes	1999	1998	1998* Consistent accounting policies	1997
Intangible assets apart from goodwill	5	8,681.9	3,282.7	3,282.7	1,727.9
Goodwill	6	10,388.6	4,514.9	4,514.9	3,769.6
Tangible assets	7	19,977.4	12,242.1	11,458.7	8,388.5
Owned property plant and equipment		26,569.1	18,641.1	17,400.9	12,439.5
Publicly-owned utility networks financed and managed by the group		3,985.8	1,206.3	1,206.3	1,069.6
Accumulated depreciation		(10,577.5)	(7,605.3)	(7,148.5)	(5,120.6)
Financial assets		6,293.0	6,032.9	5,982.7	6,924.4
Investments accounted for by the equity method	8	781.9	1,738.1	1,738.1	2,510.3
Unconsolidated investments	9	2,415.6	668.6	668.6	775.5
Portfolio investments held as fixed assets	10	534.4	876.3	876.3	1,253.6
Other investments held as fixed assets and other financial assets	11	2,561.1	2,749.9	2,699.7	2,385.0
Total fixed assets		45,340.9	26,072.6	25,239.0	20,810.4
Total current assets		37,436.1	22,909.8	24,258.7	18,554.8
Inventories and work in process	12	4,900.3	2,996.0	4,258.6	4,161.4
Accounts receivables		22,391.7	13,369.2	13,455.5	10,114.7
Short-term financial receivables		3,035.6	2,078.8	2,078.8	1,567.3
Cash and marketable securities	14	7,108.5	4,465.8	4,465.8	2,711.4
TOTAL ASSETS		82,777.0	48,982.4	49,497.7	39,365.2

* In 1998 the Vivendi group decided to adopt, in its financial statements, the options set out in the recommendations made by the "Conseil National de la Comptabilité" on June 18, 1997, regarding capital leases, pension commitments and lump sum payments on retirement, and the recognition of profits from long-term construction contracts using the percentage of completion method.

Shareholders' equity and liabilities

(in millions of euros)	See notes	1999	1998	1998* Consistent accounting policies	1997
Capital stock		3,276.1	2,431.0	2,431.0	2,043.5
Additional paid-in capital		4,350.8	3,429.1	3,429.1	3,237.3
Retained earnings		3,265.3	1,980.1	2,206.9	1,565.9
Shareholders' equity (after income for the year)	16.1	10,892.2	7,840.2	8,067.0	6,846.7
Minority interest	16.2	4,052.4	2,423.0	2,418.7	1,742.3
Deferred income	17	1,306.4	715.4	715.4	462.7
Provisions	18.1	6,883.3	5,931.7	5,784.5	5,429.8
Subordinated securities	19	178.3	174.0	174.0	185.5
Project financing	20	1,193.0	1,059.7	1,059.7	902.2
Other long-term debt		17,861.7	8,722.8	7,829.0	5,818.5
Total long-term debt	21	19,054.7	9,782.5	8,888.7	6,720.7
Other long-term liabilities		1,560.2	987.7	987.7	617.4
Long-term capital		43,927.5	27,854.5	27,036.0	22,005.1
Accounts payable	24	23,832.1	16,077.3	17,477.4	13,972.2
Short-term debt		15,017.4	5,050.6	4,984.3	3,387.9
Total current liabilities		38,849.5	21,127.9	22,461.7	17,360.1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		82,777.0	48,982.4	49,497.7	39,365.2

* In 1998 the Vivendi group decided to adopt, in its financial statements, the options set out in the recommendations made by the "Conseil National de la Comptabilité" on June 18, 1997, regarding capital leases, pension commitments and lump sum payments on retirement, and the recognition of profits from long-term construction contracts using the percentage of completion method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting policies

The 1999 consolidated financial statements of Vivendi have been prepared using the accounting policies described below and are in conformity with the French law of January 3, 1985 and the decree of February 17, 1986. The group has not opted to apply the new methodology approved by the French accounting standards board in April 1999 (the “Comité de la Réglementation Comptable”) to its 1999 financial statements.

The financial statements of subsidiaries have, where necessary, been restated in conformity with the accounting policies used by Vivendi. Any departures from this practice are warranted by specific industry circumstances.

In order to bring Vivendi’s accounting policies more into line with international standards, the group decided to adopt the recommendations made by the “Conseil National de la Comptabilité” (the “CNC”) in an opinion dated June 18, 1997, and to change the accounting treatment, as of the 1998 financial statements, of assets financed by capital leases, pension commitments and lump-sum payments on retirement, and the recognition of profits from long-term construction contracts using the percentage of completion method.

A) SECTOR-RELATED DISTINCTIONS

SPECIFIC PROVISIONS RELATING TO WATER DISTRIBUTION AND HEATING MANAGEMENT COMPANIES

a. Fixed assets on publicly-owned utility networks

Vivendi and its subsidiaries in the water distribution and heating sectors operate, as “concessionaires”⁽¹⁾ of public services, numerous utility networks owned by local authorities or

by private or public bodies. These utility networks are financed either by the authorities, as is most often the case, or by the group.

Only the installations financed by the group are carried on the consolidated balance sheet (Tangible fixed assets held under concession). These installations are depreciated (still called depreciation of assets under concession) over the contract period so that the accumulated depreciation equals the carrying value of the assets at the end of the contract, when the assets are returned to the local authority. The accumulated depreciation is booked as a liability under the heading “Provision for financial risk”, to show clearly that it does not reflect a reduction in value of the utilities, but is designed to defer the charge resulting from the eventual transfer of these assets over the contract period.

Furthermore, in order to fulfil its contractual obligations as a concessionaire, the group usually assumes the expense of replacing installations and equipment on the property it manages under the concession agreement for the term of the contract. The utility networks which Vivendi must replace include those on the publicly-owned property and financed at its own expense, or by local authorities, or which belong to private or public entities.

As a result of the group’s restructuring of the water distribution sector in 1996, the energy sector in 1997 and the financial risk management policy introduced in 1997, the obligations to replace installations have, wherever possible, been guaranteed by the parent company. In this situation, the financial commitments which the parent company has assumed have been hedged by setting up swap contracts between Vivendi and General Re Financial Products, Inc.

If, for specific reasons, Vivendi is unable to guarantee its obligations under certain contracts, these are covered by provisions. The amount of the provisions is determined, fol-

(1) The word “concessionaire” is used here in its broader sense to indicate a business which manages a public service.

lowing a change in the method of calculation in 1996, by discounting the forecast expenditures over the average estimated term of the contracts⁽²⁾. The discount rate adopted is based on the interest rate in effect for an estimated equivalent period, which for 1999 and 1998 was 5%, compared with 6% in 1997.

At the date of replacement, the following accounting methods are applied:

- where the utility networks were originally financed by and replaced by the concessionaire, their residual value on the balance sheet is substituted for the cost of the new equipment; the related replacement provision, for contracts in which it continues to apply, is reclassified as amortization of assets under concession;
- in all other cases, the replacement cost is charged to income and the reversal of the provision for financial risk or provision for replacement is recorded as income. The cost of replacement is nevertheless treated as a capital expenditure in the "Statement of changes in financial position".

b. Accounting for repayment of debt contracted by local authorities and relating to utility networks

Vivendi and its subsidiaries are, under some water distribution concession agreements, contractually obliged to assume responsibility for the repayments of debt entered into by local authorities relating to utility networks managed by the group. The annual payments generally decrease each year and extend over a period shorter than the contract period.

This expense is charged to income on a straight-line basis over the contract period. The difference between the amounts paid to the local authorities and the expense charged to income is treated as a deferred charge on the balance sheet.

(2) Nine years for the water sector, six years for the energy sector.

SPECIFIC PROVISIONS RELATING TO CONSTRUCTION COMPANIES

Building, civil engineering and roadworks companies record income from contracts by applying the percentage of completion method, in keeping with the rules specified by the "Conseil National de la Comptabilité" (French chart of accounts plan for building and civil engineering companies). Consequently, the portion of work carried out between the last contractual status report and the end of the year is included at cost under work in process.

Water distribution and heating companies, whose construction work is generally of short duration, use the completed contract method.

In all cases, a provision is made for liabilities and charges on construction work in process at year end whenever the project is forecast to incur a loss.

SPECIFIC PROVISIONS RELATING TO PROPERTY COMPANIES

Property development and housing companies recognize income upon delivery, in accordance with the accounting policies in use in those industries, except where a departure from these policies would be justified. Uncompleted buildings are included in construction work in process at the lower of cost or market value. Property development companies adjust the value of inventories to their market value every six months. Development programmes running for a number of years are re-examined periodically, operation by operation, so that the forecast outcome fairly reflects current earnings expectations. As regards investment properties, the annual difference between the rental income and the financing and operational costs is charged to income. Furthermore, provisions are made, as appropriate, in the case of a low occupancy rate.

SPECIFIC PROVISIONS RELATING TO TELECOMMUNICATIONS

Subscriber acquisition costs incurred in connection with the mobile telephone business, comprising commissions paid to

distributors and the cost of free calling periods granted to new customers under promotional offers, are recorded as intangible assets other than goodwill and amortized over a period of one year.

SPECIFIC PROVISIONS RELATING TO THE AUDIO-VISUAL SECTOR

Films and broadcast rights of production and rights management subsidiaries

Film distribution rights held by the production subsidiary, Le Studio Canal+, are recorded as intangible assets other than goodwill when advances are requested by the producers or holders of rights.

The total commitment is recorded at the date shooting ends, in the case of co-productions, and when broadcast rights are granted in cases where such rights are acquired.

In keeping with international practice, the cost of film co-production shares, which are financed by borrowings outside the group, incorporates the interest expense directly chargeable to them.

Amortization is based on the estimated revenue method, which consists of applying to film costs the ratio resulting from a comparison of actual net revenues and estimated ultimate net revenues of the film. Estimated ultimate net revenues are periodically reviewed by management and revised if necessary to reflect actual income from the films. If estimated ultimate net revenues are inadequate to cover film production costs, a provision for the same amount is made.

The same amortization method is used for broadcast rights.

Premium channel programmes and broadcast rights

The programmes and broadcast rights recorded as inventory include:

- the acquisition of broadcast rights, when the copy delivered by the supplier has been accepted by the stations and the rights in question have neither expired nor been used;
- programmes produced by the stations that have not yet been broadcast;

- programmes being acquired or produced for which the copy has not been accepted for delivery by the stations. Such programmes are valued on the basis of costs incurred at the balance sheet date.

Programmes are considered “used” once they have been broadcast.

B) GROUP-WIDE ACCOUNTING POLICIES

TANGIBLE ASSETS AND DEPRECIATION

Accounting policies applied in respect of the valuation of gross carrying amounts and depreciation are similar within each activity sector and conform to current practice, in particular as regards the useful economic life of the asset. This is from 20 to 50 years for buildings, 7 to 12 years for technical systems, and 3 to 12 years for transport equipment.

FINANCIAL ASSETS

The gross value of unconsolidated investments represents acquisition cost. Where the gross value is higher than the value in use, the difference is charged to income as a provision for depreciation. The value in use is calculated on the basis of Vivendi's share of the equity of the companies concerned (adjusted to market value in the case of listed securities), and of their earnings growth prospects and their interest to Vivendi.

Disposals made under a conditional contract (where the meeting of the condition is not dependent on a decision of either party) are recognized as at the date on which the agreement was made, only when the condition has been satisfied before the date of the Board of Directors' meeting called to approve the financial statements.

VALUING INVENTORIES

Group companies other than property and construction subsidiaries and audiovisual subsidiaries (see specific paragraphs above) value inventories according to the provisions of the French Commercial Code, on either a FIFO or a weighted average cost basis.

Consolidated financial statements

ACCOUNTS RECEIVABLE

Accounts receivable are carried net of provisions for bad debts, which are calculated on the basis of credit risk. In some activity sectors, bad debts are assessed using statistical data.

MARKETABLE SECURITIES

Marketable securities are carried at their acquisition cost. If their probable market value at the year end (on the basis of the last quoted price or the fair value) falls below the acquisition price, a provision is made.

Pursuant to recommendations issued by the CNC and the COB (the French securities and exchange commission), shares of treasury stock are classified as marketable securities when they are used to stabilize the trading price of the Vivendi share or in connection with stock options granted to directors and executive or other employees. Vivendi shares held for other reasons are deducted from shareholders' equity.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are charged to income as incurred.

SUBSIDIES AND DEFERRED INCOME

Deferred income on the balance sheet relates to operating revenue collected from long-term projects.

SUBORDINATED SECURITIES

In accordance with the method used by Vivendi, the net proceeds from the issue of subordinated securities are recorded as liabilities on the balance sheet. The regular annual repayments which will be made in respect of these securities will be fully amortized at maturity. Management and placement commissions are deferred and charged to income over the debt amortization period.

OPERATING INCOME LESS NET FINANCIAL EXPENSE

Operating income less net financial expense takes account of the operation of companies within the scope of consolidation and the cost of financing their operations.

It does not take account of elements of a non-recurring nature, such as the costs of restructuring, costs associated with disposal operations, the incidence of the disposal of assets except where this is an integral part of operations, the costs of closing companies or industrial sites, the writing-off of debt and the effect of guarantees given when these are exercised.

Consolidation methods

The companies' financial statements are consolidated according to three methods:

- the consolidated financial statements include the accounts of the parent company and its directly or indirectly controlled subsidiaries;
- the financial statements of jointly controlled companies are included in the consolidated financial statements using proportionate consolidation;
- when the ownership interests range between 20% and 50% and these interests do not give exclusive or joint power to control the affiliates, but also when the group exercises significant influence, investments are accounted for by the equity method.

BALANCE SHEET DATE FOR NEWLY ACQUIRED COMPANIES

For companies whose financial year does not coincide with the calendar year, interim statements have been used except when the year-end was less than three months prior to December 31.

Acquisitions of subsidiaries are accounted for as of the acquisition date or, for practical reasons and when the effect is not significant, using the most recent balance sheet available prior to acquisition.

The balance sheet at acquisition date used for the first consolidation of a newly acquired company is restated in accordance with the accounting policies selected by Vivendi. Provisions for acquisition-related restructuring costs may be made, effective at the date of acquisition.

INTERCOMPANY TRANSACTIONS

All intercompany transactions have been eliminated. In the case of proportionately consolidated companies, such transactions are eliminated on the basis of Vivendi's interest in the company involved.

Adjustments in respect of investments and receivables relating to consolidated companies are eliminated from income, to the extent that they are also recorded in the statement of income of the companies in question. Any material intercompany profits included in inventories are eliminated.

Only the gains on the transfer of fixed assets within the group are eliminated (in the case of tangible assets, only gains over €1m are taken into account). The losses on the transfer of fixed assets within Vivendi, where they arise, are either retained in the statement of income or entered in the form of exceptional amortization of residual goodwill.

The depreciation of depreciable assets transferred internally within Vivendi is restated.

TRANSLATION OF FOREIGN SUBSIDIARIES' FINANCIAL STATEMENTS

The balance sheets and statements of income of foreign subsidiaries have been translated at year-end exchange rates. Gains or losses arising from foreign exchange translation on opening net assets are recorded in shareholders' equity, and thus have no impact on net income for the year. However, prior to the application of this method of translation, the financial statements of consolidated companies with an activity in a country with a high inflation rate are translated into the stable currency of the country that has the most similar type of economy, after elimination of the impact of local inflation. The effect of this restatement is recorded in net financial expense or income.

GOODWILL

1) Goodwill represents the excess of the purchase price of the securities of a consolidated company over the share of the net assets acquired. Since 1989, in accordance with recommended practice, the goodwill is assigned, whenever possible.

The assignment is made:

- either to unamortizable intangible assets, such as market shares, to the extent that the value of these market shares can be determined according to a sufficiently accurate and objective method and that this method makes it possible to review in the future the value initially allocated;
- or to tangible assets on the basis of appraised values determined by experts;
- or to specific assets and liabilities of the acquired companies.

The assignment of goodwill is made over a period that does not go beyond the end of the first complete financial year subsequent to acquisition.

2) Any remaining excess that cannot be allocated to the aforementioned assets, especially when this is not significant, is either amortized as goodwill or, in certain specific circumstances, deducted from retained earnings. These amounts are amortized on a straight-line basis as follows:

- Goodwill arising from the acquisition of utilities companies is amortized over a maximum 40-year period, which reflects the length and the renewal rate of utilities contracts.
- Goodwill from companies in the construction sector is amortized over a maximum of 20 years.
- Goodwill from companies in the communications division (telecommunications and media) is amortized over a maximum of 40 years.
- Non-allocated goodwill, which may be linked to assets with a specific period of use, is amortized over the remaining life of the assets in question.
- Goodwill with a value under €150,000 is written off in the year of acquisition.
- In accordance with recommended practice, goodwill is deducted from consolidated shareholders' equity when the acquisition is paid for through a stock issue, up to the amount of the related share premium.

Where appropriate (major structural changes to prevailing technical, regulatory or operating market conditions), a write-

Consolidated financial statements

down of goodwill in excess of the normal amortization expense is charged to income.

DEFERRED TAXES

Deferred taxes are provided for, using the liability method, in order to reflect the impact of timing differences between pre-tax accounting income and taxable income. Timing differences also arise where regulated provisions and accelerated depreciation are eliminated in the course of the consolidation process.

Deferred tax assets (including those relating to tax loss carry-forwards) are recognized when it is probable that they will be used in the future. Accordingly, since the earnings outlook for the Vivendi tax group is positive for the years to come, substantially all the tax credits related to tax losses are now recognized as assets.

CAPITAL LEASES

As provided for by accounting regulations, Vivendi changed its accounting policy in 1998 to capitalize in its consolidated financial statements assets financed by leasing contracts. The 1997 financial statements have not been restated to reflect this change.

PROVISION FOR PENSION COMMITMENTS

In 1998, Vivendi and all its subsidiaries adopted a change in accounting policy for calculating their pension commitments and redundancy pay for all their current and retired employees, both in and outside France. The impact of these commitments for the full financial year, calculated from January 1, 1998, was allocated to consolidated shareholders' equity (see note 16).

Pension commitments and redundancy pay are subject to actuarial forecasts, using the projected unit credit method. This evaluation takes into consideration the probability of staff remaining with the company until retirement, the foreseeable changes in compensation and the appropriate discounted cash flow rates. The rates used are specific to each country. In France, the rate used was 5%. Outside France, the rates used range between 5% and 6%.

This accounting treatment, which complies with the new recommendations of the accounting authorities, has been used by companies in Vivendi's construction sector, headed by SGE, since 1997.

Notes to the consolidated financial statements

A. Statement of income

1. OPERATING REVENUE

(in millions of euros)	1999	1998	1997
Billings	41,429.3	32,146.8	25,159.7
Costs transferred to inventories	(137.2)	(710.5)	70.9
Capitalized costs	330.4	300.8	246.0
1.1 Net sales	41,622.5	31,737.1	25,476.6
Subsidies related to operations	34.3	43.1	25.7
Other operating revenues ⁽¹⁾	738.6 ⁽¹⁾	852.0	431.8
Share in results of joint ventures	29.4	25.5	29.8
Property income	54.5	61.9	44.3
Operating costs transferred to assets as deferred expenses ⁽²⁾	1,094.5 ⁽²⁾	534.3	423.0
1.2 Other revenue	1,951.3	1,516.8	954.6

(1) Including royalties, rebates from suppliers and costs billed to third parties, especially in the construction sector, where costs are billed to unconsolidated joint ventures.

(2) Including the deferral of subscriber acquisition costs amounting to €775.3m in 1999, compared with €309.2m in 1998 and €315.6m in 1997.

2. ANALYSIS OF PRO FORMA INCOME

The consolidation scope for the calculation of pro forma items corresponds to the companies held at end 1999 and already present in the group in 1998. The full-year impact of companies acquired in 1998 was taken into account.

Acquisitions in 1999 have been eliminated from pro forma income for 1999. For 1998 pro forma income, disposals made in 1999 have been eliminated, as have the full year impacts on income of acquisitions made in 1998.

	1999 (actual)	1998 (actual)	1999 (pro forma)	1998 (pro forma)
Net sales	41,622.5	31,737.1	35,213.5	31,493.1
Operating income	2,280.5	1,331.4	1,891.7	1,376.2
	+ 71.3%		+ 37.5%	

On a like-to-like consolidation basis, net sales grew 11.8%.

3. ALLOCATION TO PROVISIONS

The total net provision reversals in the consolidated statement of income for 1999 amounted to €117.8m, against €50m in 1998.

Net charges to operating provisions amounted to €91m, against €70m in 1998.

Net financial provisions amounted to €162.9m, against a net allocation of €298m in 1998. These include €90.4m of allocation for risks covered by a group company with respect to the swaps set up in 1997 and revalued to their market value, €29.8m relative to the amortization of the redemption premium on bond issues, and €27.3m in respect of treasury shares held in connection with stock option plans.

Net reversals of exceptional provisions amounted to €371.7m in 1999, compared with a net reversal of €413m in 1998.

B. Balance sheet – Assets

5. INTANGIBLE ASSETS OTHER THAN GOODWILL

5.1 Movements during the year

(in millions of euros)	1998	Change in scope of consolidation	Additions/ allocations	Disposals/ reversals	Other movements	1999
Gross amount	4,158.5	6,322.5	960.1	(122.2)	(50.0)	11,268.9
Accumulated amortization	(875.8)	(1,421.3)	(367.2)	74.9	2.4	(2,587.0)
Net intangible assets	3,282.7	4,901.2	592.9	(47.3)	(47.6)	8,681.9

4. INCOME TAXES

Income taxes include:

- An income tax expense of €228.9m, compared with €369.5m in 1998. Subsidiaries in the Vivendi tax group paid Vivendi €474m, compared with €247.2m in 1998.
- Deferred tax income of €1,022.1m, versus €279.3m in 1998. In 1998, as a result of improvements in its tax visibility, the Vivendi group recognized deferred tax assets in respect of a portion of its tax operating loss carry-forwards whose recovery was deemed likely in the short term. For 1999, the Vivendi tax group is now assured of using these tax losses within a five-year period. Consequently, the tax loss generated by property disposals has been primarily assigned to capital gains that the group plans to realize and which will be taxed at the reduced rate. This position led to the recognition of deferred tax income of €952m in 1999.

Consequently, the group's overall tax position is an asset of €1,152.5m, compared with a liability of €177m.

In addition, certain tax audits are under way, in particular concerning the Vivendi tax group, Anjou Patrimoine and SGE. It is the opinion of the Vivendi management that these audits are unlikely to change its overall financial position in any material respect.

Consolidated financial statements

Changes in the scope of consolidation – gross amounts – concern the allocation to trademarks of goodwill of €2,045m arising in connection with the USFilter acquisition and goodwill of €585.8m in respect of subsidiaries acquired by Havas in 1999. In addition, the full consolidation of Canal+ increased intangible assets by €1,934m.

5.2 Breakdown by business sector

At December 31, 1999, net intangible assets amounted to €8,681.9m, analysed as follows:

(millions of euros)	1999	1998	1997
Environmental Services	3,792.0	941.2	1,150.2
Including			
• Water	2,967.1	308.5	780.3
• Energy	159.0	153.4	115.5
• Waste management	318.8	201.1	190.7
• Transport	214.0	194.0	63.7
• FCC	133.1	84.2	
Communications	4,671.3	1,712.2	394.8
Including			
• Telecommunications	987.1	598.9	393.4
• Media	1,763.1	1,113.3	1.4
• Audiovisual activities	1,921.1	—	—
• Internet	—	—	—
Construction & Property	105.2	163.5	181.2
• Construction	70.4	74.4	68.9
• Property	34.8	89.1	112.3
Other	113.4	465.8	1.7
TOTAL	8,681.9	3,282.7	1,727.9

5.3 Nature of intangible assets

Net intangible assets principally include:

- up-front payments to local authorities amounting to €516.9m (versus €554.7m in 1998) in accordance with concession contracts to operate public water and wastewater services, primarily in France. These were amortized over the term of the contracts to which they relate.

- trademarks, market shares, goodwill and editorial resources: €5,395.7m (against €1,453.9m in 1998). These were mostly recorded in Vivendi's water (€2,059.2m), waste management and transport (€318.8m), publishing and multimedia (€1,726.4m) and audiovisual (€1,067.7m) activities. In particular, this includes the allocation of part of the goodwill arising on the acquisition of USFilter (see 6.2 below), Havas (€698.9m) and Havas's acquisitions (€585.8m).

The reference value of market shares is re-examined each year on the basis of criteria used to assess their initial value, such as the market position, net sales, and gross operating surplus or deficit.

- Net intangible assets also include expenses of €1,192m to be allocated over several financial years, of which €283.6m relates to the difference between the contractual amounts of debt servicing payments to local authorities and the expense charged to income over the contract period (see above, "Accounting policies"), and €446.5m, which relates to the balance of SFR's subscriber acquisition costs to be amortized over 12 months.

6. GOODWILL

6.1 Movements during the year

Goodwill at January 1, 1999	5,826.7
Changes in the scope of consolidation	5,825.5
Foreign currency translation adjustments	485.8
Goodwill at December 31, 1999	12,138.0
Accumulated depreciation and provisions ⁽¹⁾	(1,749.4)
Net amount in balance sheet	10,388.6

(1) of which €612m for the year, including €292.8m classified as exceptional amortization expenses

6.2 Transactions during the period

6.2.1 Acquisition of USFilter

Goodwill arising from the acquisition of USFilter totalled €6,622m, of which €2,045m was allocated to well-known and established trademarks, valued on the basis of the royalties to be earned in connection with their indirect exploitation. The

remaining sum was charged to issue premiums in connection with capital increases used in part to finance this acquisition (€2,776m). The balance of €1,801m was written off on a pro rating basis over eight months.

6.2.2 Merger with Pathé

The acquisition of a 19.6% interest in Pathé on February 25, 1999 and the merger of the latter with Vivendi in September 1999, effective retroactively from January 1, generated goodwill of €1,006m. €843m of this amount was allocated to the value of the assets sold to Fornier (€229m); to the CanalSatellite securities sold by Vivendi at the beginning of 2000 (€154m); to goodwill on consolidated British Sky Broadcasting securities that were included among Pathé's assets (€300m); and to British Sky Broadcasting securities that have not been consolidated in order to satisfy possible demands to redeem bonds convertible into BSkyB stock recorded as liabilities (€160m). The remaining balance of €163m was charged to the merger premium.

6.2.3 Additional acquisition of British Sky Broadcasting stock

The acquisition of close to a 25% interest in British Sky Broadcasting resulted in goodwill of €1,604m, of which €306m was charged to issue premiums in connection with capital increases used in part to finance this acquisition. The remaining balance of €1,298m was recorded as goodwill and is being amortized over 40 years.

In all, including the goodwill resulting from the Pathé merger, the goodwill in respect of British Sky Broadcasting was recorded as an asset at €1,598m.

6.2.4 Acquisition of Canal+ stock

Goodwill arising in connection with the acquisition of a 15% interest in Canal+ totalled €1,159m, charged to issue premiums

in connection with the capital increases used in part to finance this acquisition.

6.2.5 Acquisition of Havas Interactive Inc. (formerly Cendant Software)

Goodwill arising in connection with the acquisition of Havas Interactive Inc. totalled €560.4m, of which €278.6m was allocated to trademarks. Remaining goodwill of €281.8m will be amortized over ten years.

6.3 Breakdown by business sector

(in millions of euros)	1999	1998	1997
Environmental Services	5,117.2	1,834.8	1,148.7
Including			
• Water	2,426.9	336.2	292.2
• Energy	685.1	352.8	450.8
• Waste management and transport	1,346.4	518.2	367.9
• FCC	658.8	627.6	
Communications	4,472.8	2,332.4	2,225.6
Including			
• Telecommunications	1,712.7	1,566.5	1,467.0
• Media	887.5	484.3	758.6
• Audiovisual activities	1,872.6	281.6	
Construction & Property	792.0	348.4	362.7
Including			
• Construction	702.3	236.7	242.7
• Property	89.7	111.7	120.0
Other	6.6	(0.7)	32.6
TOTAL	10,388.6	4,514.9	3,769.6

Consolidated financial statements

7. TANGIBLE ASSETS

7.1 Movements during the year

(in millions of euros)	1998	Change in scope of consolidation	Additions/ allocations	Disposals/ reversals	Other movements	1999
Owned property, plant and equipment	18,641.1	5,505.7	4,741.5	(1,991.0)	(330.2)	26,569.1
Publicly-owned utility networks financed and managed by the Vivendi group	1,206.3	3,160.2	178.1	(632.8)	74.0	3,985.8
Gross tangible assets	19,847.4	8,667.9	4,919.6	(2,623.8)	(256.2)	30,554.9
Depreciation	(7,605.3)	(2,166.0)	(2,027.7)	1,247.4	(25.9)	(10,577.5)
Net tangible assets	12,242.1	6,501.9	2,891.9	(1,376.4)	(282.1)	19,977.4

At year-end 1999, owned property, plant and equipment included land (€1,877.4m versus €1,539m at year-end 1998), buildings (€3,902.7m versus €3,979m in 1998), technical systems (€13,474.1m versus €9,026m in 1998), and various other fixed assets (€7,314.8m, of which €1,371.6m in assets under construction, versus €4,097m, of which €908m in assets under construction at year-end 1998).

Changes in the scope of consolidation primarily include USFilter (€980.8m), Berliner WasserBetriebe (€2,190m), Superior Services (€481.3m) and Canal+ (€2,169m).

Disposals primarily concern property (€1,204m).

7.2 Breakdown by business sector

(in millions of euros)	Owned property plant and equipment	Publicly-owned utility networks	Depreciation	Net tangible assets	Summary 1998	Summary 1997
— Water	4,397.1	2,652.0	(1,587.4)	5,461.7	2,152.3	2,133.5 ⁽¹⁾
— Energy	5,442.1	575.1	(1,196.4)	4,820.8	2,730.7	1,889.0
— Waste management	3,988.6	12.5	(1,770.8)	2,230.3	1,505.7	860.6
— Transport	1,425.3	200.9	(658.0)	968.2	533.9	181.2
— FCC	1,130.0		(484.1)	645.9	462.8	
Environmental services	16,383.1	3,440.5	(5,696.7)	14,126.9	7,385.4	5,044.3
Telecommunications	3,642.3	7.2	(1,012.6)	2,636.9	2,104.4	1,297.6
Media	577.2	0.9	(278.5)	299.6	371.1	41.4
Pay-TV	2,272.6		(1,664.8)	607.8	—	—
Internet	—	—	—	—	—	—
Communications	6,492.1	8.1	(2,955.9)	3,544.3	2,475.5	1,339.0
Construction	2,239.9	529.2	(1,560.1)	1,209.0	786.7	642.4
Property	1,331.8 ⁽²⁾	8.0	(341.6)	998.2	1,536.9	1,357.7
Construction and Property	3,571.7	537.2	(1,901.7)	2,207.2	2,323.6	2,000.1
Other	122.2		(23.2)	99.0	57.6	5.1
TOTAL	26,569.1	3,985.8	(10,577.5)	19,977.4	12,242.1	8,388.5

(1) In 1997, Vivendi Holding was part of the water business sector.

(2) Of which €801.5m in land and €586.4m in investment properties.

Consolidated financial statements

8. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

The principal companies accounted for by the equity method are as follows:

(in millions of euros)		Percentage held (directly)	Share of net shareholders' equity at December 31, 1999	Share of 1999 net income
Télécom Développement	(1)	50.00%	241.4	(1.1)
Havas Advertising	(2)	19.71%	127.8	11.3
Cofiroute		31.13%	105.0	26.0
UGC		39.34%	71.1	0.4
AOL Compuserve France SAS	(3)	55.00%	59.3	(8.6)
Philadelphia Sub	(4)	15.87%	55.0	5.4
UGC Ciné-Cité	(5)	19.44%	52.0	0.3
South Staffordshire		32.71%	47.0	10.1
Bristol Waterworks Co.		24.14%	36.3	5.1
Midkent		23.82%	27.2	6.1
British Sky Broadcasting	(6)	23.36%	(250.0)	(13.7)
Other (shareholders' equity value less than €20m)			209.8	(8.4)
TOTAL			781.9	32.9

Due to the acquisition by Vivendi of 15% of the capital stock of Canal+, the latter is fully consolidated as of October 1, 1999. At the end of the year, Audiofina was entirely disposed of, and the business assets of Havas Advertising were partly sold. Following a series of acquisitions, Magyar Telecom is now fully consolidated.

(1) SNCF is the main shareholder of Télécom Développement.

(2) The Vivendi group interest was diluted at the year end by the exercise of conversion rights by some bond holders. It nevertheless remains the main shareholder of Havas Advertising.

(3) The rights granted to minorities limit Vivendi's role to that of significant influence.

(4) Vivendi is the largest shareholder of this company.

(5) The largest shareholder is UGC.

(6) Vivendi consolidates this equity stake with an interest-rate deduction made on securities likely to be delivered to bond holders in the case of conversion.

9. UNCONSOLIDATED INVESTMENTS AT DECEMBER 31, 1999

(in millions of euros)		Percentage of capital held at December 31, 1999	Book value 1999	Book value 1998
Elektrim Telekomunikacja SP Zoo	(1)	49.00%	1,209.2	—
CanalSatellite	(2)	30.05%	304.0	—
Mediaset Sp A		3.50%	143.6	—
Television Holding SA	(2)	100.00%	85.7	—
Domino		30.00%	59.3	59.3
Csatorna Uzemeltetesi Holding Reszvenyta		25.00%	40.0	—
Fovarosí Csatomazasi Muvek Reszvenytársaság		12.50%	37.8	37.8
Mitteldeutsche Wasserversorgungsgesellschaft	(1)	25.10%	34.2	—
Coprim		19.90%	31.5	31.5
Norsk Gjenvinning		68.57%	29.2	—
CGEA Brésil	(1)	100.00%	23.7	—
Misrfone		7.00%	22.5	22.5
Atviso	(1)	50.00%	20.1	—
Other investments (gross book value less than €20m in 1999)			676.5	788.2
Gross book value			2,717.3	939.3
Provision			(301.7)	(270.7)
Net book value			2,415.6	668.6

(1) Companies acquired or set-up at the end of 1999.

(2) Equity stakes disposed of in 2000.

Consolidated financial statements

10. PORTFOLIO INVESTMENTS HELD AS FIXED ASSETS

Portfolio investments held as fixed assets are unconsolidated investments in listed companies (with the exception of FACIC) that form part of Vivendi's investment portfolio, the overall value of which is indicated in note 15.

(in millions of euros)	At December 31, 1999			At December 31, 1998		
	%	Gross book value	Estimated market value ⁽¹⁾	%	Gross book value	Estimated market value
Saint-Gobain	1.56%	119.2	249.9	5.09%	341.9	675.3
Washington Baltimore through Facic ⁽²⁾	9.96%	185.1	185.1	9.96%	185.1	185.1
Alcatel Alsthom	0.98%	145.1	443.9	1.22%	167.3	253.6
Eiffage	4.65%	56.6	42.6	4.86%	56.6	41.0
Société Générale	—	—	—	—	21.8	34.5
Others (with unit book value of under €40m)	—	49.0	106.7	—	127.8	133.5
Total gross amount		555.0	1,028.2		900.2	1,323.0
Depreciation		(20.6)			(23.9)	
Total net amount		534.4			876.3	

(1) Stock market value at December 30, 1999.

(2) Subsidiary of Southwestern Bell Corporation, an unlisted company, whose fair value is not less than the net book value.

11. OTHER INVESTMENTS HELD AS FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS

After providing for depreciation of €126m, other investments held as fixed assets and other long-term investments total €2,561.1m, compared with €2,749.9m in 1998. Unlisted investments included in this total amount to €393.5m, against €315.6m in 1998, and other financial assets represent €2,165.9m, against €2,434.3m in 1998 (including long-term financial receivables mentioned in note 22 amounting to €892.3m, of which €128.8m is being hedged under the swap contracts entered into with General Re Financial Products, Inc.).

12. INVENTORIES AND WORK IN PROCESS BY BUSINESS SECTOR

(in millions of euros)	1999	1998	1997
Environmental Services,			
including:			
Water ⁽¹⁾	2,102.7	743.3	554.3
FCC	1,474.0	295.9	280.7
Sithe Energies	216.4	177.2	
	80.0	20.8	3.0
Communications,⁽²⁾ including:	1,043.7	313.6	61.5
Pay-TV	759.7		
Construction⁽³⁾	332.7	302.8	1,639.0
Property	1,421.3	1,636.3	1,906.6
TOTAL	4,900.3	2,996.0	4,161.4

(1) At December 31, 1999, consolidation of USFilter (€613m) and Berliner WasserBetriebe (€595m).

(2) At December 31, 1998, consolidation of Havas (€171.4m). At December 31, 1999, consolidation of Canal+ (€759.7m).

(3) The impact on work in process of the change in accounting policy, from the completed contract method to the percentage of completion method, amounted to €1,263m at January 1, 1998.

These figures are net of write-downs amounting to €657.8m at December 31, 1999, of which €401.8m relating to the property sector.

For Compagnie Générale d'Immobilier et de Services, inventories and construction in process amount to €1,421.3m, versus €1,636.2m in 1998.

They include in particular:

- €814.9m of assets booked as "Vivendi Valorisation" net of a €335.9m provision, of which €586.5m, net of €193.9m of provisions, represent multi-year development projects in the Greater Paris region (in the La Défense business district), in other parts of France and in Babelsberg near Potsdam in Germany.
- €606.3m for assets pooled in a new legal structure called "New CGIS" scheduled for disposal in 2000.

Stocks and work in process in respect of Canal+ relates to the company's films and programmes (€759.7m).

13. ADJUSTMENTS FOR DEPRECIATION OF CURRENT ASSETS OTHER THAN INVENTORIES

Adjustments have been made in respect of trade receivables of €1,068.3m, versus €706.2m in 1998, and in respect of financial receivables amounting to €249.8m, compared with €160.7m in 1998.

14. CASH AND MARKETABLE SECURITIES

Cash and marketable securities include listed securities of €2,284.2m, unlisted securities of €2,020.3m (primarily mutual

funds) and cash of €2,861.8m. In total, after writedowns of €57.9m, these items have been recorded on the balance sheet at €7,108.5m.

15. GROUP INVESTMENT PORTFOLIO

15.1 Treasury stock

Vivendi and its subsidiaries own 33,238,663 Vivendi shares amounting to €2,029.9m, at an average cost price of €61 per share. Nearly all these shares (94%) are carried on the balance sheet as marketable securities, and the remainder is deducted from shareholders' equity. Around 2.1 million shares are held in treasury to cover needs related to employee stock option plans.

During the year, 21,394,722 Vivendi shares were acquired at an average price of €72.7 per share, and 4,950,930 shares were sold at an average price of €76.4 per share.

15.2 Other portfolio investments

The investment portfolio consists of listed shares and convertible bonds (with the exception of FACIC, see above) issued by unconsolidated companies. These securities are included in the balance sheet under the headings, "Unconsolidated investments", "Portfolio investments held as fixed assets", and "Cash and marketable securities". Their market value (with the exception of the 10% shareholding in the Washington-Baltimore mobile telephone franchise, which is given at its book value) at December 31, 1999 was €1,049.1m, for a net book value of €550.4m.

C. Shareholders' equity and liabilities

16. SHAREHOLDERS' EQUITY AND MINORITY INTEREST

1) Group share in shareholders' equity

(in millions of euros)	Capital stock	Additional paid-in capital	Retained earnings	Net income	Shareholders' equity
Balance at December 31, '97	2,043.5	3,237.3	743.8	822.1	6,846.7
Changes in method			(226.8)		
Restated net total at December 31, '97	2,043.5	3,237.3	517.0	822.1	6,619.9
Capital increase ⁽¹⁾	387.5	770.8			1,158.3
Goodwill allocation ⁽²⁾		(579.0)			(579.0)
Dividends paid and net income appropriation			516.2	(822.1)	(305.9)
Foreign currency translation adjustment ⁽³⁾			(168.7)		(168.7)
Release of revaluation surplus and other ⁽⁴⁾			(5.2)		(5.2)
1998 net income				1,120.8	1,120.8
Balance at December 31, '98	2,431.0	3,429.1	859.3	1,120.8	7,840.2
Capital increase ⁽¹⁾	845.1	5,232.0			6,077.1
Goodwill allocation ⁽²⁾		(4,310.3)			(4,310.3)
Dividends paid and net income appropriation			707.3	(1,120.8)	(413.5)
Foreign currency translation adjustment ⁽³⁾			383.3		383.3
Release of revaluation surplus and other			(116.0)		(116.0)
1999 net income				1,431.4	1,431.4
Balance at December 31, '99	3,276.1	4,350.8	1,833.9	1,431.4	10,892.2

(1) In 1998, €923.2m in connection with the merger with Havas, €156.8m in connection with the Group Savings Scheme, €48.7m in connection with the exercise of stock options and €29.6m in connection with the conversion of bonds and warrants. In 1999, a capital increase with preferential subscription rights (€2,681m), the merger of Pathé with Vivendi carried out by means of absorption (€522m), WEI's contribution of British Sky Broadcasting securities (€325m), Richemont's contribution of Canal+ securities (€1,373m), Group Savings Scheme (€480m), the exercise of stock options (€44m), conversion of bonds and warrants (€613m) and subscription warrants (€39.1m).

(2) In 1998, the merger with Havas led to an allocation of €579m to the merger premium. In 1999, as a result of the acquisition of USFilter and transactions involving Pathé, British Sky Broadcasting and Canal+, €4,401.3m was charged to merger premiums. Total allocations were €5,222m. In the absence of any charges to shareholders' equity, the related accumulated goodwill amortization was €296.7m at December 31, 1999 of which €119.5m was in respect of 1999. This assumes straight-line amortization in line with the group's usual policies.

(3) In 1998, the principal fluctuations concerned the pound sterling (a decrease of £122.2m) and the US dollar (a decrease of \$23.6m). In 1999, the principal fluctuations concerned the dollar (€230m) and the pound sterling (€141m). At December 31, 1999, the aggregate amount in retained earnings was €311.9.

(4) Including €170.6m due to the change in accounting policy relative to the restatement of capital leases (see Accounting policies and notes 7.1, 21.1 and 22.1), and €56.2m due to the change in accounting policy for pension commitments (see Accounting principles and notes 18.1 and 28 from the 1998 annual report).

2) *Change in minority interest*

Minority interest amounted to €4,052.4m at December 31, 1999, compared with €2,423m in 1998 and €1,742.3m in 1997.

The net change during the year mainly resulted from changes in the scope of consolidation, which had an impact of €1,596.9m, which primarily included the full consolidation of Canal+ as of October 1, 1999 (€784.9m), the increase in Sithe Energies's capital that was opened to third parties (€173m), and the acquisition of Berliner WasserBetriebe (€545.8m).

Net loss attributable to minority interest was €5.3m. The minority share in the distribution of dividends and foreign currency translation adjustments were, respectively, a debit of €70.3m and a credit of €84.1m.

17. DEFERRED INCOME

This section refers principally to:

- Prepayments relating to the 55-year construction lease signed with Philip Morris Capital Corporation at the end of

1995 for €204.2m, and to the 50-year special construction lease on the Lindencorso building in Berlin, signed in 1997 with a group of German investors for €94.7m. These are amortized on a straight-line basis over the duration of the leases.

- Payments made since the end of 1997, totalling €607.8m in respect of the securitization of income on future debts. This operation was organized as part of the financing of cogeneration projects in the energy sector, and the income was amortized from January 1, 1998 using the discounted cash flow method, for the term of the debt, i.e. between five and twelve years. In 1999, additional income of €289.7m was recorded in connection with debt securitization.

This heading also contains investment subsidies amounting to €405.4m, compared with €97.9m in 1998. The increase in subsidies can be attributed to the water (€168m) and transport (€139m) sectors.

18. PROVISIONS FOR LIABILITIES AND CHARGES

18.1 *Change in provisions for liabilities and charges*

(in millions of euros)	1998	Changes in scope of consolidation and other	Foreign currency translation adjustments	Net expense for the year	1999
Provisions for replacements and full warranty ⁽¹⁾	320.4	100.2	4.3	7.8	432.7
Provisions for pension commitments and redundancy pay ⁽²⁾	458.7	96.6	2.7	33.6	591.6
Financial provisions for liabilities and charges ⁽³⁾	1,515.5	(3.4)		(1,053.8)	458.3
Other provisions for liabilities and charges ⁽⁴⁾	3,637.1	963.8	61.5	738.5	5,400.8
TOTAL PROVISIONS	5,931.7	1,157.1	68.5	(273.9)	6,883.3

(1) This provision covers replacement costs that could not be hedged under the swap contracts concluded with General Re Financial Products, Inc.

(2) See note concerning pension commitments.

(3) This item includes a technical provision for financial risk at year end designed to cover a guarantee granted by a Vivendi subsidiary in a swap deal with General Re Financial Products, Inc. (€128.8m), as well as amortization of assets under concession (€329.4m). During the year, provision reversals amounted to €1.15bn and partially covered the losses on property disposals.

(4) This item includes in particular potential losses on contracts that extend beyond the financial year.

Consolidated financial statements

Changes in the scope of consolidation primarily concern USFilter (€444m) and Canal+ (€400m).

18.2 Breakdown by business sector

(in millions of euros)	1999	1998	1997
• Water	1,577.9	694.7	573.3
• Energy services	680.6	598.2	510.5
• Independent power production	24.1	54.1	54.4
• Waste management	316.4	262.8	201.0
• Transport	64.5	51.4	22.5
• FCC	111.5	78.0	
Environmental Services	2,755.1	1,739.2	1,361.7
• Telecommunications	128.3	143.3	211.4
• Media	303.7	261.1	1.9
• Audiovisual activities	400.2		
Communications	832.2	404.4	213.3
• Construction	1,408.1	1,268.8	1,333.9
• Property	1,400.4	855.6	937.1
Construction & Property	2,808.5	2,124.4	2,271.0
Other⁽¹⁾	467.6	1,663.6	1,583.8
TOTAL⁽²⁾	6,883.3	5,931.6	5,429.8

(1) Includes a technical provision of €128.8m to hedge the swap that covers the group's financial commitment.

(2) Includes as at December 31, 1999, €5,400.8m of other provisions for risks and liabilities mainly in respect of property at €1,395.2m, construction at €1,363.2m, water at €981.7m, and energy at €546m.

19. SUBORDINATED SECURITIES

These mainly include:

- a loan of €244m to finance the wastewater treatment plant in Zaragoza, Spain, underwritten by OTV on December 27, 1991 and repayable over 15 years;

- \$70m of securities repayable over 15 years, issued on January 29, 1991 by Energies USA.

The exchange and interest rate exposures have been hedged.

The sums made available to OTV and Energies USA amount to €191.5m (of which €57.3m has already been amortized) and \$50m (of which \$21m has already been amortized). The repackaged portion (i.e. transferred to a trust) amounts to €52.4m and \$20m respectively. The rates of interest are six-month PIBOR + 0.75% and LIBOR + 0.5%. Repayment of the loans, will be offered to the holders of the securities for Energies USA in January 2006 and December 2006 for OTV.

Under the agreement reached with the French tax legislation office, interest is deductible over a 15-year period up to the amount of capital effectively made available to the companies (€191.5m and \$50m), i.e. after deduction of the repackaged portion (€52.4m and \$20m).

The amount initially recorded as a liability in the balance sheet equals the net amount of the subordinated securities (€191.5m and \$50m). The interest charged to income is equal to the interest calculated as if the subordinated securities were traditional loans amounting to €191.5m and \$50m amortized over 15 years by means of regular annual repayments. No interest is recognized as income for the period relating to the portion transferred to the trust.

20. PROJECT FINANCING

This is non-recourse financing, i.e. it is guaranteed solely by the projects which it finances. It concerns the Sithe Energies power plants (€1,193m).

The corresponding assets are primarily included under the heading "Owned property, plant and equipment". They total €1,373.3m, of which €642.3m relates to the Independence power plant.

21. LONG-TERM DEBT

21.1 Breakdown by business sector

(in millions of euros)	Amount at December 31, 1998	New borrowings	Repayment	Changes in scope of consolidation	Foreign currency translation adjustments, reclassification and change in accounting policy	Amount at December 31, 1999
• Water	468.8	3,732.8	(4,110.4)	2,871.1	10,599.3	13,561.6
• Energy	1,707.4	206.3	(156.6)	22.5	1,945.2	3,724.8
• Waste management	770.0	285.4	(352.0)	272.7	406.6	1,382.7
• Transport	400.4	217.2	(155.7)	194.7	(92.7)	563.9
• FCC	308.2	283.5	(83.2)	32.7	(37.4)	503.8
• Vivendi Environnement		3,058.1				3,058.1
Environmental Services	3,654.8	7,783.2	(4,857.9)	3,393.7	12,821.0	22,794.8
• Telecommunications	461.1	632.3	(203.6)	126.2	8.6	1,024.6
• Media	220.5	36.2	(61.2)	(65.4)	(8.9)	121.3
• Audiovisual activities		412.8	(17.9)	1,190.5	(4.4)	1,581.0
Communications	681.6	1,081.4	(282.7)	1,251.2	(4.7)	2,726.9
• Construction	216.1	204.1	(47.5)	110.7	9.7	493.2
• Property	1,577.1	102.9	(3,445.4)	2,869.5		1,104.1
Construction & Property	1,793.2	307.0	(3,492.9)	2,980.2	9.7	1,597.3
Other activities	3,652.9	2,288.4	(1,460.1)	(74.3)	(12,471.1)	(8,064.2)
Total	9,782.5	11,460.0	(10,093.5)	7,550.9	354.9	19,054.7

21.2 Maturities

(in millions of euros)	1999	1998	1997
Due between one and two years	4,781.0	2,435.6	1,131.7
Due between two and five years	8,080.4	2,485.5	1,646.4
Due after five years	6,192.8	4,861.4	3,942.6
TOTAL	19,054.7	9,782.5	6,720.7

21.3 Liabilities secured by collateral

At the end of 1999, €2.1bn in bank borrowings was supported by collateral guarantees, including €1.5bn for the financing of

power plants in the United States and €90m for the financing of the water treatment plants of Wyuna Water in Australia.

21.4 Long-term debt denominated in foreign currencies

Outside the euro zone, long-term debt denominated in foreign currencies is primarily composed of €1.6bn in dollar debt. Most of these debts have been issued by foreign subsidiaries and bear no exchange risk.

21.5 Bond issue:

On January 26, 1999, Vivendi issued 6,028,363 bonds in the amount of €1.7bn, with options to convert into new or outstanding shares. The term of the loan is five years. The nominal

Consolidated financial statements

value of the bonds is €282, and each bond may be converted into 3.047 Vivendi shares at the option of the holder.

On April 26, 1999, Vivendi Environnement issued 10,516,606 bonds (5-year and 250-day maturity) with a nominal value of €271, redeemable at €288, bringing the total amount of the borrowing to €3bn, premium included. At the option of the holder, each bond may be converted into 3.047 Vivendi shares or into Vivendi Environnement stock if and when the latter is listed on the stock market.

22. NET DEBT

(in millions of euros)	1999	1998	1997
Project financing	1,193.0	1,059.7	902.2
Other long-term debt	17,861.7	8,722.8	5,818.5
of which capital leases	818.0	892.9	
Sub-total of long-term debt	19,054.7	9,782.5	6,720.7
Subordinated securities	178.3	174.0	185.5
Long-term financial receivables ⁽¹⁾	(1,273.6)	(1,960.3)	(1,838.4)
Net cash ⁽²⁾	4,873.3	(1,494.1)	(890.8)
of which capital leases	53.2	66.4	
Net debt on the balance sheet⁽³⁾	22,832.7	6,502.2	4,177.0

(1) €892m consists of long-term receivables (classified as "Other financial assets" in the balance sheet) granted by Vivendi or its subsidiaries in connection with disposals, of which €128.8m is hedged under the previously mentioned swap contracts.

(2) These include short-term debt less short-term financial receivables, marketable securities and cash.

(3) Of which factoring of receivables amounting to €290m in 1999, €600.1m in 1998, and €582.4m in 1997.

Including €500m in vendor loans arranged in connection with earlier disposals of property assets and excluding the so-called "non-recourse" liabilities, the group's total financing amounted to €22.1bn, equivalent to 50.3% of shareholders' equity and 41.3% of its market capitalization at December 31, 1999.

23. DEBT AND FINANCIAL RISK MANAGEMENT

a) Debt management instruments

Vivendi's cash management and financing policy involves the use of financial instruments for non-speculative hedging purposes.

In 1999, interest-rate hedging covered on average €6.8bn in long- and short-term debt. The main hedging instruments used were swaps and caps. Hedging operations amounted to some €6.6bn, and mainly concerned Vivendi and CGIS. The average term of such hedging instruments was ten years. Taking into account fixed-rate hedging operations and issues, approximately 18.5% of total debt had a variable interest rate, against 3% in 1998.

In 1999, 62% of Vivendi's average net debt was denominated in euros. The average interest rate, including bank margins, was 4.1% for the year, against 4.36% for 1998. The other borrowings were primarily in dollars (35%, increased on a one-off basis in 1999 by bridge financing in the United States), pounds sterling and Australian dollars, at an average financing cost of 6.76%, 6.87% and 7.56%, respectively. This amounts to an average financing cost for all currencies of 5.13%, including margin, in 1999, versus 5.44% in 1998 and 5.88% in 1997.

Interest rate hedges for the years 2000-2008 represent on average €5.5bn at a maximum rate of 4.56%.

The breakdown of the hedges is as follows:

Interest rate hedges in force in 1999

(in €m) Instrument	Average amount	Average rate	Counterparty
Swap — payer — fixed rate	3,874.7	4.94%	Banks
Swap — receiver — fixed rate	(972.0)	6.32%	Banks (p/c CGIS)
Cap purchases	3,864.1	3.86%	Banks
Sub-total	6,766.8	4.13%	

Interest rate hedges thereafter (2000-2008)

(in €m) Instrument	Average amount (2000-2008)	Average rate	Counterparty	Effective duration
Swap — payer — fixed rate	4,370.7	4.66%	Banks	9 years
Swap — receiver — fixed rate	(347.8)	5.96%	Banks (p/c CGIS)	8 years
Cap purchases	1,427.2	4.59%	Banks	8 years
Sub-total	5,450.1	4.56%		

In conclusion, Vivendi's fixed-rate debt, comprised of outstanding fixed-rate borrowings and variable rate borrowings hedged at fixed rates, will total €16.5bn in 2000, €14.7bn in 2001 and €14.2bn in 2002. Compared with the average estimated debt of the Vivendi group, the fixed-rate hedge ratio is estimated at 100% for 2000, 90% for 2001 and 91% for 2002.

b) Financial risk management instruments

In 1997, Vivendi finalized its policy of hedging its main financial risks linked to replacement obligations in the water and energy sectors and to the risk, which had not emerged by the year-end, of non-reimbursement of the principal of certain long-term vendor loans to purchasers of property, which had been granted in the past when property assets were being disposed of.

In order to meet these obligations, Vivendi entered into two swap contracts for a term of 15 years each with General Re Financial Products, Inc. These swaps resulted in an initial payment to General Re Financial Products, Inc., of €990m in 1997, supplemented by a payment of €236.3m in 1998. In exchange, the latter reimbursed the water distribution and energy companies for their replacement and full warranty expenditures (€197.3m in 1999).

In 1999, Vivendi's financial subsidiaries sold vendor loans that they had granted in previous years in connection with the sale of certain property assets. This transaction, which brings to an

end most of their commitments, was covered by General Re Financial Products Inc. for €1,009m. In addition, Vivendi received €158.8m from General Re Financial Products Inc., accounted for as exceptional income, for guarantees the latter had given to certain property subsidiaries when they withdrew from some major property development projects.

24. ACCOUNTS PAYABLE AND RECEIVABLE

In the consolidated balance sheet, prepaid expenses of €877m in 1999, versus €818.5m in 1998, are included in accounts receivable.

The corresponding entries under liabilities (deferred income) are included in accounts payable and amount to €2,426m in 1999, compared with €1,631.2m in 1998.

25. PRO FORMA BALANCE SHEET

The principal acquisitions of the financial period (USFilter, Havas Interactive Inc., Canal+, BSkyB, Superior Services and Teerbau) had the following impact on the consolidated balance sheets:

• Balance sheet total:	€20.0bn
• Net debt of acquired companies	€6.3bn
• Fixed assets (excluding goodwill) of which, intangible assets:	€8.2bn €4.5bn

Residual goodwill arising from these transactions totalled €5bn after allocation of merger and issue premiums of €4.4bn.

D. Commitments**26. COMMITMENTS GIVEN****26.1 Commitments given — breakdown by type**

(in millions of euros)	1999	1998	1997
Guarantees given	2,472.7	1,535.6	2,147.4
Other commitments given	1,949.9	1,402.9	1,100.8
TOTAL	4,422.6	2,938.5	3,248.2

Consolidated financial statements

26.2 Commitments given — breakdown by business sector

(in millions of euros)	1999	1998	1997
Construction ⁽¹⁾	1,213.1	960.2	1,158.5
Water ⁽²⁾ and ⁽³⁾	1,175.4	1,070.9	1,149.0
Waste management	369.5	341.4	671.1
Audiovisual activities	393.0	—	—
Property and other activities ⁽⁴⁾	1,271.6	566.0	269.6
TOTAL	4,422.6	2,938.5	3,248.2

(1) The increase in commitments given in the construction sector is attributable to the consolidation of Teerbau and Sogeparc.

(2) These guarantees include €328m (€466.9m in 1998) representing the annual repayments of borrowings which Vivendi and its water distribution subsidiaries are contractually obliged to refund to local authorities.

(3) The 1998 amount includes the additional sum (a maximum of €84m) to be paid on the acquisition of 49% of the holding company which controls 56.53% of Fomento de Construcciones y Contratas (FCC). However, it does not include the undertaking to purchase SNCF's investment in Télécom Développement given by Cegetel on April 11, 1997 for a five-year period (as part of the agreements signed with SNCF).

(4) The increase is due to commitments given in connection with the sale of property assets (€500m).

The increase in commitments given is primarily due to the impact of consolidation: easements in respect of the Berlin water contract (€613m), consolidation of Teerbau and Sogeparc in the construction sector (€259m) and consolidation of Canal+ (€393m).

Cross-guarantees given by Vivendi subsidiaries amounted to €2,542m, versus €1,802.1m in 1998. They include a total of €1,433.6m, compared with €1,442m in 1998, in guarantees given by building and civil engineering companies in connection with major construction projects. These guarantees cover prepayments received as well as performance guarantees. Such guarantees commonly represent 20-30% of the value of a contract, and in some cases 100%.

Commitments given by Canal+ in film (contracts granting exclusive broadcasting rights over future productions), programming (catalogue acquisitions), sports (broadcasting rights for football and Formula 1 motor-racing for the most part) and satellite (rental of satellite space) totalled €6.535 billion at year end 1999.

27. COMMITMENTS RECEIVED

(in millions of euros)	1999	1998	1997
Guarantees received	342.1	405.5	450.1
Other commitments received ⁽¹⁾	960.9	504.1	128.8
TOTAL	1,303.0	909.6	578.9

(1) including €608m for commitments received from EDF on future debts against €318.1m in 1998.

28. RECIPROCAL COMMITMENTS

28.1 Capital leases

The Vivendi group uses capital leases in order to finance certain operating assets and investment properties. As stated in the accounting policies given at the beginning of the Notes to the consolidated financial statements, Vivendi has been capitalizing these assets as of 1998. Payments in respect of capital leases during the year totalled €137.3m, compared with €132.7m in 1998. Future payments represent €1.1 billion, as against €1.3 billion in 1998.

28.2 Long-term leases

Certain disposals (for a total of €1.34 billion) of operating assets (CNIT and hotels) or investment properties (the Ariane, Galilée and La Villette tower blocks and Village Valmy properties) made in 1999 to Unibail and Accor terminated lease-back arrangements for renewable periods ranging from 12 to 24 years, entered into between 1994 and 1996. The leases represented a total annual charge of €116.3m.

At year-end 1999, only the long-term lease-back arrangement concluded with the owner of the La Villette tower block remained in force (€9.5m per annum).

In addition, the disposal to Philip Morris Capital Corporation of three buildings currently under construction in the Danton area of La Défense in April 1996 was accompanied by a 30-year lease-back arrangement effective upon completion of the buildings (two of the buildings were completed, as planned, in April 1998 and the third is to be handed over in April 2000).

In 1996, three buildings in Berlin were sold. The sale contracts contained lease-back arrangements for periods ranging from

ten to thirty years. The annual rental charge is €21.9m. An additional provision for rental contingency amounting to €123.7m was added during the financial year 1999 to the 1998 provision of €69.3m when the estimated difference between the rental obligation of Vivendi under the leases and the market rent receivable was unfavourable.

In the case of the Berlin water contract, certain facilities are available on long-term leases.

28.3 Reduction of cross-holdings in Saint-Gobain

On April 30, 1999, Saint-Gobain and Vivendi began a partial reduction of their cross-shareholdings by jointly exercising call options initially granted in July 1998. This transaction was accompanied by the unwinding of stock price hedges that had been implemented between the two companies at the same time.

Upon completion of these two transactions:

- Saint-Gobain purchased from Vivendi three million Saint-Gobain shares for a total consideration of €483m (€161 per share), bringing Saint-Gobain's total shareholding in Vivendi to 3.4%, with 6.5% of the voting rights (at December 31, 1999, 2.74% shareholding and 5.22% of the voting rights).
- Vivendi purchased from Saint-Gobain 4.7 million Vivendi shares for a total consideration of €808m (€172 per share, before the three-for-one stock split). Its remaining shareholding in Saint-Gobain was then 1.8% for 3.4% of the voting rights (at December 31, 1999, after subsequent disposals on the open market, Vivendi's shareholding in Saint-Gobain was 0.81% for 1.5% of the voting rights).

29. SPECIFIC CONTRACTUAL OBLIGATIONS

As part of their contractual obligations as concessionaires and in consideration of the income they receive, Vivendi and its

water and heating management subsidiaries assume responsibility for the replacement of fixed assets in the publicly-owned utility networks they manage. The accumulated expenditure forecast for replacements which are their responsibility comes to €2.82 billion in current euros (€2.10 billion for water and €0.72 billion for energy).

30. PENSION COMMITMENTS

(in millions of euros)	1999	1998	1997
Commitments entered into by French Vivendi companies			
Lump sum payments on retirement	235.9	237.1	132.9
Pension and complementary pension benefits, of which:	115.8	80.3	61.4
• current employees	67.1	54.1	33.0
• retired employees	48.7	26.2	28.4
Total pension commitments in France			
	351.7	317.4	194.3
Commitments:			
• covered by insurance	81.0	81.4	40.7
• covered by provisions included in the accounts	256.8	236.0	108.1
• experience differences	13.9		
• not included in the balance sheet			45.5
Commitments entered into by subsidiaries outside France			
Commitments:	1,476.2	1,101.3	695.6
• covered by provisions included in the accounts	334.8	222.7	201.5
• covered by pension funds	1,184.1	878.6	494.1
• experience difference	(42.7)		

Consolidated financial statements

31. CASH FLOW FROM OPERATIONS

(in millions of euros)	1999	1998	1997
Net income before equity interest and minority interest	1,403.9	1,290.5	603.4
Dividends from companies accounted for by the equity method	83.7	81.3	76.2
Depreciation, amortization and provisions	3,463.0	2,456.0	2,890.9
Gross cash flow from operations	4,950.6	3,827.8	3,570.5
Capital gains on disposals of fixed assets and dilution profits	670.0	297.9	2,120.7
Net cash flow from operations	4,280.6	3,529.9	1,449.8

The operating cash flow in the statement is owing to reduced cash flow from changes in working capital, dividends received from equity affiliates and amortization and provisions on current assets.

PRINCIPAL CONSOLIDATED COMPANIES IN 1999

In 1999 the Vivendi group included just over 4,600 companies, compared with 3,371 in 1998. The principal companies are:

Companies and addresses	SIRET No.	Consolidation method	Interest % held
Vivendi 42 avenue de Friedland — 75380 Paris	780 129 961 03901	(1)	100.00
Vivendi Environnement 42 avenue de Friedland — 75380 Paris	403 210 032 00039	(1)	100.00
WATER			
Vivendi Water 52, rue d'Anjou — 75008 Paris	421 345 042 00012	(1)	100.00
Compagnie Générale des Eaux -Sahide and its subsidiaries 52 rue d'Anjou — 75008 Paris	572 025 526 00029	(1)	100.00
In France:			
Compagnie des Eaux et de l'Ozone 52, rue d'Anjou — 75008 Paris	775 667 363 01597	(1)	100.00
Compagnie des Eaux de Paris 4, rue du Général Foy — 75008 Paris	329 207 740 00047	(1)	100.00
Société Française de Distribution d'Eau 4, rue du Général Foy — 75008 Paris	542 054 945 00069	(1)	95.35
Compagnie Fermière de Services Publics 3, rue Marcel Sembat — Immeuble CAP 44 — 44100 Nantes	575 750 161 00011	(1)	99.13
Compagnie Méditerranéenne d'exploitation des Services d'Eau 144, Boulevard de Cessole — 06100 Nice	780 153 292 00104	(1)	98.67
Société des Eaux de Melun Zone Industrielle — 198/398, rue Foch — 77000 Vaux Le Penil	785 751 058 00047	(1)	98.66
Société des Eaux de Marseille and its subsidiaries 25, rue Edouard Delanglade — BP 29 — 13254 Marseille	057 806 150 00017	(2)	48.79
Société des Eaux du Nord 217, boulevard de la Liberté — 59800 Lille	572 026 417 00244	(2)	49.53
Société des Eaux de Versailles et de Saint-Cloud 145, rue Yves le Coz — 78000 Versailles	318 634 649 00053	(2)	50.00
Sade-Compagnie Générale de Travaux d'Hydraulique and its subsidiaries 28, rue de la Baume — 75008 Paris	562 077 503 00018	(1)	97.98

Consolidated financial statements

Companies and addresses	SIRET No.	Consolidation method	Interest % held
Omnium de Traitements et de Valorisation (OTV) and its subsidiaries L'Aquarène — 1, place Montgolfier — 94417 — St Maurice Cedex	542 078 688 01065	(1)	100.00
Bonna Sabla Tour Ariane — 5, Place de la Pyramide — 92800 Puteaux La Défense	562 087 346 00366	(1)	98.23
Sainte-Lizaigne SA Tour Ariane — 5, Place de la Pyramide — 92800 Puteaux La Défense	966 505 760 00217	(1)	100.00
Outside France:			
General Utilities PLC and its subsidiaries 37-41 Old Queen Street — London SW1H 9JA — UK		(1)	100.00
Philadelphia Suburban Corporation (USA) 762 Lancaster Avenue — Bryn Mawr — Pennsylvania 19010-3489 — USA		(3)	15.87
USFilter Corporation and its subsidiaries 40-004 Cook Street — 92211 Palm Desert (USA)		(1)	100.00
Berliner WasserBetriebe Anstalt des Öffentlichen Rechts — Hohenzollerndamm 45 — 10631 Berlin (GERMANY)		(2)	50.00
SERVITEC KFT Gyomroi UT 140 — H-1108 Budapest (HUNGARY)		(1)	100.00
Operación y Mantenimiento de Sistemas de Agua S.A. and its subsidiaries Tomas Alva Edison No. 176 — Col. San Rafael — 06470 Del Cuauhtemoc Mexico D.F. (MEXICO)		(1)	50.00
CGE Utilities Tower Block Syed Kechik Foundation Building N. 1, Jalan Kapas Bangsar — 50250 Kuala Lumpur (MALAYSIA)		(2)	45.00
Coget Sokolovska 238 — Prague (CZECH REPUBLIC)		(1)	100.00
Compagnie Générale des Eaux Portugal Avenida Duarte Pacheco 19, 7 D — 1070 Lisbon (PORTUGAL)		(1)	100.00
CGE Australia PTY Limited and its subsidiaries Level 37- Suite 3702 Gateway, 1 — Macquarie Place — NSW 2000 Sydney (AUSTRALIA)		(1)	100.00
OEWA Wasser und Abwasser Walter Kohn Strasse 1 — 04358 Leipzig (GERMANY)		(2)	99.50

Companies and addresses	SIRET No.	Consolidation method	Interest % held
ENERGY			
Energy Services:			
Dalkia and its subsidiaries 37, avenue du Ml de Lattre de Tassigny — 59350 St André Les Lille Cedex	456 500 537 00018	(1)	99.47
Independent Power Production			
Energies USA L'Aquarène — 1, Place Montgolfier — 94417 St Maurice Cedex	337 529 259 00059	(1)	100.00
Sithe Energies Inc. 450 Lexington Avenue — 37th Floor — 10017 New York (USA)			
WASTE MANAGEMENT			
Compagnie Générale d'Entreprises Automobiles and its subsidiaries (CGEA) Parc des Fontaines — 163/169, avenue Georges Clemenceau — 92000 Nanterre	572 221 034 00778	(1)	100.00
Société d'Assainissement Rationnel et de Pompage and its subsidiaries (SARP) 162/16 Energy Park IV — 162/166 Boulevard de Verdun — 92413 Courbevoie Cedex	775 734 817 00353	(1)	98.20
SARP Industries and its subsidiaries 427, route du Hazay — Zone Portuaire Limay-Porcheville — 78520 Limay	303 772 982 00029	(1)	99.37
Société d'Équipements Manutentions et Transport (SEMAT) 335, avenue Jean Guiton — 17028 La Rochelle Cedex 01	778 128 462 00034	(1)	99.66
Sedibex 8, Esplanade du Champs de Mars — 76100 Rouen	303 687 867 00034	(1)	99.67
Onyx Environmental Group Plc Onyx House — 401 Mile End Road — E3 4PB — London (UK)		(1)	100.00
Onyx North America Corp. 3225 Aviation Avenue — 4th Floor — 33133 Miami — Florida (USA)		(1)	100.00
Superior Services One Honey Creek Corporate Center — 125 South — 84th Street — Suite 200 Milwaukee, WI 53214 (USA)		(1)	100.00
Collex Waste Management Pty Ltd. 280 Georges Street — Level 12 — P.O. Box H126 Australia Square — NSW 1215 — Sydney (AUSTRALIA)		(1)	97.00
ONYX Umweltservice GmbH Am Mühlengarten 4 — 66292 Riegelsberg (GERMANY)		(1)	51.00

Consolidated financial statements

Companies and addresses	SIRET No.	Consolidation method	Interest % held
TRANSPORT			
Compagnie Générale d'Entreprises Automobiles and its subsidiaries (CGEA Transport) Parc des Fontaines — 163/169, avenue Georges Clemenceau — 92200 Nanterre	383 607 090 00016	(1)	100.00
Aktiebolaget Linjebuss Englundavagen 9 — Box 1820 — 17124 Solna (SWEDEN)		(1)	100.00
Connex Rail Ltd 41/45 Blackfriars Road — SE1 8PG London (UK)		(1)	100.00
FCC AND ITS SUBSIDIARIES (FCC) Calle Balmes 36 — 08007 Barcelona (SPAIN)		(2)	27.70
COMMUNICATIONS			
Cegetel and its subsidiaries 42, avenue de Friedland — 75008 Paris	403 106 537 00034	(1)	44.00
<i>including:</i>			
— Société Française de Radiotéléphone (SFR)	343 960 720 00245		
— Cegetel 7	413 084 690 00010		
— Cegetel Enterprises	409 710 225 00015		
— Télécom Développement	409 527 454 00071		
Compagnie Transatlantique de Télécommunications (Transtel) 42, avenue Friedland — 75008 Paris	398 868 182 00013	(1)	70.00
Vivendi Télécommunications International and its subsidiaries 42, avenue Friedland — 75008 Paris	343 059 564 00017	(1)	100.00
Havas and its subsidiaries 31, rue du Colisée — 75008 Paris	542 103 312 03067	(1)	100.00
<i>including:</i>			
Havas Interactive Inc. 19840 Pionner Avenue — Torrance — 90503 California (USA)			
UGC and its subsidiaries 24, avenue du Général Charles de Gaulle — 92522 Neuilly-sur-Seine	562 038 182 00274	(3)	39.34
British Sky Broadcasting Group (BSkyB) Isleworth (Middlesex) — Centaurs Business Park — Grant Way (UK)		(3)	23.36
Canal+ and its subsidiaries 85/89, quai André Citroën — 75015 Paris	329 211 734 00176	(1)	49.00
Antennes Tonna 36, avenue Hoche — 51100 Reims	335 880 860 00010	(2)	49.00

Companies and addresses	SIRET No.	Consolidation method	Interest % held
PROPERTY MANAGEMENT			
Société Générale d'Entreprises and its subsidiaries (SGE) 1, cours Ferdinand de Lesseps — 92500 Rueil Malmaison	552 037 806 00585	(1)	49.21
Compagnie Générale d'Immobilier et de Services (CGIS) 10, rue du Général Foy — 75008 Paris	378 206 932 00022	(1)	100.00
MULTIPLE ACTIVITY AND HOLDING COMPANIES			
Vivendi North America Company Inc. 800 Third Avenue — 38th Floor — New York 10022 (USA)		(1)	100.00
Vivendi Asia Pacific Pte Ltd 3 Temasek Avenue #30-03 — Centennial Tower — SINGAPORE 039190		(1)	100.00
Vivendi UK Plc 37/41 Old Queen Street — Westminster — London SW1H 9JA (UK)		(1)	100.00
Gelgin Limited 2 Harbour Master Place — Custom House Dock — Dublin 1 (IRELAND)		(1)	100.00

(1) Fully consolidated companies.

(2) Proportionately consolidated companies.

(3) Companies accounted for by the equity method.

Individual Financial Statements

PRESENTATION OF THE INDIVIDUAL FINANCIAL STATEMENTS

Five-year financial summary

(in thousands of euros)	1999	1998	1997	1996	1995
Capital at the end of the year					
Capital stock ⁽¹⁾	3,276,065 (a)	2,431,002 (f)	2,043,506 (h)	1,869,229 (j)	1,789,687 (l)
Number of shares issued	595,648,168 (a)	159,463,306 (f)	134,045,176 (h)	122,613,408 (j)	117,395,791 (l)
Potential number of shares to be issued ⁽¹⁾ :					
through exercise of subscription warrants	8,882,031 (b)	3,207,677	3,256,875	—	—
through conversion of bonds issued in January 1999	18,368,011 (c)	—	—	—	—
through conversion of Vivendi Environnement bonds issued in April 1999	32,043,837 (d)	—	—	—	—
through exercise of subscription warrants	3,618,303	—	—	—	—
Overall trading income					
Net sales	2,299,215	2,785,682	2,491,427	2,418,403	2,326,020
Income before tax, depreciation and provisions ⁽²⁾	(985,010)	431,755	1,903,914	1,020,703	(482,598)
Income tax ⁽³⁾	(473,964)	(299,257)	(168,761)	(126,533)	(36,588)
Income after tax, depreciation and provisions	838,166	954,238	1,169,133	314,903	67,465
Dividends paid	596,892 (e)	440,043 (g)	308,530 (i)	225,751 (k)	202,984 (m)
Net income per share (in euros)					
Net income after tax, before depreciation and provisions	(0.86) (e)	4.57 (g)	15.40 (i)	9.30 (k)	(3.77) (m)
Net income after tax, depreciation and provisions	1.40 (e)	5.97 (g)	8.69 (i)	2.55 (k)	0.57 (m)
Dividend paid per share	1.00 (e)	2.75 (g)	2.29 (i)	1.83 (k)	1.72 (m)
Employees					
Number of employees (yearly average)	5,213	8,585	8,816	9,009	8,992
Amount of payroll expenses	209,852	308,962	301,803	300,435	294,573
Social security costs and other social expenses	101,143	148,532	145,983	146,545	138,811

(1) In 1999, the capital was converted into euros, and the nominal value was increased from €16 to €16.5. The stock was then split 3-1, bringing the nominal value to €5.5.

(2) In 1995 and 1999, impact of capital losses on asset disposals in connection with the restructuring of the property sector not offset under this heading by the corresponding reversal of provisions.

(3) This negative amount corresponds to the tax savings of the tax group headed by Vivendi.

(a) Reflects the conversion of the capital into euros, the increase in nominal value from €16 to €16.50, and the 3 for 1 stock split, the capital increase resulting mainly from the issue of: 45,505,197 shares under the capital increase with continuation of preferential subscription rights; 25,747,392 shares in connection with the Pathé merger; 17,500,000 shares in consideration for the acquisition from Richemont SA of 15% of the Canal+ shares; 13,546,746 shares through the conversion of 99.83% of the bonds (formerly Havas) issued in February 1996; 4,254,300 shares in connection with the acquisition from Pearson of 55.6% of Whitehall Electrical Investments Ltd shares; and 7,915,672 shares reserved for employees, comprising 5,274,171 shares under the Pégase scheme and 2,641,501 shares for Group Savings Schemes.

(b) Bonus subscription warrants allotted on May 2, 1997 to all shareholders (warrants valid for four years; maturing on May 2, 2001). Forty warrants may be exercised at any time to subscribe for 3.05 new shares at a price of €137.20.

(c) On January 26, 1999, Vivendi issued at par (€282) 6,028,363 bonds (1.25%, 2004) convertible into Vivendi shares on the basis of 3.047 shares for one bond.

(d) On April 26, 1999, Vivendi Environnement issued at a unit price of €271 (redemption premium: €17) 10,516,606 bonds (1.5%, 2005) convertible on the basis of 3.047 Vivendi shares for one Vivendi Environnement bond. In the event of a market flotation of Vivendi Environnement, these bonds may be converted into Vivendi Environnement shares on the basis of a parity that shall be equal to (i) 105% of the average stock market price of the bonds divided by (ii) the price at which the shares are initially listed. At December 31, 1999, 10,516,520 bonds were outstanding.

(e) Calculation takes into account 1,243,690 shares (comprising 1,152,275 shares reserved for employees under the Group Savings Scheme and 91,415 reserved for employees) issued in January 2000, earning dividends as from January 1, 1999. The figure indicated is subject to change, since eligible employees may exercise subscription options up to the day preceding the Annual Shareholders' Meeting held to approve the financial statements for 1999.

(f) Capital increase resulting mainly from the issue of: 23,078,854 shares following the merger of Havas with and into Vivendi; 1,511,769 shares reserved for employees under Group Savings Scheme; 611,700 shares issued to employees and 166,609 shares created by the conversion of bonds issued in February 1996.

Five-year financial summary

(in thousands of French francs)	1999	1998	1997	1996	1995
Capital at the end of the year					
Capital stock ⁽¹⁾	21,489,577 (a)	15,946,331 (f)	13,404,518 (h)	12,261,341 (j)	11,739,579 (l)
Number of shares issued	595,648,168 (a)	159,463,306 (f)	134,045,176 (h)	122,613,408 (j)	117,395,791 (l)
Potential number of shares to be issued ⁽¹⁾ :					
through exercise of subscription warrants	8,882,031 (b)	3,207,677	3,256,875	—	—
through conversion of bonds issued in January 1999	18,368,011 (c)	—	—	—	—
through conversion of Vivendi Environnement bonds issued in April 1999	32,043,837 (d)	—	—	—	—
through exercise of subscription warrants	3,618,303	—	—	—	—
Overall trading income					
Net sales	15,081,860	18,272,879	16,342,688	15,863,681	15,257,688
Income before tax, depreciation and provisions ⁽²⁾	(6,451,244)	2,832,126	12,488,855	6,695,373	-3,165,636
Income tax ⁽³⁾	(3,109,000)	(1,963,000)	(1,107,000)	(830,000)	(240,000)
Income after tax, depreciation and provisions	5,498,010	6,259,394	7,669,013	2,065,630	442,544
Dividends paid	3,915,354 (e)	2,884,092 (g)	2,020,937 (i)	1,480,833 (k)	1,331,485 (m)
Net income per share (in French francs)					
Net income after tax before depreciation and provisions	(5.61) (e)	29.99 (g)	101.01 (i)	60.98 (k)	(24.72) (m)
Net income after tax, depreciation and provisions	9.21 (e)	39.15 (g)	56.98 (i)	16.74 (k)	3.74 (m)
Dividend paid per share	6.56 (e)	18.04 (g)	15.00 (i)	12.00 (k)	11.25 (m)
Employees					
Number of employees (yearly average)	5,2132	8,585	8,816	9,009	8,992
Amount of payroll expenses	1,376,542	2,026,657	1,979,698	1,970,722	1,932,274
Social security costs and other social expenses	663,456	974,308	957,585	961,272	910,538

(1) In 1999, the capital was converted into euros, and the nominal value was increased from €16 to €16.5. The stock was then split 3-1, bringing the nominal value to €5.5.

(2) In 1995 and 1999, impact of capital losses on asset disposals in connection with the restructuring of the property division not offset under this heading by the corresponding reversal of provisions.

(3) This negative amount corresponds to the tax savings of the tax group headed by Vivendi.

(g) Takes into account 552,278 shares (comprising 321,679 shares reserved for employees under the Group Savings Schemes and 230,572 for employees) issued pursuant to decisions made by the Board of Directors on January 22, 1999 and the Ordinary and Extraordinary Shareholders' Meeting of May 11, 1999, earning dividends as from January 1, 1998.

(h) Capital increase resulting mainly from the creation of: 7,855,238 shares through the conversion of 99.2% of the bonds issued in July 1990, 1,583,068 shares linked to the exercise of the right to convert a portion of the dividends paid in 1997 into shares (Ordinary and Extraordinary Shareholders' Meeting of June 11, 1997), 936,912 shares reserved for employees under the Group Savings Schemes and 622,540 shares issued to employees.

(i) Takes into account the 683,980 shares (comprising 411,458 shares reserved for employees under the Group Savings Scheme and 272,428 shares for employees) issued pursuant to decisions made by the Board of Directors on January 22, 1998 and the Ordinary and Extraordinary Shareholders' Meeting of May 15, 1998, earning dividends as from January 1, 1997.

(j) Capital increase resulting mainly from the creation of: 1,804,787 shares through the exercise of the right to convert a portion of the dividends paid in 1996 into shares (Ordinary and Extraordinary Shareholders' Meeting of June 27, 1996), 1,486,188 shares issued as part of the simplified public exchanger offering for Compagnie Générale d'Entreprises Automobiles (CGEA), and 729,134 shares reserved for employees under the Company and Group Savings Schemes.

(k) Takes into account 789,304 shares (comprising 406,877 shares reserved for employees under the Group Savings Scheme and 382,279 shares for employees) issued pursuant to decisions made by the Board of Directors on January 15 and 23, 1997, earning dividends as from January 1, 1996.

(l) Capital increase resulting mainly from the issue of: 2,547,103 shares issued in connection with the public exchange offering for Compagnie Immobilière Phénix; 1,925,078 shares through the exercise of the right to convert a portion of the dividends paid in 1995 into shares (Ordinary and Extraordinary Shareholders' Meeting of June 29, 1995); and 263,872 shares reserved for employees under the Company Savings Scheme.

(m) Takes into account 958,423 shares (comprising 925,000 shares issued in consideration for the acquisition of George V Participations shares, formerly Groupe George V, and 33,397 for employees) issued pursuant to a decision made by the Ordinary and Extraordinary Shareholders' Meeting of January 18, 1996, earning dividends as from January 1, 1995.

A. Highlights of the financial year

Securities issued

On January 26, 1999, Vivendi issued 6,028,363 bonds (1.25%, known as Océane bonds) with an option of conversion into new or existing shares (1 bond for 3.047 shares), with a par value of €282, for a total of €1.7 billion. These bonds will be redeemed in full at par on January 1, 2004. The transaction is part of Vivendi's debt restructuring programme, and was initiated to lengthen the maturity of its outstanding debt by taking advantage of highly favourable conditions prevailing in the interest rate markets.

Vivendi Environnement, the company grouping together the businesses included in the Environmental Services Division (see below under the heading "Creation of the Environmental Services Division"), issued on April 26, 1999, with Vivendi's irrevocable and unconditional guarantee, 10,516,606 bonds (1.50%) with an option of conversion into Vivendi shares (1 for 3.047 bonds) with a par value of €271, for a total of €2.85 billion. The bonds will be redeemed in full on January 1, 2005 at a price of €288. In the event of a market flotation of Vivendi Environnement, the bonds may be converted into Vivendi Environnement shares on the basis of a predetermined conversion parity (see above "five-year financial summary").

Vivendi carried out a capital increase with preferential subscription rights for an amount of €2.73 billion. From May 20 to June 3, 1999, shareholders were entitled to subscribe for one new share at the price of €60 for every 11 shares held, earning dividends as from January 1, 1999. The proceeds of this issue were used as part of the finance for the USFilter acquisition.

In order to increase the number of its individual shareholders, Vivendi launched from May 14 to June 3, 1999, a public offering in respect of 11.5 million of its treasury stock, for a total amount of €809m (price per share set at €70).

Transfer of water-related contracts to Compagnie Générale des Eaux

Vivendi transferred to Compagnie Générale des Eaux (a wholly-owned subsidiary formerly called CGE-Sahide) all its water distribution and wastewater treatment businesses in France. This transaction constitutes the last stage in the creation of a stand-alone water subsidiary within Vivendi.

Due to the specific nature of outsourcing contracts for public services, an additional agreement on the transfer to Compagnie Générale des Eaux was proposed to local authorities that had signed contracts with Vivendi.

On November 1, 1999 Vivendi transferred the assets and liabilities relating to contracts for which an additional agreement had been signed beforehand (around half of the contracts concerned). Vivendi also transferred the right to a certain portion of the receivables that will accrue from January 1, 1999 on non-transferred contracts, in the limit of the annual operating income generated by these contracts. The operation was backdated to January 1, 1999. It also led to the transfer of around 3,400 employees from Vivendi to Compagnie Générale des Eaux.

As a result of this transaction, the whole of the net income or loss generated by Vivendi's water business was transferred to Compagnie Générale des Eaux as from January 1, 1999. Since the transaction is eligible for favourable tax treatment, the transfers were made at net book value as of January 1, 1999 and consequently Vivendi did not record any capital gains in respect thereof.

In 1999, Vivendi continued to record in its accounts only those transactions related to the contracts which had not been transferred. In 2000, additional contracts will be transferred on the basis of the additional agreements which will have been signed.

Creation of the Environmental Services Division

In April 1999, through a subsidiary of its US subsidiary Vivendi North America Operations (VNAO), Vivendi acquired a 95.7% equity interest in United States Filter Corporation (USFilter),

the US leader in the water treatment business, for \$6.1 billion (€5.7 billion). The subsidiary was financed by a \$2.7 billion capital increase subscribed by VNAO, and by a \$3.4 billion advance from Vivendi. The rest of the capital was raised through the merger between the subsidiary and USFilter.

In France, this acquisition was funded partly through an increase in the capital of Vivendi with preferential subscription rights and partly through the issue of Vivendi Environnement bonds which may be converted into Vivendi or Vivendi Environnement shares (see “Securities issued” above).

The creation of Vivendi Environnement took place by grouping the businesses included in its Environmental Services Division, through the following transactions:

- sale, in November 1999, to Vivendi Environnement of Vivendi's 49% equity interest in the Spanish company B-1998 SL, the holding company with a 56.53% equity interest in Fomento de Construcciones y Contratas (FCC) for a total of €691m;
- transfer, in December 1999, to Vivendi Environnement, at book value, of its equity interests in CGEA (100%, waste management and transport sectors) for €633.9m; CGC Holding (100%, energy services) for a total of €915.0m; Dalkia (4.19%, energy services) for a total of €58.9m; Compagnie Générale des Eaux (formerly CGE-Sahide; 100%; holding company for water and wastewater services) for a total of €1,307.7m; and Philadelphia Suburban Corporation (14.3%, water sector) for a total of €51.9m.

Compagnie Générale des Eaux and Philadelphia Suburban Corporation were then transferred at book value by Vivendi Environnement to Vivendi Water in exchange for Vivendi Water shares.

The transfers were put to the vote of the Extraordinary Shareholders' meeting of December 23, 1999.

- sale, in December 1999, to Vivendi Water, a wholly-owned subsidiary of Vivendi Environnement, of its Vivendi North America Operations (Filter Stock) shares for a total of \$2.7 billion (€2.7 billion).

As of December 31, 1999, after these various transactions, Vivendi owned 100% of Vivendi Environnement, and following

various transfers of accounts receivable within the Environmental Services Division, was owed a total net amount of \$8.122 billion by Vivendi Environnement.

During the summer of 2000, Vivendi plans to list its subsidiary Vivendi Environnement, in order to enable Vivendi Environnement to fund its own growth.

Mergers and related business combinations

To strengthen its position in the pay TV market, Vivendi entered into three concomitant transactions which took effect after the Extraordinary Shareholders' meeting on September 10, 1999:

- merger of Pathé into Vivendi based on an exchange parity of three Vivendi shares for two Pathé shares.

Pathé's net assets were transferred at a book value of €661.1m. Not including the €315.5m merger deficit, the increase in shareholders' equity totalled €518.2m.

After the merger, Fornier (a company wholly owned by Jérôme Seydoux and his family) repurchased from Vivendi all Pathé's cinema and theme channel operating assets for a total amount of €520.9m (resulting in a capital gain of €161.6m) and subsequently changed the name of these activities to Pathé.

- €329.5m acquisition, for payment in the form of Vivendi shares, from the UK company Pearson of 55.6% of the capital of Whitehall Electrical Investment, a wholly-owned Pearson subsidiary which has a 33.35% equity interest in BSB Holdings Ltd (BSBH, which has an 11.8% stake in BSKyB). This acquisition was made at the same time as Vivendi's acquisition for cash of the remaining BSB Holdings Ltd shares held by Pearson (306 million), and of the companies through which the UK company Granada held a 33.55% interest in BSBH (626.8 million). Through the two aforementioned transactions, Vivendi has acquired, directly or indirectly, 24.5% of BSKyB, the UK's leading player in the pay-TV market.

The acquisition of BSKyB Shares is currently under review by the British competition authorities. At end March 2000, the Competition Commission, transmitted its report to the Secretary of Trade, who should issue a final decision by end May 2000.

- the acquisition from Richemont, for €1,373.6m, of 15% of the capital of Canal+ (thus increasing Vivendi's share interest in Canal+ to 49%) in exchange for a 2.95% stake in Vivendi's capital.

Early redemption of the convertible bonds issued in February 1996 by the former Havas

This convertible bond issue (3.5%, maturing in 2003) was recorded at December 31, 1998 as a €707.2m liability (including an €87.2m repayment premium). In 1998, in connection with the merger of Havas with and into Vivendi, the latter replaced these bonds with equivalent securities on the basis of one Vivendi share for two convertible bonds. Between January 1 and March 31, 1999, these bonds were redeemed before maturity since the condition set forth in the issue agreement has been met. In total, 99.92% of all bonds outstanding at the end of 1998 have been converted into shares, resulting in an increase in shareholders' equity of €619.6m.

Reduction of cross-shareholdings in Saint-Gobain

On April 30, 1999, Compagnie de Saint-Gobain and Vivendi reduced their cross-shareholdings through the joint exercise of

the purchase options they had granted one another in July 1998. This transaction was accompanied by the settlement of the stock price hedge that had also been arranged in July 1998 by the two companies.

After these two transactions were completed:

- Compagnie de Saint-Gobain bought back three million Saint-Gobain shares from Vivendi for a total of €483m (€161 per share). Saint-Gobain's remaining interest in Vivendi was 3.4% of the capital and 6.5% of the voting rights (as of December 31, 1999, these percentages were reduced to 2.74% and 5.22% respectively).
- Vivendi acquired from Compagnie de Saint-Gobain 4.7 million Vivendi shares for a total consideration of €808m (€172 per share before the three for one stock split). Vivendi's remaining interest in Saint-Gobain was 1.8% of the capital and 3.4% of the voting rights (at December 31, 1999, after subsequent sales on the stock market, these percentages were reduced to 0.81% and 1.5% respectively).

After the block sale, on February 11, 2000, of 4 million Vivendi shares, Compagnie de Saint-Gobain agreed not to make any further sales until Vivendi's Annual Shareholders' Meeting on April 27, 2000, which will be asked to approve Vivendi's 1999 financial statements. Compagnie de Saint-Gobain still holds 12.3 million Vivendi shares, i.e. approximately 2% of the capital. Any further sale, in 2000 or in 2001, will be made by mutual agreement between the two groups in order to avoid any adverse impact on the Vivendi share price.

B. Income statement

As indicated above, in relation to the water business Vivendi recorded in its 1999 financial statements only those contracts which had not been transferred (approximately half of the total contracts to which Vivendi is party). Consequently, 1999 data is not comparable with that in the 1998 financial statements.

Operating income

Operating income was €85.6m, compared with €54.1m in 1998 (up 58.2%).

REVENUE

Revenue from operations amounted to €2.564 billion compared with €3.060 billion in 1998 (down 16.2%).

a) Vivendi's net sales, including fees collected on behalf of local authorities, totalled €2.299 billion, compared with €2.786 billion in 1998 (down 17.5%).

- Net sales of water and wastewater services amounted to €1.394 billion, compared with €2.192 billion in 1998 (down 36.4%).

Of the total, revenue accruing to Vivendi was 48.5% of the amount invoiced, €677m, down 40.7% compared with 1998. This total includes revenue from water services of €569m (down 37.6%), and from wastewater services of €108m (down 53.1%).

- Fees collected on behalf of the government, local authorities and water authorities totalled €717m, down 31.7%.
- Revenue earned in connection with works completed during the financial year amounted to €76.5m, compared with €124.3m in 1998 (down 38.5%).

- Revenue from other activities (gas sales and household waste treatment) amounted to €20.5m, versus €22.4m in 1998 (down 8.7%).

- Miscellaneous revenue (€807.9m, compared with €446.5m in 1998) includes services invoiced by Vivendi's head office departments to other group companies, mainly in connection with financial commitments for installations and equipment replacement made by Vivendi (€442.4m compared with €137.5m in 1998), services charged back (€211.7m versus €191.4m), and secondment of staff (€43.5m, compared with €38.0m) general or special support services (€43.6m compared with €45.7m). Remuneration of the latter services is calculated according to a percentage of a financial aggregate.

b) Other revenue amounted to €265.1m, compared with €273.9m in 1998:

- Reversals of provisions and costs transferred to assets as deferred expenses totalled €203.4m, compared with €181.3m in 1998, including €10.1m⁽¹⁾ in respect of the repayment of local authority loans assumed by Vivendi under its contractual obligations and transferred to "deferred expenses".
- Capitalized costs (cost of capital expenditure incurred by Vivendi for its own account): €13.1m, compared with €14.1m in 1998.
- Other revenue: €50.8m, compared with €75.9m in 1998. This item includes revenue earned under the swap⁽²⁾ (€46.5m, compared with €72.1m in 1998) covering renewal expenditure recorded as operating expenses as well as the revenue generated by leased property: €3.6m (€2.4m in 1998).

EXPENSES

Operating expenses totalled €2.479 billion, compared with €3.005 billion in 1998, (down 17.5%).

(1) See Notes to the Balance Sheet, item "Expenses to be allocated over several financial years."

(2) See Notes to the Balance Sheet, item "Publicly-owned networks financed and managed by Vivendi."

Individual financial statements

This includes:

- Other purchases and external charges: €1.184 billion as compared with €1.193 billion in 1998 (down 0.7% and 44.2%, excluding the impact of the premium paid in connection with replacement costs, services to the GIEs, advertising expenses in connection with the capital increase with preferential subscription rights, expenses linked to the public offering and issue premiums on Océane bonds). This item includes in particular:
 - The premium paid to General Re Financial Products Inc.: €248.9m, versus €236.3m under Vivendi's financial and warranty commitments relating to the replacement of installations;
 - services paid to the GIEs (see above): €150.0m, compared with €187.2m;
 - subcontracting expenses in connection with construction sites: €94.4m, compared with €130.9m in 1998 (down 27.9%);
 - maintenance and repair work carried out by specialist contractors: €63.7m, compared with €75.2m (down 15.3%);
 - subcontracting expenses (not including construction): €128.8m, compared with €148.9m (down 13.4%);
 - electricity consumption: €38.7m, compared with €56.1m (down 31.1%);
 - wholesale water purchases: €31.9m, compared with €37.9m in 1998 (down 15.9%);
 - property and equipment leases: €32.9m, compared with €40.3m (down 18.1%).

Note: the advertising expenses related to the capital increase with preferential subscription rights (€16.4m), expenses linked to the public offering (€35.3m) and expenses in connection with the issue of Océane bonds (€31.4m) were transferred to "deferred expenses".

- Public utility networks: €427.5m, compared with €699.4m (down 38.9%), mainly for contractual payments to local authorities, including surtaxes and discounts (€122.1m,

compared with €235.4m in 1998, a decline of 48.1%), provisions for future engineering works (€57.3m, compared with €61.5m in 1998, a decline of 6.9%), the remaining balance of various public utility network accounts owed to local authorities (€54.4m, compared with €117.2m in 1998, a decline of 53.6%), and pollution taxes paid to water agencies (€191.6m, compared with €279.0m in 1998, a decline of 31.4%).

- Wastewater treatment taxes: €298.4m, compared with €411.8m in 1998 (down 27.5%). Vivendi collects these taxes along with income from water services, and transfers them to the local authorities, which manage their wastewater treatment departments directly.
- Taxes other than income tax: €60.1m, compared with €81.4m in 1998 (down 26.2%), mostly comprising taxes paid to water agencies for water extracted from natural sources (€23.4m, compared with €36.9m in 1998, a decline of 36.5%).
- Salaries and wages: €209.8 m, compared with €309.0m in 1998 (down 32.1%).
- Payroll taxes: €101.1m, compared with €148.5m in 1998 (down 31.9%), including social security contributions of €83.0m, compared with €122.9m in 1998 (down 32.4%).
- Depreciation of fixed assets: €83.8m, compared with €97.7m in 1998, including €53.9m for depreciation of capital expenditure, compared with €61.8m in 1998, and €29.9m for amortization of deferred expenses, compared with €35.9m in 1998 (see Notes to the Balance Sheet).
- Depreciation allowance against current assets: €4.7m, compared with €8.7m in 1998. This item includes provisions against accounts receivable.
- Provisions for liabilities and charges: €9.2m, compared with €17.1m in 1998.
- Other operating expenses: €92.5m, compared with €9.5m in 1998. In 1999, this includes €86.5m for the portion of the receivables assigned in 1999 on non-transferred contracts. These amounts were invoiced by Compagnie Générale des Eaux to Vivendi under the terms governing the transfer by Vivendi of all water service outsourcing agreements, with retroactive effect as from January 1, 1999. As Vivendi transferred to Compagnie Générale des Eaux future receivables

related to contracts which have not been transferred, a royalty is due in connection with these receivables, calculated at the end of each year.

Net financial income

Net financial income was €1,463.6m, compared with €593.7m in 1998.

INCOME

Primarily:

- Income from investments in subsidiaries and affiliated companies (dividends) increased to €1,250.5m, compared with €188.0m in 1998, primarily due to dividends paid by Vivendi UK (€685.4m) and by companies from the former Havas group (€301.5m).
- Other interest income: €654.3m, compared with €449.4m in 1998, mainly interest paid by subsidiaries on funds provided by Vivendi.
- Reversals of provisions: €121.3m (as compared with €436.9m in 1998), including €78.8m on assets received in connection with the merger by absorption of Pathé and subsequently sold to Fornier SA. Reversals of provisions on securities sold are recorded as exceptional income when they offset a recognized capital loss.
- Net income on the sale of marketable securities: €302.7m, versus €310.0m in 1998, primarily from disposal of fixed asset portfolio investments, mainly shares in Saint-Gobain, Alcatel, Société Générale, Compagnie Nationale à Portefeuille and BNP, and sales of marketable securities.

EXPENSES

- Depreciation: €224.1m, compared with €248.9m in 1998, mostly for the impairment of various financial assets (including €181.3m in respect of SNC ImmoTel and Immonord securities and current accounts).
- Interest and similar expense: €728.8m, compared with €551.0m in 1998, including interest expense on loans (€314.1m, compared with €276.7m), interest on subsidiaries'

current accounts (€133.8m, compared with €71.2m in 1998), and interest on financing transactions (€246.7m, compared with €179.4m).

Operating income plus net financial income before taxes was €1,549.1m, compared with €647.8m in 1998.

Net exceptional expense

Net exceptional expense was €1,184.9m, compared with income of €7.1m in 1998.

INCOME

- Operating revenues: €279.3m (€91.9 in 1998), including income received in connection with the guarantee call made on General Re Financial Products for €158.8m covering partly the capital losses realised in connection with the sale of shares in the property sector, and a surplus of €88.3m on the buyback of Vivendi shares.
- Income from capital transactions: €8.22 billion (€2.517 billion in 1998). This heading mainly includes:
 - proceeds on sales or transfer of investments linked to the creation of the Environmental Services Division for €6.511 billion, including €2.967 billion for the transfer (at book value) of the CGEA, CGC Holding, Dalkia, Compagnie Générale des Eaux and Philadelphia Suburban shares to Vivendi Environnement; the sale to Vivendi Water of Vivendi North America Operations shares for €2.688 billion (€149.7m related to the foreign exchange gain); the sale to Vivendi Environnement of B-1998 SL shares for €691m; and the sale to CGEA of Sarp, Sarp Industries and Semat shares for €165.2m (net capital gain of €48.7m);
 - the sale for €520.9m to Fornier SA of certain assets (cinema business and theme channels) received in connection with the Pathé merger (net capital gain of €161.6m);
 - the sale of the shares of Compagnie Générale d'Immobilier et de Services (transferred within the group as part of the restructuring of the property sector): €152.9m (net capital loss of €2.545 billion, partly offset by the reversal of a provision of €1.595 billion);

- the value of contributed tangible and intangible assets transferred for €362.4m as part of the transfer of outsourced water contracts to Compagnie Générale des Eaux.
- Provision and depreciation reversals: €1.877 billion (€213.8m in 1998), including provision reversals totalling €1.772 billion for the impairment of securities sold in 1999, partly offsetting the corresponding capital losses (including €1,594.6 billion for CGIS shares, transferred in connection with the restructuring of Vivendi's property division, and €32.8m on Lucia shares sold to Colony Azur); of a provision of €30.5m to cover the risk of a tax audit adjustment on Studios Babelsberg; €25.9m to cover the risk of non-transfer of the concessions to Canal+ (in connection with the transfer in 1997 of the CGV shares), which was no longer necessary; and €15.2m for country risks (Gabon) provided against the Environmental Services Division.

EXPENSES

- On operating transactions: €173.8m (€427.6m in 1998), including an exceptional charge of €38.2m for losses in the German property sector; €10.9m in connection with the guarantee linked to the sale of CBC shares to SGE; and an €8.5m tax expense linked to back taxes owed by the former Havas group and its subsidiaries.
- On capital transactions: €11.048 billion (€2.308 billion in 1998), the net book value of assets sold.
- Depreciation expense: €339.7m (€79.9m in 1998), including €319.8m for risks related to several guarantees given to companies in the property sector.

Employee profit-sharing

Pursuant to legal provisions in force, no provision for employee profit-sharing was made in 1999. It should be noted that the incentive bonus contracts implemented in 1998 for the employees of Vivendi resulted in an expense of €16.4m (including €4.7m transferred to Compagnie Générale des Eaux under the transfers by Vivendi of water service contracts), compared with €15.7m in 1998.

Income tax

Vivendi formed a tax group which included 440 companies at the end of 1999. As the parent company of the group, Vivendi is not subject to the full tax rate, since the overall result is a loss.

In addition, Vivendi recorded income of €474.0m in respect of the tax paid by subsidiaries whose tax assessment base is positive.

Net income

Net income totalled €838.2m, compared with €954.2m in 1998.

Net income can be analysed as follows:

(in millions of euros)	1999	1998
Operating income plus net financial income	1,549.1	647.8
Net exceptional (expense)/income	(1,184.9)	7.1
Income tax (income)	474.0	299.3
Net income	838.2	954.2

C. Balance sheet

The total assets of Vivendi amounted to €32.545 billion at December 31, 1999, compared with €18.828 billion at the end of the previous financial year, and €15.833 billion at the end of 1997.

Assets

FIXED ASSETS

Fixed assets totalled €16.227 billion in 1999, compared with €11.690 billion at the end of the previous financial year.

Shareholders – subscribed uncalled capital

The amount of €14.1m is 50% (payable in April 2000) of the nominal value of the capital increase reserved for Vivendi employees, under Pégase, the new company savings scheme set up in 1999.

Start-up costs

These costs relate to research and advertising expenditure incurred by Vivendi in connection with the name change campaign. These costs, which totalled €21.4m at the end of 1999, are amortized over five years (prorated in 1998). The corresponding provision for amortization was €5.7m, compared with €1.7m in 1998.

Other intangible fixed assets

This item consists primarily of Vivendi's payments to local authorities to acquire the right to use and operate publicly-owned utility networks (recorded under "Rights to operate publicly-owned utility networks"). These amounts are amortized over the term of the contract. The corresponding provision for amortization is €7.7m, compared with €15.6m in 1998.

Owned property, plant and equipment

This item comprises land, buildings, meters, technical installations, machinery and equipment owned by Vivendi. Capital expenditure amounted to €28.9m in 1999, compared with €59.1m in 1998. The provision for depreciation was €15.3m, compared with €28.3m in 1998.

Publicly-owned utility networks financed and managed by Vivendi.

This item comprises publicly-owned utility networks financed and managed by Vivendi under a concession agreement, after depreciation of assets which must be replaced during the term of the contract. Capital expenditure totalled €7.7m in 1999, up from €7.0m in 1998, and primarily included the modernization, extension and replacement of networks and structures managed by Vivendi. Due to the restructuring of Vivendi's financial risk, these fixed assets were not amortized in 1999, and its obligations to replace installations and equipment were hedged.

The balance sheet does not include facilities which Vivendi did not finance but which are put at its disposal by local authorities or facilities financed from the provisions of future works on the publicly-owned utility networks managed by Vivendi for certain public authorities, mainly Syndicat des Eaux d'Ile-de-France (the water authority for the Ile-de-France region) and the municipality of Nice. However, whether or not Vivendi has contributed to the financing of these facilities, it is generally obliged to replace those it manages when this becomes necessary during the course of a contract. For this purpose, it spent €25.8m in 1999, compared with €58.7m in 1998.

Financial assets

The net value of financial assets was €15.693 billion, compared with €10.828 billion at the end of 1998.

The assets include mainly investments in subsidiaries and affiliated companies and portfolio investments held as fixed assets, the net value of which was €13.329 billion, compared with €10.694 billion at the end of 1998, and the gross value of which was €13.572 billion against €12,670 billion the previous year.

Individual financial statements

In 1999, these investments totalled €11.761 billion, compared with €2.754 billion in 1998, analysed as follows:

- the Environmental Services Division: (€6.206 billion), including €2.538 billion for the increase in the capital stock of Vivendi North America Operations for the acquisition of USFilter; €2.982 billion to strengthen Vivendi Environnement's shareholders' equity through the transfer of CGE, Philadelphia Suburban, Dalkia, CGC Holding and CGEA shares (see above: "Creation of the Environmental Services Division"), and €305m for an increase in the capital of Sithe Energies in connection with the acquisition of electric power plants in the North-East USA from GPU;
- the media business: (€3.460 billion), including €1.374 billion representing the value of the Canal+ shares acquired from Richemont; €1.259 billion for the acquisition of 8% of BSkyB from Pearson and Granada; €454m for the acquisition of 20% of Pathé's capital stock prior to the merger; and €100m in connection with the acquisition of a 19.4% equity interest in UGC Ciné-Cité;
- the telecommunications business: (€1.088 billion), in connection with the acquisition of 51% of the capital of PTC, Poland's top-ranking mobile telephony operator;
- the Construction & Property Division: (€702m) to increase the shareholders' equity of Compagnie Générale d'Immobilier et de Services (€305m), Anjou Services (€307m) and Anjou Patrimoine (€91m).

Receivables relating to subsidiaries and affiliated companies

Receivables relating to subsidiaries and affiliated companies totalled €2.119 billion, compared with €60m at the end of 1998, primarily due to a €1.770 billion loan granted to Sithe Energies to finance the acquisition of electric power plants from GPU, and a loan of €230m granted to Vivendi UK to fund its subsidiaries in the United Kingdom.

Other investments held as fixed assets

These investments amounted to €171.1m, compared with €31.2m at the end of 1998. They include €135.3m, which is the balance of the Vivendi shares acquired from Saint-Gobain as

part of the reduction of the cross-shareholdings (14.1 million shares), after the sale of 11.6 million shares in the June 1999 public offering.

Loans

Loans totalled €59.0m, compared with €30.5m at the end of 1998.

CURRENT ASSETS

Total current assets were €16.120 billion compared with €6.879 billion at the end of 1998.

Accounts receivable

This item consists primarily of "Trade accounts receivable and related accounts" (€930.5m compared with €775.1m at the end of 1998) and "Other accounts receivable" for an amount of €12.658 billion, compared with €4.660 billion at the end of 1998. The category "Other accounts receivable" comprises mainly current account advances made by Vivendi to its subsidiaries for a net amount of €11.729 billion compared with €4.113 billion at the end of 1998 (including €8.122 billion to Vivendi Environnement, and €1.692 billion to CGEA; in 1998, €1.227 billion to Compagnie Générale des Eaux-Sahide), as well as €150.2m owed by BNP (payable in April 2000) in connection with the Pégase Employee Savings Scheme, corresponding to the unpaid-up element (50%) of the issue premium recorded on this transaction.

Marketable securities

Marketable securities amount to €2.292 billion.

A total of 27,853,071 treasury shares are included for a net amount of €1.811 billion. This figure includes 16,638,000 shares sold under a repurchase agreement with three banks, which will be sold back in two stages at the end of March and April 2000.

A total of 21,394,722 own shares were purchased in 1999 at an average price of €72.74, and 4,950,930 shares were sold at an average price of €76.40. These acquisitions/sales were made in order to regularize the share price.

Trading fees in connection with the purchases were €2.6m, and €0.7m in connection with sales.

Also, after the reduction of the cross-shareholdings with Saint-Gobain and sales made as part of the public offering, 2,014,541 Vivendi shares are still recorded under “Other portfolio securities” and are due to be cancelled.

The total amount of treasury stock (included in marketable securities and other portfolio investments) thus numbers 29,867,612 shares, although the amount of treasury stock registered with BNP in Vivendi’s name was only 13,229,612 at the end of the fiscal year (2.22% of Vivendi’s capital stock), because 16.6 million shares had been transferred under a repurchase agreement (see above).

PREPAID EXPENSES

Prepaid expenses amounted to €170.7m, compared with €154.6m at the end of 1998. They include €127.5m for an expense to be evenly spread until 2012 under the terms of an additional clause on a swap agreement entered into by Vivendi and General Re Financial Products Inc. to cover Vivendi’s financial commitments (see “Contractual Commitments” in the Notes to the balance sheet and income statement).

Shareholders’ equity and liabilities

SHAREHOLDERS’ EQUITY

Vivendi’s shareholders’ equity before the distribution of income amounted to €14.088 billion, compared with €7.926 billion at the end of 1998. Taking into account the conversion of capital stock into euros, the increase in nominal value from €16 to €16.50, and the 3 for 1 stock split, the change in the shareholders’ equity is principally a result of:

- 45,505,197 shares issued in connection with the share capital increase with the retention of the preferential subscription rights (11 PSR granted a right to subscribe for one new share at a price of €60);
- 25,747,392 shares issued as a result of the merger with Pathé;
- 17,500,000 shares issued as a consideration for the acquisition from Richemont SA of 15% of the share capital of Canal+;
- 13,546,746 shares through conversion of 99.83% of the bonds (Havas absorbed entity) issued in February 1996;
- 7,915,672 shares reserved for employees, including 5,274,171 shares under the Pégase Scheme and 2,641,501 shares under the Group Savings Schemes;
- 4,254,300 shares issued in connection with the acquisition from Pearson of 55.6% of all Whitehall Electrical Investments Ltd shares (WEI, holding a 33.35% interest in BSB Holdings Ltd (BSBH), a holding company with an 11.8% stake in BSKyB); and
- the appropriation of a portion of 1998 income (€47.7m) to the legal reserve.

Note: on May 2, 1997 Vivendi granted bonus subscription warrants to all its shareholders (one warrant for one share held. These warrants may be exercised until maturity on May 2, 2001; 40 warrants give the right to subscribe at any time for 3.05 new shares at a price of €137.20; the warrant is listed separately on the Paris Stock Exchange). As of December 31, 1999, 116,485,647 such warrants were outstanding.

After the proposed appropriation of income, Vivendi’s shareholders’ equity would amount to €13.491 billion, compared with €7.511 billion at the end of 1998.

Individual financial statements

Changes in shareholders' equity

Transactions (in millions of euros)	Number of shares	Capital	Premiums ⁽¹⁾	Revaluation surplus	Reserves and retained earnings	Net income/ (expense)	Total
As of December 31, 1998 after appropriation	159,463,306	2,431.0	3,184.2	28.2	1,867.9		7,511.2
And after conversion of the capital into euros, increase in the nominal value from €16 to €16.50 and 3 for 1 stock split (nominal value reduced to €5.5):							
As of December 31, 1998, after appropriation	478,389,918	2,631.2	2,984.0	28.2	1,867.9		7,511.3
Share capital increase with PSR	45,505,197	250.3	2,431.0				2,681.3
Pathé merger	25,747,392	141.6	63.1				204.7
Acquisition of 15% of Canal+	17,500,000	96.3	1,276.8				1,373.1
WEI acquisition	4,254,300	23.4	302.1				325.5
CB 12/92 (formerly Havas)	81	—	—				—
CB 02/96 (formerly Havas)	13,546,746	74.5	538.2				612.7
Pégase	5,274,171	29.0	299.6				328.6
Group savings schemes	2,641,501	14.5	137.0				151.5
Stock options	1,897,760	10.4	33.2				43.6
Warrants	891,102	4.9	35.7				40.6
Other 1999 changes				(22.8)		838.2	815.4
As of December 31, 1999, before appropriation	595,648,168	3,276.1	8,100.7	5.4	1,867.9	838.2	14,088.2

(1) after expenses (banking fees, advisers' fees, COB expenses) and the Pathé merger loss (as a result of the acquisition at book value).

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges totalled €488.7m, compared with €266.4m at the end of 1998, including the provision for liabilities contingent on various guarantees given to companies in the property sector for €442.3m, compared with €122.6m at the end of 1998 (including Berlin real estate losses and the Sofonpro guarantee).

DEPRECIATION

This item amounts to €80.4m, compared with €145.8m at the end of 1998. It is depreciation provided over the term of the contract of publicly-owned utility networks which are financed by Vivendi but which must be transferred to local authorities on termination of these contracts. The reduction of this amount is due to the fact that approximately half the water contracts were transferred to Compagnie Générale des Eaux (see above "Highlights of the Financial Year").

LIABILITIES

Total liabilities amounted to €17.773 billion compared with €10.489 billion at the end of 1998, comprising debt (€16.471 billion compared with €9.087 billion at the end of 1998) and accounts payable (€1.302 billion, compared with €1.402 billion at the end of 1998).

Debt

Total debt amounted to €16.471 billion, compared with €9.087 billion at the end of 1998.

This total includes long-term debt amounting to €4.467 billion, compared with €4.010 billion in 1998.

These amounts include mainly the Océane convertible bonds issued in 1999 for €1.7 billion (see the terms and conditions above under “Highlights of the Financial Year – Securities issued”), euro-bonds for €1.203 billion (compared with €1.5 billion at the end of 1998), bonds issued on the domestic market for €731.7m (same as at the end of 1998), euro-bond issues for a total of €1.203 billion (compared with €1.5 billion at the end of 1998), medium- and long-term bank loans of €243.6m (compared with €284.2m at the end of 1998), long-term commercial paper for €201.5m (compared with €273.5m in 1998), intra-group loans of €170.2m (compared with €1.1 billion in 1998) and the bonds convertible into BSKyB shares issued in November 1998 by the former Pathé (3%, 2003) for a total amount of €175.3m.

After the absorption of Pathé on September 10, 1999, Vivendi assumed the bonds that are convertible into BSKyB shares. These bonds bear interest at 3% per annum and have a maturity of five years. Each bond may be exchanged at any time for 188.5236 shares or a maximum of 21,680,214 BSKyB shares. Vivendi may deliver upon the exchange either BSKyB shares or their exchange value in cash and proceed with the early redemption of the bonds starting from the fourth year if the BSKyB share price exceeds 125% of the exchange price. Taking into account current developments regarding the price of the BSKyB shares, Vivendi intends to tender for exchange some BSKyB shares it currently owns directly (as of December 31, 1999, 19.2 million shares were still to be delivered out of 218.7 million shares held).

Short-term debt totalled €12.004 billion, compared with €5.082 billion in 1998, and consisted mainly of short-term bank advances (€4.966 billion compared with nil at the end of 1998), commercial paper (total of €4.056 billion, compared with €1.956 billion at the end of 1998) and current account advances from subsidiaries (€2.985 billion compared with €2.195 billion at the end of 1998).

Note: the Havas convertible bonds (3.5%, 2003) recorded at the end of 1998 at €707.2m (including a €87.2m redemption premium), and which Vivendi replaced in connection with the Havas merger by similar securities on the basis of one Vivendi share for two convertible bonds, were redeemed in full prior to maturity in the first quarter of 1999. A total of 99.92% of the bonds outstanding at the end of 1998 have been converted into shares.

The cash position of Vivendi – defined as the net amount of the current account advances from its subsidiaries, the commercial paper issued by Vivendi, short-term bank advances, marketable securities and cash – amounted to €1.766 billion compared with €269.7m at the end of 1998.

Accounts payable

Accounts payable totalled €1.302 billion, compared with €1.402 billion at the end of 1998.

They include principally:

- trade payables and related accounts (€316.1m, compared with €242.7m in 1998);
- tax and social security liabilities (€172.5m as compared with €146.7m in 1998);
- payables to suppliers of fixed assets and related accounts (€255.3m compared with €40.6m in 1998). These amounts correspond mainly to an amount of €234.3m (\$235.4m) due to Elektrim in respect of the acquisition of 51% of PTC, the leader in the Polish mobile telephony market (total investment of \$1.2 billion).
- other liabilities (€485.8m, compared with €864.6m in 1998) which mainly consist of fees and surtaxes payable to local authorities (€354.9m, compared with €524.9m in 1998).

Individual financial statements

Total capital employed was €19.125 billion, compared with €12.349 billion in 1998.

D. Cash flow statement

(In millions of euros)	1999	1998	1997
OPERATING TRANSACTIONS			
Gross operating surplus	163.7	119.5	249.0
Financial and exceptional transactions	1,523.1	40.0	(123.6)
Taxes	—	—	—
Tax savings linked to the tax group	474.0	299.3	168.8
Change in working capital requirement	(1,016.3)	(146.1)	(452.7)
TOTAL	(1,144.5)	312.7	(158.5)
INVESTMENT TRANSACTIONS			
Capital expenditure	(86.0)	(143.6)	(139.8)
Acquisition of investments ⁽¹⁾	(13,394.4)	(3,772.4)	(6,108.5)
Deferred charges	34.9	(17.0)	—
Proceeds from the disposal of securities ⁽²⁾	9,499.4	2,159.4	6,918.9
Proceeds from the disposal of fixed assets	371.1	7.9	7.2
Cash flows net of long-term loans and deposits	(25.7)	37.2	214.6
TOTAL	(3,600.8)	(1,728.5)	892.4
FINANCING TRANSACTIONS			
Increase of parent company capital stock	5,604.2	278.1	1,085.2
Dividends paid to parent company shareholders	(413.6)	(305.5)	(225.8)
Decrease in other long-term liabilities	(4.8)	(1.8)	(7.6)
TOTAL	5,185.8	(29.2)	851.8
Cash flows for the financial year	2,729.5	(1,445.0)	1,585.7
Net debt as of January 1	3,318.8	1,873.7	3,459.4
Net debt as of December 31 ⁽³⁾	589.3	3,318.8	1,873.7

(1) In 1998, Environmental Services €1.390 billion, Publishing-Multimedia €1.477 billion (including Havas merger for €1.024 billion), other services (FCC) €708m, and in 1997, Environmental Services €1.333 billion, Telecommunications €564m, Publishing-Multimedia €2.162 billion, Property €1.07 billion.

(2) In 1998, including sale of shares in the water distribution companies to Compagnie Générale des Eaux-Sahide and Snig €408.7m, Electrafina shares €345.8 and Audiofina shares €300.8m, and in 1997, including sale of shares in the water distribution companies to CGE-Sahide (creation of the water division) €2.175 billion, transfer of: Canal+ and Générale d'Images shares to Havas for €928m, CGC shares to CGC Holding €512m, Cofira shares to Cegetel for €508m, Cegetel shares to Mannesmann Industries and British Telecom for €296m.

(3) In 1998, the redemption premium was deducted from bonds.

1. CASH FLOW FROM OPERATIONS

Cash flow from operations is derived in particular from the income from subsidiaries and affiliated companies (€1.250 billion, mainly in dividends received from Vivendi UK and companies from the former Havas group) and revenue of €474m corresponding to the taxes paid by subsidiaries belonging to the tax group which have taxable income.

2. ACQUISITION OF INVESTMENTS

Expenditure made in respect of investments in subsidiaries and affiliated companies and portfolio investments held as fixed assets amounted to €12.431 billion. They correspond to investments made during the year (€11.761 billion; see above detail per division), plus shares received from Pathé (€670.3m).

Other investments relate to other securities held as portfolio investments including mainly the Vivendi treasury stock acquired for €958.1m from Saint-Gobain as part of the reduction of the cross-holdings.

3. EXPENSES TO BE ALLOCATED OVER SEVERAL FINANCIAL YEARS

This amount of €34.9m, corresponds to the net change (increases of €97.5m, not including €10.1m in repayment of debts of local authorities, and reductions of €132.4m in connection with the transfer of water management contracts).

4. SALE OF INDUSTRIAL ASSETS AND REDUCTION IN FIXED ASSETS

This amount of €371.1m includes the value of tangible and intangible assets transferred to Compagnie Générale des Eaux for €362.4m (transfer of water management contracts).

5. DISPOSALS OF SHARES AND REDUCTION IN FIXED ASSETS

Proceeds from disposals amounted to €7.831 billion, including €6.511 billion to create the Environmental Services Division and €509.5m for the sale to Fornier SA of investments received from Pathé linked to the cinema business and theme channels. Reductions in investments of €1.668 billion represent the book value of portfolio investments held as fixed assets sold of €390.9m and treasury stock sold as part of the public offering of June 1999 for €822.8m, as well as Pathé shares cancelled as part of the merger (€454.5m).

6. INCREASE IN SHAREHOLDERS' EQUITY

Over the year, the increase in the share capital plus additional paid-in capital amounted to €5,761.7m, as shown by the cash flow statement (see above). This amount is reduced by €164.3m related to the unpaid balance of the capital increase under the Pégase savings scheme, and increased by €6.8m for non-amortized expenses relating to the 1996 bond issue which have been charged to additional paid-in capital.

E. Appropriation

Distributable earnings amount to €838,166,165.15 and can be analysed as follows:

(in euros)

Sources

Retained earnings before net income	
for the year	1,372,530,950.93
Net income for the year	838,166,165.15
Total	2,210,697,116.08

We recommend that this amount be appropriated as follows:

(in euros)

Appropriation

Legal reserve ⁽¹⁾	41,908,308.26
Dividends (€1 for each of the 596,891,858 shares) ⁽²⁾	596,891,858.00
Retained earnings	1,571,896,949.82
Total	2,210,697,116.08

(1) The transfer to the legal reserve equals 5% of net income for the period. It will be classified in part as a transfer to the special reserve for long-term capital gains up to the limit of the capital gains accounted for during the year, for which the tax payable is covered by a tax credit.

(2) 595,648,168 shares outstanding at December 31, 1998 and a further 1,243,690 shares issued in January 2000, earning dividends as from January 1, 1999. The figure shown is subject to change, since eligible employees may exercise subscription warrants up to the day preceding the Annual Shareholders' Meeting held to approve the financial statements for 1999.

The overall distribution will therefore be €596.9m, compared with €440.0m in 1998 (before deduction of the treasury stock), an increase of 35.7%.

In the event that Vivendi holds some of its own shares when the dividend is paid, the net income corresponding to dividends not paid on such shares will be allocated to "retained earnings".

The tax already paid (tax credit) of €0.5 per share is to be added to this dividend of €1 per share (up 9.1% compared with 1998, taking into account transactions in 1999 relating to the capital stock), for total earnings of €1.5 per share.

Dividends distributed in the last three financial years are as follows, rounded off in euros per share (before the three for one stock split):

Year	1998	1997	1996
Number of shares	160,015,584	134,729,156	123,402,712
Net dividend (in euros)	2.75	2.29	1.83
Tax credit (in euros)	1.38	1.14	0.91
Total dividend	4.13	3.43	2.74
Total distribution (in millions of euros)	440,043	308,530	225,751

INDIVIDUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY

Statement of income

(in thousands of euros)	1999	1998	1997
SALES			
Water, wastewater treatment and other related services	1,394,333	2,192,383	2,187,300
Construction works	76,459	124,375	130,704
Other activities (heating, household waste and gas)	20,491	22,438	22,121
Other operating sales	807,931	446,486	151,302
Sub-total A: net sales	2,299,214	2,785,682	2,491,427
Costs transferred to inventories	(2,113)	2,543	(1,361)
Capitalized costs	13,101	14,145	13,818
Reversal of provisions and depreciation, and costs transferred to assets as deferred expenses	203,383	181,275	233,994
Other income	50,777	75,950	3,009
Sub-total B	265,148	273,913	249,460
TOTAL I (A+B)	2,564,362	3,059,595	2,740,887
OPERATING EXPENSES			
Purchases of raw materials and supplies	6,654	20,780	21,824
Changes in inventories of raw materials and supplies	922	8,809	668
Other purchases and external services	1,184,099	1,192,888	657,820
Public utility network account – taxes collected on behalf of the State and public authorities	427,509	699,381	763,880
Wastewater treatment taxes	298,360	411,786	406,017
Taxes other than income tax	60,052	81,376	80,573
Salaries and wages	209,852	308,962	301,803
Payroll taxes	101,143	148,532	145,983
Depreciation and provisions:			
Depreciation of fixed assets	83,827	97,667	97,362
Depreciation of current assets	4,673	8,690	10,671
Provisions for liabilities and charges	9,163	17,104	120,253
Other expenses	92,539	9,520	9,860
TOTAL II	2,478,793	3,005,495	2,616,714
OPERATING INCOME (I-II)	85,569	54,100	124,173

Statement of income (continued)

(in thousands of euros)	1999	1998	1997
FINANCIAL INCOME			
From investments in subsidiaries and affiliated companies	1,250,497	187,981	308,517
From other securities and loans	1,028	1,565	1,674
Interest and similar income	654,340	449,386	150,189
Reversals of provisions and costs transferred to assets as deferred expenses	121,291	436,874	90,736
Foreign currency transaction gain	1,065,382	31,778	37,997
Net income on disposal of marketable securities	302,741	309,992	86,054
TOTAL III	3,395,279	1,417,576	675,167
FINANCIAL EXPENSE			
Depreciation	224,149	248,945	1,114,666
Interest and similar expenses	728,774	550,997	406,228
Foreign currency transaction loss	978,799	23,821	78,208
Net expense on disposal of marketable securities	—	93	
TOTAL IV	1,931,722	823,856	1,599,102
NET FINANCIAL INCOME (III-IV)	1,463,557	593,720	(923,935)
OPERATING INCOME PLUS NET FINANCIAL INCOME (I-II+III-IV)	1,549,126	647,820	(799,763)
EXCEPTIONAL INCOME			
From operating transactions	279,337	91,923	537,554
From capital transactions	8,220,631	2,517,304	6,507,516
Reversals of provisions and costs transferred to assets as deferred expenses	1,877,240	213,829	481,258
TOTAL V	10,377,208	2,823,056	7,526,328
EXCEPTIONAL EXPENSES			
On operating transactions	173,807	427,586	1,226,460
On capital transactions	11,048,573	2,308,392	4,244,622
Depreciation	339,752	79,917	255,111
TOTAL VI	11,562,132	2,815,895	5,726,193
Net exceptional (expense)/income (V-VI)	(1,184,924)	7,161	1,800,135
INCOME TAX (VII) (DERIVED FROM TAX CONSOLIDATION)	473,964	299,257	168,761
Total revenues (I+III+V+VII)	16,810,813	7,599,484	11,111,143
Total expenses (II+IV+VI)	15,972,647	6,645,246	9,942,009
NET INCOME	838,166	954,238	1,169,134

Balance sheet – Assets

(in thousands of euros)	Gross	Accumulated depreciation	1999	Net 1998	Net 1997
FIXED ASSETS					
Shareholders – capital subscribed and uncalled	14,064	—	14,064	—	—
Intangible assets	299,702	110,084	189,618	353,686	327,253
Formation expenses	28,785	7,383	21,402	19,442	—
Rights to operate publicly-owned utility networks	181,883	74,871	107,012	288,767	305,481
Other intangible assets	89,034	27,830	61,204	45,477	21,772
Owned property, plant and equipment	317,841	146,798	171,043	210,522	184,158
Land	12,551	—	12,551	13,011	13,850
Adjustment accounts	1,627	1,488	139	250	279
Buildings and installations	107,630	45,632	61,998	56,821	61,187
Meters and connection equipment	59,793	35,981	23,812	49,935	53,418
Other technical installations	21,266	18,753	2,513	7,036	9,622
Other tangible fixed assets	107,818	44,944	62,874	68,688	33,653
Construction in process	7,156	—	7,156	14,781	12,148
Publicly-owned utility networks financed and managed by Vivendi	159,145	—	159,145	297,600	290,627
Financial assets⁽¹⁾	15,935,997	242,615	15,693,382	10,828,053	8,959,585
Investments	13,044,276	221,836	12,822,440	9,826,641	7,373,649
Portfolio investments held as fixed assets	527,863	20,581	507,282	867,187	1,313,419
Loans to subsidiaries and affiliated companies	2,119,081	181	2,118,900	60,036	194,670
Other long-term investments	171,108	17	171,091	31,239	838
Loans	59,013	—	59,013	30,540	70,075
Other financial assets	14,656	—	14,656	12,410	6,932
TOTAL I	16,726,749	499,497	16,227,252	11,689,861	9,761,622
CURRENT ASSETS					
Inventories	29,238	—	29,238	51,752	58,837
Raw materials and supplies	5,205	—	5,205	6,082	16,470
Work in process (goods and services)	24,033	—	24,033	45,670	42,366
Accounts receivable⁽²⁾	13,786,917	198,020	13,588,897	5,435,496	5,463,514
Trade accounts receivable and related accounts	949,312	18,829	930,484	775,077	560,929
Other accounts receivable	12,837,605	179,191	12,658,413	4,660,419	4,902,585
Marketable securities	2,337,076	45,072	2,292,004	1,230,697	366,472
Bonds	—	—	—	—	—
Other securities	2,337,076	45,072	2,292,004	1,230,697	366,472
Cash	38,761	—	38,761	6,804	8,280
Prepaid expenses	170,670	—	170,670	154,621	14,536
TOTAL II	16,362,662	243,092	16,119,570	6,879,370	5,911,640
Expenses to be allocated over several financial years (III)	125,016	—	125,016	186,632	154,817
Bond redemption premium	—	—	—	66,737	—
Foreign currency translation losses (IV)	73,132	—	73,132	5,269	5,040
GRAND TOTAL (I+II+III+IV)	33,287,559	742,589	32,544,970	18,827,869	15,833,119
(1) Of which realizable in less than one year			15,788	5,658	3,153
(2) Of which realizable in more than one year			—	—	—

Balance sheet – Shareholders' equity and liabilities

(in thousands of euros)	1999 Before distribution	1998 Before distribution	1997 Before distribution	1999 After distribution	1998 After distribution	1997 After distribution
SHAREHOLDERS' EQUITY						
Capital stock	3,276,065	2,431,002	2,043,506	3,276,065	2,431,002	2,043,506
Additional paid-in capital	8,100,631	3,184,112	3,293,461	8,100,631	3,184,112	3,293,461
Revaluation surplus	5,446	28,253	28,283	5,446	28,253	28,283
Retained earnings						
Legal reserve	181,183	133,471	75,013	223,091	181,183	133,471
Regulated reserves	236,835	236,835	236,835	236,835	236,835	236,835
Other reserves	77,381	77,381	77,381	77,381	77,381	77,381
Retained earnings available for appropriation	1,372,531	879,590	74,445	1,571,897	1,372,531	879,590
Net income for the year	838,166	954,238	1,169,134			
NET SHAREHOLDERS' EQUITY	14,088,238	7,924,882	6,998,058	13,491,346	7,511,297	6,692,527
Grants related to assets	—	167	—	—	167	—
Regulated provisions	1,255	1,325	816	1,255	1,325	816
TOTAL I	14,089,493	7,926,374	6,998,874	13,492,601	7,512,789	6,693,343
PROVISIONS FOR LIABILITIES AND CHARGES						
Provisions for liabilities and charges	488,717	266,456	445,515	488,717	266,456	445,515
TOTAL II	488,717	266,456	445,515	488,717	266,456	445,515
ACCUMULATED DEPRECIATION RESERVE FOR PUBLICLY-OWNED UTILITY NETWORKS						
Amortization	80,377	145,782	136,393	80,377	145,782	136,393
TOTAL III	80,377	145,782	136,393	80,377	145,782	136,393
LIABILITIES⁽¹⁾						
Convertible bonds and other bonds	4,057,773	4,128,966	3,118,824	4,057,772	4,128,966	3,118,824
Borrowings from and liabilities to financial institutions ⁽²⁾	9,526,912	427,528	348,019	9,526,912	427,528	348,019
Other borrowings and liabilities	2,885,929	4,530,017	3,599,300	2,885,929	4,530,017	3,599,300
Down payments on orders in process	40,468	40,818	30,072	40,468	40,818	30,072
Trade payables and related accounts	316,111	242,654	181,342	316,111	242,654	181,342
Taxes and social security	172,508	146,745	121,917	769,401	560,330	427,449
Payables to suppliers of fixed assets and related accounts	255,334	40,586	21,335	255,334	40,586	21,335
Other liabilities ⁽³⁾	485,760	864,551	760,277	485,760	864,551	760,276
Deferred income	31,874	67,237	62,051	31,874	67,237	62,051
TOTAL IV	17,772,669	10,489,102	8,243,137	18,369,561	10,902,687	8,548,668
FOREIGN EXCHANGE TRANSLATION GAINS (V)	113,714	155	9,200	113,714	155	9,200
GRAND TOTAL (I+II+III+IV+V)	32,544,970	18,827,869	15,833,119	32,544,970	18,827,859	15,833,119
(1) Including amounts due in more than one year	4,466,912	4,010,099	3,730,832	4,466,912	4,010,099	3,730,832
Including amounts due in less than one year	13,305,757	6,479,003	4,512,305	13,902,649	6,892,588	4,817,837
(2) Including short-term bank advances and bank overdrafts	5,041,088	140,062	122,578	5,041,088	140,052	122,578
(3) Including a provision for future contractual works on publicly-owned utility networks	29,093	38,761	42,654	29,093	38,761	42,654

NOTES TO THE BALANCE SHEET AND STATEMENT OF INCOME FOR 1999⁽¹⁾

Accounting Policies

General principles

The financial statements for the year ended December 31, 1999 have been prepared in accordance with legislative and regulatory provisions in force in France.

Expenses incurred on the acquisition of shares

As an exception to the general chart of accounts, expenses incurred on the acquisition of shares are recognized as financial expenses due to the size of Vivendi's financial activities. Expenses incurred on the sale of shares are treated as financial expenses or exceptional expenses, depending on whether the related capital gains or losses are recorded as financial income or exceptional income.

Financial assets

"Investments" includes those equity interests in Vivendi's affiliated companies and subsidiaries in which Vivendi holds a substantial part of the capital stock – in principle more than 10%. These holdings are valued at acquisition cost, and where appropriate were adjusted at the time of the balance sheet

revaluation provided for by law in 1976. If this value is greater than the value in use, a depreciation allowance equal to the difference is recorded. Value in use is defined as the percentage of shareholders' equity which such shares represent, adjusted where appropriate to reflect their market value, the strategic importance of these companies for Vivendi, and their growth and earnings outlook.

Disposals made under conditional contracts (where the condition is not dependent on either party) are recorded as of the date on which the agreement was made only when the condition has been satisfied before the date of the approval of the financial statements by the Board of Directors. This policy did not have to be applied in 1999.

Accounts receivable

Accounts receivable are recorded at their nominal value. Receivables over five years old are provided for 100%. For other receivables, including those of the current financial year, a provision is made which is calculated using statistical criteria.

Marketable securities

Marketable securities are valued at acquisition cost. If their probable sale value at the end of the financial year is lower than their acquisition cost, a provision is made. Accrued interest on negotiable debt instruments is recorded as income.

(1) Comments previously made in the review of the financial statements are considered to be an integral part of the Notes to the balance sheet and statement of income.

Publicly-owned networks financed and managed by Vivendi

Principles

Vivendi operates numerous utility networks owned by local authorities as the concessionaire⁽²⁾ of public services. The networks are financed either by the authorities, as is most often the case, or by Vivendi itself. Only the public utility networks financed by Vivendi are recorded in the balance sheet (under “Publicly-owned utility networks financed and managed by Vivendi”). The networks are amortized over the contract period (referred to as “amortization of assets under concession”), so that the accumulated depreciation equals the carrying value, at the end of the contract, of those assets which are to be transferred back to the local authority granting the concession.

This accumulated amortization is recorded as a liability in the balance sheet under “Provisions for liabilities and charges” to clearly indicate that this does not reflect a reduction in the value of the public utility networks, but rather is designed to spread the expense resulting from the possible transfer of these assets upon expiry evenly over the term of contract.

In addition, in accordance with its contractual obligations as a concessionaire, Vivendi generally assumes responsibility for replacing facilities and equipment in the public utility network it operates throughout the term of the contract.

The utility structures which Vivendi must replace include both publicly-owned utility networks financed by Vivendi and those financed by local authorities.

In connection with the reorganization of the water and energy sectors and Vivendi’s policy of restructuring its financial risk,

the obligation to replace facilities and equipment is covered by swap contracts entered into with General Re Financial Products Inc.

The following accounting policy was applied in 1999 for replacement of facilities in publicly-owned utility networks: regardless of whether the utility networks concerned were originally financed by a third party or financed and replaced by the concessionaire, the replacement cost is charged to operating expenses and the amount received under the swap contract is recorded as income.

In 1999, Vivendi transferred to Compagnie Générale des Eaux (a wholly-owned subsidiary, formerly called CGE-Sahide), with retroactive effect from January 1, 1999, the assets and liabilities attached to those contracts for which a supplementary agreement had been entered into with the relevant local authority as well as the right to the annual income generated by non-transferred contracts. Vivendi has recognized in its financial statements only those transactions related to non-transferred contracts (approximately half of the contracts in Vivendi’s name).

Annual payments made in respect of debt repayments due by the licensing local authorities

In certain cases, Vivendi is contractually obliged to service the debt contracted by local authorities to finance utility networks managed by the company. These annual debt servicing charges generally decrease each year, usually over a period shorter than the term of the contract.

The expense is charged to income on a straight-line basis over the contract period. The difference between the amounts paid to local authorities and the expense charged to income is treated as a deferred expense in the balance sheet.

(2) The term “concessionaire” is used here in its broadest sense to indicate a business which manages a public service.

INFORMATION RELATING TO THE STATEMENT OF INCOME AND BALANCE SHEET

*Reminder: In the 1999 financial statements, Vivendi has recognized only transactions related to **non-transferred contracts** (approximately half the total number of contracts in Vivendi's name). Consequently, the 1999 data is not comparable with that in the 1998 financial statements.*

Statement of income

Sales

Breakdown of net sales:

(in millions of euros)	1999	1998
Water distribution ⁽¹⁾	1,228.7	1,866.7
Wastewater treatment	165.6	325.7
SUB-TOTAL	1,394.3	2,192.4
Construction	76.5	124.3
Other activities and income	828.4	469.0
NET SALES	2,299.2	2,785.7

(1) Includes mainly the pollution tax payable to the French water agencies, levied on the basis of cubic metres of drinking water.

Net sales for water distribution and wastewater treatment comprises:

(in millions of euros)	1999	1998
Income as operator of publicly-owned utility networks	676.8	1,141.8
Income and taxes paid to the State, local authorities and water agencies	717.5	1,050.6
TOTAL	1,394.3	2,192.4

Note: Fees payable and taxes paid to the State, local authorities and water agencies are included in expenses under the headings "Public utilities network account" and "Wastewater treatment taxes".

Water supplies made before the end of the year and accounted for by meter readings taken the following year are not included in net sales for the year. However, the estimated cost of these supplies is included under work in process at the end of the year. Income from construction is recognized upon completion of the projects.

Payroll costs

Generally, there is no timing difference between the period when an employee's entitlement to paid holiday leave is earned and when it is used. It is therefore not necessary to calculate a specific provision for unused holiday entitlement.

Time-saving accounts are set up in respect of unused annual holiday or various extra paid leave entitlements in accordance with defined rules. In 1998 a provision of €4.6m was created. This provision was maintained at the end of 1999.

The provision for estimated social security contributions in respect of the excess discount relating to the exercise of stock options available at the end of 1999 totalled €3.4m.

Balance sheet – Assets

Fixed assets

CHANGES IN GROSS VALUES

(in millions of euros)	Gross values at the beginning of the year	Additions	Absorption of Pathé	Disposals	Gross values at the end of the year
Intangible assets	519.3	45.7	0.6	265.9	299.7
Owned property, plant and equipment	427.4	24.6	4.3	138.5	317.8
Publicly-owned utility networks financed and managed by Vivendi	297.6	7.7	—	146.2	159.1 ⁽¹⁾
Financial assets	12,806.0	19,855.2	216.0	16,941.2	15,936.0
Total	14,050.3	19,933.2	220.9	17,491.8	16,712.6⁽²⁾

(1) Including fixed assets under construction of €9.3m.

(2) Including the impact of the 1976 revaluation surplus of €14.2m.

Intangible assets

Intangible assets consist primarily of amounts paid to local authorities to acquire the right to use the facilities and equipment of publicly-owned utility networks. Vivendi charges research and development costs and other costs, including design and implementation costs relating to software created by Vivendi, to income as incurred.

Owned property, plant and equipment

This category consists of the tangible assets owned by Vivendi.

Publicly-owned utility networks financed and managed by Vivendi

This item consists of the tangible assets of the publicly-owned utility networks financed and managed by Vivendi. The specific accounting treatment relating to these assets is explained at the beginning of these Notes.

Depreciation – Calculation methods

Depreciation is calculated using the straight-line and reducing balance methods, depending on the economic pattern of the assets concerned. The estimated useful lives used for the depreciation of fixed assets are as follows:

Formation costs	5 years
Rights to operate publicly-owned utility networks	Term of the contract
Software acquired externally	12 months
Buildings	20 to 30 years
Meters	12 years
Special technical facilities	10 to 20 years
Equipment and tooling	6 $\frac{2}{3}$ years
Office and computer equipment	5 years
Transport equipment	5 years
Furniture and fittings	10 years

In 1998 and 1999, Vivendi recognized as formation costs the research and advertising expenses incurred in connection with the campaign linked to the change in its corporate name.

Movement in accumulated depreciation

(in millions of euros)	Accumulated depreciation at the beginning of the year	Charge	Reversals	Accumulated depreciation at the end of the year
Intangible assets	165.5	32.2	87.6	110.1
Owned property, plant and equipment	216.9	21.7	91.8	146.8
Total	382.4	53.9	179.4	256.9

Financial assets

Financial assets are categorized by type as follows:

- “investments” groups the shares of companies affiliated with the Vivendi group in which Vivendi owns a substantial portion of the capital stock (in principle more than 10%).

Pathé was merged with and into Vivendi on September 10, 1999, at which time Pathé shares amounting to €454.5m were cancelled. The financial assets acquired and held by Vivendi are valued at €269.4m, comprising shares in BSKyB (€169.9m), BSKyB Holding Ltd (€46.1m), CanalSatellite (€42.3m) and Pathé Entertainment (€11.1m).

- “portfolio investments held as fixed assets”, as defined in the February 1987 recommendation of the French “Conseil National de la Comptabilité”, includes investments in unconsolidated listed companies. Their gross book value was €527.9m (€896.5m at the end of 1998). At December 31, 1999, their estimated value (1) was €899.0m, based on their stock exchange value⁽²⁾, compared with €1,015.9m at December 31, 1998.

In 1999, the following changes were recorded in portfolio investments held as fixed assets:

(in millions of euros)	Gross book value	Net book value
Beginning of the year	896.5	867.2
Acquisitions during the year	476.8	476.8
Disposals during the year (sale proceeds)	(688.1)	(688.1) ⁽³⁾
Capital gains on disposals	297.2	297.2
Pathé shares cancelled as part of the merger	(454.5)	(454.5)
Impairment provisions for the year	—	8.7
End of the year	527.9	507.3

Note: Capital gains realized on the disposal of portfolio investments held as fixed assets are recorded as financial income.

(1) As defined in the February 1990 recommendation of the French “Conseil National de la Comptabilité”.

(2) With the exception of shares in Facic (an unlisted company), whose book value is not less than its market value.

(3) Comprising Saint-Gobain (€523.3m), Alcatel (€73.3m), Société Générale (€36.2m), BNP (€20.5m) and Compagnie Nationale à Portefeuille (€14.2m).

The main unconsolidated listed investments at December 31, 1999 were as follows:

(in €m)	Percentage held	Book value
Washington Baltimore (via Facic)	9.96	185.1
Alcatel	0.98	145.1
Saint-Gobain	0.81	73.3
Eiffage	4.65	56.6

“Loans to subsidiaries and affiliated companies” include medium-term loan contracts entered into with companies of the Vivendi group. They are differentiated from current account agreements, which are only concluded with companies in which Vivendi directly holds an equity stake, and which provide for the management of the cash surpluses and requirements of these subsidiaries.

Accounts receivable

The income tax saving of €474.0m, which is the result of the tax consolidation set up in 1993, is recorded by Vivendi, the ultimate parent company. This is included under “Other receivables”, at €310.1m, after deduction of payments already received at the balance sheet date from the benefiting subsidiaries in the tax group.

Other receivables also include a €38m receivable resulting from loss carry-backs.

Accrued income of €216.0m relates primarily to water consumption which had been measured but not billed at the end of the year.

Marketable securities

“Marketable securities” include shares, bonds, money-market mutual fund investments and other negotiable instruments acquired for cash management purposes.

In 1999, this item also included 13,200 bonds (formerly Pathé) acquired on the market for €26.2m.

Treasury stock is recorded at its purchase price (€1,856.8m at December 31, 1999, versus €619.1m one year earlier). Treasury stock includes 5.5 million shares (€240.5m) that will be granted to employees under the 1997 and 1998 stock option schemes. A provision of €18.2m was made for the reduction in value of these shares when the price at which they are to be exercised was less than cost.

The other shares, totalling €1.616 billion, were bought back in 1998 and 1999 to stabilize the share price. A provision of €26.7m was made against these shares to cover the loss arising on the potential allocation of some of them to employees when the 1999 stock option plan is exercised.

Prepaid expenses

(in millions of euros)

Operating expenses relating to the following financial year	146.1
Expenses related to replacement work in process on facilities and equipment for publicly-owned utility networks	0.4
Prepaid interest on commercial paper	24.2
Total	170.7

Prepaid expenses of €127.5m relate to a charge to be amortized equally until 2012 under a supplementary agreement to the swap contracts Vivendi concluded with General Re Financial Products Inc. to cover Vivendi's financial commitments.

Deferred charges

(in millions of euros)	Net amount at the beginning of the year	Additions	Depreciation for the year	Transfers	Net amount at the end of the year
Deferred expenses	170.5	76.3	(21.7)	(132.4)	92.7
Bond issuance costs	12.8	31.3	(7.4)	(6.9)	29.8
Fixed asset acquisition costs	3.3	—	(0.8)	—	2.5
Total	186.6	107.6	(29.9)	(139.3)	125.0

Vivendi is contractually obliged to service the debt incurred by local authorities to finance the utility networks managed by Vivendi. The annual payments made by Vivendi generally decrease over time and are over a shorter period than the term of the concession agreements.

The debt servicing charge paid to local authorities is added to the total each year. The expense is amortized on a straight-line basis over the remaining term of the contracts.

The amount of €132.4m shown under “Transfers” relates to the water distribution contracts transferred to Compagnie Générale des Eaux.

In addition, the residual amount of the debt servicing commitments to local authorities is recorded as an off-balance sheet commitment of €53.5m.

Advertising expenses related to the capital increase (€16.4m), fees related to the public offering (€35.3m) and fees related to the syndicated loan agreements entered into in 1999 (€9.7m) are included under deferred expenses and amortized over five years.

Expenses related to bond issues were increased by expenses relating to the January 1999 bond issue (1.25%, due on January 1, 2004), which are amortized over the term of the bonds. Expenses relating to the bond issued by the former Havas in February 1996 (3.5%, January 1, 2003) and not yet amortized as of January 1, 1999 (€6.9m) were charged against the issue premium generated when the corresponding bonds were converted.

Acquisition expenses linked to the acquisition in 1998 of a 49% stake in the holding company which controls the Spanish

company Fomento de Construcciones y Contratas (FCC) are being amortized over five years.

Foreign currency translation losses

This item (€73.1m) includes unrealized losses of €73.1m, calculated using the exchange rates at December 31, 1999, on accounts payable and receivable denominated in foreign currencies. Unrealized losses offset by unrealized gains under currency hedges are not provided against.

Balance sheet – Shareholders’ equity and liabilities

Capital stock – Additional paid-in capital

Vivendi’s capital stock was €3,276,064,924 at December 31, 1999 (€2,431,002,429 at December 31, 1999). Changes in capital stock are detailed in the section relating to the presentation of the financial statements. It should be remembered that:

- there remained in circulation at December 31, 1999:
 - 116,485,647 bonus subscription warrants allotted on May 2, 1997 (see terms of exercise under “Presentation of the Individual Financial Statements”);
 - 6,028,228 bonds (1.25% – 2004) convertible into Vivendi shares on the basis of 3.047 shares for one bond;
 - 10,516,520 bonds (1.5% – 2005) convertible on the basis of 3.047 Vivendi shares for 1 Vivendi Environment bond. In the event that Vivendi Environment is publicly listed,

these bonds may be converted into Vivendi Environment shares on the basis of a parity equal to the ratio between

- (i) 105% of the average market price of the bonds and
- (ii) the price at which such shares are initially listed.

- Vivendi's corporate statutes grant double voting rights to shares registered in the name of the same holder for at least two years.
- the special revaluation surplus, established in 1976 and capitalized under shareholders' equity, totals €4.4m after deducting the portion relating to asset disposals.

Reserves

The legal reserve of €24.1m is included in the special reserve for long-term capital gains.

Regulated reserves (before appropriation of net income for the financial year) are as follows:

(in millions of euros)	
Special reserve for long-term capital gains	234.1
Investment reserve	2.5
Investment reserve for French overseas territories	0.2
Total	236.8

Regulated provisions

Provisions for investments and price increases are calculated in accordance with the relevant tax regulations.

Excess depreciation over normal depreciation relates to shares in property companies.

Provisions for liabilities and charges

The provision for property liabilities and charges, €442.3m, relates to various guarantees given in the property sector, and compares with €122.6m at the end of 1998.

The provision for billing costs covers charges relating to billing and collection operations for income which has been measured and accounted for but not yet billed or collected at the end of the year.

The provision for litigation and other liabilities is calculated on the basis of the status of litigation in progress.

Individual financial statements

PROVISIONS

Type of provision (in millions of euros)	Amount at the beginning of the year	Increases from charges during the year	Reductions/ reversals during the year	Amount at the end of the year
REGULATED PROVISIONS				
Special revaluation surplus	0.5	—	0.1	0.4
Provision for excess tax depreciation over normal depreciation	0.8	—	—	0.8
TOTAL I	1.3	—	0.1	1.2
PROVISIONS FOR LIABILITIES AND CHARGES				
Provision for liabilities and charges on real estate	122.6	319.7	—	442.3
Billing and collection expenses	16.3	8.4	16.3	8.4
Water division restructuring costs	16.3	—	16.3	—
Exchange rate exposure on accounts receivable denominated in foreign currencies	5.3	1.5	5.3	1.5
Litigation and other	106.0	27.9	97.4	36.5
TOTAL II	266.5	357.5	135.3	488.7
ACCUMULATED DEPRECIATION OF PUBLICLY-OWNED UTILITY NETWORKS				
Financial amortization	145.8	5.1	70.5	80.4
TOTAL III	145.8	5.1	70.5	80.4
IMPAIRMENT PROVISIONS				
Financial fixed assets:				
• Investments and portfolio investments held as fixed assets	1,976.0	112.6	1,846.2	242.4
• Other fixed assets investments held as fixed assets	NA	—	—	NA
• Receivables and loans relating to subsidiaries and affiliated companies	1.9	—	1.7	0.2
Trade receivables	26.0	5.6	12.8	18.8
Other accounts receivable	57.4	159.6	37.8	179.2
Marketable securities	17.8	27.3	—	45.1
TOTAL IV	2,079.1	305.1	1,898.5	485.7
GRAND TOTAL (I+II+III+IV)	2,492.7	667.7	2,104.4	1,056.0
Provisions – charges and reversals:				
• operating		13.8	12.3	
• financial		224.1	1,892.8	
• exceptional		339.2	105.6	
Depreciation of financial assets		5.1	70.5	
Changes with no impact on the statement of income		85.5	23.1	

Other bonds

The total of €1.9 billion at December 31, 1999 is analysed as follows:

Amount (in millions of euros)	Currency	Date of issue	Maturity	Rate
288.9	FF1,895m	March 1994	March 2004	6.25%
152.5	FF1,000m	May 1994	March 2004	6.25%
152.5	FF1,000m	August 1994	August 2004	8.125%
25.6	LF1,000m	January 1995	December 2001	8.125%
152.5	FF1,000m	July 1995	July 2005	7.50%
228.7	FF1,500m	August 1995	August 2002	7.375%
304.9	FF2,000m	June 1996	June 2006	6.70%
45.7	FF300m	September 1996	September 2002	Indexed to Vivendi share price
152.5	FF1,000m	December 1996	October 2003	5.80%
152.5	FF1,000m	January 1997	January 2009	6.50%
86.3	\$100m	April 1997	April 2003	Indexed to Vivendi share price
45.7	FF300m	April 1997	October 2003	Indexed to Vivendi share price
76.2	FF500m	April 1998	April 2006	Indexed to Vivendi share price
70.6	€70m	September 1998	September 2008	Indexed to Vivendi share price
1,934.8				

These fixed-rate bonds were all subject to interest rate swap contracts at the time of issue for identical amounts and terms, thus providing Vivendi with financing at the current market rate.

Other liabilities

Other liabilities are primarily fees payable to, and taxes collected on behalf of, the State and local authorities under the terms of public service management contracts concluded by Vivendi.

They include special accounts (€29.1m in 1999) provided for in some public outsourcing contracts, which were previously recorded under "Provision for future contractual works on publicly-owned utility networks" (€38.8m in 1998).

DEFERRED INCOME

Deferred income consists primarily of income received on work which was not completed at the year end (€7.2m) and revenues from billings for water supplies made after December 31, 1999 (€7.6m).

FOREIGN CURRENCY TRANSLATION GAINS

This item includes unrealized gains of €113.7m on accounts payable and receivable denominated in foreign currencies, calculated using the exchange rate prevailing at the end of the year.

Maturities of accounts receivable and liabilities

ACCOUNTS RECEIVABLE

(in millions of euros)	Gross value	Due in less than one year	Due in more than one year
Fixed assets:			
Amounts receivable from subsidiaries and affiliated companies	2,119.1	7.5	2,111.6
Loans	59.0	—	59.0
Other financial assets	14.7	8.3	6.4
Total	2,192.8	15.8	2,177.0
Current assets:			
Trade accounts receivable	949.3	949.3	—
Other accounts receivable (*)	12,835.6	12,835.6	—
Total	13,784.9	13,784.9	—

(*) Excluding payments on account

LIABILITIES

Liabilities at December 31, 1999 totalled €17.773 billion.

Liabilities payable in more than one year amounted to €4.467 billion, all of which were debt. These include principally convertible bonds issued in 1999 (€1.7 billion), Euro bonds (€1.203 billion), bonds issued on the domestic market (€731.7m), medium- and long-term bank facilities (€243.6m), long-term commercial paper (€201.5m), 3% bonds convertible into BSKyB shares issued in November 1998 by the former Pathé and due in 2003 (€175.3m – for details see “Presentation of Individual Financial Statements”), and intragroup borrowing (€170.2m).

The convertible bonds issued by Havas in February 1996 (3.5%, 2003), recorded as a liability of €707.2m at the end of 1998 (including a redemption premium of €87.2m), were repaid prior to maturity in 1999 (for details see “Presentation of Individual Financial Statements”).

Accrued liabilities totalled €782.2m, including €305.8m recorded under “Other liabilities” and relating to fees and taxes

collected on behalf of the State and local authorities under service management contracts concluded with Vivendi.

Subsidiaries and affiliated companies

The table below shows amounts recorded in various balance sheet and statement of income headings that relate to transactions with companies which are fully consolidated in the Vivendi consolidated balance sheet.

(in thousands of euros)	Amount
Financial assets:	
Investments	9,763,918
Amounts receivable from subsidiaries and affiliated companies	2,085,270
Accounts receivable:	
Trade accounts receivable	44,822
Other accounts receivable	11,593,911
Liabilities:	
Other borrowings and liabilities	3,144,323
Trade payables and related accounts	91,105
Financial expense:	
Interest and other similar charges	175,157
Financial income:	
Income from investments	1,212,953
Income from accounts receivable	242,557
Interest	237,127

Financial commitments

Total commitments given by Vivendi (guarantees and other signed commitments) represented €5.5 billion at December 31, 1999.

They consist primarily of:

- a guarantee given to bondholders who subscribed for the €2.8 billion bond issued in April 1999 by Vivendi Environment and represented by 10.5 million bonds which may be converted into or exchanged for Vivendi shares or possibly Vivendi Environment shares;

- an €800m guarantee given to Bayerische as part of the acquisition by CGE Deutschland of a 45% stake in the Berlin contract;
- a cross-guarantee given in connection with the performance commitments made by CGC Holding with respect to cogeneration facilities as part of the assignment of future amounts due by EDF. This commitment totalled €590m at the end of 1999.
- two guarantees, each of which is capped at €250m, given in connection with the acquisition of Vivendi's hotel business by a consortium including Accor, Blackstone and Colony, and the sale of several office blocks and real-estate complexes to Unibail;
- guarantees (totalling €162m) given to various banks in connection with the issue of subordinated securities by OTV and Energies USA;
- a €141m guarantee given in connection with the funding of a household waste treatment unit in Birmingham (UK), in respect of which Vivendi received from Compagnie Générale d'Entreprises Automobiles (CGEA) a cross-guarantee for the same amount;
- debt repayments totalling €54m that Vivendi is contractually obliged to make to local authorities in respect of contracts which it continues to manage.

In addition, Vivendi has issued letters of intent on behalf of subsidiaries to various banks in connection with the implementation of financing arrangements (€171m).

Vivendi also provided seller's guarantees on assets and liabilities in connection with the disposal or transfer of certain equity interests (mainly Havas Voyages and Compagnie Générale de Santé) and the reclassification of shares within Vivendi (in particular REP, MIC, Onyx SCL, the German real-estate programme, UFIMMO and Compagnie Générale de Bâtiment et de Construction).

Contractual commitments

The total projected expense for replacement of facilities and equipment and full warranty over the remaining term of

contracts for which Vivendi is liable either on its own account or as guarantor for its subsidiaries in the water sector (since 1996) and energy sector (since 1997) totalled €2.6 billion (water €2.1 billion and energy €0.5 billion).

To cover these commitments, Vivendi set up two 15-year swap contracts with General Re Financial Products Inc. requiring an initial premium of €990.9m. In 1999, €248.9m was paid to General Re Financial Products Inc. in connection with these contracts, in return for which General Re Financial Products Inc. reimbursed facility and equipment replacement and full warranty expenses of €197.3m incurred by the water and energy distribution companies.

In 1999, Vivendi's financial subsidiaries disposed of sellers' credits they had granted in previous years in connection with the disposal of certain property assets. This transaction, which terminated most of their commitments, was covered by the payment of €1.009 billion by General Re Financial Products. In addition, Vivendi received from General Re Financial Products Inc. €158.8m in respect of the guarantees given to certain property subsidiaries, particularly in connection with their withdrawal from certain major construction projects. This amount was recorded as exceptional income.

Pension obligations

Vivendi's accrued retirement liabilities (end-of-career termination bonuses, pensions and supplementary pensions given to directors and officers) were €42.4m at December 31, 1999, of which €4.9m is covered by an insurance contract.

Long-term debt management instruments

As part of its cash management and financing policy, Vivendi uses various hedging instruments for non-speculative purposes, with durations varying according to circumstances. This is standard practice for large groups, generally on behalf of subsidiaries. The most pertinent information is therefore that given in the Notes to the consolidated financial statements, which is as follows:

Individual financial statements

In 1999, the hedging instruments used by the Vivendi group (which convert interest rates from floating to fixed rates) covered on average €7.3 billion of long- and short-term financing debt. The instruments used were almost exclusively swaps and caps. These hedging instruments, valued in euros at €6.6 billion, mainly relate to Vivendi and CGIS. Their average duration was nearly ten years. Taking into account the hedging instruments and fixed rate issues, the floating rate portion of the Vivendi group's total financing debt was approximately 18.5%, compared with 3% in 1998.

In 1999, 62% of the Vivendi group's average net debt was denominated in euros. The average interest rate, including bank margins, was 4.1% for the year, compared with 4.36% in 1998. Other debt was primarily denominated in US dollars (35%, temporarily increased in 1999 by bridging finance in connection with acquisitions made in the USA), in pounds sterling and in Australian dollars, at an average financing cost of 6.76%, 6.87% and 7.51% respectively. The average financing cost for all currencies was 5.13% in 1999, including the margin, versus 5.44% in 1998 and 5.88% in 1997.

Interest rate swaps relating to future periods (2000-2008) represent €5.5 billion on average, at a maximum average rate of 4.56%.

As a result, the group's indebtedness covered by fixed-rate interest rates, comprised of existing fixed-rate borrowings and variable-rate debts hedged at fixed rates, will amount to €16.5 billion in 2000, €14.7 billion in 2001 and €14.2 billion in 2002. In relation to the group's average projected debt, the fixed-rate hedging ratio will be 100% in 2000, 90% in 2001 and 91% in 2002.

Also the following were put in place:

- forward sales of US dollars against euros intended to cover the exchange risk linked to the repayment of the loan relating to the acquisition of GPU, amounting to \$1.6 billion;
- Puts on Vivendi shares which consist of a commitment to buy 5.5 million shares at an exercise price of €71.55 in June 2001 and of 3 million shares at an exercise price of €50.50 in January 2003.

Interest rate hedging in force in 1999

Instruments (in €m)	Average amount	Average rate	Counterparties
1) External			
Fixed rate swap contract (payable)	3,166.7	4.73%	Banks
Fixed rate swap contract (receivable)	(716.5)	6.54%	Banks (p/c CGIS)
Purchase of cap	1,676.9	3.66%	Banks
Sub-total	4,127.1	3.98%	
2) Intercompany			
Fixed rate swap contract (payable)	1,418.0	5.87%	CGIS
Fixed rate swap contract (receivable)	(1,054.0)	5.51%	CGIS/Cegetel
Sale of cap	(207.6)	4.46%	CGEA/Havas
Purchase of floor	(207.6)	3.61%	CGEA/Havas
Sale of cap	17.0	6.50%	Havas
Sub-total	(34.2)	NA	
Total	4,092.9	4.25%	

A positive figure means that Vivendi will pay at a fixed rate and receive at a variable rate.

A negative figure means that Vivendi will receive at a fixed rate and pay at a variable rate.

Interest rate hedging for subsequent years (2000-2008)

Instruments (in €m)	Average amount	Average rate	Counterparties	Period
1) External				
Fixed rate swap contract (payable)	3,845.1	4.52%	Banks	9 years
Fixed rate swap contract (receivable)	(251.7)	6.24%	Banks (p/c CGIS)	8 years
Purchase of cap	1,240.8	4.63%	Banks	8 years
Sub-total	4,834.2	4.46%		
2) Intercompany				
Fixed rate swap contract (payable)	816.8	6.19%	CGIS	8 years
Fixed rate swap contract (receivable)	(383.5)	5.77%	CGIS/Cegetel	6 years
Sale of cap	(96.4)	3.55%	Havas/CGEA	4 years
Purchase of floor	(133.9)	4.71%	Havas/CGEA	5 years
Sale of cap	60.4	6.50%	Havas	5 years
Sub-total	263.4	8.59%		
Total	5,097.6	4.67%		8 years

A positive figure means that Vivendi will pay at a fixed rate and receive at a variable rate.

A negative figure means that Vivendi will receive at a fixed rate and pay at a variable rate.

Deferred tax liability and asset not provided for in the financial statements

The deferred tax position (including the “Juppé” additional income tax contribution of 10% and the new 3.3% social security contribution) arises from the timing differences between the tax system and the accounting treatment of income and expense transactions of the current year and previous years. This resulted in a decrease of €119.8m due to the carry-over of certain expenses for which provisions had been made, and a €21.1m increase due to the transfer to deferred expenses of the current year’s expenses.

The tax impact of the regulated provisions is not material.

At the end of 1999, the tax group of which Vivendi is the ultimate parent company had a tax loss carry-over, increased by deferred amortization of €1.18 billion at the statutory tax rate.

Impact of tax regulations on the income for the year

The impact of tax regulations on the income for the year is not material.

ADDITIONAL INFORMATION

Average number of employees

The monthly average number of employees (weighted to take into account the time worked including temporary staff and those working on fixed term contracts) was 5,213.

The number of active employees at December 31, 1999 was 5,537 (following the transfer of around 3,400 people to Compagnie Générale des Eaux), analysed by employment category and compared with the level at December 31, 1998 as follows:

	December 31, 1999	December 31, 1998
Engineers and managers	622	626
Supervisors	1,068	1,448
Other employees	3,847	6,850
Total	5,537	8,924

Remuneration of the Board of Directors and Senior Executives

The amount of the directors' fees paid to Vivendi directors in 1999 was €381,200.

Remuneration paid to senior executives of Vivendi (12 people) amounted to €8.29m.

Given the share subscription options and share purchase options granted in 1999 and during prior years, the total number of options held by senior executives is 160,772 share subscription options (0.03% of Vivendi's capital stock) and 5,672,439 share purchase options (0.95% of Vivendi's capital stock).

Equity investments within the meaning of Article 356 of the Act of July 12, 1985 on commercial companies (applicable to shareholdings in which Vivendi's interest has increased above legally defined thresholds)

- Shareholdings equal to or greater than 10%:

Pathé (before the merger) 16.48%

Canal+ 14.94%

CanalSatellite 16.05%

UGC Ciné-Cité 19.44%

- Shareholdings equal to or greater than 50%:

ATVISO 50%

- Shareholdings equal to or greater than 66.67%:

Re-Ascop 97.06%

SUBSIDIARIES AND AFFILIATED COMPANIES

(in thousands of euros except as indicated)	Capital stock	Shareholders' equity not including capital stock ⁽¹⁾	Group share of capital stock (in %)	Book value		Loans and advances granted by Vivendi ⁽²⁾
				Gross	Net	
I — ENVIRONMENTAL SERVICES						
VIVENDI ENVIRONNEMENT ⁽³⁾ 42 avenue de Friedland — 75008 Paris	2,946,085	(3,014)	100.00	2,982,416	2,982,416	9,815,102 ⁽⁵⁾
DOMINO HOLDINGS ⁽⁴⁾ Avenida Candido de Abreu 651 Curitiba — Parana BRAZIL	NA	NA	30.00	59,313	59,313	
ENERGIES USA* L'Aquarène — 1 place Montgolfier 94417 Saint-Maurice	80,941	(59,786)	99.98	143,337	143,337	—
SITHE ENERGIES 335 Madison Avenue New York, NY 10017 USA	806,717 thousand \$	430,180 thousand \$	17.49	318,873	318,873	1,841,529
Other subsidiaries and affiliated companies (Total amount)	—	—	—	160,275	126,348	78,618

(1) Including net income/(expense) for the current period.

(2) Including current account advances.

(3) Ultimate parent company of Vivendi's Environmental Services Division, which received at the end of 1999 contributions from Compagnie Générale des Eaux, Philadelphia Suburban Corporation, Dalkia, CGC Holding and CGEA. Vivendi Environnement also acquired Vivendi's equity interest in FCC during the last fiscal year.

(4) Company holding the water distribution and wastewater treatment contract for the state of Parana in Brazil since 1998. This company will be transferred to Vivendi Water.

(5) Including a €1,693m loan to Compagnie Générale d'Entreprises Automobiles (CGEA), whose shares were contributed at the end of the year to Vivendi Environnement (financing of the acquisitions of Linjebuss in Sweden and Superior Services in the United States).

(6) Guarantee covering the possible repayment (including the premium) of the convertible bond at the January 1, 2005 due date, issued in the amount of €2.85 billion in April 1999 by Vivendi Environnement.

(7) Subordinated securities.

(8) This figure is primarily attributable to the effect of restructuring the contract with Niagara Mohawk (power utility of New York State)

* Principal activity is as a holding company. The amounts indicated in the "net sales" columns include all types of operating and financial income (excluding reversals of provisions).

Guarantees granted by Vivendi	1998 net sales	1999 net sales	Net income or expense 1998	Net income or expense 1999	Dividends received by Vivendi in 1999	Observations
3,028,758 ⁽⁶⁾	—	—	2	(39,941)	—	—
—	7,603 thousand real	NA	12,043 thousand real	NA	—	—
27,698 ⁽⁷⁾	4,589	—	(9,729)	(2,300)	—	—
	932,181 thousand \$	1,005,628 thousand \$	298,344 ⁽⁸⁾ thousand \$	21,977 thousand \$	—	—
26,056	—	—	—	—	97,310	Advance 6,512

Individual financial statements

(in thousands of euros except as indicated)	Capital stock	Shareholders' equity not including capital stock ⁽¹⁾	Group share of capital stock (in %)	Book value		Loans and advances granted by Vivendi ⁽²⁾
				Gross	Net	
II — TELECOMMUNICATIONS						
CEGETEL* 42 avenue de Friedland 75008 Paris	1,432,867	1,860,673	9.00	321,088	321,088	—
TRANSTEL* ⁽³⁾ 42 avenue de Friedland 75008 Paris	953,940	252,121	70.00	476,070	476,070	—
VIVENDI TELECOM INTERNATIONAL* ⁽⁴⁾ 42 avenue de Friedland 75008 Paris	190,647	165,089	100.00	190,905	190,905	9,500
ELEKTRIM TELEKOMUNIKACJA* ⁽⁵⁾ 77/79 rue Panska 00834 Warsaw Poland	10,008 million zloty	0	45.07	1,028,380	1,028,380	—
CARCOM WARSAWA* ⁽⁵⁾ 77/79, rue Panska 00834 Warsaw Poland	3.5 million zloty	5.00 million zloty	50.00	59,791	59,791	—
Other Subsidiaries and Affiliated Companies (Total amount)	—	—	—	40	2	29,882

(1) Including net income/(expense) for the current period.

(2) Including current account advances.

(3) Company in which Southwestern Bell holds a 30% equity interest, and which has a 50% controlling interest in Cegetel.

(4) Holding company for Vivendi's investments in the telephony industry in Hungary, Egypt, Poland and Monaco.

(5) Elektrim Telekomunikacja (in which Vivendi Telecom has a 3.93% stake) and Carcom Warszawa have a 51% equity interest in PTC, the leading Polish mobile telephony operator.

(6) Of which €182m of dividends from Vivendi UK (cable shares) on transfer of General Cable and Telewest.

* Principal activity is as a holding company. The amounts indicated in the "net sales" column include all types of operating and financial income (including reversals of provisions).

Individual financial statements

Guarantees granted by Vivendi	1998 net sales	1999 net sales	Net income or expense 1998	Net income or expense 1999	Dividends received by Vivendi in 1999	Observations
—	24,523	52,338	9,629	(15,690)	—	—
—	24	3	(16)	(54)	—	—
—	3,040	186,415 ⁽⁶⁾	(3,866)	170,892	—	—
—	—	—	—	—	—	—
—	—	—	—	5.00 million zloty	—	—
—	—	—	—	—	—	Advances 17,074

Individual financial statements

(in thousands of euros except as indicated)	Capital stock	Shareholders' equity not including capital stock ⁽¹⁾	Group share of capital stock (in %)	Book value		Loans and advances granted by Vivendi ⁽²⁾
				Gross	Net	
III — PUBLISHING AND MULTIMEDIA — AUDIOVISUAL ACTIVITIES						
HAVAS * 31 rue du Colisée 75008 Paris	96,031	1,681,553	100.00	1,013,559	1,013,559	338,095
SOFIEE ⁽³⁾ 31 rue du Colisée 75008 Paris	255,909	976,924	100.00	1,279,400	1,279,400	—
CANAL PLUS 85-89 quai André Citroën 75015 Paris	94,463	2,217,800	14.94	1,373,614	1,373,614	—
CANALSATELLITE 85-89 quai André Citroën 75015 Paris	38	(135,522)	16.05	42,292	42,292	—
UNION GENERALE CINEMATOGRAPHIQUE (UGC) * 24 avenue Charles de Gaulle 92522 Neuilly-sur-Seine	55,521	75,030	39.34	176,991	176,991	—
UGC CINE CITE 24 avenue Charles de Gaulle 92522 Neuilly-sur-Seine	113,317	228,372	19.44	100,000	100,000	—
BSKYB Grant Way Isleworth, Middlesex TW7 5QD (UK)	863 million £	(1,488) ⁽⁹⁾ million £	12.67	169,858	169,858	—
BSB Holdings Limited ⁽⁴⁾ * 37-41 Old Queen Street London SW1H 9JA (UK)	5,000 thousand £	744,797 thousand £	24.92	46,140	46,140	—
GENERAL ENTERTAINMENT LIMITED ⁽⁵⁾ * 37-41 Old Queen Street London SW1H 9JA (UK)	80,582 thousand £	(1,142) thousand £	100.00	125,763	125,763	—
WHITEHALL ELECTRICAL INVESTMENTS ⁽⁶⁾ * 37-41 Old Queen Street London SW1H 9JA (UK)	45,000 thousand £	17,729 thousand £	100.00	612,491	612,491	—
EARNHIGH ⁽⁷⁾ * 37-41 Old Queen Street London SW1H 9JA (UK)	—	—	100.00	104,560	104,560	—
SEALPICK ⁽⁸⁾ * 37-41 Old Queen Street London SW1H 9JA (UK)	—	—	100.00	104,560	104,560	—

(1) Including net income/(expense) for the current period.

(2) Including current account advances.

(3) Holding company with a 33.82% interest in Canal +.

(4) Holding company with an 11.80% interest in BSKyB.

(5) Holding company with an 11.25% interest in BSB Holdings Limited.

(6) Holding company with a 32.18% interest in BSB Holdings Limited.

(7) Holding company with a 5.72% interest in BSB Holdings Limited.

(8) Holding company with a 5.72% interest in BSB Holdings Limited.

(9) Consolidated data.

* Principal activity is as a holding company. The amounts indicated in the “net sales” column include all types of operating and financial income (including reversals of provisions).

Guarantees granted by Vivendi	1998 net sales	1999 net sales	Net income or expense 1998	Net income or expense 1999	Dividends received by Vivendi in 1999	Observations
—	114,053	214,773	196,028	715,042	156,097	—
—	1	36,182	(7,447)	(39,102)	—	—
	1,500,726	1,612,829	75,074	118,343	—	—
	350,505	497,099	(71,623)	(176,132)	—	—
—	14,727	14,417	(1,996)	(1,172)	913	—
—	114,051	101,391	2,843	(3,120)	—	—
—	1,434 ⁽⁹⁾ million £	1,545 ⁽⁹⁾ million £	249 ⁽⁹⁾ million £	(285) ⁽⁹⁾ million £	—	01.07.98 to 30.06.99
—	17,044 thousand £	6,581 thousand £	7,301 thousand £	1,848 thousand £	—	01.01.99 to 31.09.99
—	—	2,469 thousand £	(1,575) thousand £	240 thousand £	—	—
—	3,139 thousand £	20,962 thousand £	2,315 thousand £	17,413 thousand £	—	01.10.98 to 10.09.99
—	—	3,720 thousand £	—	2,976 thousand £	—	27.09.98 to 01.10.99
—	—	3,720 thousand £	—	2,976 thousand £	—	27.09.98 to 01.10.99

Individual financial statements

(in thousands of euros except as indicated)	Capital stock	Shareholders' equity not including capital stock ⁽¹⁾	Group share of capital stock (in %)	Book value Gross	Net	Loans and advances granted by Vivendi ⁽²⁾
III — PUBLISHING AND MULTIMEDIA — AUDIOVISUAL ACTIVITIES (cont.)						
RAREHASTE ^{(3)*} 37-41 Old Queen Street London SW1H 9JA (UK)	—	—	100.00	104,560	104,560	—
POINTSLOT ^{(4)*} 37-41 Old Queen Street London SW1H 9JA (UK)	68,300 thousand £	344 thousand £	100.00	277,007	277,007	—
VIVENDI US NET ^{(5)*} 59 bis avenue Hoche 75008 Paris	85,410	(1,604)	100.00	85,409	85,409	29,851
Other subsidiaries and affiliated companies (Total amount)	—	—	—	82,456	58,688	182,801

(1) Including net income/(expense) for the current period.

(2) Including current account advances.

(3) Holding company with a 5.72% interest in BSB Holdings Limited.

(4) Holding company with a 14.49% interest in BSB Holdings Limited.

(5) Holding company for Vivendi's interest in Softbank Capital Partners, a 50/50 joint venture established with Softbank (Japan) that invests in Internet start-ups.

* Principal activity is as a holding company. The amounts indicated in the "net sales" column include all types of operating and investment income (including reversals of provisions).

Guarantees granted by Vivendi	1998 net sales	1999 net sales	Net income or expense 1998	Net income or expense 1999	Dividends received by Vivendi in 1999	Observations
—	—	3,720 thousand £	—	2,976 thousand £	—	27.09.98 to 01.10.99
—	1,386 thousand £	9,329 thousand £	956 thousand £	7,362 thousand £	—	27.09.98 to 01.10.99
—	—	—	-2	(1,602)	—	—
—	—	—	—	—	—	—

Individual financial statements

(in thousands of euros except as indicated)	Capital stock	Shareholders' equity not including capital stock ⁽¹⁾	Group share of capital stock (in %)	Book value		Loans and advances granted by Vivendi ⁽²⁾
				Gross	Net	
IV — CONSTRUCTION AND PROPERTY						
SOCIETE GENERALE D'ENTREPRISES *	523,393	235,007	45.37	520,077	520,077	59,504
1 cours Ferdinand de Lesseps						
92851 Rueil-Malmaison						
ARGYRA *	51,893	(51,883)	80.00	50,629	0	8,728
52 rue d'Anjou — 75008 Paris						
Other subsidiaries and affiliated companies	—	—	—	22,951	9,096	691,204 ⁽³⁾
(Total amount)						

(1) Including net income/(expense) for the current period.

(2) Including current account advances.

(3) Including a €524 m loan to the holding company for Vivendi's long-term real estate.

* Principal activity is as a holding company. The amounts indicated in the "net sales" column include all types of operating and investment income (including reversals of provisions).

Guarantees granted by Vivendi	1998 net sales	1999 net sales	Net income or expense 1998	Net income or expense 1999	Dividends received by Vivendi in 1999	Observations
—	100,936	140,016	50,852	91,318	25,573	—
—	507	279	(1,257)	3,815	—	—
—	—	—	—	—	519	advance 38,112

Individual financial statements

(in thousands of euros except as indicated)	Capital stock	Shareholders' equity not including capital stock ⁽¹⁾	Group share of capital stock (in %)	Book value Gross	Net	Loans and advances granted by Vivendi ⁽²⁾
V — OTHER SERVICES AND AFFILIATED COMPANIES						
VIVENDI NORTH AMERICA * 800 Third Avenue New York (NY 10022) (USA)	287,650 ⁽⁴⁾ thousand \$	—	100.00	108,444	108,444	239,489
Société Crestoise de Participations * 31 rue du Colisée 75008 Paris	116,286	192,366	100.00	164,658	164,658	—
SNC IMMOTEL 42 avenue de Friedland 75008 Paris	53,357	(363,862)	100.00	53,357	0	105,877
Société Nouvelle d'Investissements et de Gestions (SNIG) * 59 bis avenue Hoche 75008 Paris	9,139	42,270	99.99	48,258	48,258	11,317
Société Nouvelle d'Etudes et de Gestion (SNEGE) * 59 bis avenue Hoche 75008 Paris	263,951	16,308	100.00	263,951	263,951	—
COFICO 42 avenue de Friedland 75008 Paris	5,636	5,767	100.00	7,003	7,003	1,206
SEGICLIN ⁽³⁾ * 59 bis avenue Hoche 75008 Paris	56,188	4,027	100.00	56,169	56,169	—
SOFITAM* 59 bis avenue Hoche 75008 Paris	48,786	29,751	100.00	91,498	78,540	—
RE-ASCOP 20 rue de l'Arcade 75008 Paris	77,749	1,094	97.06	79,083	79,083	—
Other subsidiaries and affiliated companies (Total amount)	—	—	—	139,046	105,743	321,358
TOTAL	—	—	—	13,044,276	12,822,440	13,764,063

(1) Including net income/(expense) for the current period.

(2) Including current account advances.

(3) Holding company with a 0.75% interest in Compagnie de Saint-Gobain.

(4) Capital stock and reserves.

(5) Consolidated data.

(6) After the disposal of Williard & Limbach, an air conditioning company (a \$45 m capital gain).

* Principal activity is as a holding company. The amounts indicated in the "net sales" column include all types of operating and financial income (including reversals of provisions).

Individual financial statements

Guarantees granted by Vivendi	1998 net sales	1999 net sales	Net income or expense 1998	Net income or expense 1999	Dividends received by Vivendi in 1999	Observations
—	0 ⁽⁶⁾	0 ⁽⁵⁾	51,813 ⁽⁶⁾ thousand \$	6,885 ⁽⁵⁾ thousand \$	—	—
—	91,027	1,191	145,297	17,558	145,358	—
—	22,312	27,982	(28,217)	(346,292)	—	Advance 105,877
—	36,458	2,221	38,597	(23,607)	18,210	—
—	1,938	178,400	(1,038)	100,538	76,225	—
—	17,078	13,178	1,352	681	1,014	—
—	2,042	2,093	5,106	2,212	3,370	—
—	2,836	2,209	1,349	1,324	6,050	—
	7,331	13,944	63	195	—	
—	—	—	—	—	693,782	Advances 11,378
3,082,512	—	—	—	—	1,224,421	

Reports of the Statutory Auditors

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1999

In accordance with our appointment by your Shareholders' General Meeting, we have audited the accompanying consolidated financial statements of Vivendi, prepared in euros, for the year ended December 31, 1999.

Vivendi's management is responsible for the preparation of the consolidated financial statements. It is our responsibility to express an opinion based on our audit on these consolidated financial statements.

We conducted our audit in accordance with French professional standards. These standards require that we plan and perform our audit to obtain a reasonable assurance that the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of Vivendi's financial position and its assets and liabilities at December 31, 1999 and of the results of operations of the companies included in the consolidation for the year then ended.

We have also carried out the verification of the information provided on the management of Vivendi. We have no comments to make as to its fair presentation and its conformity with the consolidated financial statements.

Neuilly-sur-Seine — Paris, March 10, 2000

The Statutory Auditors

Barbier Frinault & Cie

Salustro Reydel

Alain Grosmann

Jean Bouquot

Edouard Salustro

Bernard Cattenoz

REPORT ON THE FINANCIAL STATEMENTS

Year ended December 31, 1999

In accordance with our appointment by your Shareholders' General Meeting, we hereby report to you, for the year ended December 31, 1999 on:

- the audit of the accompanying financial statements of Vivendi, prepared in euros; and
- the specific verifications and information required by law.

These financial statements are the responsibility of the management of Vivendi. Our responsibility is to express an opinion on these annual financial statements, on the basis of our audit.

1. Opinion on the annual financial statements

We conducted our audit in accordance with French professional standards. These standards require that we plan and perform our audit to obtain a reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We

believe that our audit provides a reasonable basis for our opinion below.

In our opinion, the financial statements referred to above give a true and fair view of Vivendi's financial position and its assets and liabilities at December 31, 1999 and of the results of its operations for the year then ended.

2. Specific verifications and information

We have also carried out the specific verifications required by law in accordance with French professional standards.

We have no comments to make as to the fair presentation and the conformity with the annual financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders, with respect to the financial position and the annual financial statements.

In accordance with the law, we verified that the appropriate disclosures as to the acquisition of shares and controlling interests, and the identity of shareholders and of holders of voting rights, were communicated.

Neuilly-sur-Seine — Paris, March 10, 2000

The Statutory Auditors

Barbier Frinault & Cie

Salustro Reydel

Alain Grosmann

Jean Bouquot

Edouard Salustro

Bernard Cattenoz

REPORT ON REGULATED CONTRACTS

Year ended December 31, 1999

In our capacity as statutory auditors of your company, we submit our report on regulated contracts.

Pursuant to Article 103 of the Act of July 24, 1966, we have been informed of the contracts previously authorized by your Board of Directors.

We are not required to investigate the possible existence of additional agreements but to communicate to you, on the basis of the information provided to us, the essential terms and conditions of those agreements of which we have been advised; nor are we required to comment on their appropriateness and validity. Under Article 92 of the Decree of March 23, 1967, you are responsible for assessing the merits of these contracts in order to approve them.

We have carried out our work in accordance with French professional standards. These standards require that we plan and perform our work in a way that enables us to check whether the information that has been given to us is consistent with the underlying documents from which it is derived.

1. Agreements with Vivendi Environnement

Directors concerned: Mr Jean-Marie Messier
Mr Eric Licoys

In connection with the creation of Vivendi Environnement, Vivendi contributed, on December 23, 1999, the following investments which it was holding:

- 578,697 shares of Dalkia, representing 4.19% of the share capital, for €58.9m and 60,019,676 shares of CGC Holding

(Dalkia's holding company), representing 100% of the share capital, for an amount of €915m;

- 6,566,288 shares of Compagnie Générale d'Entreprises Automobiles (CGEA) representing 100% of the share capital for €633.9m;
- 117,114,758 shares of Compagnie Générale des Eaux (CGE) representing 100% of the share capital, for €1,307.7m and 5,823,645 shares of Philadelphia Suburban Corporation, representing 10.77% of the share capital for €51.9m.

In addition, Vivendi sold to Vivendi Environnement a total of 5,401,852 shares it held in B-1998 SL, a company organized and existing under the laws of Spain, which is the holding company controlling Fomento de Construcciones y Contratas for €691m.

After the completion of these transactions, Vivendi has a total net receivable of €8,122m due from Vivendi Environnement.

2. Agreements with Société Générale d'Entreprises (SGE)

Directors concerned: Mr Jean-Marie Messier
Vivendi, represented by Mr Guy
Dejouany

On April 22, 1999, your company sold a total of 1,037,200 SGE shares to SGE. This private contract was made at a price of €39.19 per share for a total amount of €40.6m.

Furthermore, in pursuance of the Decree of March 23, 1967, we have been informed that the implementation of the following agreements, which had been approved during past years, has been continued during 1999.

1. Agreements with certain water distribution subsidiaries

As part of the operational and legal restructuring of the water distribution sector, certain water distribution companies have been converted into corporate limited partnerships⁽¹⁾, of which Vivendi⁽²⁾ has become the general partner. Vivendi has contributed to these subsidiaries its financial guarantee and its support for the management of the obligation to renew facilities of publicly-owned utility networks.

In return, Vivendi receives a statutory dividend equal to 3% of the distributable profits of its subsidiaries, and a statutory indemnification, the amount of which is determined each year by the Supervisory Board of each subsidiary, in agreement with Vivendi.

In 1999, total fees received by Vivendi in this respect amounted to €85.2m.

In connection with Sodeg 1 to 10, which were not engaged in any water distribution activity in 1999 or during earlier years, no fee was received by Vivendi in 1999.

2. Agreements with Compagnie Générale des Eaux

On June 30, 1997, Vivendi opened in favour of Compagnie Générale des Eaux a current-account credit line (whose amount outstanding was nil as of December 31, 1999), remunerated at the maximum tax deductible annual interest rate, i.e. €55m received by Vivendi in 1999.

In 1998, because of the continued restructuring of Vivendi's water division, Vivendi sold to Compagnie Générale des Eaux the interests it held in various companies including CGE Deutschland, CGE Asia Pacific and FCSM for a total amount of €43.6m.

3. Agreements with certain heating management subsidiaries⁽³⁾

As part of the operational and legal restructuring of the heating sector, Vivendi and CGC Holding have become general partners of certain heating management subsidiaries, which were converted in 1997 into corporate limited partnerships. Vivendi has contributed to these subsidiaries its financial guarantee and its support for the management of the obligation to renew facilities of publicly-owned utility networks.

In return, Vivendi receives a statutory dividend equal to 3% of the distributable profits of its subsidiaries, and a statutory

(1) This applies to the following companies: Compagnie Générale des Eaux, Compagnie des Eaux et de l'Ozone, Compagnie des Eaux de Paris, Compagnie Méditerranéenne d'Exploitation des Services d'Eau, Société Auxiliaire de Gestion d'Eau et d'Assainissement, Société des Eaux de Picardie, Société des Eaux de Trouville, Deauville et Normandie, Société des Eaux et de l'Assainissement de la Région Beauvaisienne, Société Régionale de Distribution d'Eau, Société Méridionale des Eaux, Compagnie des Eaux de la Ville de Rambouillet, Société Stéphanoise de Services Publics, Société des Eaux de Melun, Société Mosellane des Eaux, Compagnie des Eaux de la Banlieue du Havre, Compagnie des Eaux de Maisons-Laffitte, Société Française de Distribution d'Eau, Compagnie Fermière de Services Publics, Société des Eaux de la Ville d'Epernay, Société des Eaux de la Ville de Cambrai, Edacère, Sautlebar, Société des Eaux de Saint-Omer, Société Avignonnaise des Eaux, Société d'Entreprises et de Gestion, Société Eau et Chaleur en Haute Montagne, Société Mâconnaise d'Assainissement de Distribution d'Eau et de Chaleur, Société des Ateliers de Mécanique du Pays d'Ouche, Sade — Compagnie Générale des Exploitations de Normandie, du Languedoc — Roussillon, de la Nièvre, de l'Est de la France, du Nord de la France, du Sud-Est de la France et du Sud-Ouest de la France, Sociétés d'Exploitation et de Gestion de Services Publics ou Privés (Sodeg) 1 to 10 and CGE Guadeloupe.

(2) Compagnie Générale des Eaux acts as a general partner for Sodeg 1 to 10, while Sade (Compagnie Générale des Travaux Hydrauliques — Sade) acts as a general partner for Sade-Compagnie Générale des Exploitations de Normandie, du Languedoc-Roussillon, de la Nièvre, de l'Est de la France, du Nord de la France, du Sud-Est de la France et du Sud-Ouest de la France.

(3) The companies concerned are Dalkia, Société de Productions et Distributions Thermiques (Prodith), Société de Distribution de Chaleur de Limoges, Société de Réalisation et d'Exploitation du Chauffage Urbain de Vandoeuvre, Société Procholor, Société de Distribution de Chaleur de Limoges-Beaubreuil, Société de Chauffage des Bords du Cher, Société Provençale de Distribution de Chaleur (SPDC), Société de Réalisation Thermique du Nord (SRTN), and Société Thermal et la Société d'Exploitation Thermique de Metz-Borny.

indemnification, the amount of which is determined each year by the Supervisory Board of each subsidiary, in agreement with Vivendi.

In 1998, total fees received by Vivendi in this respect amounted to €51m.

4. Agreement with Compagnie de Saint-Gobain

On April 30, 1999, Compagnie de Saint-Gobain acquired from Vivendi 3 million Saint-Gobain shares at a price of €482.7m (€160.91 per share), and Vivendi acquired from Compagnie de Saint-Gobain 4.7 million Vivendi shares at a price of €807.5m (€171.81 per share, before the three-for-one stock split). These purchases were made through the exercise of Saint-Gobain's and Vivendi's respective call options mutually granted in 1998 under the plan for the reduction of their cross-holdings.

5. Agreement with Société Générale d'Entreprises (SGE)

On December 30, 1998, Vivendi, SGE and Compagnie Générale de Bâtiment et de Construction (CBC) made a variation to the agreement signed on June 30, 1997 in respect of the sale of CBC shares to SGE and in respect of the relevant guarantees and

financial recovery clauses. In 1999, the expense borne by Vivendi under the said agreement amounted to €10.9m.

6. Agreements with Compagnie Générale d'Immobilier et de Services (CGIS)

Vivendi agreed with CGIS to pay a subsidy to its subsidiary, SNC Babelsberg, in the event that Lindencorso, Anthropolis, Grindelwaldweg and Quartier 207 buildings would generate a consolidated net expense from January 1, 1997. In 1999, the expense borne by Vivendi under the said guarantee amounted to €38.3m.

Also, Vivendi agreed in 1997 to cover each year the consolidated losses of the Ufimmo subgroup, through a subsidy paid to CGIS. In accordance with the relevant agreements, this guarantee will be applicable until December 31, 2003 or until December 31, 2010. In 1999, the expense borne by Vivendi in connection with this guarantee amounted to €5.3m.

Lastly, because Vivendi decided to abandon the development of certain major construction projects, Vivendi agreed vis-à-vis CGIS to cover the losses that CGIS or certain of its subsidiaries might sustain in connection with the sale of investments or businesses.

Neuilly-sur-Seine — Paris, March 10, 2000

The Statutory Auditors

Barbier Frinault & Cie

Salustro Reydel

Alain Grosmann

Jean Bouquot

Edouard Salustro

Bernard Cattenoz

General Information

GENERAL INFORMATION CONCERNING THE COMPANY

Name and registered office

Vivendi — 42, avenue de Friedland, 75008 Paris.

Legal form of the Company

Vivendi (“the Company”) is a French Société Anonyme (Public Limited Company).

Legislation

The Company is subject to the provisions of Act 66-537 of July 24, 1966 and Decree 67-236 of March 23, 1967 pertaining to commercial companies.

Date of formation, expiry and life of the Company

The life of the Company, initially set at 99 years as from December 14, 1853, was first extended for 50 years, and was then extended a second time by the Extraordinary Shareholders’ Meeting of June 24, 1988. Consequently, the Company will expire on December 14, 2052, unless its term is extended again or the Company is wound up at an earlier date.

Corporate purpose (Article 2 of the corporate statutes)

The purpose of the Company, in France and in every country, is:

- the exercise, for private, business and public sector customers, of:
 - all activities relating to the management of utilities, and particularly to water, wastewater treatment, energy, transport and waste management;

- all communications activities, especially multimedia, audiovisual, advertising, press, publishing and telecommunications;
- all construction activities, especially engineering and works, industrial or otherwise, and all activities in the property sector;
- the investment, by way of subscription, purchase, contribution, exchange or any other means, in shares, bonds and other securities of companies already existing or to be created and the power to dispose of such interests; and
- generally all commercial and industrial, financial, securities and property transactions related directly or indirectly to the aforementioned purposes.

It will be proposed to the Ordinary and Extraordinary Shareholders’ Meeting to be held on April 27, 2000 to alter the corporate purpose. Subject to approval of this change, the corporate purpose shall be as follows:

“The corporate purpose is to engage, directly or indirectly, in France and in all other countries, in:

- the management, whether for private, business or public-sector customers, of:
 - all communications activities, in particular in connection with the Internet, multimedia, audiovisual business, video, advertising, press, publishing and telecommunications, and all interactive services and products related to the foregoing;
 - all business activities related to the environment, and in particular, water, wastewater treatment, energy, transport, waste management, and all related products and services, whether or not for collective use;
- the management and acquisition of all share interests, by way of subscription, purchase, contribution, exchange or

through any and all other means, of bonds, shares and any and all other corporate securities, whether existing or to be issued in the future, and the right to dispose of the same; and

- generally all transactions, whether commercial, industrial or involving real or personal property and related directly or indirectly to the above purposes.”

Registration number (RCS) and SIRET number

780 129 961 RCS PARIS
SIRET 780 129 961 03901
Code APE 410Z

Inspection of documents

Legal documents (corporate statutes, copies of minutes of Shareholders’ Meetings and reports of the statutory auditors) are available for inspection at the Company’s registered office.

The texts of the new corporate statutes, which include, in particular, statutory modifications to be submitted to the approval of the Ordinary and Extraordinary Shareholders’ Meeting on April 27, 2000, and which form part of the present document, are presented in the attached document which sets out the resolutions to be submitted to the approval of the above-mentioned Shareholders’ Meeting (pages 1 to 3 and 12 to 17).

Financial year

From January 1 to December 31 inclusive.

Statutory appropriation of income

Each share confers the right to ownership of company assets and to a share of the profits distributed, in proportion to the number of existing shares, depending upon the nominal value and rights attaching to shares of different classes.

A legal reserve fund is established at the end of each financial year, equal to at least 5% of the income for that year, after

deduction of any previous years’ losses. This ceases to be mandatory once the reserve fund is equal to 10% of the Company’s registered capital stock, and is resumed when, for whatever reason, the legal reserve falls below this 10% threshold.

Dividends which are not claimed within five years of their availability are barred.

The Shareholders’ Meeting may vote to allocate any amount it determines to other reserves, whether ordinary or special, to retained earnings available for appropriation, or to distribution by way of dividend.

General Meetings of Shareholders

All shareholders may attend General Meetings, regardless of the number of shares they hold.

The right to participate in General Meetings is subject to the following conditions:

- holders of ordinary shares must be entered in the Company’s shareholders’ register;
- holders of bearer shares must deposit a certificate of inscription delivered by a bank, a financial institution or the stock exchange, at the address mentioned in the notice convening the meeting.

The aforementioned formalities must be satisfied at least five days prior to the meeting. However, the Board of Directors retains the right to reduce this period.

As an exception to the legal provisions contained in paragraph 1, Article 163, of the Act of July 24, 1966, and in conformity with paragraph 9 of Article 8 of the corporate statutes, voting rights belong to bare-owners whether in Ordinary or Extraordinary Shareholders’ Meetings.

Each member at a General Meeting has as many votes as shares held or represented, subject to the particular provisions applicable to the Shareholders’ Meeting called to incorporate a company.

However, double voting rights, as defined in the Extraordinary Shareholders’ Meeting of June 30, 1981, are awarded for

ordinary shares that are fully paid up and that have been registered in the name of the same holder for at least two years. This double voting right is reserved for shareholders with French nationality or nationals of other member states of the European Union, and ceases upon transfer of ownership or in the event that shares are converted into bearer shares. Nevertheless, the rights are maintained in the event of a transfer resulting from an inheritance by will or intestacy, from the sharing of common goods between a married couple, and from gifts made to a spouse or relative.

The extension of the benefit of double votes to all shareholders, whatever their nationality, will be put to the Shareholders' Meeting on April 27, 2000.

Any individual or legal entity, acting alone or with others, whether directly or indirectly, who reaches or falls below a shareholding of at least 0.5% of capital stock or any multiple of this percentage (threshold set by the Shareholders' meeting dated June 11, 1997), directly or through voting or other rights giving deferred access to capital, is required to notify the Company within 15 days of reaching one of these thresholds.

Failure to comply with the aforementioned obligation may deprive the owners of voting rights for those shares, or rights attached thereto, in respect of the portion exceeding the shareholding that ought to have been declared. This may be decided at any Shareholders' Meeting within a period of two years from the time that notification should have taken place.

These sanctions may be imposed only if requested at a Shareholders' Meeting by one or more shareholders holding at least 0.5% of the registered capital stock.

The introduction of an adjustment clause, in Article 18 of the corporate statutes, regarding voting rights of Shareholders' Meetings will be put to the Shareholders' meeting on April 27, 2000.

The purpose of this clause is to proportionately adjust voting rights cast at Shareholders' meetings by shareholders present and represented according to the absenteeism rate and therefore the quorum reached. As a result, whatever the quorum reached, an interest exceeding 2% of the voting rights will cast a percentage of votes almost equal to (and in no case less than) the percentage represented by this interest according to the number of existing votes. For example, an interest representing:

- 20% of the voting rights would confer 22.8% of the votes cast at a Shareholders' Meeting in which would participate other shareholders representing 40% of the existing voting rights all allocated in portions lesser than 2%;
- 66.67% of the voting rights would confer 69.3% of the votes cast at a Shareholders' Meeting with the same characteristics as those defined above.

GENERAL INFORMATION CONCERNING CAPITAL STOCK

Capital stock

On December 31, 1999, the capital stock of the Company amounted to €3,276,064,924 divided into 595,648,168 shares each with a nominal value of €5.50.

At its meeting on January 28, 2000, the Board of Directors:

- recorded the capital increase resulting from subscriptions to the third 1999 tranche of the Group Savings Scheme through the issue of 1,152,275 new shares earning dividends as from January 1, 1999, the exercise of subscription warrants (91,415 new shares issued, earning dividends as from January 1, 1999), and the exercise of subscription warrants and the issue of 115 new shares earning dividends as from January 1, 2000.

On January 28, 2000, the capital stock was consequently increased to €3,282,905,851.50, divided into 596,891,973 shares of €5.50 each.

On February 7 and 16, 2000, 3,200,000 and 2,800,000 new shares were issued after Pégase II Limited had fully subscribed and paid up under the reserved capital increase approved by the Extraordinary Shareholders' Meeting of September 10, 1999 (10th resolution) and decided on by the Board of Directors at its meeting of October 4, 1999.

On February 16, 2000, the capital stock was consequently increased to 3,315,905,851.50, divided into 602,891,973 shares of €5.50 each.

The shares consist of either common or bearer shares, all of which are freely transferable. They are quoted on the main market of the Paris Stock Exchange, with monthly settlement (code 12143).

Shares which will bear interest from January 1, 2000, are quoted, until their assimilation with shares which were already bearing interest, on the main market of the Paris stock exchange with cash settlement (code 20091).

The corporate statutes do not set conditions on changes in capital stock or rights attached to shares that are more restrictive than the legal provisions in force.

Authorization for increases in capital stock

It will be recommended to the Ordinary and Extraordinary Shareholders' Meeting of April 27, 2000 that the ceiling on powers granted to the Board of Directors to increase the capital stock with or without preferential subscription rights be increased from €2 billion to €3 billion (Ordinary and Extraordinary Shareholders' Meeting of May 11, 1999 — 12th and 13th resolutions).

These pending powers appear in the table below.

General information

SUMMARY OF AUTHORIZATIONS GRANTED TO THE BOARD OF DIRECTORS IN 1998 AND 1999

With preferential subscription rights

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum amount of issue*	Maximum nominal capital increase*
Capital increase (all types of marketable securities included)	12 of 99	Maximum of 26 months to 06/2001	—	2,000 including €250m used in May 1999 ⁽¹⁾ – balance 1,750
Capital increase through capitalization of reserves	14 of 99	Maximum of 26 months to 06/2001	—	1,000 <i>Amount to be applied against the amount above</i>

* In millions of euros

Without preferential subscription rights

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum amount of issue*	Maximum nominal capital increase*
Capital increase (all types of marketable securities included)	13 of 99	Maximum of 26 months to 06/2001	—	2,000 (first issue) 1,000 (second issue)

* In millions of euros

Bonds

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum amount of issue	Maximum nominal capital increase
Bonds and subordinated securities	12 of 98	Five years to 06/2004	FF15 billion or €2,287m Balance €0.73	Zero

Stock issues reserved for personnel

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum nominal capital increase
Employee stock options	16 of 98	Three years to 06/2001	Maximum 2.5% of the capital on the date when the decision is made by the Board of Directors ⁽²⁾
Capital increase through Group Savings Scheme (including Pégase)	17 of 99	Five years to 06/2004	Less than 10% of the capital on the date when the decision is made by the Board of Directors ⁽³⁾

(1) COB visa number 99-586, dated May 11, 1999.

(2) Authorization used up to 13 821 438 shares, representing 2.29% of the share capital (see table on page 187).

(3) Authorization used up to 3 591 795 shares, representing 0.60% of the share capital.

Share redemption programme

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum number of issues
Redemption of shares	11 of 99	18 months – November 2000	€4.6 billion
Cancellation of shares	16 of 99	24 months starting from May 15, 1998 ie until May 15, 2000	10% of the capital

Authority to increase the capital in the event of a tender offer

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum nominal capital increase
Shares	15 of 99	One year May 2000	—

General information

LIST OF MEASURES TO BE SUBMITTED TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF APRIL 27, 2000

Issues with preferential subscription rights

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum amount of issue*	Maximum nominal capital increase*
Capital increase	12 of 99	Maximum of 26 months to 06/2000	—	3,000 incl. €250m used in May 1999
All classes of securities ⁽¹⁾	and 8 of 2000		—	Balance 2,750
Capital increase through capitalization of reserves	14 of 99	Maximum of 26 months to 06/2001	—	1,000 <i>Amount to be applied against the above amount</i>

* in millions of euros

Issues without preferential subscription rights

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum amount of issue*	Maximum nominal capital increase*
Capital increase	13 of 99	Maximum of 26 months to 06/2001	—	3,000 (first issue) 1,000 (second issue)
All classes of securities ⁽¹⁾	and 8 of 2000			

* in millions of euros

(1) authorization required from nominal value of €3 billion.

Bonds

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Maximum amount of issue*	Maximum nominal capital increase
Bonds and subordinated securities ⁽¹⁾	5 of 2000	Five years to 04/2004	7,000	Zero

* in millions of euros

Stock issues reserved for personnel

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Characteristics
Employee stock options ⁽¹⁾	10 of 2000	Three years to 04/2003	Maximum 3.5% of the capital on the date when the decision is taken by the Board of Directors

(1) These authorizations cancel and supersede, for the unused part and the remaining period, the authorizations granted in 1998 (12th and 16th resolutions) and in 1999 (11th resolution).

Share redemption programme

Stocks and bonds	Source (resolution no. and year of AGM)	Duration of authorization and date of expiry	Characteristics
Redemption of shares ⁽¹⁾	16 of 2000	18 months to 10/2001	€ 7 billion
Cancellation of shares	17 of 2000	24 months	10% of the capital

Authority to increase the capital in the event of a tender offer

Stocks and bonds	Source (resolution no. And year of AGM)	Duration of authorization and date of expiry	Characteristics
Shares	9 of 2000	One year – April 2001	—

(1) These authorizations cancel and supersede, for the unused part and the remaining period, the authorizations granted in 1998 (12th and 16th resolutions) and in 1999 (11th resolution).

Convertible bonds

On January 22, 1999, the Board of Directors resolved, by virtue of an authorization granted by the Ordinary and Extraordinary Shareholders' Meeting of June 11, 1997 (11th resolution) to issue bonds with a right to convert for new or existing shares for a total of €1,700,000,058, bearing interest at an annual rate of 1.25%, for four years and 340 days. A total of 6,028,369 bonds were issued, each with a nominal value of €282 convertible or exchangeable at any moment at a rate of 3.047 shares for one bond. This issue was presented in a preliminary prospectus and a final prospectus certified by the French stock exchange commission (COB) under the numbers 99-001 and 99-048 respectively.

These bonds have been listed on the main market of the Paris Stock Exchange with cash settlement, since January 26, 1999, under code no. 18066.

At December 31, 1999, 6,028,228 of these bonds were outstanding.

In April 1999, Vivendi Environnement, a wholly-owned subsidiary of Vivendi, issued bonds with a warrant for the conversion of the said bonds into new or existing Vivendi shares or possibly into Vivendi Environnement shares in case of the listing of Vivendi Environnement for a nominal amount of €2,850,000,226, bearing interest at the rate of 1.50% and with a term of five years and 250 days, represented by 10,516,606

bonds with a par value of €271 each, convertible or exchangeable at any moment at a rate of 3.047 Vivendi shares for one bond.

This issue was described in a preliminary prospectus and a final prospectus which were certified by the COB under the numbers 99-379 and 99-390 respectively, and is covered by an autonomous guarantee on demand given by Vivendi.

These bonds have been listed on the cash section on the main market of the Paris Stock Exchange with cash settlement since April 26, 1999 under code no. 18073.

As of December 31, 1999, 10,516,520 of these Vivendi Environment bonds were outstanding.

Subscription warrants

On May 2, 1997, 130,359,688 bonus subscription warrants were allotted to the Company's shareholders.

They may be exercised until May 2, 2001. As a result of an adjustment made after the three-for-one stock split approved by the Ordinary and Extraordinary Shareholders' meeting of May 11, 1999, the applicable parity is 3.05 new shares at a price of €137.0 for 40 warrants tendered.

At December 31, 1999, 116,485,647 warrants were outstanding.

Share subscription and purchase option schemes

SUBSCRIPTION OPTION SCHEME

These schemes are for a term of ten years, for those granted in 1989, 1990 and 1991, and of eight years for those granted in 1992, 1993, 1994, 1995 and 1996.

The 1989 scheme has now expired.

PURCHASE OPTION SCHEME

In 1999, two stock option plans were introduced.

The annual stock option plan covered 3,399,441 options for 1,191 beneficiaries at a price of €65 based on the following criteria: level of responsibility, performance and identification of high-potential managers or those who have carried out significant business operations.

An exceptional stock option plan called “outperformance” plan which covers a maximum of 6,000,000 options (deducted from treasury stock) and reserved for Vivendi’s 50 principal managers was set up in May 1999. The stock purchase options will have no dilutive effect and have been granted at a price of €73.01 without any discount, and may only be exercised in full after five years if the Vivendi share outperforms the shares of its main competitors by at least 25%.

STOCK OPTIONS FOR ALL

Having all employees hold options to acquire Vivendi shares is the objective pursued by Vivendi, in order to involve employees as closely as possible in corporate performance. With that

goal in mind, an exceptional “stock options for all” programme was put into place on January 1, 2000. 250,000 Vivendi employees working in the Environmental Services and Communications divisions have received ten stock purchase options at a price of €62.60. These options have been drawn from treasury shares and will not have any dilutive effect.

This exceptional operation heralds the beginning of the new millennium and comes in addition to ambitious employee saving schemes which have already enabled more than 100,000 employees to become Vivendi shareholders. In particular, this formula will help employees with limited savings to invest in Vivendi shares while benefiting from a leverage effect and guaranteed yield.

TERM OF THE SCHEMES AND OPTIONS HELD BY CORPORATE DIRECTORS

These schemes are for a term of eight years for the first tranche granted in 1997 and for the 1998 and 1999 schemes, while they are for a term of seven years for the second tranche of the 1997 scheme, with a restriction period of five years.

The number of shares acquired by Vivendi to implement these schemes was 5,510,864 at February 16, 2000, representing 0.91% of the capital stock at that date.

The overall number of unexercised options held by corporate directors (see p. 208) at December 31, 1999 was:

- subscription options: 160,772 (0.03% of the capital stock)
- purchase options: 5,672,439 (0.95% of capital stock), including those conditional on performance.

The detail of these schemes is provided in the tables below.

Purchase option schemes	1997	1997 SO II	1998	Jan. '99	Apr. '99	May '99 SO III	Sep. '99	Nov. '99	Nov. '99
Date of Shareholders' Meeting	June 11, '97	June 11, '97	May 15, '98	May 15, '98	May 15, '98	May 15, '98	May 15, '99	May 15, '98	May 15, '98
Date of Board Meeting	Sep. 17, '97	Sep. 17, '97	July 3, '98	Jan. 22, '99	Apr. 8, '99	May 11, '99	Sep. 10, '99	Nov. 25, '99	Nov. 25, '99
Number of individuals eligible	290	25	648	13	818	53	2	3	250,302
of which senior executives at the date of attribution	20	8	13	—	11	10	—	—	10
Total number of shares which may be purchased	1,260,960	1,980,974	2,192,760	42,672	3,302,569	5,729,237	15,000	9,000	2,530,200
of which may be purchased by senior executives	494,480	1,420,200	598,857	—	1,068,015	2,392,259	—	—	1,100
Date from which options can be exercised	Sep. 17, '02	Sep. 17, '02	July 3, '03	Jan. 23, '04	Apr. 9, '04	May 12, '04	Sep. 11, '04	Nov. 26, '04	Nov. 26, '02
Date of expiry	Sep. 17, '05	Sep. 17, '04	July 3, '06	Jan. 22, '07	Apr. 8, '07	May 11, '07	Sep. 10, '07	Nov. 25, '07	Nov. 25, '07
Purchase price (in French francs)	202.78	328.12	331.41	402.30	426.37	478.91	405.38	410.63	410.63
(in euros)	30.91	50.02	50.52	61.33	65.00	73.01	61.80	62.60	62.60
Number of options exercised at December 31, 1999	31,864	zero	11,929	zero	zero	zero	zero	zero	zero

General information

Subscription option schemes	1989	1990	1991	1992	1993	1994	1994 ⁽²⁾	1994 ⁽³⁾
Date of Shareholders' Meeting	June 26, '87	June 26, '87	June 26, '87	June 26, '92	June 26, '92	June 26, '92	June 16, '93	June 16, '93
Date of Board Meeting	Oct. 20, '89	Oct. 22, '90	Nov. 20, '91	Oct. 28, '92	Dec. 2, '93	Oct. 20, '94	Apr. 5, '94	Apr. 5, '94
Number of individuals eligible	169	195	234	255	313	344	—	—
of which senior executives at the date of attribution	12	12	12	13	14	15	—	—
Number of individuals eligible, following merger	—	—	—	—	—	—	28	29
Total number of shares available, after adjustments	766,630	859,710	1,103,685	1,092,604	1,262,241	1,232,453	18,202	17,942
Of which, those that can be subscribed by senior executives	132,529	184,855	220,202	220,625	283,320	250,514	—	—
Date from which options can be exercised	Jan. 1, '91	Jan. 1, '92	Jan. 1, '93	Jan. 1, '94	Jan. 1, '95	Jan. 1, '96	Apr. 5, '94	Apr. 5, '94
Date of expiry	Oct. 20, '99	Oct. 22, '00	Nov. 20, '01	Oct. 28, '00	Dec. 2, '01	Oct. 20, '02	Apr. 4, '99	Apr. 4, '99
Share price, after adjustments								
(in French Francs)	128.95	126.08	140.93	126.17	172.19	126.66	682.03	709.58
(in euros)	19.66	19.22	21.48	19.23	26.25	19.31	103.97	108.17
Number of shares subscribed at								
December 31, 1999	724,014 ⁽⁵⁾	745,673	927,378	952,660	908,718	846,270	18,202	16,672 ⁽⁵⁾

(1) Havas scheme

(2) CEP scheme

(3) GLC scheme

Following the merger with Havas on May 15, 1998, these schemes were substituted by Vivendi schemes

(4) Pathé

(5) 42,616 and 1,270 unexercised shares which were cancelled.

General information

1995	1995 ⁽²⁾	1995 ⁽³⁾	1996	1996 ⁽²⁾ (May)	1996 ⁽²⁾ December	1997 ⁽¹⁾	1996 ⁽⁴⁾	1997 ⁽⁴⁾	1998 ⁽⁴⁾
June 26, '92	June 16, '93	June 16, '93	June 26, '92	June 16, '93	June 16, '93	June 26, '97	June 21, '96	June 21, '96	Apr. 4, '98
Sep. 13, '95	Sep. 19, '95	Sep. 19, '95	June 24, '96	May 7, '96	Dec. 17, '96	June 26, '97	Sep. 10, '96	Sep. 10, '97	Dec. 10, '98
118	—	—	184	—	—	—	—	—	—
18	—	—	18	—	—	—	—	—	—
—	18	16	—	20	29	82	31	13	45
700,966	44,998	79,327	964,898	27,484	77,297	569,550	93,015	111,150	285,840
326,559	—	—	535,936	—	—	—	—	—	—
Jan 1, '97	Sep. 19, '95	Sep. 19, '95	Jan. 1, '98	May 7, '96	Dec. 17, '96	June 26, '02	Sep. 11, '97	Sep. 11, '02	Dec. 11, '03
Sep. 13, '03	Sep. 18, '00	Sep. 18, '00	June 24, '04	May 6, '01	Dec. 16, '01	June 25, '04	Sep. 10, '04	Sep. 10, '05	Dec. 10, '06
145.36	242.16	239.08	144.70	221.81	174.16	254.54	274.89	247.11	245.33
22.16	36.92	36.45	22.06	33.81	26.55	38.80	41.91	37.67	37.40
358,574	13,054	zero	168,207	3,323	5,674	zero	zero	zero	zero

Statement of changes in capital stock over the last five financial years

DESCRIPTION OF TRANSACTION	Date	Amount Nominal	Premium	Number of shares created	in shares	Capital in French francs or euros
Position at December 31, 1994					112,600,076	11,260,007,600
Conversion of bonds and stock options	Jan. 18, '95	100	—	14,197	112,614,273	11,261,427,300
Conversion of bonds and stock options	Apr. 7, '95	100	—	7,216	112,621,489	11,262,148,900
Company Savings Schemes, 1995	Apr. 7, '95	100	286	263,872	112,885,361	11,288,536,100
Public exchange offering, Cie Immobilière Phénix	June 29, '95	100	—	2,547,103	115,432,464	11,543,246,400
Stock options	Sep. 13, '95	100	—	38,249	115,470,713	11,547,071,300
Stock dividend, July 1995	Sep. 13, '95	100	386	1,925,078	117,395,791	11,739,579,100
George V contributions	Jan. 18, '96	100	417.15	925,000	118,320,791	11,832,079,100
Conversion of bonds and stock options	Jan. 18, '96	100	—	40,023	118,360,814	11,836,081,400
Company Savings Scheme 1996	Apr. 30, '96	100	343	189,992	118,550,806	11,855,080,600
Group Savings Scheme 1996	Apr. 30, '96	100	310	269,512	118,820,318	11,882,031,800
Contributions Société d'Eaux + CGEA	June 27, '96	100	—	1,718,673	120,538,991	12,053,899,100
Group Savings Scheme 1996	July 23, '96	100	311	269,630	120,808,621	12,080,862,100
Stock dividend, July 1996	Aug. 21, '96	100	387	1,804,787	122,613,408	12,261,340,800
Group Savings Scheme, 1996	Jan. 15, '97	100	344	406,877	123,020,285	12,302,028,500
Conversion of bonds and stock options	Jan. 23, '97	100	—	402,947	123,423,232	12,342,323,200
Conversion of bonds and stock options	Apr. 28, '97	100		6,547,276	129,970,508	12,997,050,800
Group Savings Scheme — 1st 1997	Apr. 28, '97	100	441	389,180	130,359,688	13,035,968,800
Contributions	June 11, '97	100	—	431,892	130,791,580	13,079,158,000
Group Savings Scheme — 2nd 1997	July 21, '97	100	515	140,855	130,932,435	13,093,243,500
Stock dividend, July 1997	Aug. 12, '97	100	573	1,583,068	132,515,503	13,251,550,300
Conversion of bonds, bills and stock options	Sep. 17, '97	100	—	1,529,673	134,045,176	13,404,517,600
Group Savings Scheme — 3rd 1997	Jan. 16, '98	100	459	411,458	134,456,634	13,445,663,400
Conversion of subscription warrants and stock options	Jan. 22, '98	100		136,869	134,593,503	13,459,350,300
Group Savings Scheme — 1st 1998	Apr. 28, '98	100	557	591,594	135,185,097	13,518,509,700
Conversion of bonds, bills and stock options	May 15, '98	100	—	138,582	135,323,679	13,532,367,900
Merger with Havas	May 15, '98	100	166.38	23,078,854	158,402,533	15,840,253,300
Group Savings Scheme — 2nd 1998	July 22, '98	100	700	508,717	158,911,250	15,891,125,000
Conversion of bonds, warrants and stock options	Dec. 31, '98	100		552,056	159,463,306	15,946,330,600
Conversion of bonds and stock options	Jan. 22, '99	100		1,532,145	160,995,451	16,099,545,100

DESCRIPTION OF TRANSACTION	Date	Amount Nominal	Premium	Number of shares created	in shares	Capital in French francs or euros
Group Savings Scheme — 3rd 1998	Jan. 22, '99	100	843	321,679	161,317,130	16,131,713,000
Capital increase through capitalization of reserves and increase in par value	Jan. 22, '99	104.95312			161,317,130	16,930,736,102.95
CONVERSION OF THE CAPITAL INTO EUROS	Jan. 22, '99	€16			161,317,130	€2,581,074,080
Conversion of bonds, warrants and stock options	May 11, '99	16		3,221,785		
Group Savings Scheme — 1st 1999	May 11, '99	16	170.90	331,667		
Group Savings Scheme PEGASE	May 11, '99	16	170.90	1,758,057	166,628,639	2,666,058,224.00
Increase in par value	May 14, '99	16.50			166,628,639	2,749,372,543.50
3 for 1 stock split	May 14, '99	5.50			499,885,917	2,749,372,543.50
Conversion of bonds, warrants and stock options	July 22, '99	5.50		743,291	500,629,208	2,753,460,644.00
Subscription with preferential rights	July 22, '99	5.50	54.50	45,505,197	546,134,405	3,003,739,227.50
Group Savings Scheme — 2nd 1999	July 28, '99	5.50	58.07	681,463	546,815,868	3,007,487,274.00
Pathé merger and Richemont SA and Wei contributions	Sep. 10, '99	5.50		47,501,692	594,317,560	3,268,746,580.00
Conversion of bonds, warrants and stock options	Dec. 31, '99	5.50		1,330,608	595,648,168	3,276,064,924.00
Conversion of warrants and stock options	Jan. 28, '00	5.50		91,530	595,739,698	
Group Savings Scheme — 3rd 1999	Jan. 28, '00	5.50	51.20	1,152,275	596,891,973	3,282,905,851.50
PEGASE II LIMITED	Feb. 7, '00	5.50	51.20	3,200,000	600,091,973	3,300,505,851.50
PEGASE II LIMITED	Feb. 16, '00	5.50	51.20	2,800,000	602,891,973	3,315,905,851.50
Potential capital resulting from:						
Subscription warrants (free allocation on May 2, 1997) at a rate of 3.05 shares = 40 warrants				116,486,127	8,881,915	
1.25% bonds (3.047 shares for 1 bond)				6,028,228	18,368,011	
1.50% Vivendi Environnement bonds (3.047 shares for 1 bond)				10,516,510	32,043,806	
Ten-year option to apply for shares, taking adjustments into account, ie:					285,385	
114,037 shares from options exercisable from Jan. 1, 1992						
171,348 shares from options exercisable from Jan. 1, 1993						
Eight-year option to apply for shares, taking adjustments into account i.e.:					1,939,342	
134,174 shares from options exercisable from Jan. 1, '94						
339,233 shares from options exercisable from Jan. 1, '95						
331,887 shares from options exercisable from Jan. 1, '96						
341,016 shares from options exercisable from Jan. 1, '97						
793,032 shares from options exercisable from Jan. 1, '98						
Former Havas Schemes					773,140	
Former Pathé Schemes					486,405	
TOTAL					665,669,977	3,661,184,873.50

Shareholdings and voting rights

At February 16, 2000, the capital stock of the Company totalled 602,891,973 shares divided among more than 600,000 shareholders, and 628,163,925 voting rights. To the best of the Board of Directors' knowledge, the holders of ordinary shares and owners of bearer shares who had deposited a certificate of inscription with the Company at that date, were as follows:

	Shareholding	Voting rights
Employees (Group Savings Scheme)	3.11	4.12
Richemont ⁽¹⁾	2.90	2.79
Alcatel	2.40	2.98
Saint-Gobain	2.04	3.92
Seydoux Group ⁽¹⁾	1.66	2.90
Société Générale	1.82	1.89
AXA	1.40	1.38
BNP	0.70	1.17
Canal+ ⁽¹⁾	0.45	0
Treasury shares (subsidiaries)	0.07	0
Treasury shares (Vivendi)	2.22	0
Other shareholders	81.23	78.85

(1) Following the merger with Pathé, approved by the Shareholders' Meeting on September 10, 1999.

To the Company's knowledge, no shareholder owns, either directly or indirectly, more than 5% of the share capital or voting rights.

At February 16, 2000, directors and senior executives (see p. 208) owned 0.05% of the capital stock and 0.04% of the voting rights.

At the same date, employees of the Company owned 3.11% of the capital stock and 4.12% of the voting rights through the Group Savings Scheme.

The percentage of capital stock owned by companies directly or indirectly controlled by the Company was 0.52%.

To the best of the Board of Directors' knowledge, there are no shareholders' agreements, declared or otherwise in respect of shares in the company.

Authorization given to the company to deal in its own shares

The Ordinary and Extraordinary Shareholders' Meeting of May 11, 1999 renewed the authorization given to the Company to deal in its own shares on the stock exchange, in conformity with the legal provisions in force at the time of the purchase. This authorization was granted for the purpose of stabilizing the share price, granting shares to salaried employees or subsequently cancelling the shares or exchanging them.

Under this authority, which is granted for a period of 18 months, the company set up a stock redemption programme described in an information memorandum approved by the COB on April 23, 1999 under the no. 99-465. Between May and December 1999, Vivendi acquired 32,177,449 shares at an average price per share of €72.38, including 16,308,662 shares for the purpose of stabilizing the share price and 14,100,000 shares as part of the reduction of cross shareholdings with the Compagnie de Saint-Gobain, and sold 5,514,153 shares at an average price per share of €76.40 and 11,550,960 shares for the public offering in May 1999.

It will be recommended to the Ordinary and Extraordinary Shareholders' Meeting of April 27, 2000 that a new stock redemption programme be set up, and that, where applicable, shares purchased in respect thereof be cancelled through a capital decrease (see page 5 of the attached document).

This stock redemption programme is described in a prospectus registered with the COB (visa number 00-434 dated March 30, 2000).

As of February 16, 2000 Vivendi owns 13,354,702 treasury shares, 2.22% of its capital.

Bearer securities

The Company may, at its sole discretion, ask the SICOVAM (the French clearing house for securities) for the identity of its shareholders, for the purpose of determining the related voting rights at its Shareholders' Meetings, the number of shares and voting rights held by each shareholder and, if necessary, the restrictions to which certain shares may be subject.

SHAREHOLDING STRUCTURE OVER THE LAST THREE YEARS

By virtue of the aforementioned authorization, SICOVAM investigations on share ownership have shown the following interests in the capital of the Company:

	Dec. 31, '97	Aug. 31, '98*	Dec. 31, '98*	Variation	Dec. 30, '99	Variation
General public (France)	26.85%	25.00%	23.71%	(1.29)	22.81%	(0.90)
Industrial and institutional investors (France)	26.38%	24.50%	23.88%	(0.62)	17.98%	(5.90)
Foreign investors	43.37%	45.50%	47.68%	+2.09	53.44%	+5.76
Employees	1.95%	2.50%	2.25%	(0.25)	2.98%	+0.73
Treasury stock	1.45%	2.50%	2.48%	(0.02)	2.79%	+0.31
Total	100%	100%	100%		100%	

*dates of SICOVAM investigations

INDIVIDUALS OR LEGAL ENTITIES WITH CONTROL OVER VIVENDI

See paragraph on shareholdings and capital rights (page 192).

TRADING IN VIVENDI SHARES (PARIS STOCK EXCHANGE) (CODE 12143)

Vivendi share price over the last 18-month period

	Average Price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (shares)	Trading volume (thousands of French francs)
1998					
July	1,337.95	1,440.00	1,274.00	13,486,713	18,021,160,576
August	1,258.45	1,318.00	1,149.00	8,081,020	10,111,842,312
September	1,216.64	1,322.00	1,036.00	12,874,217	15,332,165,146
October	1,168.95	1,310.00	990.00	13,265,755	15,027,855,796
November	1,283.00	1,397.00	1,192.00	10,524,241	13,549,528,889
December	1,336.90	1,450.00	1,213.00	12,641,091	16,849,153,212
1999	In euros	In euros	In euros		In euros
January	244.77	265.10	224.00	14,409,029	3,357,180,309
February	246.95	266.20	224.00	10,442,243	2,535,952,238
March	236.78	242.30	221.00	14,404,581	3,319,866,921
April	226.70	244.50	217.20	14,338,191	3,222,050,869
May ⁽¹⁾	74.55	79.00	69.60	42,143,086	4,652,681,075
June ⁽¹⁾	77.05	81.10	69.90	75,177,698	5,658,301,988
July ⁽¹⁾	79.00	83.70	71.30	33,229,167	2,605,359,061
August ⁽¹⁾	71.07	74.95	66.00	41,767,173	2,933,809,833
September ⁽¹⁾	71.38	77.25	65.05	52,100,130	3,675,392,494
October ⁽¹⁾	66.68	72.45	61.10	59,996,457	3,993,109,579
November ⁽¹⁾	75.33	82.00	69.65	63,556,913	4,809,349,647
December ⁽¹⁾	85.75	92.95	78.35	52,550,412	4,480,117,179

(1) After 3 for 1 stock split.

General information

1996 6.7% Bond Price Code (019795)	Average price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (bonds)	Trading volume in thousands of French francs
1996					
September	98.48	100.44	96.05	44,298	225,108,397
October	102.30	103.00	100.25	23,767	124,516,613
November	101.92	103.27	100.25	2,036	10,870,053
December	102.34	103.27	102.00	59	310,873
1997					
January	103.60	104.95	101.96	215	1,158,880
February	105.36	106.13	104.28	120	657,828
March	105.40	106.15	104.05	657	3,603,375
April	103.70	105.94	102.85	11,035	60,413,290
May	103.89	104.80	103.00	119	653,902
June	140.48	105.50	102.75	8,198	45,700,302
July	105.54	106.25	104.80	6,685	35,857,398
August	104.39	104.85	103.30	48	253,048
September	104.14	105.20	103.11	132	697,278
October	104.24	104.95	103.92	4,401	23,745,381
November	103.71	104.51	102.72	69	367,275
December	105.37	107.00	103.80	11,219	61,327,066
1998					
January	107.70	108.60	106.99	150	837,021
February	108.40	109.30	107.10	210	1,180,833
March	108.59	109.70	107.76	143	812,617
April	108.60	109.60	107.50	288	1,647,509
May	108.15	108.50	107.37	210	1,198,165
June	109.30	110.00	108.00	20,559	112,525,985
July	109.79	110.50	109.00	45	248,048
August	111.01	112.81	109.37	189	1,062,436
September	112.63	113.86	110.39	46	262,501
October	112.78	114.81	110.39	150	860,347
November	113.12	113.92	112.40	100	580,110
December	111.46	113.65	109.21	19	108,855
1999					
	In euros	In euros	In euros		In euros
January	112.67	113.11	111.89	22	19,582
February	112.44	114.84	110.78	118	105,031
March	111.80	113.00	110.80	180	160,960
April	111.70	111.70	111.70	11	9,855
May	110.76	112.82	109.57	75	66,651
June	111.74	114.05	109.50	284	253,356
July	106.79	109.50	105.50	124	101,399
August	109.65	109.65	109.65	11	9,297
September	103.53	104.28	103.00	14	11,259
October	103.50	106.10	102.80	73	58,928
November	103.70	106.10	103.05	93	75,374
December	106.23	107.97	104.88	259	215,823

General information

1996 0% Bond Price Code (020723)	Average price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (bonds)	Trading volume in thousands of French francs
1996					
September	105.30	105.30	105.00	2	2,103
October	109.65	112.68	105.51	1,874	2,075,179
November	113.62	115.00	110.15	12,655	14,188,737
December	113.89	116.30	111.40	2,974	3,363,783
1997					
January	120.09	124.00	113.70	2,097	2,525,382
February	129.52	132.40	122.61	3,663	4,712,647
March	128.27	132.56	124.85	2,927	3,679,072
April	127.38	131.51	124.20	1,200	1,508,389
May	130.32	133.46	121.98	188	243,299
June	124.40	129.39	118.70	1,345	1,639,517
July	129.27	132.83	125.70	340	440,285
August	125.66	132.08	121.30	1,879	2,347,080
September	124.53	126.71	121.65	19,892	24,790,369
October	123.86	128.85	119.37	213	267,437
November	128.63	133.26	122.90	1,030	1,300,598
December	136.06	140.38	131.74	66	90,125
1998					
January	140.26	143.97	136.24	35	49,081
February	148.17	150.14	145.90	284	418,908
March	154.54	157.81	151.99	1,298	1,988,242
April	153.35	155.37	149.68	1,791	2,743,803
May	156.57	159.05	154.88	33	51,683
June	159.03	160.73	157.20	285	455,633
July	162.01	164.53	158.40	798	1,277,386
August	159.04	161.14	156.13	1,086	1,726,306
September	157.11	161.16	149.01	1,616	2,479,470
October	151.23	155.29	146.83	37	56,071
November	154.63	157.51	152.34	1,039	1,585,344
December	155.31	156.79	152.80	20	31,119
1999	In euros	In euros	In euros		In euros
January	173.57	177.01	168.80	2,967	777,893
February	172.85	177.64	169.31	33	8,693
March	169.87	172.97	167.41	1,077	280,241
April	170.80	172.65	168.40	248	63,778
May	171.56	173.74	170.00	139	36,200
June	174.84	176.87	169.13	402	106,883
July	175.32	177.95	172.01	1,951	524,743
August	170.85	173.96	168.95	39	10,157
September	172.13	175.05	168.91	131	34,556
October	178.38	180.00	175.00	5,840	1,583,041
November	178.92	180.20	178.20	26	7,088
December	181.10	183.04	177.17	41	11,284

General information

1996 5.80% Bond Price Code (020734)	Average price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (bonds)	Trading volume in thousands of French francs
1996					
December	100.68	102.30	99.50	4,023	20,316,412
1997					
January	101.52	101.90	101.00	4,023	132,293,285
February	102.83	103.50	101.10	228,941	1,191,410,674
March	102.36	103.00	101.68	46,523	241,628,910
April	101.30	102.29	100.96	2,333	12,014,288
May	101.42	102.40	100.20	22,037	114,744,546
June	102.03	102.80	100.85	7,559	39,755,129
July	103.62	104.80	103.00	19	101,627
August	102.50	103.20	101.30	13	69,243
September	102.10	102.60	101.20	21	112,173
October	101.40	102.51	100.50	4,020	21,036,320
November	101.24	102.45	100.20	53	269,155
December	102.55	104.50	101.40	3,062	15,792,233
1998					
January	103.37	103.80	102.60	67	350,958
February	104.13	104.30	103.90	22,687	119,969,263
March	104.18	104.70	103.26	56	296,830
April	104.05	104.50	103.20	22	116,985
May	104.65	105.54	104.20	12,756	68,135,785
June	105.79	106.48	105.00	67	367,069
July	105.26	105.50	105.00	24	131,004
August	105.60	105.60	105.60	4	22,078
September	106.22	107.00	105.05	63	350,252
October	105.99	106.70	105.50	9,522	50,294,922
November	106.78	107.10	106.50	4	21,443
December	107.40	107.50	107.30	10	53,697
1999	In euros	In euros	In euros		In euros
January	107.43	108.10	106.00	5	4,149
February	108.08	108.10	108.00	6,004	5,038,240
March	108.23	108.70	107.50	1,211	1,011,765
April	108.98	109.30	108.70	5	4,261
May	109.05	109.10	108.99	4	3,426
June	107.84	109.00	106.60	15	12,688
July	105.12	106.50	102.15	117	96,234
August	105.39	106.25	104.80	9	7,556
September	104.96	106.50	104.37	14	11,884
October	103.86	105.50	102.59	1,645	1,323,824
November	102.94	104.20	101.10	16	12,489
December	102.83	103.95	101.90	60	47,068

General information

1997 6.50% BOND PRICE Code (020758)	Average price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (bonds)	Trading volume in thousands of French francs
1997					
February	99.63	99.63	99.63	2,001	10,504,587
March	0.00	0.00	0.00	16,000	82,036,400
April	101.21	101.62	101.00	4,482	23,071,899
May	100.94	102.00	99.25	3,653	18,967,481
June	100.67	102.61	98.60	284	1,454,589
July	103.00	105.00	101.00	519	2,752,512
August	103.59	104.15	103.00	133	712,676
September	104.20	105.00	103.00	4,550	24,772,141
October	104.67	105.00	104.00	47	257,249
November	104.40	104.40	104.40	1	5,492
December	104.75	105.25	103.40	279	1,540,156
1998					
January	105.75	105.55	104.00	4,146	21,334,659
February	105.84	107.06	105.00	40	211,623
March	107.03	108.05	106.00	468	2,529,148
April	107.04	108.50	106.15	203	1,099,996
May	106.78	107.40	106.00	96	522,004
June	108.15	109.00	107.00	8,391	46,906,320
July	108.65	109.30	108.00	87	485,123
August	110.53	112.50	109.20	4,034	23,292,379
September	111.53	113.00	110.50	7	40,449
October	108.94	109.48	108.40	38	215,476
November	108.04	109.33	107.35	29	164,876
December	107.00	107.00	107.00	35	196,817
1999	In euros	In euros	In euros		In euros
January	109.00	109.00	109.00	44	37,004
February	109.56	110.10	109.01	18	15,078
March	111.39	112.31	111.20	69	58,972
April	112.53	113.43	112.30	94	81,635
May	114.55	114.55	114.55	8	7,104
June	113.51	116.83	108.00	91	79,254
July	107.00	107.00	107.00	163	136,966
August	105.00	105.10	104.90	18	14,901
September	0.00	0.00	0.00	0	0
October	103.10	103.10	103.10	16	13,171
November	0.00	0.00	0.00	0	0
December	102.37	103.00	101.80	127	104,313

General information

1998 0% Bond Price Code (020898)	Average price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (bonds)	Trading volume in thousands of French francs
1998					
April	1,195.00	1,195.00	1,195.00	2	2,390
May	1,234.00	1,250.00	1,210.00	572	706,147
June	1,251.00	1,262.00	1,240.90	845	1,058,852
July	1,267.80	1,299.00	1,242.00	1,627	2,075,676
August	1,242.40	1,257.10	1,220.40	262	323,066
September	1,261.30	1,290.70	1,209.90	9,044	11,541,866
October	1,227.30	1,260.00	1,191.00	621	761,575
November	1,271.10	1,297.80	1,240.00	120,213	12,123,307
December	1,277.90	1,292.40	1,253.90	362	464,184
1999	In euros	In euros	In euros		In euros
January	212.87	217.01	207.99	328	70,296
February	211.64	217.51	209.00	369	77,320
March	208.67	210.97	200.00	797	165,253
April	207.56	212.05	204.97	154	32,193
May	206.93	209.15	203.90	110	22,521
June	209.41	213.11	205.37	558	116,507
July	209.52	214.38	202.00	252	52,201
August	201.66	205.26	197.00	358	71,051
September	201.81	206.41	197.52	3,119	633,453
October	197.28	201.54	192.99	659	129,210
November	205.23	209.98	200.00	463	94,262
December	213.59	220.03	209.00	474	100,399

General information

1999 1.25% Bond Price Code (018066)	Average price	Monthly high	Monthly low	Trading volume (bonds)	Trading volume
1999	In euros	In euros	In euros		In euros
January	305.25	313.00	297.20	120 870	36,835,488
February	301.11	315.60	292.00	356 017	106,591,097
March	291.55	299.50	278.50	467,334	135,330,049
April	278.62	292.00	269.00	534,220	148,550,063
May	276.33	283.00	270.00	132,837	36,644,475
June	280.70	288.00	270.10	165,902	46,516,928
July	279.46	287.00	269.00	67,110	18,730,681
August	265.78	273.50	257.00	102,549	26,693,025
September	264.91	274.00	257.00	227,209	59,839,484
October	257.76	264.90	245.00	189,748	48,917,851
November	270.13	280.00	257.00	208,709	56,184,479
December	288.73	305.00	260.00	383,607	110,563,638

1999 1.25% Bond Price Code (018073)	Average price	Monthly high	Monthly low	Trading volume (bonds)	Trading volume
1999	In euros	In euros	In euros		In euros
January	0.00	0.00	0.00	0	0
February	0.00	0.00	0.00	0	0
March	0.00	0.00	0.00	0	0
April	272.50	274.00	271.00	134,323	36,545,046
May	275.68	282.00	271.00	405,614	111,935,661
June	280.95	286.25	272.00	611,122	171,386,899
July	279.25	287.90	269.00	229,157	63,772,593
August	264.79	272.00	257.10	230,416	60,523,692
September	265.38	277.00	256.50	426,957	113,905,145
October	258.55	270.00	250.20	240,231	62,133,123
November	270.98	282.00	251.00	310,198	84,206,244
December	288.63	304.70	275.20	270,557	78,185,556

General information

Subscription warrants 1997 Code (027878)	Average price in French francs	Monthly high in French francs	Monthly low in French francs	Trading volume (shares)
1997				
May	3.76	5.00	3.22	20,320,863
June	3.63	4.00	3.50	13,409,846
July	3.71	3.88	3.52	8,810,291
August	3.61	3.84	3.40	3,839,254
September	3.34	3.85	2.92	6,538,196
October	3.17	3.50	2.76	6,686,150
November	3.36	3.71	3.05	7,155,286
December	3.79	4.10	3.32	10,129,080
1998				
January	4.13	4.48	3.76	11,458,443
February	5.19	6.10	4.40	24,771,976
March	6.57	7.50	5.90	18,590,969
April	8.15	9.45	6.60	15,897,301
May	9.85	10.80	8.65	11,049,106
June	11.13	12.35	10.10	12,675,525
July	12.72	14.50	11.70	13,046,311
August	11.26	12.50	9.30	8,960,845
September	10.35	12.35	7.20	15,140,194
October	9.44	11.90	6.40	11,787,966
November	11.40	13.75	9.70	12,045,682
December	12.28	14.50	10.20	10,786,600
1999	In euros	In euros	In euros	
January	2.78	3.16	2.29	13,636,745
February	2.66	3.23	2.31	7,967,693
March	2.39	2.64	2.11	6,257,784
April	2.20	2.60	1.99	9,916,542
May	2.18	2.48	1.94	10,053,164
June	2.48	2.78	2.01	15,416,332
July	2.56	2.95	2.09	11,073,337
August	2.11	2.37	1.81	11,056,921
September	2.17	2.48	1.89	12,280,460
October	1.91	2.19	1.59	12,765,282
November	2.40	2.85	2.06	16,790,858
December	3.16	3.69	2.60	17,468,107

Dividends

Over the last five years, dividends distributed per share (in euros) have been as follows:

	1994	1995	1996	1997	1998
No. of shares	112,614,273	118,354,214	123,402,712	134,729,156	160,015,584
Net dividend	1.72	1.72	1.83	2.29	2.75
Tax credit	0.86	0.86	0.91	1.14	1.38
Total dividend	2.58	2.58	2.74	3.43	4.13
Total dividends paid (in €m)	193,696	203,569	225,751	308,530	440,043

It will be recommended to the Ordinary and Extraordinary Shareholders' Meeting of April 27, 2000 that a dividend per

share of €1 be paid, a total dividend payment of €596.9 billion, up over 35% compared with 1998.

INFORMATION ABOUT THE COMPANY'S BUSINESS

Contract types covering Company business

The Company's activities, particularly in core segments such as environmental services, communications, construction, property, and public and private passenger transport are exercised in conformity with contracts that have been agreed with legal entities under French common law or within the scope of authorizations granted by administrative authorities.

The Company is not dependent, in any material manner, on patents, licenses or industrial, commercial or financial supply contracts.

Competition

Vivendi's main competitors include:

- Water: in Europe, Suez Lyonnaise des Eaux, Saur, United Utilities Plc, Thames Water Plc, Severn Trent Plc and Sociedad General de Aguas de Barcelona SA;

- Energy: in Europe, Suez Lyonnaise des Eaux and large European gas and electricity companies such as Electricité de France, Gaz de France, Eastern, RWE and PowerGen;
- Waste: in Europe, Suez Lyonnaise des Eaux; other competitors include Shanks and Wattco in the U.K. In the U.S., Waste Management, Allied BFI and Republic Waste;
- Transport: in Europe, Stagecoach, National Express, Arriva and Transdev. In the U.S. Laidlaw;
- Telecommunications: France Télécom;
- Audiovisual: TPS in France, NewsCorp as a shareholder of Stream in Italy, and Telefonica through its subsidiary Via Digital in Spain.

Litigation and exceptional factors

To the best of its knowledge, no litigation or exceptional factors exist that could substantially affect the business, financial performance or the financial situation of the Company.

BOARD OF DIRECTORS, SENIOR EXECUTIVES AND SUPERVISORY BODIES

Board of Directors

General provisions⁽¹⁾

- Under Article 9 of the corporate statutes, the Board of Directors consists of three to 24 members, elected for a renewable term of four years.
- Under Article 9, the age limit for directors is set at 70 years. It may be extended to 73 years if the number of directors who are older than 70 does not exceed one-fifth of all current directors.
- Under Article 15, the age limit for the Chairman of the Board and the Chief Executive Officer is set at 65 years. At the discretion of the board, it may be extended to the age of 67.

- Under Article 10, directors must own at least 750 shares each during their term of office.

Powers of the Board of Directors

In addition to the Board's powers under the law, it examines:

- the Company's strategic objectives;
- external and internal growth transactions that could have a significant impact on financial performance or on the balance sheet.

Current Board Members

The Board of Directors consists of 14 members, including ten independent directors. There are three non-French directors on the Board.

(1) Subject to approval of the proposed amendments to the corporate statutes by the Ordinary and Extraordinary Shareholders' Meeting of April 27, 2000. At present, Directors are appointed for six-year terms. The amendment of the term of office of the Directors shall apply after the end of the terms of office of Directors presently in office.

General information

Date of appointment or re-election of directors⁽¹⁾

		Age	Appointment	Renewal	End of term of office. Annual Shareholders' Meeting in
Chairman and Chief Executive Officer	Jean-Marie Messier	43	Nov. 23, 1994	May 15, 1998	2004
Chief Operating Officer	Eric Licoys	61	May 11, 1999		2005
Directors (<i>board members</i>)	Bernard Arnault ⁽²⁾	51	June 27, 1996		2002
	Jean-Louis Beffa	58	Feb. 19, 1996	June 11, 1997	2003
	Jean-Marc Espalioux ⁽²⁾	48	May 11, 1999		2005
	Philippe Foriel-Destezet ⁽²⁾	64	June 11, 1997		2003
	Jacques Friedmann ⁽²⁾	67	June 29, 1994		2000
	Esther Koplowitz ⁽²⁾⁽³⁾	51	Nov. 26, 1998		2002
	Henri Lachmann ⁽²⁾	61	May 15, 1998		2004
	Thomas Middelhoff ⁽²⁾⁽³⁾	46	May 11, 1999		2005
	Simon Murray ⁽²⁾⁽³⁾	59	May 15, 1998		2004
	Serge Tchuruk	62	June 11, 1997		2003
	René Thomas ⁽²⁾	71	June 27, 1984	June 27, 1996	2002
	Marc Viénot ⁽²⁾	71	June 26, 1992	May 15, 1998	2004

(1) The Shareholders will be requested at the Ordinary and Extraordinary Meeting of April 27, 2000 to reappoint Mr Jacques Friedmann for four years and to appoint Mr Antoine Zacharias.

(2) Independent director

(3) Non-French director

PRINCIPAL DUTIES OF MEMBERS OF THE BOARD

Jean-Marie Messier

Chairman and Chief Executive Officer of Cegetel

President of the Vivendi Foundation

Member of the Board of Directors of:

- Compagnie de Saint-Gobain
- LVMH Moët Hennessy Louis Vuitton
- Canal+ and UGC
- DaimlerChrysler (Germany)
- BNP
- Alcatel

and subsidiaries of Vivendi.

Bernard Arnault

Chairman and Chief Executive Officer of LVMH

and of

- Christian Dior
- Compagnie Financière du Nord
- Arnault SA

Member of the Board of Directors of:

- Christian Dior Couture
- Financière Jean Goujon

Director of:

- Moët Hennessy Inc. (USA)
- LVMH KK (Japan)

Permanent representative of Arnault SA
on the Board of Directors of Société Financière Agache.

Jean-Louis Beffa

Chairman and Chief Executive Officer of Compagnie de Saint-Gobain

Member of the Board of Directors of:

- Banque Nationale de Paris — BNP
- Essilor International
- Groupe Bruxelles-Lambert (Belgium)
- subsidiaries of Saint-Gobain group

Jean-Marc Espalioux

Chairman of the Executive Board of Accor:

Member of the Board of Directors of:

- Fiat France

Philippe Foriel-Destezet

Chairman of Adecco SA

and of

- Akila SA
- Ecco SA
- Idem France SA
- Nescofin UK Limited (UK)
- Akila Finance SA (Luxembourg)

Member of the Board of Directors of:

- Klinos
- Carrefour
- Securities AB (Sweden)

Jacques Friedmann

Chairman of the Supervisory Board of AXA

Vice Chairman of Royale Belge (Belgium)

Member of the Board of Directors of:

- Alcatel
- Banque Nationale de Paris — BNP
- Elf Aquitaine
- AXA Financial (USA)

Member of the Supervisory Board of AXA Colonia Konzern (Germany).

General information

Esther Koplowitz

Member of the Board of Directors of:
Fomento de Construcciones y Contratas (FCC) (Spain)

Henri Lachmann

Chairman and Chief Executive Officer of Schneider Electric

Member of the Board of Directors of:

- various subsidiaries of the AXA group
- Facom
- ANSA
- CNRS

Member of the Supervisory Board of:

- AXA
- Norbert Dentressangle

Member of the International Board of DaimlerChrysler

Member of the Steering Committee of the Institut de l'Entreprise

Eric Licoys

Chairman and Chief Executive Officer of Havas

and of Havas Medimedia

Chairman of the Supervisory Board of:

- Viventures Partners
- Expansion

Vice Chairman of the Supervisory Board of:

- Express

Member of the Board of Directors of:

Canal +

Permanent representative of Vivendi and of Havas
on the Boards of Directors of subsidiaries controlled by
Vivendi

Director of:

- British Sky Broadcasting Group Plc (UK)
- Intermediate Capital Group Plc (UK)
- USFilter Corporation (USA)

Thomas Middelhoff

Chairman of Bertelsmann

Director of:

- Metro AG (Germany)
- Barnesandnoble.com (USA)
- Gruner + Jahr AG & Co. (Germany)

Simon Murray

Chairman of Simon Murray and Co.

Member of the Board of Directors of:

- Hermes International (France)
- Usinor Sacilor
- Hutchinson Whampoa Limited (Hong Kong)
- Cheung Kong (Holdings) Limited (Hong Kong)
- Senior Adviser to Bain & Company (Asia)
- Tommy Hilfiger Corporation (USA)
- Critchley Group plc (UK)
- Group Senior Adviser for Asia to NM Rothschild & Sons Limited (UK)
- General Utilities plc (UK)

Serge Tchuruk

Chairman and Chief Executive Officer of Alcatel

Chairman of Alcatel USA Holding Corp.

Member of the Supervisory Board of:

- Alcatel Deutschland GmbH

Member of the Board of Directors of:

- Alstom
- Thomson-CSF
- Total Fina
- Société Générale

Member of the Board of Directors of Ecole Polytechnique

Réné Thomas

**Honorary Chairman and Director of
Banque Nationale de Paris**

Vice Chairman of the Supervisory Board of Banque pour
l'Expansion Industrielle — BANEXI

Member of the Board of Directors of:

- BNP España SA — Madrid
- Banque Marocaine pour le Commerce et l'Industrie —
Casablanca
- Union Bancaire pour le Commerce et l'Industrie — Tunis
- Chargeurs
- Essilor
- Usinor

Marc Viénot

Honorary Chairman and Director of Société Générale

Member of the Supervisory Board of Aventis

Member of the Board of Directors of:

- Alcatel
- Société Générale Marocaine de Banque
- Ciments Français

**ORGANIZATION AND FUNCTIONING OF THE BOARD
OF DIRECTORS**

See page 14.

Directors' fees

Directors' fees, which are paid only on the basis of actual
attendance, amounted to €0.38m in 1999.

General information

General management

Chairman and Chief Executive Officer	Jean-Marie Messier
Chief Operating Officer	Eric Licoys
Senior Executive Vice President, Vivendi Environnement	Henri Proglio
Senior Executive Vice President, Vivendi Communications	Philippe Germond
Executive Vice President, Human Resources	Jean-François Colin
Executive Vice President, Finance	Guillaume Hannezo
Executive Vice President	Daniel Caille
Company and Board Secretary	Jean-François Dubos
Vice President, Corporate Communication	Christine Delavennat
Vice President, International Affairs	Thierry de Beaucé
Vice President, Strategy and Business Development	Agnès Audier
Ethical Standards	Sylvie d'Arvisenet

Executive Committee

Chairman	Jean-Marie Messier
Members	Daniel Caille Philippe Germond Guillaume Hannezo Eric Licoys Henri Proglio

Management Committee

Chairman	Jean-Marie Messier
Members	Sylvie d'Arvisenet Agnès Audier Thierry de Beaucé Jean-François Colin Christine Delavennat Jean-François Dubos Guillaume Hannezo

REMUNERATION OF SENIOR EXECUTIVES

The remuneration paid to Vivendi's 12 most senior executives, as set out in the table above, totalled €8.29m in 1999.

STOCK OPTION PLANS FOR SENIOR EXECUTIVES

See page 186 and following.

LOANS AND GUARANTEES TO DIRECTORS AND SENIOR EXECUTIVES

Vivendi has not granted any loan or given any guarantee to members of the Board of Directors or to general management.

PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT — STATUTORY AUDITORS

PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT

Mr Jean-Marie Messier, Chairman of the Board of Directors

Certificate

“To the best of my knowledge, the data contained in this reference document provide a fair picture of the facts. They contain all information necessary in order to enable investors to form an opinion on Vivendi’s assets, activity, financial position, performance and outlook. No omission has been made which might alter the tenor of this information.”

Chairman and Chief Executive Officer
Jean-Marie Messier

STATUTORY AUDITORS

Statutory auditors

SALUSTRO REYDEL

8 avenue Delcassé — 75378 Paris Cedex 08

represented by Messrs Edouard Salustro and Bernard Cattenoz

Date of first appointment: Ordinary and Extraordinary Shareholders’ Meeting of June 26, 1987

Date of current appointment: Ordinary and Extraordinary Shareholders’ Meeting of June 27, 1996

Expiration of current appointment: after the shareholders’ meeting that will review the financial statements for 2001.

BARBIER FRINAULT & Cie

41 rue Ybry — 92576 Neuilly sur Seine Cedex

represented by Messrs Alain Grosmann and Jean Bouquot

Date of current appointment: Ordinary and Extraordinary Shareholders’ Meeting of May 11, 1999

Expiration of current appointment: after the shareholders’ meeting that will review the financial statements for 2004.

Alternate statutory auditors

Hubert Luneau

8 avenue Delcassé

75008 Paris

appointed by the Ordinary and Extraordinary Shareholders’ Meeting of June 29, 1995 and renewed by the Ordinary and Extraordinary Shareholders’ Meeting of June 27, 1996

Expiration of current appointment: after the shareholders’ meeting review the financial statements for 2001.

Maxime Petiet

41 rue Ybry

92576 Neuilly sur Seine Cedex

appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 11, 1999

Expiration of current appointment: after the shareholders' meeting that will review the financial statements for 2004.

AUDITORS' STATEMENT

We have audited the financial information reported in this document in accordance with generally accepted auditing standards by applying such auditing procedures as we considered necessary in the circumstances.

Salustro Reydel and Deloitte Touche Tohmatsu – BMA audited the company and consolidated financial statements for the two years ended December 31, 1998. We audited the company and consolidated financial statements for the year ended December 31, 1999.

We have the following comments to make on the fair presentation of the financial information:

The report prepared by Salustro Reydel and Deloitte Touche Tohmatsu – BMA on the consolidated financial statements for 1997 drew attention to the following points:

- note 4 to the consolidated financial statements, concerning the property sector, which specifies that depreciation at December 31, 1997 takes into account the present situation of development programmes and, in particular, of major

urban development projects, in a market which still presents uncertain short- and medium-term prospects;

- the note relating to the accounting policies and note 16 to the consolidated financial statements which describes the change in the accounting policy relating to the pension commitments of building and civil engineering companies in the Société Générale d'Entreprises sub-group (SGE).

The report prepared by Salustro Reydel and Deloitte Touche Tohmatsu – BMA on the consolidated financial statements for 1998 drew attention to the sections "Year-on-year comparison" and "Consolidation methods" in the notes to the consolidated financial statements which describe:

- the change in accounting policy relating to pension commitments;
- the change in accounting policy relating to capital leases;
- the change in accounting policy relating to the use of the percentage of completion method by the interior works companies in the Société Générale d'Entreprises (SGE) sub-group.

Neuilly-sur-Seine — Paris, April 7, 2000

The Statutory Auditors

Barbier Frinault & Cie

Salustro Reydel

Alain Grosmann

Jean Bouquot

Edouard Salustro

Bernard Cattenoz

PERSONS RESPONSIBLE FOR PROVIDING INFORMATION

Mr Guillaume Hannezo, Executive Vice President, Finance (+ 33 1 71 71 17 12)

Mr Jean-François Dubos, Company Secretary (+ 33 1 71 71 17 05)

Ms Christine Delavennat, Vice President, Corporate Communication (+ 33 1 71 71 17 06)

Ms Ariane de Lamaze, Director, Financial Analysis and Investor Relations (+33 1 71 71 10 84)

The 1999 Vivendi reference document in French, made up of the 1999 Annual Report and the brochure entitled “Ordinary and Extraordinary Shareholders’ Meeting April 27, 2000”, was registered with the COB on April 7, 2000 under the number R.00-125.